

STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

DON SHOOTER  
CHAIRMAN 2014  
OLIVIA CAJERO BEDFORD  
GAIL GRIFFIN  
JOHN McCOMISH  
AL MELVIN  
LYNNE PANCRAZI  
ANNA TOVAR  
STEVEN B. YARBROUGH

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

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

HOUSE OF  
REPRESENTATIVES

JOHN KAVANAGH  
CHAIRMAN 2013  
LELA ALSTON  
DAVID GOWAN, SR.  
ADAM KWASMAN  
DEBBIE LESKO  
STEFANIE MACH  
JUSTIN OLSON  
MICHELLE UGENTI

### **\*\* REVISED #2 \*\***

#### JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, June 19, 2014

9:30 A.M.

Senate Appropriations, Room 109

#### MEETING NOTICE

- Call to Order
- [Approval of Minutes of April 10, 2014.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
  - A. Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee and Retiree Health & Dental Plans as Required under A.R.S. § 38-658A.
  - ~~B. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.~~
- 1. [ATTORNEY GENERAL - Review of Quarterly Reports on Legal Settlements.](#)
- 2. [AUTOMOBILE THEFT AUTHORITY - Review of the Proposed Expenditures from the Reimbursables Program Special Line Item.](#)
- 3. [AHCCCS/DEPARTMENT OF HEALTH SERVICES - Review of Proposed Transfer.](#)
- 4. [ARIZONA DEPARTMENT OF EDUCATION - Review of AELAS Expenditure Plan for FY 2015.](#)
- 5. [DEPARTMENT OF PUBLIC SAFETY - Review of the Expenditure Plan for the Gang & Immigration Intelligent Team Enforcement Mission \(GIITEM\) Fund Border Security and Law Enforcement Subaccount.](#)

6. ~~DEPARTMENT OF CHILD SAFETY - Review of Proposed Quarterly Benchmarks for Hiring New Staff and Reducing the Number of Backlog Cases.~~
6. **ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF ENVIRONMENTAL QUALITY - Review of Department of Environmental Quality Phase 2 Web Portal Expenditure Plan (Automation Projects Fund).**
7. **DEPARTMENT OF CHILD SAFETY**
  - A. **Review of Transition Funding Expenditure Plan.**
  - B. **Review of Quarterly Benchmarks and Expenditure Plan.**
  - C. **Review of FY 2015 Intensive Family Services Expenditure Plan.**
8. **ATTORNEY GENERAL - Review of Allocation of Settlement Monies - State v. GlaxoSmithKline, LLC.**

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

6/10/14

6/17/14

6/18/14

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### MINUTES OF THE MEETING

#### JOINT LEGISLATIVE BUDGET COMMITTEE

April 10, 2014

The Chairman called the meeting to order at 8:40 a.m., Thursday, April 10, 2014, in Senate Appropriations Room 109. The following were present:

Members:	Senator Shooter, Chairman Senator Cajero Bedford Senator Griffin Senator McComish Senator Melvin Senator Pancrazi Senator Tovar	Representative Kavanagh, Vice-Chairman Representative Alston Representative Kwasman Representative Lesko Representative Mach
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Absent:	Senator Yarbrough  Representative Gowan Representative Ugenti
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#### APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of December 17, 2013, Chairman Don Shooter stated that the minutes would stand approved.

#### ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)

##### A. ADOA - Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.

Mr. Ben Henderson, JLBC Staff, stated that this item is for review of the wireless services portion of ADOA's Emergency Telecommunications Services Revolving Fund (ETSF) FY 2014 expenditure plan. The JLBC Staff presented options to the Committee.

*Representative Kavanagh moved that the Committee give a favorable review of the \$5.7 million wireless portion of the FY 2014 ETSF expenditure plan. The motion carried.*

(Continued)

**B. ADOA - Consider Approval of Employer Sanctions Enforcement Distributions.**

Mr. Ben Henderson, JLBC Staff, stated that this item is to consider approval for ADOA to distribute \$300,500 from the \$513,200 FY 2014 appropriation from the County Attorney Immigration Enforcement line item to county sheriffs and county attorneys for the enforcement of immigration-related employer sanctions. The JLBC Staff presented options to the Committee.

<b>Table 1</b>		
<b>Employer Sanctions Distributions</b>		
	<b>FY 2013</b>	<b>FY 2014</b>
	<b><u>Distribution</u></b>	<b><u>Distribution</u></b>
Apache County Attorney	\$7,127	\$7,127
Apache County Sheriff	7,127	0 <sup>2/</sup>
Cochise County Attorney	13,089	0 <sup>2/</sup>
Cochise County Sheriff	13,089 <sup>1/</sup>	0
Coconino County Attorney	13,396	13,396
Coconino County Sheriff	13,396	13,396
Gila County Attorney	5,341	5,341
Gila County Sheriff	5,341	0 <sup>2/</sup>
Graham County Attorney	3,709	0 <sup>3/</sup>
Graham County Sheriff	3,709 <sup>1/</sup>	0 <sup>2/</sup>
Greenlee County Attorney	841	0 <sup>3/</sup>
Greenlee County Sheriff	841	0 <sup>2/</sup>
La Paz County Attorney	2,042	2,042
La Paz County Sheriff	2,042	0 <sup>2/</sup>
Mohave County Attorney	19,949	19,949
Mohave County Sheriff	19,949 <sup>1/</sup>	0
Navajo County Attorney	10,708	10,708
Navajo County Sheriff	10,708	10,708
Pima County Attorney	97,687	97,687
Pima County Sheriff	97,687	0 <sup>2/</sup>
Pinal County Attorney	37,447	37,447
Pinal County Sheriff	37,447	37,447
Santa Cruz County Attorney	4,726	4,726
Santa Cruz County Sheriff	4,726 <sup>1/</sup>	0 <sup>2/</sup>
Yavapai County Attorney	21,030	21,030
Yavapai County Sheriff	21,030	0 <sup>2/</sup>
Yuma County Attorney	19,508	19,507
Yuma County Sheriff	19,508 <sup>1/</sup>	0 <sup>2/</sup>
<b>Total Allocated</b>	<b>513,200</b>	<b>300,511</b>
<b>Total Unallocated</b>	<b>0</b>	<b>212,689</b>
<b>Statutory Allocation - Maricopa</b>	<b>700,000</b>	<b>700,000</b>
<b>Total Appropriation</b>	<b>\$1,213,200</b>	<b>\$1,213,200</b>
<sup>1/</sup> Returned FY 2013 or declined FY 2014 funds		
<sup>2/</sup> Did not report intended use of FY 2014 funds		
<sup>3/</sup> Reported no use for FY 2014 funds		

*Representative Lesko moved that the Committee approve ADOA's proposal, which distributes \$300,500 of the \$513,200 appropriation as shown in Table 1, with the following provisions:*

(Continued)

- 1) *If a county attorney or sheriff not currently scheduled to receive any monies under ADOA's proposal, subsequently requests FY 2014 funding for enforcement of immigration-related employer sanctions, ADOA may provide those funds and*
- 2) *Any unused appropriation at the end of FY 2014 reverts to the General Fund.*

The motion carried.

## **DEPARTMENT OF ECONOMIC SECURITY (DES)**

### **A. DES - Review of Contingency Funding Expenditure Plan.**

Mr. Stefan Shepherd, JLBC Staff, stated that this item is for review of an expenditure plan submitted by DES for the \$10,500,000 in the Contingency Funding line item prior to expenditure. The JLBC Staff presented options to the Committee.

Mr. Charles Flanagan, Director, Division of Child Safety and Family Services, DES, responded to member questions.

Mr. Eric Jorgensen, Deputy Director, Division of Child Safety and Family Services, DES, responded to member questions.

*Representative Kavanagh moved that the Committee give a favorable review of the expenditure plan submitted by DES for the \$10,500,000 in the Contingency Funding line item. The motion carried.*

### **B. DES - Review of Intensive Family Services Implementation.**

Mr. Stefan Shepherd, JLBC Staff, stated that this item is for review of an expenditure plan submitted by DES for the \$5,000,000 in the Intensive Family Services line item prior to expenditure. The JLBC Staff presented options to the Committee.

Mr. Charles Flanagan, Director, Division of Child Safety and Family Services, DES, responded to member questions.

Mr. Eric Jorgensen, Deputy Director, Division of Child Safety and Family Services, DES, responded to member questions.

Mr. Alex Ong, Finance and Business Operations Deputy Administrator, DES, responded to member questions.

*Representative Kavanagh moved that the Committee acknowledged reviewing the department's expenditure plan for the current fiscal year with the provision that the department report by June 1, 2014 on how it plans to expend the Intensive Family Services funds in FY 2015. With input from both the House and Senate as well as the Child Protective Services Reform Workgroup, the Committee will then provide further guidance on whether the FY 2015 appropriation is to be expended for a new program or integrated into existing services. The motion carried.*

## **ARIZONA DEPARTMENT OF EDUCATION - Review of Sunnyside Unified Payments.**

Mr. Steve Schimpp, JLBC Staff, stated that this item is for review of the Arizona Department of Education's plan to provide the Sunnyside Unified School District in Pima County with \$1,910,800 in

(Continued)

corrected Basic State Aid funding due to a recent settlement in the Arizona Tax Court regarding property taxes paid in prior years by the Raytheon Company.

*Representative Kavanagh moved that the Committee give a favorable review to the Arizona Department of Education's plan to provide the Sunnyside Unified School District with \$1,910,800 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 Raytheon Company. The motion carried.*

**ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY - Review of Vehicle Emissions Contract Modifications.**

Ms. Micaela Larkin, JLBC Staff, stated that this item is for review of proposed modifications or amendments to the Vehicle Emissions Inspection contract with a private vendor. The JLBC Staff presented options to the Committee.

Mr. Trevor Baggione, Air Quality Division Deputy Director, DEQ, responded to member questions.

*Representative Kavanagh moved that the Committee give a favorable review of the proposed Vehicle Emissions Inspection contract modifications. The motion carried.*

**AHCCCS/DEPARTMENT OF HEALTH SERVICES - Review of Revised Capitation Rate Changes for Acute Care and Behavioral Health Services.**

Mr. Jon Stall, JLBC Staff, stated that this item is for review of the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) capitation rate changes prior to implementation. AHCCCS and DHS are revising their capitation rates associated with the integration of Acute and Behavioral Health Care for the seriously mentally ill in Maricopa County.

*Representative Kavanagh moved that the Committee give a favorable review to the proposed capitation rate changes for Acute Care and Behavioral Health Services with the following provisions:*

- 1) DHS report to the Committee by May 1, 2014 on the reasons for not using a reinsurance program and*
- 2) AHCCCS report to the Committee on the status of its discussions with the federal government concerning childless adult cost sharing provisions.*

The motion carried.

**EXECUTIVE SESSION**

*It was moved that the Committee go into Executive Session. The motion carried.*

At 10:04 a.m. the Joint Legislative Budget Committee went into Executive Session.

*It was moved that the Committee reconvene into open session. The motion carried.*

At 10:21 a.m. the Committee reconvened into open session.

(Continued)

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

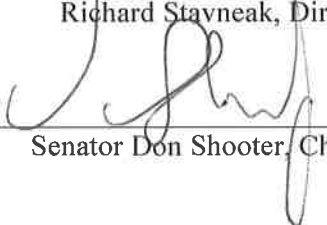
*Representative Kavanagh moved that the Committee approve the recommended settlements proposed by the Attorney General's office in the case of Keller v. Arizona Board of Regents. The motion carried.*

Without objection, the meeting adjourned at 10:22 a.m.

Respectfully submitted:

  
\_\_\_\_\_  
Kristy Paddack, Secretary

  
\_\_\_\_\_  
Richard Stayneak, Director

  
\_\_\_\_\_  
Senator Don Shooter, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams.  
A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.



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DATE: June 12, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Matt Gress, Fiscal Analyst *MG*

SUBJECT: Attorney General - Review of Quarterly Reports on Legal Settlements

### Request

The FY 2014 General Appropriation Act (Laws 2013, 1<sup>st</sup> Special Session, Chapter 1) requires the Attorney General (AG) to submit to the Joint Legislative Budget Committee for review quarterly reports on the receipts and disbursements from the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund and the Consumer Restitution and Remediation Revolving Fund, as well as deposits made to the General Fund.

The intent of the General Appropriation Act provision is to review the AG's allocation of legal settlements among the various funds. In the third quarter of FY 2014, the AG deposited \$2,023,700 to the CPCF Revolving Fund, \$1,291,600 to the Restitution Subaccount, and \$5,764,500 to the Remediation Subaccount.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review.

### Analysis

Laws 2013, Chapter 143 revised the AG's procedures for reporting on the distribution and allocation of legal settlements. Prior to this legislation, the General Appropriation Act required the Committee to review the AG's proposed allocations of any non-criminal legal settlements exceeding \$100,000. Many of these settlements were typically deposited into the CPCF Revolving Fund.

(Continued)



Chapter 143 retained the CPCF Revolving Fund, but established a new Consumer Restitution and Remediation Revolving Fund with 2 new subaccounts. With this legislation, the AG may now deposit consumer fraud-related recoveries into 1 of 4 funds/subaccounts:

1. The main CPCF Revolving Fund, which derives its revenue from any investigative or court costs, attorney fees or civil penalties recovered by the AG as a result of enforcement of either state or federal consumer fraud statutes. The monies, subject to legislative appropriation, are used for operations of the Consumer Protection Division, and can also be used for other operating expenses. Committee review of expenditures from this fund is not required.
2. The Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving Fund. The AG is to deposit legal settlement proceeds into this subaccount to compensate specific, identifiable entities, including the state, for economic loss resulting from violations of consumer protection laws. This subaccount is not subject to legislative appropriation. Committee review of expenditures from this subaccount is not required.
3. The Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund. This subaccount consists of monies collected as a result of a settlement to rectify violations of consumer protection laws, other than monies collected for the benefit of specific, identifiable entities. Monies in this subaccount up to \$3,500,000 are continuously appropriated. Any amount of money collected over that amount is subject to legislative appropriation. The AG must submit an expenditure plan for Committee review before expending any monies in this subaccount.
4. The General Fund. Chapter 143 directs any monies resulting from compromises or settlements, excluding restitution and reimbursement funds or attorney fees, into the General Fund.

The fund receipts reported in the AG's quarterly report are listed in *Table 1* below.

While only Remediation Subaccount expenditures are subject to Committee review, the review of the quarterly reports is intended to provide legislative oversight of how the AG has allocated legal settlement proceeds among the 4 possible funds/subaccounts.

<b>Table 1</b> <b>FY 2014 Legal Settlement Deposits <sup>1/</sup></b> <b>FY 2014 through March 31, 2014</b>			
<u>Case Name</u>	<u>CPCF Revolving Fund</u>	<u>Consumer Restitution Subaccount</u>	<u>Consumer Remediation Subaccount</u>
<i>State of Arizona vs. McKesson Corporation</i>	\$2,000,000	\$1,000,600	\$5,764,500
<i>State of Arizona vs. Gino Niccoli</i>	-	\$250,900	-
<i>State of Arizona vs. Maurice J. Chelliah, et al.; Consent Judgment as to Scott Walters</i>	-	\$30,000	-
<i>State of Arizona vs. Robert Hayes, et al.</i>	-	\$10,000	-
<b>Total</b>	<b>\$2,000,000</b>	<b>\$1,291,600 <sup>2/</sup></b>	<b>\$5,764,500</b>
<sup>1/</sup> The receipts may include interest income on the total proceeds awarded. <sup>2/</sup> Numbers do not add due to rounding.			

(Continued)

### Case Background

The *McKesson* case is the largest receipt reported by the AG. The AG sued the McKesson Corporation, as did several other states and the federal government, for artificially raising the reported average wholesale prices (AWPs) of hundreds of brand-name drugs. As a result of McKesson's alleged misconduct, third party payers and consumers paid higher prices for prescription drugs. McKesson denied wrongdoing but reached a settlement agreement with the AG. The Settlement Agreement required McKesson to pay \$8,760,798 to the state. Of that amount:

- \$1 million was paid into the Restitution Subaccount to directly compensate those Arizona consumers and third party payers who purchased drugs at inflated prices but did not recover funds pursuant to earlier class action lawsuits. As part of the Restitution Subaccount, these monies do not require legislative appropriation or further Committee review.
- \$5,760,798 was paid into the Remediation Subaccount. Pursuant to Laws 2013, Chapter 143 the AG must submit an expenditure plan to the Committee for review before expending any monies in the Remediation Subaccount. The AG's Office states it is currently working on an expenditure plan and will submit it for Committee review later this year.
- \$2 million was paid into the main CPCF Revolving Fund and may be used for any purpose permitted by statute.

The AG deposited the proceeds from the other 3 cases listed in *Table 1* into the Consumer Restitution Subaccount.

In the *Niccoli* case, the AG sued Gino Niccoli for operating a telemarketing business that sold credit card reduction services to consumers nationwide, misrepresented what consumers would receive, and failed to provide refunds when consumers complained. The proceeds of the case, \$250,900, will be deposited into the Restitution Subaccount and distributed to consumers who purchased financial kits or interest rate reduction services from the defendants.

The *Walters* Consent Judgment was reached after the AG's office sued Scott Walters, et al., who operated a business opportunity telemarketing scheme that defrauded thousands of consumers nationwide. While denying any wrongdoing, Walters entered into a consent judgment that required him to pay \$30,000, which will be deposited into the Restitution Subaccount and distributed to consumers who purchased websites or marketing packages from Walters or his associates.

In the *Hayes* case, the AG originally sued and settled with Robert Hayes and partner Camerin Hawthorne in 2011 for operating a mortgage loan modification service to consumers, charging a fee, misrepresenting what it could accomplish, and failing to deliver promised services. In 2013, the AG learned that Hayes violated the settlement by working as a loan originator at a major bank and required him to pay \$10,000, which will be deposited into the Restitution Subaccount and distributed to consumers who were defrauded by Hayes' prior business.

RS/MG:kp



**TOM HORNE**  
ATTORNEY GENERAL

**OFFICE OF THE ARIZONA ATTORNEY GENERAL**  
**BUSINESS & FINANCE DIVISION**

April 14, 2014



The Honorable Andy Tobin  
Speaker of the House  
Arizona House of Representatives  
State Capitol Complex  
1700 West Washington  
Phoenix, Arizona 85007-2890

The Honorable Andy Biggs  
Senate President  
Arizona State Senate  
State Capitol Complex  
1700 West Washington  
Phoenix, Arizona 85007-2890

Dear Mr. Speaker and Mr. Biggs:

Pursuant to A.R.S. § 44-1531.01(D), enclosed is the accounting of the receipts and disbursements from the Consumer Protection Revolving Fund for the period ended March 31, 2014.

Please let me know if you need additional information.

Sincerely,

Vicki Salazar  
Director, Business & Finance Division

Copies with enclosure to:

The Honorable Jan Brewer, Governor  
State of Arizona

Brian C. McNeil, Director  
Department of Administration

Richard Stavneak, Director  
Joint Legislative Budget Committee

Department: ATTORNEY GENERAL - DEPARTMENT OF LAW  
 Fund: CONSUMER PROTECTION REVOLVING FUND (Note /1)  
 Cost Center: CONSUMER PROTECTION & ADVOCACY SECTION  
 Period: JULY 1, 2013 THROUGH MARCH 31, 2014  
 A.R.S. Citation: § 44-1531.01  
 Fund Number: 2014

DESCRIPTION:				Amount
SOURCE OF REVENUE	BEGINNING BALANCE, JULY 1, 2013	See (A) below	\$	12,817,548
	<u>SOURCES OF FUNDS (Note /2)</u>			
Civil penalties imposed on violations of consumer fraud statutes; recovery of costs or attorneys fees.	Revenues			2,595,200
	Transfers In			2,351
	<b>TOTAL FUNDS AVAILABLE</b>		\$	<b>15,415,099</b>
PURPOSE OF FUND	<u>DISPOSITION OF FUNDS (Note /2)</u>			
Consumer fraud education and investigative and enforcement operations of the Consumer Protection & Advocacy Section, including costs and expenses associated with the tobacco master settlement agreement arbitration.	Personal Services		\$	1,012,357
	Employee Related Expenses			442,392
	Professional & Outside Services	\$	32,345	
	Travel - In-State		16,527	
	Travel - Out-of-State		11,947	
	Aid to Others		2,500	
	Other Operating Expenses		319,493	
	Capital Outlay		-	
	Capital Equipment		-	
	Non-Capital Equipment		51,163	
	Subtotal - All Other Operating			433,975
	Fund Sweep			24,800
	Operating Transfers Out			144,209
	<b>TOTAL FUNDS EXPENDED</b>			<b>2,057,733</b>
	<b>CASH BEFORE ENCUMBRANCES</b>			<b>13,357,366</b>
	<b>OUTSTANDING ENCUMBRANCES</b>			<b>231,214</b>
	<b>ENDING BALANCE, MARCH 31, 2014</b>		\$	<b>13,126,152</b>
	(A): Adjustment of 7/09/13 Report to final USAS reports:			
	Ending Balance per 6/30/13 Report dated 7/09/13		\$	12,693,935
	Adjustments to Revenue Received 7/1/13 to 7/09/13			-
	Adjustments to Operating Expenditures 7/1/13 to 7/09/13			(17,527)
	Outstanding Encumbrances liquidated 7/1/13 to 7/09/13			-
	Outstanding Encumbrances to be liquidated in FY2014			141,140
	Net adjustment per final 13th month USAS reports dated 7/09/13			123,613
	Adjusted 6/30/13 Ending Balance		\$	<b>12,817,548</b>

Notes:

<sup>/1</sup> The FY14 Appropriation for the Consumer Protection Revolving Fund is \$3,506,200 and funds 37 positions for consumer protection investigative and enforcement operations.

<sup>/2</sup> Amounts represent sources of funds and disposition of funds for the period July 1, 2013 through March 31, 2014.



**TOM HORNE**  
ATTORNEY GENERAL

**OFFICE OF THE ARIZONA ATTORNEY GENERAL**  
**BUSINESS & FINANCE DIVISION**

**VICKI SALAZAR**  
DIRECTOR

April 14, 2014



The Honorable Andy Tobin  
Speaker of the House  
Arizona House of Representatives  
State Capitol Complex  
1700 West Washington  
Phoenix, Arizona 85007-2890

The Honorable Andy Biggs  
Senate President  
Arizona State Senate  
State Capitol Complex  
1700 West Washington  
Phoenix, Arizona 85007-2890

Dear Mr. Speaker and Mr. Biggs:

Pursuant to A.R.S. § 44-1531.02(D), enclosed is the accounting of the receipts and disbursements from the Consumer Restitution and Remediation Revolving Fund by Subaccount for the period ended March 31, 2014.

Please let me know if you need additional information.

Sincerely,

Vicki Salazar  
Director, Business & Finance Division

Copies with enclosure to:

The Honorable Jan Brewer, Governor  
State of Arizona

Ken Bennett, Secretary of State  
Office of the Secretary of State

Richard Stavneak, Director  
Joint Legislative Budget Committee

Brian C. McNeil  
Department of Administration

Department: ATTORNEY GENERAL - DEPARTMENT OF LAW  
 Fund: CONSUMER RESTITUTION SUBACCOUNT  
 Cost Center: CONSUMER PROTECTION & ADVOCACY SECTION  
 Period: JULY 1, 2013 THROUGH MARCH 31, 2014  
 A.R.S. Citation: § 44-1531.02  
 Fund Number: 2574

<u>DESCRIPTION:</u>		<u>AMOUNT</u>
SOURCE OF REVENUE	BEGINNING BALANCE, JULY 1, 2013	\$ -
Monies collected as the result of an order of a court, or the result of a settlement or compromise resulting from violations or alleged violations of consumer protection laws.	<u>SOURCES OF FUNDS</u>	
	Revenues	1,291,587
	Transfers In	-
	<b>TOTAL FUNDS AVAILABLE</b>	<b>\$ 1,291,587</b>
PURPOSE OF FUND	<u>DISPOSITION OF FUNDS</u>	
To compensate specific, identifiable persons, including this state, for economic loss as directed by a court order.	Personal Services	\$ -
	Employee Related Expenses	-
	Professional & Outside Services	\$ -
	Travel - In-State	-
	Travel - Out-of-State	-
	Aid to Others	-
	Other Operating Expenses	-
	Capital Outlay	-
	Capital Equipment	-
	Non-Capital Equipment	-
	Subtotal - All Other Operating	-
	Fund Sweep	-
	Operating Transfers Out	-
	<b>TOTAL FUNDS EXPENDED</b>	<b>-</b>
	<b>CASH BEFORE ENCUMBRANCES</b>	<b>1,291,587</b>
	<b>OUTSTANDING ENCUMBRANCES</b>	<b>-</b>
	<b>ENDING BALANCE, MARCH 31, 2014</b>	<b>\$ 1,291,587</b>

Department: ATTORNEY GENERAL - DEPARTMENT OF LAW  
 Fund: CONSUMER REMEDIATION SUBACCOUNT  
 Cost Center: CONSUMER PROTECTION & ADVOCACY SECTION  
 Period: JULY 1, 2013 THROUGH MARCH 31, 2014  
 A.R.S. Citation: § 44-1531.02  
 Fund Number: 2573

<u>DESCRIPTION:</u>	<u>AMOUNT</u>	
<b>SOURCE OF REVENUE</b>	<b>BEGINNING BALANCE, JULY 1, 2013</b>	\$ -
Monies collected as the result of an order of a court, or as a result of a settlement or compromise, to rectify violations or alleged violations of consumer protection laws.	<b><u>SOURCES OF FUNDS</u></b>	
	Revenues	5,764,495
	Transfers In	-
	<b>TOTAL FUNDS AVAILABLE</b>	<b>\$ 5,764,495</b>
<b>PURPOSE OF FUND</b>	<b><u>DISPOSITION OF FUNDS</u></b>	
Consumer fraud education programs, and operating expenses incurred in administrating or implementing programs.	Personal Services	\$ -
	Employee Related Expenses	-
	Professional & Outside Services	\$ -
	Travel - In-State	-
	Travel - Out-of-State	-
	Aid to Others	-
	Other Operating Expenses	-
	Capital Outlay	-
	Capital Equipment	-
	Non-Capital Equipment	-
	Subtotal - All Other Operating	-
	Fund Sweep	-
	Operating Transfers Out	-
	<b>TOTAL FUNDS EXPENDED</b>	<b>-</b>
	<b>CASH BEFORE ENCUMBRANCES</b>	<b>5,764,495</b>
	<b>OUTSTANDING ENCUMBRANCES</b>	<b>-</b>
	<b>ENDING BALANCE, MARCH 31, 2014</b>	<b>\$ 5,764,495</b>

Department: ATTORNEY GENERAL - DEPARTMENT OF LAW  
Fund: CONSUMER RESTITUTION AND REMEDIATION FUND  
Cost Center: CONSUMER PROTECTION & ADVOCACY SECTION  
Period: JULY 1, THROUGH MARCH 31, 2014

SCHEDULE A

	Consumer Restitution Subaccount	Consumer Remediation Subaccount
<p><i>State v. McKesson Corporation (Settlement Agreement)</i>: The Attorney General's Office sued McKesson Corporation for artificially raising the reported average wholesale prices (AWPs) of hundreds of brand-name drugs. As a result of McKesson's alleged misconduct, third party payors and consumers paid higher prices for prescription drugs. McKesson denied wrongdoing but reached a settlement agreement with the Attorney General's Office. The Settlement Agreement required McKesson to pay \$6,760,798.82 into the Consumer Restitution and Remediation Revolving Fund, with \$1 million funding consumer restitution and administration costs, to compensate those Arizona consumers and third party payors who purchased drugs at inflated prices but did not recover funds pursuant to earlier class action lawsuits. In addition, McKesson paid \$5,760,798.82 million into the consumer remediation subaccount of the Consumer Restitution and Remediation Revolving Fund to be used for remediation purposes including (1) to educate consumers about prescription drug pricing and ways to reduce their prescription drug spending, (2) to enhance law enforcement efforts to prevent and prosecute unfair or deceptive pricing or marketing practices, or (3) for other programs intended to rectify violations or alleged violations of consumer protection laws as alleged in the Complaint. McKesson also agreed to pay \$2 million into the Consumer Protection - Consumer Fraud Revolving Fund to be used in accordance with statute.</p>	\$ 1,000,000	\$ 5,760,798
<p><i>State v. Robert Daniel Hayes et al. (Addendum to Consent Judgment)</i>: The Attorney General's (AG) Office originally sued and settled with Hayes and partner Camerin Hawthorne in 2011 for operating a mortgage loan modification service to consumers (Mediation Services, a dba), charging a fee, misrepresenting what it could accomplish, and failing to deliver promised services. The 2011 consent judgment prohibited Hayes from participating in the mortgage business, including as a loan officer or loan originator. In 2013 the AG learned that Hayes had been employed as a loan originator at a major bank, in violation of the judgment. A petition was filed which alleged the violations of the prior order, and a settlement was reached, affirming the prior order and requiring Hayes to pay \$10,000 as restitution to consumers who were defrauded by Hayes' prior business. The funds were deposited into the consumer restitution subaccount and will be distributed to consumers who filed complaints with the office in 2011.</p>	10,000	-
<p><i>State v. Gino Niccoli and National Bankcard Monitor, LLC et al. (Consent Judgment)</i>: The Attorney General's (AG) Office alleged that Niccoli operated telemarketing business that sold credit card reduction services to consumers nationwide which misrepresented what consumers would receive and failed to provide refunds when consumers complained. The Consent Judgment found that the defendants sold accelerated payoff plans and financial kits to consumers at a cost of \$900 to \$1500, but failed to register as a telemarketer, obtain a \$100,000 bond, provide specific disclosures and cancellation notices as required by the Arizona telemarketing statute and had violated the Consumer Fraud Act. The judgment prohibits Niccoli from owning or operating a telemarketing business and pay \$250,939.01 to the AG, which will be deposited into the consumer restitution subaccount and distributed to consumers who purchased financial kits or interest rate reduction services from defendants. Any funds not distributed to consumers will revert to the Consumer Protection-Consumer Revolving Fund as civil penalties. The funds are to be paid from the reserve account held by Global Payments, Inc., which was named as a relief defendant and was the credit card payment processor used by Niccoli. The funds were received in March 2014 and were deposited into the consumer restitution subaccount of the Consumer Restitution and Remediation Revolving Fund and will be distributed to consumers who filed complaints with the AG and the Better Business Bureau.</p>	250,939	-
<p><i>Horne v. Maurice J. Chelliah, et al. (Consent Judgment as to Scott Walters)</i>: The Attorney General's (AG) Office alleges that Scott Walters helped operate a business opportunity telemarketing scheme that defrauded thousands of consumers nationwide. Walters sold consumers websites that could, in turn, be used to sell credit card processing services, small business loans, and debt consolidation services. Affiliate companies would then contact these same consumers and pressure them into purchasing "marketing packages", promising that these products would supposedly boost sales volume and lead to increased profits. According to the AG, no consumer who conducted business with Walters and his associates recouped the monies they invested in this scheme. Additionally, Walters did not comply with state laws regarding registration as a seller with appropriate state agencies and did not honor specific consumer rights. Walters denied direct knowledge of these activities, but acknowledged that he should have known the consumer fraud violations were occurring; he ultimately entered into a consent agreement that requires Walters to pay \$30,000 to the AG, which will be deposited into the consumer restitution subaccount and distributed to consumers who purchased websites or marketing packages from Walters or his associates once a final resolution has been reached with each named defendant. The case against Maurice Chelliah, et al., is still being litigated.</p>	30,000	-
Total Proceeds	1,290,939	5,760,798
Interest Income	648	3,697
Total Revenue	\$ 1,291,587	\$ 5,764,495





STATE OF ARIZONA

## Joint Legislative Budget Committee

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DATE: June 12, 2014

TO: Senator Don Shooter  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Eric Billings, Principal Fiscal Analyst *EB*

SUBJECT: Automobile Theft Authority - Review of the Proposed Expenditures from the Reimbursable Programs Line Item

### Request

Pursuant to a FY 2014 General Appropriation Act (Laws 2013, 1<sup>st</sup> Special Session, Chapter 1) footnote, the Automobile Theft Authority (ATA) is required to submit for review a report outlining any proposed expenditures from the Reimbursable Programs line item.

ATA has submitted for review a proposal to expend up to \$10,000, donated by the National Insurance Crime Bureau (NICB), in FY 2014 to support the Arizona Vehicle Theft Task Force in an ongoing investigation. The monies would be used for salary, equipment, and other operational expenses.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review of the request.

### Analysis

The Reimbursable Programs line item was created in FY 2006 to fund programs such as training seminars, the cost of sending staff to training seminars, and bait car system projects throughout the state. The line item's only revenue source is donations, grants, and fee collections given to ATA by the private sector. Although the line item has been appropriated \$50,000 yearly, the agency never expended any money through FY 2013.

(Continued)

At the October 2013 meeting of the Joint Legislative Budget Committee, the ATA received a favorable review of the proposed expenditure of \$10,000 donated by the NICB for costs associated with Operation Tin Man which resulted in the disruption of an auto theft and scrap metal criminal organization. The NICB is a non-profit membership organization that was created by the insurance industry to address insurance related crime through the development of relevant databases, analytical services, and investigative support to law enforcement.

ATA reports that NICB will make a donation of \$5,000 - \$10,000 to fund some of the costs of the Arizona Vehicle Theft Task Force for a specific ongoing investigation. This amount is lower than the \$15,000 originally reported by ATA for review. The Arizona Vehicle Theft Task Force is comprised of 16 individuals housed within DPS and 13 individuals at partner agencies that are solely dedicated to the investigation of auto-theft crimes. In FY 2013, the total cost to the state of the Arizona Vehicle Task Force was \$3,371,797.

The investigation is an 18-month-long, ongoing undercover operation involving multiple jurisdictions.

RS/EB:kp



## ARIZONA AUTOMOBILE THEFT AUTHORITY

1400 W. WASHINGTON STREET, SUITE 270 PHOENIX, ARIZONA 85007  
TEL (602) 364-2886 FAX (602) 364-2897 [www.azwatchyourcar.com](http://www.azwatchyourcar.com)



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Governor

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May 21, 2014

The Honorable John Kavanagh, Chairman  
Joint Legislative Budget Committee  
1700 West Washington Street  
Phoenix, Arizona 85007

The Honorable Don Shooter, Vice-Chairman  
Joint Legislative Budget Committee  
1700 West Washington Street  
Phoenix, Arizona 85007

Re: AATA Reimbursable Program

Dear Representative Kavanagh and Senator Shooter:

The Arizona Automobile Theft Authority (AATA) received a donation in the amount of \$15,000.00 from the National Insurance Crime Bureau (NICB), which is presently deposited in the Agency's Reimbursable Programs Account. The specific purpose of the donation is to support the efforts of the Arizona Vehicle Theft Task Force (Task Force) and to defray expenses involved in a specific organized crime investigation involving the Task Force.

The AATA requests this matter be placed on the June agenda for consideration by the Joint Legislative Budget Committee. The Reimbursable Programs line item was created by the legislature as a fund to receive grants, gifts, and donations to the agency. The AATA is required to "submit a report to the joint legislative budget committee before expending any monies for the reimbursable programs line item. The agency shall show sufficient funds collected to cover the expenses indicated in the report." H.B. 2001, Section 13 (2013).

The attached supporting memorandum/report contains a brief explanation of the Task Force investigation and the intended use of the funds. I'm available to meet with your staff and provide further explanation as appropriate.

Very truly yours,

Arthur P. Myer  
Chief Financial Officer



## ARIZONA AUTOMOBILE THEFT AUTHORITY

1400 W. WASHINGTON STREET, SUITE 270 PHOENIX, AZ 85007  
TEL (602) 364-2886 FAX (602) 364-2897 [www.azwatchyourcar.com](http://www.azwatchyourcar.com)



Date: May 21, 2014  
To: JLBC  
From: Arthur P. Myer, Chief Financial Officer  
Re: Report on AATA Reimbursable Program

---

The Arizona Vehicle Theft Task Force (Task Force) has been engaged in a long term undercover investigation. The AATA funds the multi-jurisdictional Task Force. The specific Task Force investigation, which is the subject of this report, involves multiple agencies and jurisdictions, and has burdened significant resources of the Task Force.

The National Insurance Crime Bureau (NICB) is a non-profit membership organization that was created by the insurance industry to address insurance related crime. NICB convenes collective industry resources involving vehicle theft, maintains extensive data bases, and provides analytical and investigative support to law enforcement. Several Special Agents of the NICB Field Operations Department are assigned to and work with the Task Force.

NICB has made a donation to the AATA in the amount of \$15,000.00. Those funds have been deposited in the AATA Reimbursable Program account and are the only funds presently in the account. The purpose of NICB making the contribution to the AATA was specifically for the purpose of supporting the aforementioned undercover operation.

The specific Task Force operation/investigation that prompted the NICB donation has been ongoing for approximately 18 months. It involves a major crime syndicate that has operated within Arizona for many years. The Task Force has led the investigation and its detectives have been involved in wide-ranging undercover operations that have depleted significant Task Force resources. Even after the present operations are complete, significant follow-up investigations are expected, as well as derivative cases that will continue to deplete Task Force resources.

The AATA requests that JLBC approve the expenditure of the \$15,000.00 in the form of a single Grant to the Arizona Vehicle Theft Task Force to be used for operational expenses, equipment, officer salary and overtime as it relates to the aforementioned organized crime investigation.

The identities of the individuals involved and specific details of the investigation will be made available to JLBC. Officer safety issues and the integrity of the investigation prevent disclosure as of the date of this report.

*Our mission is to deter vehicle theft through a statewide cooperative effort by supporting law enforcement activities, vertical prosecution and public awareness/community education programs.*



STATE OF ARIZONA

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DATE: June 12, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Andrew Smith, Principal Fiscal Analyst *AS*

SUBJECT: AHCCCS/Department of Health Services - Review of Proposed Transfer

### Request

Section 107 of the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) permits the Arizona Health Care Cost Containment System (AHCCCS) to transfer up to \$12,984,900 from the General Fund to the Department of Health Services (DHS) for expenditures associated with Medicaid Behavioral Health Services (BHS) with prior Committee review. AHCCCS and DHS are requesting the Committee review a transfer of the full \$12,984,900 permitted by Section 107.

The \$13.0 million is in addition to a \$17.6 million General Fund FY 2014 supplemental appropriation DHS also received in Section 112 of Chapter 18.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review.

### Analysis

#### Summary of AHCCCS Surplus

AHCCCS forecasts a FY 2014 surplus of \$49.1 million from the General Fund and \$164.1 million from Total Funds. The surplus is after taking into account the FY 2014 General Fund appropriation reduction of \$(73.4) million in Section 106 of Chapter 18. The \$(73.4) million General Fund savings was derived from a shift in cost of Proposition 204 services to the Hospital Assessment Fund and for reduced formula costs.

(Continued)

DHS Shortfall

The FY 2015 General Appropriation Act included an FY 2014 supplemental appropriation to DHS of \$17.6 million in General Funds and \$149.8 million in Federal Title XIX expenditure authority. The \$13.0 million proposed transfer from AHCCCS would be on top of that amount, for a total DHS supplemental of \$30.6 million from the General Fund.

Based on enrollment data under the current capitation system, caseloads are running ahead of projections. The projected June 2014 enrollment exceeds caseloads assumed in the FY 2014 budget by 2.1%, or 27,400 enrollees. This growth is primarily due to a faster reenrollment of the Medicaid Childless Adult population than projected. While the hospital assessment covers the cost in AHCCCS, the General Fund pays for the behavioral health cost of this population in DHS.

Because of the unanticipated growth in caseloads, DHS estimates it will utilize the full \$13.0 million from the General Fund in FY 2014.

RS/AS:kp

May 28, 2014

The Honorable Don Shooter  
Chairman, Joint Legislative Budget Committee  
Arizona State Senate  
1700 West Washington  
Phoenix, Arizona 85007



Dear Senator Shooter:

On behalf of the Arizona Department of Health Services (ADHS), the Arizona Health Care Cost Containment System (AHCCCS) is submitting the transfer request below for Fiscal Year 2014.

Laws 2014, Chapter 18, Section 107 authorizes AHCCCS to transfer up to \$12,984,900 General Fund to ADHS for Title XIX Medicaid behavioral health services, subject to review by the Joint Legislative Budget Committee.

Based on a recently provided projection by ADHS, the full amount of the transfer is being requested. As shown in the table below, with the full amount transferred, ADHS is projecting a small surplus of \$509,900. This is a relatively small amount of cushion given the unpredictability of the Title XIX Medicaid caseloads over the past several months.

ARIZONA DEPARTMENT OF HEALTH SERVICES - BEHAVIORAL HEALTH SERVICES FY 2014 PROJECTED EXPENDITURES						
	Current Appropriation	Proposed Transfer	Appropriation with Transfer	Expenditures as of 4/30/14	Projection for May and June	Projected Surplus/ (Shortfall)
State Match	403,943,100	12,984,900	416,928,000	340,306,400	76,111,700	509,900
Federal Title XIX	881,719,100	-	881,719,100	673,165,000	197,097,700	11,456,400
Total Funds	1,285,662,200	12,984,900	1,298,647,100	1,013,471,400	273,209,400	11,966,300

Should you have any questions about this issue, please feel free to contact Cynthia Layne, Chief Financial Officer, ADHS-BHS at (602) 542-2879.

Sincerely,

Thomas J. Betlach  
Director

The Honorable Don Shooter  
May 28, 2014  
Page 2

cc: John Kavanagh, Arizona House of Representatives  
Richard Stavneak, Joint Legislative Budget Committee  
John Arnold, Governor's Office of Strategic Planning and Budgeting  
Will Humble, Arizona Department of Health Services  
Cynthia Layne, Arizona Department of Health Services





STATE OF ARIZONA

## Joint Legislative Budget Committee

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DATE: June 12, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Steve Schimpp, Deputy Director *SS*

SUBJECT: Arizona Department of Education - Review of AELAS Expenditure Plan for FY 2015

### Request

Pursuant to A.R.S § 41-714, the Arizona Department of Education (ADE) has requested Committee review of \$12.0 million in proposed FY 2015 expenditures from the Automation Projects Fund (APF) for the Arizona Education Learning and Accountability System (AELAS).

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review.

Under either option, the JLBC Staff recommends the following provisions:

1. ADE must receive Information Technology Authorization Committee (ITAC) and Arizona Strategic Enterprise Technology (ASET) approvals required by law before spending APF monies on items requiring such approval.
2. The results of a new 3<sup>rd</sup> party independent assessment must be reported to JLBC by January 15 to evaluate the budget for AELAS in FY 2016.

### Analysis

#### Background

In FY 2014, the JLBC favorably reviewed \$7.0 million in AELAS expenditures (*please see the "FY 14 Allocation" column in Attachment A*).

(Continued)

ADE provided an overview of the proposed expenditure plan to ITAC on May 27, 2014. ITAC, however, has not yet formally approved expenditures for individual components of the plan with a cost more than \$1.0 million, as required by A.R.S. § 41-3521. In addition, the ASET office has not yet approved a Project Investment Justification (PIJ) for all components of the plan with a cost of more than \$25,000, as required by A.R.S. § 41-3504. ADE therefore is seeking a favorable review of its expenditure plan with the understanding that it still would need ITAC and ASET approval for some items in order to spend APF monies on them.

#### Current Request

The \$12.0 million in proposed AELAS expenditures for FY 2015 include the following items:

• Program Support Office (PSO)	\$ 1,500,000
• Production Services	2,200,000
• School Finance (SAIS replacement)	1,500,000
• Ed-Fi (data stores)	2,200,000
• Student Longitudinal Data System (dashboards)	1,500,000
• Organization Entity Management (OEM)	600,000
• Opt In Student Information System (SIS)	800,000
• Shared Services	400,000
• Opt-In Teacher and Learning Services	450,000
• Data Governance	850,000
<b>Total</b>	<b>\$12,000,000</b>

A brief description of each item appears below (*see Attachment B for more details*):

#### *Program Support Office (PSO)*

Create design standards for the project and provide overall management, including financial oversight, procurement, reporting and vendor supervision. The proposed \$1.5 million budget for FY 2015 includes \$175,000 for third-party independent assessment.

#### *Production Services*

Fund 9 FTE Positions to operate and maintain AELAS (including network, security, operations and database functions) and provide related customer support. Replace obsolete backup systems to ensure data security.

#### *School Finance*

Automate and decommission 8 manual payment calculation tools in Student Accountability Information System (SAIS). By end of FY 2015, upload data directly into SAIS from new student information systems (SIS) to improve data reliability and quality.

#### *Ed-Fi (AzEDS)*

Complete 6 of 10 remaining "operational data stores" (ODS) for storing data pertaining to 16 school functions such as "Enrollment," "Finance," "Student Attendance" and "Student Academic Record." Continue to develop "extractors" for translating local data into ODS format.

#### *AZ Dash (SLDS)*

Complete dashboard rollout and training to remaining 400+ districts and charters. Decommission legacy data warehouse.

(Continued)

*Organization Entity Management (OEM)*

Continue to develop OEM system that will enable school districts and charter schools to update their location information (such as school addresses and bus stops) in ADE's database without having to submit change requests to ADE.

*Opt-In Student Information System (SIS)*

Implement Opt-In SIS in at least 24 school districts and charter schools.

*Shared Services*

Roll out new ADE logon system to 280 additional school districts and charter schools. Allows school districts to grant or revoke logon privileges locally without have to submit manual requests to ADE (removes access more quickly for former employees).

*Opt-In Teacher and Learning Services*

Provide access to learning management, teacher observation and curriculum materials to at least 6 school districts and charter schools.

*Data Governance*

Define and build master data dictionary that will determine the storage location for particular data items, reducing the need for duplicative data requests.

FY 2016 and Beyond

*Attachment C* shows anticipated completion dates for various AELAS components. These dates anticipate that by June 2016 all current SAIS functions will be replaced and data "dashboards" will be implemented statewide. By June 2017, ADE anticipates that all public schools will have access to teacher and learning tools and to a statewide data system for teacher and principal evaluations. By June 2018, ADE anticipates that AELAS will be able to track student achievement past secondary education and correlate post-secondary performance back to K-12 schools and teachers. ADE also anticipates that by June 2018 all school districts and charter schools that want to opt in to the optional Student Information System (SIS) will be able to do so.

ADE currently estimates that it will need approximately \$12 million in FY 2016 for items listed in *Attachment D*. In FY 2017, ADE indicates that it will need additional state funding for continued SIS Opt-In implementations and to decommission all legacy applications, but has not provided a cost estimate for that year.

AELAS History

Historical information regarding the program appears in *Attachment E*.

RS/SSc:kp

Attachments



State of Arizona  
Department of Education  
Office of John Huppenthal  
Superintendent of Public Instruction



The Honorable Don Shooter  
Chair, Joint Legislative Budget Committee  
1716 W. Adams  
Phoenix, AZ 85007

Dear Sen. Shooter,

Pursuant to ARS §41-714, the Arizona Department of Education requests Committee review of its expenditure plan for the Arizona Education Learning and Accountability System (AELAS) for FY 2014-2015.

The general appropriation act (Laws 2014, Ch.18) appropriates \$12,000,000 to the Automation Projects Fund at the Arizona Department of Administration for FY2014-2015. As outlined in the above-referenced statute, prior to the expenditure of any monies from the fund, the Committee must review the expenditure plan. In order to meet the stated timelines for AELAS project deliverables, ADE requests a review of the plan for the entire amount, with the expectation that all projects associated with the plan will follow standard ADOA-ASET approval procedures.

Respectfully,

Chris Kotterman  
Deputy Associate Superintendent  
Policy Development and Government Relations

Cc: Richard Stavneak, Director, Joint Legislative Budget Committee  
John Arnold, Director, Governor's Office of Strategic Planning and Budgeting



PROJECT NAME	PIJ ID	Action	ITAC Required – Est. Month	JLBC Required - Est. Month	FY 14 Allocation	Est. FY 14 Carryover	FY 15 Appropriation
Program Support Office (PSO)	No PIJ	Info Item	No	Yes/June	\$1,000,000	\$0	\$1,500,000
Production Services/Support	PIJ(s) TBD	Info Item	Not at this time	Yes/June	\$0	\$0	\$2,200,000
AELAS School Finance	ED14002	Amend PIJ	Yes/June	Yes/June	\$800,000	\$0	\$1,500,000
AELAS Ed-Fi (AzEDS) Standardized Student Data Store	ED14004	Amend PIJ	Yes/June	Yes/June	\$1,550,000	\$574,330	\$2,200,000
Student Longitudinal Data System (SLDS) - AZ Dash	ED14006	Amend PIJ	Yes/June	Yes/June	\$2,750,000	\$339,934	\$1,500,000
AELAS Ed-Fi (AzEDS) OEM	ED14009	Amend PIJ	Yes/June	Yes/June	\$450,000	\$0	\$600,000
AELAS Student Information System (Opt-in SIS Pre-PIJ)	ED14005	Full PIJ to be submitted	Yes/June	Yes/June	\$450,000	\$118,308	\$800,000
AELAS Ed-Fi (AzEDS) Shared Services	New PIJ	PIJ to be submitted	No	Yes/June	\$0	\$0	\$400,000
AELAS Opt-In Teacher and Learning Services	New PIJ	PIJ to be submitted	No	Yes/June	\$0	\$0	\$450,000
AELAS Data Governance	New PIJ	Pre-PIJ to be submitted	No	Yes/June	\$0	\$0	\$850,000
<b>TOTAL Appropriation</b>					<b>\$7,000,000</b>	<b>\$1,032,572</b>	<b>\$12,000,000</b>

Project Name	FY14 Objectives	FY14 Key Accomplishments (through 3/31/14)	FY15 Deliverables
Program Support Office (PSO)	<ul style="list-style-type: none"> <li>-Deliver projects on time and within budget</li> <li>-Increase communication and outreach efforts to build support among users, to ensure ADE builds what LEAs need and to notify users on how to use tools as they become available</li> <li>-Provide quality control for AELAS projects and funding including financial oversight, vendor management of ADE IT's contract laborers and standards creation for project design, development and implementation</li> </ul>	<ul style="list-style-type: none"> <li>-Completed IT Portfolio Review template and training materials</li> <li>-Created issue mgmt log and dashboard to ensure adequate communication between ADE and ASET Oversight Team</li> <li>-Developed PIJ reporting user interface to streamline monthly PIJ status report submission, ensuring timely delivery to ASET Oversight Team</li> <li>-Updated IT Project Portfolio metadata for internal applications</li> <li>-Developed and conducted training on writing business goals for IT PMs and PCs &amp; developed procedures and standardized reporting documents for project oversight</li> <li>-Created and published AELAS transparency website</li> </ul>	<ul style="list-style-type: none"> <li>-2 Personnel to manage risk to ensure projects on time and within budget</li> <li>-2 Personnel increased communication and outreach efforts to build support among users</li> <li>-3 Personnel for Finance and Procurement for management of opt-in contracts/invoicing and vendor management</li> <li>-\$175,000 third-party independent assessment</li> <li>-Staff to manage RFPs, IGAs, ISAs and other contractual obligations</li> </ul>
Production Services	Not Applicable	Not Applicable	<ul style="list-style-type: none"> <li>-3 FTEs (Network, Security, Operations, Database) to provide ongoing customer support for new services</li> <li>-3 FTE support for ADEConnect to ensure sustainability</li> <li>-3 FTE support for AZ Dash to ensure sustainability</li> <li>-Azure project, replace obsolete back up system to ensure agency data security</li> <li>-FTE Data Governance support for FERPA compliance and data literacy</li> </ul>
ED14002 - AELAS School Finance	<ul style="list-style-type: none"> <li>-Complete discovery of existing CSF manual processes/systems</li> <li>-Design Solution Architecture and reporting solutions</li> <li>-Finalize Business requirements</li> <li>-Develop work flow and business rules</li> <li>-Test and deploy CSF application to production</li> </ul>	<ul style="list-style-type: none"> <li>-Obtained sign off on business requirements</li> <li>-Completed Test Plan</li> <li>-Completed 75% development of work flow and business rules</li> <li>-Started Quality Assurance</li> </ul>	<ul style="list-style-type: none"> <li>-Automate and decommission 8 manual payment calculation tools</li> <li>-29 of 48 manual tools will be decommissioned by end of FY14</li> <li>-Decouple aggregation functions from legacy SAIS and land in the new School Finance payment system</li> </ul>
ED14004 - AELAS Ed-Fi (AzEDS)	<ul style="list-style-type: none"> <li>-Create a standard way to receive student-related data</li> <li>-Create Student ODS, a single source of student data, based on national standards (Ed-Fi and CEDS)</li> </ul>	<ul style="list-style-type: none"> <li>-Provided vendor specifications for the Ed-Fi mapping</li> <li>-Created specifications for the student-related operational data store</li> <li>-Created high-level design for Ed-Fi connectors and Extract, Transform and Load framework</li> <li>-Created high-level design for rules and error processing</li> <li>-Completed 15% of development</li> </ul>	<ul style="list-style-type: none"> <li>- Complete 6 of 10 remaining operational data stores <ul style="list-style-type: none"> <li>- 5 complete and 2 partially complete in FY14</li> <li>- 4 remaining data stores complete in FY16</li> </ul> </li> <li>- Populate database environment built in FY14 pilot to comply with Data Governance Commission data collection policy</li> <li>- More student transactions will be collected in this format (determined by Phase 1 implementation)</li> </ul>
ED14006 - AELAS AZ Dash (SLDS)	<ul style="list-style-type: none"> <li>-Roll out to 200 LEAs</li> <li>-Implement ADEConnect (IMS) capability for 620 LEAs</li> <li>-Implement Data Governance Practices for ADE and LEAs</li> </ul>	<ul style="list-style-type: none"> <li>-Outreach calls completed for 343 LEAs</li> <li>-271 LEAs have signed up for ADEConnect and AZDash</li> <li>-135 LEAs have installed and tested ADEConnect</li> <li>-79 LEAs have received training on AZDash</li> </ul>	<ul style="list-style-type: none"> <li>- Complete dashboard rollout and training to remaining 520 LEAs</li> <li>- Decommission legacy data warehouse</li> </ul>
ED14009 - AELAS OEM	<ul style="list-style-type: none"> <li>-Replace current ADE Enterprise databases</li> <li>-Create Customer Relationship Management (CRM) based change management interface that will act as a single authoritative source for all changes</li> </ul>	<ul style="list-style-type: none"> <li>-Obtained sign-off on business requirements</li> <li>-Completed Test plan</li> <li>-Started work on wireframes and Use Cases</li> </ul>	<ul style="list-style-type: none"> <li>- Complete implementation of role attributes and relationships in CRM for OEMS Phase 2</li> </ul>
ED14005 - AELAS Opt-In SIS	<ul style="list-style-type: none"> <li>-Complete SIS RFP and award</li> <li>-Integrate SIS to Student Operational Data Stores</li> <li>-Implement and integrate six LEAs (includes data migration)</li> </ul>	<ul style="list-style-type: none"> <li>-Completed review, evaluation and scoring of RFP responses</li> <li>-Started contract award negotiations, pending ITAC approval to proceed with award</li> </ul>	<ul style="list-style-type: none"> <li>- Stand up and implement Opt-in SIS to at least 24 LEAs</li> </ul>
AELAS Shared Services	Not Applicable	Not Applicable	<ul style="list-style-type: none"> <li>-Rollout ADEConnect to additional 280 LEAs</li> <li>-Create IMS portal for easy customer use</li> <li>-Transition to FTE support for sustainability</li> </ul>
AELAS Opt-In Teacher and Learning Services	Not Applicable	Not Applicable	<ul style="list-style-type: none"> <li>-Teacher and Learning tools implementation at least 6 LEAs</li> <li>-Learning Management, Teacher Observation and Content Management Systems</li> </ul>
AELAS Data Governance	Not Applicable	Not Applicable	<ul style="list-style-type: none"> <li>-Define and build master data dictionary</li> <li>-Identify reporting requirements</li> <li>-Reduce need for external data requests by 80%</li> <li>-Consolidate 285 agency data requests to LEAs by 50%</li> </ul>

# Initiative outcomes

Initiative	Outcome	FY14	FY15	FY16+	Complete
SAIS Replacement	Full School Finance replacement will allow policy makers to ask <i>what if</i> questions regarding state funding changes and get answers within a few days. (policy makers) Complete replacement of School Finance systems that will ensure accurate distribution of state aid funding. (policy makers)	15%	80%	100%	June 2016
	Complete replacement of the student portion of SAIS, creating one single source of student-level data in Arizona schools thereby eliminating the 2,000,000 yearly errors. (policy makers, educators)	55%	85%	100%	June 2106
	Eliminate redundant ADE applications and reduce duplicative, wasteful and expensive reporting burdens on LEAs. (tax payers, educators)	30%	80%	100%	June 2016
	Track student achievement past secondary education and correlate that back to their school(s) and teachers. (parents, policy makers, tax payers, educators)			100%	June 2018
Teacher and Learning Tools	Provide access to videos and learning aides to ensure every teacher has the tools they need to become highly effective teachers. (educators) Create an assessment system to help each student reach College- and Career-level readiness upon graduation. (parents, educators)	14 LEAs	≥50 more LEAs	≥50 more LEAs	June 2017
	Provide structured and fair evaluation model for teachers and principals. (educators)	5 LEAs	≥50 more LEAs	≥50 more LEAs	June 2017
	Provide every educator with student dashboards that contain timely data about each student to more rapidly prepare at the start of the school year and to monitor progress during the school year. (parents, educators)	160	440		June 2016
	Access to opt-in teaching materials that enhance lesson plans and that address learning issues by class subject to boost student achievement. (parents, tax payers, educators)	14 LEAs	≥50 more LEAs	≥50 more LEAs	June 2017
Dashboards	Access to information on every Arizona district and charter school's historical performance on standardized tests, characteristics of the student body, numbers/percentages of teachers deemed highly effective, safety data, absenteeism rates, etc. to further enable effective student choice. (parents, policy makers, tax payers)	160	440		June 2016
Opt-In SIS	All schools could opt-in to save as much as \$155,000,000 in licensing costs and tens of millions of dollars in staff to run and maintain their own IT hardware and software systems. (tax payers)	6 LEAs	≥40 more LEAs	≥95 more LEAs	July 2018



# FY 2016 projected AELAS request

PROJECT NAME	FY16 ADE Tentative	Deliverables
Program Support Office (PSO)	\$ 1,000,000	<ul style="list-style-type: none"> <li>Personnel to manage risk to ensure projects on time and within budget , communication and outreach efforts to build support among users, Finance and Procurement for management of opt-in contracts/invoicing and vendor management</li> <li>\$175,000 third-party independent assessment</li> </ul>
Production Services	\$ 2,200,000	<ul style="list-style-type: none"> <li>Continuing support for investment in AELAS (FTEs)</li> <li>Replace aging infrastructure</li> </ul>
AELAS School Finance	\$ 2,200,000	<ul style="list-style-type: none"> <li>Complete automation of School Finance functions</li> <li>Begin parallel payment system July 1, 2015</li> </ul>
AELAS Ed-Fi (AzEDS)	\$ 2,300,000	<ul style="list-style-type: none"> <li>Complete replacement of Student databases in SAIS</li> <li>Turn off SAIS Online for student data uploads</li> </ul>
AELAS AZ Dash (SLDS)	\$ 2,500,000	<ul style="list-style-type: none"> <li>Refresh current dashboards and add features based on user demand</li> <li>Parent, policy maker dashboards and other public-facing uses</li> </ul>
AELAS Opt-in SIS/Teacher and Learning	\$ 1,300,000 (SIS) \$ TBD (T&L tools)	<ul style="list-style-type: none"> <li>Analysis currently underway on opt-in users and required funding</li> </ul>
	\$ 11,500,000 +	



### AELAS History

In 2010, the Legislature passed legislation creating a new statewide educational data system known as the Arizona Education and Learning Accountability System (AELAS). Pursuant to A.R.S. § 15-249, AELAS is required to maintain longitudinal student level data required to meet state and federal reporting requirements, incorporate the Student Accountability Information System (SAIS), and be easily accessible over the internet for data collection, compiling and reporting. Additionally in 2010, the Governor's Office commissioned a third party evaluation of ADE's current IT systems. The report indicated that many aspects were insufficient, including obsolete and unsupported hardware and software, overly complex customization and insufficient resources to provide ongoing support and development.

Since then, ADE has used state and federal monies to stabilize SAIS in order to reduce down time and enable faster processing and reconciliation of data with the existing system until it can be replaced. This has enabled the system to perform better in the short term, but ADE reports that the system "still has a high error rate, is costly to support and maintain, and catastrophic failure is likely without replacement."

In addition to replacing SAIS, AELAS would establish a new statewide Student Information System (SIS) for storing both student data related to funding (currently in SAIS) and student/teacher/course academic data (not currently in SAIS). ADE envisions that districts would opt into the statewide SIS by paying a reduced "group rate" charge for access to the system. ADE believes that the charge would be a savings relative to their current standalone systems, primarily due to economies of scale. AELAS is also intended to create standardized mechanisms for importing and exporting data to/from the SIS in order to reduce data reporting errors ("Education Data Fidelity") and establish a Statewide Longitudinal Data System (SLDS) to provide access to multi-year data for individual students/teachers/courses that is stored in the SIS via data "dashboards."

During the most recent legislative session, ADE requested \$16.5 million for information technology (IT) issues for FY 2015 including \$14.3 million for continued AELAS development and \$2.2 million for IT "production services" (*see Attachment F*). The development total included \$1.5 million for the Program Support Office, \$4.0 million for SAIS replacement, \$3.9 million for data "dashboards," \$3.4 million for new Student Information System (SIS), \$1.3 million for teacher and learning tools, and \$0.2 million for 3<sup>rd</sup> party independent assessment.

The FY 2015 budget provides ADE with \$12.0 million for continued AELAS development. This amount includes \$10.4 million from the state General Fund and \$1.6 million from continued university and community college AELAS fees. In addition, the General Appropriation Act appropriates for AELAS development in FY 2015 any university and community college AELAS fees from prior years that remain unspent as of June 30, 2014.

In FY 2014, the Legislature appropriated \$7.0 million to ADOA (rather than directly to ADE) for AELAS development. ADE is using those monies for the Program Support Office (\$1.0 million), SAIS replacement (\$2.4 million), data dashboards (\$2.7 million), data security (\$0.5 million) and SIS (\$0.5 million) (*see "FY 14 Allocation" column in Attachment A*).

Prior to FY 2014, ADE used its own funds (rather than funds appropriated to ADOA) to administer the project. This included a combination of state General Fund monies (\$5 million per year in FY 2012 and FY 2013), mandatory fees of \$6 per Full Time Student Equivalent (FTSE) from Arizona universities and community colleges (approximately \$1.5 million per year in FY 2012 and FY 2013), and federal monies (approximately \$10 million in FY 2012 and FY 2013 combined).

# FY 2015 education transformation funding requests

PROJECT NAME	Funding Request	Deliverables
Program Support Office (PSO)	\$ 1,500,000	<ul style="list-style-type: none"> <li>Continue to deliver projects on time and within budget</li> <li>Increased communication and outreach efforts to build support among users</li> <li>Quality control for AELAS projects and funding</li> </ul>
Arizona Education Learning and Accountability System (AELAS) - School Finance ( <b>SAIS Replacement</b> )	\$ 899,433	<ul style="list-style-type: none"> <li>Automating the APOR/CHAR processes will reduce processing time by 50% or better</li> <li>38 of 48 processes will be automated by end of FY2015</li> </ul>
Arizona Education Learning and Accountability System (AELAS) - Education Data Fidelity (Ed-Fi) ( <b>SAIS Replacement</b> )	\$ 3,052,554	<ul style="list-style-type: none"> <li>Integrate at least 50% of ADE's existing applications to new technology architecture</li> <li>Eliminate poorly designed, duplicative programs that bring unnecessary burden to LEAs</li> <li>Enhance data quality to allow more data to be displayed SLDS dashboards</li> </ul>
Student Longitudinal Data System (SLDS) - Arizona Education Data Driven Decision System (AzED3S) ( <b>Dashboards</b> )	\$ 3,870,555	<ul style="list-style-type: none"> <li>Deliver to teacher and administrator dashboards to 600 LEAs</li> <li>Displays only data that LEAs are required to submit</li> </ul>
Arizona Education Learning and Accountability System (AELAS) - Student Information System (SIS) ( <b>SAIS Replacement</b> )	\$ 3,432,554	<ul style="list-style-type: none"> <li>Redirect technology and indirect administrative costs back into classrooms</li> <li>State system is created <b>by</b> SIS users <b>for</b> SIS users</li> <li>Opportunity for LEAs to pilot new system and opt out of their inefficient contracts</li> </ul>
Arizona Education Learning and Accountability System (AELAS) - Opt-In Teacher and Learning Services ( <b>Teacher and Learning Tools</b> )	\$ 1,326,065	<ul style="list-style-type: none"> <li>Implement less expensive, integrated teacher and learning tools</li> <li>Extend five integrated systems to additional LEAs</li> <li>Extend Statewide SIS to additional LEAs</li> </ul>
Third Party Independent Assessment	\$ 175,000	<ul style="list-style-type: none"> <li>Ongoing oversight and consultation as data system implementation continues</li> </ul>
Production Services	\$ 2,200,000	<ul style="list-style-type: none"> <li>Protect Arizona's investment in the new data system by ensuring sufficient capacity</li> <li>Invest in hardware and infrastructure replacement</li> <li>Provide customer support for new services</li> </ul>
<b>Total ADE IT Request</b>	<b>\$ 16,456,161</b>	



STATE OF ARIZONA

## Joint Legislative Budget Committee

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DATE: June 12, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Eric Billings, Principal Fiscal Analyst *EB*

SUBJECT: Department of Public Safety - Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Fund Border Security and Law Enforcement Subaccount

### Request

Pursuant to Laws 2014, Chapter 12 (FY 2015 Criminal Justice Budget Reconciliation Bill) and A.R.S. § 41-1724G, the Department of Public Safety (DPS) is required to submit for review the entire FY 2015 expenditure plan for the GIITEM Fund Border Security and Law Enforcement Subaccount prior to expending any monies.

DPS has submitted for review its proposal to distribute the \$2,390,000 FY 2015 appropriation from the Subaccount amongst Border Security and Law Enforcement Grants, Pima County's Border Crimes Unit, Detention Liaison Officers, and Border County Officers. All 15 county sheriffs, 4 municipalities, and the Arizona Department of Corrections would receive some money under the proposed plan. DPS' expenditure plan is similar to the FY 2014 plan favorably reviewed by JLBC in October 2013.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review of the request.

### Analysis

Pursuant to A.R.S. § 12-116.04, the GIITEM Fund Border Security and Law Enforcement Subaccount receives revenues from a \$4 criminal fee assessed on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations. These monies are distributed by DPS to county sheriffs and other local law enforcement agencies to fund border security

(Continued)

programs, personnel, and safety equipment. The proposed DPS expenditure plan would allocate the entire FY 2015 GIITEM Border Security and Law Enforcement Subaccount appropriation to 4 programs which are as follows:

- Detention Liaison Officers Program - \$565,000 to hire detention and correctional officers that serve within jails and prisons to gather intelligence from inmates about illegal activities along the border. This is \$(54,600) below the Committee approved FY 2014 allocation and includes the Maricopa County Sheriff's Office as a new recipient.
- Border County Officers Program - \$425,000 to hire county sheriff deputies and municipal police officers that work as part of the GIITEM Task Force's Border District investigating border-related crimes such as drug trafficking and human smuggling. This is \$54,600 above the Committee approved FY 2014 allocation.
- Pima County Border Crimes Unit - \$350,000 to fund a portion of the costs of hiring 10 Pima County Sheriff's deputies that focus exclusively on border related crimes. This allocation is the same as the Committee approved FY 2014 amount.
- Border Security and Law Enforcement Grants - \$1,050,000 that DPS will distribute to all 15 county sheriffs' offices for border security. This allocation is the same as the Committee approved FY 2014 amount.

After combining the distribution from the 4 separate programs, *Table 1* displays the grant recipients in FY 2013, FY 2014, and FY 2015.

<b><u>Proposed Recipient</u></b>	<b><u>FY 2013 Allocation</u></b>	<b><u>FY 2014 Approved Allocation</u></b>	<b><u>FY 2015 Proposed Allocation</u></b> <sup>1/</sup>
<b>Police Departments/Marshall's Offices</b>			
Benson Police Department	\$ 63,000	\$ 63,035	\$ 9,000
Coolidge Police Department	62,900	62,820	56,000
Douglas Police Department	124,800	124,765	120,000
Oro Valley Police Department	54,800	54,787	48,000
<b>Subtotal</b>	<b>\$ 305,500</b>	<b>\$ 305,407</b>	<b>\$ 283,000</b>
<b>County Sheriffs</b>			
Apache County Sheriff's Office	\$ 0	\$ 11,600	\$ 11,500
Cochise County Sheriff's Office	39,800	60,550	61,500
Coconino County Sheriff's Office	0	21,500	21,600
Gila County Sheriff's Office	0	8,400	8,600
Graham County Sheriff's Office	31,200	36,514	43,300
Greenlee County Sheriff's Office	0	1,400	1,700
La Paz County Sheriff's Office	0	3,200	3,300
Maricopa County Sheriff's Office	0	622,100	670,700
Mohave County Sheriff's Office	0	32,100	32,500
Navajo County Sheriff's Office	0	16,900	17,300
Pima County Sheriff's Department	544,500	551,055	602,900
Pinal County Sheriff's Office	104,400	164,568	173,100
Santa Cruz County Sheriff's Office	0	47,500	37,900
Yavapai County Sheriff's Office	0	33,600	34,000
Yuma County Sheriff's Office	42,400	89,701	138,700
<b>Subtotal</b>	<b>\$ 762,300</b>	<b>\$1,700,688</b>	<b>\$1,858,600</b>
<b>Arizona Department of Corrections</b>	<b>\$ 180,400</b>	<b>\$ 366,958</b>	<b>\$ 228,300</b>
<b>Unallocated</b>	<b>\$1,141,800</b>	<b>\$16,947</b>	<b>\$ 20,100</b>
<b>Total</b>	<b>\$2,390,000</b>	<b>\$2,390,000</b>	<b>\$2,390,000</b>

<sup>1/</sup> Represents new proposed allocation from the subaccount.

(Continued)

In determining allocations, DPS gave preference to 4 pre-existing programs (Detention Liaison Officers, Border County Officers, the Pima County Border Crimes Unit, and Border Security and Law Enforcement Grants) that received a favorable review from the JLBC at the October 2013 meeting. The Detention Liaison Officers, Border County Officers, and Pima County Border Crimes Unit were first funded from General Fund monies allocated to the GIITEM SLI after receiving a favorable review from the JLBC in August 2007. The Border Security and Law Enforcement Grants program was first funded in FY 2014 from the GIITEM Subaccount SLI after receiving JLBC review in October 2013.

The proposed allocations for the Detention Liaison Officers, Border County Officers, and Pima County Border Crimes Unit are predicated on the ability and willingness of local jurisdictions to participate in the programs or to assist the GIITEM Task Force with border related issues. The Border Security and Law Enforcement Grants program allocation will provide funding to county sheriffs based on the following assumptions: 1) all Arizona communities are impacted by border crime; 2) Subaccount funding is not sufficient to provide meaningful assistance to all law enforcement agencies in the state; 3) smuggling corridors lead into the state's interior and are significant contributors to crime; 4) sheriffs' offices are typically more heavily involved in interdicting smugglers than municipal police departments; 5) crime statistics are not detailed enough to distinguish between border related crime and crime unrelated to the border; and 6) a per capita distribution method is the fairest distribution system. The size of the allocation is determined by the relative size of each county's population and whether or not the recipient is a sheriff's office. As required by law, all recipients of GIITEM Fund Border Security and Law Enforcement Subaccount monies except Maricopa and Pinal Counties are required to provide at least 25% of the personnel costs of any agreement or contract with DPS as a match. DPS may opt to fund all associated capital costs.

DPS has access to additional immigration enforcement and border security resources beyond the GIITEM Border Security and Law Enforcement Subaccount. DPS' GIITEM Fund is appropriated \$2.6 million in General Fund monies annually for local immigration enforcement grants. Additionally, A.R.S. § 41-1724C requires DPS to allocate \$1,600,000 to the Maricopa County Sheriff's Office and \$500,000 to the Pinal County Sheriff's Office leaving \$503,400 in GIITEM Fund monies at DPS' discretion.

In addition to the DPS immigration enforcement and border security resources, the Arizona Department of Administration receives \$1.2 million in General Fund monies annually for grants to county attorneys and sheriff's offices to enforce employer sanctions statutes.

RS/EB:kp



## ARIZONA DEPARTMENT OF PUBLIC SAFETY

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*"Courteous Vigilance"*

JANICE K. BREWER ROBERT C. HALLIDAY  
Governor Director

May 29, 2014

The Honorable Don Shooter, Chairman  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, AZ 85007



Dear Chairman Shooter:

Pursuant to Laws 2014, Chapter 12, Section 8, the Department of Public Safety is submitting its entire FY 2015 expenditure plan for the Border Security and Law Enforcement Subaccount ("Subaccount") to the Joint Legislative Budget Committee for review.

The FY 2015 General Appropriations Act appropriates \$2,390,000 from the Subaccount to DPS. Pursuant to A.R.S. § 41-1724, "...monies in the subaccount shall be used for law enforcement purposes related to border security, including border personnel". The monies may also be used for "...safety equipment that is worn or used by a peace officer who is employed by a county sheriff."

DPS intends to continue funding the four existing programs that have previously been given a favorable review by the JLBC. The overall expenditure plan is as follows:

Detention Liaison Officer Program	\$565,000
Border County Officers	425,000
Border Crimes Unit	350,000
Border Security and Law Enforcement Grants	1,050,000
<b>TOTAL</b>	<b>\$2,390,000</b>

### Detention Liaison Officer Program

The Detention Liaison Officer (DLO) Program provides funding for detention and correctional officers in southern Arizona jails and prisons. The concept of the program is to utilize these specially trained officers to glean as much intelligence as possible from detainees and inmates about activities related to border crimes. Information gathered by these officers is fed into DPS-managed databases (e.g., GangNet) and shared among law enforcement agencies throughout the State.

The program currently funds one detention officer in each of Cochise, Graham, Pima, Pinal, Santa Cruz and Yuma Counties, and three correctional officers and two data entry positions in southern Arizona prisons operated by the Department of Corrections. At any given time, the agencies participating in the program may shift based on jurisdictions' ability and willingness to participate and on program budget constraints. DPS has allocated \$565,000 for the program in FY 2015. Local agencies pay 25% of the payroll costs of their positions. The DLO Program was first reviewed by JLBC in August 2007.

### **Border County Officers**

The Border County Officers Program provides funding for county sheriff deputies and municipal police officers who work as part of the GITEM Task Force's Border District. The district investigates border crimes and disrupts criminal organizations involved in drug trafficking, human smuggling, and other border-related crimes.

The program currently funds officers and deputies with the Benson, Coolidge, Douglas (2), and Oro Valley Police Departments, and with the Pinal County and Yuma County Sheriffs' Offices. At any given time, the agencies participating in the program may shift based on jurisdictions' ability and willingness to participate and on program budget constraints. DPS has allocated \$425,000 for the program in FY 2015. Local agencies pay 25% of the payroll costs of their positions. The Border County Officers Program was first reviewed by JLBC in August 2007.

### **Border Crimes Unit**

Subaccount monies fund a portion of the costs of 10 deputies from the Pima County Sheriff's Department who operate as part of the Border Crimes Unit. The BCU works in close cooperation with GITEM and conducts interdiction efforts in remote areas of Pima County. Over the first three quarters of FY 2014, BCU has made 381 arrests, seized over 5,600 pounds of illegal drugs, and apprehended or released to the Border Patrol 161 undocumented persons.

DPS has allocated \$350,000 for the project in FY 2015. Pima County pays for all costs above the \$350,000 level. The BCU was first reviewed by JLBC in August 2007.

### **Border Security and Law Enforcement Grants**

DPS intends to distribute the remaining \$1,050,000 to the 15 county sheriffs' offices, based on county population. In arriving at this distribution plan, DPS followed a number of assumptions, including:

- All Arizona communities are impacted by border crime
- Subaccount funding is not sufficient to provide meaningful assistance to all law enforcement agencies in the State
- Smuggling corridors lead into the State's interior and are significant contributors to crime
- Sheriffs' offices are typically more heavily involved in interdicting smugglers than municipal police departments
- Crime statistics are not detailed enough to distinguish between border related crime and crime unrelated to the border
- A per capita distribution method is the fairest distribution system

Senator Shooter  
May 29, 2014

Based on the above criteria, the Border Security and Law Enforcement Grant distribution plan is as follows:

Agency	County Population	Grant Amount	% of Total
Apache County Sheriff's Office	72,180	11,500	1.1%
Cochise County Sheriff's Office	130,906	20,900	2.0%
Coconino Sheriff's Office	135,695	21,600	2.1%
Gila County Sheriff's Office	53,670	8,600	0.8%
Graham County Sheriff's Office	37,872	6,000	0.6%
Greenlee County Sheriff's Office	10,913	1,700	0.2%
La Paz County Sheriff's Office	20,979	3,300	0.3%
Maricopa County Sheriff's Office	3,944,859	629,400	59.9%
Mohave County Sheriff's Office	203,592	32,500	3.1%
Navajo County Sheriff's Office	108,694	17,300	1.7%
Pima County Sheriff's Department	996,046	158,900	15.1%
Pinal County Sheriff's Office	393,813	62,800	6.0%
Santa Cruz County Sheriff's Office	49,218	7,900	0.7%
Yavapai County Sheriff's Office	213,294	34,000	3.2%
Yuma County Sheriff's Office	209,323	33,400	3.2%
<b>TOTAL</b>	<b>6,581,054</b>	<b>\$1,050,000</b>	<b>100.0%</b>

**Note:** Population figures from July 1, 2013 population estimates of the Office of Employment & Population Statistics, Arizona Department of Administration

DPS believes this grant distribution plan provides a fair and meaningful approach to allocating scarce resources. Recipient agencies may use the funding for any purpose consistent with statute. As required by statute, in order to receive the funding, recipient agencies must certify each fiscal year to the DPS Director that the agency is complying with A.R.S. §11-1051 to the fullest extent of the law. If one or more sheriffs' offices do not accept the funding, DPS intends to prorate unobligated amounts over those agencies that do accept the grants.

If you have any questions, please contact Phil Case, DPS Budget Director, at 602-223-2463 or [pcase@azdps.gov](mailto:pcase@azdps.gov).

Sincerely,



Robert C. Halliday, Colonel  
Director





STATE OF ARIZONA

## Joint Legislative Budget Committee

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CHAIRMAN 2014  
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ADAM KWASMAN  
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STEFANIE MACH  
JUSTIN OLSON  
MICHELLE UGENTI

DATE: June 16, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Micaela Larkin, Fiscal Analyst *ML*

SUBJECT: Arizona Department of Administration/Department of Environmental Quality - Review  
of Department of Environmental Quality Phase 2 Web Portal Expenditure Plan  
(Automation Projects Fund)

### Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Committee review \$6.8 million in proposed FY 2015 expenditures from the Automation Projects Fund for Phase 2 of the development of a web portal for the Department of Environmental Quality (DEQ). ADOA submitted the request on June 13, 2014.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review.

Under either option, the JLBC Staff recommends the following provisions. The Information Technology Authorization Committee (ITAC) approved the DEQ project on May 27, 2014 with provisions A and B. Provision C has been added by JLBC Staff.

- A. As a result of the final procurement, development, implementation or integration efforts, should there be significant differences in the scope of work, costs, implementation schedule or proposed technology, DEQ must amend the Project Investment Justification to reflect the changes and submit it to ADOA-Arizona Strategic Enterprise Technology (ASET), and to Information Technology Authorization Committee (ITAC) if necessary, for review and approval prior to further expenditures of funds.

(Continued)

- B. Prior to starting any work on myDEQ Phase 2 ADEQ will provide ADOA-ASET with the following:
  - a. A review of myDEQ Phase 1 development results.
  - b. An architectural review describing how myDEQ Phase 2 will integrate or take advantage of the Arizona Enterprise Services Platform features/functionality.
- C. The results of the quarterly third party reviews are to be provided to the JLBC Staff.

## **Analysis**

### Background

DEQ processes 28,000 transactions annually. They use paper to process permits, reports, and receive fees from 16,000 facilities. The e-licensing portal will allow customers to conduct permitting, billing, payment, and review data submissions online for permitting and compliances processes.

At its October 2013 meeting, the Committee favorably reviewed the initial \$5.0 million FY 2014 expenditure plan, with provisions that FY 2015 funding was contingent upon contracting with an independent third party to provide oversight of the project. ADOA/DEQ submitted an independent third-party review report in March 2014. In the initial report, the vendor concurred with DEQ's approach and "can certainly see a credible path to success." The vendor provided recommendations for process improvements and suggestions for increasing user engagement with the new software. The vendor has been retained for continued oversight.

At the same time as the third-party review, DEQ adjusted the scope of the project to address external feedback for more functionality. The functionality shifted from a fillable forms model to providing a guided web experience similar to using "TurboTax." For myDEQ Phase 1, DEQ originally proposed adding 27 business processes with \$5.0 million from the Automation Projects Fund in FY 2014. This appropriation built upon an earlier expenditure of \$654,800 from the State Assurance Fund in August 2013 to implement the project infrastructure and to start work on the first business process action.

By pursuing deeper functionality for fewer business processes, DEQ has moved from automating the 27 proposed business processes to completing the 13 amended business processes outlined in *Table 1* by June 30, 2014. The shift from online forms to a guided tour web portal with error mitigation increases the complexity of automating a single original business process. For Phase 1, DEQ also devoted resources to building the infrastructure for the portal. As of May 2014, DEQ had expended \$3.5 million.

### Current Request

ADOA is requesting favorable review of \$6.8 million in expenditures from the Automation Project Fund for the implementation of the 22 business processes for myDEQ Phase2 listed in *Table 2*. As discussed in the background information, DEQ adjusted the scope of their project to pursue depth and functionality rather than their original plan of developing fillable forms for 80 business processes in myDEQ Phase2 which would have automated 95% of the agency's business processes.

By automating business transactions from paper to the guided web experience, DEQ will reduce the staff hours needed to process the permits and reduce the processing time for customers. *Attachment B* describes the benefits of some of the business processes automated by myDEQ Phase 2. The Payments-View and Pay Bills and View invoice transaction history will allow entities billed by ADEQ to conduct the transaction online. This is not limited to the business processes automated in Phase 1 and Phase 2, and DEQ projects that in a year 4,000 transactions will be conducted and this will allow DEQ to redeploy 5.7 FTE for other work. For example, the elapsed time for annual compliance certification for the "Crushing and Screening" Permit holder (a dust control permit primarily held by gravel operators) will be reduced from 34 days to 2 days, and will reduce DEQ staff time per transaction from 2.5 hours to 0.1 hours for over 251 to 500 transactions a year.

(Continued)

### Project Financing

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) transferred a total of \$6.8 million from the Vehicle Emissions Inspection Fund into the Automation Projects Fund to finance this project.

A total of \$7.3 million will be expended for myDEQ Phase 2. *Attachment C* includes a breakdown of the scope of work and a breakdown of expenditures for myDEQ Phase 2. The total expenditures are based upon the hardware, software, and staffing costs. The cost per hour estimates for the staffing are based on standard state contracted rates for the work. DEQ determined the hours of work needed by estimating the average cost per business process by evaluating each transaction's difficulty relative to Self-Monitoring Reporting Form and the average unit cost per user story based on Phase 1 expenditures.

This amount consists of:

Automated Projects Fund	\$6,800,000
Regulated Substance Fund	480,596

DEQ will use \$480,600 from the Regulated Substance Fund across FY 2015 to FY 2019 to primarily fund hardware, licensing & maintenance fees, and operational costs.

The \$7.3 million in expenditures will be used for the following items:

Professional and Outside Services	\$6,789,750
Hardware	138,296
Development-Licensing & Maintenance Fees	200,000
Operational Costs	152,550

### FY 2016 & Beyond

DEQ plans to continue to prioritize automating permitting functions. They are currently discussing and preparing plans for myDEQ Phase 3. The scope and costs are not yet determined.

**Table 1**

**Amended myDEQ Phase 1 Transactions  
(Completed by June 30, 2014)**

1. Payments - QuickPay
2. Customer - Create Accounts Express
3. Customer - Create Account Standard
4. Customer - Validate Account
5. Customer - Receive CROMERR Certification
6. Customer - Create Roles
7. Customer - Manage Mailing Preferences
8. Customer - Login/Logout
9. Customer - Change/Reset Password
10. Landing Page - Site Navigation
11. Landing Page - View My Stuff
12. SMRF - Upload SMRF
13. SMRF - Receive Validation Reports

(Continued)

**Table 2**

**myDEQ Phase 2 Transactions  
(Completed by June 30, 2015)**

1. Customer - Manage Account
2. Landing Page - View Self-Monitoring Report Form Alerts
3. View Bills
4. Pay Bills
5. View Invoice Transactions History
6. Crushing and Screening - Get Authorization to Operate and Field Operator's Guide
7. Crushing and Screening - Terminate Authorization to Operate
8. Crushing and Screening - Submit Compliance Certification
9. Crushing and Screening - Automate Emissions Calculations
10. Resource Conservation and Recovery Act - Get New EPA ID
11. Resource Conservation and Recovery Act - Edit EPA ID Registration Information
12. Resource Conservation and Recovery Act - De-Activate EPA ID
13. Resource and Conservation and Recovery Act - View Detail EPA ID
14. Landing Page - View My Notices
15. Hot Mix Asphalt - Get Authorization to Operate and Field Operator's Guide
16. Hot Mix Asphalt - Terminate Authorization to Operate
17. Hot Mix Asphalt - Submit Compliance Certification
18. Hot Mix Asphalt - Automate Emissions Calculations
19. Concrete Batch Plant - Get Authorization to Operate and Field Operator's Guide
20. Concrete Batch Plant - Terminate Authorization to Operate
21. Concrete Batch Plant - Submit Compliance Certification
22. Concrete Batch Plant - Automate Emissions Calculations

RS/ML:kp

Janice K. Brewer  
Governor



Brian C. McNeil  
Director

**ARIZONA DEPARTMENT OF ADMINISTRATION**

**OFFICE OF THE DIRECTOR**

100 NORTH FIFTEENTH AVENUE • SUITE 401  
PHOENIX, ARIZONA 85007  
(602) 542-1500

June 13, 2014

The Honorable Don Shooter, Chairman  
Joint Legislative Budget Committee  
Arizona State Senate  
1700 West Washington Street  
Phoenix, Arizona 85007



The Honorable John Kavanagh, Vice Chair  
Joint Legislation Budget Committee  
Arizona House of Representatives  
1700 West Washington Street  
Phoenix, Arizona 85007

Dear Senator Shooter and Representative Kavanagh:

Pursuant to § ARS 41-714, the Arizona Department of Administration requests Committee review of its expenditure plan for the Arizona Education Learning and Accountability Systems (AELAS) for the Department of Education and for the myDEQ Phase 2 project for the Department of Environmental Quality.

The general appropriation act (Laws 2014, Ch. 18) appropriates \$70,033,000 to the Department of Administration from the Automation Projects Fund in fiscal year 2014-2015 for automation and information technology projects. As outlined in the above-referenced statute, prior to the expenditure of any monies from the fund, the Committee must review the expenditure plan. Of the appropriated amount, the Department of Administration requests review of \$18,800,000 for two Agency projects: \$12,000,000 for the Department of Education AELAS project and \$6,800,000 for the Department of Economic Security myDEQ Phase 2 project. The attached document provides more detail about the projects.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian C. McNeil".

Brian C. McNeil  
Director

cc: Richard Stavneak, Director, Joint Legislative Budget Committee✓  
John Arnold, Director, Governor's Office of Strategic Planning and Budgeting

Attachment

# Phase 2 Benefits



Business Processes	Est. Annual Count	Elapsed Time (Days)		Touch Time (Hours)		Savings* (FTE)
		Current	Future	Current	Future	
Payments – View & Pay Bills, View Invoice Transaction History	4,000	84	35	2	0.1	5.7
Crushing and Screening (C&S) – Get ATO & FOG, Terminate ATO, Automate Emissions Calculations	26 to 50	89	1	7	0.1	0.2
Crushing and Screening (C&S) – Submit Compliance Certification	251 to 500	34	2	2.5	0.1	0.7
RCRA – New EPA ID, Edit EPA ID, Deactivate EPA ID, View Detail EPA ID	100 to 250	82	1	5	0.25	0.6
Self-Monitoring Report Form (SMRF) – Upload SMRF, Search and View Data, Receive Validation Report	2,400 reports with a total of 1,000,000 Data Points	67	14	2	0.25	3.1
Hot Mix Asphalt – Get ATO & FOG, Terminate ATO, Automate Emissions Calculations	26 to 50	89	1	7	0.1	0.2
Hot Mix Asphalt, Submit Compliance Certification	251 to 500	34	2	2.5	0.1	0.7
<b>TOTAL</b>						<b>11.20</b>

\* This column shows that the increased efficiency will result in fewer FTE used for the same output. In just these business processes, ADEQ will free up more than 11 FTEs to perform other value-added work. Calculation assumes 1,344 hours (~75% burden) equals one FTE.

B

Janice K. Brewer  
Governor



Brian C. McNeil  
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401  
PHOENIX, ARIZONA 85007

(602) 542-1500

May 27, 2013

Mr. Henry R. Darwin, Director  
Arizona Department of Environmental Quality  
1110 West Washington Street  
Phoenix, AZ 85007

Dear Henry:

The Information Technology Authorization Committee (ITAC) met this date to consider the "myDEQ Phase 2" project.

The ITAC voted in the affirmative for **Approval with Conditions** for this technology project as follows:

1. As a result of the final procurement, development, implementation or integration efforts, should there be significant differences in the scope of work, costs, implementation schedule or proposed technology, ADEQ must amend the PIJ to reflect the changes and submit it to ADOA-ASET, and to the Information Technology Authorization Committee (ITAC) if necessary, for review and approval prior to further expenditure of funds.
2. Given the required independent third-party reviews of project progress, ADEQ will make the results of the planned quarterly reviews available to ITAC, if requested.
3. Prior to starting any work on myDEQ Phase 2, ADEQ will provide ADOA-ASET with the following:
  - A review of myDEQ Phase 1 development results.
  - An architectural review describing how myDEQ Phase 2 will integrate or take advantage of the Arizona Enterprise Services Platform features/functionality.

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

Best Wishes,

A handwritten signature in blue ink, appearing to read "AS", written over a faint, larger signature.

Aaron V. Sandeen  
State CIO and Deputy Director  
Arizona Strategic Enterprise Technology (ASET) Office

cl

cc: Misael Cabrera, ADEQ  
Gary Heller, ADEQ  
Khursheed Mallick, ADEQ  
Ben Henderson, JLBC  
John Arnold, OSPB  
Barbara Corella, ADOA-SPO  
Phil Manfredi, ADOA-ASET  
Susan Quinn, ADOA-ASET  
Robert Phelps, ADOA-ASET  
Clark Lathrum, ADOA-ASET

ASET# EV14004





# **ADOA - ASET**

**Arizona Strategic Enterprise Technology**

## **Project Investment Justification**

**Version 01.01**

**A Statewide Standard Document for Information Technology Projects**

**Project Title: myDEQ Phase 2**

<b>Agency Name:</b>	<b>Arizona Department of Environmental Quality</b>
<b>Date:</b>	<b>May 16. 2014</b>
<b>Agency Contact Name:</b>	<b>Khursheed Mallick</b>
<b>Agency Contact Phone:</b>	<b>602-771-4377</b>
<b>Agency Contact Email:</b>	<b>Mallick.khursheed@azdeq.gov</b>

**[Hover for Instructions](#)**

## V. Project Approach

In order to estimate the number of business processes that could be completed in FY15 (deliverables of this PIJ), ADEQ used the following method:

- Developed an average unit cost per user story based on Phase 1 expenditures,
- Estimated the average cost per business process by evaluating each transaction's difficulty relative to SMRF,
- Estimated the number of business processes that could be completed based on the available funding for FY 15 and the average cost per transaction

The schedule was similarly estimated by assuming that the project team could deliver an average of 20 user stories per 2-week sprint.

### A. Project Schedule\*

Project Start Date: 7/1/2014      Project End Date: 6/30/2015

### B. Project Milestones

There will be two Production Releases by the time we finish myDEQ Phase 1 Project on June 30, 2014. During myDEQ Phase 2 project we are planning to have between four and six production releases. While exact dates and content of these releases may vary, the table below shows our current projections of the milestones.

Major Milestones	Business Processes	Start Date	Finish Date
myDEQ Release 3	Customer – Manage Account; View Bills, Pay Bills, View Transaction History	7/1/2014	9/19/14
myDEQ Release 4	RCRA – Get New EPA ID Edit EPA ID, De-activate EPA ID, View Detail EPA ID, Landing page – View SMRF Alerts	9/20/2014	11/28/2014
myDEQ Release 5	Crushing and Screening (C&S) – Get ATO & FOG, Terminate ATO, Submit Compliance Certifications, Automate Emissions Calculations	11/29/2014	2/13/2015
myDEQ Release 6	Hot Mix Asphalt – Get ATO & FOG, Terminate ATO, Submit Compliance Certifications, Automate Emissions Calculations	2/14/2015	5/1/2015
myDEQ Release 7	Concrete Batch Plant – Get ATO & FOG, Terminate ATO, Submit Compliance Certifications, Automate Emissions Calculations; Landing Page – View My Notices	5/2/2015	6/30/2015

## ADOA-ASET - Arizona Strategic Enterprise Technology

### Project Investment Justification - Financials

**Project ID:**

To Be Provided by ADOA-ASET

**Date Accepted:**

To be Provided by ADOA-ASET

#### Project Information

Agency Name	Project Name	Date Submitted
Arizona Department of Environmental Quality	myDEQ Phase 2	05/02/15

#### PIJ Development & Operational Cost Summary

Description	Type	FY15	Year 2	Year 3	Year 4	Year 5	Extended Cost
Professional & Outside Services	Development	\$6,789,750.00					\$6,789,750.00
	Operational						\$0.00
Hardware	Development	\$138,295.58					\$138,295.58
	Operational						\$0.00
Software	Development						\$0.00
	Operational						\$0.00
Communications	Development						\$0.00
	Operational						\$0.00
Facilities	Development						\$0.00
	Operational						\$0.00
Licensing & Maintenance Fees	Development	\$200,000.00					\$200,000.00
	Operational	\$22,455.00	\$32,523.85	\$32,523.85	\$32,523.85	\$32,523.85	\$152,550.40
Other	Development						\$0.00
	Operational						\$0.00

**Development Cost:** \$7,128,045.58

**Operational Cost:** \$152,550.40

**Total Cost:** \$7,280,595.98

#### Project Funding (add sources as appropriate)

Funding Source Category	Fund Name	Development Budget (\$)		Operational Budget (\$)		Total (\$)
		Currently Available	New Request	Currently Available	New Request	
General Funds	Regulated Substance Fund	\$328,045.58		\$152,550.40		\$480,595.98
Federal Funds						\$0.00
Other Appropriated Funds	Automation Projects Fund		\$6,800,000.00			\$6,800,000.00
Other Non-Appropriated Funds						\$0.00
<b>Total Funding</b>		\$328,045.58	\$6,800,000.00	\$152,550.40	\$0.00	\$7,280,595.98



STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

DON SHOOTER  
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STEFANIE MACH  
JUSTIN OLSON  
MICHELLE UGENTI

DATE: June 17, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director *RS*

SUBJECT: Department of Child Safety - Review of Transition Funding Expenditure Plan

### Request

Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2 requires Committee review prior to any monies being expended from the Arizona Department of Administration's (ADOA) \$25.0 million appropriation for Department of Child Safety (DCS) transition expenses. DCS is requesting Committee review of \$3.6 million in proposed first quarter administrative expenses. DCS submitted the request on June 16.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the expenditure plan.
2. An unfavorable review of the expenditure plan.

Under either option, the JLBC Staff recommends the following provisions:

- A. DCS is to receive Information Technology Authorization Committee (ITAC) and Arizona Strategic Enterprise Technology (ASET) approvals required by law before spending any transition monies on information technology expenses requiring such approval. The ADOA/DCS submission includes \$2.9 million in information technology expenditures that may require these approvals.
- B. As part of the next review request, DCS is to submit a listing of both the 99 central overhead FTE Positions transferred from Department of Economic Security (DES) and the 40 new FTE Positions from the transition funding. To present a complete picture of the DCS administrative structure, the listing would also include any non-program positions transferred from the Division of Child Safety and Family Services. The request is to include the justification for the proposed level of staffing.

(Continued)

- C. As part of the next review request, DCS is to submit information regarding whether a third party review of its administrative staffing has occurred, and if so, the results of that review. The request should also address whether a third party has reviewed whether the 99 transferred positions reflect an appropriate division of resources between DCS and DES.
- D. Pending future submission of justification of administrative staffing levels, any action on this request does not reflect Committee endorsement of a particular staffing level.
- E. Future review requests are to comply with the deadlines in the Committee rules for submissions, which are to occur 3 weeks in advance of the Committee meeting.

## **Analysis**

### Background

The FY 2015 Executive January budget proposed appropriating \$25.0 million to ADOA for one-time transition expenses associated with creating DCS. The enacted April budget included \$20.0 million for this purpose and specified that the appropriation also fund the costs associated with DES Data Center improvements. The General Appropriation Act also required Committee approval of all transition expenditures.

In the 2<sup>nd</sup> Special Session, the Executive proposed that 1) the funding level be increased to its originally recommended level of \$25.0 million and 2) the Committee only review, and not approve, the expenditure plan. The Legislature concurred with these requests in Chapter 2.

The \$25.0 million appropriation does not have any specific dollar earmarks. In preparation for the 2<sup>nd</sup> Special Session, the Executive provided background materials suggesting that the anticipated General Fund cost of the Data Center was \$7.0 million. In addition, the Executive estimated the potential cost of building renovations at \$6.7 million. While the Executive's written background materials for the Special Session do not address using the one-time transition funding for ongoing administrative expenses, they verbally stated that such costs could run between \$5 million and \$10 million.

### June Executive Proposal

At this time, the Executive is only seeking Committee review of the transition funding for DCS administrative expenses. As outlined in *Table 1*, DCS is requesting review of \$3.6 million for administrative costs in the first quarter.

This amount would supplement the administrative funding already transferred from DES to DCS as part of Chapter 2. As part of the Special Session, DES agreed to shift \$12 million of their central overhead expenses to the new agency. Of that amount, \$7.9 million would fund 99 FTE Positions and \$2.3 million would be DCS's share of risk management expenses. We have requested a listing of these positions by classification.

Chapter 2 also transferred the entire existing Division of Child Safety and Family Services (DCSFS) budget to DCS. While this transfer includes child safety caseworkers, their supervisors and their direct secretarial support, it also shifted non-programmatic division administrative positions to the new agency. We have also requested a listing of these positions by classification.

*40 FTE Positions* - The first component of the \$3.6 million proposal is to provide DCS with \$714,000 for the first quarter salary expenses of 40 new administrative and technology positions. The request does not include a list of the individual positions. We have been verbally told that this request may cover new DCS central management, information technology and procurement staff.

To evaluate funding beyond the first quarter, the JLBC Staff recommends that ADOA and DCS provide additional information in future review requests. First, the Executive would provide a complete listing of positions by classification and function for each of 3 separate funding sources: the transferred 99 DES central overhead staff, the 40 new staff funded from the transition fund, and the transferred DCSFS administrative positions.

Second, the Staff has recommended that the Executive provide information on whether there has been a third party assessment of the appropriate staffing level of the new agency. In this context, a third party review could include any work done by the Government Transformation Office in ADOA or the Governor's Office of Strategic Planning & Budgeting.

If funded for the full year, the 40 FTE Positions would have an ongoing cost of \$2.9 million. Based on the Executive's original proposal, however, the transition funding was scored as one-time in the budget. Therefore, the FY 2016 and FY 2017 long term estimates do not include funding for this purpose.

*Technology Services* - The second component of the \$3.6 million proposal is to provide DCS with \$1.9 million for technology services licensing and \$563,000 for related consulting services. The request does not include details, but it is anticipated that these funds will help establish DCS email system and other software requirements. At least some portion of these licensing expenses are expected to be ongoing.

We are currently in discussions with the Executive as to whether this technology spending would require ITAC and/or ASET approval. If such approvals are required, the JLBC Staff recommends that this funding be made contingent upon any applicable ITAC and ASET approvals.

*Field Equipment* - The third component of the \$3.6 million proposal is \$402,500 to purchase mobile technology for existing field personnel. The details of this purchase were not included in the request.

<b>Table 1</b>	
<b>1<sup>st</sup> Quarter Transition Fund Request</b>	
	<b><u>Funding Request</u></b>
Administration and Technology FTE	\$ 714,000
Technology Services Licensing	1,927,800
Technology Services P&O	563,000
Field Equipment (One-Time Mobile Technology)	<u>402,500</u>
<b>Total</b>	<b>\$ 3,607,400</b>

RS:kp



## Arizona Department of Child Safety

Janice K. Brewer  
Governor

Charles Flanagan  
Director

June 16, 2014

The Honorable Don Shooter  
Chairman, Arizona Senate Appropriations Committee  
1700 West Washington  
Phoenix, Arizona 85007



Re: Department of Child Safety Expenditures

Dear Senator Shooter:

The Department of Child Safety (DCS) requests to be placed on the Joint Legislative Budget Committee agenda for the three items below.

*Proposed quarterly benchmarks and expenditure plan*

Pursuant to Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 6, the Department submits its report including proposed quarterly benchmarks in FY 2015 for assessing progress in increasing the Department's number of filled FTE positions and in reducing the number of backlog cases, as well as quarterly expenditure plans for any FY 2015 monies appropriated for personal services and for reducing the backlog.

*Expenditure plan for monies appropriated for costs associated with the establishment of DCS*

Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 3 appropriated \$25 million to the Department of Administration for costs associated with the establishment of the Department of Child Safety. The Department submits an expenditure plan for monies to be expended from this \$25 million during the first quarter of fiscal year 2015 totaling \$3.6 million.

*Expenditure plan for Intensive Family Services monies*

At its April 10, 2014 meeting, JLBC reviewed the Department's expenditure plan for the FY 2014 appropriation for the Intensive Family Services Special Line Item with the provision that the Department report by June 1, 2014 on how it plans to expend the funds in FY 2015. Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 6 also requires that the Department submit an expenditure plan for review prior to the expenditure of the funds in FY 2015. The Department requests that the committee review the expenditure plan as contained in the letter dated May 30, 2014.

If you have any questions, please contact our office at (602) 542-5844.

Sincerely,

Charles Flanagan  
Director

**Department of Child Safety**  
**Proposed Quarterly Benchmarks for Filled FTE Positions and Reducing the Backlog and**  
**Expenditure Plans for Fiscal Year 2015 Personal Services and Backlog Funding**

The Department will begin addressing the backlog as soon as possible and intends to have determined the action to be taken for each of the 13,024 cases by the end of calendar year 2014. Assuming action determination begins in August, investigations will begin by September, with support services and placement costs following in October. Given the volume of the non-active cases, the Department expects that the investigative work will continue through the end of the fiscal year.

As required by a footnote in Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, DCS is currently preparing a request for information to assess the viability of contracting with a private vendor to address the non-active cases. This expenditure plan is subject to change pending the response to the request for information. The results of the request for information will be reported to the committee in the September 30, 2014 quarterly report. The table below outlines anticipated expenditures by quarter associated with addressing the backlog.

<b>Table 4. Expenditure Plan for Monies Appropriated to Reduce the Backlog in Fiscal Year 2015</b>					
	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>	<b>Total</b>
Action Determination	98,600	147,900	-	-	246,500
Investigations	468,722	1,406,167	1,406,167	937,444	4,218,500
In-Home Support Services	-	857,486	1,314,812	2,000,801	4,173,100
Out-of-Home Support Services	-	2,222,931	3,385,247	5,128,722	10,736,900
Out-of-Home Placements	-	1,988,296	3,027,928	4,587,376	9,603,600
<b>Total</b>	<b>567,322</b>	<b>6,622,780</b>	<b>9,134,154</b>	<b>12,654,344</b>	<b>28,978,600</b>

*Request to Spend from the Transition Fund*

Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2 appropriates \$25 million to the Arizona Department of Administration for costs associated with the establishment of the Department of Child Safety and the relocation of the data center operated by DES, and requires that DCS submit an expenditure plan for review to JLBC prior to any expenditures.

Upon the establishment of DCS, many positions transferred from DES, though many others did not. As discussed above, DCS is still developing its organizational structure, though we have begun to fill key strategic decision-making positions. The plans will continue to develop over the course of the summer. For the positions that transferred from DES, including many central administrative functions as well as technology services positions, DCS received funding transferred from DES. Any additional positions will be funded out of these transition funds appropriated through ADOA. The Department has several key staff in place at the beginning for fiscal year 2015, and will need funding from the transition fund for these 40 FTE positions. In addition, the Department has identified first quarter licensing and startup costs associated with establishing its technology infrastructure. The Department is preparing the proper Project Investment Justifications and determining what approvals will need to be obtained. While this expenditure plan is a preliminary step toward spending these monies on IT infrastructure, the Department will seek the appropriate approvals prior to any expenditure.

The Department requests \$3.6 million, as outlined in the table below, for first quarter expenditures. In September, the Department will request further monies from the transition fund to continue those first



**Department of Child Safety**  
**Proposed Quarterly Benchmarks for Filled FTE Positions and Reducing the Backlog and**  
**Expenditure Plans for Fiscal Year 2015 Personal Services and Backlog Funding**

quarter expenditures for the remainder of the fiscal year where appropriate, as well as additional funds based on more complete plans for the remainder of the fiscal year. Table 5 on the following page outlines the request for the first quarter.

<b>Table 5. 1st Quarter Transition Fund Request</b>		
	<b>FTE</b>	<b>Funding Request</b>
Administration and Technology FTE	40.0	714,100
Technology Services P&O		563,000
Technology Services Licensing		1,927,800
Field Equipment (One-Time Mobile Technology)		402,500
<b>Total</b>	<b>40.0</b>	<b>3,607,400</b>



STATE OF ARIZONA

## Joint Legislative Budget Committee

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STEFANIE MACH  
JUSTIN OLSON  
MICHELLE UGENTI

DATE: June 17, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Ben Beutler, Fiscal Analyst *BB*

SUBJECT: Department of Child Safety - Review of Quarterly Benchmarks and Expenditure Plan

### Request

Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2 requires, by June 16, 2014, the Department of Child Safety (DCS) to submit a report for Committee review of proposed FY 2015 quarterly benchmarks for assessing progress in increasing the department's number of FTE positions and in reducing the number of backlog cases. The legislation also requires the report to include a quarterly expenditure plan for any FY 2015 funding appropriated for Personal Services and for reducing the backlog.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review.

### Analysis

Beyond the submission of the proposed benchmarks, Chapter 2 requires DCS to report quarterly through FY 2016 on its progress in increasing the number of filled FTE Positions and in reducing the number of non-active backlog cases. The quarterly report will also include actual and estimated expenditures for Personal Services and the backlog of non-active cases. The Committee would then review the reports relative to the benchmarks.

#### Quarterly Benchmarks - Filled FTE Positions

DCS' proposed format for the filled FTE Positions is the same as the current format for the monthly report on hiring, consisting of:

(Continued)

- Number of authorized FTE Positions.
- Number of filled FTE Positions delineated by position type, including case-carrying staff, field support staff, and all other staff.
- Net change in hired staff from the prior quarter.
- Number of caseworkers in training.

The FY 2015 budget authorized 1,406 DCS caseworkers consisting of case-carrying workers, hotline staff, and staff in training. DCS intends to have all of these positions filled by the end of the 1<sup>st</sup> quarter of FY 2015. At the end of May, 1,248 of these caseworker positions were filled.

DCS also plans to fill 1,403 non-caseworker positions, including assistant program managers, supervisors, case aides, Office of Child Welfare Investigations staff, and other administrative staff. DCS plans to fill most of these positions by the end of the 2<sup>nd</sup> quarter of FY 2015. At the end of May, 1,106 of these non-caseworker positions were filled. *(Please see page 2 of the DCS submission for more information.)*

#### Quarterly Report - Elimination of June 2 Backlog

The department reports that as of June 2, 2014 there were 13,024 non-active cases. A non-active case has had no documentation entered into the Children's Information Library and Data Source (CHILDS) system for 60 days or more.

DCS plans to activate all 13,024 non-active cases by the end of the 2<sup>nd</sup> quarter by entering new information into CHILDS. DCS indicates that all 13,024 non-active cases will be closed or identified as needing out-of-home placement or support services by the end of FY 2015. DCS plans to have the following cumulative number of cases investigated throughout FY 2015:

1 <sup>st</sup> Quarter	1,289
2 <sup>nd</sup> Quarter	5,156
3 <sup>rd</sup> Quarter	9,023
4 <sup>th</sup> Quarter	11,601

DES believes that 1,423 of the 13,024 non-active cases will be resolved during action determination because they are cases where children are already receiving services or cases that are already closed. Only 11,601 of the non-active cases will need to be reinvestigated.

While DCS is in the process of reaching its full staffing level, new post-June 2 cases will fall into the 60-day backlog status. DCS anticipates that as many as 5,200 post June 2 cases will be backlogged at the end of September 2014. Once fully staffed, DCS is projecting no more than 1,000 90-day inactive cases by the end of FY 2015. *(Please see page 3 of the DCS submission for more information.)*

#### Personal Services Expenditure Plan

DCS projects a total of \$118.5 million in total funds will be spent on Personal Services (salary and overtime) in FY 2015 for DCS staff. These monies will essentially be equally distributed throughout the 4 quarters of FY 2015. DCS will expend less on Personal Services in the 1<sup>st</sup> quarter because it will still be hiring newly authorized staff. *(Please see page 4 of the DCS submission for more information.)*

#### Backlog Expenditure Plan

DCS was appropriated \$23.1 million from the General Fund and \$5.9 million from Federal Funds for a total of \$29.0 million in FY 2015 for the elimination of the June 2 backlog. DCS plans to disburse \$567,300 in the 1<sup>st</sup> quarter of FY 2015 with expenditures growing to \$12.7 million in the 4<sup>th</sup> quarter. Backlog expenditures include action determination and investigation overtime costs, in- and out-of-home support services, and out-of-home placements. *(Please see page 5 of the DCS submission for more information.)*

RS/BB:kp  
Attachment



## Arizona Department of Child Safety

Janice K. Brewer  
Governor

Charles Flanagan  
Director

June 16, 2014

The Honorable Don Shooter  
Chairman, Arizona Senate Appropriations Committee  
1700 West Washington  
Phoenix, Arizona 85007



Re: Department of Child Safety Expenditures

Dear Senator Shooter:

The Department of Child Safety (DCS) requests to be placed on the Joint Legislative Budget Committee agenda for the three items below.

*Proposed quarterly benchmarks and expenditure plan*

Pursuant to Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 6, the Department submits its report including proposed quarterly benchmarks in FY 2015 for assessing progress in increasing the Department's number of filled FTE positions and in reducing the number of backlog cases, as well as quarterly expenditure plans for any FY 2015 monies appropriated for personal services and for reducing the backlog.

*Expenditure plan for monies appropriated for costs associated with the establishment of DCS*

Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 3 appropriated \$25 million to the Department of Administration for costs associated with the establishment of the Department of Child Safety. The Department submits an expenditure plan for monies to be expended from this \$25 million during the first quarter of fiscal year 2015 totaling \$3.6 million.

*Expenditure plan for Intensive Family Services monies*

At its April 10, 2014 meeting, JLBC reviewed the Department's expenditure plan for the FY 2014 appropriation for the Intensive Family Services Special Line Item with the provision that the Department report by June 1, 2014 on how it plans to expend the funds in FY 2015. Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 6 also requires that the Department submit an expenditure plan for review prior to the expenditure of the funds in FY 2015. The Department requests that the committee review the expenditure plan as contained in the letter dated May 30, 2014.

If you have any questions, please contact our office at (602) 542-5844.

Sincerely,

Charles Flanagan  
Director

**Department of Child Safety**  
**Proposed Quarterly Benchmarks for Filled FTE Positions and Reducing the Backlog and**  
**Expenditure Plans for Fiscal Year 2015 Personal Services and Backlog Funding**

Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2 requires the Department of Child Safety to submit a report for review by the Joint Legislative Budget Committee containing:

- Proposed quarterly benchmarks in fiscal year 2015 for assessing progress in increasing the Department's number of filled FTE positions, consistent with the FTE positions authorized by this act
- Proposed quarterly benchmarks in fiscal year 2015 for assessing progress in reducing the number of backlog cases
- A quarterly expenditure plan for any fiscal year 2015 monies appropriated for personal services
- A quarterly expenditure plan for any fiscal year 2015 monies appropriated for reducing the backlog

*Quarterly Benchmarks – Filled FTE Positions*

The Department proposes the following quarterly benchmarks for assessing progress in increasing the Department's number of filled FTE positions:

- Number of authorized FTE positions
- Filled positions, split by case-carrying staff, field support staff, and all other staff
- Net change from the prior quarter
- Number of caseworkers in training

As of this May 31, 2014, the Department had a total of 2,354 filled FTE positions, including 995 case-carrying staff, 177 staff in training, 76 FTE in intake, and 1,106 other FTE. For fiscal year 2015, the Department anticipates filled FTE by quarter as outlined below.

<b>Table 1. Proposed Benchmarks for Filled FTE Positions in Fiscal Year 2015</b>				
	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
<b>Total Authorized FTE</b>	<b>3,045.1</b>	<b>3,045.1</b>	<b>3,045.1</b>	<b>3,045.1</b>
<b>Authorized Caseworkers</b>	<b>1,406.0</b>	<b>1,406.0</b>	<b>1,406.0</b>	<b>1,406.0</b>
Filled Caseworkers (Active)	1,079.0	1,137.0	1,190.0	1,190.0
Filled Caseworkers (Training)	251.0	193.0	140.0	140.0
Filled Intake (Hotline)	76.0	76.0	76.0	76.0
Subtotal Filled	1,406.0	1,406.0	1,406.0	1,406.0
<b>Authorized Non-Caseworker Personnel</b>	<b>1,639.1</b>	<b>1,639.1</b>	<b>1,639.1</b>	<b>1,639.1</b>
Filled Supervisors (Unit, APM)	250.0	250.0	250.0	250.0
Filled Case Aides	285.0	285.0	285.0	285.0
Filled Other Non-Caseworkers	710.0	859.0	864.0	868.0
Subtotal Filled	1,245.0	1,394.0	1,399.0	1,403.0
<b>Total Filled FTE</b>	<b>2,651.0</b>	<b>2,800.0</b>	<b>2,805.0</b>	<b>2,809.0</b>

**Department of Child Safety**  
**Proposed Quarterly Benchmarks for Filled FTE Positions and Reducing the Backlog and**  
**Expenditure Plans for Fiscal Year 2015 Personal Services and Backlog Funding**

*Quarterly Benchmarks – Reducing the Backlog*

The Department proposes the following quarterly benchmarks for assessing progress in reducing the number of backlog cases:

- Number of cases that were non-active as of June 2, 2014 that have been activated
- Number of activated cases in the investigation phase
- Number of activated cases receiving in-home services
- Number of activated cases in out-of-home placements and receiving out-of-home support services
- Number of activated cases closed
- Number of non-active cases as of the 2<sup>nd</sup> to last Saturday of each quarter

A non-active case is a case that has had no documentation entered into the Children's Information Library and Data Source (CHILDS) for 60 days or more. As of June 2, 2014, there were 13,024 non-active cases. Of those cases, 3,334 had no case notes for 120 days or less, while 3,101 cases had no case notes entered in over a year. The median length of inactivity was 208 days. The table below displays quarterly estimates for the proposed benchmarks.

<b>Table 2. Proposed Benchmarks for Reducing the June 2, 2014 Backlog in Fiscal Year 2015</b>				
	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
Cases Activated (Cumulative)	5,210	13,024	-	-
Activated Cases in Investigation Phase	1,289	3,867	3,867	2,578
In-Home Support Services	-	483	741	1,128
Out-of-Home Support Services and Placements	-	493	751	1,137
Cases Closed (Cumulative)	-	2,732	5,787	8,842

In addition to the above benchmarks, the legislation requires DCS to report the total number of non-active cases, including both cases in the June 2, 2014 number of 13,024 as well as cases becoming inactive after June 2. By the end of the first quarter, DCS estimates that 5,210 of the June 2 cases will have been addressed, however, we expect that about 5,200 cases will have also become inactive (based on historical data), resulting in a new inactive count for the end of the quarter of 13,000. Given the rate at which the number of non-active cases have been increasing (a net of 5,000 over the past 5 months), and that the end of the first quarter occurs at the beginning of the school year, which is typically a high report time, maintaining the non-active count at 13,000 will be a significant accomplishment.

With new staff coming out of training, the Department will begin to decrease the number of cases becoming non-active in the 2<sup>nd</sup> quarter of the year while simultaneously activating the remainder of the 13,024 June 2 cases. By the end of the second quarter, we expect a total of 4,000 non-active cases; however, none of those cases will have been inactive for greater than 180 days. In the 3<sup>rd</sup> and 4<sup>th</sup> quarters of the fiscal year, the numbers of new non-active cases will continue to decline. We anticipate a total of 2,000 non-active cases by the end of the 3<sup>rd</sup> quarter and 1,000 by the end of the 4<sup>th</sup> quarter with no case inactive for greater than 90 days.

**Department of Child Safety**  
**Proposed Quarterly Benchmarks for Filled FTE Positions and Reducing the Backlog and**  
**Expenditure Plans for Fiscal Year 2015 Personal Services and Backlog Funding**

*Expenditure Plan for Monies Appropriated for Personal Services in Fiscal Year 2015*

The fiscal year 2015 budget includes staff that were historically part of the DES program division, staff that were part of DES's central administrative functions that are transferring to DCS, as well as new central administrative positions to fulfill roles previously fulfilled by DES's central administrative functions that could not be transferred to DCS, and other new program-related FTE positions.

Table 3 shows the anticipated expenditure plan for monies appropriated for personal services in fiscal year 2015. The Department expects to have all of the new case-carrying and supervisory staff positions filled by the end of the first quarter of fiscal year 2015. Non-case-carrying support positions and positions for the Office of Child Welfare Investigations will be phased in over the first two quarters.

For the new administrative positions that could not be transferred from DES, the Department is still developing a finalized organizational structure. Hiring has begun to fill many strategic decision-making roles within DCS. The Department anticipates having a more complete plan developed by late summer.

**Table 3. Expenditure Plan for Personal Services Monies Appropriated in Fiscal Year 2015**

		Quarter 1	Quarter 2	Quarter 3	Quarter 4	FY 2015 Projected Total
<u><i>Existing Staff</i></u>						
DES to DCS	P/S	24,293,700	24,362,500	24,345,300	24,362,500	97,364,000
	FTE	2,249.0	2,249.0	2,249.0	2,249.0	
<u><i>New Staff</i></u>						
Administrative FTE	P/S	486,922	1,668,000	1,796,900	1,884,200	5,836,022
	FTE	39.0	125.0	131.0	135.0	
Case-carrying staff	P/S	1,445,600	2,218,800	2,218,800	2,218,800	8,102,000
	FTE	212.0	212.0	212.0	212.0	
Non case-carrying	P/S	540,400	1,008,700	1,008,700	1,008,700	3,566,500
	FTE	90.0	120.0	120.0	120.0	
OCWI Staff	P/S	486,500	927,700	1,097,100	1,097,100	3,608,400
	FTE	50.0	93.0	93.0	93.0	
<b>Total</b>	P/S	<b>27,253,122</b>	<b>30,185,700</b>	<b>30,466,800</b>	<b>30,571,300</b>	<b>118,476,922</b>
	FTE	<b>2,640.0</b>	<b>2,799.0</b>	<b>2,805.0</b>	<b>2,809.0</b>	

*Expenditure Plan for Monies Appropriated for Reducing the Backlog*

The fiscal year 2015 budget includes \$23.1 million from the General Fund (\$29.0 million total funds) to reduce the backlog of non-active cases. This appropriation includes funding for determining the action to be taken on each of the 13,024 cases that were not active on June 2, 2014, to investigate the cases in need of investigation, and for services and placement costs for non-active cases already in placements and receiving services, or for children who receive services after their case is reactivated and investigated.

**Department of Child Safety**  
**Proposed Quarterly Benchmarks for Filled FTE Positions and Reducing the Backlog and**  
**Expenditure Plans for Fiscal Year 2015 Personal Services and Backlog Funding**

The Department will begin addressing the backlog as soon as possible and intends to have determined the action to be taken for each of the 13,024 cases by the end of calendar year 2014. Assuming action determination begins in August, investigations will begin by September, with support services and placement costs following in October. Given the volume of the non-active cases, the Department expects that the investigative work will continue through the end of the fiscal year.

As required by a footnote in Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, DCS is currently preparing a request for information to assess the viability of contracting with a private vendor to address the non-active cases. This expenditure plan is subject to change pending the response to the request for information. The results of the request for information will be reported to the committee in the September 30, 2014 quarterly report. The table below outlines anticipated expenditures by quarter associated with addressing the backlog.

<b>Table 4. Expenditure Plan for Monies Appropriated to Reduce the Backlog in Fiscal Year 2015</b>					
	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>	<b>Total</b>
Action Determination	98,600	147,900	-	-	246,500
Investigations	468,722	1,406,167	1,406,167	937,444	4,218,500
In-Home Support Services	-	857,486	1,314,812	2,000,801	4,173,100
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*Request to Spend from the Transition Fund*

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Upon the establishment of DCS, many positions transferred from DES, though many others did not. As discussed above, DCS is still developing its organizational structure, though we have begun to fill key strategic decision-making positions. The plans will continue to develop over the course of the summer. For the positions that transferred from DES, including many central administrative functions as well as technology services positions, DCS received funding transferred from DES. Any additional positions will be funded out of these transition funds appropriated through ADOA. The Department has several key staff in place at the beginning for fiscal year 2015, and will need funding from the transition fund for these 40 FTE positions. In addition, the Department has identified first quarter licensing and startup costs associated with establishing its technology infrastructure. The Department is preparing the proper Project Investment Justifications and determining what approvals will need to be obtained. While this expenditure plan is a preliminary step toward spending these monies on IT infrastructure, the Department will seek the appropriate approvals prior to any expenditure.

The Department requests \$3.6 million, as outlined in the table below, for first quarter expenditures. In September, the Department will request further monies from the transition fund to continue those first





STATE OF ARIZONA

## Joint Legislative Budget Committee

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JUSTIN OLSON  
MICHELLE UGENTI

DATE: June 17, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director *RS*

SUBJECT: Department of Child Safety - Review of FY 2015 Intensive Family Services Expenditure Plan

### Request

Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2 requires Committee review prior to any monies being expended from the Department of Child Safety's (DCS) \$8.5 million FY 2015 appropriation for Intensive Family Services (IFS). DCS is requesting review of the entire appropriation.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the expenditure plan
2. An unfavorable review of the expenditure plan

Under either option, the JLBC Staff recommends the following provision:

- A. No later than December 1, 2014, DCS is to update the Committee on its Request for Information and Request for Proposals process in terms of redesigning its service delivery mechanism. The update shall also address the current status of DCS' Title 4-E waiver.

### Analysis

#### FY 2014 Appropriation

The FY 2014 General Appropriation Act appropriated \$5.0 million for a new line item, the Intensive Family Services program. As with the FY 2015 appropriation, the Department of Economic Security (DES) was required to submit an expenditure plan for Committee review prior to spending the monies. DES submitted a plan for review in the fall of 2013, but withdrew the request prior to the Committee's December 2013 meeting.

(Continued)

DES subsequently resubmitted the request for review in March 2014 and the Committee considered the matter at its April meeting. (*See Attachment A*). The department proposed using the funding to supplement its existing in-home services program. This additional funding would allow the department to authorize additional units of service. The Committee also discussed whether the IFS funding should be used to establish a new program. As an example of the latter, DCS could potentially contract with a vendor to coordinate a broad range of services to a high-risk household to prevent an out-of-home placement, rather than having a DCS caseworker coordinate services.

The Committee ultimately decided that the department would not be able to implement any alternative program in FY 2014, but requested that the department report its plans for the future direction of IFS funding by June 1. The Committee accepted the following motion:

Representative Kavanagh moved that the Committee acknowledge reviewing the department's expenditure plan for the current fiscal year with the provision that the department report by June 1, 2014 on how it plans to expend the Intensive Family Services funds in FY 2015. With input from both the House and Senate as well as the Child Protective Services Reform Workgroup, the Committee will then provide further guidance on whether the FY 2015 appropriation is to be expended for a new program or integrated into existing services.

#### FY 2015 Appropriation

The FY 2015 General Appropriation Act continued the IFS for a second year, but at a higher funding level of \$8.5 million. The budget also continued the requirement for a prior review of expenditures, but added a new provision that the department provide an estimate of any comparable funding in the in-home preventive services support funding. The 2<sup>nd</sup> Special Session legislation maintained both the funding level and the provisions included in the original budget.

In responding to the Committee's April motion, DCS provided an update on its FY 2015 IFS spending plans in a memo dated on May 30 and received by JLBC on June 13. (*See DCS request*). DCS plans to redesign its service delivery mechanisms, including IFS. The process will take a full year and includes the following key dates:

- Now – August 2014 – Work with consultants to establish parameters of their delivery model
- August – October 2014 – Prepare Request for Information (RFI) and Request for Proposals (RFP)
- October – December 2014 – Evaluate RFI responses and refine RFP
- December 2014 – January 2015 – Release RFP
- January – April 2015 – Review bids and select vendors
- April – June 2015 – Training
- July 2015 – Implement new services

Given the process redesign during the upcoming year, DCS plans to continue to expend the FY 2015 funds in the same fashion as in FY 2014. These monies will essentially supplement existing in-home services. As noted above, Chapter 2 required DCS to submit an estimate of any comparable funding to IFS in the \$32.6 million In-home Preventive Support Services line item. JLBC Staff has asked for this information as it was not included in the agency submission.

The redesign is also intended to assist DCS in seeking a Title 4-E waiver concerning Federal Funds. The state's \$180 million in federal 4-E funds are currently limited to out-of-home placements. DCS is seeking a federal waiver to allow the 4-E monies to be expended for in-home services.

(Continued)

FY 2014 Process

As a side note, DCS' May 30 letter expands on the comments at the April JLBC meeting concerning legislative intent with regard to the IFS program. DCS indicates that it did not receive feedback during the year concerning its proposed FY 2014 expenditure plan to supplement existing services.

Beyond any guidance provided directly by members, the JLBC Staff addressed the issue in its *FY 2015 Baseline Book* in January 2014. We indicated that there were different perspectives on how to expend the funds:

During the 2013 Legislative Session, some proponents of the new funding thought that DES would contract with a specific vendor who would coordinate a package of services to high risk families to keep the child in the home. To distinguish these funds from existing DES services, the monies were placed in a new budget line item. Other proponents may have viewed the funding as a supplement to existing funding.

RS:lm



STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

DON SHOOTER  
CHAIRMAN 2014  
OLIVIA CAJERO BEDFORD  
GAIL GRIFFIN  
JOHN McCOMISH  
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HOUSE OF  
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ADAM KWASMAN  
DEBBIE LESKO  
STEFANIE MACH  
JUSTIN OLSON  
MICHELLE UGENTI

DATE: April 7, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Benjamin Beutler, Fiscal Analyst BB

SUBJECT: Department of Economic Security - Review of Intensive Family Services Implementation

### Request

Pursuant to a footnote in the FY 2014 General Appropriation Act, the Department of Economic Security (DES) must present an expenditure plan to the Committee for review prior to the expenditure of monies from the new Intensive Family Services line item. The Intensive Family Services line item provides monies for contracted, time-limited services to families whose children are at risk of out-of-home placement due to abuse, neglect, or dependency.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the DES approach, which is used to supplement its existing in-home services.
2. An unfavorable review of the DES approach, which would suggest that the department consider contracting with private vendors to provide case management of Intensive Family Services.

The proposed House and Senate FY 2015 budgets both include an additional \$3.5 million for the Intensive Family Services line item (for a total of \$8.5 million). If the Committee would like the Division of Child Safety and Family Services to pursue the contract with private vendors for case management, the JLBC Staff recommends that the division report its findings on the feasibility of this approach by August 1, 2014. The General Appropriation Act does require the JLBC to once again review the Intensive Family Services expenditure plan for FY 2015, but an August 1 report would provide an early indication of whether the transition of some services to a contracted case management model would be viable.

(Continued)

## **Analysis**

The FY 2014 General Appropriation Act appropriated \$5 million from the General Fund to a new Intensive Family Services line item. During the 2013 Legislative Session, some proponents of the new funding thought that DES would contract with a specific vendor who would coordinate a package of services to high risk families to keep the children in the home. To distinguish these funds from existing DES services, the monies were placed in a new budget line item. Other proponents may have viewed the funding as a supplement to existing funding.

DES agrees with this latter approach and is using the \$5 million to supplement its existing \$15.9 million in-home services program as part of the \$155.1 million Children Support Services line item. DES does not require a single vendor to coordinate the treatment plan; rather, a CPS caseworker initially determines the level of in-home services a family receives and assigns current contracted providers to provide those individual services. This contrasts with an approach where a single vendor receives a single payment per case and delivers a range of services to that family. In the past, DES used this approach in its Family Builders program for in-home CPS cases.

In-home services are only available to households where the children remain in the home but are at risk of out-of-home placement. In-home services can include crisis intervention counseling, marital and family therapy, respite care, home management and nutrition, and linkages with community resources to serve a variety of social needs. Other services for families with at-risk children include parent aid services, transportation, child care, and substance abuse treatment. It is possible that "intact" households may receive services from more than just the in-home services allocation.

In Washington State, the CPS agency contracts with a vendor to run its Intensive Family Services Preservation program, which has goals that are very similar to DES' Intensive Family Services. The program's services are time-limited and concentrated in a period targeted at 4 weeks. Our understanding is that in Washington State's case, the CPS caseworker refers families to a vendor that administers the program, and the caseworker can recommend specific services within the scope of the Intensive Family Services Preservation program. Once the client is referred to the vendor, the vendor also does an assessment to determine the services it believes the client needs. Our understanding is that the vendor receives a set reimbursement from the state per Intensive Family Services Preservation case. It is not clear whether the risk of out-of-home placement for the families in the Washington State program is the same as the risk for families in Arizona's approach.

RS/BB:kp



## Arizona Department of Child Safety

Janice K. Brewer  
Governor

Charles Flanagan  
Director

June 16, 2014

The Honorable Don Shooter  
Chairman, Arizona Senate Appropriations Committee  
1700 West Washington  
Phoenix, Arizona 85007

Re: Department of Child Safety Expenditures

Dear Senator Shooter:

The Department of Child Safety (DCS) requests to be placed on the Joint Legislative Budget Committee agenda for the three items below.

Proposed quarterly benchmarks and expenditure plan

Pursuant to Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 6, the Department submits its report including proposed quarterly benchmarks in FY 2015 for assessing progress in increasing the Department's number of filled FTE positions and in reducing the number of backlog cases, as well as quarterly expenditure plans for any FY 2015 monies appropriated for personal services and for reducing the backlog.

Expenditure plan for monies appropriated for costs associated with the establishment of DCS

Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 3 appropriated \$25 million to the Department of Administration for costs associated with the establishment of the Department of Child Safety. The Department submits an expenditure plan for monies to be expended from this \$25 million during the first quarter of fiscal year 2015 totaling \$3.6 million.

Expenditure plan for Intensive Family Services monies

At its April 10, 2014 meeting, JLBC reviewed the Department's expenditure plan for the FY 2014 appropriation for the Intensive Family Services Special Line Item with the provision that the Department report by June 1, 2014 on how it plans to expend the funds in FY 2015. Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 6 also requires that the Department submit an expenditure plan for review prior to the expenditure of the funds in FY 2015. The Department requests that the committee review the expenditure plan as contained in the letter dated May 30, 2014.

If you have any questions, please contact our office at (602) 542-5844.

Sincerely,

Charles Flanagan  
Director



## *Division of Child Safety and Family Services*

Janice K. Brewer  
Governor

Charles Flanagan  
Director

May 30, 2014

Senator Don Shooter  
JLBC Chairman  
1716 West Adams  
Phoenix, Arizona 85007

RE: Intensive Family Services Special Line Item

Mr. Chairman:

This letter is in response to the Joint Legislative Budget Committee's request that the Division provide a plan for the use of the Monies appropriated in the Intensive Family Services Special Line Item (SLI). At the hearing we were informed that some members of the Committee would like to see us use those monies for a "new and innovative program." We are pleased to inform you that we are currently in a redesign process for our entire service array, including those intensive family services funded by these monies. In that process, we are looking at best practices across the country for both services and delivery methods. As part of this process we will be evaluating how to adapt and implement programs consistent with Arizona's unique circumstances and laws. This work began earlier this fiscal year as part of our Title IV-E waiver application with the Federal government. The timeline is provided in greater detail in below.

Before proceeding with those details, however, I did want to address a concern raised at the April 10, 2014 Committee hearing. It was apparent that certain members of the Committee felt that the Department had used the monies provided in the Intensive Family Services SLI in a way that was inconsistent with legislative intent. While the current leadership of the Division of Child Safety and Family Services was not in place at the time the decision was made to use the monies as we described during the Committee hearing, we have discussed the matter with our budget staff involved with the decision, as well as Department of Economic Security staff and have been assured that at no point was the intention for the use of these monies conveyed to the department other than what was included the *FY 2014 Appropriations Report*.

The *FY 2014 Appropriations Report* states that "The program provides contracted intensive, time-limited services to families whose children are at imminent risk of out-of-home placement due to abuse, neglect, or dependency." The *FY 2011 Appropriations Report* uses the exact same language to describe an SLI with the exact same name. As a result, this program was interpreted as a reinstatement of the former line item and the FY 2014 expenditure plan was created consistent with that interpretation.

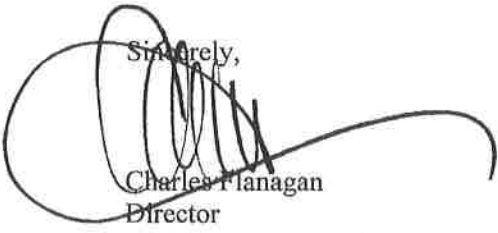
The Department was transparent on its intended use of the funds. On September 13, 2014 JLBC staff informed DES that there would be a Committee meeting at the end of October and encouraged the Department to provide the required expenditure plan. On September 17, DES responded to staff indicating the intend use of the funds and committing to provide a formal expenditure plan. There were ongoing conversations with staff through November regarding DES's use of the money.

As previously noted, we are in the process of redesigning our service array, including the services provided with funding provided in this SLI. The timeline for the redesign of our service array is as follows:

- Present – August 2014: Continued research and work with consultants on defining the services requirements and delivery model
- August – October: Prepare Scopes of Work and RFI/RFP for new services
- October – December: Evaluate RFI responses and continue work on RFP
- December – January 2015: RFP with bidders for review and response
- January – April: Evaluation committee to review bids/select vendors
- April – June: Implementation Planning and Training
- July 1, 2015: New services implemented

As you can see from the timeline, the new service array will be ready for implementation by July 1, 2015. In the intervening time, we will continue to provide the time-limited intensive family services to families whose children are at imminent risk of out-of-home placement through contracted private agencies and providers, as we have since the original line item was created.

Sincerely,



Charles Flanagan  
Director

Enclosure

cc: Representative John Kavanagh, Chairman  
John Arnold, Director, Office of Strategic Planning and Budgeting  
Illya Riske, Senior Analyst, Office of Strategic Planning and Budgeting  
Richard Stavneak, Director, Joint Legislative Budget Committee  
Ben Beutler, Analyst, Joint Legislative Budget Committee  
Jamie Bennett, Policy Advisor, Office of the Governor  
Lorna Romero, Director, Legislative Affairs





STATE OF ARIZONA

## Joint Legislative Budget Committee

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CHAIRMAN 2014  
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DEBBIE LESKO  
STEFANIE MACH  
JUSTIN OLSON  
MICHELLE UGENTI

DATE: June 18, 2014

TO: Senator Don Shooter, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Matt Gress, Fiscal Analyst *MG*

SUBJECT: Attorney General - Review of Allocation of Settlement Monies - State v.  
GlaxoSmithKline, LLC

### Request

The FY 2013 General Appropriation Act (Laws 2012, Chapter 294) requires Committee review of the expenditure plan for settlement monies over \$100,000 received by the Office of the Attorney General (AG), prior to expenditure of the monies. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review.

Pursuant to that footnote, the Committee reviewed the AG's proposed expenditure plan of a \$3.1 million allocation from a consent judgment with GlaxoSmithKline, LLC (Glaxo) at its March 26, 2013 meeting. The Committee voted to table the proposal until the AG developed a specific plan for spending the \$2.4 million in settlement funds designated by court order to support childhood obesity programs.

This request is for review of a \$3.1 million allocation from a consent judgment with Glaxo, \$650,000 of which will be deposited into the AG's Consumer Protection-Consumer Fraud (CPCF) Revolving Fund and \$2.4 million of which will be used to fund grant programs targeting childhood obesity and healthy eating.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the \$3.1 million allocation plan.
2. An unfavorable review of the allocation plan.

(Continued)

## Analysis

In November 2012, the AG and 36 other states entered into a consent judgment with Glaxo as a result of a consumer fraud investigation. The investigation alleged that Glaxo misrepresented and understated side effects and advertised unsupported benefits of Avandia, a diabetes drug.

The AG first submitted notice of this settlement at the Committee's March 2013 meeting. The settlement required Glaxo to pay \$3.1 million to the AG. Of that amount, \$650,000 would be deposited into the CPCF Revolving Fund for attorney fees and investigation costs. The AG stated that the remainder, pursuant to a court order, would be used to develop and support programs that specifically address childhood obesity. At the meeting, there was a discussion about using the funds for childhood obesity as well as adult diabetes. The Committee voted to table review of this settlement until the AG developed an expenditure plan for the \$2.4 million.

On June 4, 2014, the AG submitted an expenditure plan that distributes the remaining \$2.4 million to organizations through a competitive grant process. The AG expects the funds will be awarded to private, non-profit organizations as well as government agencies that serve the relevant target populations described in *Table 1*. The AG will award monies to programs that provide services over a two-year period.

As summarized in *Table 1*, 60% of the \$2.4 million will be targeted to certain age groups. Of that amount, 20% will be allocated for programs serving children from birth through pre-school age; 20% for children in Kindergarten through 6<sup>th</sup> grade; and 20% for children in 7<sup>th</sup> through 12<sup>th</sup> grades. The remaining 40% of the settlement funds will be distributed to support programs serving youth with special health care needs, Native American children, and other children at higher risk of obesity. *Table 1* describes specific goals associated with each target population that qualifying programs would be expected to meet.

The AG will administer the settlement monies and plans to hire a consultant with expertise in the childhood obesity field who will develop contract or grant requirements as well as provide recommendations on the distribution of the 40% of funds that are not age restricted. Funding to support administration, which includes consultant and program monitoring expenses, is not expected to exceed 12% of the total settlement amount over 3 years (which includes the time to ramp up and close out these programs). This money will come out of the 4 allocations to specific target populations.

The split of the settlement between the CPCF Revolving Fund and childhood obesity programs was negotiated between Glaxo and the AG. Other states in the settlement have chosen to fund a variety of different types of programs, including non-obesity related programs, with their money.

The AG chose to implement programs that specifically address childhood obesity which can eventually lead to Type II Diabetes. The AG convened a stakeholders meeting in July 2013 to discuss ways of addressing childhood obesity in Arizona and also solicited written comments from those who attended the stakeholders meeting and others as to how the Glaxo settlement funds could best be used to address childhood obesity.

<b>Table 1</b> <b>Attorney General Glaxo Settlement Expenditure Plan</b>			
<b><u>Percent of Funding</u></b>	<b><u>Approximate Amount</u></b>	<b><u>Target Population</u></b>	<b><u>Goals</u></b>
20%	\$480,000	Birth through preschool	Address healthy eating and active living strategies and standards, with an emphasis on caregiver home settings
20%	\$480,000	Kindergarten through 6 <sup>th</sup> grade	Address nutrition and physical activity needs, with an emphasis on increasing access to and participation in physical activity and physical education in elementary school settings
20%	\$480,000	7th-12 <sup>th</sup> grade	Address nutrition and physical activity needs, with an emphasis on increasing access to and participation in physical activity and physical education in junior high and high school settings
40%	\$979,525 (\$960,000, plus all interest)	Children with special healthcare needs; Native American children; children at higher risk for obesity	Address nutrition and physical activity strategies consistent with collective interagency agency childhood obesity prevention goals, with emphasis on competitive, targeted local obesity prevention grants awarded to county, tribal, or community programs offering services targeting children with special healthcare needs, Native American children, and other children at higher risk for obesity
12% <sup>1/</sup>	\$289,110 <sup>1/</sup>	Not applicable	Administrative expenditures
<b>Total</b>	<b>\$2,419,525 <sup>1/ 2/</sup></b>		
<sup>1/</sup> Any administrative monies will be reallocated from the other 4 categories. <sup>2/</sup> The remaining \$650,000 of the \$3.1 million Glaxo settlement will be deposited into the CPCF Revolving Fund.			

The settlement also requires Glaxo to avoid making misleading claims about its diabetes medicines and to post summaries of its sponsored studies and clinical trials.

RS/MG:kp



TOM HORNE  
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL  
PUBLIC ADVOCACY DIVISION  
CONSUMER PROTECTION & ADVOCACY SECTION

DENA R. BENJAMIN  
SECTION CHIEF COUNSEL  
DIRECT PHONE NO. (602) 542-7717  
DENA.BENJAMIN@AZAG.GOV

June 3, 2014

The Honorable Don Shooter, Chairman  
Joint Legislative Budget Committee  
Arizona State Senate  
1700 West Washington Street  
Phoenix, AZ 85007

The Honorable John Kavanagh, Co-Chairman  
Joint Legislative Budget Committee  
Arizona House of Representatives  
1700 West Washington Street  
Phoenix, AZ 85007

Re: *State of Arizona v. GlaxoSmithKline; Avandia®*

Dear Senator Shooter and Representative Kavanagh:

At the March 26, 2013 meeting of the Joint Legislative Budget Committee, the Committee requested that the Attorney General develop a specific plan for expending the Avandia® settlement funds which have been designated to support childhood obesity programs by court order. In accordance with the Committee's request, the Attorney General respectfully submits the enclosed Avandia Settlement Expenditure Plan allocating the approximately \$2.4 million in settlement funds for review.

If you have any questions, please feel free to contact me.

Sincerely,

Dena R. Benjamin  
Section Chief Counsel  
Consumer Protection and Advocacy Section

Enclosures

cc: The Honorable Chad Campbell  
The Honorable Anna Tovar  
Richard S. Stavneak  
Vicki Salazar

Matthew Gress  
Bob Hull  
Art Harding

#3628470-v2





**TOM HORNE**  
ATTORNEY GENERAL

**OFFICE OF THE ARIZONA ATTORNEY GENERAL**  
**PUBLIC ADVOCACY & CIVIL RIGHTS DIVISION**  
**CONSUMER PROTECTION & ADVOCACY SECTION**

**AVANDIA SETTLEMENT EXPENDITURE PLAN**

**June 2014**

This plan is submitted pursuant to the Joint Legislature Budget Committee's March 26, 2013 request that the Office of the Attorney General ("AGO") develop a specific plan for expending the \$2.4 million in Avandia® settlement funds designated to support childhood obesity programs by court order.<sup>1</sup>

**The Avandia enforcement action**

The Avandia settlement resulted from a consumer protection enforcement action taken by the Arizona Attorney General and 36 other states against GlaxoSmithKline, LLC ("Glaxo") in connection with its diabetes medication Avandia. The complaint that was filed concurrently with the consent judgment alleged that Glaxo promoted Avandia to physicians and other health care providers with false and misleading representations about Avandia's safety profile. The Consent Judgment prohibits Glaxo from illegally promoting its diabetes medicine and requires the company to significantly change its business practices for promoting diabetes medications. A copy of the Avandia judgment is attached.

As part of the settlement, Glaxo also agreed to pay a total of \$90 million to resolve the multistate investigation and avoid litigation. Arizona's share was \$3,043,663.56. Under the court-approved Consent Judgment, \$650,000 was deposited into the Consumer Fraud Revolving Fund for investigative costs, expenses and attorney's fees. The remaining funds – which total \$2,419,525 as of April 30, 2014 - are restitutionary in nature, to be held in trust by the Attorney General's Office and used to implement programs that specifically address childhood obesity which can lead, later in life, to Type II Diabetes.

**Stakeholders meeting and written comments**

The AGO convened a stakeholders meeting on July 18, 2013. To ensure broad representation, the AGO sent invitations to individuals and organizations identified as knowledgeable in childhood obesity issues, to all county health departments in Arizona, to state agencies involved in obesity issues and to non-profit organizations who we thought might have an interest or expertise in this area. The AGO also notified the Arizona Legislature of the meeting through JLBC staff, and some members and staff attended. In all, 23 stakeholders attended the two hour meeting which generated a wide-ranging discussion of ways to address childhood obesity in Arizona.

The AGO also solicited written comments as to how the Avandia settlement funds could best be used to combat childhood obesity. Following the stakeholders meeting, the AGO sent a follow up e-mail encouraging comments both from those who attended as well as those who could not. Stakeholders were asked how they

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<sup>1</sup> This expenditure plan is submitted in response to the motion passed at the March 26, 2013 JLBC meeting, but is not required by statute. House Bill 2396 (Laws 2013, Ch. 143, codified at A.R.S. § 44-1531.02) now requires the Attorney General to submit expenditure plans for remediation funds to the JLBC for review. However, that law did not take effect until September 13, 2013, so it does not apply to the Avandia settlement which was approved by the court in November 2012.

believed the settlement funds could best be spent to address the problem of childhood obesity in Arizona and which existing programs were most effective, among other things. In order to maximize the chances of receiving input from all stakeholders in Arizona, the AGO encouraged recipients to forward the e-mail to anyone they thought should receive it and who in their judgment would be able to provide helpful information.

All told, the AGO received written and/or verbal comments from more than 50 individuals and organizations, including representatives from the Arizona State Legislature, non-profit organizations, state agencies, hospitals, Native American tribes, county health departments as well as doctors and other health care professionals. The AGO reviewed each of the written comments received and consulted with state experts to develop this plan.

## Expenditure plan

The AGO plans to distribute Avandia settlement funds by awarding grants or contracts to organizations selected through a competitive bidding process, in compliance with Arizona law. The funds will be used to support evidenced-based childhood obesity programs throughout the state that target populations most in need. The programs will be designed to provide services over a two year period. As summarized in the chart below, sixty percent (60%) of the funds will be targeted to certain age groups: 20% of the overall settlement amount, or approximately \$480,000, will be allocated for programs serving children from birth through pre-school age; 20% of the overall amount, approximately \$480,000, will be allocated for programs serving children in kindergarten through 6<sup>th</sup> grade; and 20% of the overall amount, approximately \$480,000, will be allocated for programs serving children in the 7<sup>th</sup> through 12<sup>th</sup> grades. The remaining forty percent (40%) of settlement funds will be distributed to support programs serving children with special healthcare needs, Native American children and children at higher risk for obesity.

Percent of funding	Approximate amount	Target population	Goals
20%	\$480,000	Birth through preschool	Address healthy eating and active living strategies and standards, with an emphasis on caregiver home settings.
20%	\$480,000	Kindergarten through 6 <sup>th</sup> grade	Address nutrition and physical activity needs, with an emphasis on increasing access to and participation in physical activity and physical education in elementary school settings and after school programs.
20%	\$480,000	7 <sup>th</sup> through 12 <sup>th</sup> grade	Address nutrition and physical activity needs, with an emphasis on increasing access to and participation in physical activity and physical education in junior high and high school settings and after school programs.
40%	\$979,525 (\$960,000, plus all interest)	Children with special healthcare needs; Native American children; children at higher risk for obesity	Address nutrition and physical activity strategies consistent with best practices for childhood obesity prevention, with emphasis on competitive, targeted local obesity prevention grants awarded to county, tribal, or community programs offering services targeting children with special healthcare needs, Native American children, and other children at higher risk for obesity.

It is anticipated that the settlement funds will be awarded to private non-profit organizations as well as government agencies that serve the relevant target population. The AGO plans to hire a consultant(s) with expertise in the childhood obesity field who will be responsible for developing contract or grant requirements as well as providing recommendations on the distribution of the 40% of funds that are not age restricted. The AGO will ensure appropriate oversight of the childhood obesity prevention programs and compliance with the court order. The AGO's administrative costs, including consultant and program monitoring expenses, are not expected to exceed 12% of the total settlement amount over three years (including time for ramp up and close out of programs). In all, the plan provides for a comprehensive set of programs to prevent obesity in children of all ages, including for those who have a high risk of diabetes, an inactive lifestyle, risk of being overweight and who have limited access to healthy foods.

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