

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
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AMANDA AGUIRRE
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THAYER VERSCHOOR
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
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STEVE YARBROUGH

JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, May 10, 2007

8:00 a.m.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of March 29, 2007.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
 - A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
 - B. AHCCCS - Review of Medicaid Eligibility Privatization Request for Proposal.
- 1. [DEPARTMENT OF CORRECTIONS - Consider Approval and Review of Requested Transfer of Appropriations.](#)
- 2. [DEPARTMENT OF PUBLIC SAFETY - Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission.](#)
- 3. [DEPARTMENT OF COMMERCE - Review of First Quarterly Expenditure Report for the Arizona 21st Century Competitive Initiative Fund.](#)
- 4. ATTORNEY GENERAL
 - A. [Review of Allocation of Settlement Monies.](#)
 - B. [Review of Intended Use of Monies in the Antitrust Enforcement Revolving Fund.](#)
- 5. [ARIZONA DEPARTMENT OF EDUCATION - Report of Plan to Fund AIMS Study Guides with Achievement Testing Monies.](#)
- 6. [ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY - Review of Intended Use of Monies in the Indirect Cost Recovery Fund.](#)
- 7. [ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Third Party Progress Report.](#)

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

5/4/07

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

March 29, 2007

The Chairman called the meeting to order at 8:10 a.m., Thursday, March 29, 2007, in House Hearing Room 4, and attendance was as follows:

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

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of February 6, 2007, Chairman Pearce stated that the minutes would stand approved.

DIRECTOR'S REPORT

Mr. Richard Stavneak, Director of the Joint Legislative Budget Committee (JLBC), stated that with regard to the minutes, we are now going to start putting our meetings on video like regular standing committees. We hope to streamline our minutes as a timesaving measure, which have been close to verbatim. If members need a verbatim transcript, we can provide that.

He further clarified that a revised agenda was distributed and that there is no Executive Session.

ATTORNEY GENERAL (AG) – Review of Allocation of Settlement Monies.

Ms. Leah Ruggieri, JLBC Staff, said that the AG is requesting a favorable review of their proposed allocation of monies received from the Bayer Corporation consent judgment. This consent judgment was part of a multistate settlement involving allegations that Bayer Corporation sold a cholesterol-lowering drug without properly disclosing the associated risks. The multistate settlement totaled \$8 million, of which \$200,000 will be deposited into Arizona's Consumer Fraud Revolving Fund for attorney costs and fees. The JLBC Staff is recommending a favorable review of the AG's request.

Senator Burns moved that the Committee give a favorable review of the allocation plan from the Bayer Corporation consent judgment as recommended by JLBC Staff. The motion carried.

ARIZONA PIONEERS' HOME – Consider Approval of Requested Transfer of Appropriations.

Ms. Amy Upston, JLBC Staff, said that this item concerns the Arizona Pioneers' Home and a request 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.

Senator Burns moved that the Committee approve the transfer up to \$167,900 from the Personal Services Line and up to \$157,900 from the Prescription Drug SLI to the ERE line in FY 2007 as recommended by the JLBC Staff. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) – Review of Third Party Progress Report.

Mr. Bob Hull, JLBC Staff, stated that ADOT is requesting review of its third party quality assurance progress report for the second quarter of FY 2007. The JLBC Staff recommends a favorable review, given ADOT's continued progress in eliminating certain third party waiting lists.

Senator Burns moved that the Committee give a favorable review of ADOT's third party quality assurance report as recommended by JLBC Staff. The motion carried.

DEPARTMENT OF PUBLIC SAFETY (DPS)

A. Review of Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission.

Mr. Martin Lorenzo, JLBC Staff, said that item 4A is review of the DPS expenditure plan relating to GIITEM. In FY 2007, DPS received an additional \$7 million for additional DPS sworn personnel and \$10 million to expand local participation in GIITEM and fund various other immigration efforts. To date, the Committee has favorably reviewed the use of \$2.3 million of the \$10 million and \$5.9 million of the \$7 million. Now, the department is requesting a favorable review for the use of an additional \$1.1 million of the \$7 million to hire an additional 11 sworn officers. Under the plan, FY 2007 expenditure would total \$6.9 million of the \$7 million and sworn officer staffing for GIITEM would increase by 48 positions. The JLBC Staff recommends a favorable review of this 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.

Senator Burns moved that the Committee give a favorable review for the use of an additional \$1.1 million (of the \$7 million) to fund costs associated with adding an additional 11 sworn officers to GIITEM with the 2 provisions as stated above and as recommended by JLBC Staff. The motion carried.

DEPARTMENT OF PUBLIC SAFETY (DPS)

B. Quarterly Review of the Arizona Public Safety Communications Advisory Commission (PSCC).

Mr. Jay Chilton, JLBC Staff, said that DPS has submitted for review their FY 2007 second quarter expenditures and progress for the statewide interoperability design project. The Arizona PSCC was established to develop a standard based interoperability system which allows first responders throughout the state to communicate with one another. The consultant firm contracted to create the conceptual design to the "long-term" interoperable solution is on schedule to complete its project on time. The next step is the detailed design of the project. The Attorney General's office announced plans in February 2007 to allocate \$2.2 million to fund this phase of the project with settlement monies from an anti-racketeering case. On February 12, 2007, the Appropriations Subcommittee on Transportation and Criminal Justice also specified its intent that those anti-racketeering monies be used for this phase of the project. The PSCC second quarter expenditures were just over \$100,000. The JLBC Staff recommends that the Committee give a favorable review of the request. A response letter from the Arizona Department of Homeland Security was distributed and is included as *Attachment A*.

Discussion ensued on this item.

Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff of DPS's FY 2007 second quarter expenditures and progress for the statewide interoperability design project. The motion carried.

Arizona State University (ASU) – Review of Requested Transfer of Appropriations.

Ms. Leah Ruggieri, JLBC Staff, said that Arizona State University is requesting a transfer of \$11.1 million from their ASU main operating budget to their Downtown Phoenix Campus (DPC) Special Line Item line. Of this amount, \$9.3 million is for central administrative functions that were not initially captured in the original allocation of funds for the DPC Special Line Item. The DPC Special Line Item was created by the Legislature during the last legislative session as the number of students attending the campus increased substantially in FY 2007. The remaining \$1.8 million of the \$11.1 million request would essentially enhance the departments that are now on campus in terms of their budget and would primarily add additional staff positions. This would not require an additional appropriation from the General Fund in future years. The JLBC Staff is recommending a favorable review of ASU's request.

Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff to transfer \$11.1 million from the Operating Lump Sum to the DPC Special Line Item line in FY 2007. The motion carried.

Arizona Health Care Cost Containment System (AHCCCS) – Review of Medicaid Eligibility Privatization Request for Proposal.

Mr. Russell Frandsen, JLBC Staff, said that this item concerns AHCCCS' review of its Medicaid eligibility privatization request for proposal. Last year the Legislature passed legislation requiring AHCCCS to issue a Request for Proposal (RFP) to privatize the eligibility determination system for Medicaid clients. Additionally, this legislation required that an RFP be issued by March 31, 2007 and that the RFP be reviewed by this Committee before it was to be released. Additionally, the legislation required that the contract be reviewed by this committee before it is awarded. AHCCCS' plan regarding this legislation takes 2 different forms. 1) AHCCCS intends to issue an RFP for its KidsCare program and they indicate that they will issue this RFP (in the future, once the current issues regarding KidsCare are resolved in this year's budget) and 2) the AHCCCS's plan is to issue a Request for Information (RFI). An RFI differs from an RFP in that an RFP is actually requesting bids on a contract and an RFI is simply a request for information regarding a possible future contract that may lead to a request for proposal. This RFI would cover the remaining AHCCCS population, or 93% of the Traditional and Proposition 204 populations.

AHCCCS indicates that they have 2 primary concerns related to the issuance of an RFP to privatize its eligibility services: 1) AHCCCS felt that March 31, 2007 was not enough time to develop an adequate RFP for a project of this size; 2) there are 3 agencies involved in determining eligibility for the traditional and proposition 204 populations, AHCCCS is involved as well as the Department of Economic Security, which determines a majority of the eligibility for the Medicaid populations, and in addition, the Social Security Administration is also involved in determining eligibility, as those clients who are approved for SSI cash are automatically eligible for AHCCCS services.

The Committee has at least the following options: a favorable review which would validate AHCCCS' concern that they have expressed concerning the time frame for processing proposals, or an unfavorable review, as the RFP which they intend to issue for the KidsCare population, constitutes only 7% of the AHCCCS population. Under either option, the Committee may wish to clarify that AHCCCS should return when its KidsCare eligibility RFP is available.

Discussion ensued on this item. Tom Betlach, of AHCCCS, responded to member questions.

Senator Burns moved that the Committee give an unfavorable review to the RFI to privatize eligibility for Traditional and Proposition 204 populations with the caveat that AHCCCS should return when its KidsCare eligibility RFP is available.

Representative Rios moved a substitution motion to recommend a favorable review. The motion failed.

Senator Burns' original motion carried.

Without objection the Committee meeting adjourned at 9:00 a.m.

Respectfully submitted:

Tanya Smith, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman



Governor Janet Napolitano

State of Arizona Department of Homeland Security



Director Leesa Berens Morrison

March 28, 2007

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

Re: Committee Concerns

Dear Director Stavneak:

Thank you for your letter dated February 20, 2007, regarding the Committee's concerns about a federal funding allocation to the Department of Public Safety for a microwave communications upgrade.

- Why was DPS not awarded \$1,600,000 as identified in Laws 2006, Chapter 345?
- Why did the department believe that the statewide microwave system upgrade was of lesser priority than the projects funded from the Federal FY 2006 Homeland Security grants?

The former director was told by The U.S. Department of Homeland Security (U.S. DHS) that the use of Homeland Security Grant Program dollars for the acquisition of microwave communications equipment on lease-purchase agreement is not a permissible expense under DHS grant guidelines.

Interoperability is one of the highest priorities for the AZDOHS to ensure the State's ability to prevent, protect, respond to and recover from potential terrorist attacks and all other critical hazards. I will continue to work toward the goal of 100% interoperability statewide.

- Will the department be allocating the \$1,600,000 from future federal Homeland Security funds to DPS in FY 2008 and FY 2009 for the microwave system upgrade?

Federal funds awarded to the State have decreased from \$50,001,806 in 2003 to \$20,170,965 in 2006, a reduction of more than 59 percent. As long as Arizona receives sufficient federal funds, we will fulfill the statutory mandate. However, DPS would have to purchase the equipment outright in order for this allocation to be allowable under U.S. DHS guidelines.

- Do the federal FY 2006 Homeland Security grant awards for radios and communications equipment and systems comply with the Public Safety Communications Commissions user-based standards and guidelines for the long-term statewide interoperability solution?

The PSCC was not involved in the 2006 Homeland Security grant awards process. All equipment projects awarded for FFY 2006 comply with the U.S. Department of Homeland Security Authorized Equipment List.


Going forward AZDOHS will partner with PSCC on all proposed communication equipment projects under the 2007 grant program to ensure that all equipment fits within the statewide interoperability plan.

- What processes are in place to ensure that federal Homeland Security grant awards for communication systems and equipment are compatible with the long-term statewide interoperability solution?

I have implemented procedures to ensure that PSCC is able to verify that each communications purchase fits squarely within our state communications strategy. There will be a peer review and recommendation on the proposed acquisition of equipment to ensure compliance with the PSCC's proposed long-term interoperable solution and the DHS Allowable Equipment List.

Thank you for the opportunity to address the concerns of the Committee. If I can be of any other assistance, please let me know.

Sincerely,



Leesa Berens Morrison
Director

cc: Representative Russell Pearce, Chairman
Senator Bob Burns, Vice-Chairman
House Speaker Jim Weiers
Senate President Tim Bee
Senator Marsha Arzberger, Minority Leader
Representative Phil Lopes, Minority Leader
Jim Apperson, Director, OSPB
D. Clark Partridge, State Comptroller, General Accounting Office, ADOA

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DATE: May 7, 2007

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

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Fiscal Analyst
Kimberly Cordes-Sween, Fiscal Analyst

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

Request

The Arizona Department of Corrections (ADC) requests the Committee consider the transfer of \$27.9 million within the department's operating budget line items and Special Line Items (SLI). Under the plan, monies would be transferred from line items that, at current funding levels, are projected to result in a surplus at the end of FY 2007 to line items projected to result in a deficit at the end of FY 2007.

A.R.S. § 35-173(D) requires Committee approval prior to transferring monies to or from Personal Services and Employee Related Expenditures. In addition, Laws 2006, Chapter 344 requires that any transfer to or from the amounts appropriated for the Overtime/Compensatory Time or Provisional Beds SLI's would require review by the Joint Legislative Budget Committee (JLBC).

Recommendation

JLBC Staff recommends that the Committee approve and favorably review an alternative proposal to the ADC request. The primary differences are as follows:

- Transfer \$10.2 million rather than the ADC requested \$10.8 million into the Correctional Officer Personal Services line.
- Transfer \$7.0 million rather than \$7.5 million out of All Other Personal Services.
- Transfer \$7.3 million rather than \$8.0 million into the Overtime/Compensatory Time SLI.
- Transfer \$3.4 million into the Health Other Operating Expenditures (non-salaries) line item. The department had not requested any transfer into the line item.
- Transfer \$1.9 million rather than \$4.5 million into the Non-Health Other Operating Expenditures (non-salaries) line item.

(Continued)

These adjustments would conform the proposed transfers to the current House and Senate FY 2007 supplemental estimates. With one exception, JLBC Staff and the Office of Strategic Planning and Budgeting (OSPB) have previously agreed on the surplus and shortfall estimates for each of the ADC line items. The 2 offices had not agreed on a Health Other Operating Expenditure (OOE) estimate, but the current House and Senate budget FY 2007 supplemental proposals (as of this writing) essentially split the difference between the JLBC and OSPB estimates.

The Senate is currently proposing a \$9.6 million General Fund supplemental for the Health OOE, while the House has proposed a \$9 million supplemental. Under either proposal, the supplemental would be combined with the proposed \$3.4 million transfer noted above to address the current shortfall in Health OOE.

The following table provides the proposed transfer amounts and the revised appropriation total for each line item, under the department's request and the JLBC Staff recommendation.

Table 1 Arizona Department of Correction's Transfers Requiring Committee Approval and Review				
Line Item	ADC Proposal	ADC Revised Total	JLBC Proposal	JLBC Revised Total
Correctional Officer Personal Services*	\$10,800,000	\$274,807,200	\$10,225,500	\$274,232,700
Health Care Personal Services*	(7,300,000)	35,940,900	(7,371,700)	35,869,200
All Other Personal Services*	(7,500,000)	69,516,200	(7,029,000)	69,987,200
Employee Related Expenditures*	4,500,000	143,769,000	4,442,700	143,711,700
Overtime/Compensatory Time SLI**	8,000,000	41,875,500	7,319,600	41,195,100
Health OOE**	0 ^{1/}	62,787,400	3,353,900 ^{2/}	66,141,300
Non Health OOE**	4,500,000	128,037,200	1,945,300	124,835,900
County Jail Beds SLI**	0	1,009,500	17,700	1,027,200
Private Prison Per Diem SLI**	(13,099,000)	68,747,800	(13,103,700)	68,743,100
Provisional Beds SLI**	99,000	35,032,400	199,700	35,133,100

^{1/} ADC proposes a \$15.8 million supplemental (based on the ADC extrapolation).
^{2/} This amount would be in combination with a \$9.0 million to \$9.6 million health care supplemental.
* Committee approval is required for these line items.
** Committee review is required for these line items.

Analysis

Personal Services and Employee Related Expenditures (ERE)

Based on the department's monthly expenditure reports, the Correctional Officer Personal Services line item is estimated to have a shortfall approaching \$10.2 million, potentially due to the re-allocation of Personal Services and/or the department's success in increasing Correctional Officer II staffing. This shortfall, however, would be offset by an estimated surplus of \$7.4 million in the Health Care Personal Services line item and \$7 million in the All Other Personal Services line item.

With respect to ERE (employee benefits), the Committee previously approved the department's requested transfer of \$12.7 million to other line items. ADC overestimated its ERE surplus and now \$4.4 million must be restored to this line item.

Overtime/Compensatory Time (OT/CT)

Laws 2006, Chapter 344 (General Appropriation Act) shifted monies from OT/CT to increase the salaries of those in the Correctional Officer (CO) series. The higher pay was intended to reduce vacancies and,

(Continued)

thereby, reduce overtime expenditures. Based on the department's monthly expenditure reports, it appears increases in staffing have resulted in decreased overtime costs in the current year. For example, the department's average OT/CT expenditures per-pay-period in July 2006 totaled \$2.2 million as compared to the current cost of roughly \$1.6 million when the department has an additional 664 Correctional Officers.

To date, the Committee has already transferred nearly \$14.2 million to the OT/CT SLI, increasing the OT/CT allocation to \$33.9 million. The department's requested transfer of \$8 million would further increase this amount to \$41.9 million and assumes the average cost per per-period, adjusted for new hires, would total approximately \$1.5 million for the rest of FY 2007. The JLBC Staff estimates the OT/CT cost per-pay-period could be further reduced to \$1.4 million, as those currently in the Correctional Officer Training Academy (285 of the 664 new hires) are integrated into duties that are currently being completed by CO's working overtime. As a result, JLBC Staff proposes an alternative transfer of \$7.3 million, bringing the total FY 2007 allocation to \$41.2 million. OSPB had previously agreed with the revised total expenditures of \$41.2 million in this SLI.

Health Care

The FY 2007 General Appropriation Act provided funding of \$62.8 million for Health Care OOE. Due to increasing health care costs, both JLBC Staff and ADC are projecting a shortfall based on information provided in the department's monthly expenditure reports. Higher FY 2007 spending is attributed to an 8.8% growth in the number of hospital bed days, a 6.5% increase in population, and 6% health care inflation.

Non-Health OOE

The FY 2007 General Appropriation Act includes \$122.1 million for Non-Health OOE. Currently, the department is projecting a FY 2007 need of \$126.7 million, or \$4.5 million more than what was appropriated for such costs. The department attributes the \$4.5 million shortfall to food and utility expenses. Alternatively, when extrapolating the department's current year-to-date expenditures for Non-Health OOE, the JLBC Staff estimates an additional need of \$1.9 million for a total of \$124.8 million. OSPB had previously agreed to the revised total funding in this line of \$124.8 million.

Provisional Beds

At the January 2007 JLBC meeting, the Committee deferred action on an ADC transfer request to the Provisional Beds SLI. At that time, ADC was in the process of contracting for an additional 1,260 provisional or temporary rented beds to replace out-of-state private and provisional contracts that were cancelled during the past 2 years. Since the department had not negotiated a contracted rate with a provisional vendor or vendors, action was delayed until actual costs for contracting could be more accurately projected, and terms of the phase-in schedule would be known.

The department has since contracted with the State of Indiana for 1,260 provisional beds at a per diem rate of \$64. On March 12, Indiana's Newcastle Facility, a state-owned and privately-operated facility, began accepting Arizona inmates. Based on a phase-in schedule of 105 inmates per week, JLBC Staff projects that the Provisional Beds SLI will be short by \$199,700. The JLBC Staff estimate is based on a consensus with OSPB. The shift would provide total funding of \$35.1 million in the Provisional Beds SLI in FY 2007.

Due to a recent disturbance on April 24 at the Newcastle Facility where Arizona inmates are being housed, the current status of the provisional contract is in flux. The department has not yet indicated whether Arizona inmates will continue to be housed at this location or if they will be transferred back to Arizona prison facilities. If the Indiana beds are not filled as planned, the department may generate a surplus in the Provisional Beds SLI in FY 2007.

(Continued)

Private Prison Per Diem

The department has a FY 2007 appropriation of \$81.8 million, which is currently used to house 4,264 inmates at 5 private prison facilities within the State of Arizona. Of this total funding, \$13 million was provided to ADC to replace 645 beds at a privately-operated Newton County, Texas facility. The Texas contract was cancelled by the vendor in November 2005. Since that time, however, ADC has replaced the Newton, Texas beds with provisional or temporary rented beds in the State of Indiana. The department no longer requires the \$13 million in the Private Prison Per Diem SLI since the replacement beds are not privately-contracted. Both the JLBC and ADC propose a transfer of \$13.1 million out of the Private Prison Per Diem SLI to be used in other parts of the ADC budget. The Private Prison Per Diem SLI will have \$68.7 million remaining after the transfer.

RS/KC/ML:ss

Arizona Department of Corrections

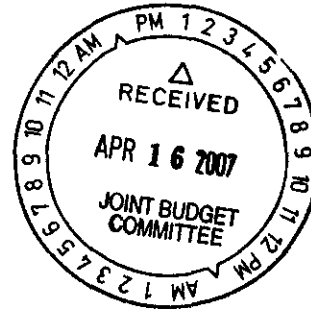


JANET NAPOLITANO
GOVERNOR

1601 WEST JEFFERSON
PHOENIX, ARIZONA 85007



DORA B. SCHRIRO
DIRECTOR



April 13, 2007

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

The Honorable Tom Boone
Vice Chair, Joint Legislative Budget Committee
Arizona Legislature
1700 West Washington Street
Phoenix, Arizona 85007

Gentlemen:

The Arizona Department of Corrections requests placement on the next agenda for the meeting of the Joint Legislative Budget Committee to consider transfers of funds between appropriation line items. The first transfer covers the projected deficit in the Correctional Officers Personal Services appropriation. The second transfer request resolves the projected Overtime/Compensatory shortfall. The third transfer addresses the projected shortage in Employee Related Expenses (ERE). Finally, a fourth transfer concerns replacement provisional beds following the cancellation of two contracts by vendors in Texas. The transfer request is based on our February budget report.

Correctional Officer Personal Services

The projected cost for Correctional Officer Personal Services exceeds the Special Line Item Appropriation. Currently, there is a projected \$10,800,000 shortage in Correctional Officer Personal Services. We request approval to move \$5,400,000 from the Health Care Personal Services appropriation and \$5,400,000 from the All Other Personal Services appropriation to resolve the projected deficient.

The Honorable Robert Burns
The Honorable Tom Boone
April 13, 2007
Page 2

Overtime/Compensatory Time Appropriation Shortfall

The department anticipates an \$8,000,000 shortfall in the Overtime/Compensatory Time appropriation during the remainder of FY 2007. We request approval to move \$1,900,000 from the Health Care Personal Services appropriation, \$2,100,000 from the All Other Personal Services appropriation and \$4,000,000 from the Private Prison Per Diem appropriation to cover the projected shortage in the Overtime/Compensatory Time Appropriation.

Employee Related Expenses (ERE)

The department is projecting a shortage of funds in the amount of \$4,500,000 in the ERE appropriation. We recommend transferring \$4,500,000 from Private Prison Per Diem appropriation to ERE to cover the estimated shortage.

Non-Health All Other Operating Expenses

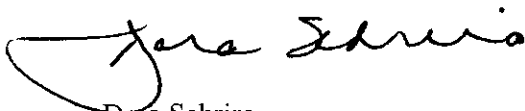
The department is projecting a shortfall in All Other Operating Expenses for food and utility expenses. We are projecting a shortage for food costs and utility expenses a combined total of \$4,500,000. We are requesting transfer of \$4,500,000 from the Private Prison Per Diem appropriation to the Non-Health All Other Operating Expenses appropriation to cover the projected shortfall.

Provisional Beds

The department entered into an agreement with the Indiana Department of Corrections in March 2007 to lease 1,260 beds at a per diem rate of \$64 per inmate. The estimated cost to house inmates in Indiana during the remainder of FY 2007 is \$5,953,920. We request approval to transfer \$99,000 to the Provisional Beds appropriation to cover the increase from Private Prison Per Diem.

I appreciate your consideration and timely attention.

Sincerely,



Dora Schriro
Director

Enclosure

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
James J. Apperson, Director, Office for Strategic Planning and Budgeting

ARIZONA DEPARTMENT OF CORRECTIONS
Joint Legislative Budget Committee
Transfer Request April 9, 2007

<u>Action Item</u>	<u>Transfer To:</u>	<u>Transfer From:</u>
Correctional Officer Compensation	10,800,000	
Health Care Personal Services		(5,400,000)
All Other Personal Services		(5,400,000)
Overtime/Compensation Time	8,000,000	
Health Care Personal Services		(1,900,000)
All Other Personal Services		(2,100,000)
Private Prison Per Diem *		(4,000,000)
ERE	4,500,000	
Private Prison Per Diem *		(4,500,000)
Non-Health All Other Operating Expenses	4,500,000	
Private Prison Per Diem *		(4,500,000)
Provisional Beds	99,000	
Private Prison Per Diem *		(99,000)

* Private Prison Per Diem total transfer out (\$13,099,000)

Arizona Department of Corrections
Monthly Budget Report Summary
February 2007

	Most Recent Month Compared to the Same Month Last Year			Year-to-date Expenditures Compared to the Same Time Period Last Year				Projected Total Expenditures for This Year Compared to Total Expenditures Last Year and Compared to This Year's Appropriation					
	FY 2006 Feb. 2006	FY 2007 Feb. 2007	Difference	FY 2006 YTD (July 05 thru Feb 06)	FY 2007 YTD (July 06 thru Feb 07)	Difference	% Change	FY 2006 Expenditures (f)	FY 2007 Appropriation (c)	FY 2007 Projected Costs	% Change: FY 2007 Projection over FY 2006 Expenditures	% Change: FY 2007 Appropriation over FY 2007 Projection	FY 2007 Appropriation Compared to FY 2007 Projection
Personal Services	20,034,232	29,518,182	9,483,950	221,955,188	261,245,381	39,290,193	18%	339,743,356	384,264,300	380,141,126	12%	1%	4,123,174
Correctional Officers (a)	13,764,538	21,492,019	7,727,481	152,494,521	187,980,880	35,486,359	23%	233,476,269	264,007,200	274,771,974	18%	-4%	(10,764,774)
Health Care (a)	2,254,433	2,788,491	534,057	24,976,409	24,759,339	(217,069)	-1%	38,203,841	43,240,900	35,913,302	-6%	20%	7,327,598
All Other (a)	4,015,261	5,237,672	1,222,411	44,484,259	48,505,162	4,020,903	9%	68,063,246	77,016,200	69,455,850	2%	11%	7,560,350
Overtime/ Compensation Time (b)	7,985,073	1,757,179	(6,227,894)	17,651,631	29,976,961	12,325,330	70%	40,569,810	33,842,400 (d)	41,805,795	3%	-19%	(7,963,395)
ERE (b)	4,528,416	11,554,572	7,026,156	95,957,378	95,174,954	(782,424)	-1%	125,652,674	139,293,100 (d)	143,800,815	14%	-3%	(4,507,715)
Health All Other Operating Expenses	5,825,388	5,818,086	(7,302)	32,569,688	40,232,617	7,662,929	24%	64,399,419	62,787,400	78,591,578	22%	-20%	(15,804,178)
P & O	5,031,253	4,919,303	(111,950)	25,544,879	32,792,175	7,247,296	0%	52,942,737	42,105,900	66,213,654	25%	-36%	(24,107,754)
In-state Travel	4,922	3,859	(1,063)	27,569	34,343	6,774	0%	50,717	50,000	51,674	2%	-3%	(1,674)
Out-of-state Travel	743	465	(278)	3,983	7,271	3,288	0%	4,838	0	10,469	116%	-100%	(10,469)
OOE	779,173	867,653	88,480	6,946,223	7,286,273	340,050	5%	11,287,372	19,921,300	12,217,805	8%	63%	7,703,495
Food	0	0	0	0	0	0	0%	0	0	0	0%	0%	0
Equipment	9,297	26,807	17,510	47,033	112,554	65,521	0%	113,754	710,200	97,976	-14%	625%	612,224
Non-Health AOOE	7,670,381	7,936,375	265,994	67,526,390	76,680,344	9,153,954	14%	118,366,659	122,140,600	126,668,871	7%	-4%	(4,528,271)
P & O	1,123,655	504,192	(619,463)	2,846,888	3,267,844	420,956	0%	7,620,060	0	4,057,740	-47%	-100%	(4,057,740)
In-state Travel	22,445	17,264	(5,181)	205,724	139,818	(65,906)	-32%	383,850	228,400	267,822	-30%	-15%	(39,422)
Out-of-state Travel	7,308	4,396	(2,912)	93,256	55,100	(38,156)	-41%	137,731	134,300	80,446	-42%	67%	53,854
OOE	4,458,049	5,362,572	904,523	43,764,784	48,340,774	4,575,990	10%	70,516,193	85,683,700	80,132,734	14%	7%	5,550,966
Food	1,915,519	1,976,018	60,499	18,226,650	21,305,661	3,079,011	17%	32,430,145	33,846,800	36,421,548	12%	-7%	(2,574,748)
Equipment	143,405	71,933	(71,472)	2,389,089	3,571,148	1,182,059	0%	7,278,681	2,247,400	5,708,581	-22%	-61%	(3,461,181)
County Jail Beds	68,722	68,623	(99)	906,581	570,092	(336,489)	0%	1,827,204	1,018,500	999,627	-45%	2%	18,873
GPS Monitor (e)	0	24,000	24,000	0	35,708	35,708	0	0	750,000	126,545			
Private Prison Per Diem	833,470	2,191,612	1,358,142	21,562,523	30,539,083	8,976,560	0%	52,496,482	81,846,800	67,344,618	28%	22%	14,502,182
Provisional Beds	0	2,062,536	2,062,536	65,211	19,002,176	18,936,965	0%	16,719,291	34,933,400	35,032,496	110%	0%	(99,096)
Agency Total	46,945,682	60,931,166	13,985,484	458,194,591	553,457,316	95,262,725	21%	759,774,895	860,876,500	874,511,471	15%	-2%	(14,258,426)

Comp Time Liability (Included in OT/Comp Time line)

1,970,864

(a) Actual expenditures for these amounts for FY 2006 are not available in the state accounting system, but estimates were calculated based on the proportions used in the FY2007 appropriated amounts.

(b) These appropriation amounts were of concern to the Executive during budget negotiations last spring. The amount of PS for Correctional Officers existing before the July 1, 2006 pay raise was adequate to pay only about 79% of all officer positions. If the FY2007 pay increase for Correctional Officers is successful in retaining and attracting additional officers, the PS appropriations will be insufficient to cover the additional filled positions.

(c) The amounts shown as totals for All Other Operating Expenditures are the appropriations; the object lines for each of those appropriations are the early estimates by the legislative staff of how AOOE would be spread among the objects.

(d) Reflects the transfer of \$8,654,300 from ERE to OT/Comp approved by JLBC in December and the transfer of \$6,000,000 and \$1,500,000 in February.

(e) GPS monitoring funds are legislatively dedicated for monitoring sex offenders and does not lapse until June, 2008. The total FY2007 expenditures are projected at \$126,545. This appropriation line is not included in the calculation of surplus/deficit.

(f) 2006 YTD expenditures have been adjusted to include administrative adjustments

STATE OF ARIZONA

Joint Legislative Budget Committee

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PHONE (602) 926-5491

FAX (602) 926-5416

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DATE: May 7, 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 their appropriations for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) prior to their expenditure.

DPS has submitted for review a proposal to expend an additional \$4.0 million of the \$10 million appropriation for non-DPS law enforcement agencies and equipment purchases. The department intends to enter into agreements/contracts with the Maricopa County Sheriff's Office (MCSO), the City of Phoenix Police Department, and the United States Immigration and Customs Enforcement (ICE) agency. The General Appropriation Act specifies that a portion of GIITEM funding is to be used to expand GIITEM and immigration enforcement, including border personnel and other border security efforts.

Recommendation

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

- The use of \$357,000 for the purchase of portable fingerprint readers is contingent upon Project Investment Justification (PIJ) approval from the Government Information Technology Agency (GITA).
- 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

Non-DPS - \$10 million Grants

Laws 2006, Chapter 344 appropriates \$10 million to DPS to:

- expand the existing GITEM into a multi-jurisdiction task force known as the Gang and Immigration Intelligence Team Enforcement Mission,
- add new functions relating to immigration enforcement, including border security and border personnel, and
- to fund 85% of the costs of each local government agreement or contract, providing the police department or county sheriff has entered into a 287 Memorandum of Understanding (MOU) with the United States Department of Homeland Security.

To date, the department has received a favorable review for the use of \$2.3 million of the \$10 million to fund the purchase of equipment as well as the operating costs associated with 10 federal Border Patrol agents assisting GIITEM. Now, the department is requesting a favorable review for the use of an additional \$4.0 million as a result of 3 anticipated agreements/contracts with the MCSO, Phoenix Police Department, and ICE. Based on the department's report, the Maricopa County Sheriff's Office and the Phoenix Police Department have successfully entered into a 287 MOU with the United States Department of Homeland Security, a requirement to be eligible to receive a portion of the \$10 million. A 287 MOU is an agreement with the federal Department of Homeland Security that allows specific officers of state and local law enforcement agencies to enforce federal immigration laws after those officers have completed training with ICE. *Table 1* identifies, by line item, the department's current and previous requests that comprise an expenditure plan totaling \$6.3 million.

Table 1					
GIITEM Expenditure Plans - \$10 Million					
	<u>MCSO</u>	<u>Phoenix /ICE</u>		<u>Previously</u>	<u>Total</u>
	<u>Agreement</u>	<u>Agreement</u>	<u>Technology</u>	<u>Approved</u>	
FTE Positions (Non-DPS)	15	7	0	10	37
Personal Services	\$1,027,900	\$510,500	\$0	\$0	\$1,538,400
Employee Related Expenditures	358,400	215,000	0	0	573,400
Professional and Outside Services	0	0	0	0	0
Travel - In State	0	21,000	0	0	21,000
Travel - Out of State	0	0	0	0	0
Other Operating Expenditures	55,600	240,000	0	289,300	584,900
Equipment	<u>150,000</u>	<u>932,200</u>	<u>537,000</u>	<u>1,980,000</u>	<u>3,599,200</u>
Total	\$1,591,900	\$1,918,700	\$537,000	\$2,269,300	\$6,316,900

Pursuant to a General Appropriation Act footnote, any unexpended and unencumbered monies remaining at the end of FY 2007 would be available for use through June 30, 2008. To date, DPS has encumbered \$621,600 of the \$10 million for the purchase of an armored vehicle and mobile license plate readers. Of the total, \$273,800 was encumbered in the 3rd quarter. In addition, 3 of the 10 federal Border Patrol agents are currently assisting GIITEM.

Maricopa County Sheriff's Office

As indicated above, the Maricopa County Sheriff's Office would receive nearly \$1.6 million to support a portion of the costs incurred by 2 MCSO squads supporting the GIITEM mission. This funding would provide 85% of the personal services and employee benefit costs for 15 MCSO sworn positions, 8 hours

(Continued)

of overtime per month for each eligible employee, vehicle mileage reimbursement, and a portion of MCSO's start-up equipment costs. Of the \$1.6 million, \$438,400 funds costs anticipated in FY 2007 while the remaining monies fund costs to be incurred in FY 2008. These MCSO squads would be independent of the GIITEM task force and would do immigration enforcement work focused on human smuggling operations.

City of Phoenix Police Department

Based on DPS' report, nearly \$1.9 million would fund a portion of the costs associated with a squad, consisting of 7 sworn Phoenix Police officers that are anticipated to be assigned to GIITEM. While the department has not formally entered into an agreement with the City of Phoenix Police Department, it anticipates that the assignment may begin as early as June 2007. As a result, approximately \$55,800 would be expended in FY 2007 and the remaining costs would be incurred in FY 2008. Of the \$1.9 million, \$725,500 provides 85% of the Personal Services and employee benefit costs for the 6 Phoenix Police Officers and the remaining monies provide:

- \$21,000 for in-state and potentially out-of-state travel expenses,
- \$424,300 for building lease and improvements and;
- \$702,800 for vehicles, fuel, maintenance, police equipment, and other operating expenditures.

The Phoenix Police Department officers assigned to GIITEM would work with ICE and would be focused on human smuggling and other illegal immigration operations.

Immigration and Customs Enforcement

Like the positions aiding GIITEM and its mission from the MCSO and Phoenix PD, the federal Immigration and Customs Enforcement agents are not DPS employees, though they would be assigned to the GIITEM task force. Specifically, 6 ICE agents would comprise 1 of 3 squads within the taskforce that form the Illegal Immigration Prevention and Apprehension Co-Op Team (IIMPACT). The officers from the Phoenix PD and existing DPS officers will form the other 2 squads. In total, the department anticipates only \$45,100 in expenses associated with the ICE agreement as federal law prohibits U.S. agencies from accepting personnel funding from state or local governments. In addition, the costs are further reduced due to ICE providing their own vehicles. As a result, the \$45,100 funds a portion of their operating, office, computer, and other equipment costs.

Equipment

To maximize the effectiveness of GIITEM and the newly formed IIMPACT, the department requests approval to use \$537,000 to purchase specialized equipment. The equipment, to be purchased, includes surveillance equipment (\$180,000) and mobile fingerprint readers and associated infrastructure (\$357,000). The mobile fingerprint readers would allow officers to scan fingerprints of individuals they come in contact with in the course of their duties. The purchase of these mobile fingerprint readers would be contingent upon Project Investment Justification approval from the Government Information Technology Agency.

Overview/Update - \$7 million

In addition to the \$10 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. At this time, the department is not requesting approval for the use of any additional monies beyond the \$6.9 million that previously received a favorable review. The \$6.9 million funds costs associated with 48 DPS sworn positions and the expansion of the departments recruiting efforts.

(Continued)

To date, 38 of the 48 approved DPS sworn positions have been filled and expenditures through the 3rd quarter totaled \$1,477,500, with additional year-to-date encumbrances of \$2,504,300.

At the July meeting, the Committee requested that DPS submit the one-time and ongoing costs associated with the \$7 million appropriation. Pursuant to this request, the department has reported the \$7 million includes one-time costs of \$3.3 million and annualized on-going costs of \$6.2 million. Therefore, approximately \$800,000 would be available for use in FY 2008 to hire additional positions.

RS/ML:ym



ARIZONA DEPARTMENT OF PUBLIC SAFETY

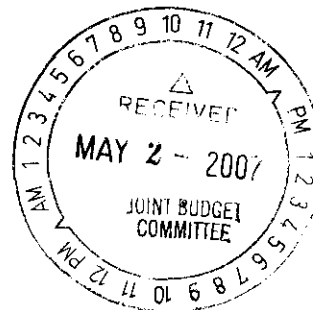
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"Courteous Vigilance"

JANET NAPOLITANO ROGER VANDERPOOL
Governor Director

April 20, 2007

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



Dear Representative Pearce:

Laws 2006, Chapter 344 (General Appropriations Act) requires DPS to receive JLBC review prior to expending any new monies from the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Special Line Item. In addition to plans already reviewed by JLBC, DPS intends to expend a total of \$1,532,300 over FY 2007 and FY 2008 for services to be provided by the Maricopa County Sheriff's Office (MCSO).

The GIITEM Special Line Item includes a \$10 million FY 2007 appropriation to address crimes relating to immigration. This funding does not lapse until June 30, 2008. DPS may utilize this appropriation for contracts with cities, towns, or counties only if the associated law enforcement agency has entered into a 287 memorandum of understanding (MOU) with the United States Department of Homeland Security. Recently, MCSO became the first law enforcement agency in Arizona to sign such an MOU.

With the signing of this MOU, DPS intends to enter into a contract with MCSO to fund two squads (12 deputies, 2 sergeants, and 1 lieutenant) to support the GIITEM mission. Consistent with the provisions of Chapter 344, DPS will pay 85% of the payroll costs of the MCSO employees to include up to 8 hours per month of overtime per employee. In addition, DPS will pay up to \$150,000 for one-time equipment and 44.5 cents per mile for vehicle reimbursement. These figures are shown in the attachment.

With this letter, DPS asks for a favorable review of the MCSO expenditure plan.

Sincerely,

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

Roger Vanderpool
Director

Attachments (2)

Estimated FY 2007 Cost (3 months plus start-up)

Personnel	FTE	Salary	ERE	Total Cost per FTE	Total Extended	85%
Deputy	12	53,808	21,640	75,448	226,345	192,393
Sergeant	2	71,284	26,158	97,442	48,721	41,413
Lieutenant	1	101,936	34,081	136,017	34,004	28,904
						262,710
Marginal ERE Rate:	25.85%		Fixed ERE Rate:		7,731	
Overtime	FTE	Hourly Pay Rate	ERE	Total Hourly Rate	Total Extended	85%
Deputy	12	38.66	9.99	48.65	14,010	11,909
Sergeant	2	51.21	13.24	64.45	3,093	2,629
						14,538
Overtime based on 8 hours per month per eligible employee						
				Estimated Miles	Rate	Total
Vehicle Reimbursement				25,000	0.445	11,125
Start-up Equipment (radios, computers, police equipment, etc.)						150,000
TOTAL						426,464

Maricopa County Sheriff's Office GIITEM IGA
Estimated FY 2008 Cost

Personnel	FTE	Salary	ERE	Total Cost per FTE	Total Extended	85%
Deputy	12	53,808	21,640	75,448	905,380	769,573
Sergeant	2	71,284	26,158	97,442	194,884	165,651
Lieutenant	1	101,936	34,081	136,017	136,017	115,615
						1,050,839
Marginal ERE Rate:	25.85%		Fixed ERE Rate:		7,731	
Overtime	FTE	Hourly Pay Rate	ERE	Total Hourly Rate	Total Extended	85%
Deputy	12	38.66	9.99	48.65	56,042	47,636
Sergeant	2	51.21	13.24	64.45	12,374	10,518
						58,153
Overtime based on 8 hours per month per eligible employee						
				Estimated Miles	Rate	Total
Vehicle Reimbursement				100,000	0.445	44,500
Start-up Equipment (radios, computers, police equipment, etc.)						-
TOTAL						1,105,857

**ARIZONA DEPARTMENT OF PUBLIC SAFETY**

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"Courteous Vigilance"JANET NAPOLITANO ROGER VANDERPOOL
Governor Director

May 3, 2007

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007



Dear Representative Pearce:

In addition to our Intergovernmental Agreement (IGA) with the Maricopa County Sheriff's Office reported in a letter to JLBC dated April 20, 2007, DPS intends to work with the Phoenix Police Department (Phoenix PD) and the U.S. Immigration and Customs Enforcement (ICE) agency to attack human smuggling and other crimes related to illegal immigration. This cooperative effort will be called the Illegal Immigration Prevention and Apprehension Co-Op Team (IIMPACT) and will be funded from the \$10 million FY 2007 appropriation to the Gang and Immigration Intelligence and Team Enforcement Mission (GIITEM) program. This funding does not lapse until June 30, 2008.

DPS, Phoenix PD, and ICE will each contribute a squad of officers to IIMPACT. The agencies will be co-located in leased space at a facility near the DPS headquarters in Phoenix. Phoenix PD will contribute 1 sergeant and 6 detectives, and ICE will contribute 6 agents. All participating personnel will have the authority and training to enforce federal immigration laws, either through their position as a federal agent or through a 287G agreement between their agency (DPS or Phoenix PD) and the U.S. Department of Homeland Security.

DPS will reimburse Phoenix PD for 85% of its personnel costs and provide all equipment and operating costs for these officers. As a federal agency, ICE is not eligible for reimbursement of personnel costs; furthermore, ICE has agreed to provide vehicles to its agents. Thus, the only costs for the ICE agents will be for computers, office furniture, office space, and specialized equipment to be purchased for all officers in IIMPACT. The DPS squad will come from positions already reviewed by the JLBC as part of the \$7 million GIITEM appropriation.

In order to maximize the effectiveness of IIMPACT, DPS intends to make some specialized technology purchases: 1) \$180,000 for surveillance equipment and 2) an estimated \$357,000 for mobile fingerprint readers and associated infrastructure. The latter project will require an approved Project Investment Justification (PIJ) through the Government Information Technology Agency (GITA). We will not move forward with the fingerprint readers until we report back to JLBC that we have received GITA approval.

The Honorable Russell Pearce, Chairman
May 3, 2007
Page 2 of 2

The following table summarizes the estimated cost of IIMPACT through June 30, 2008:

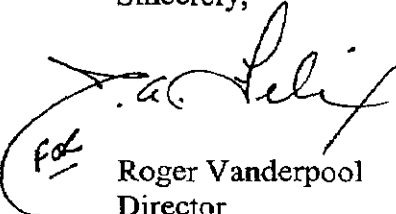
Line Item	Phoenix PD	ICE	Technology	Total
Personal Services	\$471,200	\$0	\$0	\$471,200
Employee Related Expenditures	198,500	0	0	198,500
Travel – In State	21,000	0	0	21,000
Other Operating Expenditures	240,000	0	0	240,000
Non-Capitalized Equipment	183,200	45,100	0	228,300
Capital Equipment	703,900		537,000	1,240,900
TOTAL	\$1,817,800	\$45,100	\$537,000	\$2,399,900

The Phoenix PD column above contains personnel funding for 12 months (July 1, 2007 through June 30, 2008), \$130,000 for a building lease, \$328,000 for vehicles and associated equipment, \$294,300 for building improvements, \$81,900 for building furnishings and office equipment, and other operating costs such as fuel, vehicle maintenance, and standard police equipment. The full building costs are reflected in this column because they could not be readily distributed over the DPS, Phoenix, and ICE personnel. Only the direct cost of office set-ups and computers for the ICE agents are shown in the ICE column.

The above figures are predicated on a July 1, 2007 start for IIMPACT. If possible, we'd like to accelerate the start-up by a month. This would cost an extra \$55,800 in reimbursement to Phoenix PD for Personal Services and Employee Related Expenditures. The earlier start would not affect the other cost factors.

With this letter, DPS requests a favorable review of our planned IIMPACT expenditures. 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,

 **DEPUTY DIRECTOR**
for
Roger Vanderpool
Director



ARIZONA DEPARTMENT OF PUBLIC SAFETY

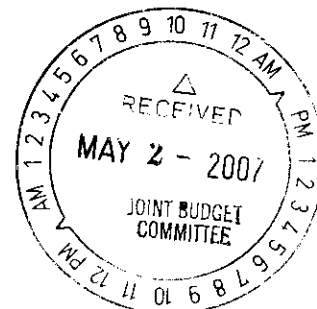
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"Courteous Vigilance"

JANET NAPOLITANO ROGER VANDERPOOL
Governor Director

April 30, 2007

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007



Dear Representative Pearce:

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. The following information addresses expenditures through the third quarter and our hiring success to date.

Quarterly Report

In the third quarter, the Department accelerated the expenditure of GIITEM monies as we filled all 37 DPS positions previously given a favorable review by the JLBC. As of March 31, 2007, we had incurred the following expenditures and encumbrances.

Line Item	\$7 Million Approp.	\$10 Million Approp.
Personal Services	\$774,400	\$0
Employee Related Expenditures	248,100	0
Travel – In State	20,100	0
Travel – Out of State	400	0
Other Operating Expenditures	106,900	0
Non-Capitalized Equipment	15,500	0
Capital Equipment	312,100	0
Subtotal - Expenditures	\$1,477,500	\$0
Other Operating Expenditures	198,000	20,400
Non-Capitalized Equipment	15,400	0
Equipment	2,290,900	601,200
Subtotal – Encumbrances	\$2,504,300	\$621,600
TOTAL – Expend./Encumb.	\$3,981,800	\$621,600

Of the \$621,600 encumbered from the \$10 million appropriation, \$347,800 is for an armored vehicle and the remaining \$273,800 is for mobile license plate readers.

Hiring Update

In addition to the initial 37 DPS positions, on March 29, 2007, the JLBC gave a favorable review to an additional 11 DPS positions. At this point, we have filled 38 of the total 48 positions. We anticipate filling the remaining 10 positions by mid-May. Several of the new GIITEM employees will be lateral officers hired from other agencies. These hires will represent the first time in the Department's history that we have hired lateral officers directly into a Criminal Investigations function, as opposed to the Highway Patrol. With respect to other agency positions, we are behind schedule, having filled just 3 of the federal positions.

Month Hired	DPS Lieutenant	DPS Sergeant	DPS Officer	Other Agency Officer	Total
Authorized	1	11	36	10	58
Filled	1	11	26	3	41
To be Filled	0	0	10	7	17

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,



Roger Vanderpool
Director



ARIZONA DEPARTMENT OF PUBLIC SAFETY

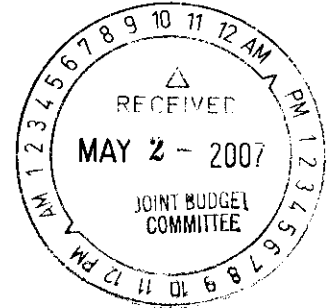
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"Courteous Vigilance"

JANET NAPOLITANO Governor
ROGER VANDERPOOL Director

April 24, 2007

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007



Dear Representative Pearce:

At its March 29, 2007 meeting, the JLBC requested that DPS submit cost estimates for the one-time and ongoing costs associated with the FY 2007 appropriation of \$7 million to support up to 100 DPS positions in the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) program.

The following figures represent the one-time and ongoing costs associated with 48 DPS positions that have been reviewed by the JLBC (1 Lieutenant, 11 Sergeants, and 36 Officers).

Line Item	Estimated One-time Costs	Estimated Ongoing Costs
Personal Services	\$0	\$3,525,100
Employee Related Expenditures	0	1,744,600
Travel – In State	0	116,300
Travel – Out of State	0	36,000
Other Operating Expenditures	410,000	723,200
Non-Capitalized Equipment	274,200	71,800
Capital Equipment	2,603,000	0
TOTAL	\$3,287,200	\$6,216,900

The above figures are estimates and are subject to change due to a variety of factors. These factors include increases authorized by the Legislature such as pay and Employee Related Expenditure adjustments. These factors also include price fluctuations for items such as fuel, vehicle parts, ammunition, and police equipment. Furthermore, the periodic replacement of vehicles is not reflected above as this is normally handled as a "one-time" budget issue through the annual budget request process.

If you have any questions, please contact Phil Case, DPS Comptroller, at 602-223-2463 or pcase@azdps.gov.

Sincerely,

Roger Vanderpool
Director

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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STEVE YARBROUGH

DATE: May 4, 2007

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

THRU: Richard Stavneak, Director

FROM: Grant Nülle, Assistant Fiscal Analyst

SUBJECT: Department of Commerce – Review of First Quarterly Expenditure Report for the
Arizona 21st Century Competitive Initiative Fund

Request

Pursuant to Laws 2006, Chapter 334, the Department of Commerce (COM) has submitted for review the first quarterly report of Science Foundation Arizona's (SFAz) expenditure of monies from the Arizona 21st Century Competitive Initiative Fund and changes to the initial Memorandum of Understanding between COM and SFAz. COM is proposing to transfer \$1 million from the \$5 million allocation for assistance in obtaining federal research grants. These funds would be used to expand existing initiatives for K-12 student math and science programs (\$400,000), increase the number of math and science teachers taking paid summer internships (\$100,000), and assist in funding partnerships that expand research and development (R&D) performed in Arizona (\$500,000).

In addition, SFAz has submitted a list of performance measures and numeric goals requested by the Committee during its November 15, 2006 meeting.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the proposed transfer and the first quarterly expenditure report. The transfer represents a reallocation of funding among items already reviewed by the Committee. According to SFAz, there was not enough qualified projects in the federal research leverage program to justify the original \$5 million expenditure allocation.

As of April 2, 2007, SFAz has approved \$13.9 million in awards for 5 of its 7 programs and actually expended \$2.2 million of the monies drawn from the fund for award payments and activities. The \$18 million allocated for public-private research partnerships has not been awarded yet. *Table 1* shows a more detailed description of the progress of the various programs.

SFAz also included proposed first year performance measures, with numeric goals, to evaluate the effectiveness of its grant programs. A detailed list of recommended performance measures are included

(Continued)

in *Table 2* and *Table 3*. The proposed measures are consistent with those used by other states to gauge the performance of science and engineering related investment programs.

In addition to the performance measures suggested by SFAz, JLBC Staff suggests that the Committee recommend the following measures be tracked by SFAz:

- 1) Number of SFAz awards per investment program that result in commercial products;
- 2) Amount of licensing and royalty revenue earned by grant recipients;
- 3) A breakdown of the "dollars leveraged from other sources" measure by federal, private foundation, and venture capital sources when submitting results for the first year performance measures.

The JLBC Staff also suggests the Committee recommend that SFAz provide numeric goals for the \$2.5 million other discretionary grants program's performance measures in its next quarterly report.

Analysis

Expenditures and Proposed Reallocation of Monies

Highlights from the first quarterly report are included below and summarized in *Table 1*.

<u>Program</u>	<u>Original Allocation</u>	<u>Awards</u> ^{1/}	<u>Awards Amount</u>	<u>Monies Drawn</u>	<u>Monies Expended</u>	<u>Proposed Reallocation</u>
Public-Private Research	\$18.0	0	\$0.0	\$0.0	\$0.0	\$0.0
Federal Research Leverage	5.0	26	4.0	2.5	2.0	(1.0)
Small Business Seed Capital	2.0	8	1.9	1.0	0.0	0.0
Graduate Research Fellowships	4.0	80	4.0	2.0	0.0	0.0
K-12 Student Programs	1.5	3	1.9	0.0	0.0	0.4
K-12 Teacher Internships	2.0	5	2.1	0.0	0.0	0.1
Other Discretionary Grants	2.0	0	0.0	0.0	0.0	0.5
Management/Studies	<u>0.5</u>	<u>N/A</u>	<u>N/A</u>	<u>0.1</u>	<u>0.2</u>	<u>0.0</u>
Total	\$35.0	122	\$13.9	\$5.6	\$2.2	--

^{1/} Award decisions for the Strategic Research Groups and Other Discretionary Grants programs are expected May 2007

- Graduate Research Fellowships - SFAz awarded \$4 million in scholarships to 80 top first-year graduate students to attend Arizona's public research universities in science and engineering fields. \$1.85 million was awarded for 45 graduate students to attend Arizona State University; \$1.75 million was awarded for 50 students to attend the University of Arizona, and \$400,000 was awarded for 15 students to attend Northern Arizona University.
- Small Business Seed Capital (Small Business Catalytic Funding) - 8 technologies being developed at the universities were awarded \$2 million in seed capital to help its creators convert concepts into commercial products.
- Federal Research Leverage (Competitive Advantage Awards) - \$4 million has been awarded to 26 existing research projects that have the potential to attract an additional \$30 million in federal research grants to Arizona.

(Continued)

- K-12 Student/Teacher Programs - 8 grants totaling \$4 million have been awarded for programs that will engage an estimated 20,000 Arizona K-12 students in math and science programs and provide an estimated 145 math and science teachers paid summer internships in academia or industry.
- Pending Committee review, SFAz and COM have agreed to reallocate \$1 million in unused monies from the grant program that assists researchers in securing federal grants to 3 other programs, \$400,000 to the K-12 student program, \$100,000 to the K-12 teacher internship program, and \$500,000 to the other discretionary grants program.
- Grants have not been approved for the public-private research (Strategic Research Groups) program. These grants provide matching funding for partnerships between industry and research institutions with the intent of winning federal research center grants and expanding industry R&D performed in the state. Proposals are under review and SFAz expects to approve awards for the \$18 million program in late May. SFAz has also not approved awards for the other discretionary grants (Strategic Initiatives) program and is currently negotiating partnerships that will draw corporate R&D to the state. Awards for the \$2.5 million program are also expected in late May.
- Overall, SFAz has approved \$13.9 million in awards and expended \$2.2 million from the fund.

Evaluation and Performance

Pursuant to the Committee's recommendation during its November 15, 2006 meeting, SFAz submitted first year performance measures, with numeric goals, in its first quarterly report. These measures are displayed in *Table 2* and *Table 3*. Results for these measures and the first year of SFAz funding will be reported June 2008. These measures are consistent with science and engineering investment performance measures used by other states. Overall, the proposed measures capture the purpose and expected results of each of the grant programs. *Table 2* displays SFAz's performance measures and numeric goals for the 4 R&D grant programs. These programs comprise \$26.5 million of the \$35 million in 21st Century Competitive Initiative Fund monies.

Program ^{1/}	Scientific Publications	Patents Filed	Companies Created	Jobs/Average Salaries	Dollars from Other Sources	Industry Match ^{3/}	Grad Students Participating
Strategic Research Groups (\$18 M)	4	4	0	40/\$50K	0	\$18M	20
Competitive Advantage Awards (\$4 M)	0	0	0	0	\$5M	0	40
Small Business Catalytic Funding (\$2 M)	2	2	4	4/\$50K	0	N/A	12
Strategic Initiatives ^{2/} (\$2.5 M)	--	--	--	--	--	--	--

^{1/} The JLBC Staff suggests the Committee recommend SFAz track the following additional performance measures for these R&D programs: 1) Number of awards per investment program that result in commercial products; 2) Amount of licensing and royalty revenue earned by grant recipients; 3) Break down the "Dollars from Other Sources" measure by federal, private foundation, and venture capital sources when submitting first-year results.

^{2/} The JLBC Staff suggests the Committee recommend SFAz provide numeric goals for the Strategic Initiatives program in its next quarterly report.

^{3/} A 1:1 industry match is required for the \$2.5 million anticipated to be awarded for R&D partnerships under the Strategic Initiatives program.

(Continued)

SFAz submitted 2 additional performance measures for the R&D grant programs, patents issued and technology licensed, but does not expect any patents to be issued or technology licensed for any of the programs during the first year. SFAz will still track these measures in the first year and revise its numeric goals for the second year of grants.

Table 3 displays SFAz's performance measures and numeric goals for the 3 educational grant programs. These programs comprise \$8 million of the \$35 million in 21st Century Competitive Initiative Fund monies.

Table 3					
Performance Measures and Numeric Goals for June 2008 – Educational Programs					
<u>Program</u>	<u>Total Participants</u>	<u>% Rural Districts</u>	<u>% Low Income Dist.</u>	<u>% Native Amer. Dist.</u>	<u>Teachers Retained in AZ</u>
K12 Teacher Internships (\$1.9 M)	145	75	75	25	100
K-12 Student Programs (\$2.1 M)	20,000	30	70	10	N/A
Graduate Research Fellowships (\$4 M)	80	N/A	N/A	N/A	N/A

An additional performance measure for the K-12 Student program, percentage of students completing advanced math/science in high school, was submitted, but no numeric goal was provided. Long-term measures for the Graduate Research Fellowships program include scientific publications, doctorates awarded, and fellows that stay to work in Arizona upon earning a doctorate.

SFAz also provided in its first quarterly report a broader set of performance measures it believes the state should consider when evaluating the development of a knowledge-driven economy in Arizona. These measures include: 1) Amount of corporate R&D performed in the state; 2) Math and science proficiency of K-12 students; 3) Percentage of math, science, and engineering degrees awarded by the universities; 4) High-tech company start-ups and venture capital investment; 5) Availability and retention of scientists and engineers in the state; and 6) Economic impact of the universities.

RS/GN:ts



ARIZONA DEPARTMENT OF COMMERCE

JANET NAPOLITANO
GOVERNOR

Our Job is JOBS!

JAN LESHER
DIRECTOR

April 4, 2007

The Honorable Robert L. Burns, Chairman
The Honorable Russell K. Pearce, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, Arizona 85007

Re: 21st Century Fund Quarterly Report

Dear Senator Burns and Representative Pearce:

Pursuant to A.R.S. §41-1505.09.E., the Commerce and Economic Development Commission (CEDC) is submitting 1) information regarding expenditures from the 21st Century Fund, and 2) an amendment to the contract with Science Foundation Arizona (SFAz) for services related to the 21st Century Fund.

We have also attached the first quarterly report from SFAz.

1) Expenditures from the 21st Century Fund:

In the first calendar quarter, the following amounts were disbursed from the CEDC to SFAz pursuant to the terms of the contract:

Table 1

<i>Program</i>	<i>Disbursed to SFAz</i>
Competitive Advantage Awards (CAA)	\$2.5 M
Graduate Student Fellowships (GSF)	\$2 M
Small Business Catalytic (SBC)	\$1 M
K-12 Student/Teacher Discovery (K-12)	
Strategic Research Groups (SRG)	
Strategic Initiatives (SI)	
Review and operations	\$125 K
TOTAL	\$5.625 M

The total dispersed from the fund as of March 31, 2007 was \$5.625 M. Of the \$2 M disbursed for the Graduate Student Fellowships, it was subsequently determined these funds would not be expended by SFAz until June 2007. Therefore, this amount has been shifted to pay more immediate awards. Information regarding the awards, and the expenditures related to those awards, made by SFAz are contained in the attached first quarterly report.

2) Amendment to the contract with SFAz:

In its response to the Request For Proposals (RFP) for services related to the 21st Century Fund SFAz has allocated these resources across six program categories (see "Investment Per RFP" column):

Table 2

<i>Program</i>	<i>Investment Per RFP</i>	<i>Revised Investment</i>
Competitive Advantage Awards (CAA)	\$5.0M	\$4.0M
Graduate Student Fellowships (GSF)	\$4.0M	\$4.0M
Small Business Catalytic (SBC)	\$2.0M	\$2.0M
K-12 Student/Teacher Discovery (K-12)	\$3.5M	\$4.0M
Strategic Research Groups (SRG)	\$18.0M	\$18.0M
Strategic Initiatives (SI)	\$2.0M	\$2.5M
Review and operations	.5 M	.5 M
TOTAL	\$35 M	\$35 M

Of the \$5 M originally proposed for the CAA program category, only \$3.8 M was actually awarded. As a result, \$1.2 M remains unspent. Both the GSF and SBC categories have been fully committed. Awards are pending in both the SRG and K12 programs, but SFAz advises the demand in the K-12 programs is far more than can be met. Applications are pending in the SI category.

To address the demand in the K-12 programs and pending SI applications, on March 27, 2007, SFAz requested, and the CEDC approved, the following reallocation of unspent funds from the CAA program:

- \$100,000 from the Competitive Advantage Award program to the K12 teacher program.
- \$400,000 from the Competitive Advantage Award program to the K12 student program.
- \$500,000 from the Competitive Advantage Award program to the Strategic Initiative program.

The CEDC made these actions effective upon a review by JLBC or in 60 days from March 27th, whichever comes first. These reallocations are reflected in the "Revised Investment" column in Table 2 above.

If you have any questions, please contact me at 602-771-1222, or Martha Lynch at 602-771-1110.

Sincerely,



Jan Leshner



2007 METRICS - CAA, SBC, SRG, SI

Note: Year one is 2008 for these categories

Program Area	Scientific Publications			Patents Filed *			Patents Issued			Technology Licensed		
	Yr. 1	Yrs. 2-4	Yrs. 5+	Yr. 1	Yrs. 2-4	Yrs. 5+	Yr. 1	Yrs. 2-4	Yrs. 5+	Yr. 1	Yrs. 2-4	Yrs. 5+
CAA - Projected	0			0			0			0		
Actual												
SBC - Projected	2			2			0			0		
Actual												
SRG - Projected	4			4			0			0		
Actual												
SI - Projected												
Actual												

Program Area	Companies Created			Jobs Created/ Avg. Salary			Dollars Leveraged From Other Sources			Industry Match		Talent Development
	Yr. 1	Yrs. 2-4	Yrs. 5+	Yr. 1	Yrs. 2-4	Yrs. 5+	Yr. 1	Yrs. 2-4	Yrs. 5+	2007	Total	Grad. Std /Post Doc
CAA - Projected	0			0			\$5M			0		40
Actual												
SBC - Projected	4			4/\$50K			0			n/a	n/a	12
Actual												
SRG - Projected	0			40/\$50K			0			\$18M	n/a	20
Actual												
SI - Projected												
Actual												

Legend:
 CAA - Competitive Advantage Awards
 SBC - Small Business Catalytic
 SRG - Strategic Research Groups
 SI - Strategic Initiatives

* includes provisional patents and provisional patents converted to full patents.

- ALL NUMBERS ASSUME CONSISTENT FUNDING FOR PROGRAMS -



2007 METRICS - GRF & K-12 DISCOVERY

Graduate Research Fellowships	Total Fellows # (%)*	Scientific Publications			Doctorates Awarded (5 Year)	Post-Doctoral Studies		
		Yr. 1	Yrs. 2-4	Yrs. 5+		Fellowships Awarded	At Top 25% of Institutions/Labs	Working in Arizona
Current Year								
Projected	80 (n/a)	0						
Actual								
Cumulative								
Projected								
Actual								

*Numbers in parentheses indicate percent of fellows in top decile of first year graduate students nationally

K-12 Teacher Discovery	Teachers Enrolled				Program Quality Rating by Teachers (3 Point Scale)**	Retention of Math/Science Teachers in AZ
	Total	% Rural	% Title I	% Native American		
Current Year						
Projected	145	75%	75%	25%	2.5	100
Actual						
Cumulative						
Projected						
Actual						

**3 Point Scale Equals Outstanding, Average & Needs Improvement

K-12 Student Discovery	Students Enrolled					Program Quality Rating by Students (3 Point Scale)**
	Total	% Rural	% Low Income	% Native American	% Completed Advanced Science/Math in HS	
Current Year						
Projected	20,000	30%	70%	10%		2.5
Actual						
Cumulative						
Projected						
Actual						

**3 Point Scale Equals Outstanding, Average & Needs Improvement

- ALL NUMBERS ASSUME CONSISTENT FUNDING FOR PROGRAMS -

3/26/07

STATE OF ARIZONA

Joint Legislative Budget Committee

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FAX (602) 926-5416

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DATE: May 4, 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 Budget Car & Truck Sales (Budget) consent judgment.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for the Budget 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 March 2007, the Attorney General entered into a consent judgment with Budget as a result of allegations that the company employed deceptive practices in the advertisement of used vehicles. The lawsuit alleged that between 2003 and 2005, Budget ads falsely stated that 3 major rental car companies were being forced to prematurely liquidate thousands of cars due to a “recent crisis”, and that Budget was the exclusive regional site for the non-existent “national” sale. The lawsuit further alleged that Budget’s ads deceptively compared their used car sales prices with the original Manufacturer’s Suggested Retail Price for the vehicles, which greatly misrepresented the amount of advertised savings. In addition to placing restrictions on Budget’s advertising practices, the consent judgment requires Budget to pay \$125,000 to the Attorney General for deposit into the Consumer Fraud Revolving Fund for attorney costs and fees.

RS/LR:ts

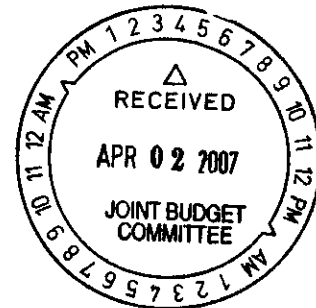


Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Rene Rebillot
Consumer Protection &
Advocacy Section

March 29, 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. Budget Car & Truck Sales

Dear Gentlemen:

The Attorney General and Budget Car & Truck Sales recently entered into a Consent Judgment to settle allegations of deceptive practices in the advertisement of used vehicles. The Consent Judgment was subsequently approved by the Pima County Superior Court. The judgment settles a lawsuit filed by the Attorney General's Office against Budget.

The lawsuit alleged that between 2003 and 2005, Budget placed various "Public Notice" ads falsely declaring a "Nation Wide Rental Car Disposal Sale." The lawsuit alleged that the Budget ads falsely claimed that three major rental car companies were "prematurely forced to liquidate thousands of cars" because of a "recent crisis" and a "decline in the national tourism industry." The suit also alleged that the ads falsely stated that Budget was an "exclusive regional site" for the non-existent "national" sale.

Hon. Timothy S. Bee
Hon. James P. Weiers
Hon. Russell K. Pearce
March 29, 2007
Page 2

The lawsuit further alleged that Budget's ads deceptively compared their used car sale prices with the original Manufacturer's Suggested Retail Price (MSRP) for the vehicles, which greatly misrepresented the amount of the advertised savings. The ads claimed big savings ("up to 50 percent off") by deceptively comparing a used car price to the original MSRP. In fact, there is no MSRP for used cars.

The consent judgment also prohibits Budget from:

- Advertising "Public Notice Sales" or sales based on a purported crisis, national rental car sale or forced liquidation unless it is true.
- Advertising used vehicles with comparative pricing unless the comparison is to the "regular" price (the regular price of the dealer or the market price in industry guides like Kelly Blue Book).
- Advertising used vehicles using the MSRP as a comparative price. Budget may include an accurate statement of a vehicle's MSRP in an advertisement, but only if it does not state, directly or by implication, that Budget's price represents a reduction or discount from the MSRP.

In addition to the injunctive relief, Budget will also pay \$125,000 toward this office's costs and attorney's 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:

Hon. Timothy S. Bee
Hon. James P. Weiers
Hon. Russell K. Pearce
March 29, 2007
Page 3

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

#1006434

STATE OF ARIZONA

Joint Legislative Budget Committee

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STEVE YARBROUGH

DATE: May 4, 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 Intended Use of Monies in the Antitrust Enforcement
Revolving Fund

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General (AG) has notified the Committee of its intended use of Antitrust Enforcement Revolving Fund monies in excess of \$232,400 in FY 2007.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the intended expenditures, as they are consistent with the statutorily allowed usage of Antitrust Enforcement Revolving Fund monies and can be supported with an adequate fund balance.

Analysis

The General Appropriation Act contains a footnote which states that all revenues received by the Antitrust Fund in excess of \$232,400 in FY 2007 are appropriated. Expenditures from the fund, however, are limited to \$750,000. The footnote further requires that the AG shall not expend monies from the fund in excess of \$232,400 prior to review by the Joint Legislative Budget Committee.

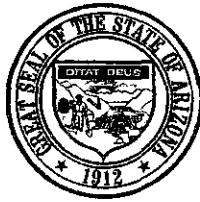
Monies recovered for the state as a result of antitrust, restraint of trade or price-fixing activity enforcement are deposited into the Antitrust Enforcement Revolving Fund. A.R.S. § 41-191.01 requires the AG to use the fund to cover costs and expenses associated with antitrust enforcement efforts. Monies can be expended for items such as filing fees, court costs, travel, depositions, transcripts, reproduction costs, expert witness fees and investigations. Except for the attorney fees due upon the initial recovery of monies, fund monies cannot be used to compensate or employ permanent attorney positions. In FY 2006, the Attorney General expended \$307,400 from the fund for antitrust enforcement efforts.

(Continued)

As the agency reports a beginning fund balance of \$714,900 in FY 2007 and anticipates additional settlement monies during the year, the AG is requesting to expend monies from the fund in excess of \$232,400. The AG estimates that FY 2007 expenditures will be a total of \$318,000 for the following purposes:

- \$269,500 for personnel costs. This will fund Personal Services and Employee Related Expenses for 5 existing non-attorney staff positions.
- \$16,100 for multi-state cases. This represents Arizona's share of the investigative and court costs associated with participating in multi-state antitrust cases.
- \$32,400 for operating costs. The operating costs are for the support of the Antitrust Unit.

RS/LR:ts



OFFICE OF THE ATTORNEY GENERAL
STATE OF ARIZONA

TERRY GODDARD
ATTORNEY GENERAL

April 13, 2007



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

Dear Senator Burns:

This letter is written to report the intended use of expenditures from the Antitrust Enforcement Revolving Fund (ATRF). All revenues received by the ATRF are appropriated. However, a footnote to the general appropriations act states, "Before the expenditure of any Antitrust Enforcement Revolving Fund receipts in excess of \$232,400 in FY 2007, the Attorney General shall submit the intended uses of the monies for review by the Joint Legislative Budget Committee."

The Office of the Attorney General estimates that the FY07 antitrust enforcement expenditures will be \$318,000 for the following purposes:

- Personnel costs - \$269, 500
- Multi-state cases costs - \$16,100
- Operating costs - \$32,400

With anticipated settlements in FY07 and an adequate fund balance that can be transferred to cover the estimated expenditures, the estimated funds for FY07 will exceed \$318,000. These expenses, which represent the costs allowed by A.R.S. § 41-191.02, include such items as filing fees, court costs, travel, depositions, transcripts, reproduction costs, expert witness fees, and investigation expenses.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Terry Goddard".
Terry Goddard
Attorney General

cc: The Honorable Russell K. Pearce
Richard Stavneak, Director, Joint Legislative Budget Committee
James Apperson, Office of Strategic Planning and Budget

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
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DATE: May 7, 2007

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

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: Department of Education – Report of Plan to Fund AIMS Study Guides with Achievement Testing Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Education (ADE) is reporting its plan to spend surplus Achievement Testing funding from FY 2006 and FY 2007 on AIMS study guides.

Recommendation

The Committee has at least the following 3 options:

- 1) A favorable review. Surplus monies are available within the Achievement Testing program and the study guides can be viewed as an allowable use of these funds.
- 2) An unfavorable review. The AIMS Study Guides were intended to be funded with non-appropriated monies from Failing Schools Tutoring Fund.
- 3) No action. Statute only requires the Committee to receive a report and a review is not required.

We are pursuing 2 other issues with ADE. First, unused Achievement Testing funds lapse at the end of each year. As a result, it is unclear as to why funding remains available from FY 2006. Second, we are seeking clarification as to ADE's plan for covering these costs in FY 2008.

Analysis

A footnote in the General Appropriation Act states that "Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the Joint Legislative Budget Committee." In recognition of this footnote, ADE has submitted to the Committee a report of its plan to use \$3,583,900 in combined FY 2006 carry forward and FY 2007 surplus monies for Achievement Testing to fund the cost of AIMS study guides for FY 2007. The rest of this memo provides more detail on this issue.

(Continued)

Background Information

In August 2006, ADE awarded a contract to McGraw-Hill to provide Arizona with a two-year program of AIMS High School study guides for 11th and 12th grade students who do not meet standards on the AIMS high school test and for 9th grade students who did not pass their 8th grade test (*see Attachment 1*). The contract amounts for this program are \$3,583,900 for FY 2007 and \$3,327,700 for FY 2008. *Attachment 1* indicates that these study guides are developed from individual students' AIMS test results and are used as a remediation tool by students.

Prior to the awarding of the August 2006 contract, Laws 2006, Chapter 266 amended statute governing the Failing Schools Tutoring Fund (A.R.S. § 15-241.BB) in order to allow ADE to use non-appropriated Failing Schools Tutoring monies to fund the purchase of such study guides. Our understanding is that the McGraw-Hill contract was intended to be funded with monies from the FSTF. In *Attachments 2 & 3*, however, ADE now indicates that funding the Guides with FSTF monies in FY 2007 will leave that fund with insufficient monies to pay for projected tutoring expenses for FY 2008.

Tutoring Monies

The Failing Schools Tutoring Fund (FSTF) was established by Proposition 301 and receives \$1.5 million annually from the Proposition 301 sales tax. These monies originally were dedicated for tutoring only, but, as noted above, statute regarding their use was amended last year to allow them to also be used to purchase materials such as AIMS study guides. Up until recently, the FSTF fund was underutilized due to low tutoring participation rates by students and fund balances increased each year, resulting in a reported ending balance of \$6.2 million at the end of FY 2006. ADE now reports, however, that participation rates for tutoring have increased substantially and all FSTF monies will be needed for tutoring costs only.

In that regard, Attachment 3 from ADE shows that \$2.7 million has already been spent on tutoring through April of this year and that ADE projects that this total will increase to \$4.1 million by year's end (versus \$1.5 million in Proposition 301 revenue into the FTSE for the year). The increase in tutoring rates is due, at least in part, to changes in State Board of Education policy for the program that were made last June. These changes, for example, allow the FSTF to fund tutoring for 9th and 10th grade students who did not pass the 8th grade AIMS test. Previously only 11th and 12th grade pupils who had not passed the AIMS high school were eligible for FSTF-funded tutoring.

Achievement Testing Surplus

ADE indicates that Achievement Testing carry forward monies from FY 2006 and surplus monies from FY 2007 can be used to fund the \$3,583,900 contract cost for AIMS study guides for FY 2007. We are unclear at this time as to how carry forward funds could exist for Achievement Testing, as state funding for this programs is not non-lapsing. For FY 2007, however, we understand that ADE anticipates that the program will have \$2.1 million surplus due to delays in implementing planned changes to the current AIMS contract.

RS/SSc:ym



State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

April 19, 2007

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

Dear Mr. Stavneak:

On August 3, 2006, the Arizona Department of Education (ADE) awarded a contract to McGraw-Hill to provide Arizona with a two-year program of AIMS High School Study Guides for 11th and 12th grade students who do not meet standards on the AIMS high school test, and the 9th grade students who did not pass their 8th grade test. The study guides are developed from the AIMS test results and are used as a remediation tool by the students and their tutors. This contract award will increase the department's testing liability \$3,583,921 for FY 2006-2007 and \$3,327,671 in FY 2007-2008. The ADE is requesting your approval of this award and will support the FY 2006-2007 contract amount from the projected Achievement Testing surplus of \$2,055,111 and FY 2006 carryover, no additional funds will be required for FY 2007.

I appreciate your consideration of this contract amendment. If you have any additional questions concerning this issue, please contact me at (602) 364-0132.

Sincerely,

Vicki G. Salazar
Associate Superintendent of
Business and Finance

cc: The Honorable Tim Bee
The Honorable James Weiers
Robert Burns, Chairman of the Arizona Senate Appropriations Committee
Russell Pearce, Chairman of the Arizona House Appropriations Committee
Steve Schimpp - JLBC
Stacy Morley - OSPB

XC M. KLINGEERMAN



MEMORANDUM

TO: Steve Schimpp
FROM: Vicki G Salazar
DATE: May 2, 2007

Steve:

The Department of Education is requesting support in funding the GROWS contract from the FY 2006 carryover and the FY 2008 Achievement Assessment appropriation due to the following facts:

- The tutoring expenses for FY 2007 (July 1 – April 30) have increased by \$ 1,859,193.82, for a total of \$2,670,398. This is three times the FY 2006 total of \$ 890,132.89.
- Using the Failing Schools Tutoring Fund for the GROWS contract will leave approximately \$528,461.26 in FY 2007 carryover. There will not be sufficient funds in FY 2008 to support the funding of tutors at the current FY 2007 requirement.

Due to the success of the program, there is inadequate funding for maintenance of the current level of supplemental instruction of pupils who have failed to pass one or more portions of the AIMS test, or who attend an underperforming school, or a school failing to meet academic standards per §15-241(Q).

The Failing School Fund was established in FY 2002. However, in FY 2002, §15-241 H. (1), (2) stated that pupils may select an alternative tutoring program in academic standards from a provider that is certified if their school was designated as a failing school, as defined in §15-241(G),(H), underperforming in the same achievement area for two consecutive years. The Arizona Department of Education (ADE) did not develop policies or procedures for the School Accountability program which labeled schools, until after Superintendent Horne took office in FY 2003. Since a school had to be identified as underperforming in the same achievement area for **two consecutive years** before these funds could be applied for, parents could not apply for funds until the fall of FY 2004, leaving a FY 2005 carryover of \$5,995,780 in the Failing Schools Tutoring Fund.

During the past two years, the department has made every effort to assist pupils who have failed to pass one or more portions of the AIMS test, or who attend an underperforming school, or a school failing to meet academic standards, by alerting the schools, parents and students of resources available through the department, as well as contracting for the

development of personalized tutoring guides to assist the tutor and their pupil during their tutoring sessions. Because of the efforts of ADE, the State Board, the program staff and the outstanding efforts of the tutors and schools, this program / service has grown to the level it is today. Without sufficient funding and /or carryover, the FY 2008, support level for tutoring services will be reduced by 24+% and there will not be any funding available to support the contract for the personalized tutoring guides, which have become a very significant tool for the pupils who have not passed the AIMS

The Grow Network is an affiliate of McGraw – Hill, which is the current contractor for the AIMS test. It would be in the best interest of the Arizona students to continue the services of personalized study guides by including this cost as part of the McGraw-Hill testing contract. I hope that the Joint Legislative Committee will support this request, as it is in the best interest of the student, the educational community and the state.

I appreciate your assistance in this matter, if you have additional concerns or questions please call me at (602) 364-0132.

**FAILING SCHOOLS TUTORING FUNDS
FOR FY 2007-2008
Without Growth**

FUND BALANCE

FY 2002 Carry Over	\$403,611.50	
FY 2003 Carry Over	\$1,500,000.00	
FY 2004 Carry Over	\$1,397,098.27	
FY 2005 Carry Over	\$1,497,174.92	
FY 2006 Carry Over	<u>\$1,432,924.73</u>	
Total Carry Over		\$6,230,809.42

FY 2007 Appropriation	\$1,500,000.00	
Total Funds Available		<u>\$7,730,809.42</u>

Expenditures: Tutors

August	\$ 660.00	
September	\$ 103,890.39	
October	\$ 221,620.00	
November	\$ 10,944.46	
December	\$ 1,269,029.89	
January	\$ 99,253.48	
February	\$ 199,635.54	
March	\$ 412,567.44	
April	\$ 441,575.51	
Total Expenditures		<u>\$2,749,326.71</u>

Fund Balance		\$4,981,482.71
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Est Average monthly (May & June)	\$ 869,100.45	<u>\$4,112,382.26</u>
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FY 2007GROW Contract	\$ 3,583,921	<u>528,461.26</u>
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FY 2008 Appropriation	\$1,500,000	
Total FY 2008 Funds Available		\$2,028,461.26

Est FY 2008 Tutoring Expenses (At FY07 with no growth)	\$ 3,618,427.16	
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FY 2008 Fund Balance		(\$1,589,965.90)
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STATE OF ARIZONA

Joint Legislative Budget Committee

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STEVE YARBROUGH

DATE: May 7, 2007

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

THRU: Richard Stavneak, Director

FROM: Dan Hunting, Fiscal Analyst

SUBJECT: Department of Environmental Quality - Review of Intended Use of Monies in the
Indirect Cost Recovery Fund

Request

Pursuant to a footnote in Laws 2006, Chapter 344 (General Appropriation Act), the Department of Environmental Quality (DEQ) requests Committee review of the intended uses of Indirect Cost Recovery Funds in excess of \$10,485,700.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the department's request.

Analysis

The Indirect Cost Recovery Fund is used to pay administrative and overhead expenses for DEQ programs. Laws 2006, Chapter 344 requires Committee notification if DEQ plans to exceed the appropriated amount from the Indirect Cost Recovery Fund. In FY 2007, this cap was set at \$10,485,700, as modified for statewide salary and other adjustments

DEQ has expended \$8,996,600 from this fund in the first 3 quarters of FY 2007. They anticipate spending a total of \$11,770,700 for the entire fiscal year. In comparison, they spent \$11,121,900 in FY 2006. They intend to spend the additional monies on salaries, rent, and other operating expenses.

(Continued)

Although the Indirect Cost Recovery Fund is appropriated, monies are transferred to it from other funds, not directly deposited into it. Federal grants supply 30% of the fund, with an additional 38% coming from other non-appropriated sources. The remaining 32% of the fund originates in appropriated funds that are derived from fees such as charges for the Vehicle Emission Inspection program and landfill tipping fees.

RS:DH/ss



Janet Napolitano
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.azdeq.gov



Stephen A. Owens
Director

April 30, 2007

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

The Honorable Russell K. Pearce, Chair
House Appropriations Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Re: Indirect Cost Recovery Fund

Dear Chairman Burns and Chairman Pearce:

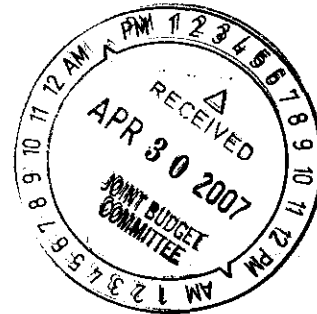
The Department of Environmental Quality (ADEQ) is requesting a review by the JLBC, in accordance with House Bill 2863, Chapter 344, Section 13, page 43, lines 15-20, Forty-seventh Legislature, Second Regular Session (2006) listed below:

All indirect cost recovery fund revenue received by the department of environmental quality in excess of \$9,969,400 in fiscal year 2006-2007 are appropriated to the department. Before the expenditure of indirect cost recovery fund receipts in excess of \$9,969,400 in fiscal year 2006-2007, the department of environmental quality shall submit the intended use of the monies to the joint legislative budget committee for review.

ADEQ has expended approximately \$9 million through the third quarter of FY 07 and projects an additional \$2.8 million in the fourth quarter. The intended use \$2.8 million is to meet required obligations for personal services, employee related expenditures, and other routine operating expenditures.

Northern Regional Office
1801 W. Route 66 • Suite 117 • Flagstaff, AZ 86001
(928) 779-0313

Southern Regional Office
400 West Congress Street • Suite 433 • Tucson, AZ 85701
(520) 628-6733

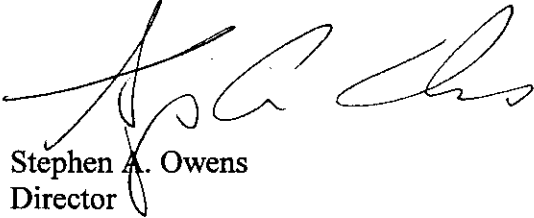


Senator Robert Burns
Representative Russell Pearce
April 30, 2007
Page 2 of 2

ADEQ is requesting a favorable review of the intended use for the Indirect Cost Recovery Fund.

If I can provide you with any further information or if you have any questions, please feel free to contact me at (602) 771-2203.

Sincerely,



Stephen A. Owens
Director

cc: Richard Stavneak, Director, JLBC
James Apperson, Director, OSPB
✓ Dan Hunting, Analyst, JLBC
Marcel Benberou, Analyst, OSPB

The Arizona Department of Environmental Quality (ADEQ) is requesting a favorable review of the Indirect Cost Recovery Fund and submits the following use of monies above \$9,969,400 for obligations in FY 2007:

Through the third quarter of FY 07, ADEQ has expended \$8,966,600 or roughly \$3 million a quarter. In the fourth quarter of FY 2007, ADEQ estimates expenditures at \$2.8 million to meet obligations:

Personal Services	\$	867,000 to cover projected salary costs for the following: (Management, Accounting, Payroll, Budget, Business Services, Information Technology, Human Resources, Procurement, and General Services)
Employee Related Expenditures:	\$	304,700 to cover fringe benefits related to Personal Services
Professional & Outside Services	\$	64,500 for building security, temporary services, medical
In State and Out of State Travel	\$	13,900 for motor pool and training
Building Rent	\$	842,200 to pay for occupying ADEQ buildings
Building repair/Maintenance	\$	6,500 for routine items like carpet cleaning, locksmith, plumbing
Software/Computer Maintenance	\$	367,100 to pay for operating software licenses and servers/programmers/routers/switches, and maintenance
Phone	\$	239,000 for telecommunication services for the entire agency
Printing	\$	20,500 for routine printing services
Misc. Operating	\$	<u>78,700</u> for routine office supplies and postage
Total 4th Quarter estimate	\$	2,804,100
1st to 3rd Quarter	\$	<u>8,966,600</u>
Total FY 07 estimate	\$	11,770,700

It is important to note that ADEQ does not have another funding source to pay for the \$2.8 million in fourth quarter obligations listed above.

Arizona Department of Environmental Quality

Estimated FY 2007 Indirect Cost Fund Revenue

Fund Name	Fund Status	Fund #	Collection prorated to 26 Pay Periods		
Air Quality ✓	Appropriated	2000	672,495		
Air Permit ✓	Appropriated	2200	1,539,693		
Vehicle Emission ✓	Appropriated	2220	560,551		
Solid Waste	Appropriated	3110	272,374		
Recycling	Appropriated	3242	86,803		
Hazardous Waste	Appropriated	3330	36,593		
Water Quality	Appropriated	4100	611,182		
Appropriated Fee Funds (Non GF)				3,779,692	31.76%
UST Regulatory	Non Appropriated	3401	211,306		
UST Assurance Maricopa	Non Appropriated	3406	845,973		
UST Assurance Non-Maricopa	Non Appropriated	3407	1,253,296		
WQARF	Non Appropriated	4000	1,756,578		
IGAs and ISAs	Non Appropriated	9500	419,538		
M.A.P. Fee Fund	Non Appropriated	4220	27,476		
Voluntary Remediation	Non Appropriated	4230	76,034		
Non Appropriated Fee Funds				4,590,202	38.57%
Admin Grants	Federal Grant	8001	20,707		
Air Grants	Federal Grant	8002	875,329		
Waste Grants	Federal Grant	8003	676,348		
Water Grants	Federal Grant	8004	307,996		
Regional Grants	Federal Grant	8005	15,294		
Hazardous Waste Mgmnt (RCRA)	Federal Grant	8071	415,347		
PASI F/F	Federal Grant	8101	35,645		
Multi Site Mgmnt Assistance	Federal Grant	8241	52,177		
Defense Environment (DOD) [New]	Federal Grant	8302	135,896		
PPG	Federal Grant	8811	996,593		
Federal Total Revenue				3,531,334	29.67%
Total Estimated Revenue for FY 07				11,901,227	100.00%

STATE OF ARIZONA

Joint Legislative Budget Committee

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JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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STEVE YARBROUGH

DATE: May 4, 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 quarterly progress report regarding increasing third party transactions. With the exception of traffic survival schools, ADOT continues to increase its number of third parties.

Also included is ADOT's response to questions raised at a prior Committee meeting regarding a new statistical sampling method for quality assurance reviews of third party title transactions. This streamlined new sampling method has significantly reduced ADOT's work backlog.

Recommendation

Third Party Progress Report

The JLBC Staff recommends that the Committee give a favorable review of the third quarter report, given the progress ADOT is making in increasing its use of third parties and reducing the quality assurance backlog. The next quarterly report on third party quality assurance is due by July 30, 2007.

Third Party Transactions Statistical Sampling and Validity Report

No Committee action is required on the third party transactions statistical sampling and validity report. However, the JLBC Staff recommends that ADOT provide a progress report on their 1-year pilot project by April 30, 2008. The report should include whether they have sustained the 4% rate of review for third party transactions and still retained statistical validity.

(Continued)

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 second quarter of FY 2007 at its March 29, 2007 meeting.

Third Party Title Transactions Quality Assurance

The section's backlog of title transactions decreased from 20 business days in the second quarter of FY 2007 to 16 business days (down from 31 business days in FY 2006), due to a pilot project that cut the percentage of third party work that was reviewed by MVD quality assurance from 10% to 4%.

ADOT removed the moratorium on new title transaction third parties in FY 2006 and is processing applications for 107 entities, including both those on the former waiting list and new applicants who are interested in becoming third parties. There are currently 88 existing third parties, including 28 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 84 entities, including both those on the former waiting list and new applicants who are interested in becoming third parties. There are currently 422 existing third parties, including 66 new offices that have opened in FY 2007.

Third Party Driver Schools

ADOT removed the moratorium on new commercial and non-commercial driver schools and driver license examiners in FY 2006, and has eliminated the waiting list.

MVD licenses traffic survival schools and certifies instructors. Their approved staffing has not changed from FY 2005. 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 59 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.

Third Party Transactions Statistical Sampling and Validity Report

This report was requested by the Committee at its December 18, 2006 meeting as a provision of the favorable review of ADOT's third party transactions statistical validity report, which was submitted pursuant to a footnote in the FY 2007 General Appropriation Act.

ADOT reports that they began using a new statistical sampling method on January 27, 2007 for quality assurance reviews of third party title transactions. Through April 16, 2007, the percentage of third party transactions being reviewed had decreased from 10% to 4%, while retaining their accuracy rate and statistical validity. As a result, the backlog of transactions for review decreased from 26,400 to 3,700. On April 1, 2007, ADOT began a 1-year pilot project to ensure the reliability of the accuracy rate that they have achieved so far under the new sampling methodology.



Janet Napolitano
Governor

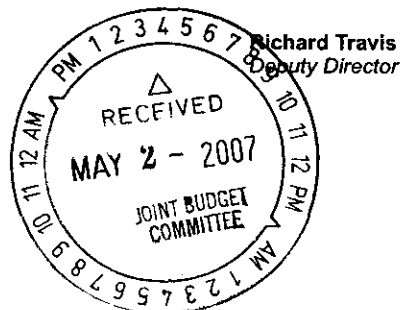
Victor M. Mendez
Director

Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

April 30, 2007



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

Dear Representative Pearce:

Pursuant to Laws of 2006, Chapter 344, Section 32, please find the Arizona Department of Transportation's FY2007 third quarter progress report on the Third Party Program.

We are pleased to report that the number of transactions being handled by Third Party Offices has increased 6% from the first quarter of this year and we expect this trend to continue as new third party locations open. As of March 31, 2007, there are 88 Third Party locations including 28 new locations that were opened after the moratorium lifted. In addition, we have 107 Third Party locations in the implementation process. If all 107 successfully complete this process, there will be 195 Third Party locations statewide.

We have continued to reduce the backlog in Third Party Title and Registration: nearly 77%, in volume and 50% in number of business days. This decrease is due in large part to a new sampling technique used for checking the work done by third parties. This new sampling technique only requires 3% of the third party transactions submitted be checked rather than the previous practice of 10%.

In addition, 37 of the 43 positions assigned to the Third Party Quality Assurance Unit are now filled and the remaining 6 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

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

Attachment

THIRD PARTY PROGRAM
FY 2007 Third 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 (Traditional Third Parties)

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

3 rd Party Transactions			
	1st Qtr	2nd Qtr	3rd Qtr
FY 2006	374,190	327,112	381,926
FY 2007	347,679	367,954	369,237

.3% increase in third party title transactions over second quarter FY 2007.

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

The Third Party Management Support Unit (Quality Assurance) has a total of 43 positions (29 FTEs, 13 limiteds, and 1 seasonal.) In the third quarter of FY 2007, 37 positions were filled. The 6 vacant positions are in the process of being filled.

Q/A Staff – Filled Positions			
	1st Qtr	2nd Qtr	3rd Qtr
FY 2006	16	17	22
FY 2007	25	30	37

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

Number of Third Party Transactions Reviewed			
	1st Qtr	2nd Qtr	3rd Qtr
FY 2006	41,829	50,673	57,592
FY 2007	44,833	55,008	60,275

10% increase for reviewed transactions over the second quarter FY 2007.

Average Number of Reviews Per Employee Per Month			
	1st Qtr	2nd Qtr	3rd Qtr
FY 2006	1,092	1,876	1,600
FY 2007	1,359	1,834	1,674

9% decrease for the number of reviews per employee over second quarter FY 2007.

Average Number of Responses to E-Mail Inquiries			
	1st Qtr	2 nd Qtr	3rd Qtr
FY 2006	2,600	2,657	3,235
FY 2007	2,900	3,183	4,235

33% increase for the number of e-mail responses pertaining to quality assurance review over second quarter FY 2007.

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

Backlog in Business Days			
	1st Qtr	2nd Qtr	3rd Qtr
FY 2006	41	39	31
FY 2007	20	20	16

Backlog in Title Transactions			
	1st Qtr	2nd Qtr	3rd Qtr
FY 2006	38,604	37,286	39,930
FY 2007	23,090	19,579	12,965

During the third quarter of FY 2007, there was a 16-business day backlog of 12,965 title transactions. This is a 34% decrease in the backlog from second quarter FY 2007.

MVD tested a new sampling technique from January 27, 2007 to beginning of April. The new sampling technique requires 3 to 4% of the third party transactions submitted to be checked, compared to the previous level of 10%. Using this new technique has greatly reduced the backlog. In April, MVD started a one year "Reduction in Sampling Pilot Project". MVD anticipates that continuing to use this sampling technique will result in complete elimination of the backlog.

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

As of March 31, 2007, there are 88 Title and Registration Third Party locations that include 28 new locations opened since lifting the moratorium in July 2006. There are 107 in the implementation process. If all 107 complete the implementation process, there will be 195 Title and Registration Third Party locations.

The implementation process consists of four phases. The status of applicants in each phase as of the end of the third quarter of FY 2007 is:

Phase 1: New applicants - Submission of business and site plans

Status: MVD is awaiting business plans from 24 applicants and site plans on 16 locations.

Phase 2: Selection Panel reviews new applicants; existing third parties submit site plans for additional locations

Status: The Selection Panel has approved 32 new applicants, totaling 59 new locations. Thirty-six of the 52 locations submitted by 15 existing third parties have been approved.

Phase 3: Implementation stage – site selection; set –up of hardware and network equipment, bank account, supplies, training,

Status: All of the 32 new applicants approved to date have begun implementation in Phase 3. Thirteen of the 15 existing third parties, adding 42 new locations, have begun the Phase 3 process.

Phase 4: Third party opens for business.

Status: A total of 28 new third party locations have opened as of March 31, 2007.

B. Title and Registration Third Party Inspections

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

3rd Party Inspection Transactions			
	1st Qtr	2nd Qtr	3rd Qtr
<i>FY 2006</i>	38,937	40,988	43,802
<i>FY 2007</i>	37,647	40,751	43,195

6% increase in third party inspections over second quarter FY 2007. This figure will vary depending on the number of vehicles requiring inspections.

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

In the third quarter of FY 2007, three of the four Third Party Inspection Program FTEs were filled.

Inspection Staff – Filled Positions			
	1st Qtr	2nd Qtr	3rd Qtr
<i>FY 2006</i>	1	2	2
<i>FY 2007</i>	2	2	3

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

Since the third FTE did not start until the end of the third quarter, quality control of third party inspections was not conducted. The Inspection Program will begin reporting on quality control activity in the fourth quarter.

Third Party Inspection Reconciliation Reports contain inventory usage information of each Third Party Inspection Company and are reviewed monthly.

Reconciliation Reports Reviewed			
	1st Qtr	2nd Qtr	3rd Qtr
FY 2006	1,125	1,122	1,113
FY 2007	1,098	1,161	1,232

6% increase in reconciliations reviewed over second quarter FY 2007.

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

There are currently 422 Third Party Inspection Companies that represent 66 new locations opened since lifting the moratorium in July 2006. There are 84 locations in the implementation process.

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 conducted 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:**

	/----- Commercial -----/				----- Non-Commercial -----/			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	2,507	2,422	2,251		579	592	7230	
FY 2007	3,085	2,651	2,679		672	524	562	

1% increase in commercial driver license examination score sheets processed compared to second quarter FY 2007; 7% increase in non-commercial driver license examination score sheets processed compared to second quarter FY 2007.

*Note: The overall 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:**

One of the three Driver License Examination (DLE) FTE positions was vacant as of 3/31/07.

Driver License Examination (DLE) staff status

	1 st Qtr	2 nd Qtr	3 rd Qtr3
FY 2006	1	1	3
FY 2007	3	2	2

- **Driver License Examination Workload:**

Number of Driver License Examination score sheets entered per quarter for FY 2006 and 2007 is exactly the same as the number of Driver License Examination transactions above.

Number of Driver License Examination score sheets reviewed

	Commercial				Non-Commercial			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	0	0	0		0	0	0	
FY 2007	3,085	2,651	2,679		672	524	562	

Average number of Driver License Examination score sheet reviews per employee

	Commercial				Non-Commercial			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	0	0	0		0	0	0	
FY 2007	514	442	447		112	87	94	

Driver License Examination Audit reviews completed

	Commercial				Non-Commercial			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	25	26	36		1	0	0	
FY 2007	21	14	19		0	0	0	

- Driver License Examination Backlog:**

Backlog is defined as work which has been received, is still within statutory timeframe for processing, but not yet completed. Using this definition, there is no Driver License Examination backlog.

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

	Commercial				Non-Commercial			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	0	0	0		6,821	6,239	6,827	
FY 2007	0	0	0		7,408	5,400	6,658	

23% increase in non-commercial Professional Driver Training School certificates issued compared to second quarter of FY 2007.

- Professional Driver Training School Staffing:**

During the third quarter all three of the Professional Driver school team FTEs were filled.

Professional Driver School (PDS) staff – Filled Positions

	1 st Qtr	2 nd Qtr	3 rd Qtr
FY 2006	0	0	3
FY 2007	2	1	3

- **Professional Driver Training School Workload:**

The number of Professional Driver License certificates data entered are the same for all quarters in FY 2006 and 2007 as the number of transactions.

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

	Commercial				Non-Commercial			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	0	0	0		0	0	0	
FY 2007	0	0	0		7,408	5,400	6,658	

Average number of Professional Driving School CoC reviews per employee

	Commercial				Non-Commercial			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	0	0	0		0	0	0	
FY 2007	0	0	0		1,235	1,800	740	

*Note: Now that the unit is fully staffed, the workload is being distributed accordingly.

Professional Driver Training School Audit reviews completed

	Commercial				Non-Commercial			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	0	0	0		2	0	1	
FY 2007	0	0	0		2	4	4	

- **Professional Driver Training School Backlog**

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. Since the moratorium was imposed, 9 schools have been placed on the motorcycle waiting list.

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 -----				----- Non-Commercial -----			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
FY 2006	43	43	48		36	38	38	
FY 2007	0	0	0		9	9	9	

III. Traffic Survival School

- Traffic Survival School Transactions:**

	1 st Qtr	2 nd Qtr	3 rd Qtr
FY 2006	9,293	8,410	9,731
FY 2007	10,102	9,091	10,399

14% increase in Traffic Survival School certificates issued compared to second quarter of FY 2007.

- 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 are the same as those in the transaction chart above.

Traffic Survival School Audit reviews completed:

	1 st Qtr	2 nd Qtr	3 rd Qtr
FY 2006	6	7	10
FY 2007	4	3	10

- Traffic Survival School Backlog:**

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	3 rd Qtr
FY 2006	49	49	49
FY 2007	55	55	59



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

Victor M. Mendez
Director

April 27, 2007

Richard Travis
Deputy Director



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

Dear Representative Pearce:

At its December meeting, the JLBC asked ADOT to report back by April 30, 2007, on its progress with implementing the new third party statistical sampling method. The following is in response to that request.

MVD began using the new sampling technique on January 27, 2007, and immediately experienced significant improvement in the handling of third party processing.

A review of activity through April 16, 2007, shows the following positive results:

- The percentage of third party transactions being reviewed has dropped from 10% to 4%.
- The backlog of transactions requiring review has been reduced from 26,400 to 3,700.

We continue to review and refine our data in order to ensure that the accuracy rates we have achieved so far under the new methodology are reliable and compare favorably with those under the old method. On April 1, 2007, MVD started a one year pilot project for that purpose.

If you have any questions about this information, please contact Melissa Wynn at 602-712-4617.

Sincerely,

A handwritten signature in black ink, appearing to read 'Victor M. Mendez'.

Victor M. Mendez

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