

STATE OF ARIZONA

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE

Wednesday, June 14, 2006

9:00 a.m.

Senate Appropriations Room 109

- R E V I S E D -

MEETING NOTICE

- Call to Order
- [Approval of Minutes of May 2, 2006.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed and Previously Approved Settlements under Rule 14.
- 1. [DEPARTMENT OF CORRECTIONS - Consider Approval of Requested Transfer of Appropriations.](#)
- 2. DEPARTMENT OF ECONOMIC SECURITY
 - A. [Review of Transfer of Appropriations from the Temporary Assistance to Needy Families Cash Benefit Special Line Item.](#)
 - B. [Review of Transfer of Appropriations Between Child Care Subsidy Line Items.](#)
- 3. [ARIZONA PIONEERS' HOME - Consider Approval of Requested Transfer of Appropriations.](#)
- 4. [AHCCCS - Review of Rural Hospital Reimbursement Capitation Rate Change.](#)
- 5. [ATTORNEY GENERAL - Review of Allocation of Settlement Monies.](#)
- 6. [ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Third Party Quality Assurance Report.](#)
- 7. [DEPARTMENT OF EDUCATION - Review of Kinder Morgan Settlement.](#)

8. DEPARTMENT OF PUBLIC SAFETY - Quarterly Review of the Arizona Public Safety Communications Advisory Commission.
9. DEPARTMENT OF REVENUE - Review of Ladewig Expenditure Plan.
10. **DEPARTMENT OF ADMINISTRATION - Consider Approval of Requested Transfer of Appropriations.**

The Chairman reserves the right to set the order of the agenda.
06/13/06

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

May 2, 2006

The Chairman called the meeting to order at 8:12 a.m., Tuesday, May 2, 2006, in Senate Appropriations Room 109. The following were present:

Members: Representative Boone, Vice-Chairman Senator Burns, Chairman
Representative Biggs Senator Arzberger
Representative Burton Cahill Senator Cannell
Representative Gorman Senator Martin
Representative Lopez
Representative Pearce
Representative Tully

Absent: Representative Huffman Senator Bee
Senator Garcia
Senator Harper
Senator Waring

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of March 28, 2006, Senator Burns stated the minutes would stand as presented.

ATTORNEY GENERAL – Review of Allocation of Settlement Monies.

Ms. Leah Ruggieri, JLBC Staff, stated that the Attorney General (AG) is seeking a favorable review of the proposed allocation from the monies received from consent judgments from Ameriquest and Smart Advertising Solutions LLC. The AG is coming before the Committee as required by a General Appropriation Act a footnote that requires that all settlement monies over \$100,000 be reviewed by the Committee. Of the \$5.9 million that will be received from the Ameriquest consent judgment, \$865,000 will be received by the AG and for the Smart Advertising Solutions LLC, \$225,000 will be received. These monies will be deposited into the Consumer Fraud Revolving Fund, which is the fund that supports the enforcement of consumer fraud statutes.

Representative Pearce moved that the Committee accept the JLBC Staff recommendation to give a favorable review of the allocation plans for the settlements with Ameriquest Mortgage Company and Smart Advertising Solutions LLC.
The motion carried.

ARIZONA DEPARTMENT OF CORRECTIONS – Consider Approval of Requested Transfer of Appropriations.

Mr. Lorenzo Martinez, JLBC Staff, stated that this item is a consideration of approving a transfer from Personal Services and Employee Related Expenditures Line Items (ERE) within the Department of Corrections (DOC) budget into the Overtime/Compensatory Time Special Line Item. The JLBC Staff received updated amounts from the department and they would transfer \$3 million from Personal Services and \$1 million from ERE. The department also requested that they be given approval to do a year-end transfer in case there are any monies available in Personal Services and ERE. JLBC Staff recommends the approval of the \$4 million transfer and recommends deferring any action regarding a year-end transfer until a June Committee meeting. After this transfer, the department does anticipate that it will have sufficient monies remaining in Personal Services and ERE to finish the year due to the additional \$9 million they received from the Chapter 1 pay raise.

Representative Biggs asked about the disparity between the department's estimate of the Overtime/Compensatory Time expenditures and JLBC Staff's estimate.

Mr. Martinez said the JLBC Staff estimated the \$36 million based on expenditure year-to-date amounts as of February actual expenditures. Since the Chapter 1 pay raise, the department's expenditures related to that have increased by a reported amount of \$1 million every payroll. Given the additional information on actual expenditures, the department has increased their estimate from \$37 million to \$41 million. The JLBC Staff is still working with the department to review the data to see if adjustments need to be made to those estimates.

Representative Lopez asked about the outcome of the incident in the Tucson facility.

Ms. Dora Schriro, Director, Department of Corrections, responded by saying that the officer was released uninjured last night and the inmate was sent to the Florence facility.

Representative Lopez asked about the staffing issue at the time of the hostage.

Ms. Schriro responded that staffing at Tucson has been problematic for quite some time. Vacancies are about 25%; there are 3 officers doing the job of 4 officers. The swing shift last night should have had 44 officers. At the time of the hostage there were 17 vacancies. They needed a minimum of 24 officers to cover critical posts. A third of those critical posts are staffed by overtime employees. The officer that was taken by the inmate was a graveyard shift officer who reported early to cover one of those uncovered critical posts.

Representative Lopez asked about the staffing issue agency wide.

Ms. Schriro stated that department-wide, the vacancies are about 22%. At other facilities, beyond those that have been historically problematic, which include Tucson and now Safford, they are struggling with exceptionally high vacancy rates.

Representative Pearce shared his concern for the safety of officers and recruitment. He asked what else could be done to help retain officers.

Ms. Schriro responded that this body can give them the essential resources that they need, and that is the competitive pay package. Exit interviews are conducted and the feedback from staff in those exit interviews is that wages are not competitive.

Representative Pearce expressed concern for the staff shortage and the strain it puts on those officers. He will continue to work on this issue.

Representative Pearce moved the JLBC Staff recommendation as outlined in Item 2 to transfer \$3 million from Personal Services and \$1 million from ERE to the Overtime/Compensatory Time SLI and defer any action concerning a year-end transfer for compensatory time costs until the June meeting. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY – Consider Review of Transfer of Appropriations and Update on *Ekloff v. Rodgers* Litigation.

Mr. Russell Frandsen, JLBC Staff, explained that the Department of Economic Security (DES) is proposing to transfer \$1.2 million General Fund from the state-only side of the Arizona Training Program at Coolidge to the federally matched side of the Arizona Training Program at Coolidge. This will enable DES to draw down \$2.5 million federal funds and replace unrealized client revenue funds of \$2.5 million on the state-only side. The JLBC Staff recommends a favorable review of this transfer.

In addition, Mr. Frandsen presented an update on the *Ekloff v. Rodgers* pertaining to incontinence briefs for children. Previously Arizona's Medicaid policy has been to only provide incontinence briefs for children after they have experienced skin breakdown or once a problem has developed. In June 2005, a lawsuit was brought against the state to compel Arizona to provide incontinence briefs as a preventative measure. In early March, the court ruled in favor of the plaintiff, the state has appealed that decision and that still is in process. The Governor's Office of Strategic Planning and Budgeting (OSPB) has estimated the FY 2007 cost to be \$4.5 million General Fund to provide the incontinence briefs should the court deny the appeal of the state.

Representative Boone asked if there has been some information requested by JLBC Staff that has not been provided by the department regarding the capitation rate. There was a 4 to 6% estimated increase for FY 2007, and he asked if that information was provided along with detailed back-up information.

Mr. Steven Pawlowski, Department of Economic Security, Financial Services Administration, responded that there is a footnote in the General Appropriation Act that requires the department to report a preliminary estimate of the subsequent year's capitation rate by March 31. The department sent a letter in compliance with the footnote stating that preliminarily they expect the rate is going to increase between 4% and 6%. No rate has been finalized at this point in time, so there is no specific detail to share. The department has had regular conversations with JLBC Staff as recently as yesterday, saying it appears that the capitation rate increase is going to be closer to 6% than it is to 4%. That includes a number of issues, one of which is the incontinence brief lawsuit that JLBC Staff mentioned. It also includes the impact of the pay raise. Once those are taken into consideration the actual capitation rate increase is going to be fairly comparable to the 3% that was adopted by the Appropriations Committee on February 21, 2006. When the department has a rate that is signed off by the Centers for Medicare and Medicaid Services (CMS), the department will share that information with the Committee and JLBC Staff.

Representative Boone asked when that information would be available.

Mr. Pawlowski stated that a proposal has been sent from Arizona Health Care Cost Containment System (AHCCCS) to CMS. The rate goes into effect July 1, 2006. He does not know specific date when the information will be available.

Representative Boone stated in a 2003 special session on Child Protective Services (CPS), there was a requirement for program and financial accountability report to be submitted twice a year. He asked if the February report has been submitted.

Mr. Pawlowski stated that the report has not been submitted but is to be released May 2 or 3.

Representative Pearce moved, the JLBC Staff recommendation to give a favorable review to transfer \$1,200,000 from the state-only Arizona Training Program-Coolidge (ATP-C) General Fund to the Long Term Care ATP-C General Fund and to transfer \$2,544,300 from the state-only ATP-C Long Term Care System Fund to the Long Term Care ATP-C Federal Title XIX. The motion carried.

EXECUTIVE SESSION

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

At 8:30 a.m. the Joint Legislative Budget Committee went into Executive Session.

Representative Pearce moved that the Committee reconvene into open session. The motion carried.

At 9:26 a.m. the Committee reconvened into open session.

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Coffey v. State of Arizona and University Medical Center. The motion carried.

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Torrez v. State of Arizona, et al. The motion carried.

At Senator Burns' request, Mr. Stavneak read the following motion:

The Department of Economic Security shall provide a report by June 5, 2006 on their internal investigation procedures concerning Child Protective Services (CPS) caseworkers who have failed in the performance of their duties. Besides providing the department's general policy, DES' response should address the specifics of the review of employees involved in the Torrez case. The Director of DES is requested to present those findings directly to the Committee himself.

The motion carried.

The meeting adjourned at 9:28 a.m.

Respectfully submitted:

Amanda Ruiz, Secretary

Richard Stavneak, Director

Senator Robert Burns, Chairman

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DATE: June 12, 2006

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

THRU: Richard Stavneak, Director

FROM: Kevin Bates, Fiscal Analyst

SUBJECT: Arizona Department of Corrections –Transfer of Appropriations

Background

The Arizona Department of Corrections (ADC) had requested Committee approval to transfer \$1.8 million from the Personal Services line item and \$0.2 million from the Employee Related Expenditures (ERE) line item to the Overtime/Compensatory Time Special Line Item (SLI). The department had requested the transfer, reporting that additional funding was needed to make the final cash overtime payment for FY 2006 and to make partial payment to employees with compensatory leave balances owed to them.

Based on ADC estimates as of June 8, 2006 of its year-end expenditures in these lines, the requested transfers would have left a shortfall in the Personal Services line and a surplus in ERE.

The department subsequently withdrew its request, stating that the enacted supplemental appropriation would cover the immediate needs in these areas. However, the department does not yet have updated year-end need estimates for these line items. This is of concern, given that only 2 weeks remain in the current fiscal year.

Because ADC has a modified lump sum budget, A.R.S. § 35-173 requires Committee approval of transfers to or from the Personal Services and ERE line items. Laws 2006, Chapter 286 also requires that any transfer to or from the amounts appropriated for the Overtime/Compensatory Time SLI shall require Committee review.

Recommendation

This item is for information only. No Committee action is required.

(Continued)

Analysis

Prior to the transfer request and based on the department's estimated year-end needs as of June 8, 2006, there is a \$378,400 surplus in Personal Services, a \$1,880,400 surplus in ERE and a \$(1,464,500) shortfall in Overtime/Compensatory Time. These figures also account for the recently enacted supplemental appropriation.

The department requested a transfer of \$1,800,000 from Personal Services and \$200,000 from ERE, which would have left a \$(1,421,600) shortfall in Personal Services and a surplus of \$1,680,400 in ERE. Given the Personal Services shortfall, ADC withdrew the transfer request, stating that the FY 2006 supplemental appropriation of \$6,427,800 (HB 2864) for overtime and compensatory time eliminated the immediate need for a transfer.

RS/KB:ym

Arizona Department of Corrections



JANET NAPOLITANO
GOVERNOR

1601 WEST JEFFERSON
PHOENIX, ARIZONA 85007



DORA B. SCHIRO
DIRECTOR

June 12, 2006

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

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

Gentlemen:

Due to your action on the supplemental appropriation, the Arizona Department of Corrections does not require an immediate transfer of funds and is therefore withdrawing its request for placement on the agenda of the next meeting of the Joint Legislative Budget Committee.

Over the next several weeks, as we close out the fiscal year, we will advise if another transfer is required.

Thank you for your assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dora Schiro".

Dora Schiro

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Bill Greeney, Governor's Office of Strategic Planning and Budgeting

cc: fax

Arizona Department of Corrections



JANET NAPOLITANO
GOVERNOR

1601 WEST JEFFERSON
PHOENIX, ARIZONA 85007



DORA B. SCHIRO
DIRECTOR

May 31, 2006

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

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

Gentlemen:

The purpose of this letter is to request placement on the agenda of the next meeting of the Joint Legislative Budget Committee to consider a transfer of funds. ADC seeks the transfer of \$1.8 million from the Personal Services appropriation and \$200,000 from the Employer Related Expenditures appropriation to the special line for Overtime/Compensatory Time. These transfers will enable the Department to make the final FY 2006 overtime payment as well as a partial FY 2006 compensatory time payment.

Please note that the Department has revised earlier projections of FY 2006 cash overtime and compensatory time expenditures from \$37 million to over \$42.4 million. The revision is due to the increased number of overtime hours worked as filled correctional officer positions have continued to drop and the increased cost to cover critical security posts following the recently implemented state employees' pay raises. The \$2 million transfer we seek will bring the appropriation in the Overtime/Compensatory Time special line item to \$36,227,700.

Kindly be advised. The appropriation transfers we are requesting this fiscal year does not preclude the urgent need to fund the requested supplemental appropriation to complete the payment of compensatory time balances to employees at year-end.

Thank you for your consideration and timely action.

Sincerely,


Dora Schiro

cc: The Honorable Janet Napolitano, Governor
The Honorable Ken Bennett, President, Arizona State Senate
The Honorable James Weiers, Speaker, Arizona House of Representatives

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DATE: June 8, 2006

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of Transfer of Appropriations from the
Temporary Assistance to Needy Families Cash Benefit Special Line Item.

Request

Pursuant to a FY 2006 General Appropriation Act footnote, the Department of Economic Security (DES) requests Committee review of a transfer of General Fund and Federal Temporary Assistance to Needy Families (TANF) Block Grant monies totaling \$13,500,000 from the TANF Cash Benefit Special Line Item (SLI). Of this amount, \$6,500,000 would be transferred to the Division of Benefits and Medical Eligibility (DBME) operating budget (\$3,500,000 GF and \$3,000,000 TANF), \$5,000,000 to the Children Support Services SLI (\$3,500,000 GF and \$1,500,000 TANF), and \$2,000,000 (GF) to the Foster Care Placements SLI. These amounts are displayed in *Table 1*.

Table 1			
DES Proposed Transfer (in millions)			
<u>Division/Line Item</u>			
	<u>Proposed Transfer From</u>		
	<u>General Fund</u>	<u>TANF</u>	<u>Total</u>
<i>DBME</i>			
TANF Cash Benefits	\$ 9.0	\$ 4.5	\$ 13.5
	<u>Proposed Transfer To</u>		
	<u>General Fund</u>	<u>TANF</u>	<u>Total</u>
<i>DBME</i>			
Operating Budget	\$ 3.5	\$ 3.0	\$6.5
<i>DCYF</i>			
Children Support Services	3.5	1.5	5.0
Foster Care Placement	<u>2.0</u>	<u>--</u>	<u>2.0</u>
DCYF Subtotal	5.5	1.5	7.0
Total	<u>\$9.0</u>	<u>\$4.5</u>	<u>13.5</u>

(Continued)

Recommendation

The Committee has at least the following options:

- A favorable review of the request to transfer \$13.5 million from the TANF Cash Benefits SLI to other line items, with the provision that DES use non-appropriated fund sources and savings first to mitigate the projected shortfalls. Based on year to date totals, expenditures are on course to out pace the appropriation and the magnitude of DES' projections appear reasonable.
- An unfavorable review of the proposed transfer. At least part of this transfer results from program and administrative increases that would have been better authorized through the annual appropriations process.

This \$13.5 million transfer addresses part of the department's projected \$30 million shortfall. DES would resolve the remaining \$16.5 million shortfall with options that do not require Committee review. Under either option, JLBC Staff also recommends that DES report back to the Committee by July 15, 2006 on how the department ultimately solved the entire shortfall, including any transfers not needing review, one-time monies, or savings from both appropriated and non-appropriated sources.

Analysis

TANF Cash Benefits Surplus

Based on year-to-date spending, JLBC Staff concurs that at least \$13.5 million of the appropriated \$152.9 million is available from the TANF Cash Benefits SLI. This is the result of declining caseloads, which have been seen across the country in recent years as the economy improves. As of February 2006, caseloads were 11% lower than the previous year. DES also asserts that the decline is due in part to a program to divert would-be benefit recipients by providing a one-time cash benefit to overcome immediate obstacles to work, as well as providing more intensive case management services.

DBME Operating Shortfall

DES requests that \$6.5 million (\$3.5 million GF and \$3.0 million TANF) of the surplus be transferred to the DBME operating budget to cover a projected \$6.5 million shortfall. According to DES, there are multiple reasons for the \$6.5 million shortfall. First, contract costs for processing electronic transactions have increased over the amount the budget can currently support. This was an \$800,000 issue in FY 2005 that was resolved with a similar fund transfer, and has continued into FY 2006, for a full year cost of \$1.1 million (\$800,000 TANF and \$300,000 GF). Second, DES also reports a \$400,000 General Fund shortfall from increased costs related to AzNET (the state telephone system).

Third, DES attributes some of the shortfall to "additional eligibility worker time required for diversion of applicants from TANF cash assistance," as mentioned above, measured in the Arizona Random Moment Sample survey. This requires increased resources in the eligibility interview process to determine why an applicant is unable to work. Thus, despite a declining caseload, the time spent on determinations has not decreased. This issue was resolved with a \$2.2 million transfer last year.

Fourth, medical eligibility determination caseload is higher this year, with approximately 75,000 more applications for benefits under the Arizona Health Care Cost Containment System (AHCCCS) received in FY 2006 than in FY 2005. Whereas last year there was a surplus in this area, the expected shortfall for FY 2006 is expected to be \$500,000 from the General Fund.

The final component of the shortfall results from rising food stamp caseloads. DES reports that in the past 4 years, caseloads have more than doubled. While the federal government pays 100% of the cost of the food stamps themselves, the state pays 50% of the administrative costs. The federal program is

specific about timelines and error rate standards, and in an effort to comply with those standards, DES reallocated resources, creating a \$2.3 million General Fund shortfall. This shortfall was resolved last year by using surplus monies in the medical eligibility portion of the budget to cover food stamp determination costs, as allowed by a footnote in the General Appropriations Act. As there is a shortfall in the medical eligibility program this year, this source is no longer available. General Fund monies in this program are matched 1 to 1 by the federal government.

The department plans to solve these issues with the proposed \$3.0 million TANF transfer and \$3.5 million General Fund transfer. In FY 2005, DES reports spending \$34.5 million for DBME operating costs, or \$2.3 million above the FY 2006 appropriation.

In FY 2005, the Committee approved a transfer from the TANF Cash Benefits SLI to the DBME operating budget to cover some of these same costs. At that time, the transfer appeared to be an issue of resolving some one-time imbalances between line items. The current transfer request, however, appears to fund increased and on-going administrative costs within the department. Whether through overtime or filling formerly vacant positions in this or previous years, DES has increased employee costs. Renegotiated contracts have also added to the shortfall. These types of on-going administrative increases are usually addressed in the annual appropriations process.

Children Support Services Shortfall

DES requests that \$5.0 million be transferred to the Children Support Services SLI to cover the bulk of a projected \$5.2 million shortfall. Based on year-to-date spending patterns, JLBC Staff concurs with the estimate of the shortfall. The department reports caseload growth for in-home services designed to reduce out-of-home cases is partly responsible for the shortfall, as well as continued shortfalls from FY 2005. While increased in-home services will provide savings in the long run, DES believes that it will take time to realize those savings. In FY 2005, DES spent \$17.7 million more than the FY 2006 appropriation, through the use of transfers, in the Children Services line (which included the Children Support Services, and Emergency, Residential and Foster Care Placement line items).

Foster Care Placement

DES requests that \$2.0 million be transferred to the Foster Care Placement SLI. The department has identified a potential \$9.6 million shortfall, but has not identified a source of funding to cover the remaining \$7.6 million shortfall. Based on year-to-date spending patterns, JLBC Staff concurs with the estimate of the shortfall amount. The department reports that this shortfall is due to unfunded caseload growth in FY 2005 carried forward to this year.

RS/EJ:ar



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 W. Jefferson • P.O. Box 6123 • Phoenix, AZ 85005

Janet Napolitano
Governor

David A. Berns
Director

MAY 17 2006

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



Dear Senator Burns:

The Department of Economic Security (DES) requests to be placed on the Joint Legislative Budget Committee's June agenda for review of two appropriation transfers.

TANF Cash Benefits

Laws 2005, Chapter 286 includes the following footnote:

Notwithstanding section 35-173, subsection C, Arizona Revised Statutes, any transfer to or from the \$152,859,100 appropriated for temporary assistance for needy families cash benefits requires review by the joint legislative budget committee.

The fiscal year 2006 appropriations act included a \$15.4 million reduction to the TANF Cash Benefits special line item (SLI) due to the Department's success in reducing Cash Assistance caseloads. The Department has continued its efforts this year and savings are projected to total \$13.5 million *in addition to the \$15.4 reduction already enacted by the Legislature*. DES is proposing that these additional savings be transferred to address shortfalls in the Division of Benefits and Medical Eligibility (DBME) and the Division of Children, Youth and Families (DCYF) as proposed in the table below.

	General Fund	TANF	Total
DBME – Operating	\$ 3.5 million	\$ 3.0 million	\$ 6.5 million
DCYF – Children Support Services	\$ 3.5 million	\$ 1.5 million	\$ 5.0 million
DCYF – Foster Care Placement	\$ 2.0 million		\$ 2.0 million
TOTAL	\$ 9.0 million	\$ 4.5 million	\$ 13.5 million

DBME Operating

The efforts undertaken to reduce the Cash Assistance caseload and increased Electronic Benefits Transfer (EBT) contract costs have resulted in a projected \$3.0 million TANF shortfall in the

DBME Operating budget. DBME eligibility workers are spending more time in the interview process identifying Cash Assistance applicants that are likely candidates for the diversion option so that they may more quickly achieve employment. Additionally, the Department's EBT contract cost increased in fiscal year 2005 after the expiration of the previous five year agreement. This is a continuation of a fiscal year 2005 shortfall that was also remedied by a transfer from the Cash Assistance line item.

The higher EBT costs also increase the expense of operating the Food Stamps program. Additionally, the Food Stamps caseload in Arizona has more than doubled over the past four years. This has necessitated DES' allocation of resources to Food Stamp eligibility determinations to mitigate potential problems related to timeliness and errors. Efforts to diminish the effect of the problems associated with a lack of staffing for Food Stamps cases have led to a \$3.5 million shortfall in fiscal year 2006. Food Stamps programs costs are evenly split between federal funds and state General Fund dollars.

Children Services

The Department proposes using \$7.0 million of Cash Assistance savings to address shortfalls in the Children Support Services and Foster Care Placement SLIs.

As has been reported in the 30th of the Month reports, the project shortfall in the Children Support Services SLI is \$5.2 million. This shortfall is a result of the Department's emphasis on in-home support services that provide an alternative to an out-of-home placement. This emphasis, coupled with the addition of the new in-home case managers added in the fiscal year 2006 budget, is designed to reduce the total number of children in out-of-home care. To this end, a number of encouraging trends have begun to emerge. The growth in the total number of out-of-home placements appears to be slowing and the number of placements in congregate settings has been decreasing, particularly for the youngest children.

When an out-of-home placement is necessary to protect a child's safety, the Department attempts to place that child in the most family-like setting. As the reliance on group homes and shelters decreases, the demand for foster homes grows. The Department has projected a \$9.6 million shortfall in the Foster Care Placement SLI.

Child Care Subsidy

Laws 2005, Chapter 286 includes the following footnote:

The amounts appropriated for day care subsidy and transitional child care shall be used exclusively for child care costs unless a transfer of monies is reviewed by the joint legislative budget committee. Monies shall not be used from these appropriated amounts for any other expenses of the department of economic security unless a transfer of monies is approved by the joint legislative budget committee.

DES is proposing a transfer of \$4.0 million from the Day Care Subsidy SLI to the Transitional Child Care SLI, both of which provide child care services. The Transitional Child Care SLI provides subsidies to families no longer receiving Cash Assistance, while the Day Care Subsidy SLI funds the same service to all other eligible populations. This amount is necessary, based on current projections, to cover anticipated expenditures for the applicable caseloads. The budget for the Transitional Child Care is unchanged from fiscal year 2005 to fiscal year 2006 and the proposed transfer is equal to the fiscal year 2005 amount.

If you have any questions, please contact Stephen Pawlowski, Financial Services Administrator, at (602) 542-3786.

Sincerely,



David A. Berns

c: The Honorable Russell K. Pearce, Vice-Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Gary Yaquinto, Director, Governor's Office of Strategic Planning and Budgeting

STATE OF ARIZONA

Joint Legislative Budget Committee

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STEPHEN TULLY

DATE: June 8, 2006

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of Transfer of Appropriations
Between Child Care Subsidy Line Items

Request

Pursuant to a FY 2006 General Appropriation Act footnote, the Department of Economic Security (DES) requests Committee review for a Federal Child Care Development Fund (CCDF) Block Grant proposed transfer of \$4.0 million from the Day Care Subsidy Special Line Item (SLI) to the Transitional Child Care SLI.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request. Funds are kept within the Division of Employment and Rehabilitation Services and are used to provide the same services for a more limited caseload.

Analysis

DES reports that the need for this transfer is due to an overall decrease in clients receiving Temporary Assistance for Needy Families (TANF) Cash Assistance. Recipients of TANF Cash Assistance are eligible for the Day Care Subsidy, thus declining caseloads in the TANF program result in declining caseloads in the Day Care Subsidy line item. Once a family leaves the TANF program, they are then eligible for Transitional Child Care for 2 years. Therefore, declining TANF rolls lead to an initial increase in the Transitional caseload. This situation has created a surplus in the Day Care Subsidy line but a shortfall in the Transitional Child Care line. In FY 2005, DES requested this same transfer, and the Committee favorably reviewed the request. In FY 2005, the average monthly TANF-related caseload was (6.2)% lower than the FY

(Continued)

2004 average, while the Transitional caseload average caseload had increased 11.3%, thus necessitating the transfer. In FY 2006, the year-to-date average TANF-related caseload has declined (10.8)% and the Transitional caseload had declined (3.1)%. This shows that the decline in TANF caseloads is beginning to decrease the Transitional caseloads, but not sufficiently to counter the initial increases seen in previous years.

Based on year-to-date expenditures and trends, JLBC Staff estimates the surplus in the Day Care Subsidy program at about \$5 million. The surplus is large enough, therefore to accommodate the proposed transfer. The projected shortfall in the Transition Child Care program would be about \$(3) million, based on the same data, so the \$4 million transfer is more than sufficient to address the shortfall. Any surplus in either line item could not be further transferred without Committee review.

RS/EJ:ar



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 W. Jefferson • P.O. Box 6123 • Phoenix, AZ 85005

Janet Napolitano
Governor

David A. Berns
Director

MAY 17 2006

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



Dear Senator Burns:

The Department of Economic Security (DES) requests to be placed on the Joint Legislative Budget Committee's June agenda for review of two appropriation transfers.

TANF Cash Benefits

Laws 2005, Chapter 286 includes the following footnote:

Notwithstanding section 35-173, subsection C, Arizona Revised Statutes, any transfer to or from the \$152,859,100 appropriated for temporary assistance for needy families cash benefits requires review by the joint legislative budget committee.

The fiscal year 2006 appropriations act included a \$15.4 million reduction to the TANF Cash Benefits special line item (SLI) due to the Department's success in reducing Cash Assistance caseloads. The Department has continued its efforts this year and savings are projected to total \$13.5 million *in addition to the \$15.4 reduction already enacted by the Legislature*. DES is proposing that these additional savings be transferred to address shortfalls in the Division of Benefits and Medical Eligibility (DBME) and the Division of Children, Youth and Families (DCYF) as proposed in the table below.

	General Fund	TANF	Total
DBME – Operating	\$ 3.5 million	\$ 3.0 million	\$ 6.5 million
DCYF – Children Support Services	\$ 3.5 million	\$ 1.5 million	\$ 5.0 million
DCYF – Foster Care Placement	\$ 2.0 million		\$ 2.0 million
TOTAL	\$ 9.0 million	\$ 4.5 million	\$ 13.5 million

DBME Operating

The efforts undertaken to reduce the Cash Assistance caseload and increased Electronic Benefits Transfer (EBT) contract costs have resulted in a projected \$3.0 million TANF shortfall in the

DBME Operating budget. DBME eligibility workers are spending more time in the interview process identifying Cash Assistance applicants that are likely candidates for the diversion option so that they may more quickly achieve employment. Additionally, the Department's EBT contract cost increased in fiscal year 2005 after the expiration of the previous five year agreement. This is a continuation of a fiscal year 2005 shortfall that was also remedied by a transfer from the Cash Assistance line item.

The higher EBT costs also increase the expense of operating the Food Stamps program. Additionally, the Food Stamps caseload in Arizona has more than doubled over the past four years. This has necessitated DES' allocation of resources to Food Stamp eligibility determinations to mitigate potential problems related to timeliness and errors. Efforts to diminish the effect of the problems associated with a lack of staffing for Food Stamps cases have led to a \$3.5 million shortfall in fiscal year 2006. Food Stamps programs costs are evenly split between federal funds and state General Fund dollars.

Children Services

The Department proposes using \$7.0 million of Cash Assistance savings to address shortfalls in the Children Support Services and Foster Care Placement SLIs.

As has been reported in the 30th of the Month reports, the project shortfall in the Children Support Services SLI is \$5.2 million. This shortfall is a result of the Department's emphasis on in-home support services that provide an alternative to an out-of-home placement. This emphasis, coupled with the addition of the new in-home case managers added in the fiscal year 2006 budget, is designed to reduce the total number of children in out-of-home care. To this end, a number of encouraging trends have begun to emerge. The growth in the total number of out-of-home placements appears to be slowing and the number of placements in congregate settings has been decreasing, particularly for the youngest children.

When an out-of-home placement is necessary to protect a child's safety, the Department attempts to place that child in the most family-like setting. As the reliance on group homes and shelters decreases, the demand for foster homes grows. The Department has projected a \$9.6 million shortfall in the Foster Care Placement SLI.

Child Care Subsidy

Laws 2005, Chapter 286 includes the following footnote:

The amounts appropriated for day care subsidy and transitional child care shall be used exclusively for child care costs unless a transfer of monies is reviewed by the joint legislative budget committee. Monies shall not be used from these appropriated amounts for any other expenses of the department of economic security unless a transfer of monies is approved by the joint legislative budget committee.

DES is proposing a transfer of \$4.0 million from the Day Care Subsidy SLI to the Transitional Child Care SLI, both of which provide child care services. The Transitional Child Care SLI provides subsidies to families no longer receiving Cash Assistance, while the Day Care Subsidy SLI funds the same service to all other eligible populations. This amount is necessary, based on current projections, to cover anticipated expenditures for the applicable caseloads. The budget for the Transitional Child Care is unchanged from fiscal year 2005 to fiscal year 2006 and the proposed transfer is equal to the fiscal year 2005 amount.

If you have any questions, please contact Stephen Pawlowski, Financial Services Administrator, at (602) 542-3786.

Sincerely,



David A. Berns

c: The Honorable Russell K. Pearce, Vice-Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
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STEPHEN TULLY

DATE: June 8, 2006

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

THRU: Richard Stavneak, Director

FROM: Kimberly Cordes-Sween, Fiscal Analyst

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

Request

The Arizona Pioneers' Home requests Committee approval to transfer approximately \$257,800 from Personal Services line and the Prescription Drug Special Line Item (SLI) to the Employee Related Expenditures (ERE) line in FY 2006.

The Arizona Pioneers' Home requests the transfer, reporting that the current allocation for ERE is not sufficient to fulfill required employee benefits payments through the end of FY 2006.

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

Recommendation

The JLBC Staff recommends that the Committee approve the agency request to transfer \$186,100 from Personal Services and \$71,700 from the Prescription Drug SLI to Employee Related Expenditures. The Personal Services line and the Prescription Drug Special Line Item have funding surpluses available in FY 2006 to cover this shortfall.

Analysis

The Arizona Pioneers' Home reports that FY 2006 Employee Related Expenditures were underestimated. According to the Arizona Pioneers' Home, the total amount required will be \$1.5 million as compared to the appropriated \$1.3 million. The JLBC Staff concurs with the updated ERE estimate of \$1.5 million. *Table 1* below shows the current appropriations within these line items and the balance following the proposed transfer.

(Continued)

Table 1			
Personal Services & Prescription Drugs SLI Transfers to ERE			
<u>Line Item</u>	<u>Original Appropriation</u>	<u>Proposed Transfers</u>	<u>Revised Appropriation</u>
Personal Services	3,322,900	(186,100)	3,136,800
Prescription Drugs SLI	436,400	(71,700)	364,700
Employee Related Expenditures	1,286,900	257,800	1,544,700

The original letter submitted by the agency attributed the potential cause for this ERE shortfall to higher health insurance premium rates. Under this assumption, the Arizona Pioneers' Home indicated that their health insurance allocation was budgeted with Maricopa County rates but that the Home was actually being charged the higher Yavapai County costs, thus resulting in this shortfall.

After further examination, JLBC Staff determined that this shortfall is also related to a change in the fund source for payment of health insurance costs. Health insurance premiums for General Fund FTE Positions are paid differently than premiums for Other Appropriated Funds. In the case of the Arizona Pioneers' Home, the agency was funded for a total of 115.8 FTE Positions, including 93.4 FTE's from the General Fund in FY 2005. Due to an increase in revenue in the State Charitable Land Fund, all General Fund FTE's were shifted to this Other Appropriated Fund in FY 2006.

Regarding the department's request for an adjustment of the FY 2007 ERE appropriation, JLBC Staff recommends deferring future action until a potential funding shortfall arises in FY 2007.

RS/KC:ym

Arizona Pioneers' Home

Janet Napolitano
Governor



300 South McCormick Street
Prescott, Arizona 86303

Gary Olson
Superintendent

May 24, 2006

(928) 445-2181 - FAX (928) 778-1148

Senator Robert Burns, JLBC Chairman
Arizona Senate
1700 West Washington
Phoenix, AZ 85007



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

Dear Chairman Burns,

In review of the Arizona Pioneers' Home (APH) ERE Budget for fiscal year 2006, it was noted that a shortage in the amount of approximately \$257,817.15 will occur by year end. As such, a comparative analysis was performed by the General Accounting Office between the APH and two like sized agencies (attached). In said analysis, you will find a significant difference between the costs associated with Health Insurance (premium detail attached). In reviewing the difference in Health Insurance premiums between Maricopa and Yavapai counties, it appears that initial budget calculations may have incorporated Maricopa Health Insurance premium costs instead of Yavapai premium costs—resulting in the difference.

In light of this, I am requesting placement on the next Joint Legislative Budget Committee meeting agenda to request a transfer of all surplus funds from our personal services budget which will have an estimated surplus of \$186,122.16 (includes approximately \$101,000 for the salary increases and performance pay associated with HB2661 through fiscal year end). This will still leave a shortage of approximately \$71,694.99. In this, I am requesting your advice as to how best to cover this difference. Two thoughts are—we have a significant surplus in our prescription drug line item budget that will be able to handle the difference, or would a request for emergency funds be more appropriate?

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

Additionally, given that we are in the middle of a two year budget cycle, I am requesting an adjustment be made to the Arizona Pioneers' Home 2007 FY ERE budget to avoid this process next year.

Thank you for your prompt attention to this matter.

Sincerely,

A handwritten signature of Gary Olson is located below the word "Sincerely,".

Gary Olson, Superintendent

c: Richard Stavneak, JLBC Director
Gary Yaquinto, Governor's Office of Strategic Planning and Budget Director
Anne Winter, Policy Advisor for Health

COBJ	COBJ DESC	AGY 1	% OF PSS	AGY 2	% OF PSS	PI-AZ Pioneers Home	% OF PSS	DIFF AGY1	DIFF AGY2
TOTAL PSS		29,491,121.70		7,919,497.70		2,714,324.60			
6111	FICA TAXES	2,158,689.88	7.32%	581,481.12	7.34%	198,509.05	7.31%	-0.01%	-0.03%
6113	MEDICAL INSURANCE	4,017,815.92	13.62%	1,272,194.50	16.06%	734,230.02	27.05%	13.43%	10.99%
6114	BASIC LIFE	24,386.17	0.08%	8,331.16	0.11%	3,252.33	0.12%	0.04%	0.01%
6115	LONG-TERM DISABILITY (NON-ASRS)	3,987.57	0.01%	-	0.00%	-	0.00%	-0.01%	0.00%
6116	LONG-TERM DISABILITY (ASRS)	138,476.93	0.47%	37,679.96	0.48%	13,075.49	0.48%	0.01%	0.01%
6117	UNEMPLOYMENT COMPENSATION	56,440.57	0.19%	15,214.16	0.19%	5,189.66	0.19%	0.00%	0.00%
6118	DENTAL INSURANCE	176,268.68	0.60%	48,775.09	0.62%	23,313.95	0.86%	0.26%	0.24%
6119	WORKER'S COMPENSATION	221,006.88	0.75%	249,592.45	3.15%	97,002.88	3.57%	2.82%	0.42%
6152	CORRECTION OFFICERS RETIREMENT PLAN	76.34	0.00%	-	0.00%	-	0.00%	0.00%	0.00%
6153	PUBLIC SAFETY PERSONNEL RETIREMENT SYS.	89,866.88	0.30%	-	0.00%	-	0.00%	-0.30%	0.00%
6154	DEFINED CONTRIBUTION PLAN	3,716.71	0.01%	5,236.88	0.07%	-	0.00%	-0.01%	-0.07%
6155	ARIZONA STATE RETIREMENT SYSTEM	1,894,988.83	6.43%	514,334.01	6.49%	178,513.08	6.58%	0.15%	0.08%
6183	PERSONNEL SYSTEM PRO RATA CHARGES	305,877.85	1.04%	82,361.67	1.04%	28,228.90	1.04%	0.00%	0.00%
6185	INFO TECH PRO RATA CHARGES	44,241.53	0.15%	11,880.77	0.15%	4,070.79	0.15%	0.00%	0.00%
6189	ACCUMULATED SICK LEAVE FUND CHARGE	117,982.93	0.40%	31,677.58	0.40%	10,857.11	0.40%	0.00%	0.00%
	TOTAL ERE	9,253,823.67	31.38%	2,858,759.35	36.10%	1,296,243.26	47.76%	16.38%	11.66%

**Comparison of Benefit Premiums
Maricopa County v. Yavapai County
10/01/05 to 9/30/06**

	Maricopa County Benefits Costs			Yavapai County Benefits Costs		
	Employee/Month	State/Month	Total/Month	Employee/Month	State/Month	Total/Month
RAN/AMN (HMA) EPO	25.00	355.68	380.68	25.00	478.80	503.80
RAN/AMN (HMA) EPO	125.00	818.52	943.52	125.00	1,126.32	1,251.32
Schaller Anderson Healthcare (SA) EPO	25.00	355.68	380.68	25.00	478.80	503.80
Schaller Anderson Healthcare (SA) EPO	125.00	818.52	943.52	125.00	1,126.32	1,251.32
Arizona Foundation (AZF) PPO	140.00	477.66	617.66	140.00	505.02	645.02
Arizona Foundation (AZF) PPO	390.00	1,117.20	1,507.20	390.00	1,217.52	1,607.52
Yavapai Benefits over Maricopa Benefits Costs						
	Employee/Month	State/Month	Total/Month			
RAN/AMN (HMA) EPO	0.00	123.12	123.12			
RAN/AMN (HMA) EPO	0.00	307.80	307.80			
Schaller Anderson Healthcare (SA) EPO	0.00	123.12	123.12			
Schaller Anderson Healthcare (SA) EPO	0.00	307.80	307.80			
Arizona Foundation (AZF) PPO	0.00	27.36	27.36			
Arizona Foundation (AZF) PPO	0.00	100.32	100.32			

Info from Benefits Premium Chart - from 10/1/05 to 9/30/06----Last Revised 8/18/05

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STEPHEN TULLY

DATE: June 7, 2006

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

THRU: Richard Stavneak, Director

FROM: Carson Howell, Fiscal Analyst

SUBJECT: AHCCCS – Review of Rural Hospital Reimbursement Capitation Rate Change

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to present any changes to its capitation rates to the Joint Legislative Budget Committee for review prior to implementation. AHCCCS is requesting an adjustment to the capitation rates in order to allocate monies from the Rural Hospital Reimbursement Special Line Item. The increase will affect only June 2006 payments and rates will return to their prior level in July 2006.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the AHCCCS capitation rate adjustment as it is used to allocate monies that have already been appropriated.

Analysis

Rural Hospital Reimbursement was added to AHCCCS' budget as a new program for FY 2006. A study by AHCCCS indicated that payments received by rural hospitals covered approximately 71% of total costs. The Legislature appropriated \$12.1 million to provide additional monies to qualifying hospitals.

The Centers for Medicare and Medicaid Services (CMS) does not allow a Medicaid agency to make supplemental payments to providers in a managed care system. AHCCCS reports that an adjustment to the capitation rate is the only manner in which CMS will allow those monies to be distributed.

(Continued)

Final approval from CMS to make these adjustments was received by AHCCCS on May 8. AHCCCS began and expects to distribute monies to the health plans the week of June 12. There is expected to be a short delay for hospitals to receive payment from the health plans. The hospitals are expected to receive their payments by June 30.

AHCCCS has retroactively adjusted the capitation rate from October 1, 2005 through December 31, 2005. These monies are being paid out to health plans in June 2006. The adjustment will result in an additional \$12,406,362 Total Fund (approximately \$4.1 million General Fund) paid to the health plans which will pass those dollars through to the qualifying hospitals (*please see Table 1 below for additional information*).

Table 1	
<u>Retroactive Capitation Rate Change</u>	
Member Months for 10/01/05 - 12/31/05	2,319,790
Original Capitation Rate	\$233.45
Proposed Capitation Rate	\$238.80
Amount Disbursed to Health Plans	\$12,406,362
FY 2006 Appropriated Amount	\$12,158,100

AHCCCS reports that the amounts (both Total Fund and General Fund) are slightly higher than the appropriation due to addition of the 2% premium tax. The additional premium tax revenue will be collected by the Department of Revenue which will offset the higher cost reported by AHCCCS. The hospitals will receive the originally appropriated amounts (*please see Table 2 below for additional information*).

Table 2	
<u>Hospital Payments</u>	
Benson Hospital	\$ 23,581
Carondelet Holy Cross Hospital	816,146
Cobre Valley Community Hospital	838,954
Copper Queen Community Hospital	136,206
La Paz Regional Medical Center	169,990
My. Graham Community Hospital	1,087,468
Navapache Regional Medical Center	2,219,436
Northern Cochise Community Hospital	115,313
Page Hospital	271,644
Payson Hospital Corporation	1,043,303
Sierra Vista Community Hospital	1,885,344
Southeast Arizona Medical Center	233,412
Verde Valley Medical Center (MJL)	1,990,654
White Mountain Regional Medical Center	198,555
Wickenburg Regional Hospital	18,651
Winslow Memorial Hospital	<u>1,109,444</u>
Total	\$12,158,101

(Continued)

No decision has been made by AHCCCS if monies for this program will continue to be disbursed through one-time, one-month capitation rate adjustments or if distribution of these monies would be incorporated into the regular capitation rate.

The request from AHCCCS was dated May 25 and was received by JLBC Staff on May 30. While these monies have been appropriated by the Legislature, a footnote in the General Appropriation Act states that before implementation of any changes in capitation rates, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan to the Joint Legislative Budget Committee for review. AHCCCS' timing did not provide the Committee the opportunity to review the capitation rate changes prior to implementation.

RS/CH:ym



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

May 25, 2006

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

Dear Senator Burns:

In compliance with the General Appropriations Act, I am notifying you of a capitation rate adjustment to the AHCCCS acute care rates effective June 1, 2006. This one-time, one-month rate adjustment is due to the implementation of ARS § 36-2905.02. This section of law requires AHCCCS to increase inpatient reimbursement for small rural hospitals. Approximately \$12 million was appropriated to AHCCCS for FY 2006 for these payments.

Federal law prohibits a Medicaid agency from making supplemental payments directly to providers in a managed care environment. Thus in order to fulfill this statutory mandate, it is necessary to adjust acute capitation rates for health plans which utilize these rural facilities. Effective June 1, 2006, capitation rates for five affected health plans will be adjusted retroactively for the period of October 1, 2005 through December 31, 2005. Capitation rates for July and thereafter will revert back to the rates currently in effect.

As required by the Federal Balanced Budget Act of 1997, Title XIX and Title XXI managed care programs must have actuarially sound capitation rates. These capitation rate adjustments have been approved by the Centers for Medicare and Medicaid Services (CMS). The table below summarizes the retroactive capitation rates on a statewide basis for the impacted rate cells.

Statewide Prospective Rate Cells	Total
Member Months for 10/01/05 - 12/31/05	2,319,790
CY06 Capitation for 10/01/05 - 12/31/05	\$233.45
Proposed Capitation Rate	\$238.80
Total Impact on CY06 Proposed Capitation	\$12,406,362
Percentage Impact on CY06 Proposed Capitation	2.29%

If you have any questions, please do not hesitate to contact me at (602) 417-4483.

Sincerely,

Thomas Betlach
Deputy Director

c: Gary Yaquinto
Bret Cloninger
Richard Stavneak
Carson Howell
Russell Frandsen
Jim Cockerham
Shelli Silver
Kathy Rodham
Windy Marks
Jeff Tegen

Janet Napolitano, Governor
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STEPHEN TULLY

DATE: June 7, 2006

TO: Senator Bob Burns, 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 Liberty League International consent judgment.

Recommendation

The JLBC Staff recommends the Committee give a favorable review of the allocation plan from the Liberty League International 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. The AG recently settled a case that will result in the receipt of settlement monies over \$100,000.

The consent judgment is the result of an investigation by the Attorney General that was prompted by numerous consumer complaints. The state alleged that Liberty League

(Continued)

International, a multi-level marketing company that sells “personal development” products, misled customers into spending money on their products by promising “sizable commissions” if they recruited new participants into the program who were willing to purchase their products. As more individuals joined the program, however, recruitment became more difficult and as a result, participants earned little or no income from the business.

The consent judgment against Liberty League International required that they pay \$100,000 in civil penalties as well as AG costs and fees in the amount of \$15,000. The civil penalties and costs and fees have been placed in the Consumer Fraud Revolving Fund. Liberty League International will also make partial restitution to approximately 60 consumers who filed complaints.

RS/LR:ym



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Rene Rebillot
Section Chief Counsel
Consumer Protection &
Advocacy Section
Telephone: (602) 542-7701
Facsimile: (602) 542-4377

May 26, 2006

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

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

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



Re: *In re State of Arizona v. Liberty League International, LLC, et al.*

Dear Gentlemen:

The Attorney General obtained a Consent Judgment against Liberty League International, LLC, and its principals Brent Payne and Shane Krider. The judgment against Liberty League was the result of an investigation by the Attorney General that was prompted by numerous consumer complaints. Liberty League International is a multi-level marketing company that sells "personal development" products. The State alleged that the defendants tricked customers into spending substantial amounts of money by promising "sizable commissions" if they recruited new participants into the program who were willing to purchase the products. As with many, if not most, multi-level marketing companies, recruitment became continuously more difficult as more and more individuals joined the program. The vast majority of Liberty League participants earned little or no income from the business.

The terms of the Consent Judgment require Liberty League to comply with the Arizona Consumer Fraud Act and the Pyramid Promotional Schemes Statute. Defendants also are prohibited from making unsubstantiated income claims and any false or deceptive statements. Defendants also are required to advise potential customers of the correct percentage of participants who make a profit through the promotion of the program.

Hon. Ken Bennett
Hon. James P. Weiers
Hon. Robert L. Burns
May 26, 2006
Page 2

The Consent Judgment requires defendants to pay the Attorney General civil penalties in the amount of \$100,000.00 as well as costs and fees in the amount of \$15,000.00. The civil penalties and costs and fees were placed in the Consumer Revolving Fund. Additionally, defendants will make partial restitution to approximately 60 consumers who filed complaints.

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 Rebillet
Section Chief Counsel
Consumer Protection and Advocacy Section

RJR

Enclosure: Consent Judgment

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

STATE OF ARIZONA

Joint Legislative Budget Committee

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STEPHEN TULLY

DATE: June 6, 2006

TO: Senator Bob Burns, 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 Quality Assurance Report

Request

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

Recommendation

The Committee has at least 2 options:

1. Give a favorable review, since ADOT increased staffing by 2 FTE Positions in the third quarter of FY 2006, making a total of 22 filled FTE Positions out of 23 approved FTE Positions. The impact of filling these positions on the third party quality assurance section workload and backlog should be seen in future quarterly reports, as these employees become more proficient.
2. Give an unfavorable review, since ADOT has allowed the waiting list of third party title and registration vendors to increase from 106 in the last quarter to 118 now.

At its February 28, 2006 meeting, the Committee gave an unfavorable review of the second quarter FY 2006 report since the results had not been satisfactory.

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

- Add \$265,200 and 6 FTE Positions in FY 2007 for the Motor Vehicle Division (MVD) staff to contract with 145 authorized title and registration third parties.

(Continued)

- Add \$88,400 and 2 FTE Positions in FY 2007 for the MVD staff to eliminate the vehicle identification number inspections waiting list.
- Expand the current third party reporting footnote to include data and waiting lists for other third parties besides the title and registration third parties.
- Add a footnote requiring that ADOT report to the Joint Legislative Budget Committee for review by November 30, 2006, whether ADOT can review less than 10% of the third party title and registration transactions and still retain statistical validity.

Analysis

MVD's third party quality assurance section has 23 approved FTE Positions in FY 2006 to check third party title transactions. The number of filled positions has increased from 20 to 22 since the last quarterly report. The impact of filling these vacancies should be seen in future quarterly reports, as these employees become more proficient.

ADOT reports that they reviewed 57,592, or 15.1%, of the 381,926 third party title transactions in the third quarter of FY 2006. Third party quality assurance reviews 10% of the title transactions for third parties who achieve 95% accuracy, and 100% of the work for those who do not. They had a backlog of 39,930 transactions to review, which they estimate would take 31 business days. ADOT reports that the backlog of title transactions to review does not equate to the backlog in business days, due to monthly variations in the volume of third party transactions.

ADOT reports that 118 interested parties were on the waiting list to conduct title transactions in the third quarter of FY 2006, which is an increase from 106 in the second quarter of FY 2006. The following table shows this information for the first 3 quarters of FY 2005 and FY 2006.

Third Party Title Transactions Quality Assurance						
	FY 2005			FY 2006		
	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>
FTE Positions						
Approved	20	20	20	23	23	23
Filled	18	18	20	17	20	22
3rd Party Transactions	261,508	287,846	299,835	374,190	327,112	381,926
Number Reviewed	43,447	46,558	34,582	41,829	50,673	57,592
% Reviewed ^{1/}	16.6%	16.2%	11.5%	11.2%	15.5%	15.1%
Review Backlog ^{2/}	50,895	53,564	47,673	38,604	37,286	39,930
Business Days ^{2/}	47	38	59	41	39	31
3rd Party Waiting List	40	67	76	106	106	118
^{1/} Third party quality assurance reviews 10% of the title transactions for third parties who achieve 95% accuracy, and 100% of the work for those who do not. ^{2/} ADOT reports that the backlog of title transactions to review does not equate to the backlog in business days, due to monthly variations in the volume of third party transactions.						

(Continued)

The following table shows the types and number of businesses on the third party title transactions waiting list for the second and third quarters of FY 2006.

Third Party Title Transactions Waiting List		
	FY 2006	
	<u>2nd Qtr</u>	<u>3rd Qtr</u>
Individual Entrepreneurs	32	37
Check Cashing Companies	26	27
Automobile Dealerships	14	15
Title Service Companies	11	12
Income Tax Preparers	5	5
Insurance Companies	4	4
Credit Unions	3	3
Convenience Stores	3	3
Notary Services	3	3
Auto Recycling Dealers	2	2
Pay Day Loan Companies	2	2
INS Claims and Legal Document Preparation Companies	1	1
Driving Schools	0	1
Traffic Survival Schools	0	1
Trucking Companies	0	1
Private Investigations	<u>0</u>	<u>1</u>
Total	106	118

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

RS/BH:ar



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, 2006

David P. Jankofsky
Deputy Director



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

Dear Senator Burns:

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

Progress on Increasing Third Party Transactions:

- A 27% increase in third party title transactions over 3rd quarter FY05.

3rd Party Transactions

	1st Qtr	2nd Qtr	3rd Qtr
FY2006	374,190	327,112	381,926
FY2005	261,508	287,846	299,835

Status of Third Party Quality Assurance Staffing:

- The Third Party Management Support Unit has 23 authorized FTEs. In the third quarter of FY 2006, 22 positions were filled. The one (1) vacant position has been advertised; interviews will be completed by the end of April 2006.

Q/A Staff Status

	1st Qtr	2nd Qtr	3rd Qtr
FY2006	16	17	22



2001 Award Recipient

Workload:

- Number of Third Party Transactions Reviewed
 - A 67% increase for reviewed transactions over 3rd quarter FY05.

Transactions Reviewed

	1st Qtr	2nd Qtr	3rd Qtr
FY2006	41,829	50,673	57,592
FY2005	43,447	46,558	34,582

- Average Number of Reviews Per Employee Per Month:
 - A 39% increase for the number of reviews per employee over 3rd quarter FY05.

Average Review Per Employee

	1st Qtr	2nd Qtr	3rd Qtr
FY2006	1,092	1,876	1,600
FY2005	1,299	1,411	1,153

- Response to E-Mail Inquires:
 - A 30% increase for the number of e-mail responses pertaining to quality assurance review over 3rd quarter FY05.

Average E-mail Response

	1st Qtr	2nd Qtr	3rd Qtr
FY2006	2,600	2,657	3,235
FY2005	2,024	2,400	2,484

Backlog:

- Third quarter of FY 2006, there was a 31-business day backlog. The reduction in business days reflects the effect of running near full staff.

The Honorable Robert Burns
April 27, 2006
Page Three

Backlog in Business Days

	1st Qtr	2nd Qtr	3rd Qtr
<i>FY2006</i>	41	39	31
<i>FY2005</i>	47	38	59

Backlog in Title Transactions

	1st Qtr	2nd Qtr	3rd Qtr
<i>FY2006</i>	38,604	37,286	39,930
<i>FY2005</i>	50,895	53,564	47,673

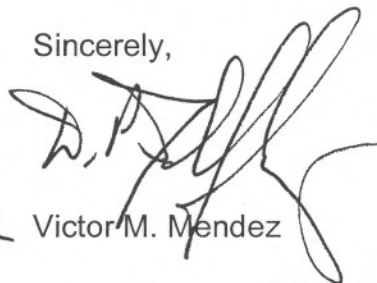
Moratorium on Accepting New Third Parties:

Moratorium

	1st Qtr	2nd Qtr	3rd Qtr
<i>FY2006</i>	106	106	118
<i>FY2005</i>	40	67	76

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

Sincerely,



For Victor M. Mendez

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

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DATE: June 8, 2006

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

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: Department of Education – Review of Kinder Morgan Settlement

Request

Pursuant to A.R.S. § 15-915(B), the Arizona Department of Education (ADE) requests a favorable review of its plan to provide school districts in Yuma County with \$927,900 in corrected Basic State Aid funding due to a recent settlement in the Arizona Tax Court regarding property taxes paid in prior years by the Kinder Morgan Corporation.

Summary

The JLBC Staff recommends that the Committee give a favorable review of the request, as it conforms with statutory requirements regarding state aid corrections required as a result of Arizona Tax Court rulings.

Analysis

Subject to review by the JLBC, A.R.S. § 15-915(B) requires the Superintendent of Public Instruction to reimburse school districts for K-12 “local share” taxes that they must refund to a taxpayer due to an Arizona Tax Court ruling that reduces the taxpayer’s assessed property value for prior fiscal years. In this regard, the Arizona Court of Appeals on December 9, 2005 upheld an earlier Arizona State Tax Court ruling requiring the Arizona Department of Revenue to lower the assessed value of property owned by Kinder Morgan Energy Partners LP (“Kinder Morgan”) retroactively for FY 2001, FY 2002, FY 2003 and FY 2005. This has the effect of reducing the amount of K-12 Qualifying Tax Rate (QTR) and County Equalization Tax Rate (CETR) owed by Kinder Morgan for those years, with the state being required to make up the difference pursuant to A.R.S. § 15-915(B). Based on “before” and “after” property value numbers for Kinder Morgan under the court rulings, ADE has determined that affected school districts in Yuma County collectively are entitled to \$927,900 in additional Basic State Aid funding for the fiscal years in question (*see Attachment 1*).

(Continued)

The computed \$927,900 total does not include interest costs or monies to reimburse school districts for taxes paid by Kinder Morgan for items other than the QTR and CETR, such as for overrides and bond debt service, as those costs are not addressed in A.R.S. § 15-915(B) (*see Attachment 2*). The \$927,900 Basic State Aid correction computed by ADE likewise does not include QTR and CETR refund costs for the other 4 counties affected by the Kinder Morgan settlement (Cochise, Pima, Pinal and Maricopa), as ADE has not yet received updated Kinder Morgan property value data from them.

The state, however, will end up indirectly paying a portion of interest and other settlement costs for affected districts that must increase their primary property tax rates because of the settlement, but whose primary property tax rates already exceed the “1% cap” in the State Constitution. This is because the state pays homeowner primary property taxes that exceed the “1% cap.” The “1% cap” will not affect settlement funding to Yuma County school districts, as none of them have primary property tax rates that exceed the “1% cap.” At least one “settlement” school district in Cochise County (Bowie Unified), however, does exceed the “1% cap” and therefore will receive “1% cap” funding for a portion of its settlement costs – in addition to monies that it will receive pursuant to A.R.S. § 15-915(B). Data with which to estimate the “1% cap” cost of the settlement for Bowie Unified and similar districts (if any), however, are not yet available. Any “1% cap” funding that school districts receive for the settlement will be paid through the Additional State Aid program rather than through a Basic State Aid correction mandated by A.R.S. § 15-915(B).

ADE expects to receive required settlement data from the remaining 4 counties in the near future and will return to the Committee for further review on this issue after that information is received. ADE expects to make the required Basic State Aid backpayments to all counties (including Yuma) early in FY 2007.

RS/SSC:ym
Attachments



State of Arizona
Department of Education



Tom Horne
Superintendent of
Public Instruction

May 12, 2006

Mr. Robert Burns, JLBC Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Re: Correction to State Aid pursuant to ARS 15-915 (B)
Kinder Morgan Property Tax Assessment Appeal for tax years 2000, 2001, 2002 and 2004

Dear Mr. Burns,

This memorandum is submitted to you pursuant to ARS 15-915 (B) which provides that corrections to state aid based on a change in assessed valuation – pursuant to ARS 42-16213 - are subject to review by the JLBC.

The Yuma County Assessor's office has corrected the assessed valuations for Kinder Morgan property in Yuma Elementary, Hyder Elementary, Mohawk Valley Elementary, Wellton Elementary, Antelope Union and Yuma Union school districts. The original and revised assessments from Yuma County for each districts are attached. These corrections affect fiscal years 2001, 2002, 2003 and 2005. The calculated state aid corrections by fiscal year and district are summarized below and a more detailed summary is attached.

Yuma Cty School District #	District	Correction to FY 2001	Correction to FY 2002	Correction to FY 2003	Correction to FY 2005	Total Correction to State Aid
		State Aid	State Aid	State Aid	State Aid	All Years
SD - 01	Yuma Elementary	57,823	49,900	55,446	5,149	168,318
SD - 16	Hyder Elementary	43,329	32,424	27,905	2,476	106,134
SD - 17	Mohawk Valley El. Wellton	46,208	36,660	31,553	2,800	117,221
SD - 24	Elementary	29,781	21,942	18,884	1,675	72,282
SD - 50	Antelope Union	119,319	91,026	78,343	6,951	295,639
SD - 70	Yuma Union	57,823	49,900	55,446	5,149	168,318
Yuma County Total						927,912

ADE recognizes that there are other districts in other counties impacted by this assessed valuation appeal but they have not yet submitted their requests under 15-915 (B). If you have any other questions or concerns please contact me at 602-542-8250 or via email at phil.williams@azed.gov.

Sincerely,

Philip Williams
Deputy Associate Superintendent – School Finance

Cc: Richard Stavneak, Director, JLBC Staff, Vicki Salazar, Associate Superintendent – School Finance.

Kinder Morgan Settlement Costs for School Districts in Yuma County
JLBC Staff
5/6/2006

School District	QTR Refunds	Other Tax Refunds	Interest	Total Cost
Yuma Elementary District	168,300	157,800	152,300	478,400
Hyder Elementary District	106,100	124,200	110,000	340,300
Mohawk Valley Elementary District	117,200	96,300	101,700	315,200
Wellton Elementary District	72,300	65,200	66,300	203,800
Antelope Union High School District	295,700	96,400	187,800	579,900
Yuma Union High School District	168,300	101,600	124,400	394,300
COUNTY TOTAL	927,900	641,500	742,500	2,311,900

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STEPHEN TULLY

DATE: June 7, 2006

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

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Assistant Fiscal Analyst

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

Request

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

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request. Third quarter expenditures totaled \$151,100 of nearly \$4.3 million in FY 2006 funding. Through the third quarter, FY 2006 expenditures totaled \$421,200. Activities in the third quarter addressed projects identified in the PSCC timeline relating to both the “short-term” and “long-term” interoperable solutions.

Analysis

Background

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

(Continued)

Activities

PSCC progress in the third quarter relative to the timeline and the “short-term” interoperable solution included the following:

- Published equipment standards for subscriber radios (Milestone 3). The standards identify equipment that will be compatible with the interoperable solution(s) and are to be mandatory when using federal Homeland Security monies to purchase related equipment.
- Worked with the Department of Emergency and Military Affairs (DEMA) to develop an “outreach and education” program for stakeholders in the Arizona Emergency Radio System (AERS) (Milestone 4). AERS is a “short-term” interoperable solution that integrates existing equipment and technologies.
- Completed an operational plan for AERS and began the process of installing equipment and implementing the operational procedures (Milestone 9).
- Finalized a Memorandum of Understanding to formalize protocol, procedures, obligations and mutual aid channel use guidelines between DPS and agencies who wish to become AERS authorized users (Milestone 9).
- Conducted a “short-term” pilot project in Coconino County (Milestone 11). The pilot project was a test of the AERS system. It was conducted at Northern Arizona University and included participants from Northern Arizona University, Williams Police Department, Flagstaff Police Department and the DPS.
- Established a Governance Committee to manage AERS and provide guidance on, among other things, funding and equipment schedules (Milestone 12).

With respect to the “long-term” interoperable solution, the PSCC has released a Request for Proposal (RFP) to contract with a vendor that can provide design and engineering services for the Public Safety Land Mobile Radio and Microwave Communications System. The RFP has 2 phases that will, among other things, identify the estimated cost of the project. The 2 phases are as follows:

Phase 1: The development of an integrated conceptual design for the land mobile radio system and microwave communications system, including the required infrastructure (Milestone 10). This blueprint is to be completed by the end of FY 2007.

Phase 2: Preparing final design and construction documents and implementing the blueprint for a demonstration project (Milestone 14). This phase is to be completed by the end of FY 2008.

Expenditures

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

In the third quarter, the PSCC expended roughly \$151,100 for costs associated with the 6 filled staff positions. The PSCC filled none of the remaining 3 vacant FTE Positions (2 telecommunication engineer positions and the technical writer position). *Table 1* indicates FY 2006 monies available for expenditure as well as the first, second and third quarter expenditures.

(Continued)

Table 1

PSCC Appropriation & Expenditures

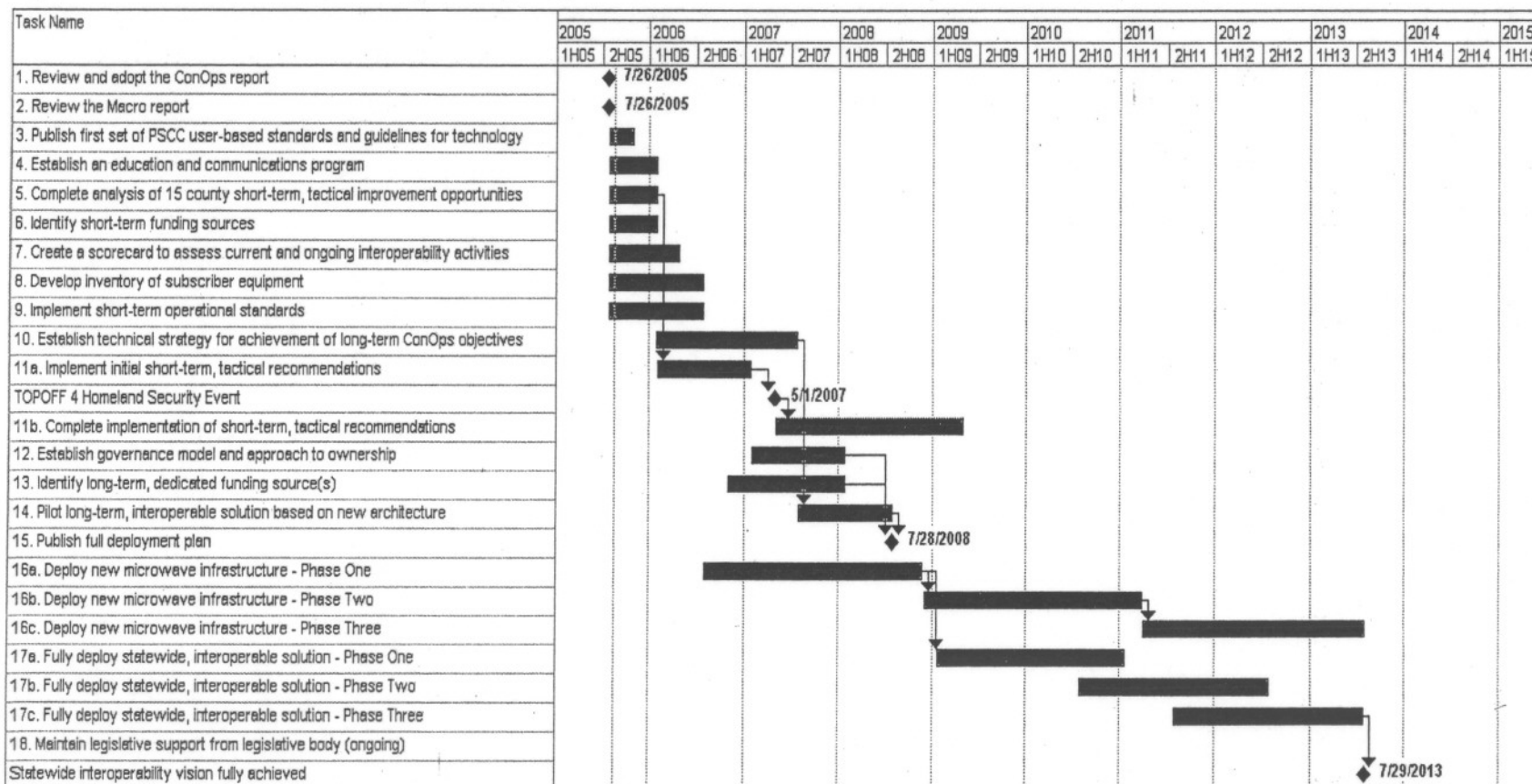
	<u>FY 2006 Funding</u>	<u>1st Quarter Expenditures</u>	<u>2nd Quarter Expenditures</u>	<u>3rd Quarter Expenditures</u>
Personal Services	\$672,500	\$95,300	\$90,600	\$114,200
Employee Related Expenditures	218,000	14,200	13,100	17,400
Professional & Outside Services	3,000,000 ^{1/}	-	-	-
Travel - In State	41,400	100	1,000	200
Travel - Out of State	26,600	1,500	-	-
Other Operating Expenditures	299,600	45,800	4,800	19,100
Equipment	-	3,300	400	200
Total Operating Expenditures	\$4,258,100	\$160,200	\$109,900	\$151,100

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

RS/ML:ym

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

Figure 2. Arizona Statewide Interoperability Project Plan



ARIZONA DEPARTMENT OF PUBLIC SAFETY

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



JANET NAPOLITANO
GOVERNOR

ROGER VANDERPOOL
DIRECTOR

May 3, 2006



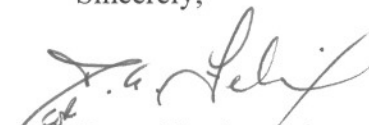
Mr. Richard Stavneak, Director
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

Attached is our third quarter report for the Arizona Public Safety Communications Commission (PSCC). Included is a narrative of our activities and progress relative to milestones identified in our Concept of Operations document, along with the expenditure report for the reporting period of January 1, 2006 through March 31, 2006.

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

Sincerely,


For Roger Vanderpool
Director

HB

Attachments

Public Safety Communications Commission

PSCC Concept of Operations Milestone Activities:

As requested during the February, 2006 JLBC hearing, the following quarterly activities reflect the progress made on the established milestones/timeframes as outlined in the Arizona Public Safety Communications Commission Concept of Operations document.

Milestone 3 – User Based Standards for Technology:

The Technology Working Group of the Statewide Interoperability Executive Committee (SIEC) has completed work and published equipment standards for mobile/portable subscriber radios. These equipment standards are strongly recommended for the purchase of any subscriber equipment and meant to be mandatory when homeland security monies are used to purchase radios. The approved plans can be found on the PSCC website: <http://www.azdps.gov/pssc/standards.asp>

Milestone 4 – Education and Communication Program:

Milestone 9 – Implement Short-Term Operational Standards:

Milestone 11 – Implement Short-Term Tactical Recommendations:

The PSCC Support Office and Division of Emergency and Military Affairs (DEMA) have developed an “outreach and education” presentation for participants of the Arizona Emergency Radio System (AERS) project. Work is continuing with the counties (specifically sheriff’s offices), regional planning committees and the Office of Homeland Security on local site implementation, local procedures, and related frequencies/radio programming.

Mr. Curt Knight and Mr. Kevin Rogers participated in a briefing sponsored by Coconino County Sheriff William Pribil in Page, Arizona. Representatives from various federal, state, local, and tribal agencies from northern Arizona were in attendance, as well as the Utah Highway Patrol. An overview of the history and authority of the Public Safety Communications Commission (PSCC) was provided, status of the Navajo Mountain AERS installation was discussed, followed with a more detailed discussion of local public safety agencies use of the AERS network.

The SIEC has completed the operational plan for the Arizona Emergency Radio System (AERS), and it is now in the implementation phase – installation of equipment and operational procedures. The operational plan and all related technical documentation on the mutual aid frequencies can be found on the PSCC website: <http://www.azdps.gov/pssc/standards.asp>.

A Memorandum of Understanding (MOU) between the AZ DPS/PSCC Support Office and AERS user agencies has been finalized and now appears on the PSCC website (<http://www.azdps.gov/pssc/survey.asp>). This document establishes authorization and guidelines for use of mutual aid channels. It imposes certain protocols, procedures, and obligations upon users who are authorized to use state-licensed mutual aid channels held by AZ DPS.

Public Safety Communications Commission

The Arizona Department of Emergency and Military Affairs (DEMA) and the Arizona Department of Public Safety, Wireless Systems Bureau have completed an initial pilot project in Coconino County, with six sites installed in northern Arizona. Projected site schedules for installation are now focusing on Mohave, the international border, and Maricopa counties by the end of calendar 2006 to provide an operational platform ready for TOPOFF4. DEMA reports the next phases will now focus on developing schedules for remote communication sites in Apache, Pima, Greenlee, Graham and Gila counties, with the schedule remaining on track for full deployment of 45 sites by mid 2009.

Milestone 12 – Establish Governance Model and Approach to Ownership:

A Governance Committee was established at the April 25, 2006 PSCC Commission meeting. Mr. Kermit Miller, Deputy Chief of the Tucson Police Department and Mr. David Felix, Deputy Director with DPS, will co-chair the group with operational and technical support from the PSCC Support Office. Volunteers from several other disciplines and jurisdictions from across the state came forward to serve on this working group. The role of the governance body is to serve as the management structure of the radio systems once they are in place. Issues regarding funding, equipment upgrades/replacement, etc., would be guided by this governing body.

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

Milestone 13 – Identify Long-Term Funding Sources:

Milestone 14 – Pilot Long-Term Solution:

A Request for Proposal (RFP) has been released to establish a contract for Public Safety Land Mobile Radio Communications System Design and Engineering Services. The RFP is organized into two phases, with an optional third phase to be awarded based on future funding.

Phase I aligns directly to the PSCC Concept of Operations. It will involve conceptual design and engineering services for a land mobile radio system combined with the support infrastructure of a microwave system and facilities/towers required to maintain and house a statewide system across Arizona. Phase I is to be completed by June 30, 2007.

Phase II will prepare final design documents for construction and implementation of a demonstration project. This phase will include assisting the AZ Department of Public Safety and the Public Safety Communications Commission Support Office in selecting and managing a systems integrator to integrate the acquisition and provision of all facilities, goods, and services required to complete the demonstration project per approved project plans, costs and schedules based on the concept developed in Phase I. Phase II must be completed by June 30, 2008.

Competitive proposals are due from prospective offerors on May 19, 2006. The PSCC Support Office will facilitate bid evaluations based on review by public safety

Public Safety Communications Commission

professionals from jurisdictions and disciplines throughout the state. Contract award is scheduled for early July, 2006.

Future PSCC meetings:

Tuesday, July 11, 2006 at 1:00 p.m.
Flagstaff City Hall
211 West Aspen Avenue
Flagstaff, Arizona

Tuesday, October 24, 2006 at 1:00 p.m.
Burton Barr Central Library
1221 North Central Avenue
Phoenix, Arizona

Budget:

Expenditures for the third quarter of FY 06 totaled \$151,049.31. Per the DPS Comptroller's Office, \$16,759 for indirect costs has been transferred to the AZ Department of Public Safety, Wireless Systems Bureau for repair and maintenance of equipment. Additional indirect costs totaling \$53,071, allocated for PSCC salaries, has been encumbered.

PUBLIC SAFETY COMMUNICATIONS COMMISSION BUDGET FY2006

**FY 06 Quarterly Expenditure
Allocated Funds**

	ALLOCATED AMOUNT	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	REMAINING BALANCE
PERSONAL SERVICES	\$ 672,500.00	\$ 95,292.07	\$ 90,610.10	\$ 114,213.32	\$ -	\$ 372,384.51
ERE	\$ 218,000.00	\$ 14,166.03	\$ 13,118.32	\$ 17,403.65	\$ -	\$ 173,312.00
PROFESSIONAL/OUTSIDE SVCS *	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TRAVEL (IN STATE)	\$ 41,400.00	\$ 94.70	\$ 1,010.41	\$ 178.02	\$ -	\$ 40,116.87
TRAVEL (OUT OF STATE)	\$ 26,600.00	\$ 1,529.25	\$ -	\$ -	\$ -	\$ 25,070.75
AID TO OTHER ORGANIZATIONS	\$ 55,000.00	\$ -	\$ -	\$ -	\$ -	\$ 55,000.00
OTHER OPERATING	\$ 115,300.00	\$ 45,792.66	\$ 4,824.93	\$ 19,090.58	\$ -	\$ 45,591.83
BUILDINGS/BUILD IMPROVEMENT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NON CAPITAL EQUIPMENT	\$ -	\$ -	\$ -	\$ 163.74	\$ -	\$ (163.74)
CAPITAL EQUIPMENT		\$ 3,287.98	\$ 430.78	\$ -	\$ -	\$ (3,718.76)
INDIRECT COSTS	\$ 129,300.00	\$ -	\$ -	\$ -	\$ -	\$ 129,300.00
	\$ 1,258,100.00					\$ 836,893.46
QUARTERLY EXPENDITURES TOTALS		\$ 160,162.69	\$ 109,994.54	\$ 151,049.31	\$ -	
FY 06 TOTAL EXPENDITURES					\$ 421,206.54	

**FY 06 Quarterly Expenditure
Non Lapsing Funds**

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

3RD QTR EXPENDITURES

OBJECT CODE	DATE	VENDOR	EXPENDED	SUB-TOTAL
PERSONAL SERVICES				
6011	1/4/2006	SALARY	\$ 15,794.71	
6011	1/18/2006	SALARY	\$ 16,398.34	
6011	2/1/2006	SALARY	\$ 16,218.86	
6011	2/15/2006	SALARY	\$ 16,292.58	
6011	3/1/2006	SALARY	\$ 16,213.61	
6011	3/15/2006	SALARY	\$ 16,278.93	
6011	3/29/2006	SALARY	\$ 17,016.29	
			\$ 114,213.32	\$ 114,213.32
EMPLOYEE RELATED EXPENSES				
6100	1/4/2006	ERE	\$ 2,426.96	
6100	1/18/2006	ERE	\$ 2,486.45	
6100	2/1/2006	ERE	\$ 2,468.83	
6100	2/15/2006	ERE	\$ 2,479.06	
6100	3/1/2006	ERE	\$ 2,470.32	
6100	3/15/2006	ERE	\$ 2,476.71	
6100	3/29/2006	ERE	\$ 2,595.32	
			\$ 17,403.65	\$ 17,403.65
PROFESSIONAL/OUTSIDE SERVICES				
			\$0.00	\$0.00
TRAVEL IN-STATE				
6561	1/23/2006	KEVIN ROGERS TRAVEL REIMB	\$ 62.18	
6561	2/1/2006	KATHLEEN PALESKI TRAVEL REIMB	\$ 115.84	
			\$178.02	\$178.02
TRAVEL OUT-OF-STATE				
6601				
			\$0.00	\$0.00
AID TO OTHER ORGAINZATIONS				
6800				
			\$0.00	\$0.00
OTHER OPERATING EXPENSES				
7179	1/9/2006	DPS TRANSFER DPS LONG DIST CALLS THRU PBX	\$ 52.50	
7179	1/25/2006	ALLTEL COMMUNICATIONS CELL PHONE BILLS	\$ 90.23	
7179	1/30/2006	VERIZON WIRELESS CELL PHONE BILL	\$ 99.39	
7179	2/23/2006	ALLTEL COMMUNICATIONS CELL PHONE BILL	\$ 41.66	
7179	2/24/2006	VERIZON WIRELESS CELL PHONE BILLS	\$ 195.19	
7179	2/7/2006	DPS TRANSFER DPS LONG DIST CALLS THRU PBX	\$ 26.15	
7179	3/7/2006	DPS TRANSFER DPS LONG DIST CALLS THRU PBX	\$ 14.25	
7179	3/23/2006	ALLTEL COMMUNICATIONS CELL PHONE BILL	\$ 41.57	
7179	3/28/2006	VERIZON WIRELESS CELL PHONE BILLS	\$ 189.01	
			\$749.95	\$749.95
7227				
			\$0.00	\$0.00

7321	1/28/2006	AMERICAN EXPRESS	CHARGES	\$	544.81	
7321	1/28/2006	AMERICAN EXPRESS	CHARGES	\$	250.00	
7321	2/8/2006	DPS-REIMB FOR SUPPLIES	SUPPLIES (OCT-DEC 2005)	\$	89.00	
7321	2/21/2006	DPS-REIMB FOR SUPPLIES	SUPPLIES (JAN 2006)	\$	8.70	
7321	2/22/2006	AMERICAN EXPRESS	CHARGES	\$	83.00	
7321	3/1/2006	AMERICAN EXPRESS	CHARGES	\$	150.37	
7321	3/10/2006	DPS-REIMB FOR SUPPLIES	SUPPLIES (FEB 2006)	\$	44.25	
					\$194.62	\$194.62
7361	2/8/2006	REIMB DPS - FUEL	REIMBURSEMENT SEP-DEC 05	\$	233.56	
7361	3/6/2006	REIMB DPS - FUEL	REIMBURSEMENT JAN 06	\$	188.12	
7361	3/31/2006	REIMB DPS - FUEL	REIMBURSEMENT FEB 06	\$	64.32	
					\$486.00	\$486.00
7371	3/15/2006	DPS	TRNSFR INDIRECT COSTS-CJSD	\$	16,759.00	
					\$16,759.00	\$16,759.00
7381	3/31/2006	TROXELL COMMUNICATIONS	LCD PROJCTR LAMP REPLACEMT	\$	367.54	
					\$367.54	\$367.54
7472	2/24/2006	VIP LITHO	BUSINESS CARDS-BURKENBINE	\$	13.92	
					\$13.92	\$13.92
7481	1/20/2006	FEDEX	POSTAGE	\$	5.03	
7481	2/8/2006	DPS TRANSFER	REIMB FOR POSTAGE CHGS	\$	15.53	
7481	3/1/2006	DPS TRANSFER	REIMB FOR POSTAGE CHGS	\$	10.91	
7481	3/10/2006	DPS TRANSFER	REIMB FOR POSTAGE CHGS	\$	2.62	
					\$34.09	\$34.09
7531	1/20/2006	INT'L ASSOC. CHIEFS OF POLICE	MEMBERSHIP DUES - CONNER	\$	100.00	
7531	1/31/2006	DPS TRANSFER (TO TCB)	APCO MEMBERSHIP DUES-CURT	\$	83.00	
					\$183.00	\$183.00
7599	1/6/2006	APCO AFC INC	FREQUENCY DATA COORD FEES	\$	400.00	
7599	1/17/2006	APCO AFC INC	FREQUENCY DATA COORD FEES	\$	730.00	
7599	2/2/2006	APCO AFC INC	FREQUENCY DATA COORD FEES	\$	830.00	
7599	3/10/2006	APCO AFC INC	FREQUENCY DATA COORD FEES	\$	860.00	
7599	3/28/2006	APCO AFC INC	FREQUENCY DATA COORD FEES	\$	300.00	
7599	3/28/2006	AZ DEPT OF REVENUE	TAXES	\$	2.46	
					\$302.46	\$302.46
NON-CAPITAL EQUIPMENT						
8561	1/25/2006	VERIZON WIRELESS	BLACKBERRY PHONE-KEVIN ROGERS	\$	163.74	
					\$163.74	\$163.74
8571						
					\$0.00	\$0.00
8583						
					\$0.00	\$0.00
INDIRECT COSTS						
9000						
					\$0.00	\$0.00
TOTALS					\$151,049.31	\$151,049.31

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL
JORGE LUIS GARCIA
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1716 WEST ADAMS
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HOUSE OF
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LINDA J. LOPEZ
STEPHEN TULLY

DATE: June 6, 2006

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Department of Revenue – Review of Ladewig Expenditure Plan

Request

In compliance with the Case Settlements Budget Reconciliation Bill, the Department of Revenue (DOR) requests that the Committee review its FY 2007 Ladewig administrative expenditure plan for the remainder of the project.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of DOR's estimated administrative expenditure plan of \$974,600 for the FY 2007 Ladewig project, with the condition that DOR report back with a revised expenditure plan if the provision to eliminate the requirement for the newspaper advertising of names of individuals with unclaimed property is enacted.

Analysis

The case of Ladewig v. State of Arizona involved the different state income tax treatment of dividends from Arizona and non-Arizona companies. The court settlement was for the amount of taxpayer claims with a cap of \$350 million. DOR currently estimates the total cost of the Ladewig Settlement at \$302.5 million. The numbers are not yet final. This amount is to be paid out over 5 fiscal years from FY 2003 through FY 2007, and includes taxpayer refunds, DOR administration costs and plaintiff attorney fees. Refunds to taxpayers began in FY 2005. Half of the taxpayer refunds were paid in FY 2005, with 25% of the refunds to be paid in each of FY 2006 and FY 2007. The amounts of taxpayer payments and plaintiff attorneys' fees are governed by the court settlement.

(Continued)

The cost was \$133.1 million in FY 2005, an estimated \$58.3 million in FY 2006, and an estimated \$94.8 million in FY 2007. Final taxpayer payments in FY 2007 are higher than in FY 2006, since they include unused set asides for DOR's administrative costs and plaintiff attorney fees. Any unused set asides will be distributed to taxpayers in FY 2007. The following table summarizes this information.

Summary of Ladewig FY 2003 - FY 2005 Expenditures and FY 2006 & FY 2007 Estimates					
	Expenditures ^{1/}			Estimates	
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
DOR Administration	\$ 8,587,100	\$3,741,600	\$ 2,174,500	\$ 1,758,900 ^{2/}	\$ 1,000,000
Plaintiff Attorneys	2,000,000	2,000,000 ^{3/}	6,249,500	4,900,000	5,060,000
Taxpayer Payments	<u>0</u>	<u>0</u>	<u>124,709,600 ^{4/}</u>	<u>51,600,000</u>	<u>88,740,100</u>
Total Expenditures	\$10,587,100	\$5,741,600	\$133,133,600 ^{5/}	\$58,258,900 ^{6/}	\$94,800,100
Ending Balance	\$ 4,412,900	\$ 671,300 ^{7/}			

^{1/} In addition, DOR reports operating budget expenditures of \$134,600 in FY 2002 for Ladewig administration.
^{2/} JLBC favorably reviewed \$1,424,700 to fully fund DOR's estimated administrative costs in FY 2006 at the June 28, 2005 JLBC meeting. \$334,200 was unallocated in DOR's plan.
^{3/} Reimbursed to DOR by Department of Administration Risk Management.
^{4/} Includes \$21.3 million of unclaimed taxpayer payments which were transferred to the General Fund, in accordance with Laws 2005, Chapter 333. Also includes overpayments of \$6.3 million to 3,200 of the 306,000 claimants due to clerical and computer matching errors. The court ruled that DOR could not directly collect the first installment overpayments from overpaid taxpayers, but that DOR could offset the amount of the overpayment against any second and/or third installments.
^{5/} DOR was allocated \$120 million in FY 2005. DOR pays Ladewig expenses which exceed the allocation from the tax refund account in the General Fund.
^{6/} DOR has paid \$57.4 million through April 2006. Any unused amounts of the \$58.3 million revert to the General Fund.
^{7/} The \$671,300 remaining balance reverted to the General Fund.

As approved by both the full House and Senate, the Case Settlements Budget Reconciliation Bill allocates \$94.8 million in FY 2007 to the department for payments and costs associated with the case of Ladewig v. State of Arizona, with any unused amount to revert to the General Fund. The \$94.8 million includes up to \$1 million for department administration costs and review of payments. The department is required to present an expenditure plan for review by the JLBC that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, before expending any of the \$94.8 million.

DOR is asking for Committee review now, before the bill has been enacted, since this is the last Committee meeting of FY 2006 and the bill requires Committee review of DOR's expenditure plan before the department expends any of the \$94.8 million allocated in FY 2007. The third and final taxpayer payments are due to taxpayers by July 21, 2006 by court order.

The following table provides further detail on DOR's estimated administration cost in FY 2007.

DOR's Estimated Administration Cost in FY 2006	
Personal Services	\$210,000
Employee Related Expenditures	42,700
Professional & Outside Services ^{1/}	139,000
Other Operating Expenditures ^{2/}	580,900
Equipment	<u>2,000</u>
Total	\$974,600

^{1/} Includes \$14,000 for computer consultant, \$75,000 for temporary personnel, \$20,000 for mail data entry and imaging, and \$30,000 for court appointed special master.
^{2/} Includes \$200,900 for postage, \$90,000 for printing and mailing, \$276,200 for unclaimed property advertising of returned Ladewig warrants, and \$13,800 for other items.

(Continued)

DOR's administration cost estimate for FY 2007 seems reasonable. The bulk of the cost will be for Other Operating Expenditures for printing, postage and mailing warrants and form 1099's for taxpayer payments, and for unclaimed property advertising of returned Ladewig warrants. DOR's estimated cost of \$276,200 for unclaimed property advertising of returned Ladewig warrants could be reduced if the provision to eliminate the requirement for the newspaper advertising of names of individuals with unclaimed property in the State Government Budget Reconciliation Bill is enacted. Instead, newspaper notices at least semi-annually would direct the public to DOR's internet Web site or a toll-free telephone number. DOR's permanent staff assigned to the Ladewig project and temporary personnel will continue to respond to the public and handle internal issues. The computer consultant will continue to maintain and enhance the computer system as necessary.

RS/BH:ar

STATE OF ARIZONA

Department of Revenue
Office of the Director
(602) 716-6090



Janet Napolitano
Governor

Gale Garriott
Director

June 1, 2006



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

Dear Senator Burns:

This is a request for the Department of Revenue (Department) to be placed on June's Joint Legislative Budget Committee (JLBC) agenda. The topic is a review of the Department's expenditure plan for the Ladewig v. State of Arizona lawsuit.

Proposed legislation requires that before the expenditure of any FY 2006-2007 funding for the administration of the Ladewig settlement, the Department is required to present an expenditure plan to the JLBC for review. Prior to the JLBC meeting the expenditure plan will be provided to Bob Hull of the JLBC staff.

We look forward to the opportunity to review the Ladewig expenditure plan and will gladly meet with you or your staff to discuss any questions or provide any additional information that may be required. Please do not hesitate to contact either Anthony Forschino at 716-6921 or Reed Spangler at 716-6883 for any additional assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gale Garriott".

Gale Garriott
Director

GG:dbl

cc: Representative Russell Pearce
Bob Hull, JLBC
Matthew Burke, OSPB
Anthony Forschino
Reed Spangler
File

Ladewig Budget - FY03-FY07	FY03	FY04	FY05	FY06	FY07	Total
	actual	actual	actual	estimate	estimate	
Permanently Assigned Staff	\$200,166.00	\$231,229.00	\$186,410.00	\$97,000.00	\$70,000.00	\$784,805.00
Professional & Managerial Staff	\$52,792.00	\$19,258.00	\$37,442.00	\$70,000.00	\$70,000.00	\$249,492.00
Mainframe Programming	\$0.00	\$7,524.00	\$36,094.00	\$4,000.00	\$1,000.00	\$48,618.00
TIA Staff	\$0.00	\$0.00	\$0.00	\$10,000.00	\$6,800.00	\$16,800.00
DOR Support staff	\$28,597.00	\$0.00	\$10,252.00	\$30,000.00	\$13,000.00	\$81,849.00
Cost of DOR Overtime	\$61,830.00	\$88,162.00	\$115,711.00	\$110,000.00	\$49,000.00	\$424,703.00
Training Costs	\$973.00	\$0.00			\$500.00	\$1,473.00
Personal Services	\$344,358.00	\$346,173.00	\$385,909.00	\$321,000.00	\$210,000.00	\$1,607,740.00
Employee Related Expenditures	\$75,263.00	\$71,153.00	\$81,961.00	\$73,800.00	\$42,700.00	\$228,377.00
WEB Page Consultant	\$0.00	\$0.00				\$0.00
SQL Consultant	\$261,253.00	\$920,817.00	\$390,790.00	\$85,000.00	\$14,000.00	\$1,671,860.00
Mainframe Programming Consultant	\$0.00	\$0.00				\$0.00
Training by Outside Vendor	\$1,595.00	\$0.00				\$1,595.00
Temporary Personnel	\$63,667.00	\$851,576.00	\$216,642.00	\$165,000.00	\$75,000.00	\$1,371,885.00
Data Entry Incoming Mail	\$0.00	\$0.00				\$0.00
Digitize Microfiche	\$7,404,291.00	\$374,130.00				\$7,778,421.00
Data Recovery from Tapes	\$22,895.00	\$0.00				\$22,895.00
Imaging Income Mail/WEB Hosting	\$11,938.00	\$188,218.00	\$79,741.00	\$80,000.00	\$20,000.00	\$379,897.00
Rental File Storage	\$0.00	\$0.00				\$0.00
Move from NVO to PHX	\$0.00	\$0.00				\$0.00
Cost of NVO space	\$4,801.00	\$250,361.00	\$44,004.00			\$299,166.00
Skip Trace/Address Checks	\$0.00	\$4,887.00				\$4,887.00
Special Master Court Appointed	\$4,387.00	\$0.00	\$15,095.00	\$65,000.00	\$30,000.00	\$114,482.00
Professional & Outside Services	\$7,774,827.00	\$2,589,989.00	\$746,272.00	\$395,000.00	\$139,000.00	\$11,645,088.00
Travel	\$80.00	\$0.00	\$204.00	\$200.00	\$0.00	\$484.00
Travel	\$80.00	\$0.00	\$204.00	\$200.00	\$0.00	\$484.00
US Postmaster (PO Box 29099 Rental)	\$824.00	\$824.00	\$824.00	\$850.00	\$850.00	\$4,172.00
US Postmaster (Outgoing Postage)	\$219,697.00	\$320,542.00	\$700,310.00	\$240,000.00	\$200,000.00	\$1,680,549.00
Mailing Vendor & Printing Vendor	\$59,257.00	\$367,096.00	\$231,272.00	\$365,850.00	\$90,000.00	\$1,113,475.00
Advertising	\$71,409.00	\$0.00				\$71,409.00
Unclaimed Property Ads Returned Warrar	\$0.00	\$0.00			\$276,250.00 /3	\$276,250.00
Phone for Ladewig	\$1,940.00	\$10,165.00	\$2,712.00	\$2,000.00	\$2,000.00	\$18,817.00
Mainframe	\$1,579.00	\$369.00	\$6,238.00	\$10,000.00	\$4,800.00	\$22,986.00
Consumable supplies	\$1,938.00	\$6,519.00	\$16,877.00	\$15,000.00	\$5,000.00	\$45,334.00
File folders	\$0.00	\$0.00			\$1,000.00	\$1,000.00
Other taxpayer correspondence Handling	\$0.00	\$0.00				\$0.00
Equipment maintenance	\$760.00	\$3,915.00	\$1,101.00	\$1,000.00	\$1,000.00	\$7,776.00
Other Operating Expenditures	\$357,404.00	\$709,430.00	\$959,334.00	\$634,700.00	\$580,900.00	\$3,241,768.00
IT Equipment	\$33,862.00	\$0.00	\$0.00			\$33,862.00
Non-IT equipment	\$1,239.00	\$24,876.00	\$784.00		\$2,000.00	\$28,899.00
Equipment	\$35,101.00	\$24,876.00	\$784.00	\$0.00	\$2,000.00	\$62,761.00
Administration Total	\$8,587,033.00	\$3,741,621.00	\$2,174,464.00	\$1,424,700.00	\$974,600.00	\$16,902,418.00
Attorneys' Fees *	\$2,000,000.00	\$2,000,000.00	\$6,249,511.00	\$4,853,277.00	\$5,060,000.00	\$20,162,788.00
Taxpayer payments (refunds)	\$0.00	\$0.00	\$124,709,591.00	\$51,980,923.00	\$88,765,460.00	\$265,455,974.00
Settlement total	\$10,587,033.00	\$5,741,621.00	\$133,133,566.00	\$58,258,900.00	\$94,800,060.00	\$302,521,180.00
* Attorneys' fees - FY04 \$2 million paid by Risk Management; fees will be increased due to additional court awards in FY05, FY06 & FY07						
Prepared by DOR 1/9/06						

FY07 Taxpayer payments calculation	Reserve	Expended	Pending Court Approval	Balance
Administration Total	\$35,000,000.00	\$16,902,418.00		\$18,097,582.00
Attorneys' Fees	\$36,971,076.00	\$20,162,788.00	\$275,000.00	\$16,533,288.00
subtotal				\$34,630,870.00 /1
FY06 estimate				\$54,134,590.00 /2
Total				\$88,765,460.00

/1 Per the settlement all monies unexpended from Administration and Attorney Fees Reserves are to be redistributed to the Ladewig claimants.

/2 The FY 06 and FY 07 Taxpayer Payments are both paid out at 25% - therefore we are estimating the FY 07 payments based on the FY 06 estimate. It will at least the middle of February before the computer programmers will have time to begin the process to produce a further revised FY07 estimate.

/3 Based on Unclaimed Property's FY 06 cost to advertise and publish names at \$4.25 per name and the estimated need to publish 65,000 names, the current estimate is \$276,250. If statutory changes are made regarding the requirements for advertising and publishing names, this amount can be further reduced.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 13, 2006

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

THRU: Richard Stavneak, Director

FROM: Tyler Palmer, Fiscal Analyst

SUBJECT: Arizona Department of Administration - Consider Approval of Requested
Transfer of Appropriations

Request

A.R.S. § 35-173 requires Committee Approval of any transfer of spending authority within the Arizona Department of Administration (ADOA). On June 12, 2006, ADOA requested authorization to transfer up to \$250,000 from the FY 2006 Capital Outlay Stabilization Fund (COSF) lump sum appropriation to the Utilities Special Line Item (SLI) to pay for increased utility rates.

Recommendation

The JLBC Staff recommends that the Committee approve the agency request to transfer up to \$250,000 from the COSF lump sum appropriation to the Utilities SLI. The FY 2006 COSF lump sum appropriation has sufficient funding to cover this shortfall.

Analysis

ADOA reports that due to increased utility costs the FY 2006 appropriation to the Utilities SLI is insufficient to cover actual costs. Actual utilities costs are projected to be \$5,971,400, which exceeds the FY 2006 \$5,733,800 Utilities SLI Appropriation by \$(237,600). Due to the late submission of the requested transfer the JLBC Staff has not had time to fully analyze the requested transfer. The increase of \$250,000 for the Utilities SLI represents a 4.4% increase.

RS/TP:ym

Janet Napolitano
Governor



ARIZONA DEPARTMENT OF ADMINISTRATION

100 North 15th Avenue
PHOENIX, ARIZONA 85007
(602) 542-1500

William Bell
Director



May 26, 2006

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

Dear Senator Burns:

The Arizona Department of Administration requests authorization to transfer up to \$250,000 from the Capital Outlay Stabilization Fund (COSF) lump sum appropriation to the Utilities Special Line Item in accordance with ARS §35-173. The current appropriation for utilities is \$5,733,800; however, due to Arizona Public Service (APS) increases, as well as rate increases from other utility suppliers, we are anticipating a shortfall in Fiscal Year 2006. Attached are a spreadsheet showing actual and projected utility expenditures and a document provided by APS showing recent and projected rate increases.

I look forward to your favorable review of our request. If you have any questions please contact Lynne Smith, General Services Division Assistant Director, at (602) 542-1427.

Sincerely,

A handwritten signature in dark ink, appearing to read "W. Bell".

William Bell, Director
Arizona Department of Administration

Attachment

cc: The Honorable Russell Pearce, Co-Chairman, House Appropriations Committee
The Honorable Thomas Boone, Co-Chairman, House Appropriations Committee
Gary Yaquinto, Director, Governor's Office of Strategic Planning and Budgeting
Marcel Benberou, Governor's Office of Strategic Planning and Budgeting
Matt Gottheiner, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee Staff
Tyler Palmer, Fiscal Analyst, Joint Legislative Budget Committee Staff
Jerry Oliver, Deputy Director, Arizona Department of Administration
Lynne Smith, Assistant Director, Arizona Department of Administration
Paul Shannon, Budget Manager, Arizona Department of Administration
Alan Ecker, Legislative Liaison, Arizona Department of Administration

ARIZONA DEPARTMENT OF ADMINISTRATION
General Services Division

Utility Special Line Item (SLI) - Fiscal Year 2006

Vendor	Expended thru 4/30/06	Projected Balance	Year End Estimate
<u>Phoenix Utilities</u>			
APS	3,632,813	993,187	4,626,000
Ywaste	61,804	15,996	77,800
Phoenix Landfill	1,920	180	2,100
AZ Waste	11,368	4,532	15,900
Phoenix Water	335,956	124,344	460,300
Southwest Gas	220,670	27,230	247,900
	4,264,530	1,165,470	5,430,000
<u>Tucson Utilities</u>			
Tucson Garage	0	10,000	10,000
Tucson Elect	315,508	132,992	448,500
Tucson Trash	3,335	1,066	4,400
Tucson Water	15,802	4,898	20,700
Southwest Gas	55,973	1,827	57,800
	390,617	150,783	541,400
Projected SLI Sub-Total	4,655,147	1,316,253	5,971,400
SLI Appropriation			<u>5,733,800</u>
Projected Shortfall			<u>(237,600)</u>

6/12/2006