STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF
REPRESENTATIVES

JOINT LEGISLATIVE BUDGET COMMITTEE
Wednesday, October 26, 2005
9:30 a.m.
House Hearing Room 4

- R E V I S E D -

MEETING NOTICE

- Call to Order

- Approval of Minutes of September 28, 2005.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION
    - A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
    - **B. Litigation Update.**

1. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Risk Management Deductible.

2. JLBC STAFF - Consider Approval of Index for Construction Costs.

3. ARIZONA BOARD OF REGENTS - Review of FY 2006 Tuition Revenues.

The Chairman reserves the right to set the order of the agenda.
10/21/05

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STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2005
ANDY BIGGS
TOM BOONE
MEG BURTON CAHILL
PAMELA GORMAN
STEVE HUFFMAN
LINDA J. LOPEZ
STEPHEN TULLY

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

September 28, 2005

The Chairman called the meeting to order at 9:43 a.m., Wednesday, September 28, 2005, in House Hearing Room 4. The following were present:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Biggs	Senator Bee
	Representative Boone	Senator Cannell
	Representative Burton Cahill	Senator Garcia
	Representative Gorman	Senator Harper
	Representative Huffman	Senator Martin
	Representative Lopez	Senator Waring
	Representative Tully	
Absent:		Senator Arzberger

APPROVAL OF MINUTES

Representative Pearce moved *that the Committee approve the minutes of September 1, 2005.* The motion carried.

ARIZONA BOARD OF REGENTS (ABOR)

A. Review of Operational and Capital Plans for the Phoenix Medical Campus (PMC).

Ms. Shelli Carol, JLBC Staff, said this item is a request by ABOR for a review of the operational and capital plans for the Phoenix Medical Campus. Laws 2005, Chapter 330 directs the University of Arizona to establish a medical campus of its Health Sciences Center (AHSC) at the former site of Phoenix Union High School. To support the PMC, Chapter 330 appropriates $6 million from the General Fund to AHSC, as well as $1 million from the General Fund to create the ASU Department of Biomedical Informatics. Of the $7 million appropriation for the new campus, Chapter 330 provided only $3.5 million on July 1, 2005. The remaining $3.5 million will become available upon Committee review of the PMC plans, but no later than October 5, 2005. Ms. Carol used a handout (Attachment 1) for discussion on this item.

Senator Cannell commented on how important it is to bolster the practice of medicine in rural areas.

In response to Senator Garcia, Senator Cannell said he has quite a few ideas on how to attract physicians to rural areas. He has been working with the university in one form or another over the last 35 years on this. It is important to coordinate the medical school training with graduate training. In talking with leaders at the University of Arizona (UofA), there needs to be a combined residency and there has to be rural rotations for those residents. It is also important to back up the doctors once they go out into rural areas. That can be done through telemedicine and rotations back into Phoenix. Most of the doctors in Arizona are trained in other states. Even though the numbers show that most of the doctors are coming from outside Arizona, the medical schools using residency can have a huge influence on getting our doctors from our medical school and residencies to practice in those rural areas. There needs to be a lot of discussion and he believes there is willingness for that to take place. He said, you have to be more aggressive going forward in supporting doctors. A strong bond can be formed by having residents and students working together.

Senator Waring asked if the state has residency slots that are not filled. He also asked if per capita physician statistics count residents as physicians.

Ms. Carol said that she thought there were 10 to 15 slots open.

Mr. Jamie Molera, The Molera Alvarez Group, Representing the Arizona Board of Regents (ABOR), said that in 2004 there were 1,076 resident positions in Arizona and 425 medical students. If you look at that as a national average, we had the lowest student to residency ratio. By increasing the number of medical school students, there are ample amounts of residency slots that could be filled. In order to do this he said they would have to work with hospitals, and have all the partners involved. It is not just something that they can do unilaterally. The other thing that they are working on is making sure that the number of resident positions, which are federally funded, start to shift to Arizona.

Senator Waring asked how many slots are filled.

Mr. Molera said that he would follow up with that information. He said he appreciated being able to work with Staff on this and would like to be sure that the Legislature has access to all the information that they need.

Representative Pearce said that one of the rationales for the medical school is that the state has a doctor shortage. The issues they have addressed is getting medical students into residency programs and work being done to fill the areas that have a shortage. He stated that he has not seen the strategy relevant to doing that.

Mr. Molera said that has to be done in tandem with the Legislature, other individuals in positions dealing with it, as well as the hospitals and players in the health care industry. He said they have to increase the number of residency programs in Arizona and then determine how to get those residents to areas of critical need. Also, there is the issue of specialty areas and how you get specialists into rural areas. A lot of these issues are being worked on now and they have shown in great detail what the University of Arizona and ABOR are doing to try to address these issues.

Representative Pearce said there has to be a business plan in terms of how to move these students into resident positions. He said if they are going to invest millions of dollars they have to know what the return is on that investment.

Mr. Molera said they are in process of trying to train these students and a lot of these issues are out of their control. For instance, the number of resident slots are controlled by Congress. He also noted that telemedicine has to be the cornerstone of how to deal with the rural health care problems.

Representative Biggs said it appeared that the campus that is planned does not have adequate space for offices in Level I.

Mr. Molera said that the office space as planned for Level I is ample for the number of faculty and researchers. He noted that the Biomedical Building will come on-line during Level I.

Representative Biggs asked how much higher Level II is in 2010, and why it is higher than previous estimates.

Ms. Carol said there was a preliminary plan that ABOR provided and the Committee heard last summer. In that plan, Level I was supposed to last 5 years, instead of 3, so the 2010 budget is $15 million rather than the $23.5 million it is now.

Representative Biggs said that in 2010 the university will have responsibility for $60 million. Of that, $32 million will be from grants. He asked where they are getting the grants from, and if the grant money does not come through who is liable for the $32 million.

Mr. Molera said this was an aggressive approach for local sources or special sources. However, realistically they believe that it is actually a conservative estimate. He based that on what the College of Medicine is generating in Tucson and in looking at other medical colleges across the country, particularly ones that are ranked at the UofA level. One of the things that is very clear is that there has to be a strong focus on going after federal research dollars. In the Telemedicine Program they are already finding ways to secure those dollars. The Department of Defense, for example, wants to use them as a major source for telemedicine and the hub for all the Department of Defense hospitals around the world. All of those things are actually in motion now. When the subcommittee asked that question it was acknowledged that they would have to live within the budget that is set. Certainly, every program that is in place right now at the College of Medicine is capped by their ability to get either state funding or federal funding. If they are not going to be able to get federal dollars, then certainly within that budget they will have to pare down. He said they will not be coming to the Committee for more funds.

Senator Waring said professors and doctors doing research apply for these grants for specific purposes. If the grants did not come through then it would be the responsibility of the professor or doctor to pick up the slack somewhere else.

Senator Burns gave an example of a project gone wrong to emphasize the concern of the Committee. He said they had a program that came in with an initial estimate of $9 million to do a computer program. The $9 million turned into $30 million and then the project failed. He believes the Committee has a legitimate reason for concern about a project they would be supporting. In Tucson there is a hospital on site and that will not be the case in Phoenix. He said they will have to work with some of the hospitals in the area of the school and as far as he knows, that plan is not very solid. The project team has talked about it but the Committee needs a better comfort level of how that interface is going to work between the medical school and the hospitals in the area.

Mr. Molera said they are trying not to do this in isolation. One of the strengths of moving to Phoenix is the number of partners that can participate in this. Right now they have 9 hospitals that are a part of the provider network and make up a portion of the 400 faculty. They have a significant program in Phoenix for 3rd and 4th year students in which to build on. They are trying to show the Committee in great detail exactly what they believe it will cost, not just show the first 5 years, but also in moving to Level II and making sure they have all the pieces in place. However, one goal for Level I is to solidify all the details and partnerships for Level II.

Representative Pearce asked what guarantees the Committee has that they are not going to be held responsible for a hospital.

Mr. Molera said, to convey what the University Presidents and ABOR said, they have no intentions of the universities going into the hospital business.

Senator Burns said that is fine if they get a good plan that everyone understands, but what assurances are there if the best laid plans do not work out. They do not want to get into a runaway project which is a big concern of the Committee.

Mr. Molera said that ABOR and the Presidents could lay out some kind of assurance to the Committee that their intent is not to build a hospital and make it clearer as to what their fallback position would be. They would not want to be in conflict with their providers or hospitals. There are quality hospitals in Phoenix that do a tremendous job. They must work with the partners that are in place to try to solve these issues.

Senator Burns asked what contingency plan exists if dispersed clinical rotation do not work.

Mr. Molera said the Governor created the Arizona Commission on Medical Education and Research to address that issue.

Representative Tully said that the universities and ABOR were not considering the doctor shortage when they decided to move forward with the medical school.

Mr. Molera said that he believes that is one reason for the expansion.

Representative Tully said he read the Memorandum of Understanding (MOU) signed by ABOR, the UofA and ASU and it seems that the reason for creating the medical school was to address the need to have facilities that would allow it to reach its potential as a research university.

Mr. Molera said the MOU basically laid out how they would develop the partnership between the UofA and ASU. The underlying reasons for expanding in Phoenix and Tucson are not included in the MOU, nor should they be. That was just an agreement of how those 2 universities would work together. From the discussion between the parties one of the reasons for the expansion was how to deal with the physician shortage in Arizona and how, as a state university system, they could meet those needs.

Representative Tully said, in reading the MOU, it says this acute need derives from the fact that the state is growing in population and complexity in the Phoenix Metro area and all of its health care enterprises have been left without the benefit of a fully developed public research-grade, teaching medical school. He said it seems that the driving force was the desire to upgrade the university system.

Mr. Molera said that is a huge benefit to them but is not the primary reason.

Representative Pearce said he is concerned that they are not taking a straight forward approach. The Legislature gave the universities $400 million for biotech and the universities promised the programs would be self-sustaining. Representative Pearce asked if the PMC plan is a backdoor to get more biotech money.

Mr. Molera said he believes they have been very clear in that they need to train more students. But you cannot miss the opportunity to collaborate with things that are part of the College of Medicine, and Biotechnology is one of them. This is why the ABC building is going to be a part of the campus and why a lot of the research being done there will translate into better training of doctors. These things are not done in isolation. Their ability to get new technology and have a state-of-the-art facility is going to be critical to having that kind of quality College of Medicine and getting more doctors in Arizona.

Representative Tully asked Mr. Molera if he agreed that the universities' priority is to provide a high quality, accessible education to the citizens of the state.

Mr. Molera said that was correct, it is a constitutional mandate.

Representative Tully said the constitutional mandate is not to address the doctor shortage in the state or to generate business development. If those things occur it is an ancillary benefit to the driving force behind the universities. He said that when he read the JLBC and ABOR materials it said to be a top-tier medical school you need to be attached to a hospital.

Mr. Molera said there was a consulting report that was done to look at this issue. What they found was that there can be a stand-alone college of medicine without any kind of partnership, however, they said it is not the optimum situation. There is no 1 model that says you have to have a hospital in place, there are different ways to do this. One of the advantages of being in Phoenix is that they have those kinds of partners in place and are working on these issues.

Representative Tully said it is his understanding that the preferable method is a hospital attached to the medical school. He said that although the UofA does not want to get into the hospital business, have they made a decision not to have a hospital on this campus or has there been a decision that they want to have a first-class facility that has a hospital attached to it.

Mr. Molera said that no decision has been made.

Representative Tully said that the College of Medicine without a connected hospital will allow ASU to reach its goal of becoming a first-tier research university which was the primary goal of having the PMC built.

Mr. Molera said that he has never been in conversations where ASU said that if they do not have the hospital then they do not want to do this. The ABC 1 building will provide some access to patients.

Senator Waring said what he envisions when this is all done, is what is best for constituents. To have a place where a person can go when they are sick, such as a research and teaching facility, greatly enhances their lives. What was available 30 years ago has changed greatly to what is available today because of programs like this.

Representative Tully said that the selling points for this seems to be the doctor shortage in Arizona as well as it being an economic driver. He does not think the universities are tasked with either of those mandates. He said this point has come up short because there are other ways to deal with both of those issues. They may be very valid and great reasons but are not the primary role of the universities. He said the universities are responsible for high quality education and expressed concern that UofA only has a plan to build a 2nd tier medical school.

Senator Waring said he believes they will not have a problem raising $30 million in grants based on their size. He believes they are being cautious in their estimates on what they could expect.

Senator Cannell said that they do not need a hospital attached to it. Tucson has a problem with their students coming to Phoenix for their clinical rotations because they do not have enough slots in Tucson. Medical students are having to move in their 3rd year. That would not happen in Phoenix since they could do their whole 4 years here. There is the opportunity for a great education here because of ASU, TGen and the clinical facilities here. TGen does not need a university hospital, they study pathological tissue which they get from all over the country.

Representative Huffman said that he appreciates the concerns brought up, however, he has looked at the public university system across the country and the direction in which they are going. Less and less of their budgets are coming from state General Fund and taxpayers. He said we have to look at things like this where there is availability of research dollars. These opportunities are where schools are going now to find a lot of the quality education that we are all concerned about. In the absence of raising private dollars, the only way we can have a quality university system is from the state General Fund or higher tuition, which he does not think anyone really wants to do. The economic reasons and doctor shortage issue are reasons why this project will be financially viable in the future. The universities will use technology transfer and other methods of economic development to raise funds. This will result in a higher quality of education for all of Arizona students in the university system.

Representative Pearce said he gets concerned when they get into competing tax dollars and huge investment with little or no return. There has to be a balance in this. The Committee needs to have all the information and decide if this is the right decision for the taxpayers.

Representative Huffman said he does not believe the state could finance the kind of research and quality of education that is going on in the state's educational system if they had to go it alone. The state is dependent on the research dollars coming in from federal government and private industry and they have to keep that in the back of their minds when they look at any opportunity like this.

Representative Pearce said that the universities' General Fund portion grows every year.

Senator Burns asked about curriculum development and the private school issue, which was discussed at the subcommittee meeting. He said there was significant costs involved in developing new curriculum and some members are concerned on why they are spending so much money on curriculum when there is a medical school in Tucson. The Committee needs more specifics on that issue. Regarding private medical schools, there are some members interested in seeing the universities cooperate with the private medical schools and come back before the Committee with a report on how that activity is proceeding and how it affects the doctor shortage. The report should focus on the doctor shortage and how public and private universities can work together on that issue.

Senator Burns moved that the Committee give a favorable review for the operational and capital plans for the Phoenix Medical Campus in FY 2006 and further move that the Arizona Board of Regents report back to the Committee by February 15, 2006 on the following topics:

- *How increased medical students without increased residency positions results in additional doctors in Arizona.*
- *How replacing out-of-state educated medical students participating in Arizona residency programs with Arizona educated medical students increases the total number of doctors in Arizona.*
- *Formal agreements with area hospitals to financially support clinical activities if the plan proceeds to level 2.*
- *Specific proposals to partner with private medical schools to address a potential doctor shortage.*
- *Finally, as recommended by the subcommittee, Committee review of the Phoenix Medical Campus does not constitute endorsement of any monies for the Phoenix Medical Campus beyond $7 million.* The motion carried.

B. Review of FY 2006 Tuition Revenues

Ms. Amy Strauss, JLBC Staff, said this item is for Committee review of FY 2006 tuition revenues. ABOR estimates overall FY 2006 tuition collections applied to the university operating budgets will reach $30.1 million above the tuition amounts appropriated by the Legislature. The higher revenue is due primarily to increases in tuition approved by ABOR in March 2005. The universities plan on using the additional $30.1 million in the operating budget to cover operating inflationary increases, unfunded enrollment from prior years, including the hiring of adjunct faculty, and academic and support planning priorities.

Senator Burns said that some tuition is used for financial aid and he assumed there is different funding for different universities. He asked if there a breakdown in the tuition increase in how much goes to financial aid.

Mr. Greg Fahey, University of Arizona, said at the UofA basically $7.6 million of the tuition increase will be allocated to go to financial aid.

In response to Senator Burns, Mr. Fahey said as he understands it, tuition money at the UofA is not being used for the Alumni Association, but he would verify that.

Mr. Stavneak said that may be an ASU issue. When you look on the supporting detail you see a line for the Alumni Association for about $1.4 million, however, UofA is also listed at $1.1 million.

Senator Martin asked how much of the $30.1 million is coming from new students and how much from students that were already enrolled last year who are returning. He said he did not want to see tuition raised for students who are already there being priced out of the market midway through their education.

Mr. Fahey said he would have to provide that information.

Senator Bee asked why tuition increase is higher for in-state students than out-of-state students.

Mr. Fahey said that the feeling was that tuition was already high for out-of-state students. If they price it too high they will see a fall off and will actually lose money. He said they had an aggressive increase about 15 years ago and they saw a dramatic fall off.

Senator Waring said that if you look at the chart, ASU's increase is almost 17% at all 3 of their campuses. Why would they do that if there is the possibility of a fall off.

Mr. Fahey said there has been discussions about this and there is a difference of opinion of where the break point is.

Representative Biggs asked if the conversion of tuition waivers to cash dollars is an accounting maneuver or is this being given to students in the form of scholarships.

Mr. Fahey said this is a complex issue and he would like to defer this to someone who has expertise in this area.

Representative Biggs said he would like more information on this from all 3 universities.

Representative Pearce said the Committee needs more answers on this item before they go forward on it. He said they would hold this item until they receive further information.

DEPARTMENT OF ECONOMIC SECURITY (DES) – Review of Arizona Specific Child Protective Services Caseloads.

Mr. Eric Jorgensen, JLBC Staff, said the department was asked by the Legislature during the 2003 Special Session, to develop and adopt Arizona specific caseload standards for Child Protective Services (CPS) and submit them to the Joint Committee on Children and Family Services by July 1, 2004. The department failed to meet this deadline and as a result, in the FY 2006 budget, a footnote was inserted instructing the department to submit the standards to this Committee by September 1, 2005. Half of their funding for new case managers and for the FTE Positions was contingent on them submitting this review by September 1. It was submitted by that date and now is coming up for review. Mr. Jorgensen explained 2 options for the Committee as shown in the JLBC agenda book memo:

1. A favorable review with the provision that it does not constitute an endorsement of additional funding required achieving the proposed staffing levels. Overall, the DES proposal is comparable to the Child Welfare League of America's (COLA) national standards. These standards, however, reflect Desk's best estimate of the time required to complete its Arizona-specific responsibilities.
2. An unfavorable review. The proposed standards simply reflect current workloads and procedures. They do not attempt to address what is the most appropriate level of staffing, and would serve to validate any inefficiency currently in the system.

In addition, Mr. Jorgensen explained information submitted in the semi-annual Financial and Program Accountability report using a handout (Attachment 2).

Representative Boone asked if there are ratios on the supervisors and are they included in the caseworkers.

Mr. Jorgensen said the semi-annual report does include the ratio of supervisors to caseworkers. The whole report is included as an appendix to the memo. The caseload that CPS tries to maintain is a 1 to 6 ratio caseworker to supervisor.

Ms. Tracy Wareing, Acting Deputy Director, Division of Children, Youth and Families, DES, said her division has oversight of Child Protective Services.

Representative Lopez asked how confident they were that they would need the additional 180 caseworkers.

Ms. Wareing said they believe their need for additional caseworkers will go down as they meet their objectives for the coming year. She said they have strategies in place to try to keep children at home, but in a safe environment, and to be able to provide more intensive services early on.

Representative Lopez asked if most of those caseworkers would be working on in-home cases.

Ms. Wareing said they intend to focus on developing their in-home services unit and workers. The proposed standards merge a little bit with the Child Welfare League of America's (CWLA) standards. In terms of the numbers of investigations, they were lower at 10 cases per month rather than 12. This is because so much has to happen at that critical intake stage to be able to be sure that they are responding appropriately to the families' needs and be able to make a determination that they can go to in-home services. Regarding the in-home services and comments regarding the level of staffing, the national standard for CWLA is 17 for in-home workers; DES has it slightly higher at 19. One reason is they are going to approach their in-home services in a private partnership. They are developing intensive wrap-around services and have an RFP out to contract for services. They intend to work with their private provider agencies in collaboration with agency workers providing the services, and believe they can handle a few additional cases.

Representative Lopez said that it appears you will have more eyes making sure that the kids are cared for and safe.

Ms. Wareing said yes, and that is an important point to the delivery of effective in-home services to be able to be sure those children are safe.

Representative Lopez asked, based on the Auditor General's report from 2 years ago, what kinds of changes have been made to CPS.

Mr. David Longo, Business and Finance Manager, DES, said in regards to improvements that have been made to the system, some have been in regards to contractual arrangements. In group homes and placement settings, they have partnered with contractors to try to provide transportation and arrange medical appointments. Their caseworkers were making medical appointments and did not have time to provide transportation. In addition, they are having their case aides input some of the case notes and some of the documentation that takes place during visitations. That is also a feature of the current in-home RFP. In addition, in their automated system, they have looked at several areas to streamline the flow of the system. It was an 8 step process to get from one area of the system to another, now it is a direct line. They have also added some additional multi-select features.
Ms. Wareing said in regards to the Auditor General's report and the methodology used, CPS is preparing to submit a follow-up on caseloads and training and are looking forward to the Auditor General's response.

Senator Burns asked for information on participation by faith-based organizations and at the level of participation.

Ms. Waring said CPS has, over the years, engaged with the faith-based community for improvements of foster homes. There are a number of opportunities for their participation. She stated that CPS is open to participation with community partners.

Senator Burns asked for documentation as to the nature and level of participation.

Representative Pearce asked what CPS is doing to encourage their participation. He believes they need to be aggressively pursuing participation by community organizations.

Ms. Wareing said they have reached out to the faith-based community and received a tremendous response.

Senator Burns asked what the differences were between the Attorney General and CPS in their estimate of number of children waiting placement.

Ms. Wareing said they are trying to get to the bottom of why they have these differences. They have never done a cross match where they take their case names and information and compare it to the Attorney General's information. Some of it may be a difference in in-home cases that are calculated differently across the 2 agencies. They agree that it is disturbing that there are differences and they are trying to understand what those are and will report back to the Committee.

Senator Burns said it is his understanding that during the first of the year the number of investigations was relatively stable, but the number of children in foster care increased by 650. He asked for an explanation as to why that is occurring.

Ms. Wareing said that a tremendous amount of cases that come into the system have been because they have done a better job in their risk and safety process. They have developed tools that they think have made things better in terms of doing investigations. They have started the process of their in-home intensive services, and their units will become operational in October.

In response to Representative Pearce, Ms. Wareing said that there have been numerous attempts to try to increase the level of in-home cases and they have not been successful. One thing needed is to do a better job in investigations and working with families. What CPS did not understand was what they needed to do with their providers in shifting all of those services into in-home services.

Representative Boone wanted to know where Arizona stood in comparison to other states with the number of appropriated FTE Positions.

Mr. Longo said the number of filled positions is an evolving number, day in and day out that number changes. What he thought Representative Boone was looking for is how many filled positions CPS has on a certain day and how that compared to the CWLA standards. This is one of the things they provided in their semi-annual report. For instance, on June 30 they had 165 agent field positions, and 163 people in training to fill those positions. When you look at filled positions, some of those people are still in training functions and may be working with a partial caseload. He said that when the CWLA study was done and less than 20 states responded to and it was difficult to compare apples to apples because of the individual structure of each office, or geographic differences.

Representative Boone said it is important to look at the details so that when comparisons are being made you are comparing apples to apples. He also would like to have a brief summary of caseloads by type of case if all FTE Positions were filled.

Representative Pearce said these issues have been ongoing for a long time. He said it seems they are still talking about intentions instead of performance. He said he shares Representative Boone's concern about how they arrived at certain numbers, and why CPS and the Attorney General's office differ in numbers. He said he is concerned about numbers that have gone in the opposite direction from what was discussed.

<u>Senator Burns moved</u> that the Committee give an unfavorable review. In addition, the Committee requested the following additional provisions:

- *DES reevaluate the standards in 1 year and report back to the Committee by September 1, 2006. The report should include any recommendations for changes to the standards as well as data to support those changes.*

- *DES and the Attorney General examine and resolve their differences in the reporting of the number of children awaiting placement, and submit their joint findings to the Committee by December 31, 2005.*
- *The statutorily required semi-annual Financial and Program Accountability Report include the following measures:*
  - *The number of children in licensed foster care, kinship care, or other family-style placements.*
  - *The number of children in group home, shelters, residential centers or other congregate care settings.*
  - *The number of children in shelter care more than 21 days and the average number of days in care for these children.*
  - *The number of children 0 to 3 years old in shelter care.*
  - *The number of children 0 to 6 years old in group homes.*
  - *Expenditures for services allowed under the Federal Title IV-E waiver including counseling, drug treatment, parenting classes, rent, furniture, car repairs and food expenditures.*
  - *Information on participation of faith-based organizations.*

Senator Garcia moved a substitute motion of a favorable review with the addition of the report on participation of faith-based organizations.

Representative Lopez said that no matter whether there is a favorable or unfavorable review DES is still moving forward in terms of the appropriation and she said she supports Senator Garcia's motion and believes DES has done the best they can under the circumstances. They have worked very hard to develop their standards and are moving forward and she believes the Committee needs to recognize that.

Representative Burton Cahill said she echoes what Representative Lopez and requested a hand vote be taken on this item.

By a show of hands the substitute motion failed.

A vote was taken on the original motion. The motion carried.

JLBC STAFF – Consider Approval of Index for Construction Costs.

Mr. Jake Corey, JLBC Staff, said that statute requires a certain dollar amount per square foot for both new school construction and building renewal formulas. The statute also requires the JLBC to annually adjust the index for inflation. Prior to 2002 the Committee used the Marshall Valuation Service (MVS) index, which is a local Phoenix-based index that tracks Class C – Masonry Bearing Walls, which is typically what school buildings are made of. In 2003, the Committee did not approve an index, and in 2004 the Committee began to use the Bureau of Economic Analysis (BEA) index for state and local government structures. The Committee took action last year using the BEA index. Mr. Corey explained 3 possible options that the Committee could consider (Attachment 3):

1. U.S. State and Local Structures – The BEA index for FY 2005 at 5.8%.
2. Phoenix Masonry Construction – The MVS index for FY 2005 at 6.4%.
3. Phoenix Masonry Construction plus retroactive adjustment – MVS index of 6.4% plus retroactive 2-year adjustment of 9.6%.

Mr. Corey said that one point the Committee may want to consider is the School Facilities Board (SFB) is required by statute to provide funding to build their schools within a set of minimum guidelines. If the amount that the school receives is not sufficient to build a minimum standard school, the SFB can go above and beyond the formula amount. Since its inception SFB has gone above the formula in about 15% of total projects. In terms of total dollars, it has been about 1%. Statute required the SFB to adopt minimum facility standards which they did in 1999 and were approved by the Joint Committee on Capital Review. When a school comes forward for extra money, the SFB looks at the amount that the formula is providing to the district. If a district can build a minimum standard school with the dollar amount that has been provided they do not approve any additional funding.

Senator Burns asked if that procedure takes place prior to construction and what happens after completion of the project.

Mr. Corey said that the formula amount is the amount the school receives unless they are provided additional funds. Additional funds that they have left over would be left to the district's discretion. Most districts would likely use that money for certain types of upgrade or amenities within that particular project.

Senator Burns said the complaint seems to be that there is not enough money to build a minimum standard school in the first place.

Mr. Corey said that what the districts talked about, is that they are seeing a large increase if they want to build the same building they built 5 years ago. With the amount that the formula is providing them they are not able to build the same school as before.

Representative Pearce said it sounds like they are still able to build the school, just without as many amenities as before.

Representative Boone said there was a recommendation from SFB far above 1%. He asked if it only takes 1% more to build a minimum standard why they would be asking for so much more. From his perspective there needs to be some increase for SFB but the question is how much.

Representative Lopez said she knows that there are procedures in place for SFB, such as a change order, allowing the districts to stay within their budget. The rationale for increasing this is because of the increased cost of construction. She has heard of some districts that have put masonry in the front and then stick and stucco construction on the back of the school. She said that is not adequate, it will not stand up to wear and tear.

Senator Waring said he understands that with the formula you can build a baseline school, but you cannot have any extra things not included in the formula. Everything they are talking about is based on what they have always been doing but does not say how they arrived at those prior amounts.

Mr. Corey said he was not sure how the dollar amounts were originally set up in statute.

Mr. Bill Bell, Executive Director, School Facilities Board, wanted to clarify some statements that were made. In regards to the 15% increase in the SFB program, he said it was a 15% increase over the last 3 years, not since the inception of the program. With respect to the recommendation by the SFB of the 6.4% and the retroactive number, the SFB is recommending it and strongly believes in it. They need additional help to assist schools to build the kind of schools that the community desires and the children deserve. He said they did a lot of research before they made the recommendation and stand behind it fully. He said they are finding themselves in a very difficult position. They are, in some circumstances, able to build the minimum adequacy schools only. What happens when a school district comes in over the amount allowed, and SFB engineers pare down the school to a point where it does meet the minimum guidelines. They are building a much less adequate school today because of inflation.

Senator Waring asked if he was talking about, for instance, a cheaper less efficient air conditioner unit or something along those lines.

Mr. Bell said he was talking about the materials. In some cases, they are building modular schools simply because it is the only alternative left to them.

Senator Waring asked why it was not in all cases.

Mr. Bell said that the prices vary across the state. When they build a school in a remote area it costs considerably more. The bottom line is that what they were able to build with the formula amount that was initially given to SFB at its inception, has become less and less acceptable because of the impact of inflation. They are not able to keep up with inflation using the current formula.

Representative Pearce said that Arizona's minimum standard is pretty high.

Senator Waring said he did not realize the price varied so much across the state and how greatly it impacted the schools. He asked if it was that way in 1998 when the program started or has that changed over time.

Mr. Bell said that what they were able to buy for a certain amount in 1998 they cannot buy today. He said he is not suggesting that the minimum standard be changed, but the minimum standard is more difficult to achieve today with the dollars they have because of inflation.

Senator Waring said that it sounds like some school districts were getting better, bigger schools with more stuff and better construction all through the years. He thought that the whole point of the program was to make it so that all schools got the same thing.

Mr. Bell said some school districts are more capable than others of putting in additional dollars to build the kind of structures they want that exceed the minimum guidelines. That has occurred in the past and continues to occur.

Representative Pearce said that the issue is to have a formula to build a school at minimum standards, and districts can figure out how to raise money for extra amenities.

Representative Boone asked if the SFB's recommendation is based on meeting minimum standards. As far as the retroactive issue, is that for projects that are currently under construction or approved and have not started construction yet.

Mr. Bell said that was correct. Regarding the retroactive issue, that is for projects that have been approved but not yet begun construction. They anticipate building 25 schools a year, some do not start on time so there is a backlog of schools on the books.

Representative Lopez said this item is not to change the minimum standards, it is just to cover the cost of building schools to meet minimum standards.

Senator Burns asked Mr. Stavneak if this needed to be addressed today.

Mr. Stavneak said there is not a statutory requirement regarding when the Committee acts, there is a requirement that the Committee act annually and they last acted on this on September 21, 2004.

Senator Burns said what his recommendation would be is to hold this item because he does not feel comfortable voting for this as they are talking about 2 different issues. One is the baseline, which is the minimum standard. He said when Students First was started they came up with a minimum standard that was to address the issue of inflation, there was supposed to be a mechanism to increase the amount of money available. He said he understands the Arizona is number one in the country when it comes to capital construction. He said if they increase the dollar amount one time it does not appear to fix the real problem. Apparently the system that was designed is not working.

Representative Pearce agreed with that but would give people who were in attendance an opportunity to speak on this item.

Representative Tully asked if the 9.6% retroactive number is just to come up with 15%.

Mr. John Arnold, Deputy Director of Finance, SFB, said that the 9.6% is the difference between what the Marshall and Swift inflation index would have produced versus what the Committee has adopted.

Mr. Arnold said what the number suggests is that when Students First was initiated, the Legislature provided $90 per square foot to build in the Arizona market. He said Marshall and Swift is an excellent inflation index for the Arizona market. Based on Marshall and Swift, today we are providing $82 per square foot. They have lost almost 10% of their buying power on the formula over the last 5 years.

Representative Tully asked if there was an analysis to prove those numbers and was Marshall and Swift a state or national index.

Mr. Arnold said they have accepted the Marshall and Swift analysis, and they publish an index specific to the Phoenix market.

Senator Bee wanted to clarify that the 4.8% would be retroactive and also would apply to projects that are in the process. He asked if the 4.8% was built into the system and then an additional 6.4%, so the new projects would be receiving 11.2%.

Mr. Arnold said they are doing 4.8% on prior projects that are in the process and 11.2% on the new ones. With regards to the index adjustment, he said the SFB normal awards cycle begins in November. If the inflation index is not adjusted by then for new projects that will work fine but if there is any type of retroactive adjustment, the further they go on, the more projects will have to be started from scratch.

Representative Burton Cahill said this same discussion has gone on in the past. She noted that since we can no longer build schools for the same money as we did years ago, will this mean that less schools or inadequate schools will be built and how does that affect the students.

Mr. Arnold said the school districts would have to answer that.

In response to Representative Boone, Mr. Arnold said that what the SFB sees is that the amount of dollars they have today is 9.6% below where they believe it should be. The inflation adjustment of 6.4% should be made off a base that is 9.6% higher than it currently is. What they would like to do is bring the base up to where it should be and then make those additional inflation adjustments that they have asked for. It would in the end be 11.2%

Mr. Michael Bradley, Representing 13 School Districts, said the reason this issue is before the Committee is because of Students First. The basis of the Students First lawsuit was if you have a wealthy school district or voters that approved bonds you could build 9 schools but if your district was a low property tax base or people who would reject bonds then you could not build new schools.

Regarding a question by Senator Waring regarding the cost per square foot, Mr. Bradley said the $90 and $110 per square foot were based on the Peoria School District. They were the cheapest buildings being built that they could find at the inception of Students First. The first problem arose was the $90 and $110 cost per square foot was for construction costs, not the program cost. Now it is being interpreted as program costs which can add up to 25% of the total cost of the project. That leaves them instantly 25% off budget. There are about 6 different indexes that are used and whichever was the lowest index would be the one chosen. By picking the lowest index they have gotten behind on inflation. The number they believe they are behind is about 25%. That was based on factors but also the actual cost of prototype schools. There were 3 different districts that built prototype schools and to build that exact school today is 30% to 50% higher in cost. If the district goes to their voters with a bond and it is approved, they are bonding on the basic schools, not the add-ons. If you get a district that is not capable of that you get back to the Students First lawsuit which is not building even a basic school. Mr. Bradley said the districts are not in a position to negotiate the price down with contractors, they are only in a position to pay the inflation. If they do not get it from the state they have to bond for it and it gets them back into the territory of the lawsuit if they do not get the funding.

Mr. Bradley said the other issue SFB has is their minimum standards are different from new construction standards. When they got Students First there were 3 components: 1) building renewal, 2) existing deficiencies, which was one of the reasons for the lawsuit, and 3) new construction. The minimum standards were for existing deficiencies first, such as a leaky roof, or things that are falling apart. There was never really a discussion on what the standard is for a new school. There was a de facto minimum, which was basically the schools that the Peoria School District were building. Now when they do their site plan it comes out 25% higher than SFB will fund. The things that are considered minimum standards would be no carpeting, just concrete floors and no wall dividers. Essentially the school would be a modular building. The districts want to build a school at least as good as the ones they already have.

Mr. Bradley said Arizona is a very fast-growing state which is why we are building a lot of schools. They have the highest school construction because a lot of states are losing population and Arizona is growing dramatically.

<u>Mr. Paul Winslow, Representing American Institute of Architects</u>, said as they have been talking with business and community leaders, as well as the educators and construction industry, and one of the key points is that when you look at any national building index for schools, Arizona is in the lowest part of the low categories. If you take a house or current office building, they exceed what Arizona is spending on schools. Schools have a much higher use, need to be longer lasting, and be a more efficient and effective structure than either of those. The guidelines used that have been discussed today relate to the Marshall and Swift Index. The cost numbers that have been utilized by the SFB and by JLBC were in fact construction numbers. If you use the Marshall and Swift Index, things like phones and furniture add an additional 25% to the cost. If you take the Marshall and Swift projections and add the 25% it actually comes out to $152 per square foot for this past year, which means that if you added on the 6.4%, which has been suggested, it comes out to $161 per square foot.

Mr. Winslow said the correct number that should be adjusted on a square foot basis, should be 18.6% plus the 6.4% for this year's inflation factor. They believe they have not yet seen the effect of some of the construction cost factors because of Hurricane Katrina. The cost for an elementary school should be $161 per square foot, so at a minimum the increase should be 25%.

Representative Boone asked Mr. Winslow if he is suggesting that the current cost of $103 per square foot for an elementary school should go up to $161 per square foot.

Mr. Winslow said they are suggesting a 25% increase, not even what the Marshall and Swift low category is for an elementary school would be. They are using that as a baseline to illustrate the point that they believe there needs to be a 25% increase this year to adjust for what they have been behind. He said to bring the schools up to the minimum standards you would need 25%. He said the schools they have been forced to build have been less than minimum, appropriate educational facilities.

Representative Tully asked Mr. Winslow for a list of substandard schools that have been built. It would be beneficial for the Committee to see what they consist of.

Representative Boone asked, in Mr. Winslow's professional opinion, what he believes the increase needs to be to build a minimum school.

Mr. Winslow said he would provide that to Representative Boone.

<u>Mr. Calvin Baker, Superintendent, Vail School District</u>, said in 18 years at Vail he has been directly involved in the planning, construction and opening of 12 schools. Six of those schools were built after Students First. Prior to coming to Vail he had construction experience with 4 major construction projects in northern Alaska. He said buildings make a very strong statement regarding values and priorities, such as churches, court houses and high schools. In the older sections of Arizona there are still original court houses and schools because they were greatly valued. Today things have changed, schools have to demonstrate that they are building the least expensive schools possible. They opened 2 schools this year and both of them were staffed 2 days before school opened. They only had the school office and some classrooms available because that is all they could get done in time.

There is no way to go back to the SFB and redesign and then go out for another hard bid, it would take too much time. In Vail, after Students First went into effect, they significantly cut back on building features. Today, with the dramatic increases in construction costs combined with the revenue, it is not keeping pace. They are being forced to consider designs that will have a significant negative impact for building quality and efficiency.

Representative Tully said that Mr. Baker mentioned that after Students First they were building minimalist schools and as he understands it, before Students First it was local bonds that would pay for the schools. Now they are getting state money which they are able to supplement with a bond issue.

Mr. Baker said that they felt an obligation to build a school like what was being built across the state. When Students First was passed communities developed an expectation that the state was paying for the basic school. They do bonds because Students First does not cover things like stadiums, tracks and landscaping. The board directed them to do the basic school with the money that was coming from SFB.

Senator Burns said they must have been satisfied then or they would have come forward and said that is not sufficient.

Mr. Baker said that is correct. The schools were functional and attractive schools. They cannot do that today because of the costs.

Representative Tully said that 2 things keep coming up and they are that they have not kept up with inflation and that the schools districts have been building schools that are inadequate. He asked Mr. Baker if he thought they should not only catch up to inflation but go further than that.

Mr. Baker said no that the standards issue needs to be dealt with legislatively. Students First missed some very critical basic standards, like a flagpole or a stadium, for example. Today we are dealing with what is necessary to keep doing what they were doing when Students First was first passed. A 25% increase is necessary just to tread water, not to go above the standards to get to where they were at the beginning of students first.

Representative Lopez asked Mr. Baker what kinds of changes they have had to make in terms of construction in order to stay within the formula.

Mr. Baker said they went to simple concrete masonry units, galvanized walkways; they funded the carpeting, football stadiums and playing fields themselves. Today, they either have to significantly supplement the additional 40%, which is how far they are over budget at this point, or they go to a stick and stucco construction, metal buildings, and even at that they are still not meeting the budget. The contractors are telling them they will have to go to modular buildings.

Representative Lopez said those alternatives are not appropriate for our schools.

Senator Waring said he has visited schools in other states and does not find Arizona schools in worse condition than those. He said he believes this is being greatly overstated.

Senator Martin said he spent most of his education in the valley in a trailer. He said he believes he got a good education even though it was not in a state-of-the-art building. He commented that the focus should be to make sure the kids are educated not to make sure they have the nicest building because the money cannot be spent on anything else.

Senator Bee noted that school buildings are an investment. As inflation is increasing, if they do not keep up with the quality of investment that they need to be making, that is of great concern. He said that the school he went to was very old but structurally sound. The modulars that were put on the property have been gone for 20 years because they fell apart. He said they would be wisely investing their money, even if it is a higher quality product, they will get a longer life out of it, thereby saving money.

Mr. Jay St. John, Superintendent, Sahuarita Schools, said that at their next governing board meeting they were going to have to make some critical decisions. They have a K-8 building funded through the SFB and are trying to figure out how to fund the complete construction of that building. In addition, they have grown 15% over the last 3 years, up to 3,700 students. They think they will be able to scrape up about $200,000 worth of capital to either tear out some locker rooms and a wrestling room, which they built with their own money many years ago, and turn that into classroom space. The other thing important to the discussion is that there is a charter school adjacent to their district that is going under. The owner of the building said it would cost the district $185 a square foot to buy the building. The point being that what the SFB and state of Arizona is asking schools to do is to build a K-8 building for $105 a square foot.

Mr. Phil Swaim, Architect, Swaim Assoc. Ltd, said he has been designing schools for the past 25 years. He said he has complained about funding for schools since 1998. As has been said, they were somehow successful in being able to design very basic schools. He said they are currently in the process of trying to design an elementary school and cannot meet the basic minimum standards. They have pared it down just as SFB would. They have no flooring, landscaping, and no insulation in the walls, the back half of the building is stick and stucco and they are still about 25% of the cost away from meeting basic minimum standards. He noted that at this point, they are at a crisis.

Ms. Cathy Rex, Architect, said that at a school south of Tucson you cannot get contractors or architects there. They have selected a design built contractor but the building is over budget. They had to throw out the contract and start over. The building they were awarded in 2002 they could not complete and start over again 3 years later. The children do not have a school. The district had to make a choice since they do not have any grounds or maintenance people. With the way the standards are written they either have to do a stick and stucco construction, which they cannot maintain, or they have to go to a masonry building which they cannot insulate the way they need to. They are either going to spend M&O money on paying extra utilities to heat and cool the building or spend M&O money in order to have a stucco building that they cannot maintain themselves.

Mr. Joe Malisewski, Sundt Construction, said the state is building schools that will not last 20 years. He said that the 25% is the minimum that is needed for inflation.

Representative Tully asked if this is a competitive field.

Mr. Malisewski said it is very competitive, there are many contractors that are pursuing this work. They are finding more and more leaving the market because it is no longer profitable. There is a tremendous amount of effort that goes into the front end of these projects, trying to get them within budget. They are doing it but it is bare minimum standards, such as concrete floor and uninsulated walls.

Representative Pearce said that the Committee is not going to take action on this but is rescheduling this for another meeting.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)

A. Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicles & Report on Tiered Rate Mileage Reimbursement System.

Mr. Tyler Palmer, JLBC Staff, said that the mileage rate is set by ADOA but is not implemented until approved by the Committee. ADOA is requesting a rate increase from 37.5¢ per mile to 40.5¢ per mile. This 40.5¢ per mile is consistent with the IRS rate. This increase would have a $66,000 annual impact on the General Fund and a $237,000 impact on all Other Funds. These amounts do not include the impact on the universities. However, in response to recent gas price increases the IRS has implemented an emergency rate increase from 40.5¢ to 48.5¢ per mile. This is effective for the remainder of the year and will be revisited toward the end of the year.

Senator Burns asked if the Committee could change policy relative to going to a tiered rate or would it need to go before the whole Legislature in the form of a bill.

Mr. Stavneak said that the Committee could approve a change in the rates, for example 40¢ for certain trips and 30¢ for another. He said they have had some discussion with ADOA about whether the Committee only has the ability to approve something forwarded on to them by ADOA or not. ADOA has not formally recommended the tiered reimbursement system. He said it is an open question with regards to the Committee's ability to approve the tiered reimbursement system.

Representative Pearce said to have 40% of the fleet sit there is inappropriate. There are factors involved on whether it is more efficient to pay an employee for use of a private vehicle as opposed to using a fleet vehicle. At this point, he said he supports a tiered system. There should be some incentive for employees to use a state vehicle, however, there are certain trips where it is advantageous to use a private vehicle.

<u>Mr. Clark Partridge, State Comptroller, GAO, ADOA</u>, said that they had submitted a 40.5¢ rate prior to Hurricane Katrina. We have now experienced the single largest gas price increase. He said it is like hitting a moving target at this point, and is the reason why they have not made a revised recommendation. Since Hurricane Katrina happened, in the last 2 weeks they have had record declines in gas prices nationwide. They try to look at where gas prices are and do what is equitable for employees, however, they are also concerned about the cost to the state and the budget. Mr. Clark said to put this issue in perspective, they are talking about $4 million a year that the state spends, excluding the universities.

Representative Tully asked if it will encourage people to use fleet vehicles if they adopt the 40.5¢ as recommended, even if it is not effectively reimbursing them.

Representative Pearce said that to a degree the answer is yes. Instead of just picking a number, he said it would be nice to have a proposal before a proper tiered system is implemented. He said ADOA did not object to it originally but he has heard they may have some problems with it. He said they are not prepared to go to a tiered system today but would like to work towards that end.

Mr. Partridge said fleet vehicle usage has gone up 21% in the last month due to increased gasoline costs.

Senator Harper said he has a constituent with 9 employees and he said that each of them puts between 300 and 1,500 miles a month on their personal vehicle. Since they are being reimbursed below what the IRS allows, essentially they are donating $33 to $165 each to the state of Arizona.

<u>Senator Burns moved</u> that the Committee approve the 40.5¢ per mile reimbursement as recommended by the Department of Administration. The motion carried.

B. Review of Risk Management Deductible.

Representative Pearce deferred the last item on the agenda to a later date.

EXECUTIVE SESSION

<u>Senator Burns moved</u> that the Committee go into Executive Session. The motion carried.

At 2:25 p.m., the Joint Legislative Budget Committee went into Executive Session.

<u>Senator Burns moved</u> that the Committee reconvene into open session. The motion carried.

At 2:35 p.m. the Committee reconvened into open session.

<u>Senator Burns moved</u> that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Heintz v. State of Arizona, et al, and in the case of Hoffman v. State of Arizona from the September 1, 2005 meeting. The motion carried.

Chairman Pearce adjourned the meeting at 2:43 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman

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

Case manager retention for the second half of FY 2005 was about 80%.

- The lowest retention rate was in District 4 with 25% and 100% for supervisors.
- The highest retention rate was in the Hotline with 95% and 100% for supervisors.
- All Districts except 3 and 4 had a retention rate above 75% for case managers.
- Only District 6 had a retention rate below 90% for supervisors (64%).

In FY 2005, 297 case managers entered the training academy and 240 graduated.

	Actual Quarters 1 & 2 FY 2005	Actual Quarters 3 & 4 FY 2005
Case managers enrolled in CPS training academy	129	168
Case managers graduated from CPS training academy	151	89

- As of June 2005, CPS had 163 case managers in training for its 165 vacant positions

DES conducts two employee satisfaction surveys on a 1-5 scale.

	Actual Quarters 1 & 2 FY 2005	Actual Quarters 3 & 4 FY 2005
Employees completing the CPS Academy (scale 1-5)	4.3	4.3
Employees in the Division of Children, Youth and Families	3.43	3.47

DES reports 3 measures of CPS decision making, all of which are improving

	Actual Quarters 1 & 2 FY 2005	Actual Quarters 3 & 4 FY 2005
Percentage of CPS original dependency cases where court denied or dismissed the cases	0.00%	0.18%
Percent of OAH hearings where CPS case findings are affirmed	80.3%	89.4%
Percent of CPS complaints reviewed by the Office of the Ombudsman where allegations are reported as valid	15.4%	13.2%

In-home caseloads have decreased by about (4)% per month, while out-of-home cases have increased by about 1% per month.

- Investigations maintained an average of about 3,200 case per month, with about 1,800 to 1,900 cases in District 1 (Phoenix Metro).
- Total in-home cases declined from 5,500 to 4,500, with only Districts 3 and 5 showing minor growth.
- Total out-of-home cases increased from 9,150 to 9,760, with a minor decrease in District 2 (Tucson).
- June reflects lower totals in all cases due to the end of the school year.

DES released a set of new goals in a report called *Strengthening Families: A Blueprint for Realigning Arizona's Child Welfare System*.

- DES has set the following objectives for Summer 2006:
  – 5% reduction in out-of-home placements
  – 10% reduction in congregate care (group homes, shelters and residential facilities)
  – No children ages 0 to 6 in group homes
  – No children ages 0 to 3 in shelter placements (unless it is in the best interest of the child)
  – Reduce the length of stay in shelter care to a 21 day maximum
- DES reports that a main strategy is to use the new caseworkers appropriated for FY 2006 for intensive in-home and reunification services.

Attachment 2

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Attachment 3

Options for SFB Inflation Index

- Option 1: BEA index of **5.8%**
- Option 2: MVS index of **6.4%**
- Option 3: MVS index of 6.4% + retroactive adjustment of 4.8% = **11.2%**

New Construction Funding per Square Footage Amounts				
Grade Level	Current Amount	Option 1	Option 2	Option 3
K-6	$103.56	$109.57	$110.19	$115.16
7-8	$109.32	$115.66	$116.32	$121.56
9-12	$126.58	$133.92	$134.68	$140.76

DATE: September 28, 2005

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

THRU: Richard Stavneak, Director

FROM: Tyler Palmer, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of Risk Management Deductible

Request

A.R.S. § 41-621(E) requires the Arizona Department of Administration (ADOA) to submit for annual review deductible amounts charged to agencies for risk management losses. ADOA requests that the Committee approve the current deductible amounts, with no changes from the previous year.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request.

Analysis

Laws 1997, Chapter 85 provided that the ADOA Director may impose deductibles of up to $10,000 per risk management loss on state agencies. Such deductible amounts are subject to annual review by the Joint Legislative Budget Committee (JLBC). ADOA maintains the right to waive any deductible for just cause or in the best interests of the state. To date, ADOA has not assessed any deductibles.

During FY 2005, ADOA planned to assess a deductible against the Arizona Department of Transportation (ADOT) resulting from a case related to inadequate highway maintenance. However, ADOT avoided being assessed a deductible by submitting an accepted Agency Response regarding its maintenance program.

The deductible program has three components, as described below:

(Continued)

1) Rule 14 Settlements and Judgments
   ADOA will charge a $10,000 deductible for each claim of $250,000 or more (those claims requiring JLBC approval under Rule 14), unless the agency implements an approved plan to limit or eliminate similar future losses. ADOA helps agencies develop these plans.

2) Workers' Compensation Early Notification
   ADOA requires state agencies to report workers' compensation claims within 10 days of the employee's incident notification to a supervisor or other agency representative. If an agency fails to report within 10 days, Risk Management would charge a deductible of 20% of the claim, up to $10,000. If an agency reports 75% of all occurrences of industrial injury or illness within two days of the employee's notification to a supervisor or other agency representative, Risk Management will waive this deductible. ADOA provides extensive training to agencies on early reporting.

3) Opportunistic Loss Prevention
   ADOA and each agency reach agreements on the agency's most significant opportunity for loss prevention. ADOA will assess a $10,000 deductible for each loss of this type unless the agency implements an approved loss prevention plan. All state agencies have submitted such plans. ADOA continues to work with agencies to update and improve those plans.

RS/TP:ym

JANET NAPOLITANO
GOVERNOR

BETSEY BAYLESS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

RISK MANAGEMENT SECTION
100 North 15th Ave., Suite 301
PHOENIX, ARIZONA 85007-2635
(602) 542-2180 FAX (602) 542-1943

June 28, 2005

The Honorable Robert Burns
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

The Honorable Russell K. Pearce
Arizona House of Representatives
1700 West Washington
Phoenix, AZ 85007

Dear Senator Burns and Representative Pearce:

Pursuant to ARS 41-621E, the Director of the Department of Administration (ADOA) may impose on state agencies deductibles of up to $10,000 per Risk Management covered loss. Deductible amounts established by the Director shall be subject to annual review by the Joint Legislative Budget Committee. The Risk Management Section of the Department of Administration maintains the right to waive any deductible for just cause or in the best interest of the state.

The deductible program has three components, as described below:

1. **Rule 14 Settlements and Judgments**
   The Risk Management Section shall charge a $10,000 deductible for each claim of $250,000 or more (i.e., those claims approved by the JLBC under Rule 14) unless the agency implements an approved plan to eliminate or limit similar future losses.

   The Risk Management Section helps agencies develop these plans.

2. **Workers' Compensation Early Notification**
   The Risk Management Section shall charge each agency a deductible on each workers' compensation claim the agency fails to report to RM within 10 days after an employee notifies the employee's supervisor or other agency representative of an injury. The deductible amount of the claim shall be equal to 20% of the total claim, not to exceed $10,000.

The Risk Management Section shall waive the deductible on all of the agency's workers' compensation claims reported after the 10-day period, if the agency reports 75% of all occurrences of industrial injury or illness within 2 days of being reported by an employee to the employee's supervisor, or other agency representative. To make this computation RM shall use a rolling 12-month average, and apply the deductible to claims filed during the individual months of 2001 and all years forward.

The Risk Management Section has provided agencies with extensive training and informational materials for use in educating their employees of the need for early reporting of workplace injuries.

3. **Opportunistic Loss Prevention Program**
The Risk Management Section and each agency shall agree on the agency's most significant opportunity for loss prevention. The Risk Management Section will assess a $10,000 deductible for each loss of this type unless the agency implements an approved loss prevention plan. All state agencies have submitted loss prevention plans. The Risk Management Section continues to work with agencies to update and improve those plans.

During fiscal year 2005, no agency has been assessed a deductible.

We believe that the deductible program provides a good incentive for state agencies to avoid losses covered by Risk Management. This is an important counter-balance to the possible adverse effect of The Risk Management Section bearing the cost for another agency's decision that may result in a loss.

Sincerely,

Frank Hinds
State Risk Manager

cc. Betsey Bayless, Director, Department of Administration
Jerry Oliver, Deputy Director, Department of Administration
Paul Shannon, Budget Manager, Department of Administration
Shelli Carol, Budget Analyst, JLBC
Matt Gottheiner, Budget Analyst, OSPB

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

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DATE: October 19, 2005

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

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Fiscal Analyst

SUBJECT: JLBC Staff – Consider Approval of Index for Construction Costs

Request

A.R.S. § 15-2041D.3c requires that the cost-per-square-foot factors used in the School Facilities Board (SFB) building renewal and new school construction financing "shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee as necessary but not less than once each year." The School Facilities Board Staff recommends that the Committee approve an adjustment for FY 2006 based on the Marshall Valuation Service (MVS) construction cost index. The recommendation is from SFB Staff as the Board has not voted on the issue.

The SFB Staff also asks the Committee to consider an additional retroactive adjustment of up to 9.6% over the next 2 years.

At the September 28, 2005 meeting, the Committee considered this item but did not take action. This memo mostly contains the same information as last month. JLBC Staff, however, has provided additional information concerning minimum school facilities guidelines and historical construction index data, which can be found under the Analysis section on the last 2 pages of the memo.

Summary

The Committee has at least 3 options:

1. Approve an increase in the cost-per-square-foot factors based on the U.S. Department of Commerce: Bureau of Economic Analysis (BEA) index for "State and Local Government Investment – Structures." Approving this 5.8% adjustment may cost an estimated $652,500 for new construction in FY 2006 and an additional $12.4 million once fully implemented over the next 4 years. In addition, this adjustment would increase the building renewal formula by $7.5

million. Since its September 2003 meeting, the Committee has approved an adjustment based on this index.

2. Approve an increase in the cost-per-square-foot factors based on the MVS construction cost index for "Class C – Masonry Bearing Walls." Approving this 6.4% adjustment may cost an estimated $720,000 for new construction in FY 2006 and an additional $13.7 million once fully implemented over the next 4 years. In addition, this adjustment would increase the building renewal formula by $8.3 million. Prior to the August 2002 meeting, the Committee based the adjustment on this index.

3. Approve a 6.4% increase in the cost-per-square-foot factors based on the MVS construction cost index in the current year, plus a retroactive adjustment of 9.6% to be implemented over the next 2 years (as requested by SFB Staff). JLBC Staff assumes that half of the retroactive adjustment, or 4.8%, would be implemented in FY 2006, while the other 4.8% would be implemented in FY 2007. Approving this 11.2% (6.4% + 4.8%) adjustment may cost an estimated $1.3 million for new school construction projects approved in FY 2006 and an additional $36.4 million once fully implemented over the next 4 years. The retroactive adjustment of 4.8% would apply to any new school construction projects that were initially approved in FY 2005, while the 11.2% would apply to projects approved in FY 2006. This option would increase the building renewal formula by $14.6 million. Of the $36.4 million cost, the FY 2005 projects would cost an added $12.5 million ad the FY 2006 projects would cost an extra $23.9 million.

Table 1 lists the dollar per square foot amounts for each of the 3 options.

Table 1
Dollars per Square Foot Amounts for Each Option

	K-6	7-8	9-12
Current Amount	$103.56	$109.32	$126.57
Option 1- BEA	$109.57	$115.66	$133.91
Option 2- MVS	$110.19	$116.32	$134.67
Option 3- MVS/retroactive	$115.16	$121.56	$140.75

Analysis

This section includes background information regarding the SFB inflation index, details on rising construction costs, an explanation of the options available for the current adjustment, discussion on the SFB's guidelines for funding new school construction projects, and minimum school facility guidelines.

Background Information

The original Students FIRST legislation (Laws 1998, Chapter 1, 5th Special Session) established funding amounts per square foot of space for new construction and building renewal (e.g., $90 per square foot for Grades K-6). It required, however, that those amounts be adjusted periodically for inflation. (A.R.S. § 15-2041D.3c). The latter provision states that the funding amount per square foot "shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee as necessary but not less than once each year." The SFB also has statutory authority to modify a particular project cost per square foot for geographic factors or site conditions above the approved amounts.

Prior to 2002, the Committee used the MVS construction cost index for Class C structures (masonry bearing walls) for Phoenix. At the August 2002 meeting, the Committee elected not to approve an adjustment in the cost-per-square-foot factors. Due to the decision not to approve an adjustment for that year, 5 school districts brought suit against the Committee, claiming the Committee had failed to perform its statutory duty under A.R.S. § 15-2041D.3c to adjust the index not less than once per year. The following year, at the September 2003 meeting, the Committee approved a 2-year adjustment. The adjustment made was based on the BEA index for "State and Local Government Investment – Structures." The Committee again approved the BEA index at the September 2004 meeting.

For building renewal, the inflation adjustment is applied to the *formula* amount. In FY 2006 the state funded $70.0 million of the $130.1 million building renewal formula amount. An inflationary adjustment, therefore, would increase the formula amount to at least $137.6 million in FY 2007 prior to any other possible formula adjustments.

Construction Costs

Construction costs are on the rise due to increasing prices of inputs, such as cement, steel, oil, labor, gypsum, fiberglass insulation, and lumber. Increasing costs of construction inputs are due to the surge in China's infrastructure building, the housing boom in the U.S., and the war in Iraq, amongst other reasons. The cost of construction materials rose as much as 15-25% in the U.S. last year as compared to 3-5% in previous years. The world price of steel increased by 87%, or by $338 per ton, from January 2003 to January 2005.

As a result of these inflationary pressures, school districts in Arizona have been experiencing higher costs. For example, according to the Chandler Unified School District, they have built 2 almost identical elementary schools over the last 3 years. The first school cost $4 million to build while the second school cost $5.2 million, an increase of $1.4 million, or 30%. *(See Attachment 1 for additional detail.)*

Options for the Current Adjustment

The JLBC Staff has identified at least 3 possible adjustments that could be considered.

U.S. State and Local Structures

The BEA index for "State and Local Government Investment – Structures" for FY 2005 is 5.8%. This index measures price changes for all U.S. state and local gross investment in structures, which includes all buildings. Unlike the MVS data, this index only measures government activity, so it may better reflect school district market conditions. This data, however, is only available nationwide. The total estimated new construction and building renewal impacts would be $13.1 million and $7.5 million, respectively.

Phoenix Masonry Construction

The MVS index for "Class C – Masonry Bearing Walls" structures for Phoenix for FY 2005 is 6.4%. School buildings typically fall into the Class C structure category. Class C structures are characterized by masonry or reinforced concrete construction and generally include office buildings of 3 stories or less. The MVS Class C index has a greater likelihood, as a single construction measurement, of year-to-year fluctuation. The total estimated new construction and building renewal impacts would be $14.4 million and $8.3 million, respectively.

Phoenix Masonry Construction plus retroactive adjustment

A third option would be the MVS index of 6.4%, plus a retroactive 2-year adjustment of 9.6%. The 9.6% retroactive adjustment would be implemented over 2 years. Assuming that the additional adjustment would be 4.8% in both FY 2006 and FY 2007, this would result in a total adjustment of 11.2% for the first year. The total estimated new construction and building renewal impacts would be $37.7 million and $14.6 million, respectively. In FY 2007, the 4.8% adjustment would be prior to any other adjustments the Committee would make.

The SFB Staff has requested this increase to adjust for levels of construction inflation in Arizona that the board believes the national index did not adjust for in the previous 2 years. According to the SFB, the BEA adopted indices for the previous 2 years lag the MVS index by 9.6%.

The retroactive adjustment of 4.8% would apply to any new school construction projects that were initially approved in FY 2005, while the 11.2% would apply to projects approved in FY 2006.

Attachment 2, titled "School Construction Indices," depicts the BEA, MVS, and JLBC index amounts since FY 2000.

As noted above, the Committee has chosen different inflation indices in different years. Based solely on the BEA inflation since FY 2000, it would take a 9% adjustment in FY 2006 to catch up to the BEA index. The total estimated new construction and building renewal impacts would be $20.3 million and $11.7 million, respectively.

Based solely on the MVS inflation since FY 2000, it would take a 16.7% adjustment in FY 2006 to catch up to the MVS index. The total estimated new construction and building renewal impacts would be $37.6 million and $21.7 million, respectively. See *Table 2* for an example on the differences between the current cost per square foot amount versus other options.

Table 2

K-6 Cost per Square Foot FY 2006 Options

	Cost per Sq. Foot Amount	Difference from Current Amount	Full Construction Cost ($ in M)[1/]	Building Renewal Cost ($ in M)[1/]
Current Amount	$103.56			
Option 1- BEA	$109.57	5.8%	$13.1	$ 7.5
Option 2- MVS	$110.19	6.4%	14.4	8.3
Option 3- MVS/Retroactive	$115.16	11.2%	37.7	14.6
BEA since FY00	$112.89	9.0%	20.3	11.7
MVS since FY00	$120.82	16.7%	37.6	21.7

1/ Represents costs for K-6, 7-8, and 9-12 schools.

The new construction amounts are based on SFB's current estimate of $225 million in project approvals for FY 2006 and $260 million for FY 2005 projects. Based on its projected construction schedule, SFB does not believe current new construction cost estimates should require the board to seek supplemental funding in the current year as its existing $250 million budget would cover this cost. For building renewal, though an inflation adjustment would increase the formula cost in future years, in FY 2006 the state appropriated $70.0 million for building renewal. Adjusting for inflation would not change the existing appropriation.

New School Construction Funding Guidelines

SFB provides new construction funding based on the product of the following statutory New School Facilities (NSF) formula:

No. of pupils x Sq. foot per pupil x Cost per sq. foot = Allocation amount

SFB has the authority to provide additional funding above and beyond the statutory allocation amount to a district if it cannot build a school within the NSF formula amount. A district can prove they cannot build a minimum guidelines school by demonstrating they are building the least expensive school they possibly can but are still over the formula amount. Since the enactment of Students FIRST, some of these projects have been funded above the formula with SFB monies. From 2002 to 2005, SFB has provided funding above the formula for 14% of new construction projects, or about 1% in terms of total dollars.

SFB has applied the JLBC adopted inflationary adjustment to projects that are approved subsequent to the Committee's action. As a result, projects that are approved at different times but began construction at the same time might receive different funding amounts from SFB.

Minimum School Facility Guidelines

Minimum guidelines for school facilities were developed by SFB, adopted by JCCR, and became effective in 1999. *Attachment 3* provides a summary of the individual rules for the minimum guidelines as adopted by the Committee in 1999. No significant changes related to new school construction standards have been made to the guidelines since their adoption.

At the last meeting, Committee members expressed an interest in what the minimum standard guidelines cover in terms of value engineering. Elements of value engineering, such as flooring and stuccoing, are not directly addressed in these minimum guidelines. Examples of issues that are addressed are classroom lighting and cafeteria equipment.

RS/LM:ck
Attachments

Attachment 1

September 12, 2005

Jake Corey
Fiscal Analyst
1716 W Adams St.
Phoenix, AZ 85007

Re: Cost comparisons for elementary schools

Dear Mr. Corey:

Recently I prepared for Jeanette Polvani, Assistant Superintendent of Chandler Unified School District, a cost comparison of the major items of work making up the cost for two elementary school projects. This cost comparison was based on the building construction cost for the Hancock Elementary School which was constructed from 7/03 to 7/04 and the Old Stone Ranch Elementary School which will be constructed from 8/05 to 6/06. These two projects were selected for comparison because they are virtually identical elementary schools, with the only exception being that Old Stone Ranch includes an additional building. In our budgeting and bidding process, the value of each of the buildings is identified. I therefore was able to adjust the total cost for each item of work for the Old Stone project to delete the cost of the additional classroom building. Also, while the buildings are identical, the site improvements were considerably different. For this reason, site work costs were not compared. With the cost for Old Stone adjusted to exclude the additional building and site costs excluded, the similarity in projects affords us the rare opportunity of evaluating the cost of identical scopes of work currently as compared to two years ago.

The cost data used in the comparison was derived from actual subcontractor bids that were utilized in establishing the Guaranteed Maximum Price for the projects. In fact, most of the subcontractors selected to perform the work for Old Stone Ranch are the same subcontractors that performed the work for Hancock Elementary. Note that for this exercise, site work, general contractor fees and taxes were not evaluated, and therefore these figures are not intended to represent the total cost of construction of the schools. Rather the comparison is on the items of work subcontracted and that make up the bulk of the cost of the project.

In reviewing the results of our analysis, one can clearly see the impact that construction cost inflation has had on overall project cost. Our empirical data suggests inflation of the order of 15% to 20% per year over the past two years. A review of this cost comparison indicates a verified cost increase of 30%, similar to the empirical data.

I hope this information is helpful. If you have any questions, you can reach me at 602-296-1496.

Sincerely,
Haydon Building Corp

Fritz Behrhorst
Vice President – Pre-Construction

Haydon Building Corp 8/24/05

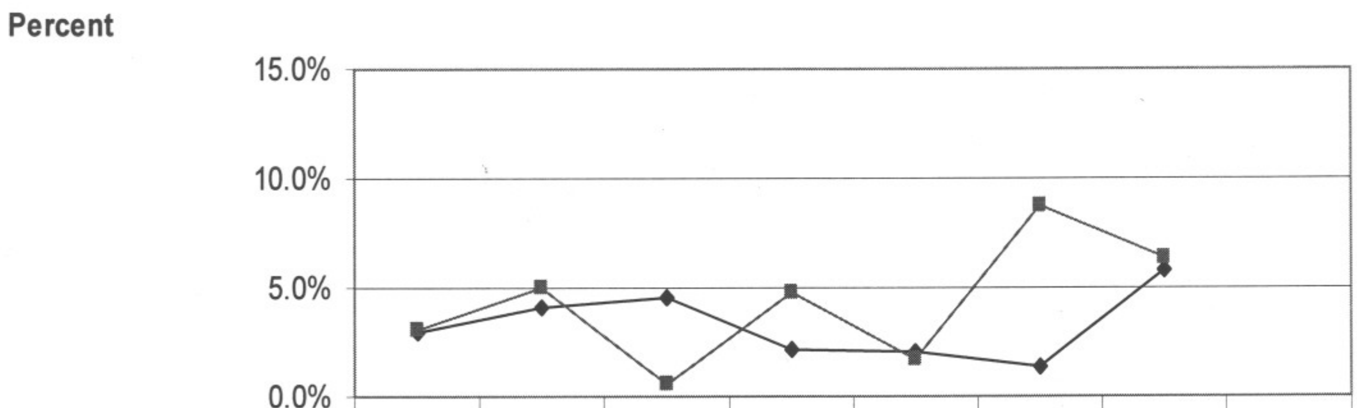
This spread sheet illustrates the difference in cost between two elementary schools of identical design and size that were built two years apart. Site costs (Except concrete which is similar in scope) have not been included because of differences between the two schools.

Figures for Old Stone Ranch have been adjusted to delete bldg 6, which was not included in the Hancock and Navarette schools.

Hancock & Navarette construct 7/03 to 7/04 — Bid Ph1-5/13/03 Ph 2 - 11/26/03
Old Stone Ranch Elementary construct 8/05 to 6/06 — Bid 6/29/05

		Old Stone Value w/o Bldg 6	Navarette & Hancock	Cost Diff	%
2900	SOIL POISONING	$5,157	$4,550	$607	13.34%
3300	CONCRETE	$702,000	$490,445	$211,555	43.14%
4200	MASONRY	$679,415	$449,240	$230,175	51.24%
5100	STEEL	$140,975	$78,000	$62,975	80.74%
6100	ROUGH CARPENTRY	$430,000	$339,640	$90,360	26.60%
6200	DOOR INSTALLATION	$16,145	$17,900	($1,755)	-9.80%
7200	INSULATION	$70,322	$46,668	$23,654	50.69%
7540	FOAM ROOFING	$167,420	$117,705	$49,715	42.24%
7610	METAL ROOFING, PANELS, GS	Not comparable - Major scope changes			
7700	ROOF HATCHS	$4,550	$3,864	$686	17.75%
7900	CAULKING	$11,051	$14,490	($3,439)	-23.73%
8100	DOORS & HARDWARE	$138,446	$117,586	$20,860	17.74%
8800	GLASS & STOREFRONT	$32,100	$23,657	$8,443	35.69%
9100	FRAME, DRYWALL, PAINT	$406,550	$290,099	$116,451	40.14%
9300	CERAMIC TILE	$68,760	$49,550	$19,210	38.77%
9500	ACOUSTICS	$57,550	$58,080	($530)	-0.91%
9600	FLOOR COVERING	$123,175	$103,150	$20,025	19.41%
9950	FRP	$1,745	$1,195	$550	46.03%
10100	CHALK & TACK BOARDS	$26,453	$23,550	$2,903	12.33%
10800	TOILET PARTITIONS & ACCESS	$34,106	$26,478	$7,628	28.81%
11060	STAGE CURTAIN	$4,645	$3,400	$1,245	36.62%
11400	KITCHEN EQUIPMENT	$81,496	$64,710	$16,786	25.94%
11500	ATHLETIC EQUIPMENT-INDOOI	$8,839	$5,755	$3,084	53.59%
12300	CASEWORK	$177,210	$163,475	$13,735	8.40%
15400	PLUMBING	$282,689	$244,238	$38,451	15.74%
15500	FIRE SPRINKLERS	$119,270	$81,100	$38,170	47.07%
15800	HVAC	$480,750	$379,350	$101,400	26.73%
15900	TEST & BALANCE	$11,825	$9,280	$2,545	27.42%
16100	ELECTRICAL	$692,887	$578,052	$114,835	19.87%
17100	SPECIAL SYSTEMS	$189,624	$176,475	$13,149	7.45%
	Total value of these items	$5,165,155	$3,961,682	$1,203,473	30.38%

School Construction Indices



	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Cumulative
S & L Gov't.-Structures (BEA)	3.0%	4.1%	4.6%	2.2%	2.0%	1.4%	5.8%	23.1%
Marshall Class C (MVS)	3.1%	5.0%	0.6%	4.8%	1.7%	8.7%	6.4%	30.3%
JLBC adopted index	3.1%	5.0%	0.6%	0.0%	4.2%	1.4%		

Attachment 2

Attachment 3

STATE OF ARIZONA

Joint Committee on Capital Review

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

DATE: June 17, 1999

TO: Randall Gnant, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Senior Fiscal Analyst

SUBJECT: PROGRESS REPORT REGARDING THE DEVELOPMENT OF SCHOOL FACILITY ADEQUACY GUIDELINES BY THE SCHOOL FACILITIES BOARD

Request

The School Facilities Board requests an opportunity to report progress in the development of school facility adequacy guidelines, as is required under A.R.S. § 15-2011.F.

Recommendation

No committee action is required.

Analysis

Our analysis will consist of an Overview and a Review of Individual Rules.

Overview

On June 14, 1999, the School Facilities Board adopted its final draft of rules for establishing school facility adequacy guidelines pursuant to A.R.S. § 15-2011.F. Before seeking JCCR review of those rules, however (as is required prior to their final adoption), the Board will be soliciting public input on them. After that input is received, it then will seek JCCR review of the guidelines–probably at the JCCR meeting on August 5th. Therefore at this meeting the Board seeks only to report progress in the development of the guideline rules.

A copy of the draft rules is attached. Since this is the first time that they are available in near-final form, this memo will summarize them briefly "rule by rule." We also will attempt to point out key issues that were debated during their development.

Also attached is the adopted draft list that shows "fixtures" and "equipment" that would be required under the guidelines. That list was the focus of contentious debate, with some members believing that Students FIRST did not require minimum adequacy guidelines to be developed for "soft capital" items such as science laboratory equipment. They also believed that the increased formula funding for soft capital in Students FIRST (approximately $36.5 million for FY 1999) was intended to fully address this area. The majority of Board members, however, voted

(Continued)

to establish minimum guidelines for soft capital. Not including soft capital guidelines would have reduced the potential cost of the Students FIRST program, since the state would not have been required to ensure that schools have all of the items on the minimum equipment and fixture lists.

Please note that we do not have an estimate of what it would cost to implement these guidelines. This cost will depend largely upon the results of the statewide school facility inventory survey that is required by A.R.S. § 15-2002, Subsection E. That survey will determine the extent to which existing schools do not comply with the guidelines, which, in turn, will determine the long-term cost of correcting deficiencies with monies from the Deficiencies Correction Fund (A.R.S. § 15-2021). Under Students FIRST, that fund received a total appropriation of $35 million for FY 1999, and $50 million per year for FY 2000 and FY 2001.

While we do not have data with which to estimate the total cost of correcting deficiencies under the draft guidelines, anecdotal evidence suggests that key high-cost areas will include computers, libraries, lighting and air conditioning. At the last JCCR meeting, for example, it was reported that the Tucson Unified School District (TUSD) estimates that it would cost about $55 million to replace its evaporative coolers with air conditioning units–as probably would be required in order to meet the adopted classroom temperature guideline. Likewise at one of the guideline development meetings, a TUSD staff member indicated that his district currently has about 1 computer for every 16 students–half as many as would be required under the guidelines. If this ratio held true statewide, there would be a shortfall of at least 50,000 computers. At a quick assumed cost of $500 apiece, this would cost $25 million.

The guidelines also could possibly affect funding requirements from the New School Facilities Fund (A.R.S.§ 15-2041), which funds the construction of new schools. This would only be true, however, if it was determined that the funding formula for new schools in A.R.S.§ 15-2041 did not provide enough money to build schools that comply with the guidelines, and the formula was modified accordingly. Our understanding, however, is that the funding formula in A.R.S.§ 15-2041 is expected to adequately fund the construction of new, standards-compliant school buildings.

Review of Individual Rules

R7-6-101. Definitions (pages 1 & 2 of attachment)

Defines terms that require precise legal meanings elsewhere in the guidelines. Most of the definitions in this section are non-controversial, since they are defined elsewhere in statute or have a scientific basis (e.g., "foot candle"). The terms "equipment" and "fixture," however, were the focus of much discussion because they determine whether capital items are considered "soft" versus "hard" capital, since those two types of capital items are funded differently under Students FIRST.

R-7-102. Application (page 2)

Simply indicates that the rules discussed in this memo apply to the Students FIRST program.

R7-6-201. School Site (page 3)

Indicates that a school site shall have safe parking, drainage, security and an area to accommodate facilities that comply with minimum standards. Much discussion focused around how difficult it was to precisely identify minimum adequacy requirements for school sites, particularly for components such as parking and security.

R7-6-301. Academic Classroom Space (pages 3 & 4)

Sets separate standards for classroom space for various age ranges. Note that these square footage requirements pertain to *classroom* space only, affect existing schools, and are for gauging whether a school has a square footage deficiency. In contrast, the square footage allotments that appear in A.R.S. § 15-2011.C pertain to *gross* square footage (not just classroom space). Likewise they differ from the square footage requirements in A.R.S. § 15-2041.D3(b), which are simply part of the funding formula for new construction and are not minimum adequacy guidelines.

(Continued)

R7-6-302. Classroom Fixtures and Equipment (page 4)

Requires a work surface and seat for each pupil in a classroom, and that the work surface and seat be appropriate for the normal activity in the classroom. Also requires an erasable surface, projection surface, group instruction surface and display surface (one surface may serve multiple purposes). Requires adequate storage for classroom materials or access to conveniently located storage. Requires work surface and seat for each teacher and aide and secure storage for student records.

Some board members wanted to define minimum size requirements for instructional surfaces (e.g., "dry erase boards"), but others indicated that this should be a local decision.

R7-6-303. Classroom Lighting (page 4)

Requires at least 50 foot-candles of light in general, science and art classrooms. This standard underwent considerable debate on numerous occasions, with some members believing that current schools with much lower lighting levels are adequate. Based on these discussions it would appear that this standard would require extensive lighting modifications in the state if adopted, and will have substantial cost implications.

R7-6-304. Classroom Temperature (page 4)

Requires that each general, science and art classroom be able to maintain a temperature between 68 and 82 degrees Fahrenheit during 95% of classroom time. This standard likewise was the subject of much debate, with members realizing that this standard could be one of the most costly to comply with due to the extensive use of evaporative coolers in Tucson. It is anticipated that most Tucson schools will have to convert to air conditioning in order to meet this standard.

R7-6-305. Classroom Acoustics (page 5)

Requires that each general, science and art classroom be able to maintain a sustained background sound level of less than 55 decibels.

R7-6-306. Classroom Air Quality (page 5)

Requires that each classroom have a HVAC system capable of maintaining a CO_2 level of not more than 800 PPM above the ambient CO_2 level.

R7-6-321. Facilities for Disabled Students (page 6)

Simply requires that a school facility have space or access to space capable of being used for the education programs of disabled students attending the school facility.

R7-6-401. Libraries and Media Centers/Research Area (page 6)

Establishes minimum library space square footage requirements for schools that have at least 150 pupils. The minimum for elementary schools is the greater of 1,000 square feet or 20 square feet per pupil for 10% of the student population. The minimum for high schools is the greater of 1,200 square feet or 20 square feet per pupil for 10% of the student population. Also requires fixtures, equipment and materials in accordance with a list adopted by the Board (attached).

There was considerable discussion regarding the changing nature of libraries because of computers. The minimum square footage requirements listed above were increased from originally proposed levels after Board members concluded that the original levels were inadequate.

(Continued)

R7-6-501. Cafeterias (page 6)

Requires a school facility to have an area or space to permit students to eat within the site, outside of general classrooms.

R7-6-511. Food Service (page 6)

Requires a school facility to have space, appropriate fixtures and equipment for the preparation, receipt, storage, and service of food to students that is accessible to the serving area. Requires food service facilities and equipment to comply with county health codes. Considerable discussion occurred regarding the fact that many schools contract out their food preparation and therefore do not need food preparation resources.

R7-6-601. Auditoriums, Multipurpose Rooms, or Other Multi-Use Space (p.7)

Requires a school facility to have a space capable of being used for student assembly sufficient to accommodate at least 1/3 of the student body.

R7-6-701. Technology (page 7)

Requires the following: 1) at least 1 multimedia computer for every 8 students, 2) an Internet connection (at least by modem) for each classroom, and 3) a local area network [LAN] in each school. Also requires technology equipment to meet generic assessment criteria defined in R7-6-1201 (discussed below).

This standard generated much debate and was developed in consultation with technology specialists. Much of the discussion revolved around whether to require "rewiring" of older facilities for Internet connectivity, and whether that cost would be worthwhile. It should be noted requiring a LAN at each school has implications for operating budgets, since personnel will be needed at each school in order to maintain the LAN on a day-to-day basis.

R7-6-801. Transportation (page 7)

Requires replacement of all buses manufactured before 1978 (after which higher federal safety standards applied). Requires replacement of diesel buses with more than 400,000 miles and gas buses with more than 200,000 miles. These mileage thresholds are reduced by 1/3rd if at least ½ of the miles were on unimproved roads.

No standard is provided for providing buses due to enrollment increases, and one Board member indicated that this was a key area for further public input.

R7-6-901. Science Facilities (page 8)

For Grades 5 through 12, requires classroom space for practical science instruction or for an alternate science delivery method. For practical science instruction, requires science fixtures and equipment that are on the attached Board-adopted list (e.g., one compound microscope for every 25 students).

R7-6-911. Arts Facilities (page 8)

For Grades 7 through 12, requires space to deliver art education programs including visual, music and performing arts or have access to an alternate delivery method.

R7-6-921. Vocational Education Facilities (page 8)

For Grades 7 through 12, requires space to deliver vocational education programs or have access to an alternative delivery method.

(Continued)

R7-6-931. Physical Education and Comprehensive Health Program Facilities (page 8)

For Physical Education, requires area, space and fixtures that are on the attached Board-adopted list (e.g., "basketball–one court size surfaced area and 2 goals per 300 students). For Comprehensive Health Programs, requires space only.

R7-6-941. Alternate Delivery Method (page 8)

Requires the local school board to approve any alternate delivery method for art, science or vocational education instruction. Also requires that the alternative method be capable of meeting requirements established in state academic standards for that subject area.

R7-6-1001. Parent WorkSpace (page 9)

Requires a workspace capable of being used by parents if parents are invited to assist with school activities.

R7-6-1002. 2-Way Internal Communication System (page 9)

Requires each school to have a network and 2-way internal communication system between a central location and each classroom and the cafeteria. (During debate, some members opined that the wiring needed to meet this standard also could be used to provide each classroom with access to the Internet, as is required under R-6-701. This seems to assume that phone lines would be used for 2-way internal communication, rather than wiring for simple public address systems.)

R7-6-1003. Fire Alarm (page 9)

Requires a fire alarm system in each school.

R7-6-1004. Administrative Space (page 9)

Requires each school to have space capable of being used for 1) administration, 2) isolation of sick students, and 3) faculty work space.

R7-6-1101. Building Codes (page 9)

Requires school buildings to be in compliance with federal, state and local building and fire codes. Does not require that older buildings be brought up to current standards unless mandated by other laws. Sets the 1997 Uniform Building Code (UBC) as the minimum standard for new school construction.

R7-6-1201. Building Systems (pages 9 &10)

Sets the following adequacy guidelines for building systems:
- capable of being operated as intended and maintained
- newly manufactured or refurbished replacement parts are available
- remaining life expectancy of at least 3 years at time of assessment
- capable of supporting gross square footage and minimum facility standards
- components present no imminent danger of personal injury

States that buildings must include a roof, plumbing, telephone, electrical and heating and cooling systems as well as fire alarm, 2-way internal communication, computer cabling, and existing security systems.

Note that some of the bulleted guidelines above also apply to areas such as technology and food service.

(Continued)

R7-6-1301. Building Structural Soundness (page 10)

Sets the following adequacy guidelines for building structural soundness:

- remaining life expectancy of at least 3 years at time of initial assessment
- capable of supporting the required building systems
- components present no imminent danger of personal injury

R7-6-1302. Exterior Enveloped, Interior Surfaces and Interior Finishes (page 10)

Requires that the exterior envelope, interior surfaces and interior finishes be safe and capable of being maintained.

R7-6-1401. Minimum Gross Square Footage (pages 10 and 11)

Each school shall meet gross square footage requirements established in A.R.S. § 15-2011.C.

(Note that these are *gross* square footage requirements and not *classroom* square footage requirements as defined in R7-6-301. Likewise they are different from the square footage amounts referred to in A.R.S. § 15-2041.D3(b), which pertain only to the funding formula for new school construction.)

R7-6-1402. Assessment of Minimum Gross Square Footage (page 11)

Sets parameters for assessing whether a school has a minimum gross square footage deficiency.

R7-6-1501. Notice of Interim Health of Safety Issues During Assessment Period (page 11)

Allows a school district to apply for emergency deficiencies correction funding to correct a critical health or safety problem prior to completion of the initial statewide assessment of school facilities.

R7-6-1601. Guidelines Exception (page 11)

Allows the Board to grant an exception from guidelines upon agreement between the Board and a school district, but only if the Board determines that the guideline can be met in an alternate manner.

RS/SS:ag
Attachments

STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Janet Napolitano

Executive Director
William Bell

RECEIVED AUG 22 2005 JOINT BUDGET COMMITTEE

August 22, 2005

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

Dear Representative Pearce,

A.R.S. 15-2041, section 3(C). states in part "...The cost per square foot shall be adjusted annually for construction considerations based on an index identified or developed by the joint legislative budget committee as necessary but no less than once each year."

The Marshall index lists the July 2004 to July 2005 increase in building costs at 6.4 percent. The impact of this increase on the dollars per square foot provided is reflected in Table 1. We recommend using this figure to update cost per square foot.

Table 1

Grade Level	Current Amount	Adjusted Amount
K-6	103.56	110.19
7-8	109.32	116.32
9-12	126.58	134.69

The increase will affect both the building renewal and new construction programs. For building renewal, while there is no FY 2006 impact, the estimated FY 2007 increase to the building renewal formula is $8.3 million. The new construction impact is estimated at $14.4 million. This impact will be spread across fiscal years 2006 through 2010. The FY 2006 impact is estimated at $720,000 or 5 percent of the total impact. The new construction estimate assumes total FY 2006 new construction awards of $225 million.

In addition to the FY 2006 increase, SFB staff also asks the committee to consider a retroactive adjustment. For the last two years, the inflation adjustment has been based on a national index that does not reflect the high levels of construction inflation experienced in the Arizona market. Attached to this letter is a graph that shows the disparity between the cost per square foot given under the national index and what the cost per square foot would be if the specific Arizona index had been followed. The graph shows the current dollars per square foot lag the Arizona market by 9.6 percent.

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This lag in inflation adjustments reduced new construction awards by $24.9 million in FY 2005 or almost $900,000 per project. This reduction has eliminated a district's ability to make choices in designing their facilities or has forced districts to add dollars to build the same schools they were able to build three years ago with SFB funding.

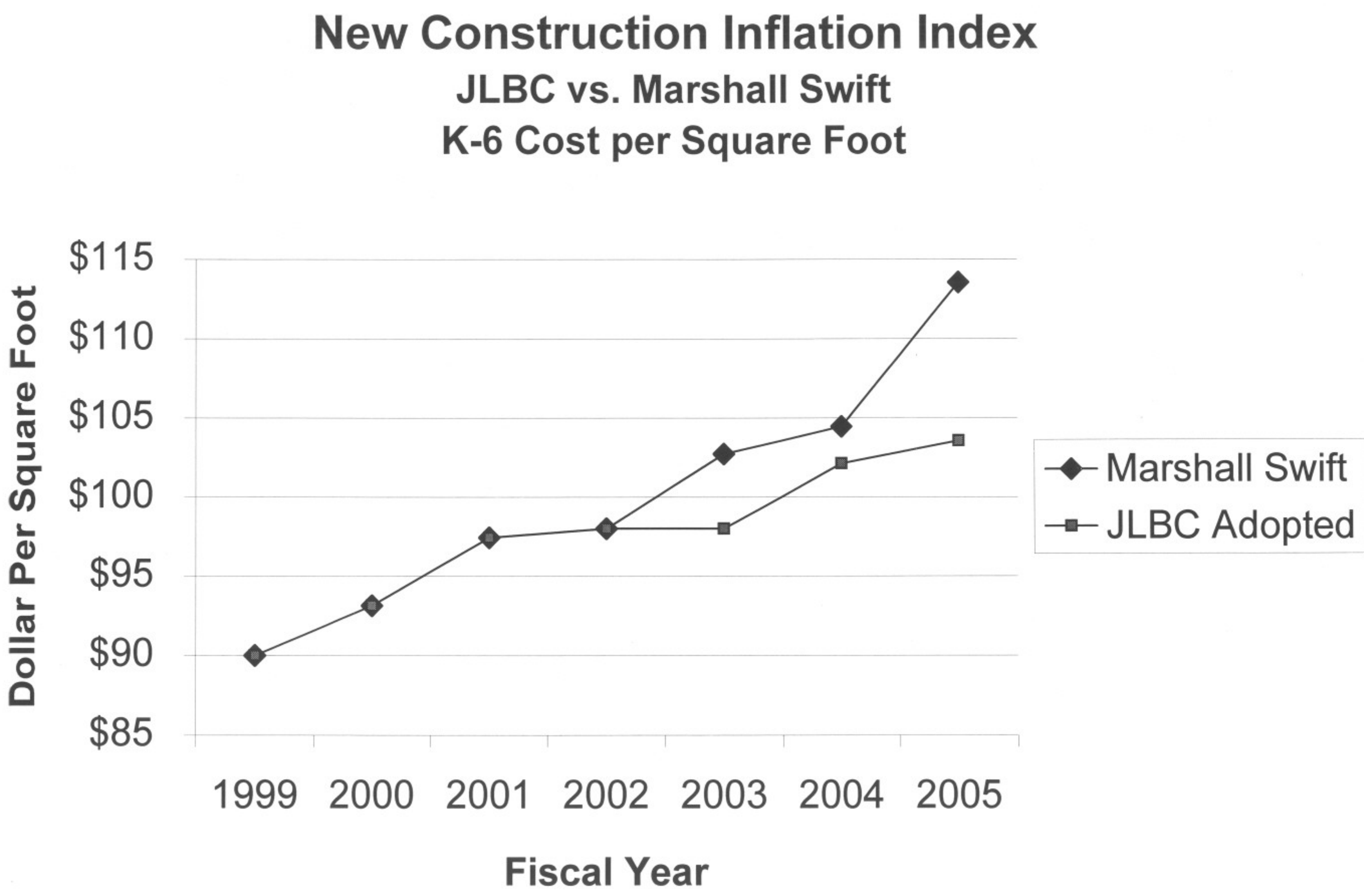
While an additional adjustment of 9.6 percent may not be feasible in a single year, SFB staff recommends the committee abandon the national index and make retroactive adjustments over the next two years to realign the new school construction index with the Arizona market.

If you or your staff have any questions regarding this letter, please contact me.

Sincerely,

William Bell

CC
Jake Corey JLBC Staff
Dawn Nazary OSPB Staff
Members Arizona School Facilities Board


New Construction Inflation Index
JLBC vs. Marshall Swift
K-6 Cost per Square Foot
Dollar Per Square Foot
$115
$110
$105
$100
$95
$90
$85
1999
2000
2001
2002
2003
2004
2005
Fiscal Year
Marshall Swift
JLBC Adopted

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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http://www.azleg.state.az.us/jlbc.htm

DATE: October 18, 2005

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

THRU: Richard Stavneak, Director

FROM: Amy Strauss, Fiscal Analyst

SUBJECT: Arizona Board of Regents – Review of FY 2006 Tuition Revenues

Request

The Arizona Board of Regents (ABOR) requests Committee review of its expenditure plan for tuition revenue amounts greater than the amounts appropriated by the Legislature. The footnotes for Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UofA) in the FY 2006 General Appropriation Act appropriate all tuition collections for operating expenditures, capital outlay, and fixed charges and mandate the Committee's review. ABOR is also reporting, for informational purposes, on the non-appropriated (locally retained) portion of tuition and fees.

At the September 28, 2005 meeting, the Committee did not take action on this item, opting instead to defer any decision until the universities could provide additional information related to financial aid allocations, Alumni Association funding, and tuition collections from first year and continuing students. We requested responses by October 20, 2005 (see attachment).

Recommendation

The JLBC Staff originally recommended that the Committee give a favorable review to the ABOR expenditure plan for tuition amounts above previously appropriated amounts. However, some Committee members had concerns about the use of tuition collections to fund Alumni Associations.

In total, tuition collections are estimated to be $52.6 million above the original FY 2006 budget. The higher revenue is due primarily to increases in tuition approved by ABOR in March 2005 (see *Table 2*).

(Continued)

Of the $52.6 million, the universities plan on using $30.1 million in the appropriated budgets to cover operating inflationary increases, unfunded enrollment from prior years, including the hiring of adjunct faculty, and academic and support planning priorities (see *Table 4*).

ABOR will expend the remaining $22.5 million in their non-appropriated budget. This excludes a technical change in the way NAU accounts for tuition waivers. Most of this non-appropriated tuition will go to financial aid (see *Table 5*). These monies do not require Committee review.

Analysis

Tuition Revenue Changes

Table 1 displays FY 2005 and FY 2006 appropriations by fund for the Arizona University System.

Table 1

Arizona University System
FY 2005 and FY 2006 Appropriations (in millions)

	FY 2005	FY 2006 Before Tuition Adjustments	FY 2006 After Tuition Adjustments
General Fund	$ 787.0	$ 843.1	$ 843.1
Collections Fund	348.7	356.1	386.2
TOTAL	**$1,135.7**	**$1,199.2**	**$1,229.3**

Table 2 shows ABOR changes to resident and non-resident undergraduate tuition from FY 2005 to FY 2006.

Table 2

Arizona University System
FY 2005 to FY 2006 Undergraduate Tuition Changes

	Resident				Non-Resident			
	FY 2005	FY 2006	$ Change	% Change	FY 2005	FY 2006	$ Change	% Change
ASU-Main	$4,062	$4,404	$342	8.4%	$12,917	$15,093	$2,176	16.9%
ASU-East/West	4,062	4,343	281	6.9%	12,917	15,092	2,175	16.8%
NAU	4,072	4,393	321	7.9%	12,592	13,023	431	3.4%
UofA	4,089	4,487	400	9.8%	13,067	13,671	604	4.6%

Table 3 presents FY 2006 appropriations, estimates of the ABOR FY 2006 All Funds Operating Budget Report and resulting additional tuition revenues by campus.

Table 3

Arizona University System
FY 2006 Appropriations and Additional Tuition Revenues by Campus

Campus	FY 2006 Appropriation	FY 2006 All Funds Operating Budget Report	Additional Tuition
ASU–Main	$171,622,500	$192,239,200	$20,616,700
ASU–East	11,305,100	12,961,400	1,656,300
ASU–West	17,335,700	18,447,300	1,111,600
NAU	36,190,300	39,543,900	3,353,600
UofA–Main	107,128,500	108,131,300	1,002,800
UofA–Health Sciences Center	12,546,700	14,903,400	2,356,700
TOTAL	**$356,128,800**	**$386,226,500**	**$30,097,700**

(Continued)

Table 4 provides some information on the uses of additional tuition revenues by campus. Attached, ABOR has provided further detail, including an expenditure breakdown.

Table 4

Arizona University System
Uses of Additional Tuition Revenues by Campus

ASU–Main	University new start ups and initiatives account for $3 million of the tuition revenues, followed by health insurance premium costs at $2.1 million, and an increase in the cost of utilities at $1.4 million. Support of the downtown Phoenix Campus and University College is around $1.1 million. Additionally, about $900,000 of funding is set aside for new facilities support, and the nursing programs. The remaining monies will go towards student enrollment growth, including growing operating costs, and investment in new programs and activities. There is also program support for transition and parent programs, honors college enhancements, K-12 partnerships and outreach, and new facilities support.
ASU–East	Additional faculty for student enrollment growth account for $800,000 of the tuition revenues, followed by $500,000 for faculty associates to teach 140 course selections. Additionally, $100,000 is set aside for health insurance premiums, and $200,000 for new facilities and maintenance support. The remaining monies go to the restoration of vacant university positions.
ASU–West	The restoration of vacant university positions account for $400,000 of the tuition revenues, as well as $100,000 for increased utility costs, and business special program fees that support students. $500,000 is also set aside to support 138 additional class sections to deal with student enrollment increases.
NAU	A merit/market increase for faculty and staff account for $2.2 million of the tuition revenues, followed by $200,000 for custodial support for new building facilities. $600,000 is set aside to expand distance learning, and $150,000 for teacher education accreditation and $250,000 for undergraduate support.
UofA–All	The support of the College of Medicine in hiring faculty and staff accounts for $1.2 million of the tuition revenues, the remaining $1.1 million is set aside to increase funding to support programs and enrollment growth.

Non-Appropriated Tuition and Fees Report

ABOR reports that NAU has changed the way it manages financial aid, starting in FY 2005. Rather than awarding tuition waivers, NAU has chosen to offer cash scholarships. Such monetary grants are more attractive to potential students than waivers. Additionally, national financial aid statistics include cash scholarships, but not tuition waivers, in ranking universities around the country. Therefore, the change will reflect positively on the university. ASU and UofA adopted this accounting change last year. This modification does not alter the universities' accounting records. Based on amounts reported in the FY 2006 university requests, cash scholarships in FY 2006 totaled $17.8 million for NAU.

Systemwide, non-appropriated tuition and fees increased $40.2 million above originally budgeted amounts. However, of the $40.2 million, $17.8 million represents an NAU accounting change and does not represent an actual increase in real dollars. Of the net increase of $22.5 million in actual retained collections, $16.8 million will be allocated for additional financial aid. *Table 5* shows the allocation of retained tuition and fees.

(Continued)

Table 5

Arizona University System
Non-Appropriated
Locally Retained Tuition and Fees

	Original FY 2006	Revised FY 2006	FY 2006 Change
Programs	$25,381,400	$27,974,700	$2,593,300
Financial Aid	137,086,100	153,870,200	16,784,100
Plant Fund	9,081,600	5,835,900	(3,245,700)
Debt Service	58,943,300	63,130,700	4,187,400
Other	16,775,500	18,948,800	2,173,300
Subtotal- Retention	**$247,267,900**	**$269,760,300**	**$22,492,400**
New Cash Waivers-NAU	--	17,757,000	17,757,000
Total Retention	**$247,267,900**	**$287,517,300**	**$40,249,400**

RS/AS:ss
Attachment

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

ROBERT L. BURNS
CHAIRMAN 2006
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL
JORGE LUIS GARCIA
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HOUSE OF REPRESENTATIVES

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STEPHEN TULLY

October 5, 2005

Ms. Christina Palacios
President
Arizona Board of Regents
2020 N. Central Avenue
Phoenix, AZ 85004

Dear Ms. Palacios:

A footnote in the FY 2006 General Appropriation Act requires the universities to submit an expenditure plan for any tuition revenue amounts that are greater than the appropriated amounts to the Joint Legislative Budget Committee for its review.

At its September 28, 2005 meeting, the Committee held review of this item to defer any decision until University representatives could be present to provide additional information. The Committee requested that the Arizona Board of Regents report back to the Committee by October 20, 2005 with responses on the following questions:

- Of much of the tuition increases was allocated to financial aid?
- Why are Alumni Associations funded from locally retained tuition collections, rather than Alumni donations or contributions?
- What is the total funding for each university Alumni Association and what are the individual fund sources?
- How much of the additional tuition collections was generated by first year students and how much was generated from continuing students?

If you have any questions relative to the action of the Committee, please let me know.

Sincerely,

Richard Stavneak
Director

RS:ck

xc: SC/AS/ LMa/RS

RECEIVED AUG 31 2005 JOINT BUDGET COMMITTEE

ARIZONA BOARD OF Regents

2020 N. Central Ave.
Suite 230
Phoenix, AZ 85004
(602) 229-2500
fax (602) 229-2555
www.abor.asu.edu

August 26, 2005

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

Dear Representative Pearce:

A footnote included in the General Appropriations Act requires that the Arizona Board of Regents report to the Joint Legislative Budget Committee of any tuition revenue amounts which are different from the amounts appropriated by the legislature, and to report (for informational purposes) the amount of tuition and fees retained locally by the universities. Enclosed for your information is a summary report of tuition revenues reported to the Board at its August 2005 meeting.

I would like to point out one significant change to NAU's locally retained tuition and fee schedule. NAU reports a change in processing tuition waivers consistent with how ASU and the UA process waivers. Beginning in FY 2005, both ASU and UA converted tuition waivers to cash scholarships. In the past, the value of tuition waivers was treated as non-cash transactions and therefore was not included in the budget process. From an accounting perspective, this change has no impact on either university. However, this conversion greatly impacts national reporting of financial aid since national statistics do not include the value of tuition waivers in financial aid totals (one reason why Arizona universities rank low in institutional aid reports). Converting waivers to cash scholarships enables the universities to include this institutional financial aid in national statistics. In addition, cash scholarships offers the universities greater flexibility in recruiting students, because cash scholarships are more enticing to a potential student than non-cash assistance. The value of waivers that NAU has converted to cash scholarships is $17.8 million. ASU and the UA cash scholarships (formally waivers) reported in their local retention schedules is $39.3 million and $49.4 million, respectively.

If you have any questions, please do not hesitate to call me at 229-2505.

Sincerely,

Joel Sideman

Joel Sideman
Executive Director

xc: Senator Bob Burns
Richard Stavneak, Director, JLBC
Gary Yaquinto, OSPB

ARIZONA UNIVERSITY SYSTEM
TUITION AND FEES IN SUPPORT OF THE
2005-06 STATE OPERATING BUDGET

	STATE COLLECTIONS			
	AS REPORTED IN THE 2005-06 ALL FUNDS OPERATING BUDGET REPORT- INITIAL BUDGET REPORT	APPROPRIATED BY THE LEGISLATURE	CHANGE	USE OF INCREASED TUITION REVENUES
Arizona State University Tempe	192,239,200	171,622,500	20,616,700	The additional tuition and fee revenue will support increased student enrollments, growing operating costs, and investment in new programs and activities (amounts in millions). The increase includes $2.8 from program fees to help support academic programs charging the fee. Other needs include the following: Transition and Parent Programs, $0.1; Honors College enhancements, $0.1; Student Union renewal, $0.2; Latino Outreach programs, $0.2; American Indian Policy Center, $0.3; annual membership cost for California for Education Network Initiatives in California (CENIC), $0.3; support for faculty adjuncts to teach high demand class sections in liberal arts & sciences, $0.3; Economics Department enhancements, $0.3; School of Sustainability, $0.4; Transborder Center, $0.4; Seidman Institute, $0.4; Disability Student Resource Interpreters, $0.4; University -- K-12 Partnerships & Outreach, $0.4; increase library acquisitions, $0.5; Phoenix Urban Research Laboratory, $0.5; Institute for Sports Leadership, $0.5; Biomedical Informatics, $0.5; public safety security enhancements, $0.7; restore vacant positions left unfunded by the General Fund budget cut, $0.7; new facilities support, $0.9; enhance Nursing programs and increase graduates, $0.9; Downtown Phoenix Campus support, $1.1; University College, $1.2; increased utilities costs, $1.4; FY06 Health Insurance Premium costs not covered by the appropriation, $2.1; and university initiatives/faculty startup, $3.0.
Arizona State University Polytechnic	12,961,400	11,305,100	1,656,300	The additional tuition revenue will help address, but not resolve, academic and support needs relative to increased student enrollments and operating costs (amounts in millions). The additional tuition revenue will be used to accommodate new enrollments by hiring faculty associates to teach about 140 course sections, $0.5, and additional faculty to support student enrollment growth, $0.8. Other needs include unfunded FY06 health insurance premium costs, $0.1, and the restoration of the vacant positions General Fund budget cut, $0.1. New facilities and maintenance support requires $0.2.
Arizona State University West	18,447,300	17,335,700	1,111,600	The additional tuition and fee revenue will help address academic and support needs relative to increased student enrollments and operating costs (amounts in millions). The increase includes $0.1 from the business special program fees to support students enrolled in that program. Additional revenue will be used to restore vacant positions cut from the General Fund budget, $0.4 and increased utilities cost, $0.1. ASU will allocate $0.5 to support about 138 additional class sections in an effort to keep up with growing service demands.
Northern Arizona University	39,543,900	36,190,300	3,353,600	The additional tuition and fee revenue will help address academic and support planning priorities in the following areas: internally funded faculty and staff merit/market increase $2.2 million; undergraduate support $.25 million; distance learning expansion $.6 million, custodial support for new buildings $.2 million, teacher education accreditation $.15 million.
University of Arizona	108,131,300	107,128,500	1,002,800	Increase funding for undergraduate instruction, $1.0M; program support and enrollment growth, $.5M; academic advising, $.3M; recruitment and retention, $.3M; and Federal Agriculture, $.1M. Adjust collections to support the College of Medicine hiring commitment and annualize AHS FY05 General & Key Personnel adjustments, ($1.2M).
University of Arizona - AHSC	14,903,400	12,546,700	2,356,700	Adjust collections to support the College of Medicine hiring commitment and annualize FY05 General & Key Personnel adjustments, $1.2M; increase funding to support programs and enrollment growth, $1.1M.
TOTAL	386,226,500	356,128,800	30,097,700	

2005-06
LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - TEMPE CAMPUS

		INITIAL BUDGET 2005-06	INCREASE/ (DECREASE)	REVISED 2005-06
DESIGNATED	Alumni Association	1,431,800		1,431,800
	American English and Cultural Program - ITA	97,300		97,300
	Associated Students - ASASU	901,800		901,800
	Child & Family Services	69,900		69,900
	Constituent Advocacy		150,000	150,000
	Distance Learning Technology	372,500		372,500
	Federal Direct Loan Administration	164,200		164,200
	Fine Arts Activities	296,200		296,200
	Fine Arts Theatres	574,900		574,900
	Forensics	106,100		106,100
	Interpreters Theatre	35,700		35,700
	KASR Radio	22,000		22,000
	Mona Plummer Aquatic Center	141,900		141,900
	Special Events		175,000	175,000
	Student Affairs Initiatives		200,000	200,000
	Student Financial Assistance Administration	394,600		394,600
	Teaching Assistant Tuition Benefit	6,386,900		6,386,900
	University Minority Culture Program	126,200		126,200
	Employee Benefit Adjustments/Contingencies	100,000		100,000
	Subtotal Designated	11,222,000	525,000	11,747,000
AUXILIARY	ASU Public Events	0		0
	Intercollegiate Athletics	560,000		560,000
	Memorial Union	1,096,300		1,096,300
	Recreational Sports	804,500		804,500
	Student Media	0		0
	Subtotal Auxiliary	2,460,800	0	2,460,800
	Total Operating Funds	13,682,800	525,000	14,207,800
FIN AID	Regents Financial Aid Set-Aside	21,373,400		21,373,400
	College of Architecture FA Set-Aside	44,700		44,700
	College of Business FA Set-Aside	418,900		418,900
	School of Engineering FA Set-Aside	240,000		240,000
	College of Law FA Set-Aside	649,200		649,200
	College of Liberal Arts FA Set-Aside	44,000		44,000
	College of Nursing FA Set-Aside	28,100		28,100
	Other Financial Aid - CRESMET/CONACY/NEEP		371,400	371,400
	Other Financial Aid - Top 15% AZ HS Grad	7,448,900		7,448,900
	Other F.A.- Graduate Scholars Program	600,000		600,000
	Other F.A - School of Engineering Program	60,000		60,000
	Other F.A.- Institutional FA (waivers to scholarships)	39,623,600	(371,400)	39,252,200
	Graduate Student Need-Based Financial Aid	300,000		300,000
	Subtotal Financial Aid	70,830,800	0	70,830,800
	Plant Fund	4,357,700		4,357,700
	ASU Downtown Center COP Payment	916,600		916,600
	Debt Service	27,151,100		27,151,100
TOTAL LOCAL RETENTION		116,939,000	525,000	117,464,000

C:\GRT\BUDGET\Local Retention.123,08/26/2005

2005-06
LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - POLYTECHNIC CAMPUS

		INITIAL BUDGET 2005-06	INCREASE/ (DECREASE)	REVISED 2005-06
DESIGNATED	Aeronautical Management Technology Program	0		0
	Dining Services Management	20,000		20,000
	Intercampus Shuttle Services	106,000		106,000
	Learning Communities	6,500		6,500
	Student Counseling	5,000		5,000
	Student Health Services	225,000		225,000
	Student Organizations	41,000		41,000
	Student Orientation and Forums	5,000		5,000
	Student Recreation/Intramurals	167,500		167,500
	Student Recreation Pool	40,000		40,000
	Student Union/Activities	558,700		558,700
	Teaching Assistant Tuition Benefit	115,700		115,700
				0
	Subtotal Designated	1,290,400	0	1,290,400
AUXILIARY				
	Subtotal Auxiliary	0	0	0
	Total Operating Funds	1,290,400	0	1,290,400
FIN AID	Regents Financial Aid Set-Aside	1,517,600		1,517,600
	Special Program Fee FA Set-Aside	30,200		30,200
				0
	Subtotal Financial Aid	1,547,800	0	1,547,800
	Plant Fund			
	Debt Service			
TOTAL LOCAL RETENTION		2,838,200	0	2,838,200

2005-06
LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - WEST CAMPUS

		INITIAL BUDGET 2005-06	INCREASE/ (DECREASE)	REVISED 2005-06
DESIGNATED	Academic Affairs	5,200		5,200
	Alumni Association - Devil's West	5,000		5,000
	Arts & Sciences Support	0		0
	ASU West Commencement	15,000		15,000
	ASUW Film Series	0		0
	ASUW Fine Arts Program	60,000		60,000
	Campus Environment Team	4,800		4,800
	Child Development & Visual Perception Lab	16,000		16,000
	Honors College	3,000		3,000
	Life Science Instructional Support	0		0
	Special Events	20,000		20,000
	Student Government	65,000		65,000
	Subtotal Designated	194,000	0	194,000
AUXILIARY				
	Subtotal Auxiliary	0	0	0
	Total Operating Funds	194,000	0	194,000
FIN AID	Regents Financial Aid Set-Aside	3,264,300		3,264,300
	Business Program Financial Aid Set-Aside	85,700		85,700
	Other Financial Aid-Top 15% AZ HS Grad	500,000		500,000
	Subtotal Financial Aid	3,850,000	0	3,850,000
	Plant Fund	100,000		100,000
	Lease Purchase	4,884,400		4,884,400
TOTAL LOCAL RETENTION		9,028,400	0	9,028,400

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2005-06
LOCALLY RETAINED COLLECTIONS

NORTHERN ARIZONA UNIVERSITY

		INITIAL BUDGET 2005-06	INCREASE/ (DECREASE)	REVISED 2005-06
DESIGNATED	ADA Services	49,100		49,100
	Alumni Association	544,500		544,500
	Art Gallery	10,900		10,900
	Child Care	43,900		43,900
	Creative Arts	89,100		89,100
	Financial Aid Office Operations	337,300		337,300
	Honors Forum	11,200		11,200
	International Studies	60,000		60,000
	Mountain Campus ID	13,200		13,200
	NAU-Yuma	19,900		19,900
	Operations	400,800		400,800
	Performing Arts Series	39,900		39,900
	Registrar Office	120,400		120,400
	Special Events	28,300		28,300
	Student Activities	294,200		294,200
	SUN (Student Union Network)	65,800		65,800
	Salary Adjustments	272,000		272,000
	Tuition Differential - GIS	3,200		3,200
	Tuition Differential - MBA	80,800		80,800
	Tuition Differential - MSM	63,800		63,800
	Tuition Differential - Doctor of Physical Therapy (DPT)	106,300		106,300
	Information Technology Reserve (zero acct)	0		0
	Subtotal Designated	2,654,600		2,654,600
AUXILIARY	Associated Students (ASNAU)	188,300		188,300
	Intercollegiate Athletics *	1,600,000		1,600,000
	Intramurals/Recreation	63,700		63,700
	Skydome	157,900		157,900
	* Change of fund source, not change in funding level			
	Subtotal Auxiliary	2,009,900		2,009,900
	Total Operating Funds	4,664,500		4,664,500
FIN AID	Regents Financial Aid Set-Aside	7,150,000		7,150,000
	Set-Aside for Academically Meritorious AZ Residents	350,000		350,000
	DPT- FA Set-Aside	18,700		18,700
	MBA - FA Set-Aside	14,200		14,200
	MSM - FA Set-Aside	11,200		11,200
	GIS - FA Set-Aside	600		600
	Student Financial Aid Match (SSIG, SEOG, etc.)	318,400		318,400
	Other Financial Aid - (formerly tuition waivers)		17,757,000	17,757,000
	Subtotal Financial Aid	7,863,100		25,620,100
	Plant Fund	1,378,200		1,378,200
	Debt Service	13,590,200		13,590,200
TOTAL LOCAL RETENTION		27,496,000		45,253,000

2005-06
LOCALLY RETAINED COLLECTIONS

UNIVERSITY OF ARIZONA

		INITIAL BUDGET 2005-06	INCREASE/ (DECREASE)	REVISED 2005-06
DESIGNATED	Alumni Association	1,136,800		1,136,800
	College of Nursing - Accelerated BSN	427,300		427,300
	Department of Multicultural Programs and Services (DMPS)			
	DMPS - African American Student Affairs	21,000		21,000
	DMPS - Asian Pacific American Student Affairs	16,500		16,500
	DMPS - Early Outreach	19,700		19,700
	DMPS - Hispanic Student Affairs	8,600		8,600
	DMPS - Minority Student Recruitment	143,900		143,900
	DMPS - Minority Summer Institute for Writing	12,900		12,900
	DMPS - Multicultural Programs	136,700		136,700
	DMPS - Native American Student Affairs	11,300		11,300
	Fall Transition/University Learning Center	15,500		15,500
	Graduate and Professional Student Council	62,500		62,500
	Graduate College	166,700		166,700
	Graduate Teaching Assistants -Tuition Remission	5,051,100		5,051,100
	Interpreting/Disabilities (ADA)	136,700		136,700
	Law College Special Fee	421,800		421,800
	Learning Disabilities Mandated Services	377,600		377,600
	Library Acquisitions	461,200		461,200
	Merchant Credit Card Banking Fees	1,433,200		1,433,200
	Student Child Care Voucher Program	87,500		87,500
	VP Student Affairs	4,500		4,500
	Utility Costs Reserve	1,935,700		1,935,700
	Subtotal Designated	12,088,700		12,088,700
AUXILIARY	Admissions Recruiting	120,400		120,400
	Associated Students (ASUA)	239,700		239,700
	Campus Health Service	3,955,800		3,955,800
	Campus Recreation and Intramurals	544,700		544,700
	Student Faculty Relations	7,200		7,200
	Student Programs	450,600		450,600
	Student Union	1,234,800		1,234,800
	Subtotal Auxiliary	6,553,200		6,553,200
	Total Operating Funds	18,641,900		18,641,900
FIN AID	Regents Financial Aid Set-Aside	13,452,300		13,452,300
	UAS (SV) - Regents FA Set-Aside	234,700		234,700
	Supplemental Need-Based Set-Aside	1,893,700		1,893,700
	Other Financial Aid - (formerly tuition waivers)	49,379,200		49,379,200
	Architecture FA Set-Aside	3,800		3,800
	Eller MBA FA Set-Aside	315,300		315,300
	Law School FA Set-Aside	468,500		468,500
	Pharmacy FA Set-Aside	193,400		193,400
	Planning FA Set-Aside	1,800		1,800
	Public Health FA Set-Aside	7,200		7,200
	Undergraduate Scholars	3,619,300		3,619,300
	Nursing Special Fee FA	19,500		19,500
	Eller UG Special Fee FA	131,300		131,300
	SIRLS Special Fee FA	63,500		63,500
	Subtotal Financial Aid	69,783,500		69,783,500
	Plant Fund	0		0
	Utility Infrastructure	2,123,900		2,123,900
	Subtotal Plant Funds	2,123,900		2,123,900
	Debt Service	22,389,400		22,389,400
TOTAL LOCAL RETENTION		112,938,700		112,938,700