STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

JOINT LEGISLATIVE BUDGET COMMITTEE
Wednesday, November 17, 2004
9:30 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of October 14, 2004.
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14 and Update on Prior Settlements.

1. ARIZONA DEPARTMENT OF ADMINISTRATION
   A. Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicle and Aircraft.
   B. Consider Approval of Maximum Lodging Reimbursement Rates.
2. STATE COMPENSATION FUND - Consider Approval of Calendar Year 2005 and 2006 Budgets.
3. DEPARTMENT OF PUBLIC SAFETY - Quarterly Review of the Arizona Public Safety Communications Advisory Commission.
4. DEPARTMENT OF REVENUE - Report on Credit Card Payments.
5. ARIZONA TOURISM AND SPORTS AUTHORITY - Report on Activities.
6. GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING - Report on Federal Revenue Maximization Initiative.

7. ATTORNEY GENERAL - DEPARTMENT OF LAW - Report on New Staffing of Child Protective Services Attorneys.

8. ARIZONA STATE RETIREMENT SYSTEM - Report on Contribution Rates.

The Chairman reserves the right to set the order of the agenda.
11/8/04

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

October 14, 2004

The Chairman called the meeting to order at 9:43 a.m., Thursday, September 21, 2004, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Anderson	Representative Gray
	Senator Bee	Representative Huffman
	Senator Harper	Representative Huppenthal
	Senator Martin	Representative Lopez
	Senator Rios	
Absent:	Senator Arzberger	Representative Biggs
	Senator Cannell	Representative Burton Cahill
		Representative Farnsworth

APPROVAL OF MINUTES

Senator Burns moved *that the Committee approve the minutes of September 21, 2004.* The motion carried.

ADOPTION OF REVISED COMMITTEE RULES AND REGULATIONS

Mr. Brad Regens, Assistant Director, JLBC, said this item is the adoption of the Committee rules and regulations. Rule 7 adds a new requirement for an annual review of the JLBC Staff Director's performance by the Committee. It would require the full Committee, rather than the Chairman and Vice-Chairman, to set the Director's salary.

Senator Burns said he announced a few months ago that he wanted to pursue this as he did not feel comfortable having the Chairman and Vice-Chairman making the decision. He said the plan is to get a subcommittee together to look at salaries of like positions and come back to the Committee with a recommendation before the end of the year.

Senator Rios expressed his support for the proposed change. It is what they do in the Joint Legislative Audit Committee the Auditor General and other committees.

Representative Pearce moved *that the Committee approve the revised Committee Rules and Regulations as follows:*

Rule 7

- *add a new requirement for an annual review of the JLBC Staff Director's performance by the Committee.*
- *require the full Committee, rather than the Chairman and Vice-Chairman, to set the Director's salary.*
- *permit the Chairman to name a subcommittee to make recommendations on the Director's salary.*

Rule 8

- *revise the timeline for agencies to submit a request to appear on the JLBC agenda. A request must now be made 2 weeks prior to the meeting. The revision would require agencies to make the request 3 weeks in advance of the meeting. The rules would retain the existing language that allows the Chairman to place an item on the agenda if an agency has not met the submission deadline.*

The motion carried.

ARIZONA BOARD OF REGENTS (ABOR) – Review of FY 2005 Tuition Revenues and Report on University Pay Plan.

Mr. Lorenzo Martinez, Assistant Director, said this item is for Committee review of the expenditure plan for the universities relative to the additional tuition being generated above appropriated levels. Also, there are some additional reports pertaining to tuition and fees, as well as information related to distribution of salary money.

Representative Gray asked who will be getting salary increases.

Mr. Martinez said that for NAU with a total of 2,371 FTEs, 1,605.7 FTEs will receive an adjustment under the plan. As shown in the table for the other universities, it appears that not all university employees will be receiving adjustments according to the pay plans that have been submitted.

Representative Gray asked if the tuition increase is being used for scholarship and how is it being distributed.

Ms. M. J. McMahon, Executive Vice President, Northern Arizona University, said they are using tuition dollars for increases in the number of students that are supported through scholarship dollars. With the increase in enrollments this year they have more students that are being supported by tuition dollars. The other increases in tuition went for student services. They have increased their advising services, especially for undergraduate and new students.

Senator Burns said the Committee had some debate last session about alumni associations using General Fund money. Consequently, there was a footnote added to the budget to prevent that from happening in the future. He asked if the NAU Alumni Association was still using General Fund monies.

Ms. McMahon said she was not aware that they were but would get clarification for the Committee on that item.

Senator Burns said he also wanted to know if universities used tuition to backfill funding for the associations.

Mr. Greg Fahey, representing the University of Arizona (UofA), said what the UofA is doing at this time is they have given a $1,000 increase to the classified staff, effective July 1, 2004. They have held back on faculty and other appointed personnel because they have been assessing whether they will have the ability to augment the money that the Legislature appropriated with any additional sums and see if they can make the package any richer. The decision should be made soon and they will get back to the Committee with what is decided.

Senator Burns asked if the UofA Alumni Association was using General Funds and if they were, has there been a backfill proposed.

Mr. Fahey said they were using some General Fund monies in the past but have terminated that. He said he would confer with their budget personnel as to exactly what they are doing now.

Senator Burns asked if tuition money was being used by the Alumni Association.

Mr. Fahey said he would have to get back to the Committee with that information.

Representative Pearce said essentially the tuition increase is split between the operating budget, financial aid, and debt service. He asked what criteria is used to determine how much each category gets.

Mr. Fahey said that students come first in the way of financial aid and scholarships. Next would be student related items, such as hiring people for teaching and advising. He indicated he would have to get the information on the further criteria and get back to the Committee.

Representative Pearce said what he would like to see, probably from the Arizona Board of Regents, a breakdown as to how that budget is spent on academics versus non-academics. He stated that it seems that the more money we spend on higher education the less goes toward academics.

Mr. Fahey said they would supply the Committee with that information.

Representative Gray asked how many new students had been added into the scholarship group because of the tuition money and also what amount of increase was added to those students who are receiving scholarships because of the tuition increase.

Mr. Fahey said they would also provide that information to the Committee.

Representative Pearce moved that the Committee give a favorable review to the Arizona Board of Regents expenditure plan for the tuition amounts above the previously appropriated amounts. The motion carried.

ARIZONA STATE PARKS BOARD – Review of Additional FY 2005 Reservation Surcharge Fund Expenditures.

Mr. Tim Sweeney, JLBC Staff, said that this item is a review of additional Reservation Surcharge Fund expenditures above the FY 2005 appropriation.

Representative Gray asked if the $3 per ticket charge for advanced reservations on-line saves employee time.

Mr. Jay Ziemann, Assistant Director, State Parks Board, said that at this time visitors cannot make reservations on-line at Kartchner Caverns. They are made through by phone to the park and agents take the information and send materials out. They hope to be on-line in the future, and are working with the Government Information Technology Agency (GITA) to be able to do on-line tickets.

Representative Gray wants to know from GITA why there is a delay in getting Parks on-line.

Representative Pearce moved that the Committee give a favorable to the State Parks request to increase the FY 2005 expenditures from the Reservation Surcharge Fund to $460,300. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) – Review of Ports of Entry Report.

Mr. Bob Hull, JLBC Staff, said this item is a report on staffing at the ports of entry. ADOT has not had time to fill any of the 12 additional positions that were appropriated for FY 2005 at the ports.

Senator Anderson asked why the positions have not yet been filled.

Mr. Ric Athey, Assistant Division Director for Enforcement, Motor Vehicle Division, said the reason is because they are in the process of recruiting for the 12 positions. He stated that it is difficult to find qualified people, who must be Arizona P.O.S.T. certified. They have to go through background investigations and meet P.O.S.T. standards.

Senator Burns asked if he had an estimate as to when they might be successful in filling the positions.

Mr. Athey said with active recruiting, and the academy process, it takes 7 to 8 months to get these people on board and functioning. The next academy is in March or April of 2005.

Representative Pearce asked how many of the ports will be fully functioning once these positions are filled.

Mr. Athey said these are the interstate ports and once the positions are filled the ports will be able to operate and function 24/7.

Representative Pearce asked where MVD is in the process of treating the stationary ports as mobile ports, which he believes are much more effective. He said it was not in the 5-year plan to move away from stationary ports and move to mobile ports.

Mr. Athey said that they have 3 active mobile ports: southern, central and northern regions. Along with partnering with local agencies, DPS and Sheriff's offices, they are able to do mobile details. As of right now they still have those 3 active enforcement units participating where they know the industry is bypassing ports.

Senator Anderson asked if there is a report that shows if the results of these ports is effective.

Mr. Athey said that they do have reports that come in on narcotics found at some of the state ports. They are turned over to the local law enforcement or DPS. As for the agriculture checks, the Department of Agriculture would have reports on that. MVD is only responsible for safety issues, size and weight. Some ports are operated 24 hours a day by Department of Agriculture staff, not by MVD staff.

Senator Burns asked what the penalty is for bypassing a port.

Mr. Athey said he did not have that information but would get it for the Committee.

Representative Pearce moved that the Committee give a favorable review of the report with the provision that ADOT *report to the Committee by August 1, 2005, how many of the 12 new FTE Positions have been filled and at which ports and the report should include the following information for each fixed port of entry in FY 2005:*

- -- *Total number of authorized and filled FTE Positions.*
- -- *Hours of operation before and after filling these positions.*
- -- *Total number of hours open and closed.*
- -- *Number of trucks processed manually, by prepass and waved through.*
- -- *Amount of revenue collected.*

The motion carried.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – Report on Homeland Security.

Mr. Brad Regens, Assistant Director, JLBC, said this item is a report on Homeland Security monies. The General Appropriation Act requires the Governor's Office of Homeland Security to report to this Committee on FY 2004 and FY 2005 grants received by the state.

Senator Harper asked if there is a tax on nuclear energy that goes into the Nuclear Security Fund and if every couple of years money is transferred out of the fund.

Mr. Regens said there is a Nuclear Emergency Management Office and a Radiation Regulatory Agency that essentially funds the oversight of the Palo Verde Nuclear facility. It is a self-funding enterprise where fees are assessed and collected on Palo Verde and essentially given to the 2 state agencies to oversee regulation.

Senator Harper asked if there is an excess in the fund so that some of the money could be used for Homeland Security.

Mr. Regens said the assessment is exactly to the amount that the agency will receive for regulatory purposes. The amount that Palo Verde pays does not exceed what the 2 state agencies receive for their work.

Representative Huffman asked how much of this money is spent on one-time things like equipment versus on-going programs. Just looking at the interaction between state and Federal Funds, what proportion are Federal Funds in relation to our total Homeland Security budget, and what potential obligations we are setting ourselves up for in the future in the absence of that federal money or as a result of a change in the federal formulas.

Mr. Regens said that will be part of the discussion as the Committee receives additional information.

Senator Burns asked when the model will be up and running.

Mr. Frank Navarrette, Director, Office of Homeland Security for the State of Arizona, noted that he also manages the Division of Emergency Management. He said the regionalization, which is a reduction of the State of Arizona from 15 counties to 5 regions by consolidating some of the counties, is in place. The remaining piece is the appointment of the advisory councils, which are going to be the Governor's Councils for each of the regions. That is in the process of being finalized. Once complete, all components of each region will be assessed to determine what their needs are and allocate funds by region as opposed to by county. They plan to finalize that by mid to late November.

Using a handout (Attachment 1), Mr. Navarrette explained actual expenditures of the money and obligated money, which means that a contract has been let, but for whatever reason the vendor cannot supply the equipment or it is still going through the process.

Senator Burns said that when they go to the regional model, he asked if it would it be more efficient than what is in place and would it improve operations.

Mr. Navarrette said that prior to the regional process, the money was allocated based on a formula. The allocation would go to the counties, and the counties would then reallocate it to the local sites. In some counties the Board of Supervisors did it, in others they had a group of people that included first responders that would allocate it. There was no standard across the board.

We now have a planner for each region, advisory councils which are comprised of first responders, and we have instituted a centralized purchasing program where we will buy items for the regions, our office will handle all the federal paperwork, eliminating a lot of problems for the regions.

Senator Burns noted that this is a critical issue and it would be beneficial to the Committee to know ahead of the curve, what is going on with Homeland Security. As recommended by JLBC Staff he would like the Homeland Security Office to report to the Committee on a monthly basis.

Mr. Navarrette said he would provide a report in writing as well as a verbal report.

Representative Pearce said there are a couple of historical problems, and that is the inability of governing boards to purchase things up front and then be reimbursed. He asked if the Homeland Security Office is working with agencies on that problem so there are no delays in reimbursements.

Mr. Navarrette said they are working with agencies on the regionalization plan.

Representative Pearce requested a comprehensive list of the total amount of dollars that are available to the state and/or local agencies, including grants. As the Legislature appropriates money it is important to know what money is available.

Mr. Navarette said he would provide that to the Committee. He also said he would be available anytime to brief the Committee on the regionalization plan.

ARIZONA DEPARTMENT OF CORRECTIONS – Report on New Beds and Projects

Mr. Brad Regens, Assistant Director, JLBC, said this item is for information only and no Committee action is required. He noted that JLBC Staff has been working with the department to update the Committee on the status of various beds that were authorized by the Legislature during the Second Special Session, as well as a couple of projects that the department has been working on as a result of legislation enacted last session.

Representative Pearce said he thought there was an agreement that VOITIS monies would not be used for private beds.

Mr. Regens said there has been a lot of discussion on the use of VOITIS monies. He believes that the department's position is that they would not be used in the Mohave and Kingman facility. The Legislature provided the department with flexibility in terms of the federal monies, and they are using some of those monies for the new private beds.

Representative Pearce said it concerns him that those monies are being used outside the way they were meant to be used. He said he would get together with JLBC Staff to discuss the appropriate use of VOITIS money.

Mr. Regens said the final issue is a community accountability pilot program.

Representative Pearce asked why there was a delay in getting the RFP out.

Mr. Mike Smarik, Support Services Division Director, DOC, said they are in final negotiations with the 2 providers on the 1,000 private beds. In addition, they are working with the Department of Justice in completing an environmental assessment that is required if you are using federal money for the payment of the per diem of those beds. The total timeframe for that process is around the beginning of January.

Senator Burns asked what the bed shortage is at this time.

Mr. Smarik said approximately a 2,700 deficit.

Senator Burns asked what the schedule is for the inmate stores.

Mr. Smarik said the RFP is out and site visits are scheduled for October 26 through November 8. They have a pre-proposal conference scheduled for November 15 where they look at the RFP and site and can ask questions and get clarification. Proposals are due to the department on November 29. They plan to make an award sometime around mid-January.

Representative Pearce asked if the agency does compete on the RFP, are they going to fully load it so there are no hidden costs. He also asked how many people are currently working in stores and commissaries that will be freed up to work in other places to facilitate the department with staffing issues.

Mr. Smarik said they would be looking at the total package in the RFP. He said he did not know how many people would be able to be deployed into a security type function but at least 1 per store. He said the community accountability pilot program RFP is out and the proposals are due November 12. The award will be made sometime in December.

Mr. Regens said that although this item is for information only, the Committee may want to request that as part of the monthly reports on the beds, an update on the status of privatizing the inmates stores and on starting the community accountability program be included.

Mr. Robert Murillo, Manufacturing Small Business Owner, said he wanted to go on record, regarding inmate stores, to tell the Committee how this will affect small businesses. In today's bidding process the state looks at price, accountability, deliverability, and quality of product. Vendors cannot do anything other than those 4 items to bid on products for the state. When you go to privatization the level playing field goes away. Now the biggest company can wine and dine and do whatever necessary to get that contract. The state will not get the best price when you privatize. We need to support local businesses and grow the Arizona economy.

Senator Burns and Representative Pearce asked if Mr. Murillo would put something in writing pointing out some of the weaknesses in the process.

Mr. Murillo said he would provide that to the Committee.

Mr. Doug Mahoney, Representative for a Small Supply Company, also opposed privatizing the inmate stores.

DEPARTMENT OF ECONOMIC SECURITY – Report on Child Protective Services (CPS) Issues.

Ms. Kim Hohman, JLBC Staff, said this item is a Staff summary of the CPS Financial and Program Accountability report required by the Special Session legislation passed last fall. The Legislature appropriated $16.6 million for new CPS staff and other CPS issues. As part of that legislation, DES is required to submit a semi-annual report on a variety of CPS performance measures.

Senator Anderson said one of the issues that might affect some of these numbers is the new law in place regarding jury trials. He asked if anyone was tracking the number of jury trials and have the requests resulted in additional costs to the department.

Mr. David Longo, Financial Business Operations Administrator, DES, said he did not have that information but would provide it to the Committee.

Representative Pearce asked what progress has been made in developing Arizona-specific caseload standards.

Mr. Longo said that the department has worked with the National Resource Center in regards to establishing caseload standards for investigative workers. The department received a report from the Center and is analyzing it and will finalize the Arizona Standards by December 31. By January 1, we will have an Arizona Standard for investigative workers.

Representative Pearce asked if DES expects caseloads to rise or fall and why.

Mr. Longo stated that the agency is actively working on redesigning some of the service delivery. They are working on increasing services to in-home supports. With these changes, they expect to see their caseloads decline in the out-of-home populations. This will be accomplished over a period of time.

Senator Rios asked about the status of CPS investigators. During the Special Session the Legislature approved a 10% pay increase for investigators to try to ensure that particular group does not have such a high turnover rate.

Mr. Longo said the 10% investigator stipend was for any worker who had 3 years of CPS experience and investigated 6 reports of abuse and neglect. It was implemented in June 2004 and workers who meet the performance measure receive the stipend.

Senator Rios said he is getting e-mails from CPS workers that report they are not getting the 10% stipend.

Mr. Longo asked for the e-mails and said he would provide clarification to Senator Rios once he has reviewed them.

Representative Lopez said that in the JLBC Memo it appears that the staffing need decreased by 16 positions as a result of a decrease of the number of investigations. She asked if that is based on a one-month timeframe or over a period of time.

Mr. Longo said that there are summary pages in the DES portion which follow the JLBC memo that show January through June by the caseload for investigators, out-of-home case managers and in-home case managers. If you compare the investigative section of each of those pages you will see that due to the number of reports received in the month of January they would have needed 241 staff to do those investigations. In the month of June the report indicates the department would have needed 201 staff. The month of June historically is a low month.

Representative Huppenthal said that in the Special Session they had the published 2002 death rates and he asked if the 2003 death rates are published yet.

Mr. Longo said he would find out if that has been released yet.

Representative Huppenthal said, in talking to DHS, there was a discrepancy between the child fatality death rate reports and the death rate reports going to the National Child Abuse and Neglect data system and he requested that data for 2003 so he could see the difference between the 2 reports.

Mr. Longo said he would provide that to the Committee.

JLBC STAFF/ARIZONA STATE SCHOOLS FOR THE DEAF AND THE BLIND (ASDB) – Report on Additional Classroom Site Fund Monies.

Mr. Eric Jorgensen, JLBC Staff, said this item is a report on the ASDB's plan to spend a $1.2 million increase from the Classroom Site Fund allocation.

Senator Anderson asked how many total students they have and what they are doing to reduce class size.

Mr. Jorgensen responded that they are hiring a number of new teachers.

Representative Huppenthal asked if performance pay is in the form of a bonus.

Mr. Jorgensen said it is only given to teachers after they meet the performance standards.

Representative Huppenthal said there is something systematically wrong at ASDB. He has made numerous trips down there to talk to the teachers and they are very unsettled and as well, there has been turnover in superintendents. We need to get to the heart of the problem.

Mr. Hal Hoff, Assistant Superintendent of Business Services, ASDB, said Proposition 301 will allow them to address classroom size issues.

Representative Pearce asked if all ASDB teachers qualify for performance pay. He also asked if the Protege Mentor program require teachers to work extra hours to qualify for performance bonuses.

Mr. Hoff said that is correct. The scores from parents typically range from 92% to 94% on the criteria that is used to measure their satisfaction with the school. With regards to Protege Mentor bonus pay it does require them to work extra hours.

Mr. Hoff said, in response to Representative Pearce, that the ASDB visually impaired students in both Phoenix and Tucson scored above the minimums on the AIMS test. There were not enough hearing impaired students in the particular grade levels to determine AIMS scores. He said they have integrated a number of AIMS studies within the regular school curriculum.

Representative Lopez said that it seems that even with Proposition 301 monies for teachers, they are still behind in terms of trying to attract and retain teachers. She met with teachers from the Phoenix campus and they reported that one of the biggest problems is that ASDB teachers are not under contract. They can be lured away in the midst of the school year.

Mr. Hoff said that is correct. There are several examples where teachers were about to be hired but ASDB was not able to offer a competitive salary. As a state agency they cannot enter into the same kind of contract that the school districts enjoy.

Representative Huppenthal noted that Mr. Hoff listed the percentage of parents that were satisfied with the school system. He requested information on the number of parents that listed excellent performance. He believes satisfactory is a low standard of service. He also suggested they do a teacher/job satisfaction measure once or twice a year. It would possibly include suggestions on how to improve ASDB.

Representative Gray asked why they do not have teacher contracts, and also why Tucson had the only residential campus.

Mr. Hoff said that it is in state statute that they are not allowed to enter into teacher contracts. He said that they have spoken with John Arnold at the School Facilities Board and have started discussions with school districts so they can look at expanding their residential programs in Phoenix .

DEPARTMENT OF JUVENILE CORRECTIONS (DJC) – Report on Federal Audit Issues.

Ms. Kim Chelberg, JLBC Staff, said the Federal Audit was conducted in 2003 as a result of 3 youth suicides. The agency recently reached an agreement with the Department of Justice on September 15. This will be valid for 3 years and requires the reforms listed in the JLBC Agenda book memo.

Representative Huppenthal said one of the ways to find out if the experiment in charter schools is working or not is to look at juvenile crime rates. He would like to have information or data as to why the juvenile crime rates have gone down in Arizona and whether charter schools play a part in that.

Ms. Debra Peterson, Assistant Director of Support Services, DJC, said the decline in the juvenile population has been steadily decreasing over the last 2 to 3 years. They do not know if it is a result of the Civil Rights of Institutionalized Persons Act (CRIPA) report and/or possibly there is a reluctance of judges to commit to the state. However, she thinks that is changing because data over the last month shows that intake numbers are going up again.

Senator Burns asked if the audit focuses on various staffing ratios and is DJC able to meet those and how do they compare to other states.

Ms. Peterson said that currently with the staffing ratio, they are funded at the 2-3-1 ratio. In looking at other states it seems like a 2-3-2 staffing ratio is required, specifically for the graveyard shift.

Senator Burns asked if DJC had been able to take advantage of the savings with the lowering of the juvenile crime population.

Ms. Peterson said they closed the parole violator center at Sunrise Mountain School and moved those youths to Adobe. The staff was absorbed so there were no layoffs. They are going to close the unit at Black Canyon School, which is for girls, however, the intake numbers are going up for the boys population. Before they close another unit they are going to look at the data for a couple of months.

Senator Burns said the suicides and abuse prompted the audit. DJC is now required to have increases in special education and medical care. He asked how do those connect.

Ms. Peterson said that when the Department of Justice came in they were looking at overall conditions. Currently they have about 45% youth qualified for special education and in the past they have not been meeting those special education requirements which became very visible on the audit. Part of what they would be requesting is the teaching ratios to per student would actually decrease.

Ms. Peterson said, in response to Representative Pearce, that there are no dollar figures in the agreement that would require the Legislature to give an appropriation. She says the agreement only states adequate or reasonable.

Senator Anderson asked if they keep track of the use of psychotropic drugs for the kids at the facilities. Over the summer the FDA came out with a report that said there is a serious problem of suicides created by use of these medications.

Ms. Peterson said they do track that. One of the first things they do with a new juvenile is an assessment to look at their suicide risks and what drugs they are on.

Senator Burns asked if she had any problems with supplying the additional information that was recommend by JLBC Staff.

Ms. Peterson said she agreed completely with the request.

DEPARTMENT OF HEALTH SERVICES/AHCCCS – Report on Health Crisis Fund.

Ms. Beth Kohler, JLBC Staff, said this item is an update on an issue that was heard at the August JLBC meeting.

Representative Pearce asked when they expect to revert the $230,000 on the prescription drug cards.

Ms. Kohler said that the letter from the Governor's Office stated it would be after the AG's settlement monies were expended and she was not sure when that would be.

Senator Martin asked if a new program had ever been started using settlement monies.

Ms. Kohler said it is not creating a new program. The federal government passed the Medicare Discount Program starting in 2006. In the interim, they are offering discount cards so beneficiaries can save some money on the prescription drugs and they are also subsidizing low income beneficiary prescription drugs. What this is doing is advertising to Medicare beneficiaries to get them information about the new program and helping them understand their options.

Senator Martin asked if they were providing information on the CoppeRx card.

Ms. Kohler said she believes it does include the CoppeRx and federal cards.

Senator Martin asked for a copy of all their outreach materials, old and new, whatever they have that is provided to beneficiaries. Also, he wanted to know how much they spent on each piece. Senator Martin said if it would help he could make an official open records request, they do have a duty to promptly respond.

Ms. Kohler said that the Chairman did ask the Governor's Office for that information, as of this point it had not yet been sent out, but they do plan to provide that. Ms. Kohler said she would follow-up on that.

Senator Harper said if they do not need the $800,000 it should be used on Homeland Defense.

Representative Pearce said we continually have backdoor appropriations or misuse of dollars. We need to stop that from happening. The Governor's Office is to carry out policy not to set policy.

Mr. Anthony Rodgers, Director, AHCCCS, used a handout (Attachment 2) to help clarify how they spend their dollars in the Healthcare Group and where the money is going. Mr. Rodgers said that last year when they approached the Legislature and asked for an additional appropriation, they anticipated that a portion of that would go into marketing and sales. In the $3.2 million they estimated about $300,000 for marketing materials.

Senator Martin asked, in reference to the Medco settlement monies on the CoppeRx card, that because they are able to substitute the Medco settlement money would the money go into the General Fund.

Mr. Rodgers said that the settlement is specific as to how the funds will be used in AHCCCS. The reason we are having discussions is whether the use of that money is for outreach and if the money has to come back to AHCCCS.

Senator Martin said the money comes back to AHCCCS, which is funded by taxpayer money. He asked if the Medco suit was due to a violation or failure to act properly in relation to the CoppeRx card or was it due to improper actions on Medco's part long before the CoppeRx card was in existence.

Mr. Rodgers said the 2 are not related. The Medco settlement is regarding the activities of Medco. The way the settlement is written is that those monies will come back and be used by AHCCCS and will not revert to the General Fund.

Senator Martin said the Legislature may want to look into changing the statutes or laws because this is a real problem. If an agency enters into a contract and there is a settlement associated with that contract, the revenues from that settlement is used for non-appropriated activities within that agency without legislative oversight.

Mr. Regens said that it is his recollection that the Attorney General pursues consumer fraud cases. When they reach an agreement, most of the time they have to direct payments to identify consumers. Often what they do is provide the AG's Office with an allocation of settlement payment that says "use on behalf of Arizonans in the following categories...".

Senator Martin said if the Legislature does not address this problem they are going to have a bigger problem with the Attorney General's Office directing more expenditures in the state than anyone else. He asked how long the Medco money and outreach efforts are going to last based on the money that Medco gives them. He asked how it will be funded once the Medco money is gone.

Mr. Rodgers said that the Medco money is a one-time reimbursement.

Senator Martin asked Mr. Rodgers to take him through the decision making process. Senator Martin said he believes this was being done to eliminate the confusion that exists associated with all these cards and as a result, people would not know what type of benefits there are. He said he believed the Health Care Crisis Fund was available for people in dangers, such as West Nile Virus. Confusion in the market place is urgent but not a crisis.

Mr. Rodgers said the seniors who are confused about the discount cards are very vulnerable.

Senator Martin asked for copies of the e-mails, communications, other things available as they were in the decision-making phase. The Legislature was still in session at the time these decisions were being made, and this is the type of thing that would have been easy for them to add as a budget line item. They were using money for marketing at the same time the state had Homeland Security issues and West Nile Virus.

Representative Pearce expressed concerns with the Attorney General negotiating with the courts and both of them setting policy and directing money, absolutely unconstitutional. The Legislature appropriated $1.4 million to Healthcare Group and you take $300,000 to spend on marketing and $1.1 million in non-marketing. What will these monies be spent on.

Mr. Rodgers said that to run the Healthcare Group and do it so there are not significant problems for the small businesses, to be able to support them and it takes staff. They do this to save the state from having a huge burden from individuals who work in small businesses without insurance becoming Medicaid eligible. What they have been getting back from small businesses has been very positive. That is why they felt we needed to get the information out quickly.

Representative Pearce said his issue is why is the non-marketing area growing so much and what is the money being spent on. He said he would like Staff to get together with them to find out where all these expenses are.

Senator Harper said whether it is Medco money or the Health Crisis Fund we are still using the slush fund to subsidize the advertising for a company that got a no-bid contract. He believes that changing the plan violated the State's Procurement Code, however, the Governor's administration has a different opinion.

Chairman Burns adjourned the meeting at 1:00 p.m.

Respectfully submitted:

____

Cheryl Kestner, Secretary

____

Richard Stavneak, Director

____

Senator Bob Burns, Chairman

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

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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PHOENIX, ARIZONA 85007

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HOUSE OF REPRESENTATIVES

DATE: November 10, 2004

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicle and Aircraft

Request

A.R.S. § 38-623.D requires the Arizona Department of Administration (ADOA) to set the rates of reimbursement for state travel by motor vehicle and by airplane, taking into consideration the amounts established by the United States Internal Revenue Service (IRS). The rates compensate state employees who use their own vehicles to travel on official state business. The statute also mandates Committee approval of any rate change.

ADOA requests Committee approval for an increase in the mileage reimbursement rates, from 34.5 cents per mile to 37.5 cents per mile for motor vehicles, and from 42.0 cents per mile to 99.5 cents per mile for aircraft. The proposed rates are consistent with federal reimbursement levels. If the Committee approves the suggested rates, ADOA asks that the adjustments become effective immediately.

Recommendation

The Committee has at least the following options:

1) Approve the rates as submitted. The various agencies of the state would have to absorb additional travel costs. ADOA estimates the annual fiscal impact of the changes on state agencies would be $303,000 among all funds. Meanwhile, the state universities could not all isolate mileage expenditures, but they calculated a combined annual increase greater than $149,000 from all funds.

   Committee approval would not constitute an endorsement of additional appropriations to cover higher travel costs. Agencies may request funding increases through the regular budget process.

(Continued)

2) Request that ADOA explore the establishment of different motor vehicle rates, depending on the availability of state motor pool vehicles, when proposing future changes. For example, the federal government reimburses 37.5 cents per mile when a government vehicle is not available, but only 27 cents per mile when government-owned vehicles are available and an employee chooses not to use one. The impact of this proposal on the state motor pool and state expenditures would require further research.

3) Not approve the new rates. State employees would continue to absorb additional travel costs.

Analysis

Annually, the federal government hires a specialized transportation-consulting firm to study nationwide travel market conditions. Factors considered include the average costs of depreciation, maintenance, repairs, fuel, and insurance. On January 1, 2004, the U.S. General Services Administration published the current travel reimbursement rates of 37.5 cents per mile for motor vehicles and 99.5 cents per mile for aircraft. These rates serve federal government internal reimbursement purposes and IRS tax purposes.

The IRS rates likely represent a conservative estimate of travel expenses. They are based on an average gasoline price from late 2003, $1.53 per gallon. As of November 5, Arizona's average fuel price was $2.10 per gallon, while the national average was $2.01 per gallon. Additionally, ADOA has assessed that auto insurance rates in Arizona are above the national average. The most recent statistics published by the National Association of Insurance Commissioners reflect data from calendar year 2002 and rank Arizona 11th in the nation, up from 14th in calendar year 2001. Arizona's average annual car insurance premiums were more than $110 above the national average in 2002.

At its February 2001 meeting, the Committee approved a motor vehicle mileage rate increase from 32.5 cents per mile to the current 34.5 cents per mile. ADOA requested another motor vehicle rate increase at the Committee's November 2002 meeting, hoping to raise the rate from 34.5 cents to 36.5 cents per mile. The Committee did not approve the change, due to concerns over the availability of funding. Meanwhile, the Committee approved the current aircraft mileage rate of 42.0 cents per mile in March 1995.

The current request of a motor vehicle rate change from 34.5 cents per mile to 37.5 cents per mile represents an 8.7% increase. ADOA asks that the increased reimbursement rate go into effect immediately upon Committee approval. Across state agencies, ADOA approximates that the new rates would have an annualized impact of $66,000 on the General Fund and $237,000 on all other appropriated and non-appropriated funds.

Although they are not mandated to do so, the state's public universities also use ADOA mileage reimbursement rates. Arizona State University reports that the motor vehicle rate change would increase yearly travel expenditures from all state funds by $14,000 and from all non-appropriated funds by $33,000. Meanwhile, Northern Arizona University estimates an annual impact of $33,000 among state funds and $69,000 among non-appropriated funds. The University of Arizona could not isolate mileage costs from other travel expenses. The ADOA and university calculations assume that miles traveled by employees would remain at FY 2004 levels.

No Arizona state or public university employees travel on official business using private aircraft. The ADOA Risk Management Division ceased providing insurance coverage for this transportation mode several years ago. Therefore, the air travel rate change would have no foreseeable fiscal impact at the state level. However, it is the policy of many of the state's political subdivisions to adopt the rates set by the Committee. Employees of those subdivisions using private aircraft on official business currently absorb a large share of their own travel costs.

RS:SC:ss

Janet Napolitano
Governor

Betsey Bayless
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

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SEP - 9 2004
JOINT BUDGET COMMITTEE

September 9, 2004

Senator Bob Burns, Chairman
Joint Legislative Budget Committee
1700 West Washington
Phoenix, AZ 85007

Dear Chairman Burns:

As per A.R.S. §38-623 (D), I would like to request placement on the next JLBC agenda so that the Committee can consider approval of changes in the mileage reimbursements rates.

Thank you for consideration of this matter.

Very truly yours,

Betsey Bayless
Director

c: Representative Russell Pearce
Richard Stavneak, Staff Director, JLBC
Sheli Carol, JLBC
David Jankofsky, OSPB
Matt Gottheiner, OSPB
Paul Shannon, Budget Office, ADOA
Alan Ecker, Legislative Liaison, ADOA
Clark Partridge, Comptroller, ADOA

JANET NAPOLITANO
GOVERNOR

BETSEY BAYLESS
DIRECTOR

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JOINT BUDGET COMMITTEE

October 15, 2004

Richard Stavneak, Executive Director
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

We are submitting some recommended changes in the travel rates to the Joint Legislative Budget Committee (JLBC) for review.

Lodging: The Federal Government has adjusted their lodging allowances for several locations. We have reviewed these changes and are recommending some adjustments to the State's maximum lodging rates (see attached). A couple of the key modifications were changing many of the seasonal timeframes and increasing the default rate from $55 to $60. For in-state lodging in specific areas, we are recommending 2 increases and 4 decreases. Regarding out-of-state lodging for the top 20 most traveled destinations by State agencies, we are recommending 18 increases and 2 decreases. For the remaining out-of-state destinations, we are recommending decreases for approximately 150 cities/seasons. The budgetary impact of these lodging changes is expected to be insignificant.

Privately-owned Aircraft: This reimbursement rate has not been adjusted for several years. Although this type of reimbursement is virtually non-existent at the State level, many political subdivisions of the State have adopted our travel rates. One of the political subdivisions recently contacted us and asked us to address this issue. We recommend adopting the Federal rate of 99.5 cents per mile. The current State rate is 42 cents per mile.

If you have any questions or need any additional information, please call me at 542-5405.

Sincerely,

D. Clark Partridge

D. Clark Partridge
State Comptroller

Attachment

cc: Betsey Bayless
Paul Shannon
Alan Ecker
David Jankofsky
Matt Gottheiner
Shelli Carol

U.S. General Services Administration Back to Original

Travel

Privately Owned Vehicle Reimbursement Rates (POV)

Other Contacts

The following lists the 2004 Privately Owned Vehicle (POV) reimbursement rates for automobiles, motorcycles, and airplanes.

The Federal Travel Regulation Amendment 2003-6, FTR Case 2003-308, was published in the Federal Register on December 15, 2003. This amendment has changed the mileage reimbursement rates for use of Privately Owned Vehicles (POV) on official government travel.

The rates for the use of these modes of transportation, effective January 1, 2004, are as follows:

Privately Owned Vehicle Reimbursement Rates:

- Airplane .... 99.5 cents per mile

- Automobile Rates:

- 37.5 cents per mile (if no Government Owned Vehicle available)
- 27.0 cents per mile (if Government Owned Vehicle available)
- 10.5 cents per mile (if committed to use Government Owned Vehicle)

- Motorcycle POV Rate ..... 28.5 cents per mile

Past year's automobile rates are as follows:

Effective Date	Rate
January 1, 1995	$0.30
June 7, 1996	$0.31
September 8, 1998	$0.325
April 1, 1999	$0.31
January 14, 2000	$0.325
January 22, 2001	$0.345
January 21, 2002	$0.365
January 1, 2003	$0.360
January 1, 2004	$0.375

State of Arizona
Department of Administration
General Accounting Office
Estimated Impact of Proposed Mileage Reimbursement Increase
Prepared 9/9/04

Proposed Mileage Reimbursement Rate	Current Mileage Reimbursement Rate	Proposed Increase	Proposed Percent Increase
0.375	0.345	0.03	8.70%

Fund	FY04 Mileage Reimbursement Expenditures	Proposed Percent Increase	Estimated Dollar Impact
General Fund	$ 757,548.07	8.70%	$ 65,873.75
All Other Funds	$ 2,731,069.28	8.70%	$ 237,484.29
Total	$ 3,488,617.35		$ 303,358.03

Mileage Reimbursement Analysis

The Federal government has adopted new rates for the reimbursement of mileage costs incurred by employees traveling on government business. We recommend that Arizona adopt the current Federal reimbursement rate for mileage (37.5 cents per mile), with the understanding that if the Federal reimbursement rate should decrease, the Arizona rate will decrease immediately. The current Arizona rate is 34.5 cents per mile. The change of 3 cents per mile is an 8.7% increase.

The State last changed the mileage reimbursement in February 2001. Since then, the Federal rate has been changed 3 times. No announcement has been made yet if the Federal rate will be changed for 2005.

The Federal rate is determined based on an analysis by Runzheimer. Their methodology and approach is critical to their business and understandably protected. However, in our discussions they indicated that the variables they use include such items as the cost of a vehicle (depreciation or wear and tear), average fuel costs, average insurance, etc. They use several different types of cars in their analysis to provide a reasonable and equitable reimbursement rate. As an example of the factors they use, for the 2004 rate, the average gas price used was $1.53 per gallon. Of course, gas prices have increased substantially, and Arizona has been among the highest in the nation. Arizona is also above the national average for insurance costs. Fuel and insurance costs make up approximately 42% of the Runzheimer calculation. Accordingly, an analysis using Arizona only data could result in a rate even higher than the national average.

We also inquired of Runzheimer staff if the 2005 rate is expected to increase. They stated that the analysis is not yet complete. However, they indicated that they would estimate that it could increase by about one cent given the increase in gas prices.

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF
REPRESENTATIVES

DATE: November 10, 2004

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Consider Approval of Maximum Lodging Reimbursement Rates

Request

A.R.S. § 38-624.C requires the Arizona Department of Administration (ADOA) to establish maximum amounts for lodging reimbursement, taking into consideration the amounts established by the federal government. The rates compensate state employees traveling on official state business. The statute requires Committee approval of any rate change.

ADOA proposes increasing the standard lodging rate, used for markets not explicitly listed, from $55 to $60 per day. The department also seeks overall decreases to in-state lodging rates and overall increases to out-of-state rates. If the Committee approves the suggested rates, ADOA asks that the adjustments become effective immediately.

Recommendation

The Committee has at least the following options:

1) Approve the rates as submitted. The requested rates are consistent with or below federal reimbursement levels. The various agencies of the state may have to absorb additional travel costs. Excluding consideration of the state public universities, ADOA believes the rate changes would have no significant annual fiscal impact. According to the department, many state agencies already use the suggested rates. Meanwhile, the universities anticipate a combined annual expenditure increase of approximately $1.4 million from all funds.

   Committee approval would not constitute an endorsement of additional appropriations to cover any higher travel costs. Agencies may request funding increases through the regular budget process.

2) Not approve the new rates. State employees may absorb additional travel costs.

(Continued)

Analysis

At its November 2000 meeting, the Committee approved the current lodging reimbursement schedule. ADOA made another lodging rate increase request at the Committee's November 2002 meeting. The Committee did not approve those changes due to concerns over the availability of funding.

Annually, the federal government conducts a national cost survey of travel market conditions and uses the resulting data to update its internal lodging reimbursement rates. The U.S. General Services Administration published the most recent reimbursement schedule on October 1, 2004. The federal schedule specifies rates for many cities, with seasonal distinctions in some cases. The schedule also includes a standard rate of $60 for all other locations.

ADOA seeks to align Arizona's out-of-state lodging rates with federal guidelines. This issue has become a largely administrative concern for the department. Many hotels set a government rate using the most recent federal schedule and charge that daily rate to all government employees, even state employees. In these situations, state employees often request waivers from the ADOA General Accounting Office (GAO) to reimburse their additional costs. Since federal rates have become the de-facto government rates at many of these locations, GAO grants such waivers. For this reason, ADOA does not anticipate any significant annual fiscal impact from formally adopting the federal rates. The department's claim is that the agencies of the state have already absorbed such costs.

Although they are not mandated to do so, the state's public universities also use ADOA lodging reimbursement rates. The three universities report that the lodging rate change would increase yearly travel expenditures between $168,000 and $198,000 from all state appropriated funds, as well as by approximately $1.2 million from all non-appropriated funds.

ADOA has identified the top 20 out-of-state markets where Arizona state employees travel most often on official business. Current rates in these locations range from $55 to $159. ADOA proposes increases of up to $50, with an average of $18, in 18 markets. Travelers to Las Vegas, Nevada would obtain the largest increases. At the same time, ADOA recommends decreases of up to $(33), with an average of $(21), at 2 locations. Travelers to San Francisco, California would experience the largest decreases. Overall, ADOA requests new rates ranging from $60 to $153 in these 20 markets.

Among all other out-of-state markets, present rates range from $55 to $215. ADOA suggests increases of up to $126, with an average of $21, in 666 geographic/seasonal markets. Travelers to Aspen, Colorado would receive the largest increases. The department also recommends decreases of up to $(73), with an average of $(16), in 158 geographic/seasonal markets. Travelers to Boston, Massachusetts would be among those seeing the largest decreases. Overall, the proposed out-of-state rates range from $60 to $249.

Within the Arizona market, ADOA believes it has a better understanding of travel cost conditions than that reflected by the federal travel survey. Therefore, the department recommends certain lower rates for in-state travel.

ADOA currently defines 8 markets for travel in Arizona. Existing in-state lodging rates range from $55 to $107. The department suggests increases of up to $28, with an average of $12, in 4 of those markets. Travelers coming to Maricopa County would receive the largest increases. Meanwhile, ADOA seeks decreases of up to $(38), with an average of $(15), in 4 markets. Travelers to Apache County would see the largest decreases. Overall, the proposed in-state rates range from $60 to $107.

(Continued)

ADOA proposes raising the standard reimbursement rate for all non-specified in-state and out-of-state markets from $55 to $60, representing a 9.1% increase. The department has also adjusted the seasonal timeframes of several locations to match federal changes and to better reflect current travel market conditions. ADOA asks that the increased lodging reimbursement rates go into effect immediately upon Committee approval.

When state employees receive prior authorization to attend a conference on official state business, maximum lodging rates do not apply. Employees may obtain reimbursement for their stay at the conference hotel regardless of the daily charge.

RS:SC:ss

JANET NAPOLITANO
GOVERNOR

BETSEY BAYLESS
DIRECTOR

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October 15, 2004

Richard Stavneak, Executive Director
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

We are submitting some recommended changes in the travel rates to the Joint Legislative Budget Committee (JLBC) for review.

Lodging: The Federal Government has adjusted their lodging allowances for several locations. We have reviewed these changes and are recommending some adjustments to the State's maximum lodging rates (see attached). A couple of the key modifications were changing many of the seasonal timeframes and increasing the default rate from \$55 to \$60. For in-state lodging in specific areas, we are recommending 2 increases and 4 decreases. Regarding out-of-state lodging for the top 20 most traveled destinations by State agencies, we are recommending 18 increases and 2 decreases. For the remaining out-of-state destinations, we are recommending decreases for approximately 150 cities/seasons. The budgetary impact of these lodging changes is expected to be insignificant.

Privately-owned Aircraft: This reimbursement rate has not been adjusted for several years. Although this type of reimbursement is virtually non-existent at the State level, many political subdivisions of the State have adopted our travel rates. One of the political subdivisions recently contacted us and asked us to address this issue. We recommend adopting the Federal rate of 99.5 cents per mile. The current State rate is 42 cents per mile.

If you have any questions or need any additional information, please call me at 542-5405.

Sincerely,

D. Clark Partridge

D. Clark Partridge
State Comptroller

Attachment

cc: Betsey Bayless
Paul Shannon
Alan Ecker
David Jankofsky
Matt Gottheiner
Shelli Carol

Proposed In-State Travel
Maximum Lodging Rates

THE FOLLOWING RATES APPLY TO EMPLOYEES TRAVELING ON OFFICIAL STATE BUSINESS:

1. Personal Vehicle Mileage Reimbursement: **37.5 cents per mile effective 11/01/04**

2. Privately–owned aircraft: 99.5 cents per mile. Requires prior GAO approval. Based on the shortest air routes from origin to destination. Landing and parking fees are allowed except at the location where the aircraft is normally based.

3. In–State Lodging and Meal & Incidental Rates: **Effective 11/01/04**

Requests for exceptions to the reimbursement rates must be made in advance to the Arizona Department of Administration, General Accounting Office

KEY CITY	COUNTY AND/OR OTHER DEFINED LOCATION	MAXIMUM LODGING AMOUNT	M&IE RATE
IN–STATE–DEFAULT	**All counties not specified**	**$60**	**$29.50**
ARIZONA			
Flagstaff/Kayenta	All points in Coconino County not covered under Grand Canyon, Navajo		
(Jan 1 – Apr 30)	not covered under Grand	60	29.50
(May 1 – Aug 31)	Canyon per diem area.	73	29.50
(Sep 1 – Dec 31)		60	29.50
Grand Canyon	All points in the Grand Canyon		
(Jan 1 – Mar 31)	National Park and Kaibab National	60	29.50
(Apr 1 – Oct 31)	Forest within Coconino County	85	29.50
(Nov 1 - Dec 31)		60	29.50
Phoenix/Scottsdale	Maricopa		
(Jan 1 – May 31)		107	29.50
(Jun 1 – Sep 30)		75	29.50
(Oct 1 – Dec 31)		90	29.50
Sedona	Within the city limits	67	29.50
Tucson	Pima County; Davis Monthan AFB		
(Jan 1 – Apr 30)		85	29.50
(May 1 – Dec 31)		60	29.50
Yuma	Yuma	63	29.50
In–state default	Mohave, La Paz, Gila, Greenlee, Graham, Santa Cruz, Yavapai, Cochise, Pinal, Yavapai, Apache	60	29.50

Proposed Out-of-State Travel
Maximum Lodging Rates

KEY CITY	COUNTY AND/OR OTHER DEFINED LOCATION	MAXIMUM LODGING AMOUNT	M&IE RATE
OUT–OF–STATE DEFAULT	**All counties not specified**	**$60**	**$29.50**
CALIFORNIA			
Los Angeles	Los Angeles, Orange and Ventura; Edwards AFB (see Santa Monica)	100	40
Sacramento	Sacramento	91	36
San Diego	San Diego	129	40
San Francisco	San Francisco	126	40
COLORADO			
Denver	Denver, Adams and Arapahoe, that portion of Westminster located I Jefferson County, and Lone Tree in Douglas County	112	38
DISTRICT OFCOLUMBIA			
Washington DC (also the cities of Alexandria, Falls Church and Fairfax, and the counties of Arlington, Loudoun and Fairfax, in Virginia, and the counties of Montgomery and Prince George's in Maryland) (See also Maryland and Virginia)		153	40
FLORIDA			
Orlando	Orange	98	36
GEORGIA			
Atlanta/Stone Mountain/Smyrna	Fulton Dekalb and Cobb	113	36
ILLINOIS			
Chicago	Cook and Lake	149	40
LOUISIANA			
New Orleans	Orleans, Jefferson and St. Bernard Parish and Plaquemine Parish		
(Jan 1-Jan 31)		119	38
(Feb 1-Apr 30)		153	38
(May 1-Aug 31)		109	38
(Sep 1-Nov 30)		133	38
(Dec 1-Dec 31)		119	38
MINNESOTA			
Minneapolis/St Paul	Hennepin and Ramsey	105	38
MISSOURI			
St. Louis	St. Louis and St Charles	98	38
NEW MEXICO			
Albuquerque	Bernalillo	68	34
NEVADA			
Las Vegas	Clark		
(Jan 1-May 31)		122	38
(Jun 1-Aug 31)		106	38
(Sep 1-Dec 31)		122	38

KEY CITY	COUNTY AND/OR OTHER DEFINED LOCATION	MAXIMUM LODGING AMOUNT	M&IE RATE
OUT–OF–STATE DEFAULT	**All counties not specified**	**$60**	**$29.50**
OREGON			
Portland	Multnomah	93	36
TEXAS			
Dallas	City limits of Dallas and Dallas County	88	40
Fort Worth	Tarrant	96	30
San Antonio	Bexar	93	36
UTAH			
Salt Lake City	Salt Lake and Tooele	79	38
WASHINGTON			
Seattle	King		
(Jan 1-Apr 30)		110	38
(May 1-Oct 1)		127	38
(Nov 1 –Dec 31)		110	38

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2005 Domestic Per diem Rates -- Federal Rates Effective October 1, 2004

STATE	Top 20 Cities	(Same as Federal) Description			Proposed	Current	Change
	OUT OF STATE DEFAULT				$60	$55	$5.00
DC	WASHINGTON, DC	Washington, DC (also the cities of Alexandria, Falls Church, and Fairfax, and the counties of Arlington, Loudon, and Fairfax in Virginia; and the counties of Montgomery and Prince George's in Maryland). (See also Maryland and Virginia)			$153.00	$119.00	$34.00
NV	LAS VEGAS	Clark County; Nellis AFB	9/1	5/31	$122.00	$72.00	$50.00
NV	LAS VEGAS	Clark County; Nellis AFB	6/1	8/31	$106.00	$72.00	$34.00
CA	SAN DIEGO	San Diego			$129.00	$99.00	$30.00
CO	DENVER	Denver (Denver, Adams, and Arapahoe Counties, that portion of Westminster, CO located in Jefferson County, and Lone Tree, CO in Douglas County)			$112.00	$86.00	$26.00
CA	SAN FRANCISCO	San Francisco			$126.00	$159.00	($33.00)
NM	ALBUQUERQUE	Bernalillo			$68.00	$65.00	$3.00
UT	SALT LAKE CITY	Salt Lake and Dugway Proving Ground and Tooele Army Depot			$79.00	$75.00	$4.00
CA	LOS ANGELES	Edwards AFB; Naval Weapons Center and Ordinance Test Station, China Lake (see Santa Monica)			$100.00	$99.00	$1.00
GA	ATLANTA	Fulton and Gwinnett			$113.00	$93.00	$20.00
IL	CHICAGO	Cook and Lake			$149.00	$130.00	$19.00
WA	SEATTLE	King			$110.00	$109.00	$1.00
CA	SACRAMENTO	Sacramento			$91.00	$79.00	$12.00
TX	DALLAS	Dallas			$88.00	$89.00	($1.00)
TX	FORT WORTH	City limits of Fort Worth			$96.00	$94.00	$2.00
OR	PORTLAND	Multnomah			$93.00	$77.00	$16.00
TX	SAN ANTONIO	Bexar			$93.00	$91.00	$2.00
LA	NEW ORLEANS	Orleans, and St. Bernard Parish, Plaquemine Parish and Jefferson	1/1	1/31	$119.00	$139.00	($20.00)
LA	NEW ORLEANS	Orleans, and St. Bernard Parish, Plaquemine Parish and Jefferson	2/1	4/30	$153.00	$139.00	$14.00
LA	NEW ORLEANS	Orleans, and St. Bernard Parish, Plaquemine Parish and Jefferson	5/1	5/31	$109.00	$139.00	($30.00)
LA	NEW ORLEANS	Orleans, and St. Bernard Parish, Plaquemine Parish and Jefferson	6/1	8/31	$109.00	$89.00	$20.00
LA	NEW ORLEANS	Orleans, and St. Bernard Parish, Plaquemine Parish and Jefferson	9/1	11/30	$133.00	$89.00	$44.00

	2005 Domestic Per diem Rates -- Federal Rates Effective October 1, 2004						
STATE	Top 20 Cities	(Same as Federal) Description			Proposed	Current	Change
LA	NEW ORLEANS	Orleans, and St. Bernard Parish, Plaquemine Parish and Jefferson	12/1	12/31	$119.00	$89.00	$30.00
MN	MINNEAPOLIS/ST PAUL	Hennepin County and Fort Snelling Military Reservation and Navy Astronautics Group (Detachment BRAVO and Ramsey County)			$105.00	$95.00	$10.00
FL	ORLANDO	Orange			$98.00	$86.00	$12.00
MO	ST. LOUIS	St. Louis and St. Charles			$98.00	$90.00	$8.00

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
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HOUSE OF
REPRESENTATIVES

DATE: November 4, 2004

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: State Compensation Fund – Consider Approval of Calendar Year 2005 and 2006 Budgets

Request

Pursuant to A.R.S. § 23-981E, the State Compensation Fund (SCF) budgets for Calendar Year (CY) 2005 and CY 2006 are submitted for approval by the Joint Legislative Budget Committee. Unlike state agencies, the State Compensation Fund is budgeted on a calendar year basis rather than a fiscal year basis.

As detailed in *Attachment 1*, the SCF requests a budget of $89,540,000 for CY 2005. This includes an operating budget of $51,500,000 and Special Line Items (SLI) that total $38,040,000. The SLIs are largely driven by market forces.

The SCF requests a budget of $93,565,000 for CY 2006. This includes an operating budget of $53,200,000 and SLIs that total $40,365,000. The request represents a net increase of 4.5% above the CY 2005 recommended budget.

The requested amounts do not include any dividend or claims paid by the SCF. No request for Capital Outlay has been made.

Recommendation

The committee has at least 3 options in reviewing the requested budget:

1. Approve the budget as requested.
2. Approve the budget as requested, but adjust the salary increase to be in line with statewide employee salary increases approved by the Legislature for FY 2005.

3. Take no action. SCF does not believe that the Committee's action limits their budget. The Committee never approved a FY 2004 budget. In FY 2001 to FY 2003, SCF's expenditures exceeded the approved level of spending.

Analysis

The SCF has requested an operating budget of $89,540,000 in CY 2005 and $93,565,000 in CY 2006. This represents an increase of $14,455,000 or 19.3%, above CY 2004 expenditures for CY 2005 and $18,480,000 in CY 2006 (see *Attachment 1*). Of the requested amount, $11,255,000 in CY 2005 and $13,580,000 in CY 2006 is for Special Line Item increases in claim adjustment services, rating bureau fees, premium taxes, administrative fees and property taxes. These SLIs are driven by market forces and claim volume, giving SCF little control over these costs.

The request includes increased funding of $3,200,000 in CY 2005 and $4,900,000 in CY 2006 for the operating budget. This amount includes Personal Services and Employee Related Expenditures increases equal to an average salary increase of $1,300 per employee. Most state employees received a $1,000 increase for FY 2005. Traditionally, the Committee has aligned SCF salary increases with state employee pay.

The request also includes a 7% increase in CY 2005 and 13% in CY 2006 for other operating expenses, including travel, equipment and professional services. Claim volume is expected to increase by 6% in CY 2005 and by 11% in CY 2006 over CY 2004. Also, professional service expenses have increased due to a change to external management of fixed income investments. SCF reports a market share of about 50% of the statewide premium dollar and approximately 60-65% of all Arizona employers.

Table 1 shows the historical changes in premium and investment income, and the number of policyholders and claims.

Table 1

STATE COMPENSATION FUND
Growth in Premium Income, Investment Income, Policyholders and Claims Processed

	Actual 2003	Estimated 2004	Estimated 2005	Estimated 2006
Premium Income (in Millions)	$341.0	$353.0	$360.0	$370.0
Dollar Increase	65	12	7	10
Percentage Increase	23.5%	3.5%	2.0%	2.8%
Investment Income (in Millions)	$160.1	$182.0	$129.0	$130.0
Dollar Increase	32	22	(53)	1
Percentage Increase	24.9%	13.7%	-29.1%	0.8%
Policyholders	53,953	55,372	56,000	57,000
Dollar Increase	1,756	1,419	628	1,000
Percentage Increase	3.4%	2.6%	1.1%	1.8%
Claims Processed	49,268	53,270	56,500	59,000
Dollar Increase	3,934	4,002	3,231	2,500
Percentage Increase	8.7%	8.1%	6.1%	4.4%

There are some matters of concern regarding the SCF budget process. SCF expenditures in CY 2001, CY 2002 and CY 2003 exceeded amounts approved by the Committee. In CY 2003, SCF exceeded the approved operating expenditures by $3.9 million, or 9% and the Special Line Item expenditures by $5.6 million, or 24%. Some of the components of the SCF budget, such as number of policy holders, claims and management fees, are workload and market driven, and as a result may be difficult to predict. These are the Special Line Items listed in *Attachment 1*. However, the administrative component of the SCF budget has also been increased above the amount approved by the Committee, primarily for salary increases.

Further, at the December 20, 2002 JLBC meeting, the Committee only approved the CY 2003 budget. The SCF did not submit a CY 2004 budget the following year and no budget for CY 2004 was ever approved. Nevertheless, in CY 2004, SCF spent $75.1 million.

SCF's willingness to reject the Committee's decision has probably been strengthened by the Maricopa Superior Court ruling of April 13, 2004 that "the monies and assets held by the State Compensation Fund are not public funds." This ruling stemmed from a dispute over whether the Legislature could transfer monies from the SCF to the General Fund. The ruling found that "the proposed transfer from the State Compensation Fund to the State General Fund . . . would violate the Arizona Constitution."

Finally, we also note that SCF has announced its intention to participate in the Knowledge Economy Capital Fund. This group is intended to address the lack of venture capital in the state. SCF will contribute up to $25 million of the planned $100 million to provide venture capital to emerging companies. This will be an investment asset for SCF, and there is a high level of associated risk.

RS/EJ:ck

State Compensation Fund

Attachment 1

JLBC: Eric Jorgensen

DESCRIPTION	CY 2003 ACTUAL	CY 2004 ESTIMATE	CY 2005 REQUEST	CY 2006 REQUEST
OPERATING BUDGET				
Full Time Equivalent Positions	554.0	551.0	545.0	540.0
Personal Services	22,500,000	22,700,000	24,200,000	24,500,000
Employee Related Expenditures	7,600,000	6,700,000	7,100,000	7,300,000
Professional and Outside Services	5,000,000	6,500,000	7,100,000	7,400,000
Travel - In State	200,000	200,000	400,000	300,000
Travel - Out of State	100,000	100,000	200,000	300,000
Other Operating Expenditures	12,200,000	11,800,000	12,100,000	12,900,000
Equipment	400,000	300,000	400,000	500,000
OPERATING SUBTOTAL	**48,000,000**	**48,300,000**	**51,500,000**	**53,200,000**
SPECIAL LINE ITEMS				
Claim Adjustment Services	13,659,000	12,300,000	16,000,000	17,500,000
Rating Bureau Charges	927,000	1,500,000	1,475,000	1,500,000
Premium Tax	8,158,000	5,880,000	13,300,000	13,875,000
Administrative Fees	5,319,000	6,200,000	6,300,000	6,500,000
Personal Property Tax	940,000	905,000	965,000	990,000
OPERATING SUBTOTAL	**77,003,000**	**75,085,000**	**89,540,000**	**93,565,000**
FUND SOURCES				
State Compensation Fund	77,003,000	75,085,000	89,540,000	93,565,000
TOTAL - ALL SOURCES	**77,003,000**	**75,085,000**	**89,540,000**	**93,565,000**

CHANGE IN FUNDING SUMMARY	CY 2004 to CY 2005 JLBC		CY 2004 to CY 2006 JLBC	
	$ Change	% Change	$ Change	% Change
State Compensation Fund	14,455,000	19.3%	18,480,000	24.6%

AGENCY DESCRIPTION — The State Compensation Fund insures employers against liability for workers' compensation, occupational disease compensation, and medical, surgical, and hospital benefits pursuant to the provisions of Arizona and federal statutes. The JLBC approves the State Compensation Fund's biennial operating and capital outlay budget each even-numbered year. At the December 19, 2002 meeting, the JLBC approved the board's Calendar Year 2003 budget.

PERFORMANCE MEASURES	CY 2003 Actual	CY 2004 Estimate	CY 2005 REQUEST	CY 2006 REQUEST
• Number of policyholders	53,953	55,372	56,000	57,000
• Number of claims processed	49,268	53,270	56,500	59,000
• Premium income (dollars in millions)	$341.0	$353.0	$360.0	$370.0
• Investment income (dollars in millions)	$160.1	$182.0	$129.0	$130.0

RECOMMENDED CHANGES FROM CY 2004

Operating Budget

The SCF requests $51,500,000 from the State Compensation Fund for the operating budget in CY 2005 and $53,200,000 in CY 2006. These amounts would fund the following adjustments:

	CY 2005	CY 2006
Personal Services	**OF $1,500,000**	**$1,800,000**

The SCF requests an increase of $1,500,000 from State Compensation Fund in CY 2005 and an increase of $1,800,000 in CY 2006 to provide an average salary increase is $1,300 per FTE Position. The JLBC further recommends a reduction of (6) FTE Positions in CY 2005 and a reduction of (5) FTE positions in CY 2006.

Employee Related Expenditures **OF 400,000 600,000**
The SCF requests an increase of $400,000 from the State Compensation Fund in CY 2005 and an increase of $600,000 in CY 2006 for Employee Related Expenses. This increase is less than the expected increase in ASRS contribution rates, but is comparable to the ERE calculation for state agencies.

Professional and Outside Services **OF 600,000 900,000**
The SCF requests an increase of $600,000 from the State Compensation Fund in CY 2005 and an increase of $900,000 in CY 2006 for Professional and Outside Services. This increase is caused mainly by a switch from internal to external management of the fixed-income portfolio and a new policy that allows premium payments by credit card. The increase in the associated bank charges is offset by a decrease in delinquent and uncollectible payments.

Travel and Other Operating Expenditures **OF 700,000 1,600,000**
The SCF requests an increase of $700,000 from the State Compensation Fund in CY 2005 and an increase of $1,600,000 in CY 2006 for travel and other operating expenses. This increase would update the current levels to reflect the expected needs, including increased costs of travel, both in-state and out-of-state. Also included is a base increase for equipment and other operating expenses. This is a 5.6% increase in CY 2005 and 12.9% increase in CY 2006. Expected workload increases are similar at 6.1% in CY 2005 and 10.8% in CY 2006.

Special Line Items

Claim Adjustment Services
The SCF requests $16,000,000 from the State Compensation Fund for Claim Adjustment Services in CY 2005 and $17,500,000 in CY 2006. These amounts would fund the following adjustments:

Base Adjustment **OF 3,700,000 5,200,000**
The SCF requests an increase of $3,700,000 from the State Compensation Fund in CY 2005 and an increase of $5,200,000 in CY 2006 for a base adjustment. The Claim Adjustment Services line represents a reserve set-aside for ongoing claims. The amount is adjusted as a result of changes in claims volume and changing trends in the cost of settling each individual claim. Claim volume increased by 8.1% in CY 2004 and is expected to increase by 6.1% in CY 2005 and 4.4% in CY 2006.

Rating Bureau Charges
The SCF requests $1,475,000 from the State Compensation Fund for Rating Bureau Charges in CY 2005 and $1,500,000 in CY 2006. These amounts would fund the following adjustments:

Base Adjustment **OF (25,000) 0**
The SCF requests a one-time decrease of $(25,000) from the State Compensation Fund in CY 2005 for a base adjustment. Rating Bureau charges are fees imposed by the National Council on Compensation Insurance and are related to premium volume.

Premium Tax
The SCF requests $13,300,000 from the State Compensation Fund for Premium Taxes in CY 2005 and $13,875,000 in CY 2006. These amounts would fund the following adjustments:

Base Adjustment and Rate Increase **OF 7,420,000 7,995,000**
The SCF requests an increase of $7,420,000 from the State Compensation Fund in CY 2005 and an increase of $7,995,000 in CY 2006 for a base adjustment and rate increase. Premium taxes are assessments charges by the Industrial Commission of Arizona (ICA) and based on premium volume. During CY 2004 the ICA raised the rate from 3.0% to 4.5% to cover the costs associated with insolvencies by other providers.

Administrative Fees
The SCF requests $6,300,000 from the State Compensation Fund for Administrative Fees in CY 2005 and $6,500,000 in CY 2006. These amounts would fund the following adjustments:

Base Adjustment **OF 100,000 300,000**
The SCF requests an increase of $100,000 from the State Compensation Fund in CY 2005 and an increase of $300,000 in CY 2006 for a base adjustment. Administrative fees are amounts paid to association groups in exchange for enrollment and loss control services. State Compensation Fund contracts with various association groups operating in Arizona for workers' compensation policy enrollment and loss control services. These expenses are primarily driven by premium volume. In most cases, State Compensation Fund has little discretionary ability to control these costs.

Personal Property Tax
The SCF requests $965,000 from the State Compensation Fund for Personal Property Tax in CY 2005 and $990,000 in CY 2006. These amounts would fund the following adjustments:

Base Adjustment **OF 60,000 85,000**
The SCF requests an increase of $60,000 from the State Compensation Fund in CY 2005 and an increase of $85,000 in CY 2006 for a base adjustment. The State Compensation Fund is not exempt from personal property taxes on real estate that it owns. This increase is for an increase in the assessed value of the SCF properties.

* * *

SUMMARY OF FUNDS *Represents Calendar Years	CY 2003 Actual	CY 2004 Estimate

State Compensation (TRA9002/A.R.S. § 23-981) **Non-Appropriated**

Source of Revenue: Workers' compensation insurance premiums; investment income, including capital gains; other income.
Purpose of Fund: To insure employers against liability for workers' compensation, occupational disease compensation and medical, surgical and hospital benefits pursuant to the provisions of Arizona and federal statutes.

Funds Expended-Operating	48,000,000	48,300,000
Funds Expended-Dividends and Claims	388,800,000	429,300,000
Year-End Fund Balance	619,600,000	595,900,000

STATE OF ARIZONA
STATE COMPENSATION FUND
BUDGET REQUEST FOR THE YEAR 2005 & 2006

Budget Request Approved By	______________ Signature of Agency Head	President & CEO Title	September 30, 2004 Date
Budget Request Prepared By	Duane T. Miller, COO	(602) 631-2078	

Agency	State Compensation Fund	Fund Sources	Workers' Compensation Insurance
Address	3031 North 2nd Street		Premium and Investment Income
	Phoenix, Arizona 85012		
A.R.S. Citation	23-981, E		

($ in Millions)

Source of Revenue	Actual 2003	Estimated 2004	Estimated 2005	Estimated 2006
Workers' Compensation Insurance Premium	$ 341.0	$ 353.0	$ 360.0	$ 370.0
Investment Income	135.0	133.5	135.0	135.5
Capital Gains	29.8	43.0	0.0	0.0
Assigned Risk Pool Surcharges & Other	-5.5	-7.0	-6.0	-5.5
	$ 500.3	$ 522.5	$ 489.0	$ 500.0

SOURCE AND DISPOSITION OF FUNDS

Agency State Compensation Fund

($ in millions)

SOURCE OF FUNDS	Actual 2003	Estimated 2004	Estimated 2005	Estimated 2006
Balance Forward from Prior Year	$511.8	$619.6	$595.9	$596.4
Revenue	500.3	522.5	489.0	500.0
Total Available	$1,012.1	$1,142.1	$1,084.9	$1,096.4

DISPOSITION OF FUNDS	Actual 2003	Estimated 2004	Estimated 2005	Estimated 2006
FTE	554	551	545	540
EXPENDITURES:				
Personal Services	$22.5	$22.7	$24.2	$24.5
Employee-Related Expenditures	7.6	6.7	$7.1	7.3
All Other Operating Expenditures				
Professional & Outside Services	5.0	6.5	$7.1	7.4
Travel In-State	0.2	0.2	$0.4	0.3
Travel Out-of-State	0.1	0.1	$0.2	0.3
Other Operating Expenditures	12.2	11.8	$12.1	12.9
Equipment	0.4	0.3	$0.4	0.5
SUBTOTAL - All Other Operating Expenditures	17.9	18.9	20.2	21.3
Below-the-Line Expenditures	29.0	36.6	38.0	40.4
Compensation and Medical Benefits	338.9	364.3	372.0	378.0
Policyholder Dividends	49.9	65.0	45.0	45.0
Total Expenditures	465.8	514.2	506.5	516.5
Accounting Adjustments *	73.3	(32.0)	18.0	20.0
Balance Forward to Next Year:	$619.6	$595.9	$596.4	$599.9

*Represents adjustments for unrealized gains and losses on investments and assets not admitted under statutory accounting principles for insurance companies

SUMMARY OF EXPENDITURES AND BUDGET REQUEST

($ in Millions)

Agency State Compensation Fund

	(A) 2003 Actual Expenditures	(B) 2004 Approved Expenditures	(C) 2005 Base Adjustments	(D) 2005 Total Request (B) + (C)	(E) 2006 Base Adjustments	(F) 2006 Total Request (D) + (E)
SOURCE OF REVENUE:						
Workers' Compensation Insurance Premium	$341.0	$280.0	$80.0	$360.0	$10.0	$370.0
Net Investment Income,Capital Gains & Other	159.3	141.8	-12.8	129.0	1.0	130.0
TOTAL FUNDS	$500.3	$421.8	$67.2	$489.0	$11.0	$500.0
EXPENDITURE DETAIL:						
FTE Positions	554	559	-14	545	-5	540
Personal Services	$22.5	$22.8	$1.4	$24.2	$0.3	$24.5
Employee-Related Expenditures	7.1	7.8	-0.7	7.1	0.2	7.3
Professional & Outside Services	5.0	4.5	2.6	7.1	0.3	7.4
Travel In-State	0.2	0.3	0.1	0.4	0.0	0.3
Travel Out-of-State	0.1	0.2	0.0	0.2	0.0	0.3
Other Operating Expenditures	12.2	12.9	-0.8	12.1	0.8	12.9
Equipment	0.4	0.4	0.0	0.4	0.1	0.5
SUBTOTAL	47.5	48.9	2.6	51.5	1.7	53.1
Total Below-the-Line	29.0	26.8	11.3	38.0	2.3	40.4
TOTAL EXPENDITURES	$76.5	$75.7	$13.8	$89.5	$4.0	$93.5

SERVICE MEASUREMENTS

Agency : State Compensation Fund

Service Measurements	Actual 2001	Actual 2002	Actual 2003	Estimated 2004	Estimated 2005	Estimated 2006
Number of Policyholders Serviced	49,952	52,197	53,953	55,372	56,000	57,000
Number of Claims Processed	42,842	45,334	49,268	53,270	56,500	59,000
			($ in Millions)			
Premium Income	$227.3	$276.2	$341.0	$353.0	$360.0	$370.0
Net Investment Income, Capital Gains & Other	$123.9	$128.2	$160.1	$182.0	$129.0	$130.0

While SCF market share is beginning to peak, private sector insurance companies continue to restrict writing workers' compensation coverage in Arizona
Claim volume continues to grow as claims lag premium increases and average claim duration is 5 years.
Large capital gains drive investment income for 2003 and 2004; lower interest rates continue to drive down income on fixed securities

SUMMARY OF POSITIONS, PERSONAL SERVICES AND EMPLOYEE-RELATED EXPENDITURES

Agency State Compensation Fund

DESCRIPTION	(A) 2003 Actual Expenditures	(B) 2004 Approved Expenditures	(C) 2005 Base Adjustments	(D) 2005 Total Request (B) + (C)	(E) 2006 Base Adjustments	(F) 2006 Total Request (D) + (E)
FULL TIME EQUIVALENT POSITIONS						
Regular Positions	554.0	559.0	(14.0)	545.0	(5.0)	540.0
Elected Officials	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL (To Schedule 3)	554.0	559.0	(14.0)	545.0	(5.0)	540.0
PERSONAL SERVICES						
Regular Positions	$22.5	$22.7	$1.5	$24.2	$0.3	$24.5
Overtime Worked	0.0	0.0	0.0	0.0	0.0	0.0
Premium Overtime	0.0	0.0	0.0	0.0	0.0	0.0
Elected Officials	0.0	0.0	0.0	0.0	0.0	0.0
Boards & Commissions	0.0	0.0	0.0	0.0	0.0	0.0
Shift Differential	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL (To Schedule 3)	$22.5	$22.7	$1.5	$24.2	$0.3	$24.5
EMPLOYEE-RELATED EXPENDITURES						
ERE Rate				0.2934		0.2980
Regular ERE	$7.6	$6.7	$0.4	$7.1	$0.2	$7.3
TOTAL (To Schedule 3)	$7.6	$6.7	$0.4	$7.1	$0.2	$7.3

PRESENT POSITION

Agency State Compensation Fund

($ 000 Omitted)

Classification Title	2004		2005 Adjustments			2005		2006 Adjustments			2006	
	Total FTE	Per Ser. Base	Total FTE	position decreases	salary increases	Total FTE	Per Ser. Base	Total FTE	position decreases	salary increases	Total FTE	Per Ser. Base
Facility Maint Tech	7	$ 251			$8	7	$259			$4	7	$263
Nurse	4	240			7	4	247			5	4	252
Financial Services Assistant	31	925			28	31	953	(2)	(41)	19	29	931
Executive Suites Admin	3	94			3	3	97			2	3	99
Secretary	22	816	(1)	(35)	24	21	805			16	21	821
Printing Services Coordinator	2	74			2	2	76			2	2	78
Graphics Designer	3	113			3	3	116			2	3	118
Human Resources Assistant	3	71			2	3	73			1	3	74
Human Resources Specialist	5	199			6	5	205			4	5	209
Purchasing Agent	2	62			2	2	64			1	2	65
Training Specialist	3	146			4	3	150			3	3	153
Communications Specialist	3	141			4	3	145			3	3	148
Accountant	11	491	1	35	15	12	541			11	12	552
Workers' Comp Insurance Representative (WCIR)	245	9,647	(10)	(353)	289	235	9,583	(3)	(98)	192	232	9,677
Rehabilitation Services Specialist	12	551			17	12	568			11	12	579
Computer Operations Specialist	8	275	(1)	(33)	8	7	250			5	7	255
Network Support Specialist	8	389			12	8	401			8	8	409
Network Support Tech	2	151			5	2	156			3	2	159
Operating System Specialist	5	289			9	5	298			6	5	304
Data Resources Specialist	2	151			5	2	156			3	2	159
Programmer Analyst	25	1,351	1	45	41	26	1,437			29	26	1,466
Attorney	18	1,314	1	65	39	19	1,418			28	19	1,446
Support Services Spec	73	1,791			54	73	1,845			37	73	1,882
Team Leader	43	2,769	1	60	83	44	2,912			58	44	2,970
Executive Staff	11	1,289	2	117	39	13	1,445			29	13	1,474
Total	551	$ 23,590	(6)	$ (99)	$709	545	$24,200	(5)	($139)	$482	540	$24,543

PROFESSIONAL AND OUTSIDE SERVICES

Agency State Compensation Fund

($000 0mittted)

Expenditure Classification		2003 Actual Expenditures	2004 Approved Expenditures	2005 Base Adjustment	2005 Request	2006 Base Adjustment	2006 Request
6300	Director's Fees	72	50	84	134	13	147
6320	Professional Services	4,402	3,810	1,629	5,439	167	5,606
6321	Outside Legal Consulting	126	150	77	227	8	235
6322	Corporate Defense Costs	(127)	0	290	290	11	301
6330	Outside Temporary Services	288	410	(211)	199	(24)	175
6335	Outside Premium Audits	27	15	(7)	8	7	15
6815	Collection Costs	31	75	(25)	50	2	52
6817	Collection Costs - Claims & Payments	1	0	5	5	(5)	0
6820	Miscellaneous Bank Charges	214	0	748	748	77	825
TOTAL Professional & Outside Svcs -To Schedule 3		5,035	4,510	2,590	7,100	256	7,356

Increase in Professional Services over 2004 approved was driven by selection of outside asset manager to manage fixed income portfolio. Previously SCF had only used outside asset managers for equity investments. Miscellaneous Bank Charges increased as SCF began accepting preium payments via credit card. The offset to these fees was reduced delinquent and uncollectible accounts.

Agency State Compensation Fund

($000 0mittted)

Expenditure Classification	2003 Actual Expenditures	2004 Approved Expenditures	2005 Base Adjustment	2005 Request	2006 Base Adjustment	2006 Request
Asset Mangement & Consulting Services	3,087	1,650	1,450	3,100	125	3,225
Audit by independent firm of Certified Public Accountants. (Deloitte & Touche)	104	125	(5)	120	35	155
Actuarial valuation of liability for claims unpaid. (Milliman & Robertson, Inc.)	143	175	10	185	10	195
Audit by State Insurance Department. (DOI)	70	15	60	75	0	75
Medical Director - Claims Dept.	250	250	50	300	0	300
Preferred Provider Organization (PPO) Network Services	149	175	75	250	(75)	175
I H Consulting Services	50	110	20	130	(20)	110
Outside investigative services	50	75	25	100	(25)	75
Outside computer consulting services.	275	1,100	(729)	371	29	400
Computer microfiche services.	10	40	(15)	25	0	25
Services for distribution of policyholder information.	64	75	(19)	56	19	75
Employee health and benefit consultant	35	20	15	35	0	35
Community Outreach Program	0	0	250	250	25	275
External Research & Surveys			155	155	34	189
Benchmarking Services			102	102	0	102
Business Continuity Consulting	115					
Internal Audit Services			185	185	10	195
Total Professional Services	4,402	3,810	1,629	5,439	167	5,606

TRAVEL

($ 000 Omitted)
Agency State Compensation Fund

TRAVEL IN-STATE	(A) 2003 Actual Expenditures	(B) 2004 Approved Expenditures	(C) 2005 Base Adjustments	(D) 2005 Total Request (B) + (C)	(E) 2006 Base Adjustments	(F) 2006 Total Request (D) + (E)
Public Transportation	7	18	7	25	(7)	18
Non-Public Transportation	30	95	7	102	(7)	95
Subsistence	123	215	18	233	(18)	215
TOTAL TRAVEL - IN STATE	160	328	32	360	(32)	328
TRAVEL OUT-OF-STATE						
Public Transportation	32	65	0	78	7	85
Non-Public Transportation	0	2	3	5	3	8
Subsistence	53	175	(38)	137	38	175
TOTAL TRAVEL - OUT OF STATE	85	242	(35)	220	48	268

Destination	Purpose of Trip	Employees	# Days/Employee	Total Cost 2005	Total Cost 2006
AASCIF Conference		15	3	76	85
CPCU Conference		8	2	24	39
NCCI Seminars		12	3	55	71
Other Professional Development		22	2	65	73
				$ 220	$ 268

Agency State Compensation Fund

($000 0mittted)

Expenditure Classification	2003 Actual Expenditures	2004 Approved Expenditures	2005 Base Adjustment	2005 Request	2006 Base Adjustment	2006 Request
Dues, Subscriptions, Books	179	225	16	241	11	252
Operating Supplies	670	1,425	(765)	660	15	675
Electricty & Water	497	675	(146)	529	22	551
Postage & Freight	980	1,200	(58)	1,142	108	1,250
Telephone & Telegraph	548	890	(269)	621	31	652
Printing	155	275	(101)	174	101	275
Advertising	108	225	32	257	84	341
Licenses & Fees	89	60	31	91	8	99
Computer Software	1,504	2,670	(444)	2,226	(126)	2,100
Insurance - General	605	325	375	700	50	750
Other Expense	65	0	103	103	7	110
Training & Education	480	850	(147)	703	361	1,064
Operations & Maintenance	1,891	775	1,401	2,176	75	2,251
Building Rent	2,440	2,950	(481)	2,469	41	2,510
TOTAL OTHER OPERATING-To Schedule 3	10,211	12,545	(453)	12,092	788	12,880

BELOW-THE-LINE ITEMS AND OTHER EXPENDITURES

Agency State Compensation Fund

($000 Omitted)

Expenditure Classification	(A) 2003 Actual Expenditures	(B) 2004 Approved Expenditures	(C) 2005 Base Adjustments	(D) 2005 Total Request (B) + (C)	(E) 2006 Base Adjustments	(F) 2006 Total Request (D) + (E)
Claim Adjustment Services	$ 13,659	$ 12,300	$ 3,700	$ 16,000	$ 1,500	$ 17,500
Rating Bureau Charges	927	1,500	(25)	1,475	25	1,500
Premium Tax	8,158	5,880	7,420	13,300	575	13,875
Administrative Fees	5,319	6,200	100	6,300	200	6,500
Personal Property Tax	940	905	60	965	25	990
TOTAL BELOW THE LINE To Schedule 3	$ 29,003	$ 26,785	$ 11,255	$ 38,040	$ 2,325	$ 40,365

Claims adjustment services are driven by increase volume in Compensation and Medical Benefits paid and are a key tool in managing overall claim costs
Rating Bureau charges are fees imposed by National Council on Compensation Insurance and are related to premium volume
Premium taxes are assessments charged by the Industrial Commission of Arizona on premium volume. ICA increased tax rate by 1.5% in 2004 to cover costs associated with increased insolvencies by other insurance carriers.
Administrative Fees are contractual amounts paid to Association Groups in exchange for enrollment and loss control services tied to premiums and loss ratios
SCF is not exempt from Arizona personal property taxes on real estate owned

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: November 5, 2004

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

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo III, Assistant Fiscal Analyst

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

Request

Pursuant to Laws 2004, Chapter 281 the Department of Public Safety (DPS) has submitted for review their FY 2005 1st quarter expenditures and design progress for the statewide interoperability design project.

Recommendation

The JLBC staff recommends that the Committee give a favorable review of the request. First quarter expenditures totaled $249 out of $5,000,000 in available funding. An Executive Director and 1 staff position have been hired for the Public Safety Communication Advisory Commission (PSCC.)

Analysis

Background
Laws 2004, Chapter 275 appropriated $5 million to DPS for design costs of a statewide radio interoperability communication system. Radio interoperability allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency as well as daily emergencies. Construction costs of a statewide radio interoperability communication system are estimated to be as high as $300 million.

First Quarter Expenditures
In the first quarter of FY 2005, DPS and PSCC report expenditures totaling $249. This amount consisted of advertising costs for the Executive Director and Administrative Services Officer positions. The following table shows the expenditure plan submitted to the Committee at its June 2004 meeting.

(Continued)

Table 1

FY 2005 Statewide Interoperability Design Expenditure Plan

	$5 Million Appropriation [1/]
FTE Positions	9.0
Personal Services	$ 382,800
Employee Related Expenditures	104,200
Professional and Outside Services	4,040,500
Travel – In	20,700
Travel – Out	15,900
Other Operating Expenditures	338,700
Equipment	97,200
Total Operating Expenditures	**$ 5,000,000**

1/ The additional $3 million appropriated by Chapter 275 is non-lapsing and is included in the Professional and Outside Services line.

Current Updates

On October 1, 2004, DPS named Curt Knight as the Executive Director of the PSCC, concluding the selection process that began in August. An Administrative Services Officer was hired shortly thereafter. Currently, PSCC is working on recruiting an Executive Assistant as well as advertising for qualifying Telecommunications Engineers. In total the PSCC would hire 9 FTE Positions. Office space for the support office has been leased and telephone services and hardware have been ordered.

In accordance with Laws 2004, Chapter 275, the Executive Director has contacted the Government Information and Technology Agency confirming the establishment of the Commission as well as extending an invitation to the first Commission meeting that was held on October 26, 2004.

These updates will be reflected in review of the second quarter expenditures.

RS/ML:jb

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

JANET NAPOLITANO
GOVERNOR

DENNIS A. GARRETT
DIRECTOR

October 27, 2004

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

Dear Mr. Stavneak:

The Arizona Public Safety Communications Advisory Commission (PSCC) is pleased to enclose our first quarterly report due to the JLBC by November 1, 2004.

Attached you should find a narrative on our activities, along with the expenditure report for a reporting period of July 1, 2004 through September 30, 2004.

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

Sincerely,

Dennis A. Garrett

Dennis A. Garrett, Colonel
Director

1. STAFFING

Once the Commission received a favorable review by the JLBC our mission has been focused on the immediate need of staffing the PSCC.

The Department of Public Safety (DPS) started the process of selecting an Executive Director for the PSCC in August and received over 50 resumes for the position through a nationwide search. The potential candidates were paired down to 10 applicants who met the minimum requirements for the position. A three person selection committee was established to conduct interviews. The selection committee was comprised of:

Ltc. David Felix, Assistant Director, Department of Public Safety
Mr. Tim Hill, Legislative Liaison for the Professional Firefighters Association, Phoenix Fire Department
Frank Navarrete, Director, Office of Homeland Security

On October 1, 2004, Mr. Curt B. Knight was offered and accepted the position as Executive Director of the Public Safety Communication Advisory Commission (PSCC). On October 7, 2004, Ms. Deidra "Dee" Strickland was hired as the Administrative Services Officer.

With support of the DPS Human Resources Bureau, we are working on the recruitment of an Executive Assistant, as well as advertising for experienced and qualified Telecommunications Engineers. The Executive Director will participate in all phases of identifying and hiring qualified engineers for our positions, as well as the support personnel for PSCC. The DPS Human Resources Bureau has completed a job description and proposed salary range for the "Project Manager", with a target date of January 2005 to fill the this position.

2. PUBLIC SAFETY COMMUNICATIONS ADVISORY COMMISSION (PSCC) ACTIVITIES

Office space for the support office has been leased with a planned occupancy date of November 1, 2004. Telephone services and hardware have been ordered and are expected to be available prior to November 1, 2004.

Ms. Strickland is currently working on writing procedures for travel reimbursements, updating a budget tracking spreadsheet and will shortly start the process of purchasing the needed office equipment.

The Executive Director has made personal contact with Mr. Chris Cummiskey, Director of the Government Information and Technology Agency (GITA), confirming the establishment of the Commission, its support office and extending an invitation to the October 26, 2004 commission meeting

The PSCC support office will hold an introductory meeting with support staff of GITA on October 28, 2004.

3. COMMISSION MEETINGS

The first Commission meeting has been scheduled for October 26, 2004, and will be held at the State Emergency Operation Center located at 5636 E. McDowell Road in Phoenix.

The fifteen commissioners have been appointed by the Governor's office, and the Executive Director has made personal contact with all the appointed commissioners and confirmed the date of the meeting and agenda.

4. BUDGET

The attached budget reflects only the advertisement for the Executive Director's position.

The Commission anticipates that expenditures will take place regarding Outside Professional Services contracts, once technical personnel have been hired.

PUBLIC SAFETY COMMUNICATIONS COMMMISSION BUDGET FY2005

CATEGORY DESCRIPTION	ALLOCATED AMOUNT	ENCUMBRANCE	EXPENDITURES	BALANCE
PERSONAL SERVICES	$382,800.00	$0.00	$0.00	$0.00
ERE	$104,200.00	$0.00	$0.00	$0.00
PROFESSIONAL/OUTSIDE SVCS*	$4,040,500.00	$0.00	$0.00	$0.00
TRAVEL (IN STATE)	$20,700.00	$0.00	$0.00	$0.00
TRAVEL (OUT OF STATE)	$15,900.00	$0.00	$0.00	$0.00
OTHER OPERATING	$338,700.00	$0.00	$249.00	$249.00
BUILDINGS/BUILD IMPROVEMENT	$0.00	$0.00	$0.00	$0.00
NON CAPITAL EQUIPMENT	$0.00	$0.00	$0.00	$0.00
CAPITAL EQUIPMENT	$97,200.00	$0.00	$0.00	$0.00
TOTALS TO DATE	**$5,000,000.00**	**$0.00**	**$249.00**	**$4,999,751.00**

* The Allocated Amount includes $3,000,000.00 in non-lapsing funds

ARIZONA PUBLIC SAFETY
COMMUNICATIONS ADVISORY COMMISSION

The Arizona Public Safety Communications Advisory Commission will establish the tactical deployment plan for the Integrated Interoperable Public Safety Communications Network at the state and local level throughout the state.

Voting Members

Chairman Dennis A. Garrett, Director, Arizona Department of Public Safety
(602) 223-2464 - dgarrett@dps.state.az.us
Ray Allen, Assistant Fire Chief, Tucson Fire Department
(520) 791-3185 - Rallen1@ci.tucson.az.us
Amy Brooks, Captain, Apache Junction Fire Department
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Kathleen Paleski, Commander, Northern Arizona University Police Department
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Danny Sharp, Chief, Oro Valley Police Department
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Kimberly Spykes, Officer, Arizona Department of Public Safety
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Dewayne Woodie, Captain, Ganado Fire District / EMS
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Mike Worrell, Captain, Phoenix Fire Department
(602) 261-8843 - mike.g.worrell@phoenix.gov

Executive Director for PSCC

Curt Knight, Arizona Department of Public Safety
602-271-7400 - cknight@dps.state.az.us

STATE OF ARIZONA

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HOUSE OF REPRESENTATIVES

DATE: October 29, 2004

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Department of Revenue – 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 taxes.

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 2.48% to 5% of the tax charged to the credit card. DOR could not estimate when they would begin accepting credit cards to make tax payments. They have given higher priority to other Business Re-Engineering/Integrated Tax System (BRITS) problems, issues and processes before completing the BRITS credit card process.

DOR could not estimate the annual dollar amount of convenience fees that would be paid by taxpayers. The 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).

Analysis

A.R.S. § 35-142 requires that any credit card fees for taxes paid to DOR be paid by taxpayers in addition to the full amount of the taxes owed. DOR reported to the Committee on November 6, 2003 that they plan to begin accepting credit card payments as part of their BRITS project. The Committee asked the department to 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.

(Continued)

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. Taxpayers would pay the full amount of the tax owed, plus a convenience fee to a third party credit card vendor. So far, DOR has discussed and worked on accepting credit card payments for accounts receivable and regular payments for transaction privilege and withholding taxes. The transaction privilege tax was converted to BRITS in January 2004 and withholding tax was converted in October 2004. DOR envisions eventually including credit card payments as an option for corporate income tax and individual income tax, and expects to consider whether to include quarterly credit card payments when these taxes are implemented in BRITS. The projected BRITS conversion dates are July 2005 for corporate income tax and September 2006 for individual income tax. DOR has not had discussions of whether to allow credit card payments of audited amounts due, including interest and penalties.

DOR has 3 credit card vendors that will participate with the department in the collection of taxes with rates that will vary from 2.48% to 5% as shown in the following table. Two of the credit card vendors will offer flat rates of 2.49% and 2.5%. The third will offer rates varying from 2.48% to 5% depending on the amount charged. When the credit card option is implemented on DOR's website, taxpayers will see all vendors and their applicable transaction fees. They will be able to select one of the participating vendors and go to their Web site to pay the taxes plus convenience fee. The vendor will remit the tax to DOR and keep the convenience fee. 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's Credit Card Program

Credit Card Vendor	Convenience Fee
Official Payments	2.5%
Link 2 Gov	2.49%
Y2 Payments	Approximately 2.48% to 5% [1/]

1/ The rate would depend on the amount charged.

DOR has not yet implemented the use of credit cards to make tax payments. DOR reports that their Web site is ready to accept credit cards, but the work that will allow this information to be transferred to BRITS and posted to the taxpayer's account is not done. The department has given higher priority to other BRITS problems, issues and processes before completing the BRITS credit card process. DOR does not have an estimate of when they will begin accepting credit card payments for transaction privilege and/or withholding taxes.

DOR reports that 28 states allow credit card payment of taxes, including 21 states where taxpayers pay the convenience fee and 7 states where the state pays the convenience fee. The department reports that they have not researched, or checked with other states, to try to estimate the annual dollar cost to taxpayers of the convenience fee. 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
Department of Revenue

Janet Napolitano
Governor

J. Elliott Hibbs
Director

September 30, 2004

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

Dear Mr. Stavneak:

On November 6, 2003, the Joint Legislative Budget Committee heard a report from the Department of Revenue on entering into a request for an agreement with a third party vendor to accept credit card payment for taxes.

The Committee requested that the department report back to the committee once the credit card fees have been set.

At this time, the Department of Revenue has not implemented the usage of credit cards to make tax payments. However, there are three credit card vendors that will be participating with the department in the collection of taxes. They are Official Payments, Link 2 Gov and Y2 Payments. Official Payments will be charging a flat convenience fee of 2.5%. Link 2 Gov will be charging a flat convenience fee 2.49%. Y2 Payments will be charging a variety of step percentages beginning at approximately 2.48% to 5.00% depending upon the amount the taxpayer charges.

The process is designed so that the taxpayer who has a Visa, Mastercard, etc., credit card and wishes to pay his taxes may select one of the participating vendors and go to their website to conduct the transaction. At that point, the taxpayer will pay the applicable convenience fee and amount of tax to that vendor. The vendor will remit only the tax amount to the Department but will retain the convenience fee for providing the credit card service to the taxpayer.

If you have any questions, please feel free to contact me at 716-6281.

Sincerely,

Lynette M. Nowlan

Lynette M. Nowlan, CPA, CGFM
Assistant Director for Process Administration

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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HOUSE OF
REPRESENTATIVES

DATE: November 9, 2004

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Arizona Sports and Tourism Authority – Report on Activities

Request

Pursuant to A.R.S. § 5-814, the Arizona Sports and Tourism Authority (AZSTA) is required to annually appear before the Joint Legislative Budget Committee at the request of the Chairman to report on its activities and financial performance during the previous year.

Recommendation

This item is for information only and no Committee action is required. In FY 2005, AZSTA projects revenues of $24.7 million and expenses of $23.0 million. AZSTA and the City of Glendale have recently reached an agreement on the financing for stadium related infrastructure.

Analysis

AZSTA is charged with overseeing the design and construction of a new multipurpose football stadium. After the stadium is built, it will be owned and operated by AZSTA. In addition, the agency also distributes monies for the promotion of tourism in Maricopa County, Cactus League baseball spring training, and youth and amateur sports.

AZSTA currently estimates that the stadium will cost $370.6 million to construct, an increase over previous estimates of $355 million, with an additional $61 million for support infrastructure (parking, roads, utilities, etc.). The stadium is scheduled for completion by August 2006.

In past months, there has been some concern over the financing and other infrastructure (public plaza, roads, sewers and waterlines). Under the original agreement, the City of Glendale was to pay for site preparation by issuing bonds. The city and AZSTA have now agreed to an alternative financing of the infrastructure where AZSTA will issue at least $32 million in bonds. These bonds will be repaid over 30 years by all the revenues that the city would have collected from parking, taxes and surcharges associated with the stadium. After the repayment period, those revenues will be divided between the city and

AZSTA. The city will still be responsible for improvements to surrounding streets and neighborhoods. These improvements would be funded through the city's Capital Improvement Program or by the Arizona Department of Transportation. AZSTA agrees to cover any costs over the $29 million the city budgeted for the project. This plan was accepted by the city on September 28 and by AZSTA on October 7.

AZSTA's operating revenue comes from a hotel bed tax, a car rental surcharge, NFL income taxes, and the recapture of sales taxes generated at Sun Devil Stadium. In FY 2005, total revenue is projected to be $24.7 million. AZSTA's expenses include debt service payments, a Tourism Fund distribution, Cactus League payments, youth and amateur sports, and the agency's operating costs. In FY 2005, total expenses are projected to be $20.2 million. The Tourism Fund distribution began in FY 2002 at $4 million and is statutorily required to increase by 5% each year thereafter. The Cactus League payments include bond debt service for construction of a spring training baseball stadium in Surprise.

The following table provides an accounting of AZSTA's revenues and expenditures since FY 2003.

	FY 2003 Actual	FY 2004 Actual	FY 2005 Budget
Revenues			
Hotel Bed Tax	$10,247,098	$10,835,385	$11,318,944
Car Rental Surcharge	7,699,364	7,823,825	8,084,332
NFL Income Tax	3,784,320	4,087,066	4,414,031
Sun Devil Stadium Sales Tax Recapture	959,610	741,649	871,499
Other Operating Revenue	6,500	150	0
Total Revenue	$21,771,281	$23,488,074	$24,688,806
Expenses			
Operating Expenses	2,172,343	1,427,868	2,818,712
Bond Debt Service	4,643,294	11,143,906	11,143,906
Wells Fargo/Bank One Stadium Loan	5,000,000	0	0
Tourism Fund	2,017,500	4,428,375	4,649,794
General Fund 1/	2,200,000	0	0
Cactus League	3,000,000	3,000,000	3,000,000
Youth and Amateur Sports	1,108,333	1,208,333	1,308,333
Youth and Amateur Sports, Reserve	1,000,000	25,000	91,666
Total Expenses	$21,141,470	$21,233,482	$23,012,411
Non-Operating Revenue/(Expense)			
Interest Income	358,800	7,381	22,939
Interest Expense	(115,225)	0	0
Net Revenues (Revenue-Expenses)	1,798,996	2,261,973	1,699,333

1/ In FY 2003, the Legislature suspended the statute that would have transferred $4.2 million to the Tourism Fund, and instead transferred $2.0 million to the Tourism Fund and $2.2 million to the General Fund.

As indicated by the table, AZSTA's revenues have been sufficient to meet its expenses in recent years, despite the economic downturn. In the long run, AZSTA believes that its revenues will continue to exceed its costs. At the end of FY 2004 AZSTA reported a total unrestricted surplus of $32.4 million. Estimates previous to the agreement to issue bonds for infrastructure put the FY 2011 debt service costs at $17.1 million, an increase from $11.1 million in FY 2005. This represents a 7.5% average annual increase in debt service payments over this period. Since AZSTA's current revenues of $24.7 million already exceed its future debt service costs and its revenues are expected to increase in future years, especially once the stadium opens, it appears likely that AZSTA will be able to pay future debt service.

According to A.R.S. § 5-835, AZSTA's funding priority is as follows:

1. Multipurpose Facility Bonds
2. Tourism Fund Transfer for Promotion of Tourism in Maricopa County
3. Cactus League Baseball
4. Youth and Amateur Sports
5. AZSTA Operating Account
6. Youth and Amateur Sports Reserve Account

If, in the worst case scenario, the tourism industry declines sometime in the future and AZSTA's revenues are not sufficient to cover all of its expenses, the available revenues would first go toward the stadium bonds, then to the Tourism Fund, and so forth, according to the funding priority. To at least meet its debt service obligations and avoid defaulting on its bonds, AZSTA would need enough revenue to cover priorities 1 through 3. A severe tourism recession does increase the probability that youth and amateur sports, along with AZSTA operating account, could go underfunded.

RS/EJ:ck

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DATE: November 5, 2004

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

SUBJECT: Governor's Office of Strategic Planning and Budgeting - Report on Federal Revenue Maximization Initiative

Request

Pursuant to a General Appropriation Act footnote, the Governor's Office of Strategic Planning and Budgeting (OSPB) has submitted its quarterly report on the status of a Federal Revenue Maximization Initiative.

Recommendation

This item is for information only and no Committee action is required. JLBC Staff notes that OSPB's report indicates that none of the savings for completed projects are allocated to the $25 million of savings incorporated into the overall budget.

Analysis

Laws 2004, Chapter 275, Section 80 states the following:

> "The Office of Strategic Planning and Budgeting shall report to the Joint Legislative Budget Committee by July 1, 2004 and the beginning of each subsequent calendar quarter in the fiscal year on the status of the Federal Revenue Maximization Initiative. The report, at a minimum, shall include an update on contracts awarded as a result of the "RevMax" request for proposals, a summary of projects and the potential savings from each project. Any reported savings shall distinguish between potential reductions in current funding levels and foregone future spending increases."

This provision was associated with an estimated $25 million of savings incorporated into the overall FY 2005 budget. These savings were not allocated to specific agency budgets; rather they were assumed as part of the overall "balance sheet" and were intended to reduce current funding levels.

To meet the budgetary target, agency appropriations would need to be reduced during the year or budgeted revertments would have to increase. Revertments are unspent appropriations that are returned to its source (in this case, the General Fund).

After reviewing OSPB's first report at its August meeting, the Committee asked OSPB to provide a list of projects initiated or referred to agencies for final cost-benefit analysis along with each project's contractor, relevant agencies, and projected savings.

The project is administered by a Governance Board appointed by the Governor. The attached report consists of spreadsheets detailing projects at the Arizona Health Care Cost Containment System (AHCCCS), the Department of Economic Security (DES), the Department of Health Services (DHS), and other agencies. We have attached the updated report provided at the Governance Board's October 27 meeting in lieu of providing the report submitted by OSPB, which was current only through the Board's September 28 meeting.

To date, it appears that there are 3 projects completed, all designed to increase federal Title XIX Medicaid reimbursement:

- Immunization Registry (AHCCCS/DHS): $135,000 annually
- ASH Inpatient Hospitalization (AHCCCS/DHS): unknown
- Juvenile Justice (Juvenile Corrections/AHCCCS): $250,000 annually

In another completed project, concerning the *Padilla vs. Rodgers* case, the courts have also ruled that the federal government must pay $3 million to the state for mandated court-ordered dialysis services provided to approximately 100 undocumented individuals. At this time, however, the federal government has not yet paid the state.

In addition to these projects, the summary lists 6 ongoing and 4 potential AHCCCS projects, 1 ongoing DHS project, 2 ongoing and 3 potential DES projects, and 2 other ongoing projects.

At its October 27 meeting, the Governance Board received updates from participating state agencies, but did not direct agencies to proceed with any new task orders.

The JLBC Staff would also note that many of the projects have notes indicating that savings would be used to offset supplemental appropriations or "reinvested in the Child Welfare System." Most of the actual or potential savings are in agencies with potential supplementals due to higher than expected caseloads. There are other projects, such as some in DES, where savings would represent reinvestments in programs -- these statements appear contrary to the intent of the FY 2005 budget that these revenue maximization initiatives generate $25 million in savings in the overall "balance sheet."

RS/SSH:jb
Attachment

SSH ?

GOVERNOR'S OFFICE OF
STRATEGIC PLANNING AND BUDGETING
1700 West Washington, Suite 500, Phoenix, Arizona 85007
(602) 542-5381 • FAX: (602) 542-0868

Janet Napolitano
Governor

David P. Jankofsky
Director

October 15, 2004

RECEIVED
OCT 18 2004
JOINT BUDGET COMMITTEE

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

Dear Richard:

Pursuant to Laws 2004, Chapter 275, Section 80, the federal revenue maximization report for the quarter ending September 30, 2004 is attached. Should there be any questions, please do not hesitate to contact Kristine Ward (602-542-6404) or me (602-542-5381).

Sincerely,

David P. Jankofsky
Director

Attachment

c: George Cunningham
Kristine Ward
Anne Winter
Bob Chapko
Stephen Pawlowski
David Reese
Tom Betlach, AHCCCS
Mary Gill, DES
Leslie Schwabe, DHS

AHCCCS Revenue Maximization Summary
As of October 27th, 2004

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
Completed RevMax Projects						
ASIIS Registry	AHCCCS DHS	Draw down Title XIX funding to help cover part of costs associated with Immunization registry	The State is drawing down $135,000 in federal funds per year. These funds would supplant DHS General Funds thereby freeing up monies to reduce any potential FY 2005 supplemental request and/or pay for the unfunded portion of FY 2005 health care expenses.	IGA with acceptable cost allocation methodology.	Is currently in place.	Complete
Padilla vs. Rodgers	AHCCCS	Pursue federal participation for mandated court ordered dialysis services provided to approximately 100 undocumented individuals.	AHCCCS has a retro claim of $3.5 million through March 2004. The annual benefit is anticipated to be about $3 million in future years. Any additional funds would supplant General Funds thereby freeing up monies to reduce any potential FY 2005 supplemental request and/or pay for the unfunded portion of FY 2005 health care expenses.	Judge ordered CMS to make payment.	A hearing was held recently to review a request by the state that CMS be enjoined in the original lawsuit and be ordered to pay. Recently court ruled that Feds must pay $3 million to the state.	Complete

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
ASH Inpatient Costs	AHCCCS DHS	AHCCCS is working with DHS on a process to have inpatient hospitalization costs covered by Title XIX funding.	Unknown at this time because actual number of inpatient stays is not known. This would be a pass-through of Federal Funds from AHCCCS to DHS. Any additional funds would supplant General Funds thereby freeing up monies to reduce any potential FY 2005 supplemental request and/or pay for the unfunded portion of FY 2005 health care expenses.	AHCCCS recently received approval from CMS to provide these services to individuals age 21-64 that are in ASH consecutively 30 days or less or less than a total of 60 days in a year.	DHS has started sending applications to AHCCCS to make individuals Title XIX eligible. Inpatient stays that meet CMS criteria will be eligible for Title XIX on an ongoing basis.	Complete
Ongoing Task Orders and Agency-directed Projects						
Enhanced 1931 Eligibility Funds	AHCCCS DES	The Welfare Reform Legislation enacted in 1996 provided $2.0 million in 90% funds and $5.961 million in 75% match funds to offset higher costs of determining Medicaid eligibility.	The state has approximately $5 million of the 75% monies still available. Based on the current methodology developed by DES about $450,000 per year will be utilized. This would be a pass-through of monies from AHCCCS to DES.	None	PCG selected as Vendor; kickoff meeting held 9/23 PCG has submitted draft claim for review; anticipate submittal by end of early November.	Anticipate receiving federal funds by April 2005.
Eligibility Error Rate Training and Improvement	AHCCCS DES	Provide technical assistance, training, and monitoring to five	Vendor proposes that an estimate of a 1% reduction in eligibility errors in all	None at this time	Received favorable Board review on 8/25; AHCCCS and	Pilot will be completed by June, 2005.

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
		eligibility offices experiencing recurring problems with high error rates. If the pilot program is successful, then DES may expand the program to other offices.	offices would result in savings of $9.3 million statewide annually. To realize this amount however may require an investment in DES processes and/or technology. Further, this project will be a pilot of 4 offices. Therefore, the initial programmatic savings will be less than the $9.3M initially. This project could result in cost avoidance of future outlays by reducing the number of persons eligible for AHCCCS, thereby reducing the amount of capitation paid.		DES issued Task Order on 10/20 to Maximus.	
Medicaid in the Public Schools	**AHCCCS**	**The agency consolidated administrative contracts and is having ongoing discussions with school districts on the scope of services covered.**	**As currently administered, all funding goes to school districts. Estimate of additional amount forthcoming from this project presently unknown. School districts will have to collect that information. They are not required to report this information to the Governance Board.**	**Any expansion in scope would require approval from CMS.**	**AHCCCS and Dept of Ed conferred with CMS. Audiology services are being added. CMS will not approve case management for school based claiming**	**October 2004**
DES LTC Ombudsman	**AHCCCS DES**	**Establish IGA between the two agencies for payment**	**Annual estimated benefit is $140,000.**	**IGA with acceptable cost allocation**	**IGA drafted—negotiating final**	**November 2004**

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
		of Title XIX funds for the ombudsman's office.	This funding represents pass-through funding for local area agencies on aging and tribal entities to operate their long term care ombudsman program.	methodology	language for cost allocation	
I.H.S. Referrals	AHCCCS	Since 1999 AHCCCS has been claiming 100% federal funds for services provided to Native Americans referred through I.H.S. facilities to contracted providers. CMS has disallowed and paid at only the FMAP rate.	The retro claims amount to $84.4 million and the agency would anticipate the annual benefit going forward to be about $15 million	To get disallowance overturned and 100% federal participation will require successful court case.	Both sides have filed summary judgments in federal court. In addition the Eighth circuit court will be hearing an appeal by CMS on two rulings that favored the states in North and South Dakota.	2 years if there is a favorable judgement. It is expected that CMS will exhaust legal remedies in the 9th Circuit Court, if it loses in the 8th Circuit.
County Inmates Inpatient Hospital Costs	AHCCCS Counties	AHCCCS is working with the counties on a process similar to what is in place with the Department of Corrections. This would allow counties to make inmates eligible for Medicaid to cover inpatient hospital costs. These services may not be provided in a lock down unit.	Benefit would be to counties reducing medical costs for incarcerated individuals. Amount not determined. These new federal funds would offset county general fund expenditures. The County is not required to report to the Governance Board.	IGA will be required similar to what AHCCCS has in place with DOC	AHCCCS has had a number of meetings with county representatives. Currently quantifying impact. Have received several dozen applications, but too soon to know dollar impact.	Maricopa agreement complete; Pima has expressed interest. System changes underway; expect remaining counties to be implemented by June 2005.
Potential Task Order Projects						
AZEIP	AHCCCS DES	Increase amount of Medicaid funds used to	Estimates have not yet been completed	None at this time	AHCCCS and DES have been working	Since the September

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
		support AzEIP program			on this issue for some time, and AHCCCS has proposed 4 options to DES for review. DES is in process of reviewing the options. At this time, the agencies do not believe an outside vendor is needed to implement any of these changes.	meeting, EP & P have submitted a proposal to DES regarding the DD population, which may have some overlap with this project. DES and AHCCCS will be reviewing the EP&P proposal to determine whether it would change the agencies' views on the AZEIP proposal. The agencies will report the outcome at the November meeting.
SCHIP Maximization of 10% administrative expenditures	AHCCCS	Determine whether currently optimizing the SCHIP administrative funds	Vendor indicates that projects they have done for other states the size of Arizona have yielded between $1.5 and $7 million.	None	Although there may be an opportunity to allocate more general admin costs to the KidsCare program, there would be less dollars available for childless adults, which would negatively impact budget neutrality. Also, AHCCCS	Update will be given at October meeting

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
					currently expends 100% of its current year SCHIP allotment, and is a redistribution state. It is not in the state's best interest to pay a vendor for a project that takes money away from the childless adults HIFA waiver. AHCCCS recommends against pursuing a task order due to these considerations.	
Public versus private status of UMC	AHCCCS	Determine whether change in status allows state to maximize federal dollars. Maximus proposal	Unknown	TBD	Recently received proposal from vendor; follow up phone call scheduled week of October 25.	Decision on whether to proceed with task order will be made in early November.
Nursing home payments	AHCCCS	Evaluate removal of special exemption from Insurance Premium Tax on nursing homes. Maximus proposal	Unknown	TBD	Recently received proposal from vendor; follow up phone call scheduled week of October 25.	Decision on whether to proceed with task order will be made in early November.

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
Potential Projects that Will Not be Pursued						
Upper Payment Limit	AHCCCS	Would have made supplemental hospital payments to eligible public facilities.	Payments were expected to be about $28 million per year. The ability to make these payments was time limited to FFY 2004 and FFY 2005.	Legislation required to make payments was never authorized.	On hold due to no authorization from Legislature.	N/A
Ensuring that Medicaid is the payor of last resort	AHCCCS	Shifting TXIX expenditures to Medicare for aged and disabled	SGS proposal estimates that cost avoidance would be $2-3 million.	None	AHCCCS currently contracts with a RevMax contractor to provide this service. Based on agency analysis vendor proposal will not yield additional funds.	N/A
Medicaid in the Public Schooles	AHCCCS	Review school based activities to determine whether they are eligible to be claimed as Medicaid covered administrative or direct services.	SGS proposal estimates that $12-18 million in federal revenues would be gained by school districts.	CMS approval of services expansion	AHCCCS currently contracts with a RevMax contractor to provide this service. Based on agency analysis vendor proposal will not yield additional funds.	N/A
Ensuring that Medicaid is the payor of last resort	AHCCCS	Maximize third party liability payments through cost-avoidance and recoupments	SGS proposal estimates that cost avoidance would be $10-15 million.	None	AHCCCS currently contracts with a RevMax contractor to provide this service. Based on agency analysis	N/A

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
					vendor proposal will not yield additional funds.	
Outreach/ensuring that Medicaid is the payor of last resort	AHCCCS	Outreach for Medicare eligibility for aged, blind, and disabled Title XIX eligibles.	SGS proposal estimates that cost avoidance would be $2-3 million.	None	AHCCCS currently contracts with a RevMax contractor to provide this service. Based on agency analysis vendor proposal will not yield additional funds.	N/A
Outreach/ensuring that Medicaid is the payor of last resort	AHCCCS	Outreach to KidsCare eligibles	SGS proposal estimates that cost avoidance would be $2-3 million.	None	AHCCCS currently has processes that checks for TXIX eligibility when a person applies for Medicaid. Based on agency analysis vendor proposal will not yield additional funds.	N/A

Revenue Maximization Summary
Department of Health Services
As of October 27th, 2004

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
Completed RevMax Projects						
None						
Ongoing Task Orders and Agency-directed Projects						
Medicare TEFRA Exception Approach		Prepare TEFRA Exception appeals on behalf of the Arizona State Hospital that does not exceed the national TEFRA ceiling. The proposal states that this can be done both retrospectively and prospectively.	Proposal estimates $300,000 per year. The revenues would cover the cost of the vendor contract with the balance going into the General Fund.	None	DHS will issue a task order to PCG in October 2004.	TBD
Potential Task Order Projects						
None						

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
Potential Projects that Will Not be Pursued						
Residential Treatment and Group Home Services	DHS DES	The proposal states that Public Works can assist the State in using Medicaid reimbursement rather than Title IV-B, Title IV-E or Title XX for residential treatment centers (RTC) and group homes	Proposal states \$2-\$3 million in increased federal revenues.	None.	The State of Arizona already utilizes Medicaid funding for RTC and Level II and III Residential Behavioral Health settings. Group Homes that are licensed by DES are not Behavioral Health Treatment settings, but do provide necessary social services.	N/A
Medicare Bad Debt	DHS	Enhance payments made by Medicare to the State Hospital by including unrecovered costs such as bad debts in the State Hospital's allowable calculation for reimbursement.	Proposal estimates \$66,000 in increased revenues per year.	None	Agency estimates that, due to federal requirements including, *inter alia*, that collection agency must have tried to collect debt prior to it being eligible for reimbursement, that this proposal not cost effective.	N/A
Institution for Mental Disease Exclusion	DHS	Reclassify the Arizona State Hospital as a facility other than an Institution for Mental Disease in order	Proposal estimates \$1,750,000, or 5% savings (x70% FFP) of the FY 02 budget.	Statute Change	The proposal would result in privatization of the State Hospital. This would require consolidating the	N/A

		to draw down federal funds for Medicaid eligibles that have a length of stay greater than 30 days			**State Hospital with another hospital so that less than 50% of the beds would be designated as psychiatric. DHS does not agree with privatizing the State Hospital.**	

DES Revenue Maximization Summary
As of October 27, 2004

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
Completed RevMax Projects						
None						
Ongoing Task Orders and Agency-Directed Projects						
Targeted Case Management and Increased Title IV-E Administrative Claiming	DES	Establish reimbursement from Medicaid (Title XIX) for certain eligible case management activities performed by CPS workers Increase federal Title IV-E revenue by focusing on the population and services used for claiming Title IV-E administrative costs	Vendor estimate of $8.9 - $11 million (net total funds) To the extent any of these funds are realized, they would likely be reinvested in the Child Welfare System. Additionally, these funds would supplant DES General Funds thereby freeing up monies to reduce any potential FY 2005 supplemental request and/or pay for the unfunded portion of FY 2005 health care expenses.	CMS approval on some of the action items	Task Order #DES-2005-01 issued to all Contractors August 13, 2004. Public Consulting Group selected to perform work September 17, 2004 Kick-Off October 29, 2004	To be finalized with Contractor

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
Title IV-E Funding for Out-of-Home Placement and Adoption	DES	Increase federal Title IV-E revenue by conducting an intensive review of all out-of-home placements during the past two years and completing retroactive claiming for eligible children. This project includes potential retro-claiming of Title IV-E and Title XIX funds in lieu of TANF expenditures	Vendor estimate of \$4 - \$10 million To the extent any of these funds are realized, they would likely be reinvested in the Child Welfare System. Additionally, these funds would supplant DES General Funds thereby freeing up monies to reduce any potential FY 2005 supplemental request and/or pay for the unfunded portion of FY 2005 health care expenses.	None	Task Order #DES-2005-02 issued on September 14, 2004 Public Consulting Group selected to perform work October 25, 2004	TBD
Potential Task Order Projects						
Expansion of SSI for Aged, Blind, Disabled and Child Welfare **Capture SSI/SSA Assignments at Mental Health Facilities and Developmental Services Institutions**	**DES**	**Develop an SSI advocacy function to perform screening of potential SSI-eligible individuals, completing applications and developing supporting documentation.** **Assess the screening for client SSI/SSA benefits and assign benefits to room and**	**Vendor estimate of \$4 - \$6.5 million.**	**Not Determined**	**DES will meet with MAXIMUS to better understand proposal.**	**TBD**

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
		board costs, thereby increasing the income offset for the State in residential programs.				
Cost of Care Billing for Children not Eligible for Title IV-E Funding	DES	This proposal addresses the establishment and collection of parental contributions for children in State-funded foster care (non-Title IV-E eligible children)	Vendor estimate of $ .2 - $2 million	Not Determined	DES met with MAXIMUS on October 21, 2004. MAXIMUS will consider submitting a revised proposal.	TBD
Medicaid Carve-out for Children's Services	DES AHCCCS	Develop a new Medicaid "carve-out" program using federal dollars to replace state dollars for service to eligible children age 0 to 5 who qualify for Medicaid and Division services	To be determined	Not Determined	DES and AHCCCS meeting with EP&P October 28 to better understand proposal, including relationship to AzEIP proposal submitted to AHCCCS	TBD
Potential Projects that Will Not be Pursued						
Qualify State Expenditures as TANF MOE Costs	DES	This project includes two strategies: (1) identifying additional	Vendor estimate of $5 – 16 million	N/A	The Department is meeting TANF MOE requirements.	N/A

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
		TANF MOE through non-traditional sources (2) identifying additional MOE through best practice			No additional revenue would be gained through these strategies	
Rate Setting	DES	Increase federal Title IV-E reimbursement for maintenance services provided by residential facilities through a detailed review of rate setting methodology.	Vendor estimate of $4 - $10 million combined with Title IV-E eligibility project described above	N/A	The Department used the services of a consultant to establish the current rate, which already optimizes the federal Title IV-E maintenance funds available to the State of Arizona in the agency's opinion.	N/A
Food Stamp Outreach	DES	Vendor proposal to increase the number of people in poverty on Food Stamps	10% increase in food stamps requires $13 million additional General Funds	N/A	Not a RevMax project since it is a program expansion that would require additional state matching funds.	N/A
Community Based/Local FFP enhancement	DES AO Courts	Obtain Title IV-E funding for entities other than the DES that provide child welfare services	Preliminary Vendor Estimate: $.6 - $1.75 million The additional federal funding under this proposal would go to local governments.	N/A	DES has current efforts in place with the Administrative Office of the Courts so that the State may receive Title IV-E funds for	N/A

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
					eligible juvenile probation youth. Local entities who wish to pursue Title IV-E funds can acquire RevMax assistance independently and DES would coordinate with those efforts.	
Assess Medicaid Funding at an enhanced match rate to support the replacement of ASSISTS	DES AHCCCS	Obtaining Medicaid funding at an enhanced match rate to support an IT system to replace the antiquated ASSISTS system.	Not Determined. Proceeding with this project would require an additional General Fund appropriation. It would not bring in net new revenues.	N/A	Consider seeking enhanced funding in conjunction with future revisions to AHCCCS PMMIS system, rather than build two stand alone systems.	N/A
Residential Treatment and Group Home Services – billing strategies	DES DHS	Obtaining increased Title XIX funded placements for Child welfare clients placed in residential treatment and group home settings. Focus is on three areas: Inpatient psychiatric services, rehabilitation services, and private non-medical providers.	Vendor estimate of $2 - $3 million	N/A	No additional assistance needed. DHS already has a fee structure that allows for TXIX billing for these services.	N/A

Topic	Agencies	Project Description	Revenue Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
Increase Federal Revenues through Cost Allocation and Grants Management	DES	Conduct a review of the State's cost allocation procedures and practices to identify federally reimbursable costs that are not being captured	Vendor estimate of $.5 - 1 Million	N/A	DES' Cost Allocation Plan was substantially revised in SFY 03 and amended 7/04 and Auditor General reviews annually. Proposal to Review the Statewide Cost Allocation Plan (SWCAP) already reviewed by the Governance Board.	N/A
Increase Recoveries under the Child Care Development Block Grant	DES	Identify additional opportunities for expanding child care services or replacing general fund expenditures with federal funds	Vendor estimate of $4 – 6 million annually	N/A	Agency believes it is currently maximizing available funds for child care services including each of the fund sources discussed in the proposal.	N/A

Revenue Maximization Summary
All Agencies Except for AHCCCS, DES, and DHS
As of September 28th, 2004

Topic	Agencies	Project Description	Revenue or Cost Avoidance Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
Completed RevMax Projects						
None						
Ongoing Task Orders and Agency-directed Projects						
Workforce Investment Act (WIA)	Commerce DES	Expand programs to draw down retro WIA funding that is not expended by the state	There is approximately $12 million in unexpended WIA funding. There is no new federal funding.	Legislative appropriations is likely	The WIA RevMax taskforce led by the Governor's Office has determined that the majority of the $12 million is an accelerated collection of available funds. This does not meet the definition of an allowable RevMax project. There is approximately $2.7 million in rapid response funding that may have greater flexibility.	Expenditure plans will be developed by November 2004 in order to secure expenditure authority from the legislature.

Topic	Agencies	Project Description	Revenue or Cost Avoidance Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
					Commerce and DES will issue a task order to SGS to develop a plan to expend these funds.	
Maximizing Title XIX Funding for the Juvenile Justice system	ADJC AHCCCS	Several measure are being under taken by ADJC and AHCCCS to ensure that services provided to Title XIX eligible youth are eligible for Title XIX funding: a. AHCCCS will not suspend Title XIX eligibility when a youth is adjudicated into Juvenile corrections system. b. Inpatient costs will become Title XIX eligible c. ADJC will have access to the AHCCCS eligibility system to facilitate coordination between the agencies. d. AHCCCS and DHS are exploring	ADJC is working on getting an estimate. Based upon prior year hospitalization, there could be $250K in federal funding that will supplant general fund expenditures.	AHCCCS will make a policy change to not suspend Title XIX eligibility when a youth is adjudicated into Juvenile corrections.	Since these are internal generated initiatives, no task order is needed.	November 2004

Topic	Agencies	Project Description	Revenue or Cost Avoidance Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
		using a parent's Title XIX eligibility to qualify family therapy services for Title XIX funding.				
Maximizing Title XIX Funding for the Juvenile Justice system	**ADJC DHS DES AHCCCS**	**Review current funding streams to identify a structure in which federal funding is maximized for services provided to juveniles that are in the juvenile justice system. The status of various reports and recommendations will be assessed to see what work needs to be done to maximize federal funding. This project will focus on moving youth from correctional facilities to residential treatment centers. The model centers around treatment rather than punishment as a means to reduce juvenile offenders. The project will also assess**	**A baseline will be developed by EPP to determine new federal revenues and potential cost avoidances. The project will result in new federal revenues that will supplant general fund expenditures. The project will also result in cost avoidance by reducing the number of youth that are incarcerated.**	**TBD.**	**DHS and ADJC are working on a task order for EPP's services. The task order will be issued in October 2004.**	**January 2005**

Topic	Agencies	Project Description	Revenue or Cost Avoidance Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
		how to build the provider community so that there are multiple options for treatment available to the courts as well as ADJC.				
Potential Task Order Projects						
None						
Potential Projects that Will Not be Pursued						
Silver Citizen Discount Care	Governor's Office	Create a discount card for seniors for prescription drugs and other services.	Not quantified by contractor	Not determined	The Governor's Office with AHCCCS has already implemented the CoppeRx Card program, which provides discounts to Medicare eligibles for prescription medications. No task order is needed.	N/A
3. Amendments for Statewide Cost Allocation Plans and Agency Cost Allocation Plans	ADOA All other agencies	Review cost allocation plans to determine if more federal revenues can be brought into the state	SGS estimated that $14-21 million in federal revenues would be brought in to supplant general fund expenditures.	None	Kris Ward of OSPB did an analysis with ADOA and determined that	N/A

Topic	Agencies	Project Description	Revenue or Cost Avoidance Estimate	Legislation, Rule or Policy Changes Required?	Status	Estimated Completion Date
(CAP) a. Statewide Cost Allocation Plan b. Agency Cost Allocation Plan					there would be little benefit to doing a full review of the indirect cost allocation. However, at the August GB meeting, she invited the contractors to meet with her if they felt that there was potential that her analysis did not show. So, far, no contractors have contacted Ms. Ward.	
Increasing benefits to Arizona residents	Governor's Office (Lisa Glow)	Increase benefits to persons eligible for Social Security. Identifies those not receiving Social Security Benefits to ensure that they receive them.	SGS proposal estimates that cost avoidance would be \$2-3 million. It is not known how this number would be arrived at since there are not expenditures identified.	Unknown.	This is not a RevMax project, but a worthy project. It may be considered outside the purview of RevMax.	N/A

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

DATE: November 5, 2004

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

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Senior Fiscal Analyst

SUBJECT: Attorney General - Department of Law - Report on New Staffing of Child Protective Services Attorneys

Request

The FY 2005 General Appropriation Act appropriated $4 million from the General Fund to the Division of Children, Youth and Families (DCYF) within the Department of Economic Security to fund 65 additional Attorney General legal staff positions working in DCYF. These positions are funded through the DCYF budget, but are still considered employees of the Office of the Attorney General (AG). The Chairman has requested that the Attorney General report on a quarterly basis, beginning October 15, 2004, on the status of hiring the new AG staff.

Recommendation

This report is for information only and no Committee action is required. The JLBC Staff does recommend, however, that the Committee request that future reports include information on the status of hiring new Attorney General positions funded from Federal Funds. The JLBC Staff estimates that the FY 2005 General Fund increase will result in an additional 28 AG legal staff.

The highlights of the report are:
- Of the 65 AG positions appropriated in the General Appropriation Act, 24 have been filled.
- At the end of the 1st Quarter of FY 2005, there were 10,434 children awaiting placement, up from 9,771 children a year ago. Of the 10,434, 2,935 children had been awaiting placement for longer than 24 months (compared to 2,618 a year ago).
- Since the 2nd Special Session in the fall of 2003, there have been a total of 119 jury trial requests and 16 actual jury trials. Of the amounts, 39 requests and 4 trials occurred in the 1st Quarter of FY 2005.

Analysis

The FY 2005 General Appropriation Act increased the DCYF budget by $4 million from the General Fund to provide 65 additional AG legal staff positions within the division. The increased appropriation provided funding for approximately 30 additional attorneys, 15 legal assistants, 15 legal secretaries, and 5 clerk typists. In addition, the General Fund appropriation is expected to draw down additional federal monies, which will fund approximately 28 attorney and support staff positions.

The increase in AG legal services funding within DCYF was in part due to changes made in the 2nd Special Session in the fall of 2003. Laws 2003, 2nd Special Session, Chapter 6 allowed individuals involved in parental rights termination cases to request jury trials. This type of legal proceeding requires more attorney hours, and therefore additional Attorney General resources. The additional funding appropriated in FY 2005 was provided to the AG to address an increase in the number of jury trial requests, as well as an increase in the number of dependency cases handled by the AG's Office.
During the 2004 legislative session, the AG's Office indicated that there was a critical need to fill the additional staff positions. As a result, the Chairman has requested that the Attorney General report on the status of hiring new AG staff and the processing of dependency cases. Specifically, the Chairman requested that the reports include the following information: 1) the net number of Attorney General Child Protective Services positions filled at the end of each quarter; 2) the number of children (and cases) awaiting placement at the end of each quarter; and 3) the number of jury trials handled by the AG at the end of each quarter.

The AG has made some progress hiring new staff. As of October 1, the AG has on net filled 24 of the 65 positions appropriated in the FY 2005 General Appropriation Act. Of the 24 positions, 12 are attorneys, 2 are legal assistants, 3 are legal secretaries, and 7 are clerk typists.

The AG has also reported on the total number of children awaiting placement (children in the foster care system) and has displayed data for each month of the 1st Quarter of FY 2005. As of September 30, there were 10,434 children (5,870 cases) awaiting placement. Of this amount, 2,935 children (or 28%) had been awaiting placement for longer than 24 months. As a point of comparison, on June 30, 2004 there were 9,771 children awaiting placement, with 2,618 (or 27%) of these children waiting longer than 24 months for placement.

The AG reports a total of 39 jury trial requests during the 1st Quarter of FY 2005, or an average of 13 requests per month. In the 3rd and 4th Quarters of FY 2004 the number of jury trial requests also averaged 13 per month, for a total of 80 jury trial requests for that 6-month period. Of the 39 jury trial requests in the 1st Quarter of FY 2005, 4 resulted in trials actually being held. The information provided by the AG on jury trials is summarized in the following table:

Jury Trials
Parental Termination Cases

	Jury Trial Requests	Jury Trials Held	Jury Trials Held (as % of Requests)
FY 2004 (3rd & 4th Quarters)			
Jan. 2004 – June 2004	80	12	15%
FY 2005 (1st Quarter)			
July 2004 – Sept. 2004	39	4	10%
Total	**119**	**16**	**13%**

The Attorney General will continue to submit these reports through FY 2005.

RS/KH:ck

ROBERT BURNS
DISTRICT 9

STATE SENATOR
FORTY-SIXTH LEGISLATURE

COMMITTEES:

APPROPRIATIONS, CHAIR
FINANCE
RULES

Arizona State Senate

July 20, 2004

The Honorable Terry Goddard
Attorney General
Office of the Attorney General
1275 W. Washington
Phoenix, AZ 85007

Dear Mr. Goddard:

Pursuant to the FY 2005 General Appropriations Act, the Department of Economic Security received a General Fund increase of $4 million for Attorney General costs in Child Protective Services. These monies were appropriated for FY 2005 and are displayed in the Attorney General Legal Services line item within the Division of Children, Youth and Families. The appropriation will provide additional resources for an increase in the number of dependency cases in the system, as well as increased costs associated with jury trial requests.

Based on information provided by your office, we estimate that the $4 million General Fund appropriation will provide funding for approximately 65 positions. In addition, the General Fund appropriation is expected to draw down additional federal monies, which will fund approximately 28 attorney and support staff positions.

Since your office indicated during the 2004 legislation session that there was a critical need to fill these positions, we would like to be kept apprised of your progress in hiring staff. To that end, we request that you provide a quarterly report on the status of hiring new staff and the processing of dependency cases. We would like these reports to begin October 15, 2004 and to include the following information:

1. The net number of Attorney General CPS positions filled at the end of each quarter.
2. The number of children awaiting placement at the end of each quarter. Please include how many cases this represents.
3. The number of jury trials being handled by your office at the end of each reported quarter.

In addition to the quarterly information, we would like the first report to include June 30, 2004 data for the 3 measures listed above.

We would like to receive these reports 15 days after the end of each calendar quarter.

Capitol Complex, Phoenix, Arizona 85007-2890
Phone: (602)926-5993 Toll Free: 1 (800) 352-8404, x5993 Fax: (602)417-3226 Email: rburns@azleg.state.az.us

July 20, 2004

If you would like additional information, please contact Kim Hohman at 602-542-5491.

Sincerely,

Robert L. Burns

Senator Robert Burns
Appropriations Chairman

RB:ck
xc: Richard Stavneak, Director

OFFICE OF THE ATTORNEY GENERAL
STATE OF ARIZONA

TERRY GODDARD
ATTORNEY GENERAL

SHARON SERGENT
CHILD AND FAMILY PROTECTION DIVISION

October 15, 2004

Senator Robert Burns
Appropriations Chairman
Capital Complex
Phoenix, Arizona 85007-2890

RE: Quarterly Report to Appropriations Committee pursuant to Senator Burns' Request of July 20, 2004; First Quarter FY05 with special notations regarding year end FY04

Dear Senator Burns,

The following is the information you requested in your letter of July 20, 2004, for the First Quarter of the Fiscal Year 2005 and the baseline information as of June 30, 2004.

Answer to Committee inquiries:

1. The net number of Attorney General CPS positions filled at the end of the quarter.

The total number of positions filled at the end of FY04 and the net number of positions filled in the First Quarter of FY05 are set forth in Figure 1 below.

Figure 1
Net Number of Hires

	Attys	LA's	LS's	CT's	Other	Total
June 30, 2004	60	16	25	8	4	113
October 1, 2004	74	18	26	14	5	137
Increase	14	2	1	6	1	24

Note: The number of personnel specifically identified as being hired as a result of SB1402 are as follows:

	Attys	LA's	LS's	CT's	Other	Total
	12	2	3	7		24

It is important to remember that these numbers reflect the *net* number of hires and that the actual number of new hires during this time period is much greater. All personnel turnover in the 4th Quarter of FY04 and the 1st Quarter in FY05 is reflected in Appendix A to this report – "Personnel Actions, April 1, 2004 – September 30, 2004". As the chart reflects, PSS hired 14 new employees in the 4th Quarter of FY04 and 30 new employees in the First Quarter of FY05.

2. The net number of children awaiting placement as of June 30, 2004 and how many cases this represents.

"Awaiting placement "is a difficult term to quantify and depends on what system event is intended to be measured. All children in foster care are in a placement, and placements vary from temporary shelter to permanent adoptive placements awaiting adoption. The Department and PSS track the number of children in care longer than 24 months. These cases are considered "backlogged". Although this number will not likely ever reach zero (e.g., children with a long term foster care case plan will always be represented in this measure), the measure can provide information as to the overall case-flow progress.

The following chart (Figure 2) outlines the total number of children in care, the number in care for greater than 24 months on the date reflected and how many cases correspond to the number of children in both categories.

Figure 2

Date	Total No. of children/cases	No. of children/cases (+24 months)
June 30, 2004	9,771/5,608	2,618/1,692
July 31, 2004	10,149/5,759	2,756/1,692
August 31, 2004	10,187/5,774	2,878/1,764
September 30, 2004	10,434/5,870	2,935/1,801

3. The number of jury trials being handled by our office at the end of each reported quarter.

To respond to this request, we have defined "handled" as resolved within the requested time frame. We have also included information on the number of requests for a jury trial being made and the statewide demographics for these requests. This information is provided in the two (2) Summary Tables below.

Summary Table 1
JURY TRIAL REQUESTS

	Requests December 2003 thru June 30, 2004	Requests July 1, 2004 thru September 30, 2004	TOTAL December 2003 thru September 30, 2004
Statewide	80	39	119
Maricopa/Durango:	16	7	23
Maricopa/Mesa:	9	4	13
Pima/Tucson:	36	18	54
Cochise County:	6	6	12
Graham County:	0	1	1
Yuma County:	2	0	2
Mohave County:	2	2	4
Yavapai County:	5	1	6
Coconino County:	2	0	2
Gila County:	2	0	2

Summary Table 2
JURY TRIALS HELD

	Requests December 2003 thru June 30, 2004	Requests July 1, 2004 thru September 30, 2004	TOTAL December 2003 thru September 30, 2004
Statewide	**12**	**4**	**16**
Maricopa/Durango:	1	1	2
Pima/Tucson:	9	2	11
Yuma County:	1	0	1
Mohave County:	1	1	2

Conclusion

The $4 million General Fund appropriation (SB1402) has provided the funding for approximately 65 new positions (30 teams). I wish to remind JBLC that the Division operated in a deficit just under $1 million in FY04 and maintained its FY04 staffing levels through vacancy savings. Please feel free to contact me directly at (602) 542-9948 if you need clarification on any of the information provided above, or have further questions.

Sincerely,

Sharon E. Sergent

Sharon E. Sergent
Division Chief Counsel
Child and Family Protection Division

CC: Richard Stavneak, Joint Legislative Budget Committee

APPENDIX A

Protective Services Section
Personnel Actions April 1, 2004 – September 30, 2004

Date	Atty	LA	LS	CT	Total	SB1402
4/2/2004	(1)					
4/2/2004			(1)			
4/12/2004		1				
4/15/2004	(1)					
4/16/2004	(1)					
4/26/2004			(1)			
4/23/2004	(1)					
4/26/2004			1			
4/26/2004	1					
4/26/2004		1				
4/26/2004	1					
4/27/2004	(1)					
4/27/2004	(1)					
4/27/2004	(1)					
5/7/2004				(1)		
5/7/2004				(1)		
5/10/2004	1					
5/10/2004				1		
5/12/2004				1		
5/13/2004	(1)					
5/21/2004				(1)		
5/24/2004				1		
5/24/2004	1					
5/24/2004	1					
5/24/2004	1					
5/24/2004				1		
5/24/2004	1					
6/23/2004	(1)					
4th Qtr Adds	**7**	**2**	**1**	**4**	**14**	
4th Qtr Loses	**(9)**	**0**	**(2)**	**(3)**	**(14)**	
Net 4th Qtr	**(2)**	**2**	**(1)**	**1**	**-**	
7/5/2004	1					N
7/5/2004	1					Y
7/5/2004	1					Y
7/6/2004			(1)			N
7/9/2004				(1)		N
7/19/2004	1					Y
7/28/2004				1		N
7/28/2004				1		Y
8/2/2004				1		Y
8/2/2004	1					N
8/3/2004				1		Y
8/3/2004				1		Y
8/10/2004	(1)					N

Date	Atty	LA	LS	CT	Total	SB1402
8/13/2004			(1)			N
8/16/2004	1					Y
8/30/2004	1					Y
8/30/2004	1					Y
9/27/2004	1					N
9/27/2004	1					Y
9/27/2004	1					Y
8/30/2004	1					Y
8/30/2004	1					N
8/30/2004				1		N
8/30/2004		1				Y
8/30/2004				1		Y
8/30/2004				1		Y
8/30/2004				1		Y
9/27/2004	1					Y
9/3/2004			(1)			N
9/13/2004		1				Y
9/24/2004	(1)					N
9/27/2004	1					Y
9/27/2004			1			Y
9/27/2004	1					Y
9/27/2004			1			Y
9/20/2004			1			Y
1st Qtr Adds	**16**	**2**	**3**	**9**	**30**	
1 Qtr Loses	**(2)**	**0**	**(3)**	**(1)**	**(6)**	
Net 1st Qtr	**14**	**2**	**0**	**8**	**24**	
SB1402 Hires	**12**	**2**	**3**	**7**	**24**	

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF REPRESENTATIVES

DATE: November 9, 2004

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Arizona State Retirement System – Report on Contribution Rates

Request

The JLBC Subcommittee on Retirement Rates met October 21, 2004 to discuss the projected increase in the Arizona State Retirement System (ASRS) contribution rate.

Recommendation

This item is for information only and no Committee action is required. ASRS projects an increase in the contribution rate from 5.2% to 7.75% beginning in FY 2006. This increase produces an estimated FY 2006 cost of $22 million to state General Fund agencies and $51 million each to public school districts and teachers.

Analysis

The JLBC Subcommittee on Retirement Rates met on October 21, 2004 to discuss the projected increase in the ASRS contribution rate. ASRS projects an increase from 5.2% to 7.75%. Attachment 1 is the JLBC Staff presentation for the subcommittee and Attachment 2 is an ASRS document.

ASRS reported that investment losses in FY 2002 and FY 2003, as well as changes in the actuarial assumptions that determine the rate caused the majority of the rate increase. According to ASRS, nearly two-thirds of the increase (162 of the 255 basis points) is a result of losses in FY 2002 and FY 2003. However, this figure may be revised as previous ASRS estimates appear to included factors other than investment returns. The replacement of outdated actuarial tables accounts for a 65 basis point increase. The outdated tables were projected from a 1984 mortality table and did not accurately forecast the baby boomer mortality rates.

The delay in implementing the contribution rate has also driven up the projected rate. There are 2 reasons for the delay. First, the rate is calculated annually, but only implemented biennially. Therefore, in the second year of a biennium the retirement rate is not set at the level required to cover the costs of the system. Second, the rate is calculated each November based on data ending the previous June. This rate is not implemented until the following July, making the data a year old when the rate is implemented. Thus, in the first year of the biennium, the rate is already 1 year old, and in the second year, it is 2 years old.

The following chart shows the ASRS breakdown of the increase:

ASRS Contribution Rate Factors FY 2004 to FY 2006	
Old Rate (Implemented FY 2004)	5.20%
Investment Losses and Gains	1.54%
New Mortality Tables (Actuarial Assumptions)	0.65%
Delay in adopting new contribution rates	0.48%
Extension of rural health insurance subsidy	0.03%
Change in the Funding Period	-0.06%
Adjustment to PBI Reserve	-0.02%
Change in the Service Purchase Cost	-0.17%
Decrease in interest accrual rate for member accounts (from 8% to 4%)	-0.15%
Total Increase	2.50%
New Rate	**7.50%**

ASRS is currently funded at 87.5% of liabilities. By raising the rate, the retirement system will be able to cover the normal cost of providing benefits and begin to decrease its unfunded liability. However, ASRS projects that future rate increases will be necessary since gains and losses are recognized over a 10-year period. Hence, a component of the losses in FY 2002 will be part of the rate until FY 2012. This helps to smooth out the fluctuations in the contribution rate. Based on current assumptions, ASRS expects the rate to rise above 10% within 6 years.

At the JLBC Subcommittee meeting, options were discussed to reduce the effects of the rate increase and prevent similar situations in the future. The increase results in a take-home pay decrease of $25.50 for every $1,000 of pre-tax pay for state employees, teachers and other participants in ASRS. Two options were presented to limit the impact on the employees. The first option was a salary increase. This would cost state General Fund agencies about $26 million to offset the contribution as well as other Employee Related Expenses. Instead of providing a salary increase, the employer could contribute more then the current 50% to cover the employee's portion of the increase. Employers in the Public Safety Personnel Retirement System (PSPRS) use this method to reduce employee costs. This alternative would cost General Fund agencies an additional $22 million. The cost of either alternative is in addition to a $22 million increase in employer contributions. The total cost of the increase if the burden is shifted from the employee to the employer is between $44 million and $48 million to General Fund agencies. In a memo announcing the projected rate increase the Arizona Department of Administration indicated that the Governor will seek funding to maintain employee take home pay.

Options for preventing similar situations included raising the floor on contribution levels. Currently, contribution levels cannot fall below 2%. In times of high investment returns, setting the contribution rate higher than is needed creates a surplus that could offset future losses. This assumes no benefit increases. There was also discussion of changing some of the assumptions, including the 8% rate of return on investments. Currently, the actuary performs an experience study every 5 years to assure that assumptions are realistic.

During and after the JLBC Subcommittee meeting several further questions were raised. These questions have been submitted to ASRS, but at this time the JLBC Staff has not received a reply. These questions include a revised basis point impact of investment losses and gains for each year contributing to the rate increase, a revised schedule of all factors affecting the rate increase, and projections of future rates based on various investment scenarios.

RS/EJ:ck

JLBC Subcommittee on Retirement Contribution Rate

Overview of the Arizona State Retirement System
and the Causes and Implications
of Contribution Rate Increases

21 October 2004

Attachment 1

Topics

- How ASRS works
- How rates are calculated
- Funding the increase

How ASRS Works

- ASRS is a defined benefit pension system.
- The employer commits to the amount of the ultimate benefit to be paid.
- The employer and the employee must contribute an amount sufficient to deliver that commitment.
- The employer's ultimate cost is equal to the total benefits paid out minus plan earnings on investments minus employee contributions.

How ASRS Works

Qualification for Benefits

- Members are eligible for normal retirement at the occurrence of the one of the following:
  - Age 65
  - Age 62 (with 10 years of service)
  - Any combination of age and years of service equal to 80
    - 55 years old with 25 years of service (55 + 25 = 80)
    - 49 years old with 31 years of service (49 + 31 = 80)
- Early retirement is available with a reduced benefit for members 50 and above with at least 5 years of service.

How ASRS Works

Benefits

- The benefit is defined by the system's formula:
  - Years of Service x Multiplier x Average Salary
  - Multiplier:
    - Based on years of service

0.00 to 19.99 years of service	2.10%	0.0210
20.00 to 24.99 years of service	2.15%	0.0215
25.00 to 29.99 years of service	2.20%	0.0220
30.00 or more years of service	2.30%	0.0230

  - Average Salary - Average monthly salary for highest 36 consecutive months.
- The member cannot make additional contributions to the retirement fund because the member's balance does not affect the retirement benefit

How ASRS Works

Benefits

- Because the benefit is determined by formula, the member can easily predict future benefit amounts with certain assumptions.
- Example:
  - An employee works for 10 years, then retires. She made $35,000 for each of the last three years, which were her years of highest pay.
  - 10 years x 0.0210 x $2916.67/mo. =
    $612.50 monthly pension payment

How ASRS Works

Increasing the Benefits

- Permanent Benefit Increase (PBI)
  - When the Actuarial Value of the assets exceeds 8%, the excess earnings are set aside for benefit payment increases.
    - Only assets tied to benefit payments for current retirees are used in calculating the PBI. Other assets fund the surplus.
  - Used to provide a type of "Cost of Living Adjustment"
  - Not tied to inflation.
- Enhanced PBI
  - Paid from interest on the excess earnings.

How ASRS Works

Cost of the System

- The employer assumes the investment risk.
  - The greater the plan's investment earnings, the lower the employer (and the employee) contribution rate.
  - The less the fund earns, the more the employer (and the employee) must contribute.
- The employer's obligation is not complete until the last benefit recipient dies.
- The State of Arizona is ultimately responsible for payment of ASRS benefits.

Defined Benefit vs. Defined Contribution

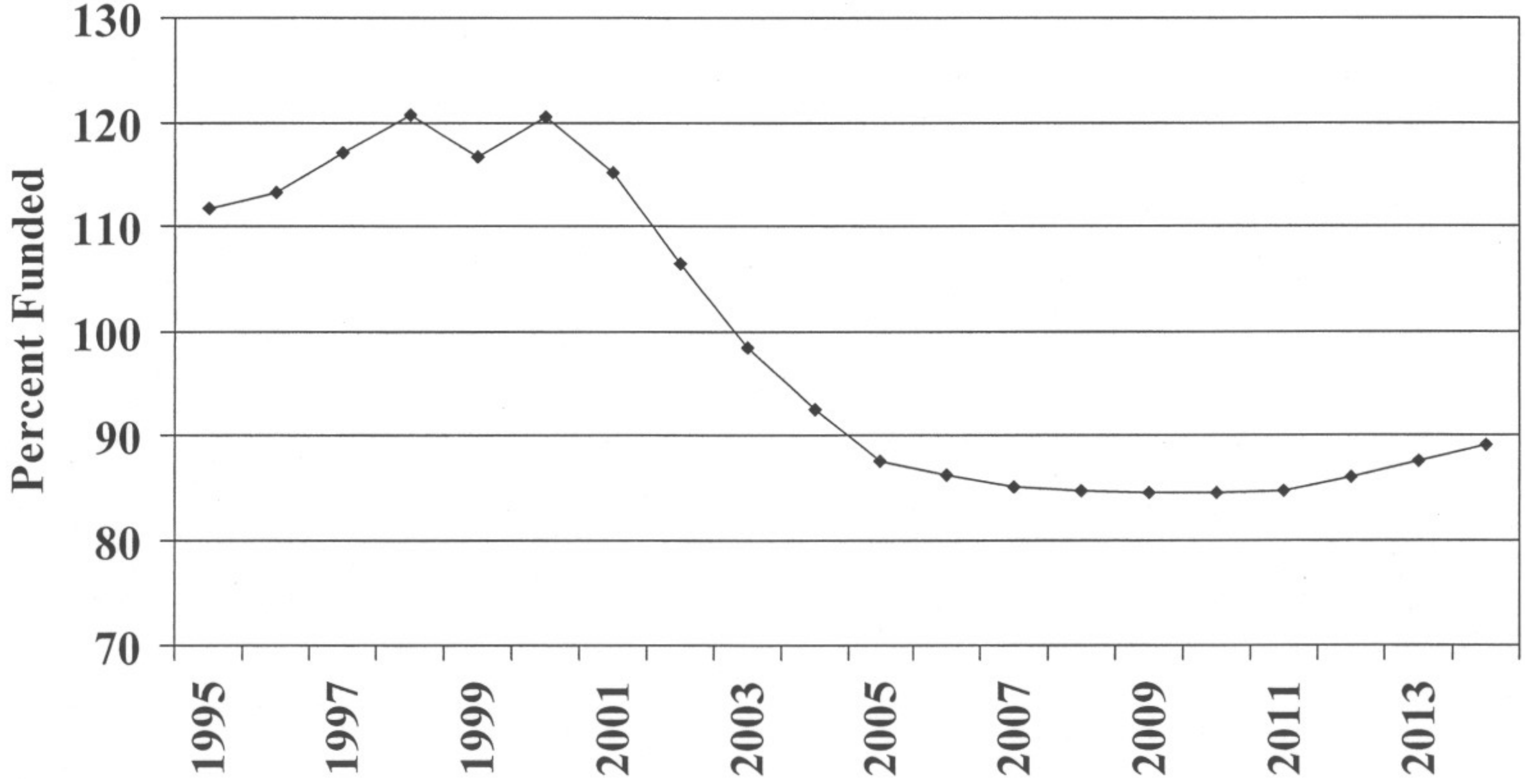
- A defined contribution system is different from the ASRS system.
- Employers are only responsible to make a contribution based on a fixed rate, determined by the terms of the plan.
- Once employer makes the contribution, employer has no more liability.
- Employee assumes risk.

How Rates are Calculated:

Making sure assets cover liabilities

- Because the employer is ultimately responsible for providing the benefit in a defined benefit plan, the contribution rate must be set high enough to collect the required assets to cover liabilities.
- When assets are sufficient to cover the liabilities (benefit payment obligations), the system is considered to be 100% funded.
- As of July 1, 2003 ASRS was funded at 96.8% of it's actuarial liabilities.
- Funding levels are expected to decrease over several years as losses are realized.

Funded Status



How Rates are Calculated:

- Contribution rates depend on the cost of the system.
- System costs have two components:
  - Normal Costs
  - Unfunded Actuarial Accrued Liability (UAAL)

How Rates are Calculated:

Normal Cost

- The normal cost is the present value of the benefits the employer will have to pay that the employee earned by participation in the system in this year.

- Present value is the amount that will need to be invested now to provide a given amount at some future point. (i.e. to get $1000 in five years, you could invest $683 at 10% now -- thus the present value of the $1000 in five years is $683).

How Rates are Calculated:

Normal Cost

- Assumptions that the actuary has to make:
  - Investment returns
  - Payroll growth
  - Employee population growth
  - Retirement Rates
  - Promotional/Step Pay increases
  - Disability
  - Turnover
  - Mortality

How Rates are Calculated:

Unfunded Actuarial Accrued Liability (UAAL)

- Is the negative difference between actuarial assets and actuarial liabilities.
- In other words, it is all the liability (benefit payments) the system has committed to make over its history that cannot be met by the current resources and future earnings of the system at the date those benefits are due.
- If assets exceed liabilities, there is a surplus.
- The recovery cost of the UAAL is spread over 30 years. (i.e. it takes 30 years to pay off the debt, all else equal)

Issues with Unfunded Liability

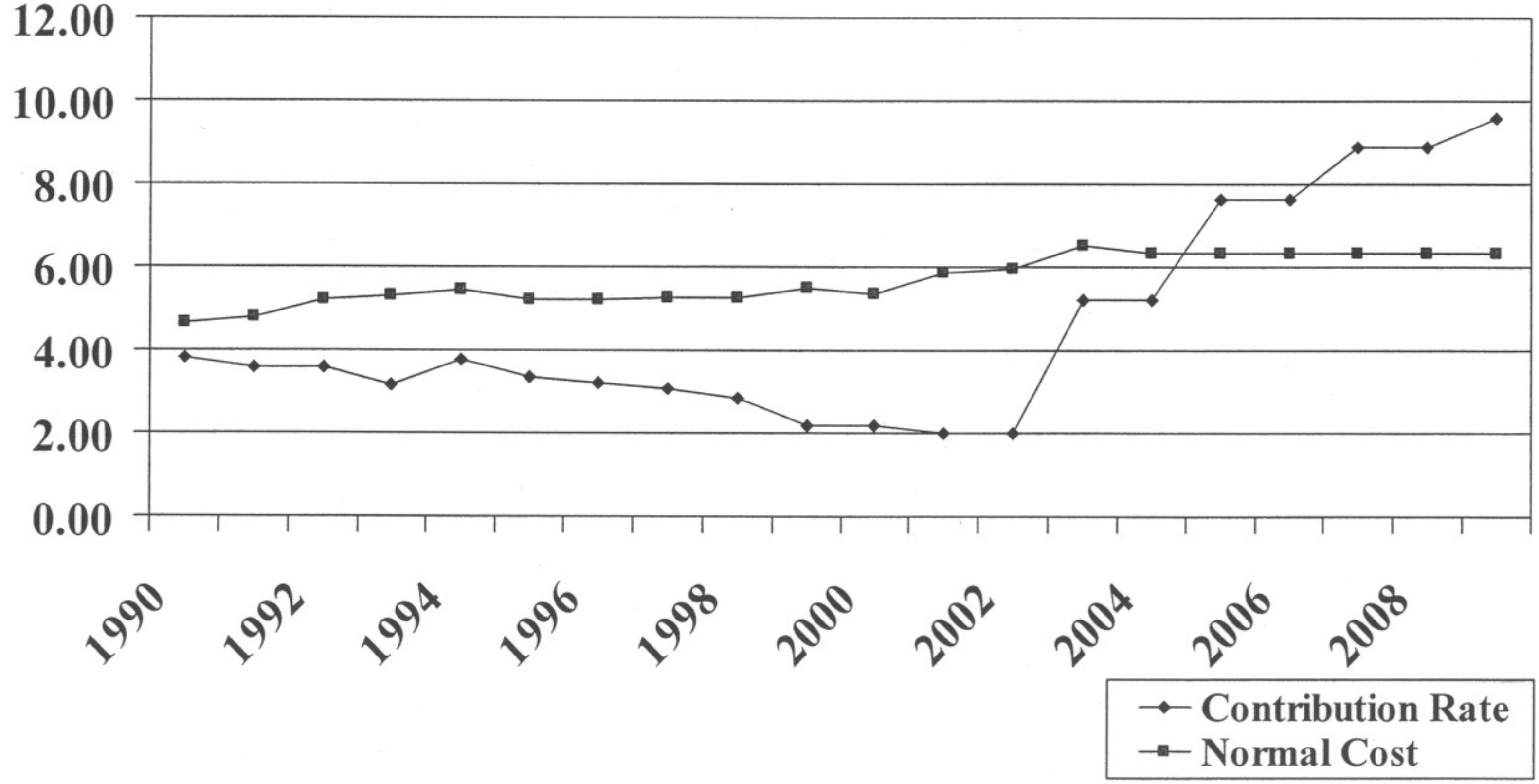
- Unfunded liability becomes problematic if:
  - No systematic progress is being made to pay off the unfunded portion over a reasonable time.
  - There is a consistent downward trend in the funding status of the plan.
- There is an additional cost associated with unfunded liability (above the normal cost).
  - 0.45% calculated rate increase in FY 2003
- Constitutional Limitation: "Membership in a public retirement system is a contractual relationship that is subject to article II, section 25, and public retirement system benefits shall not be diminished or impaired." Article XXIX, Section 1(C)

How Rates are Calculated:

What changes the rate?

- Benefit enhancements
- Changing demographic assumptions (i.e. when employees retire, life expectancy, salary growth, etc.)
- Investment returns
  - Under assumed 8% causes increases
  - Over 8% provides decreases
- Plan Administration
  - New or updated system rules
  - Administrative costs

Normal Cost vs. Contribution Rate



Cost of the New Rate

General Fund

- The cost to state General Fund agencies of the additional 2.55% contribution is about $22 million. This is the cost to employers of the rate increase.
- ADOA indicated that the Governor would seek funding to make sure employee take-home pay would not change.
  - If this is done through a salary increase, it would cost an additional $26 million (including ERE for salary increase).
  - Total cost: $48 million.

Cost of the New Rate

Public School Teachers

- As most public school districts in the state also participate in ASRS, this increase will also affect district funds.
- The cost to teachers and their employers will be about $51M each.

Arizona State Retirement System
Retirement Contribution Rate Factors

NOTES:

> The numbers below reflect factors that affect the ASRS defined benefit plan contribution rate and are estimates as of September 2004. The final actuarial valuation and final numbers are expected in November 2004.
> Only benefit enhancements enacted in 2000 through 2004 are presented below. Benefit enhancements granted from 1990 through 2004, in the aggregate, account for a 40-percent increase in the Normal Cost of the total pension benefits.
> Since 1990, the net effect of investments has resulted in an average annual savings on contribution rates of 0.52%.
> All contribution rates below represent the amount paid by each the employer and employee.

		Totals
2002 Plan Contribution Rate		**2.00%**
FY01 & FY02 Plan Experience plus Effect of Investment Gains & Losses	+1.91%	
Effect of ASRS Board Actions, including Change of Phase-in Period to 10 Years	-0.91%	
Effect of FY01 & FY02 Benefit Enhancements on FY04 Contribution Rates:		
Permanent Benefit Increase (PBI) for Retirees	+0.21%	
July 1, 2001 Retiree Enhanced PBI and Reserve	+0.17%	
Graded Multiplier Increase	+1.06%	
Employer Option Service Purchase	+0.03%	
Increased Monthly HI Premium Benefits	+0.55%	
Change in Statutory Increase in Funding Period	+0.18%	
Subtotal	+3.20%	
Total Estimated Pension Plan Contribution Rate FY04 thru FY05, effective 7/01/03	5.20%	
2003 Actual Plan Contribution Rate		**5.20%**
Effect of FY03 Investment Gains & Losses, and Recognition of Investment Losses not recognized prior to 7/1/03	+0.83%	
Adoption of new Mortality Tables	+0.65%	
Delay in increase of Contribution Rate pursuant to ARS 38-797.06	+0.31%	
Change in Funding period to 30-year Amortization	-0.06%	
Extension of Rural Health Insurance Subsidy for two years	+0.03%	
Subtotal	+1.76%	
2003 Projected Plan Contribution Rate per 2003 Actuarial Valuation (By state statute, ASRS contribution rates are set every two years; therefore, the 2003 actuarial rate of 6.96% was not implemented and the rate remained 5.20%.)		**6.96%**
2004 Projected Plan Contribution Rate per 2004 Actuarial Valuation (Final Actuarial numbers due to Board, December 2004)		
Effect of Recognition of Investment Losses not recognized in previous years	+0.96%	
Effect of FY04 Investment Gains & Losses	-0.08%	
Adjustment to PBI Reserve for Allocations in FY01 & FY02	-0.02%	
Change in Service Purchase Cost Calculation to Actuarial Present Value	-0.17%	
Subtotal	+0.69%	
2005 Actuarially Projected Plan Contribution Rate		**7.65%**
Change in Interest Accrual Rate on Member Account Balances from 8% to 4%	-0.15%	
ASRS Projected Plan Contribution Rate FY06 & FY07, effective July 1, 2005		**7.50% to 7.75%**

Summary

Current Contribution Rate (FY04 & FY05)	5.20%
Effect of ARS 38-797.06	+0.31%
Effect of Gains & Losses on Investments	+1.71%
Demographic Changes (adoption of new mortality tables)	+0.65%
FY03 & FY04 statutory changes and ASRS administrative changes	-0.37%
Projected Contribution Rate (FY06 & FY07)	7.50% to 7.75%

Arizona State Retirement System
Explanation of Factors Contributing to Rate Change

<u>**2002**</u>

FY01 & FY02 Plan Experience plus Effect of Investment Gains & Losses – Plan Experience includes demographic experience of ASRS members (rates of pay increase, termination, disability, retirement, and death, along with recognition of investment returns for FY01 and FY02. Any return less than the actuarially assumed rate of 8% creates upward pressure on contribution rates.

Effect of ASRS Board Actions, including Change of Phase-in Period to 10 Years – Following an analysis and recommendation of the actuary, the Board took actions at its Nov. 15, 2002, meeting that included prospectively changing the period used to phase-in investment gains and losses to 10 years, rather than the previous period of 5 years. The effect is to "smooth" rate adjustments over a longer period and to minimize short-term effects of volatile capital markets on contribution rates.

Permanent Benefit Increase (PBI) for Retirees – Excess Investment Earnings Cost of Living Adjustment (COLA) granted to retirees by legislation passed during the 1994 legislative session (Laws 1994, Chap. 357). Retirees who have been retired at least 11 months and members on Long Term Disability are eligible to receive this COLA. The COLA is paid from a reserve of excess investment earnings. If there are no excess investment earnings in the reserve, no COLA will be granted. The name was changed from COLA to Permanent Benefit Increase (PBI) in 1999.

July 1, 2001 Retiree *Enhanced* PBI & Reserve – A provision of SB 1295* provided that interest at a rate of 8% be credited on the funds held in reserve for the Permanent Benefit Increase (PBI). This interest will then be used to fund an additional increase for retirees who have at least 10 years of service and who have been retired for at least 5 years. The increase is incremental for each five years since retirement up to 30 years. The first payment of this benefit was made July 1, 2001.

Graded Multiplier Increase – A provision of SB 1295* provided a graded multiplier in the retirement benefit formula, increasing with years of service beginning at 2.1% to a maximum of 2.3% after 30 years of service. The provision applied prospectively to members retiring after the passage of the legislation.

Employer Option Service Purchase – A provision of SB 1295* (Modified DROP) permits an employer to offer a member who is eligible to retire at normal retirement a contract to work up to 36 additional months. No contributions are made to ASRS during the contract. If a member completes the contract and purchases an amount of time equal to the time worked, the member receives an additional amount of service credit equal to the amount of time purchased.

Increased Monthly Health Insurance Premium Benefits
- A provision of HB 2164** increased the health insurance premium benefit for eligible members. The benefit for Medicare eligible members increased from $65 to $100. The benefit for non-Medicare eligible members increased from $95 to $150. Additional increases were approved for family coverage.
- A provision of SB 1107*** provided a temporary Rural Health Insurance Premium Benefit for members living in an HMO non-service area of the state. The benefit provides an additional $170 to Medicare eligible members and $300 additional for non-Medicare eligible members. Additional increases were approved for family coverage.

2003

FY03 Investment Gains & Losses, and Recognition of Investment Losses not Recognized Prior to July 1, 2003 – Recognition of lower than expected investment returns for FY02 and FY03. Any return less than the actuarially assumed rate of 8% creates upward pressure on contribution rates.

Adoption of New Mortality Table – Change in assumptions by adoption of new mortality table as a result of an ASRS Board action and rule adoption. With the completion of the most recent five-year experience study, the actuary recommended that ASRS use a mortality table that assumes longer life expectancies of ASRS members.

Delay in Increase to Contribution Rate – Pursuant to A.R.S. §38-797.06, actuarial valuations in even-numbered years determine the contribution rate for the following biennial period. For example, the rate determined in July 1, 2004, valuation will become effective on July 1, 2005. When contribution rates are rising because of recent investment losses, this delay in implementing the new rate creates an additional actuarial loss due to continuing the lower rate from the July 1, 2002, valuation for another year.

Change in Funding Period to 30-Year Amortization – In 1994, the Arizona State Legislature determined that if the ASRS funding status dropped below 100%, the amortization period for funding should be changed immediately to a rolling 30-year period. The ASRS Plan first experienced a deficit on July 1, 2003, and the amortization period then changed to 30 years. Prior to that, the amortization period was gradually lengthening pursuant to A.R.S. §38-737(D).

Rural Health Insurance Premium Benefits

- A provision in HB2349**** extended the temporary rural health insurance premium supplement for an additional two years through June 30, 2005.
- A provision in SB1037***** provided a temporary rural health insurance premium supplement for a contingent annuitant of an ASRS member who lives in an HMO non-service area of the state.

2004

Effect of Recognition of Investment Losses not Recognized in Previous Years - Following an analysis and recommendation of the actuary, the Board took actions at its Nov. 15, 2002, meeting that included changing the period used to phase-in investment gains and losses to 10 years, rather than the previous 5-year period. The effect is to "smooth" rate adjustments over a longer period and to minimize the short-term effects of volatile capital markets on contribution rates.

Effect of FY04 Investment Gains & Losses – Recognition of FY04 rate of return on market assets (estimated gain 17.5%), smoothed over a 10-year period.

Adjustment to PBI Reserve Allocations in FY01 – Adjusted addition to PBI pool in FY01, and corrected Enhanced PBI benefits paid in FY02 and FY03.

Change in Service Purchase Cost Calculation – A provision in HB2029****** changed the cost calculation to purchase service from normal cost to Actuarial Present Value (APV). This change ensures that the cost of the additional benefit that a member receives by purchasing service is borne by that individual member, rather than subsidized by all members and employers. The APV cost method uses actuarial factors specific to the member purchasing the service instead of applying one factor to all members purchasing service.

2005

Change in Interest Accrual Rate on Member Account Balances – Current member account balances accrue interest at a rate of 8%; the ASRS Board took action in its meeting in August of 2004 to reduce this interest rate to 4%, effective July 1, 2005. This change applies only to balances refunded to members who withdraw from service.

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*	SB 1295: Senate Bill 1295, passed by the Arizona State Legislature during the 2001 Regular Session (Laws 2001, Chap. 380).
**	HB 2164: House Bill 2164, passed by the Arizona State Legislature during the 2001 Regular Session (Laws 2001, Chap. 383).
***	SB 1107: Senate Bill 1100, passed by the Arizona State Legislature during the 2001 Regular Session (Laws 2001, Chap. 376).
****	HB 2349: House Bill 2349, passed by the Arizona State Legislature during the 2003 Regular Session (Laws 2003, Chapter 132).
*****	SB1037: Senate Bill 1037, passed by the Arizona State Legislature during the 2004 Regular Session (Laws 2003, Chapter 171).
******	HB2024: House Bill 2029, passed by the Arizona State Legislature during the 2004 Regular Session (Laws 2004, Chapter 87E).

Arizona State Retirement System

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Fact Sheet

Information:
(602) 240-2016

INVESTMENT RETURNS

The Arizona State Retirement System employs a broad-based, long-term asset allocation strategy designed to produce a steady return over time. The ASRS Board of Trustees has set the following asset allocation mix: 53 percent in U.S. stocks; 26 percent in fixed income, or bonds; 15 percent in international equities, and 6 percent in real estate.

Below are rates of return on the overall portfolio, as well as specific asset classes, along with the benchmarks used to compare performance. (Real estate is a newly-approved class with actual investments pending.)

Annualized Rates of Return for fiscal year 2003-04
Period ending June 30, 2004

	1 Year	3 Year	5 Year	10 Year
ASRS Total Fund	**17.5%**	**3.3%**	**2.5%**	**10.3%**
ASRS U.S. Equity	22.2%	0.7%	(0.5%)	12.3%
S&P 500 Index	19.1%	(0.7%)	(2.2%)	11.8%
ASRS U.S. Fixed Income	0.2%	6.3%	6.9%	7.7%
Lehman Aggregate Index	0.3%	6.4%	6.9%	7.4%
ASRS International Equity	34.3%	4.7%	3.4%	6.4%
EAFE Index	32.9%	4.3%	0.4%	2.3%

Fiscal Year Annualized Rates of Return

Fiscal Year	Return	Fiscal Year	Return
2003-04	17.5%	1991-92	14.6%
2002-03	2.4%	1990-91	8.0%
2001-02	(8.2%)	1989-90	9.5%
2000-01	(6.7%)	1988-89	14.3%
1999-00	10.0%	1987-88	3.1%
1998-99	16.8%	1986-87	11.8%
1997-98	21.3%	1985-86	31.5%
1996-97	20.6%	1984-85	32.1%
1995-96	16.7%	1983-84	(5.2%)
1994-95	17.8%	1982-83	40.3%
1993-94	1.9%	1981-82	2.4%
1992-93	16.7%	1980-81	5.0%

August 2004

Effect of Investment Gains and Losses on Contribution Rates

Arizona State Retirement System - September 2004

The ASRS method smoothes investment gains and losses over a defined period. For 1990 and 1991, the method was a ten-year phase-in of differences between market and book values. From 1992 through 2001, the period was five years. For 2002 and after, the period is ten years. This table shows how the gains and losses in one year affect contribution rates during subsequent years of the smoothing period. For example, an investment gain of 17.8% in 1995 reduced contribution rates by 0.35% in 1995, 0.30% in 1996, 0.27% in 1997, 0.24% in 1998 and 0.21% in 1999. After 1999, the gain of 1995 had been fully recognized and no longer had any effect on contribution rates. Returns of less than the actuarial assumed rate of 8% are considered to be losses.

			Years Affected														
Rate of Return on Market	Actuarial Gain or Loss	Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
9.50%	Gain	1990	-0.06%	-0.06%	-0.05%	-0.05%	-0.05%	-0.05%	-0.04%	-0.04%	-0.03%	-0.03%					
8.00%	Gain	1991		-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	0.00%	0.00%	0.00%	0.00%				
14.60%	Gain	1992			-0.34%	-0.21%	-0.18%	-0.18%	-0.16%								
16.70%	Gain	1993				-0.51%	-0.26%	-0.25%	-0.22%	-0.20%							
1.90%	Loss	1994					+0.12%	+0.21%	+0.19%	+0.17%	+0.16%						
17.80%	Gain	1995						-0.35%	-0.30%	-0.27%	-0.24%	-0.21%					
16.70%	Gain	1996							-0.46%	-0.28%	-0.25%	-0.22%	-0.20%				
20.60%	Gain	1997								-0.65%	-0.40%	-0.34%	-0.32%	-0.26%			
21.30%	Gain	1998									-0.76%	-0.42%	-0.39%	-0.31%	-0.29%		
16.80%	Gain	1999										-0.58%	-0.24%	-0.19%	-0.18%	-0.19%	
10.00%	Gain	2000											-0.29%	-0.03%	-0.03%	-0.03%	-0.03%
(-6.7%)	Loss	2001												+0.26%	+0.36%	+0.36%	+0.27%
(-8.2%)	Loss	2002													+0.37%	+0.31%	+0.23%
2.40%	Loss	2003														+0.38%	+0.06%
17.50%	Gain	2004															+0.43%
		Total	-0.06%	-0.06%	-0.40%	-0.78%	-0.38%	-0.61%	-0.99%	-1.27%	-1.54%	-1.80%	-1.44%	-0.54%	+0.23%	+0.83%	+0.96%