STATE OF ARIZONA

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, November 6, 2003
9:30 a.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order
- Approval of Minutes of September 25, 2003.
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. ATTORNEY GENERAL - Review of Allocation of Settlement Monies (Tabacos de Canarias S.L. Regarding Master Settlement Agreement Payment).
2. ARIZONA BOARD OF REGENTS - Review of FY 2004 Tuition Revenues and Report on Technology and Research Initiative Fund (Proposition 301).
3. DEPARTMENT OF REVENUE
   A. Report on Credit Card Payments.
   B. Report on Ladewig Expenditures.
4. MARICOPA COUNTY - Report on Performance Measures for Adult Probation.

The Chairman reserves the right to set the order of the agenda.
10/30/03

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Joint Legislative Budget Committee

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HOUSE OF
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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

September 25, 2003

The Chairman called the meeting to order at 9:40 a.m., Thursday, September 25, 2003, in House Hearing Room 4. The following were present:

Members:	Senator Burns, Vice-Chairman	Representative Pearce, Chairman
	Senator Bee	Representative Biggs
	Senator Cannell	Representative Burton Cahill
	Senator Harper	Representative Gray
	Senator Rios	Representative Huffman
		Representative Huppenthal
		Representative Lopez
Absent:	Senator Anderson	Representative Farnsworth
	Senator Arzberger	
	Senator Martin	
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Jake Corey	Brian Schmitz
	Bob Hull	Paul Shannon
	Beth Kohler	Tim Sweeney
	John Malloy	
Others:	Cynthia Odom	Attorney General's Office
	Steven LaMar	Attorney General's Office
	Ted Ferris	President/CEO, Tourism & Sports Authority
	Chuck Foley	CFO, Tourism & Sports Authority
	Anthony Rodgers	Director, AHCCCS
	John Arnold	Deputy Director, School Facilities Board
	Steven Schram	Mercer Consulting

JLBC STAFF - Consider Approval of Index for Construction Costs.

Mr. Richard Stavneak, JLBC Staff, said this item relates to construction costs for the School Facilities Board (SFB). In statute it states that the cost-per-square-foot factor 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 has square foot factors: 1) for new construction, and 2) for building renewal. The Committee decided last year not to make an adjustment to those costs per sq. ft. factors. Since that time, the Committee was sued last month by a group of school districts led by the Mayer School District. A copy of that litigation is in the JLBC Staff Agenda book. The suit is for failing to make the annual adjustment. Mr. Stavneak described a couple of different options, if the Committee decides to make an adjustment. Mr. Stavneak referred to the last page of the JLBC Staff recommendation memo which showed a graph with 3 different construction costs that the JLBC Staff has been exploring. He noted that the Marshall Index does fluctuate, which makes it more difficult to budget. Another measure which the Staff identified, is the only one that they could find that was specific to government structures. That is something that is published by the Bureau of Economic Analysis from the federal government. That measure is nationwide and has shown a little less variation over the years. That particular adjustment would cost $225,000 in 2004 and $4 million over the long run. None of these probably generate a supplemental cost in 2004. There is also an associated building renewal cost, because you use these factors in the building renewal formula. We do not have a building renewal formula in place for 2004.

Senator Burns stated that on the state and local government options, his assumption is that it is more K-12 type buildings than any other and how does that compare with other western states. Mr. Stavneak agreed with the type of buildings being built and of the 3 indexes, state and local is a nationwide index and the other 2 are Phoenix specific.

Representative Biggs asked why there is such a significant drop in the state and local government structures index. Mr. Stavneak said we did not know.

Representative Biggs questioned how far back the index goes.

Jake Corey, JLBC Staff, said in terms of the state and local, they have data going back to 1996. It ranges anywhere from 2.0% to 4.6%. In the 4 years in the mid to late 1990s it was 3.5% and then jumped to 4.5% and then back down to 2%.

Representative Lopez wanted clarification on costs for state and local government structures. Those costs are for the state, not the federal government. Mr. Stavneak said that was correct. She also asked what the difference would be for the 4-year total if you took all 3 figures and averaged them out. Mr. Stavneak said over the course of a 4-year period it was virtually the same. The 2 Marshall Indices for Phoenix are 3.0%, the state and local is 3.2%.

Representative Burton Cahill stated that these prices are based on the market. In good times contractors make a little money and in bad times it is hard to keep your employees working. Regarding the contractors being Phoenix based, the contractors that are large enough to bid on schools are not usually based in smaller areas. They are based in metropolitan areas and they have the ability to take on large jobs out of the area. They are big enough to pay employee wages and travel expenses.

Representative Pearce noted that when they did this they flooded the market and they did not have to be real competitive. That is some of the reason for the fluctuation.

Mr. Stavneak said that is a possibility. One factor that we have had over the years, that is obviously slowing down at this point, is the deficiency correction. That did add some demand to the market over the last 3 years.

Representative Huppenthal asked how the actual cost of construction compares with theoretical costs.

Mr. Stavneak said that is a question that the SFB may want to respond to in terms of their practical work with the schools. In the last year, when we did not have an index adjustment upward, the Board still had the ability to adjust the cost-per-square-foot on a case-by-case basis to reflect particular circumstances. That happened in about 16% of the cases.

Senator Cannell commented that the theoretical costs is not a trivial question. When you subtract the actual cost from the theoretical cost, the school district makes a net on it and they can use those monies for other purposes. That is a key policy issue. It gives them an incentive to watch their costs on construction, and actually serves as good public policy. On a separate issue, you have the maintenance of these facilities. He felt you have to know how much net revenues are being made on these theoretical costs and to know that there is strict accounting to ensure those funds are for building maintenance.

Representative Huppenthal asked if masonry is the standard for school construction. Mr. Stavneak said he believes 2/3's of school construction are masonry.

Mr. John Arnold, Deputy Director of Finance, School Facilities Board, said generally on a school that is 30,000 square feet or less, it is wood with a masonry block face. Anything larger is block masonry with steel studding.

Representative Huppenthal asked if there is a savings with one or the other.

Representative Burton Cahill said that tinted block never needs painting and there are even chemicals that make it anti-graffiti. A wood structure would require routine maintenance such as painting.

In response to Representative Huppenthal, Mr. Arnold said that the difficulty of comparing theoretical cost versus actual costs is to figure out the costs. Every district builds a slightly different building. About 40% are built with local dollars and private dollars added to them. In that case they are usually building something in excess of the minimum guidelines. The other 60% are able to build the school within the costs. The new statute that was adopted by the Legislature last year no longer allows things such as athletic fields, etc. to be built with remaining funds from construction. It says that all of the dollars have to be used on the project or returned to the state.

Representative Huppenthal said that it would be good policy to allow those funds to be used in other acceptable areas because it forces them to manage the project better. Why take 100% of those dollars, maybe we should consider taking 50% of the money.

Representative Pearce said he agreed with that idea.

Mr. Arnold said that the new law allows the district to use those funds for 1 year after the end of the project for any capital purpose on the school site.

Representative Huppenthal wanted further clarification on building maintenance enhancement.

Mr. Arnold said that the way the SFB implements the law is the districts receive a cost-per-square-foot, it comes in a block of money and they design the school within that block of money. They include anything they want as long as it meets the minimum guidelines of the state. If they put in an environmental control system with those dollars, that is okay. However, installing an environmental control system with building renewal funds would not be an approved use of the funds.

Senator Harper said he thought that the SFB returning 75% to the state would be better. He said 25% is still a good incentive to manage the construction costs properly.

Representative Pearce said that this was really food for thought and should be brought before the full Legislature.

Representative Burton Cahill asked if there was anything to prevent them from choosing a different index. Mr. Stavneak said that as long as the index is based on construction considerations, you can choose a different index.

Representative Burton Cahill asked if they have always gone with the cheapest index. Mr. Stavneak said that when they first picked the index they may have looked at different ones, but that he does not remember looking at others subsequently to see whether they are higher or lower.

<u>Senator Burns moved</u> that the Committee approve option number 3 in the JLBC Staff recommendation memo which would approve an increase in the cost-per-square-foot factors based on a national index for state and local government structures, with an adjustment of 2.2% for 2002 and 2.0% for 2003. The motion carried.

AHCCCS - Review of Capitation Rate Changes.

To facilitate the discussion, Mr. Stavneak went through a handout (*Attachment 1*) that was distributed to the Committee.

Each year AHCCCS is required to adjust capitation rates in accordance with an actuarial report. In discussion with their actuary, AHCCCS believes that this year's adjustment should be almost 14%. Mr. Stavneak said that 5.6% is for medical inflation, and 4.2% is increased utilization. The increase is not from more people, but that the average person consumes more medical services each year, and that is thought to increase costs by about 4.2%. There is 2% added on to the premium tax, and also an element called the rebase which is almost 2%. In comparison to the 14%, we only budgeted 7%. It could cost somewhere between $30 million to $40 million more than was budgeted for. It also depends on whether the match rate savings are used that was set aside in the budget. The federal government passed legislation at the end of the last session that increased the amount they were willing to pay for 1 year. Some of those savings occurred in 2003 and some in 2004. The total savings was $134 million. Of that, some of it was coming in 2003 and the budget planned those monies to be increased revertments to the General Fund.

AHCCCS is proposing to use $18 million of those match rate savings that came in FY 2003, to help reduce this cost in 2004 through a series of financial transactions. Mr. Stavneak said in a letter that he sent to AHCCCS, it stated that that was not consistent with legislative intent. The budget assumed they were going to save that money, and that if decisions were made to spend that money, it should be made in consultation with the full Legislature.

Mr. Stavneak continued to explain information provided in the handout, as well as options for the Committee to consider.

Representative Huppenthal said he understands that 21% of the population is on AHCCCS.

Mr. Tim Sweeney, JLBC Staff, said enrollment growth at the end of FY 2003 was lower than predicted. The actual enrollments of the first couple of months of FY 2004 are below what Staff expected them to be, about 2% to 3%. In dollars it would be a few million.

Representative Huppenthal stated that when they put Proposition 204 in place, millions of dollars were put into the health care system. His observation at the time was that it became a relatively fixed system. When you pour all this money into the system the prices are going to go up. The same group of people are going to walk away with a lot more money. He questioned whether they are buying what they created. Prices went up and now they have to pay them, in essence buying them twice. Mr. Sweeney deferred to AHCCCS to respond to this. Representative Huppenthal said they have talked to them and their claim was that the system was not fixed.

Representative Burton Cahill said she does not believe the actuarial rate has anything to do with supply and demand. It has to do with the rates set by financial people.

Representative Biggs asked who is responsible for setting capitation rates by actuaries.

Mr. Sweeney said that it would be the actuary. The federal government does have a requirement that the capitation rates be actuarially sound. AHCCCS is contracting with Mercer to determine that the rates are actuarially sound.

Senator Burns asked what kind of competition exists between actuaries, whether or not AHCCCS has been using Mercer continuously and for how long.

<u>Mr. Anthony Rodgers, Director, AHCCCS</u>, stated that when they went out to bid there were 2 qualified companies and that was done about 3 years ago.

Discussion continued on the capitation rate changes.

<u>Senator Burns moved</u> that the Committee give an unfavorable review including the stipulations under item 2 of the JLBC recommendation memo, which includes items A through E . Item E would say" implementation plan with cost sharing measures ." (Following are the stipulations:)

a) The review does not constitute an endorsement of any potential supplemental request, or of the proposal to use the federal match rate savings discussed above.

b) AHCCCS shall provide further information to the Committee about its decision not to implement fully the cost-sharing options. These options were proposed by AHCCCS, favorably reviewed by the Committee at its December 19, 2002 meeting, and enacted by the Legislature as part of the FY 2004 budget.

c) AHCCCS shall report to the Committee by December 31, 2003 on the savings associated with changing the statutory components of rate setting (including, but not limited to, the outpatient hospital services cost-to-charge ratio, and the inpatient hospital tiered per diem rates).

d) AHCCCS shall report to the Committee by December 31, 2003 on how we can improve the timeliness of the projections of the capitation rate increases. One option is to have AHCCCS report preliminary capitation rate adjustments by March 31 of each year. This requirement would also apply to the Department of Economic Security and the Department of Health Services Title XIX programs.

Representative Lopez moved a substitute motion that the Committee give a favorable review with the stipulations listed in the JLBC recommendation memo . The substitute motion failed.

The original motion carried by a roll call vote of 6-3-0-7. (Attachment 2)

JLBC STAFF - Review of Calculation of Inflation for Transaction Privilege Tax County Withholding.

Mr. Stavneak said that this item is a technical item. It requires the Committee, in statute, to adjust the amount that we withhold from counties for Proposition 204 costs. It is a combination of an inflation adjustment and a population adjustment. It would go up by 4% over last year to a total of $5.3 million.

Due to a lack of a quorum the vote on this item was delayed and the meeting continued.

DEPARTMENT OF ECONOMIC SECURITY - Review of Expenditure Plan for Workforce Investment Act Monies.

Mr. Stavneak said that the federal Workforce Investment Act monies are one of the few categories of Federal Funds that is actually appropriated by the state. Of that amount, the state receives about $48 million and that amount has been appropriated. Any amount over that needs to be reviewed by the Committee before it is expended by the Department of Economic Security.

They have about $12 million that is split between on-going and one-time funds. Approximately 85% is required by federal law to go to local governments. About $8.3 million would go to local areas, $2.7 million is being spent for an automation project, and $1.3 million is going to be retained by the state to use for discretionary spending.

The JLBC Staff has provided the Committee with 2 options as shown in the JLBC memo.

Senator Burns wanted to clarify that the $8.3 million is the federal dollars that is federally controlled. Mr. Stavneak said that is correct. He suggested approving the $8.3 million and holding the other 2 items for the next JLBC meeting.

Due to a lack of a quorum the vote on this item was delayed and the meeting continued.

DEPARTMENT OF REVENUE (DOR) - Report on Ladewig Expenditures.

Mr. Stavneak said this item is for information only and is an update the JLBC Staff receives periodically on the Ladewig case. One of the issues is that when the Governor vetoed the set-aside of $75 million to the Ladewig case, it also vetoed the $7.3 million for DOR's administrative costs. In the 2004 budget we will need to restore money for Ladewig administrative expenses.

TOURISM AND SPORTS AUTHORITY (TSA) - Report on Activities.

Mr. Brian Schmitz, JLBC Staff, said that the TSA is required by law to appear before the Committee once a year to report on their activities and financial performance. This item is for information only and no Committee action is required.

The basic job of the TSA is to oversee the construction of the new football stadium. It is projected to be finished by August 2006 at a cost of $355 million plus $61 million for support infrastructure and another $18 million for land. In addition to building the stadium, the TSA also distributes money for tourism in Maricopa County, Cactus League Baseball and Youth and Amateur Sports. The revenues for the TSA come from Hotel Bed Tax, Car Rental Surcharge, NFL Income Tax, and Sun Devil Stadium Sales Tax Recapture.

Senator Harper asked why the TSA expects revenues will be higher in the future. Mr. Schmitz said they expect attendance to increase once the stadium is completed, and they will be holding other events that will generate revenues.

Mr. Ted Ferris, President/CEO, Tourism and Sports Authority, provided a slide presentation on how they are doing and the stadium project.

JLBC STAFF - Review of Calculation of Inflation for Transaction Privilege Tax County Withholding (Continued).

Senator Burns moved *that the Committee give a favorable review as recommended by JLBC Staff of a $5,324,600 county contribution for Proposition 204 administrative costs in FY 2004.* The motion carried.

DEPARTMENT OF ECONOMIC SECURITY - Review of Expenditure Plan for Workforce Investment Act Monies. (Continued)

Ms. Debra Raeder, Director, Workforce Policy, Department of Commerce, spoke about the Virtual One Stop (VOS) Program. It ties the 15 workforce investment areas around the state together under 1 system. They are having huge issues on passing their performance measures and standards because of the different systems. Right now they are in danger of failing a performance measure for the second time which could result in sanctions for the state. She would request that they move ahead with the VOS project.

Senator Burns moved *that the Committee give a favorable review as recommended by JLBC Staff to approve the $8.3 million for local areas and the $2.7 million for the Virtual One Stop Program and hold the other issues for review at a later date.* The motion carried.

Senator Burns wanted to bring to the attention of the Committee that they have a different process, relative to compensation review for the JLBC Staff Director. He would like for the members to take a look at the Committee rule as to how they address the compensation issue. Right now it is the Chairmen of the Committee that does it and he thinks it should be the Committee as a whole. There needs to be an in-place review process so the director receives an annual performance review.

APPROVAL OF MINUTES

Senator Burns moved *that the Committee approve the minutes of August 14, 2003.* The motion carried.

EXECUTIVE SESSION

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

At 12:10 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 12:30 p.m. the Committee reconvened into open session.

Senator Burns moved *that the Committee approve the recommended settlement proposals by the Attorney General's Office in the cases of Shelley v. State and Holmes v. State.* The motion carried.

Without objection the Committee adjourned at 12:35 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.

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DATE: October 28, 2003

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

THRU: Richard Stavneak, Director

FROM: Jason Hampton, Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL — REVIEW OF ALLOCATION OF SETTLEMENT MONIES (TABACOS DE CANARIAS S.L. REGARDING MASTER SETTLEMENT AGREEMENT PAYMENT)

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General (AG) has notified the Committee of the allocation of monies to be received from a settlement agreement with Tabacos de Canarias S.L. regarding Master Settlement Agreement (MSA) payments.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for the Tabacos de Canarias S.L. settlement. The State of Arizona will receive approximately a total of $682,700 over the next 18 years for deposit into the Arizona Tobacco Litigation Settlement Fund.

Analysis

The FY 2004 General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review.

In 1998, the Attorneys General of 46 states entered into the Tobacco Master Settlement Agreement (MSA) with the four largest U.S. tobacco companies. The MSA was intended to allow states to recoup a portion of the costs related to treating smoking-related illnesses. As part of the agreement, the tobacco companies will make payments to states in perpetuity.

(Continued)

The Office of the Attorney General recently settled a case that will result in the receipt of settlement monies over $100,000. The case involved violations under the MSA by Tobacco and Candy International (TCI), a distributor for Tabacos de Canarias S.L., for failure to make MSA payments to settling states during 1999-2002.

Under the court settlement, Canary Islands Cigars, a United States subsidiary of Tobacos de Canarias, will join the MSA and make payments to settling states of approximately $10 million on or before September 30, 2003 and $23 million, plus 5% interest, over the next 20 years. The State of Arizona's allocable share is 1.47% of the settlement amount. The allocation schedule is illustrated in the following chart:

Date	Settlement Payment
On or before September 30, 2003	$ 147,000
On or before March 15, 2004-2006	$ 57,300
On or before March 15, 2007-2009	$ 66,300
On or before March 15, 2010-2012	$ 77,400
On or before March 15, 2013-2015	$ 88,200
On or before March 15, 2016-2018	$ 99,300
On or before March 15, 2019-2022	$ 147,200
Total	**$682,700**

Pursuant to A.R.S. § 36-2901.02, all monies the state receives from the Tobacco Litigation Master Settlement Agreement, entered into on November 23,1998, will be deposited into the Arizona Tobacco Litigation Settlement Fund administered by the Arizona Health Care Cost Containment System (AHCCCS). Monies in this fund are used to fund the state matching requirement for Proposition 204 expanded eligibility under AHCCCS.

RS/JH:ss

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DATE: October 30, 2003

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

THRU: Richard Stavneak, Director

FROM: Bethany Nicholas, Fiscal Analyst

SUBJECT: ARIZONA BOARD OF REGENTS - REVIEW OF FY 2004 TUITION REVENUES AND REPORT ON TECHNOLOGY AND RESEARCH INITIATIVE FUND (PROPOSITION 301)

Request

Pursuant to footnotes in the FY 2004 General Appropriation Act, the Arizona Board of Regents (ABOR) is submitting a report and expenditure plan on FY 2004 tuition revenue amounts that are different from the amounts appropriated by the legislature.

Information from the FY 2003 Technology and Research Initiative (TRI) Fund is also provided for the Committee's information.

Recommendation

The JLBC Staff recommends that the committee give a favorable review of the expenditure plan for tuition amounts over the appropriated amounts. Systemwide, FY 2004 tuition collections are estimated to be $36,059,300 more than the tuition amounts appropriated by the Legislature. The higher amount is primarily due to increases in tuition approved by ABOR in March 2003.

In FY 2004 the University System did not receive funding for enrollment growth, which had an estimated formula requirement of $19.4 million, or for the employers' share of health and retirement increases, which has an estimated requirement of $23.7 million. The Universities intend to use additional tuition monies to fund these increases. Detailed information on the allocation of these anticipated expenditures is not provided in the expenditure plan. The Universities have stated that due to the timing of the report and their information processes, it is difficult to develop specific information regarding the allocations of these tuition amounts for specific items. If the Committee would like to see more specific information, JLBC Staff recommends the Committee request the Universities provide additional detail in future reports.

The following table shows the FY 2003 and FY 2004 appropriations for the University System and the FY 2004 tuition amounts over the appropriated amounts.

University System FY 2003 and FY 2004 Appropriations (in Millions)

	FY 2003	FY 2004 Before Tuition Adjustments	FY 2004 After Tuition Adjustments
General Fund	$746.9	$746.9	$746.9
Collections	272.9	276.3	312.3
TOTAL	**$1,019.8**	**$1,023.2**	**$1,059.2**

No Committee action is required on the TRI Fund report. In FY 2004 ABOR estimates that $63.8 million will be distributed to the three universities and ABOR from the Technology and Research Award Program. Arizona State University (ASU) will receive approximately $24.4 million. Northern Arizona University (NAU) will receive approximately $13.1 million. The University of Arizona (UA) will receive approximately $21.0 million. ABOR will receive approximately $5.3 million.

Analysis

Tuition Revenues

Footnotes in the General Appropriation Act (Laws 2003, Chapter 262), require ABOR to inform the Committee of any tuition amounts that are different from the amounts appropriated by the Legislature to each university. The same footnotes also appropriate tuition collections above the appropriated amounts to each university for operating expenditures, capital outlay, and fixed charges. The following table shows the amounts above the appropriated levels for each university.

Tuition Revenue Above Appropriated Amounts

ASU-Main	$10,176,100
ASU-East	1,759,600
ASU-West	5,296,900
NAU	7,955,000
UofA-Main	7,877,000
UofA-Health Sciences Center	2,994,700
TOTAL	**$36,059,300**

ABOR reports the increased amounts are primarily due to increases in tuition and fees approved by ABOR at its March 2003 meeting. The following table shows the changes in resident and non-resident tuition from FY 2003 to FY 2004.

	Resident Tuition				**Non-Resident Tuition**			
	FY 2003	FY 2004	$ Change	% Change	FY 2003	FY 2004	$ Change	% Change
ASU	2,583	3,593	1,010	39.1%	11,103	12,113	1,010	9.1%
NAU	2,583	3,593	1,010	39.1%	11,103	12,113	1,010	9.1%
UofA	2,583	3,593	1,010	39.1%	11,103	12,363	1,260	11.3%

The additional amounts will be used to provide support for student enrollment growth and increases in employee health and retirement benefits. The following table provides more information.

Uses of Increased Tuition Revenues	
ASU-Main	The additional tuition revenue will be used for student enrollment growth; expand library hours; improve classroom facilities; and support unfunded increases in employee health and retirement benefits.
ASU-East	The additional revenue will be used to support enrollment growth and academic programs; support new facilities and improve classrooms; and support unfunded increases in employee health and retirement benefits.
ASU-West	The additional revenue will address student enrollment growth; support library acquisitions; support for new classrooms; improve student services; and support unfunded increases in employee health and retirement benefits.
NAU	The additional revenue will address increases in unfunded health and retirement benefits; address salary concerns among employee categories; and offset General Fund budget reductions.
UofA-Main	The additional revenue will be used to address deficiencies in university salaries through merit/equity/recruitment adjustments; enhancements to undergraduate education, additional support for Graduate Teaching Assistants and the Instructional Program at UA South.
UofA-Health Sciences Center	The additional revenue will be used for staffing needs in the College of Public Health, salary adjustments in the College of Nursing and enhancements to instruction in the College of Medicine.

Technology and Research Initiative Fund

The Technology and Research Initiative (TRI) Fund was established to fund new economy technology and research initiatives by Proposition 301, which voters enacted into law during the November 2000 General Election. Proposition 301 increased the state Transaction Privilege Tax (TPT) ("sales tax") rate from 5% to 5.6% and dedicated the new revenues from the rate increase to various programs in public education. These monies are deposited into a dedicated Proposition 301 portion of the General Fund and continuously appropriated. The TRI Fund receives 12% of these collections after debt service on state school facilities revenue bonds is allocated. In total, the Universities used $57.8 million in TRI Fund monies in FY 2003 and projects expenditures of $63.8 million in FY 2004 and $52.5 million in FY 2005. Up to 20% of the TRI Fund monies may also be used for capital projects, including debt service related to new economy initiatives. The Universities plan to use $5.5 million or 8.6% of the monies for capital projects in FY 2004 and $6.2 million or 11.9% in FY 2005.

A.R.S. § 15-1648C established specific criteria for awards. The award must be related to a specific academic or research field, designated to expand access to baccalaureate or post-baccalaureate education for time-bound and place-bound students, or to implement recommendations of the Arizona Partnership for the New Economy or the Governor's Task Force on Higher Education. The award may be used to develop new and existing programs that will prepare students to contribute in high technology industries located in this state or it may be used in conjunction with matching financial assistance from private industry.

Pursuant to A.R.S. § 15-1648D, ABOR is required to submit a report on the Technology and Research Award Program to the Governor, the President of the Senate, and the Speaker of the House of Representatives by September 1 of each year. The report is to include a description of the amount and duration of each new award distributed and a description of the purpose and goals for each award. For existing awards, ABOR is also required to develop a detailed set of performance measures to determine the overall effectiveness of each award.

The following tables show the distribution of the TRI Fund revenues for FY 2003 – FY 2006 to the Arizona University System by University and by program area

Technology and Research Initiative Projects (in Millions)

	Actual FY 2003	FY 2004	FY 2005	FY 2006
ABOR	$ 3.1	$ 5.3	$ 3.3	$ 3.4
ASU	26.8	24.4	20.7	22.0
NAU	6.7	13.1	9.3	9.8
U/A	21.2	21.0	19.2	20.2
Total	**$ 57.8** 1/	**$ 63.8** 2/	**$ 52.5**	**$ 55.4**

1/ This number includes $11.8 million in carryforward and $46.0 million in new revenues.
2/ This number includes $14 million in carryforward and $49.8 million in new revenues.

Distribution of University Technology and Research Initiative Fund (Proposition 301)

	FY 2003 Actual	**FY 2004**	**FY 2005**	**FY 2006**
Program Area				
Biosciences/Biotechnology	$28,919,543	$27,768,723	$23,700,000	$24,500,000
includes capital component of:	2,972,000	2,976,000	3,000,000	3,000,000
Access/Workforce Development	5,251,405	8,361,869	3,800,000	3,800,000
Information Technology	5,808,983	8,310,881	6,350,000	6,700,000
Technology Transfer	577,644	814,033	800,000	800,000
Environmental Research, Development and Education for the New Economy (ERDENE)	1,502,885	1,764,067	2,060,000	2,360,000
Optics	6,014,645	4,809,615	4,200,000	4,200,000
includes capital component of:	1,000,000	1,000,000	1,000,000	1,000,000
Water, Economic Development, and Sustainability	827,112	2,093,799	2,300,000	3,500,000
Learner Centered Education	575,165	824,272	0	0
Arizona Regents University	1,961,431	3,805,657	2,315,000	2,431,000
ASU East/ West COPs	6,128,000	3,356,200	3,779,900	3,782,200
Capital Projects (NAU)	132,946	1,565,454	2,240,000	2,350,000
includes capital component of:	0	1,495,000	2,240,000	2,350,000
Other	142,194	318,463	1,000,000	1,000,000
Total Arizona University System	**$57,841,953**	**$63,793,033**	**$52,544,900**	**$55,423,200**
includes capital component of:	**$3,972,000**	**$5,471,000**	**$6,240,000**	**$6,350,000**
Capital as % of Total AUS Expenditures	**6.9%**	**8.6%**	**11.9%**	**11.5%**

RS/BN:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

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

DATE: October 30, 2003

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF REVENUE – REPORT ON CREDIT CARD PAYMENTS

Request

The Department of Revenue (DOR) is reporting to the Committee on their plan to begin accepting credit card payment for transaction privilege and withholding taxes beginning January 2004.

Recommendation

This item is for information only and no Committee action is required. Under this program, DOR would receive payment of the full amount of tax, and there would be no cost to the General Fund. The taxpayer would pay the full cost of the convenience fee, which DOR estimates at from 2% to 4% of the tax charged to the credit card. JLBC Staff recommends that the department report back to the Committee once the fees have been established and they can estimate the annual dollar cost to taxpayers of the convenience fee.

Analysis

A footnote in the General Appropriation Act, Laws 2003, 1st Regular Session, Chapter 262, states that DOR may contract with a third party vendor to accept credit card payment for taxes only if there is no cost to the State General Fund for accepting credit card payments, and requires the department to report to the Committee on this program before contracting.

DOR reports that they plan to begin accepting credit card payments for transaction privilege and withholding taxes in January 2004, as part of their Business Reengineering/Integrated Tax System (BRITS) project. The department would begin accepting credit card payments for corporate income tax in September 2004, and for individual income tax in September 2006, as these additional taxes are brought on line as a part of BRITS.

Under this program, taxpayers who use the department's Internet site or telephone to file their taxes could use a credit card to pay the tax. The taxpayer would pay the full amount of the tax owed, plus a convenience fee to a third party credit card vendor. DOR is currently seeking third party credit card vendors, and estimates that the convenience fee would cost taxpayers from 2% to 4% in addition to the tax charged to the credit card. The Government Information Technology Agency reports that there would be no IBM portal fee, since DOR's tax payment internet site is part of the BRITS project and was developed independent of the IBM portal. DOR would receive payment of the full amount of tax, and there would be no cost to the General Fund.

DOR reports that 22 states allow credit card payment of taxes, including 15 states where taxpayers pay the convenience fee and 7 states where the state pays the convenience fee. The department reports that they are asking other states for information regarding their tax payments by credit card. However, DOR cannot currently estimate the annual dollar amount of convenience fees that would be paid by taxpayers. This amount would depend on the dollar amount of taxes paid by credit card over the Internet or telephone as opposed to the total amount of taxes paid, and may vary by tax type (transaction privilege, withholding, corporate income, and individual income taxes).

RS/BH:jb

STATE OF ARIZONA

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HOUSE OF
REPRESENTATIVES

DATE: October 28, 2003

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF REVENUE – REPORT ON LADEWIG EXPENDITURES

Request

This is a status report on the Department of Revenue's (DOR) monthly expenditure reports for their Ladewig administrative costs.

Recommendation

This item is for information only and no Committee action is required. DOR has requested a supplemental appropriation of $2,830,400 for Ladewig administrative costs in FY 2004 in the current Special Session.

Analysis

The Legislature allocated $15,000,000 in FY 2003 to the DOR for Ladewig administrative costs, with any unused amount to be held in reserve for future payments related to the case. Last year's Public Finance Omnibus Reconciliation Bill made any unused amount of the $15,000,000 available to DOR in FY 2004 for Ladewig administrative costs. In addition, the Governor vetoed the section of last year's Public Finance Omnibus Reconciliation Bill, which would have allocated an additional $75,000,000 in FY 2004 to DOR for Ladewig payments and costs with up to $7,300,000 allowed to be used for Ladewig administrative costs.

In November 2002, the Committee approved $27,607,100 for DOR's total estimated 5-year administrative requirement expenditure plan, including $13,497,000 (of the total $15,000,000 allocation) to fully fund DOR's estimated administrative costs in FY 2003. DOR reports that they spent $10,587,100 of the total $15,000,000 allocation in FY 2003, including $8,587,100 for DOR administration and $2,000,000 for the plaintiff's attorney fees. This would leave $4,412,900 available for the department's Ladewig administrative costs in FY 2004, which DOR estimates should last through late January or mid-February 2004.

(Continued)

In addition to these remaining FY 2003 funds, DOR originally intended to spend another $7,300,000 in FY 2004. DOR has reduced this estimate for administrative costs in FY 2004 by cutting proposed expenses and shifting costs to other sources. For instance, the $7,300,000 included the second $2,000,000 payment for the plaintiff's attorney fees in September 2003, which DOR paid and which was subsequently reimbursed to the department by the Arizona Department of Administration Risk Management. In addition, DOR implemented several cost saving steps, including using temporary employees instead of paying overtime to department staff, re-using replaced computers, and locating Ladewig staff in the North Valley office instead of renting additional space. DOR has requested an appropriation of $3,798,800 for FY 2004 in the current Special Session, including $968,400 for a Revenue Generating Program II and $2,830,400 for Ladewig administrative costs in FY 2004.

DOR reports that in September they manually researched and input data which was unreadable on the microfiche. DOR's monthly status report shows expenditures of $149,200 for Ladewig in September, making total expenditures of $706,500 for the first 3 months of FY 2004. This would leave a balance of $3,706,400 still available for the department's Ladewig administrative costs in FY 2004. The following table summarizes these items.

DOR's Ladewig Administrative Costs

	FY 2003	FY 2004 Through September 2003
Beginning Balance	$ 0	$4,412,900
Allocation	15,000,000 1/	0 2/
DOR Expenditures	10,587,100 3/	706,500 4/
Ending Balance	$ 4,412,900	$3,706,400

1/ JLBC approved $13,497,000 to fully fund DOR's estimated administrative costs in FY 2003.
2/ The Governor vetoed the allocation of up to $7,300,000 for Ladewig administrative costs in FY 2004. DOR has requested a supplemental appropriation of $2,830,400 for Ladewig administrative costs in FY 2004 in the current Special Session.
3/ Includes $8,587,100 for DOR administration and $2,000,000 for the plaintiff's attorney fees.
4/ In addition, DOR paid a second $2,000,000 for the plaintiff's attorney fees, which was reimbursed to DOR by Arizona Department of Administration Risk Management.

RS/BH:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: October 30, 2003

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

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Senior Fiscal Analyst

SUBJECT: MARICOPA COUNTY – REPORT ON PERFORMANCE MEASURES FOR ADULT PROBATION

Request

A provision in the Public Finances Omnibus Reconciliation Bill (Laws 2003, Chapter 263) requires Maricopa County to submit a monthly report to JLBC and the Maricopa County Board of Supervisors on 10 performance measures for its adult probation programs. The bill requires the county to submit these reports through FY 2004 and FY 2005. Maricopa County has submitted reports for both July and August 2003.

Recommendation

This item is for information only and no Committee action is required. Maricopa County has submitted data for all 10 performance measures and appears to be maintaining the December 2002 caseload level, as required by Chapter 263.

Analysis

During the 2003 legislative session, Maricopa County agreed to assume the state's share of its adult probation costs (approximately $22.3 million). Laws 2003, Chapter 263, Section 83 requires Maricopa County to fund Adult Standard, Adult Intensive, Interstate Compact, and Community Punishment probation programs in FY 2004, without state General Fund assistance. The bill also requires the county to submit a monthly report to JLBC and the Maricopa County Board of Supervisors on 10 performance measures.

As required by session law, Maricopa County appears to be maintaining the December 1, 2002 caseload capacity for the Adult Standard, Interstate Compact, and Community Punishment Probation programs. In the Adult Intensive Probation (AIPS) program, however, the county reports a decrease of 437 probationer slots since December 1, 2002. Maricopa County has informed us that state budget reductions since December 2002 had the effect of reducing Adult Intensive Probation slots by approximately 430 slots. At its September 8, 2003 meeting, the Maricopa County Board of Supervisors approved the hiring and training of 17 AIPS probation officer teams which will increase the AIPS caseload capacity by 425 slots. With the additional AIPS teams, the caseload capacity for AIPS will be consistent with the program's caseload capacity as of December 1, 2002.

The information provided by Maricopa County for August 2003 is summarized in the following table:

Maricopa County Adult Probation
Performance Measures – August 2003

	Adult Standard	Adult Intensive	Interstate Compact	Community Punishment
Total Caseload Capacity	19,080	1,313	660	2,560
Total Number of Active Cases	19,436	888	591	2,564
Current Capacity vs. Dec 1, 2002 (current month/Dec 1, 2002)	19,080/19,050	1,313/1,750	660/660	2,560/2,640
Average Number of Offenders Supervised by each Probation Officer/P.O. Team	61	17	54	1/
Number of Officers Supervising Offenders	318	52.5 teams	11	48
Average Supervision Cost per Probationer	\$2.65/day	\$18.91/day	\$2.74/day	2/
Number of Offenders Receiving Treatment	1,402			
Average Treatment Cost per Probationer	\$6.75/day			
Number of Probation Violators Recommended to be Committed to Prison 3/	349			
Number of Probation Violators Committed to State Prison 3/	216			

1/ Average number of offenders supervised by each probation officer/p.o. team in Community Punishment is broken out by type of offender. The average caseloads in Community Punishment are as follows: 59 sex offenders per officer; 61 domestic violence offenders per officer; 44 seriously mentally ill offenders per officer; and 37 transferred youths per officer/p.o. team.
2/ Average supervision cost per probationer in Community Punishment is broken out by type of offender. These costs are: \$4.60/day for sex offenders; \$3.51/day for domestic violence offenders; \$3.97/day for seriously mentally ill offenders; and \$3.39/day for transferred youth.
3/ We are working with the county to get comparable data prior to Maricopa assuming responsibility for adult probation. We will include this information in future reports.

Maricopa County will continue to provide JLBC Staff with these performance measures through FY 2004 and FY 2005.

RS/KH:ck