

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

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HOUSE OF
REPRESENTATIVES

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REVISED MEETING NOTICE

DATE: Tuesday, November 28, 2000

TIME: ~~1:30 p.m.~~ 1:00 p.m.

PLACE: SENATE APPROPRIATIONS ROOM 109

TENTATIVE AGENDA

- Call to Order
- [Approval of Minutes of October 19, 2000.](#)
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- DIRECTOR'S REPORT (if necessary).
- 1. [STATE COMPENSATION FUND - Consider Approval of Calendar Year 2001 and 2002 Budgets.](#)
- 2. JOINT LEGISLATIVE BUDGET COMMITTEE
 - A. [Consider Approval of Year 2001-2002 Strategic Program Area Review Candidates.](#)
 - B. [Report on JLBC and JLBC Staff Statutory Responsibilities.](#)
- 3. [STATE BOARD OF NURSING - Review of Unanticipated Costs.](#)
- 4. ARIZONA DEPARTMENT OF ADMINISTRATION
 - A. [Consider Approval of Lodging and Meal Reimbursement Rate Expenses for In-State and Out-of-State Travel.](#)
 - B. [Review of Risk Management Deductible.](#)
 - C. [Report on Benefits of Preventative Maintenance Plan.](#)
- 5. [OFFICE OF THE ATTORNEY GENERAL - Review Allocation of Settlement Monies.](#)
- 6. DEPARTMENT OF CORRECTIONS
 - A. [Report on Private Prison Request for Proposals.](#)
 - B. [Review of Public vs. Private Prison Service Comparison Report.](#)

7. DEPARTMENT OF ECONOMIC SECURITY - Consider Approval of Independent Living Program Data Elements.
8. AHCCCS - Report on Medically Needy Account.
9. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - Report on Emergency Allocations.
10. ARIZONA SCHOOL FOR THE DEAF AND THE BLIND - Report Intended Use of Excess Voucher Funds.
11. DEPARTMENT OF ENVIRONMENTAL QUALITY - Report on VEI RFP.

The Chairman reserves the right to set the order of the agenda.
11/20/00

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

October 19, 2000

The Chairman called the meeting to order at 1:40 p.m., Thursday, October 19, 2000, in Senate Appropriations Room 109.
The following were present:

Members:	Senator Gnant, Chairman Senator Arzberger Senator Cirillo Senator Wettaw	Representative Burns, Vice-Chairman Representative Blewster Representative Gonzales Representative McGibbon Representative Weason
Absent:	Senator Bowers Senator Bundgaard Senator Jackson Senator Lopez	Representative Daniels Representative McGrath Representative McLendon
Staff:	Richard Stavneak, Director Gina Guarascio Gretchen Logan Tom Mikesell Lynne Smith Jennifer Vermeer	Cheryl Kestner, Secretary Bob Hull Pat Mah Brad Regens Stefan Shepherd
Others:	Representative Cooley Representative Updike Debbie Spinner Cindy Ray Greg Gemson Debbie Johnston	House of Representatives House of Representatives Office of the Attorney General Office of the Attorney General Appropriations Analyst, House Assistant Research Director, Senate

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of September 14, 2000 Senator Gnant stated that the minutes would be approved as submitted.

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

At 1:40 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 2:15 p.m. the Committee reconvened into open session.

Representative Burns moved that the Committee approve the recommended settlement proposals by the Attorney General's Office in the following cases.

1. Bell v. State of Arizona
2. Melendrez/Rivera v. State of Arizona (UPI, et al.)
3. State of Arizona, Dept. of Administration v. Schallock, et al

The motion carried.

DEPARTMENT OF HEALTH SERVICES (DHS)

A. Review of Capitation Rate Changes.

Mr. Richard Stavneak, Director, JLBC Staff, noted that he needed to add some additional information to what was in the memo. These are capitation rates that DHS receives for Behavioral Health Services. This item indicates it would be for capitation rates that start as of October 1, 2000. DHS is currently asking AHCCCS that it be made retroactive to July 1, which would cost an additional \$287,000 above the \$270,000 shown in the table. In favorably reviewing this, the Committee would need to decide to give a favorable review to either the October 1 or July 1 starting date.

Senator Cirillo moved that the Committee approve a favorable review of the Capitation Rate Changes with the effective date of July 1.

Mr. Stavneak said that is assuming they get the federal approval of a July date.

The motion carried.

B. Review of Plan to Distribute \$50M for SMI Services and \$20M for Children's Behavioral Health Services of Tobacco Settlement Monies.

Mr. Stavneak said that on Item 1B there is also an amendment to the JLBC Staff recommendation. We are talking about a \$50M and \$20M pot of money from tobacco settlement appropriated in the Special Session for Behavioral Health Services. The JLBC Staff has some details, but could use more. The JLBC Staff suggested in the memo that DHS provide that information by December. But in further discussions with them we have discovered DHS will not have that data until the end of January. So we would amend the JLBC Staff recommendation to suggest the department report back with additional information by the end of January with regard to how these services are going to be spent.

Senator Wettaw asked if the \$50M is going to entail a carry-on appropriation for the following year.

Ms. Gina Guarascio, JLBC Staff, responded that the legislation clearly stated that this is a one-time appropriation.

Representative Blewster stated that she felt the Committee should not act on this item because they do not know what is going to happen with the Initiative and they are talking about the same money.

Representative Burns moved that the Committee accept the JLBC Staff recommendation of a favorable review of the SMI plan with the one exception on page 2, 2nd paragraph of the JLBC Staff memo, to change the date from December to January for the department to report back with more specific information regarding the number of housing units that will be built or purchased, as well as the number of people that will be served by each program providing specialized recovery support and vocational rehabilitation services. The motion carried.

The Children's Behavioral Health Services plan was submitted for information only; no Committee action was required.

STATE PARKS BOARD - Review Intended Use of Reservation Surcharge Monies.

Mr. Chris Earnest, JLBC Staff, said this item is a review of the expenditure plan of additional revenues to the Reservation Surcharge Revolving Fund that State Parks administers. They anticipate receiving an additional \$50,000 than was originally appropriated. A footnote allows them to expend those monies upon review of JLBC and they intend to use those monies for 2 additional FTE Positions in FY 2001. The JLBC Staff recommends a favorable review.

Representative Burns moved that the Committee give a favorable review as recommended by JLBC Staff to the State Parks Board request to expend the \$50,000. The motion carried.

DEPARTMENT OF CORRECTIONS - Reconsider Review of Private Prison Request for Proposals

Senator Gnant deferred this item until Senator Lopez could attend.

JOINT LEGISLATIVE BUDGET COMMITTEE - Consider Approval of Year 2001-2002 Strategic Program Area Review (SPAR) Candidates

Mr. Stefan Shepherd, JLBC Staff, said this relates to selecting the candidates for the SPARs for the 2001-2002 process. In the memo JLBC Staff listed the 4 SPAR candidates that received the most interest from legislators and OSPB. They have not formally made a recommendation related to those candidates in the memo.

Representative Weason asked if you would be able to look at all the agencies in the SPAR process and find out how much money is being used on administration to see if money could be saved.

Mr. Shepherd said looking at cross-agency issues, such as administrative costs, is something that could be looked at in the SPAR process.

Representative McGibbon asked what exactly needs to happen next in the selection process for SPARS.

Mr. Stavneak said if you asked us to make recommendations we would make that decision based on the interest expressed in talking with the Committee members. The 4 listed are the ones that came to the top of the list in conversations. It is very important that this list be made from member recommendations. He also noted that statute does require a SPAR to be done on the Water Quality Assurance Revolving Fund (WQARF) starting in 2002 and every 5 years thereafter. If the Committee decides not to select WQARF as a 2001-2002 SPAR candidate, JLBC Staff would recommend that legislation be introduced, either as a separate bill or as part of an Omnibus Reconciliation Bill to delay this requirement.

Representative Burns inquired about the breakdown of agencies listed in the JLBC Staff memo. He noted there are a total of 10 listed at various levels. He said if the Committee does not make a recommendation now they would have to do so at some point.

Mr. Stavneak said the Committee would need to vote on candidates, however, it would not need to be at this time.

Representative Burns said he would like to see the Advertising issue moved up on this list.

Senator Gnant said that the Committee members have until November 15 to get their nominees to Mr. Stavneak. The list will be presented to the members at the next meeting to be held on November 28. Mr. Stavneak said he would facilitate that by sending a memo to the members and he would indicate the level of time expected to be spent on each one.

SCHOOL FACILITIES BOARD - Report on Deficiencies Corrections and Computer Purchases.

Senator Gnant said this would be skipped at this point.

The meeting adjourned at 2:30 p.m. due to a lack of quorum.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Senator Randall Gnant, Chairman

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

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DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Rebecca Hecksel, Assistant Analyst

SUBJECT: STATE COMPENSATION FUND – CONSIDER APPROVAL OF CALENDAR
YEAR 2001 AND 2002 BUDGETS

Request

In accordance with A.R.S. § 23-981E, the State Compensation Fund (SCF) budgets for Calendar Year (CY) 2001 and CY 2002 are submitted for review and approval by the Joint Legislative Budget Committee. This statute provides that the "Operating and Capital Outlay budget of the State Compensation Fund for the two ensuing calendar years, with each year separately delineated, shall be submitted for review and approval on or before October 1 of each even-numbered year by the Joint Legislative Budget Committee."

As detailed in Attachment 1, the SCF requests a budget of \$46,455,600 for CY 2001. This includes an operating budget of \$39,581,900 and Special Line Items that total \$6,873,700. The request represents a net increase of 14% above the CY 2000 approved budget.

The SCF requests a budget of \$47,929,100 for CY 2002. This includes an operating budget of \$40,987,800 and Special Line Items that total \$6,941,300. The request represents a net increase of 3% above the CY 2001 budget. No request for Capital Outlay has been made.

The requested amounts do not include any dividend or claims paid by the SCF.

Recommendation

The JLBC Staff recommends that the Committee approve the CY 2001 operating budget appropriation of \$46,161,900. This amount would represent an increase of \$5,304,600, or 13%,

(Continued)

above CY 2000 (*See Attachment 1*). Of the recommended increase, \$3,742,300 is to replace the SCF's 9-year-old computer mainframe with one that is client-server-based and web enabled.

The recommendation also includes increased funding for replacement vehicles, salary adjustments, changes to the office structure and the elimination of (51) FTE Positions. The recommended CY 2001 FTE reduction is in addition to the reduction of (107) FTE Positions in the CY 1999 - 2000 budget. Although the SCF is anticipating a 10% growth in policyholders and a 19% growth in claims over the next three years, it has been able to reduce its employee needs by continuing to utilize new technology and by developing its team-oriented organizational structure.

The JLBC Staff recommends that the Committee approve the CY 2002 operating budget appropriation of \$47,607,900. This amount represents an increase of \$6,750,600, or 17%, above the existing CY 2000 budget. The SCF requires an increased appropriation level for merit salary adjustments and to continue to develop its new computer technology and organizational structure.

Attachment 2 shows the historical changes in premium and investment income, and the number of policyholders and claims.

RS:RH:ss
Attachments (2)

State Compensation Fund

Donald A. Smith, Jr., President

DESCRIPTION	CY 1999	CY 2000	CY 2001		CY 2002	
	ACTUAL	ESTIMATE	REQUEST	JLBC	REQUEST	JLBC
PROGRAM BUDGET						
State Compensation Fund	35,789,500	33,591,100	39,581,900	39,288,200	40,987,800	40,666,600
Claim Adjustment Services SLI	2,033,000	2,366,000	1,896,100	1,896,100	1,905,000	1,905,000
Rating Bureau Fees SLI	550,900	809,800	505,600	505,600	510,000	510,000
Premium Tax SLI	2,551,500	4,000,000	4,400,000	4,400,000	4,450,000	4,450,000
Personal Property Taxes SLI	68,100	90,400	72,000	72,000	76,300	76,300
AGENCY TOTAL	40,993,000	40,857,300	46,455,600	46,161,900	47,929,100	47,607,900

OPERATING BUDGET

<i>Full Time Equivalent Positions</i>	678.0	629.0	578.0	578.0	559.0	559.0
Personal Services	20,175,000	20,400,000	20,500,000	20,491,000	20,400,000	20,391,000
Employee Related Expenditures	4,276,000	5,091,000	5,180,000	5,093,300	5,154,700	5,068,000
All Other Operating Expenditures:						
Professional and Outside Services	2,314,500	1,215,400	2,426,800	2,426,800	2,777,500	2,777,500
Travel - In State	236,900	233,500	337,300	337,300	337,300	337,300
Travel - Out of State	65,500	86,100	112,000	112,000	112,000	112,000
Other Operating Expenditures	8,337,100	6,067,100	9,182,300	9,182,300	10,682,300	10,682,300
Equipment	384,500	498,000	1,843,500	1,645,500	1,524,000	1,298,500
OPERATING SUBTOTAL	35,789,500	33,591,100	39,581,900	39,288,200	40,987,800	40,666,600
Special Line Items	5,203,500	7,266,200	6,873,700	6,873,700	6,941,300	6,941,300
AGENCY TOTAL	40,993,000	40,857,300	46,455,600	46,161,900	47,929,100	47,607,900

FUND SOURCES

State Compensation Fund	40,993,000	40,857,300	46,455,600	46,161,900	47,929,100	47,607,900
SUBTOTAL - Other Appropriated Funds	40,993,000	40,857,300	46,455,600	46,161,900	47,929,100	47,607,900
SUBTOTAL - Appropriated Funds	40,993,000	40,857,300	46,455,600	46,161,900	47,929,100	47,607,900
TOTAL - ALL SOURCES	40,993,000	40,857,300	46,455,600	46,161,900	47,929,100	47,607,900

CHANGE IN FUNDING SUMMARY

	CY 2000 to CY 2001 JLBC		CY 2000 to CY 2002 JLBC		Biennial
	\$ Change	% Change	\$ Change	% Change	\$ Change
Other Appropriated Funds	5,304,600	13.0%	6,750,600	16.5%	12,055,200

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.*

PERFORMANCE MEASURES	CY 1998 Est./Actual	CY 1999 Est./Actual	CY 2000 Estimate	CY 2001-02 Estimate
• Number of policyholders	48,000/47,848	48,500/47,936	48,000	50,000/53,000
• Number of claims processed	37,800/39,037	35,900/35,603	36,600	39,500/43,500
• Premium income (dollars in millions)	\$190.0/\$206.4	\$165.0/\$180.1	\$185.0	\$200.0/\$212.0
• Investment income (dollars in millions)	\$185.4/\$166.4	\$190.0/\$165.3	\$149.8	\$148.1/\$153.5

RECOMMENDED CHANGES FROM CY 2000

CY 2001 CY 2002

Staffing Reductions **OF \$(1,969,600) \$(2,708,300)**

The JLBC recommends a total biennial decrease of \$(4,677,900) due to the elimination of (70) FTE Positions. This amount includes a CY 2001 decrease of \$(1,969,600) and (51) FTE Positions below CY 2000 and a CY 2002 decrease of \$(2,708,300) and (70) FTE Positions below CY 2000. The State Compensation Fund (SCF) continues to reduce its staffing level through attrition as it implements new technology and changes its organizational structure.

Salary Adjustments **OF 2,062,900 2,676,300**

The JLBC recommends a total biennial increase of \$4,739,200 for agencywide salary adjustments. This amount includes a CY 2001 increase of \$2,062,900 above CY 2000 and a CY 2002 increase of \$2,676,300 above CY 2000. The SCF has requested that Personal Services monies that are associated with the eliminated FTE Positions (*see Staffing Reductions policy issue*) be retained in the agency budget to grant employees a 9% salary market adjustment in CY 2001 and a 2.5% merit adjustment in CY 2002. An additional \$93,300 is needed in CY 2001 and \$32,000 in CY 2002 above the staffing reduction savings to fund the full salary increase. These monies will bring the salaries of all agency positions up to market averages.

The SCF conducted its own salary survey and found that its salaries are 13% below that of comparable employers within Arizona. The SCF used salary data from the Arizona Department of Administration's Joint Governmental Salary and Benefits Survey, which provides employment data from private and public employers in Arizona. This is the same survey that the State Employee Compensation Committee uses to make its recommendations for statewide salary adjustments to the Legislature. The conclusion of the SCF study is that a 9% increase in Personal Services appropriations will allow all agency positions to be brought to market average. In addition, the SCF is currently experiencing a 28% agencywide turnover rate, exclusive of downsizing.

In previous years, the JLBC has made recommendations for salary adjustments for the SCF so that they would be comparable with what all other state agencies would be receiving in that year. In this biennium, the salary adjustments that we are recommending for the SCF are larger than the statewide goal of being within 5% of market. However, since the SCF is choosing to fund this increase by reallocating current Personal Services dollars, the JLBC recommends the salary increase requested by the SCF.

Replace Computer

Network **OF 3,742,300 5,240,700**

The JLBC recommends a total biennial increase of \$8,983,000 to replace the agency's computer network. The amount includes a CY 2001 increase of \$3,742,300 above CY 2000 and a CY 2002 increase of \$5,240,700 above CY 2000 for equipment and consulting. The SCF will replace its mainframe system with a client-server-based platform that is more cost effective and flexible. The current system is 9 years old and is difficult to modify to enable integration of other applications. The current system is not web enabled, hindering SCF's ability to compete with other carriers. In addition, the new web enabled platform will better serve SCF's new decentralized team-oriented office structure as it will improve communications and access to data (*see Decentralized Team-Oriented Structure policy issue*). The SCF expects to have the new system fully implemented by the end of CY 2002.

Since the SCF is not an Executive Branch agency, its technological improvement projects are not subject to approval by the Government Information Technology Agency (GITA). At the request of JLBC however, GITA reviewed the project and gave a favorable informal opinion of the technology and cost estimates.

Increased Workload **OF 555,600 605,000**

The JLBC recommends a total biennial increase of \$1,160,600 for expenses related to an increased workload. This amount includes a CY 2001 increase of \$555,600 above CY 2000 and a CY 2002 increase of \$605,000 above CY 2000. The additional funding is needed for increased operating expenditures associated with a growing number of policyholders such as printing, postage, utilities, audits, and temporary employee usage.

Administrative Fees **OF 555,000 555,000**

The JLBC recommends a total biennial increase of \$1,110,000 for fees that are charged by policyholder association groups to include the SCF in their workers' compensation plans. This amount includes an increase of \$555,000 in both CY 2001 and CY 2002 above CY 2000.

Decentralized Team-

Oriented Structure **OF 553,500 651,300**

The JLBC recommends a total biennial increase of \$1,204,800 for costs associated with SCF's new operating structure. This amount includes a CY 2001 increase of \$553,500 above CY 2000 and a CY 2002 increase of \$651,300 above CY 2000. Of the recommended FY 2003 amount, \$203,000 is for one-time construction costs. The SCF has adopted a new decentralized operating structure in which each district office has a complete, multi-functional team that performs all functions of the business. This organizational structure has allowed SCF to reduce its FTE Position needs by 24% since it was initiated in 1998. The JLBC recommended increase reflects funding for reconfiguration of office space and for training programs

that will enable employees to convert from single task jobs to multi-task jobs.

Vehicles OF 69,500 (155,500)

The JLBC recommends eliminating \$(198,000) for one-time CY 2000 vehicles and adding \$267,500 for the purchase of 16 vehicles in CY 2001. The CY 2002 amount eliminates the one-time CY 2001 funding and adds \$112,000 for the purchase of 7 additional vehicles. The SCF has a policy of replacing vehicles with at least 80,000 miles on the odometer. This recommendation is consistent with the SCF's historical replacement policies. The SCF plans on taking bids for alternative fuel vehicles.

Outreach Program OF 127,900 141,500

The JLBC recommends a total biennial increase of \$269,400 for increased fees associated with the Outreach Program. This amount includes a CY 2001 increase of \$127,900 above CY 2000 and a CY 2002 increase of \$141,500 above CY 2000. The SCF attends local association group and trade shows to enhance the public's awareness of the SCF.

Claim Adjustment

Services OF (469,900) (461,000)

The JLBC recommends a total biennial decrease of \$(930,900) to the Claim Adjustment Services Special Line Item due to the implementation of cost saving measures. This amount includes a CY 2001 decrease of \$(469,900) below CY 2000 and a CY 2002 decrease of \$(461,000) below CY 2000. The \$8,900 increase in CY 2002 above CY 2001 is due to anticipated claim growth in that year. These monies are appropriated for such services as independent medical evaluations, witness expenses, and unanticipated costs associated with large claims.

Rating Bureau Fees OF (304,200) (299,800)

The JLBC recommends a total biennial decrease of \$(604,000) to the Rating Bureau Fees Special Line Item due to reduced rates charged by the National Council on Compensation Insurance. This amount includes a CY 2001 decrease of \$(304,200) below CY 2000 and a CY 2002 decrease of \$(299,800) below CY 2000. The \$4,400 increase in CY 2002 above CY 2001 is due to additional fee adjustments.

Premium Tax OF 400,000 450,000

The JLBC recommends a total biennial increase of \$850,000 to the Premium Tax Special Line Item. This amount includes a CY 2001 increase of \$400,000 above CY 2000 and a CY 2002 increase of \$450,000 above CY 2000. This is a tax on workers' compensation premiums that is paid to the Industrial Commission.

Personal Property Taxes OF (18,400) (14,100)

The JLBC recommends a total biennial decrease of \$(32,500) to the Personal Property Taxes Special Line Item. This amount includes a CY 2001 decrease of \$(18,400) below CY 2000 and a CY 2002 decrease of \$(14,100) below CY 2000. These monies are appropriated for taxes on SCF equipment.

SUMMARY OF FUNDS

CY 1999

CY 2000

CY 2001

CY 2002

* Represents calendar years starting with 1999.

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	40,993,000	40,857,300	46,161,900	47,607,900
Funds Expended-Dividends and Claims	230,800,000	228,700,000	232,800,000	241,900,000
Year-End Fund Balance	390,607,000	455,849,700	524,987,800	600,979,900

Attachment 2

STATE COMPENSATION FUND

Growth in Premium Income, Investment Income, Policyholders and Claims Processed

	Actual 1996	Actual 1997	Actual 1998	Actual 1999	Estimated 2000	Estimated 2001	Estimated 2002
PREMIUM INCOME	294.7	240.9	206.4	180.1	185.0	200.0	212.0
Actual Increase	(48.9)	(53.8)	(34.5)	(26.3)	4.9	15.0	12.0
Percentage Increase (in Millions)	-14.2%	-18.3%	-14.3%	-12.7%	2.7%	8.1%	6.0%
INVESTMENT INCOME	147.6	147.7	166.4	165.3	149.8	148.1	153.5
Actual Increase	14.3	0.1	18.7	-1.1	-15.5	-1.7	5.4
Percentage Increase (in Millions)	10.7%	0.1%	12.7%	-0.7%	-9.4%	-1.1%	3.6%
POLICYHOLDERS	48,546	47,936	47,848	46,899	48,000	50,000	53,000
Actual Increase	(77)	(610)	(88)	(949)	1,101	2,000	3,000
Percentage Increase	-0.2%	-1.3%	-0.2%	-2.0%	2.3%	4.2%	6.0%
CLAIMS PROCESSED	50,522	43,998	39,037	35,603	36,600	39,500	43,500
Actual Increase	(10,082)	(6,524)	(4,961)	(3,434)	997	2,900	4,000
Percentage Increase	-16.6%	-12.9%	-11.3%	-8.8%	2.8%	7.9%	10.1%

RH

TELEPHONE: (602) 631-2050
FAX: (602) 631-2065
www.statefund.com

STATE FUND

WORKERS' COMPENSATION INSURANCE

DONALD A. SMITH, JR., CPCU, PRESIDENT AND GENERAL MANAGER
3031 NORTH 2ND STREET, PHOENIX, ARIZONA 85012-3009
AN EQUAL OPPORTUNITY EMPLOYER

September 28, 2000

Richard S. Stavneak
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, Arizona 85007



Re: State Compensation Fund Budget, Calendar Years 2001-2002

Dear Mr. Stavneak:

We are pleased to present the State Compensation Fund budget for calendar years 2001-2002 for review and approval in accordance with the provisions of A.R.S. §23-981(E).

The State Compensation Fund ("SCF") has begun to experience a shift in the workers' compensation insurance cycle during 2000. As rates have decreased over the past few years, private carriers are limiting the workers' compensation risks they will underwrite. The SCF is well positioned to absorb the additional market demand given our financial strength and commitment to serve Arizona's workers' compensation needs. In addition, the recent insolvency of Superior National Insurance and AM Best rating downgrade of Fremont National will require further claims administration and underwriting capacity from the SCF.

The attached budget requests the resources necessary to support anticipated growth, while building further efficiencies through our team-oriented organizational structure initiated in 1998. The budget demonstrates continued growth in surplus from \$454 million in 2000 to \$601 million at the end of 2002 with conservative revenue projections and provisions for policyholder dividends. The budget was approved by the SCF Board of Directors at their September 27, 2000 meeting.

We also will be undertaking major information technology projects to migrate from the current mainframe administrative systems to client-server-based, relational database applications. These projects will enable us to reduce unit costs in a growing marketplace and enhance our flexibility in response to future changes in our industry. Providing the Internet-based services demanded by our marketplace is another essential element of our technology plans.

Statewide Offices

Flagstaff

Glendale

Lake Havasu

Mesa

Phoenix

Prescott

Show Low

Tucson

Yuma

(520) 522-3000

(623) 915-5100

(520) 505-8100

(480) 668-6200

(602) 631-2900

(520) 541-5000

(520) 532-3500

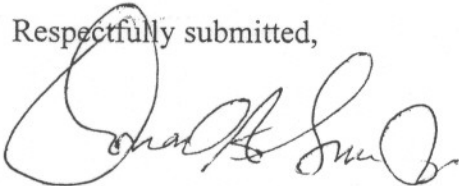
(520) 292-4000

(520) 539-5400

Richard S. Stavneak
Joint Legislative Budget Committee
September 28, 2000

If you, your staff or members of the Committee have any questions regarding the budgeted items, we will be happy to respond promptly.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Donald A. Smith, Jr.", written in a cursive style.

Donald A. Smith, Jr.
President & CEO

/vb

C: Thomas J. Betlach
Rebecca Hecksell

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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CHAIRMAN 2000
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RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
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1716 WEST ADAMS
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BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: JOINT LEGISLATIVE BUDGET COMMITTEE - CONSIDER APPROVAL OF YEAR
2001-2002 STRATEGIC PROGRAM AREA REVIEW CANDIDATES

Request

The Joint Legislative Budget Committee (JLBC) Staff requests that the Committee approve the list of program areas to be reviewed in the Year 2001-2002 Strategic Program Area Review (SPAR) process.

Background

Based on a request made by Senator Gnant at the last Committee meeting, JLBC Staff polled Committee members on their preferences for the Year 2001-2002 SPAR candidates. JLBC Staff received 3 responses. The votes and "effort level" of each of the 8 candidates are listed below. In terms of effort, each SPAR was labeled as high effort (3), medium effort (2), or low effort (1).

<u>Program Area</u>	<u>Votes Received</u>	<u>Effort Level</u>
Prescription Drugs	3	High
Children's Delivery System	2	High
Water Quality Assurance Revolving Fund	2	Medium
Developmental Disabilities (DD) Home and Community Based Services	2	Low
County Assistance	1	High
Advertising	1	Medium
Aircraft Operations	1	Medium
Job Training	0	High

(Continued)

JLBC Staff recommends that the Committee not select both the Children's Delivery System SPAR and the DD Home and Community Based Services SPAR. It has been previously suggested that the Children's Delivery System SPAR focus on DD clients. If both these SPARs were selected, DES' Division of Developmental Disabilities would like be the primary respondent for 2 SPARs, which we believe would be too much work for that Division.

Analysis

A.R.S. § 41-1275 provides that the JLBC shall determine which program areas will be subject to each biennial SPAR process. (In prior years, the programs were named in a bill.) The JLBC Staff, in consultation with the Governor's Office of Strategic Planning and Budgeting (OSPB), shall recommend a list of program areas for the SPAR process to the JLBC by January 1 of each odd-numbered year. The program areas selected shall submit their Self-Assessments to OSPB and JLBC Staff by June 1 of each odd-numbered year. JLBC Staff and OSPB shall complete their SPAR reviews of each program area and jointly produce a report of findings and recommendations by January 1 of each even-numbered year. The reports are then considered by the Legislature.

At the October 19 Committee meeting, Senator Gnant asked that JLBC Staff survey members for their preferences for the 2001-2002 SPARs prior to this meeting. We sent out a survey to all Committee members on November 7, asking for a response by November 17. The survey asked Committee members to select from a list of 8 SPAR topics. These topics were selected from an initial survey of legislators, JLBC Staff suggestions, and OSPB suggestions.

We organized the 8 topics by how much agency and staff each topic would entail. Topics requiring the most effort were assigned a score of "3," those requiring a moderate amount of effort were assigned a "2," and those we expected to require comparatively little effort we gave a score of "1." We suggested that in submitting their preferences, Committee members limit the total score of preferences to no more than 10 points. For example, selecting the topics Job Training (3), County Assistance (3), Water Quality Assurance Revolving Fund (2), and Aircraft Operations (2) would generate a total score of 10. The results of the survey are shown on the table on the preceding page.

We have attached some materials from previous Committee meeting agenda books that provide additional information on all the SPAR program areas considered, including the 8 which Committee members were polled on.

RS/SSh:jb
Attachments

Possible 2001-2002 SPAR Topics
JLBC Staff

<u>Agency</u>	<u>Program Area</u>	<u>Description of Program</u>
Land Dept., State Mines & Mineral Resource, Dept. of Mines Inspector, Dept. of Geological Survey, Arizona	Dept. of Natural Resources	These agencies perform related functions. In some states these functions are centralized in one agency.
Economic Security, Dept. of Education, Dept. of Commerce, Dept. of Community Colleges, St. Board of	Job Training	All of these agencies provide some type of job training.
AHCCCS Health Services, Dept. of Courts Criminal Justice Commission, AZ Revenue Sharing Water Resources, Dept. of	County Assistance	State monies pass-through all of these agencies. SPAR could research whether it might be more efficient to consolidate the funding.
Pioneers' Home, AZ Veterans' Services, Dept. of U of A Medical School/Hospital Arizona State Hospital Juvenile Corrections, Dept. of Corrections, State Dept. of Health Services, Dept. of AHCCCS Economic Security, Dept. of	Prescription Drugs	All of these agencies purchase prescription drugs or contract with providers who purchase prescription drugs. Given the high cost of medication, the SPAR could examine implementing bulk purchasing or group discounts.
Commerce, Dept. of Environmental Quality, Dept. of	Greater AZ Development Authority/Water Infrastructure Finance Authority	The 2 agencies operate similar types of programs. The SPAR could research the effectiveness of this type of program.
Health Services, Dept. of Judiciary	Children's Behavioral Health	Both agencies contract for behavioral health services for, at times, similar populations.
Parks Board, Arizona State AZ State Museum in ABOR	Cultural Preservation	Both agencies perform cultural preservation. In some states this function is centralized.
Environmental Quality, Dept. of	Water Quality Assurance Revolving Fund (WQARF)	A.R.S. § 49-282H requires that the WQARF program undergo the PAR process at specified intervals, including 2002. PARs have subsequently been changed to SPARs.

Economic Security, Dept. of Health Services, Dept. of AHCCCS Education, Dept. of Juvenile Corrections, Dept. of Courts	Children's Delivery System	All of these agencies provide case management and other services to children. Because of size of issue SPAR could focus on one particular type of client (e.g., clients who are developmentally disabled, regardless of their other diagnoses.)
Lottery Commission, Arizona State Tourism, Dept. of AHCCCS Health Services, Dept. of Administration, Dept. of	Advertising	All of these agencies contract for significant amounts of advertising funds. The SPAR could examine if there are more cost-effective ways of conducting advertising.
Economic Security, Dept. of	DD Home and Community Based Services	SPAR could focus on finding reasons for significant growth in caseload and expenditures in this program.

2001-2002 SPAR Topics
Agency Nominations^{1/}

<u>Agency</u>	<u>Program Area</u>	<u>Description of Program</u>
Administration, AZ Dept. of	Travel Reduction	Promotes a reduction in state employees' travel in single occupancy vehicles. There are also travel reduction requirements for the private sector and schools.
Suggested by the Auditor General	Investigators of Civil Enforcement	Numerous commissions and boards have complaint investigators. A SPAR could evaluate whether it would be more efficient to centralize the investigative role similar to the Office of Administrative Hearings.
Suggested by the Auditor General	Aircraft Operations	The Auditor General suggested reviewing the use of state aircraft and other aircraft programs at the Dept of Transportation, Dept. of Public Safety and the Game and Fish Dept.
Corporation Commission	Railroad Safety	Enforces railroad safety relating to track maintenance, equipment safety, and rail-highway crossings. This would be a single program/agency SPAR. Could also include ADOT with regard to rail-highway crossings.
	Corporations Division	Regulates public utilities and the securities industry, grants corporate status, and ensures safe railroads and gas pipelines. Could also include the Secretary of State's Business Services program, which is responsible for corporate filings and trademark registration.
Economic Security, Dept. of	Home & Community Based Services (DACS)	Provides home and community based services such as respite, housekeeping, and attendant care. Could also include home and community based services provided in AHCCCS and DHS.
	Coordinated Homeless Programs	Planning and coordination of community based organizations that provide services to assist the homeless. Could also include DHS behavioral health and housing programs provided by the Regional Behavioral Health Authorities and the Dept. of Commerce housing programs.
Game and Fish Dept., AZ	Game Management	Manages game-wildlife populations by regulating hunting and assessing habitats.
Regents, AZ Board	University Library Operations	Provides library services to the universities.

^{1/} Unless otherwise noted, each agency nominated its own programs.

Tax Appeals, State Board of	Appeals process	Provides a process for taxpayers to appeal decisions by the Department of Revenue (DOR) and the Office of Administrative Hearings (OAH). SPAR could also include DOR and OAH.
Transportation, Dept. of	MVD 3 rd Party	This would be a single agency SPAR and might include comparing the efficiency of using 3 rd Parties vs. doing the activity in-house.
	Highways Administration Traffic Operations	This would be a single agency SPAR and might include comparing the use of technology to relieve traffic congestion vs. building more roads.
Treasurer, State	Credit card usage	Bill passed during the 2000 legislative session allows agencies to accept credit cards. The State Treasurer suggested that a 2003-2004 SPAR could include the primary agencies that decide to take advantage of the new process.



Attachment C

Jane Dee Hull
Governor

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

Thomas Betlach
Director

October 12, 2000

OCT 12 2000

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

Dear Mr. Stavneak:

Pursuant to A.R.S. 41-1275, the Governor's Office of Strategic Planning and Budgeting is forwarding the following recommendations to your office for the FY 2002 Strategic Program Area Review (SPAR) process. We have arrived at these recommendations as a result of reviewing agency nominations, internally reviewing program area possibilities, and considering your possible SPAR topics advanced at the September 14th JLBC meeting.

To summarize our recommendations, the strategic program areas of Prescription Drugs and the Water Quality Assurance Revolving Fund from the JLBC list of *Possible 2001-2002 SPAR Topics* and the Home and Community Based Services program within the Division of Developmental Disabilities of the Department of Economic Security appear to hold the most potential for productive evaluation. Further, the OSPB staff is including comments on the other JLBC-suggested program areas where, based on our opinion, the negatives either balance or outweigh the positives of a self-evaluation. These program areas include: Dept. of Natural Resources, Job Training, County Assistance, Greater AZ Development Authority/Water Infrastructure Finance Authority, Children's Behavioral Health, and Cultural Preservation. Detailed comments follow.

Potential SPAR Candidates

Agency: AZ Pioneers' Home, Dept. of Veterans' Services, U of A Medical School/Hospital, Dept. of Juvenile Corrections, Arizona Dept. of Corrections, Dept. of Health Services, AHCCCS, Dept. of Economic Security

Program Area: Prescription Drugs

Comments: All of these agencies purchase prescription drugs or contract with providers who purchase prescription drugs. Given the high cost of medication, the SPAR could examine implementing bulk purchasing or group discounts. Note: This was a JLBC possible SPAR topic.

There are currently three proposals circulating in Congress related to prescription drugs. A prescription drug SPAR would need to track the federal direction so that a state-recommended program is compatible with any federal program or Medicare reform. Several of the agencies targeted for the SPAR serve elderly clients, which is another reason why a wrap-around approach to a surrounding federal program may seem more appropriate.

It is important to note that if Prop 200 and Prop 204 pass, AHCCCS will be trying to bring up expansion programs during the same time they would be required to work on the SPAR. However, the special nature of this target SPAR may not become a significant drain on any of the agencies' resources. Until the formal procedures for this SPAR process are developed and agreed upon, it will not be possible to estimate agency resource requirements.

The scope of the above SPAR may be sufficiently large in nature that it would involve considerable staff resources to complete and, therefore, this SPAR could justifiably stand as a single SPAR for the upcoming year.

Agency: Dept. of Economic Security (DES), Division of Developmental Disabilities (DDD)

Program Area: Home & Community Based Services (HCBS)

Comments: The DDD/Long Term Care (LTC) HCBS program has experienced tremendous caseload growth over the last several years (i.e., 10% a year) and with a corresponding increase in expenditures of 5 to 7%. While the LTC program is a federal entitlement, the causes behind the increasing caseload growth have been difficult to identify. While this would constitute only a single program SPAR, the self-evaluation could focus on caseload growth reasons, thus helping the agency, OSPB, and JLBC better explain and forecast future funding requirements. Note: The agency recommended the Division of Aging & Community Services (DACS) HCBS program.

Agency: Dept. of Environmental Quality

Program Area: Water Quality Assurance Revolving Fund (WQARF)

Comments: This program was restructured in 1997 by the Legislature. It underwent a performance audit from the Auditor General's Office in 1999. They stated in late November of that year, "*It is too early to determine the full effect of the changes to Arizona's program.*" After an additional two years of program performance, FY 2001 may be an appropriate year to now assess performance. In addition, A.R.S. 49-282H requires that the WQARF program fund undergo an evaluation once every five years, beginning in 2002. This A.R.S. citation is based on a statute reference (A.R.S. 35-114) that contained language pertaining to the PAR process. Note: This was a JLBC possible SPAR topic.

There are other program areas suggested by JLBC staff where the opportunity for return on the self-assessment may be met with varying degrees of success.

Second-Tier Candidates

Agency: State Land Dept., Dept. of Mines & Mineral Resource, Dept. of Mines Inspector, and Arizona Geological Survey

Program Area: Dept. of Natural Resources

Comments: A study of the potential for consolidating the four departments into a single Department of Natural Resources could be a possibility, but the study's scope might benefit from being expanded. OSPB staff performed a quick check of nearby states and found that Utah, Colorado, and Minnesota are organized with one centralized agency. Conversely, New Mexico is organized similarly to Arizona. The centralized models in Utah and Colorado included agencies such as State Parks, Game and Fish, Water Resources, Geological Survey, Land, and Mine Inspector. A centralized department of this scope may be worth exploring.

The Department of Mines and Minerals is focused more on economic development as demonstrated by their mission statement: "*To promote the development of the mineral resources of the state through technical outreach and education. The purpose of this promotion is to encourage economic development in the mining and minerals development industry.*" As such, other alternatives may be more appropriate.

As an historical note, this type of centralization has been proposed several times in recent years as part of budget recommendations from the budget offices and has been avidly opposed by Game and Fish upon each occasion.

Agency: Dept. of Economic Security, Dept. of Education (DOE), Dept. of Commerce, and St. Board of Community Colleges

Program Area: Job Training

Comments: DES has the Workforce Investment Act (WIA) program and the Jobs program that purchase job training for their clients. These two programs have recently merged into the same administration and are currently working to find more ways to collaborate. The Rehabilitation Services Administration (RSA) purchases similar services, but for a population with special needs.

DOE and the Community Colleges provide training, some of which DES purchases, but not a substantial amount since the DES priority is to find a person a job, not have them spend two to four years in school. OSPB staff contact with DOE staff discovered a favorable reaction to a possible evaluation process. DOE staff believe that there has been a significant change in the federal funding mechanism related to WIA for the various job training programs, which could be utilized to ensure the job training arena is not fragmented or overlapping.

A Program Authorization Review (PAR) was conducted in 1997 of the Department of Education's School to Work program. At that time, *"...employers indicate that the skills of students who complete this program meet or exceed their expectations."* The School to Work PAR encompassed the Vocational Technological Education, Workforce Development Resource Unit, and Single Parents and Displaced Homemakers programs.

Commerce helps to fund job training related to a new or expanding business' workforce.

While these four entities have somewhat different roles in the area of job training, the coordination of training workers, whether it be in the provision of training by DOE or the Community College system or through the purchase of training by DES, to meet the needs of the emerging job market, as known by Commerce, should be the focal point of the SPAR process. After all, offering training or training low-income workers for jobs that do not exist, is not a fiscally sound practice. However, based on limited resources, this program area is not as high a priority as the others referenced above at this time.

Agency: AHCCCS, Dept. of Health Services, Courts, AZ Criminal Justice Commission, Revenue Sharing, and Dept. of Water Resources

Program Area: County Assistance

Comments: Normally, consolidating funding is a good idea, if no subjective judgments or evaluations of the outcomes of the funding are required by the group allocating the grants or if the intent of the funding is not too widely divergent. However, this may not be the situation with the given group of agencies.

AHCCCS is unique in its relationship with the counties with regard to county assistance. County funds are used as an offset for the state match for the Acute and Long-Term Care programs. The monies are matched with Federal funds and disbursed to program contractors, who in some cases are the counties themselves.

Additionally, counties do receive AHCCCS-authorized assistance from the state through the Disproportionate Share Hospital (DSH) program, which is distributed based on very complex legal requirements. These funds provide supplementary payments to hospitals serving large numbers of low-income patients. Federal requirements limit the amount of time that can lapse between the time funds are drawn down and paid out. Centralization of these activities with an agency other than the AHCCCS may result in non-compliance with the federal statute.

The Department of Health Services funding addresses local, county health. ADHS has the specific expertise necessary to evaluate whether or not health needs are being met and whether the funds are being expended appropriately. If funds are blended, the value of this specialized oversight may be lost.

No funds from the Department of Revenue are distributed solely to counties. For instance, some sales tax dollars go to counties, but also to cities.

OSPB staff are uncertain as to the JLBC reasoning for the inclusion of the Department of Water Resources to this list.

Agency: Dept. of Commerce and Dept. of Water Resources

Program Area: Greater AZ Development Authority (GADA)/Water Infrastructure Finance Authority (WIFA)

Comments: While GADA finances infrastructure projects, including water-related ones, and WIFA finances water-related infrastructure projects, the benefit of an assessment on each Board does not appear to justify any substantial return. In addition, WIFA is funded through the Department of Environmental Quality, not the Department of Water Resources.

Agency: Dept. of Health Services and Judiciary

Program Area: Children's Behavioral Health

Comments: Children's Behavioral Health has been studied extensively for a number of years. Consideration of moving DES' Developmental Disability program to ADHS because of shared mental health components has been evaluated more than once. During the past couple of sessions, Rep. Knaperek has had numerous meetings as part of a proposal to consolidate various agencies, and CBH has been a significant part of these discussions. This past summer, policy advisors from the Governor's Office along with department representatives from DES, AHCCCS, and DHS formed a workgroup that has recently drafted recommendations on children's behavioral health issues for CPS kids. Throughout, the ADHS has dedicated significant resources to these studies, inquiries, and workgroups. These efforts in combination with their activities in responding to the JK lawsuit will tax the allocation of resources for a SPAR at this time.

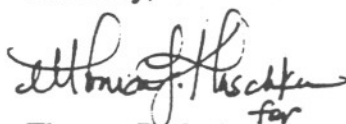
Agency: Arizona State Parks Board and AZ State Museum in ABOR

Program Area: Cultural Preservation

Comments: OSPB staff question any gains in efficiency from centralizing museum operations. However, if this program area receives serious consideration, it might be appropriate to include the Arizona and Prescott Historical Museums and the many historical groups that receive funding from the Arizona Historical Society.

Thank you for your attention to this recommendation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Thomas Betlach", with a small "for" written below it.

Thomas Betlach
Director

STATE OF ARIZONA

Joint Legislative Budget Committee

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BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON JLBC AND JLBC STAFF STATUTORY RESPONSIBILITIES

For your information, we are enclosing a list of Joint Legislative Budget Committee and JLBC Staff statutory responsibilities. As you will see from the lists, the Committee has 123 statutory responsibilities in terms of approving, reviewing or accepting reports. In addition, the Staff has 59 statutory responsibilities of some type.

In a separate document, we also track whether the Committee and Staff have met their statutory duties in a timely fashion each fiscal year and whether agencies have transmitted their required reports to the JLBC by their due date.

The attached internal JLBC Staff memo provides further details about each of the attachments. This information is also available on our Web site.

RS:lm
Attachment

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RANDALL GNANT
CHAIRMAN 2000
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RUSSELL W. "RUSTY" BOWERS
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BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: BOARD OF NURSING – REVIEW OF UNANTICIPATED COSTS

Request

The General Appropriation Act appropriated \$50,000 or 20% of each 90/10 board's total FY 2001 appropriation, whichever is greater, for unanticipated costs. Each 90/10 board is required to submit the intended use of the monies to the Committee for review. The Board of Nursing is requesting \$271,000 and 9 FTE Positions to address a backlog of investigations.

Recommendation

The JLBC Staff recommends a favorable review of this request, but recommends that 7 of the 9 FTE Positions be temporary, to be eliminated in FY 2003. The board has a fund balance of \$2.1 million and should have sufficient revenue to cover this increase.

Analysis

A footnote in the General Appropriation Act appropriated an additional \$50,000 or 20% of the board's total FY 2001 appropriation, whichever is greater, to provide for unanticipated costs the board might face in FY 2001. This footnote was added to the budgets of all 90/10 boards in the Supplemental Bill to provide funding for unanticipated costs. This contingency appropriation allows the board, if faced with unanticipated costs, to access monies without having to request a FY 2001 supplemental appropriation during the regular session. The legislation required the board to submit the intended use of the monies to the Committee for review. Pursuant to the footnote, the Board of Nursing's contingency amount is \$430,800.

(Continued)

The board is requesting \$271,700 and 9 FTE Positions to reduce the current backlog of over 2,100 cases. The JLBC Staff recommends the Committee give the request a favorable review and recommends that 7 of the 9 FTE Positions be temporary positions, to be eliminated in FY 2003. The annualized cost of the 9 FTE Positions is \$521,000, which will need to be continued in the FY 2002 appropriation. Because the backlog will be eliminated by the end of FY 2002, the JLBC Staff recommends reducing FY 2003 expenditures by (\$412,500) and 7 FTE Positions from the FY 2002 amount. This will leave 2 FTE Positions in the board's budget to address growth in the number of licensees and prevent the accumulation of a backlog in the future.

As of July 31, 2000, the board had 2,100 open cases and projected an additional 1,900 cases during the fiscal year, for a total of 4,000 cases in FY 2001. Both nursing consultants and paralegals investigate these cases. Nursing consultants are usually assigned more complex cases such as theft, abuse or neglect, while paralegals investigate less complicated cases. Currently, the board's 9 nursing consultants investigate 50% of total cases and the 3 paralegals are assigned the remainder of the cases.

The board is requesting an additional 6 nursing consultants and 3 paralegals to help reduce its backlog of open cases. This would bring the board's total investigative staff to 15 nursing consultants and 6 paralegals. Based on the average number of cases completed by both nursing consultants and paralegals, and assuming the board is able to fill the new positions by January 1, 2001, the board will reduce its backlog from 2,100 cases to 1,100 cases by the end of FY 2001. By the end of FY 2002, the backlog should be completely eliminated.

Once the backlog has been eliminated, the nursing consultants will have a ratio of 1 consultant to 72 cases per year and the paralegals will have a ratio of 1 paralegal to 180 cases per year. Because the average nursing consultant investigates 132 cases per year and the average paralegal investigates 360 cases per year, the board will have more than adequate staff to complete all investigations. The JLBC recommends reducing the number of nursing consultants to 10 and paralegals to 4 in FY 2003. This staffing level would allow all new cases to be completed in a timely manner and would prevent future backlogs from forming.

The board's letter to the Committee indicates that the Auditor General will likely be supporting the board's request for more staff and FTE Positions. We were contacted by the Office of the Auditor General, who indicated that the office has no official position on the matter at this time. The audit is still in process and auditors have drawn no conclusions about the resource needs of the board.

The JLBC Staff recommends the Committee give the board's request to access the appropriation for unanticipated costs a favorable review. The additional FTE Positions will help reduce the current backlog of open cases and prevent future backlogs. The JLBC Staff also recommends that 7 of the 9 FTE Positions be temporary because once the backlog has been reduced, most of the additional staff will no longer be necessary.

RS/BK:ck

Jane Dee Hull
Governor



Arizona State Board of Nursing

1651 East Morten, Suite 210
Phoenix, AZ 85020-7605
Phone (602) 331-8111 Fax (602) 906-9365
E-Mail: arizona@ncsbn.org
Home Page: <http://www.azboardofnursing.org>

Joey Ridenour
Executive Director



DATE: November 2, 2000

TO: Senator Randall Gnant, Chairman, Joint Legislative Committee
Representative Robert "Bob" Bums, Chairman, House Appropriations Committee

FROM: Joey Ridenour, RN, MN, Executive Director, Arizona State Board of Nursing

SUBJECT: **REQUEST TO BE PLACED ON THE NOVEMBER 28, 2000 JLBC AGENDA**
TO REQUEST UNANTICIPATED FUNDS AUTHORIZED UNDER LAWS
2000, SECOND REGULAR SESSION, CHAPTER 3, SECTION 21

Please consider this my request to be on the November 28, 2000 JLBC Agenda to request unanticipated cost funding for the Arizona State Board of Nursing. We are requesting that 13% of the allowed 20% of the \$2,153,900 appropriation or \$271,715 provided to our agency be made available for the purposes of adding nine investigators from January 1, 2001 to June 30, 2001. The annualized costs of these investigators of \$521,830 will be requested to be carried over in the agency's FY 2002/2003 Budget Request. These changes are requested to begin immediately and cannot be delayed until the 2001 Session of the Arizona Legislature due to the high volume of uninvestigated cases putting the public at risk.

For the past five years the Arizona State Board of Nursing has had an overall focus on expeditiousness in resolving complaints and investigations regarding nurses. While we have more than doubled the number of average monthly investigations from 64 in 1996 to 216 in 2,000, ASBN continues to have over 2000 open cases.

ASBN successfully passed legislation for fingerprints and criminal background checks in January 1999 and found the caseload increased from approximately 150 cases per month prior to 1999 to 170 cases per month in the past 18 months.

Additionally, the agency is currently being audited by the Auditor General for Sunset Review legislation in 2002. We anticipate the major focus of the Auditor is that more resources/FTE's be provided to meet the goal to have investigation caseload cycle times of 6 months.

We are also acutely aware of the potential legislative debate that will occur this next legislative session focusing on health care regulatory boards and the need for better public protection regarding health care providers.

ASBN requests your support for nine investigators as outlined in the supporting documents. The Board will be reviewing and approving the licensing/certificate fee structure in their November meeting for final action and anticipate the fee changes to be effective January 1, 2001. If the fee structure is approved as submitted, the new fees will increase the revenues by approximately \$468,482. The new revenue will offset the anticipated expenditures.

Let me know what additional information you may need.

Cc: Richard Stavneak, Director JLBC
Beth Kohler, Fiscal Analyst, JLBC
Tom Betlach, Director, OSPB
Terri Garcia, Fiscal Analyst, OSPB

**ARIZONA STATE BOARD OF NURSING
COMPLAINTS/INVESTIGATION ANALYSIS
ADDITIONAL STAFF JUSTIFICATION TO
REDUCE INVESTIGATIVE CYCLE TIME TO 6-9 MONTHS**

I	<div>A. Current & Projected Investigations Current Open Cases Through 7/31/00 Projected Cases Through FY 01 (11 months x 173 cases open month = 1903)<div>Total Cases</div></div> <div>B. Nurse Consultant - Average Cases Completed/Month (Unsafe Practice, Theft, Abuse, Neglect)</div> <div>C. Paralegal - Average Cases Completed/Month (Applications With Criminal History/Actions Taken Other States)</div>	<div>2105 <u>1903</u> 4008</div> <div>11</div> <div>30</div>
II.	<div>Nurse Consultant/Paralegal - Additional Staff Justification</div> <div>A. Nurse Consultant (NC) Assigned 50% Investigations 4008 x 50% = 2004 Cases NC 11 Cases/month x 12 months = 132 Cases/Year ÷ 2004 =</div> <div>B. Paralegal (PL) Assigned 50% Investigations 4008 x 50% = 2004 Cases PL 30 Cases/month x 12 months = 360 Cases/Year ÷ 2004 =</div>	<div>15.0 Total NC Needed <9.0> Current NC for Investigations <u>6.0</u> New NC Positions Needed</div> <div>6.0 Total PL Needed <3.0> Current PL <u>3.0</u> New PL Positions Needed</div>
III.	<div>Salaries</div> <div>A. Nurse Consultants \$53,000 Median Salary x 6 NC = \$318,000 ERE's/21% x 6 66,780 Computers (\$1200 Each) 7,200 Rent (\$1000 Each) <u>6,000</u></div> <div>B. Paralegals \$35,000 Median Salary x 3 = \$105,000 ERE's/21% x 3 22,050 Computers (\$1200 Each) 3,600 Rent (\$ 1000 Each) <u>3,000</u></div> <div>GRAND TOTAL</div>	<div>\$397,980</div> <div>\$133,650</div> <div>\$531,630</div>

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Rebecca Hecksel, Assistant Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION - CONSIDER
APPROVAL OF LODGING AND MEAL REIMBURSEMENT RATES

Request

In accordance with A.R.S. § 38-624C, the Arizona Department of Administration (ADOA) requests that the Committee approve maximum lodging and meal/incidental expense rates for Travel - In State and Travel - Out of State effective immediately after Committee approval.

Recommendation

The JLBC Staff recommends that the Committee approve the agency's request for lodging and meal/incidental expense rates. The JLBC Staff also recommends that the costs and savings associated with these changes be absorbed in agencies' budgets without a change in the level of appropriations. The new rates would be as follows:

	<u>Current Rate</u>	<u>ADOA Proposed Rate</u>	<u>General Fund Impact</u>	<u>Other Fund Impact</u>
In-State lodging per day	\$55-\$107	\$58-\$112	\$86,300	\$228,000
Out-of-State lodging per day	\$55-\$215	\$58-\$226	\$4,600	\$8,900
In-State meals per day	\$29.50	\$29.50	-0-	-0-
Out-of-State meals per day	<u>\$28-\$42</u>	<u>\$28-\$41</u>	<u>\$(3,700)</u>	<u>\$(7,800)</u>
TOTAL	NA	NA	\$87,200	\$229,100

(Continued)

Analysis

The federal government periodically conducts a cost survey based on market conditions across the nation and uses the data to update its travel reimbursement rates on October 1 and April 1 of each year. The federal recommended rates vary by city, with some cities experiencing an increase and some a decrease in price. ADOA compares Arizona's current rates to the federal rates and requests adjustments from the Legislature. Historically, ADOA has requested changes to its travel reimbursement rates in accordance with changes to the national average. In this latest request, however, ADOA has calculated an average rate increase for the 20 cities that are most traveled by Arizona state employees. ADOA has found that the national average is skewed by rates set in "resort" cities such as Lake Tahoe, California and Key West, Florida. Although some employees may travel to these cities, they would typically do so to participate in a conference; a situation in which employees are not held to the established reimbursement rates. The JLBC Staff concurs with this strategy and recommends that future rate changes be calculated in the same fashion.

The net cost of ADOA's request is an increase of \$87,200 from the General Fund (GF), and \$229,100 from Other Funds (OF). This includes an increase of In-State and Out-of-State lodging rates, and a decrease in Out-of-State meal rates.

Lodging

Lodging rates were last approved by the Committee on March 20, 2000 and took effect May 1, 2000. The nationwide federal lodging rates reported on October 1, 2000 reflect an increase of 1.5%, which is consistent with the general nationwide trend of increased commercial lodging costs. ADOA, however, is requesting an increase of 0.6% for Out-of-State lodging to reflect the rate increases in the top 20 cities. ADOA's calculations show that the increased Out-of-State lodging rates will have an annual GF impact of \$4,600 and an annual OF impact of \$8,900.

For In-State lodging, ADOA is requesting an increase of 4.9%, which is consistent with the federal rates reported on October 1, 2000. Lodging rates have increased within Arizona by a range of \$5 in Casa Grande to \$30 in Kayenta. ADOA's calculations show that the increased In-State lodging rates will have an annual GF impact of \$86,300 and an annual OF impact of \$228,000.

Meals

Meals/incidental expense rates were last approved by the Committee on March 20, 2000 and took effect May 1, 2000. ADOA is requesting a (1.5)% decrease in Out-of-State meal rates to reflect changes in the top 20 cities. ADOA is not requesting a change to In-State meal rates. ADOA's calculations show that the decreased Out-of-State meal reimbursement rates will result in an annual GF savings of \$3,700 and an annual OF savings of \$7,800.

RS:RH:ss



JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

FINANCIAL SERVICES DIVISION • GENERAL ACCOUNTING OFFICE

STATE CAPITOL • 1700 WEST WASHINGTON • ROOM 290

PHOENIX, ARIZONA 85007

Phone: (602) 542-5601 • Fax: (602) 542-5749

October 16, 2000

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



Dear Mr. Stavneak:

Effective October 1, 2000, the Federal government adopted new rates for the reimbursement of meals and lodging costs incurred by employees traveling on government business. The following is a brief review of Federal changes, recommendations of how these changes should be applied to Arizona reimbursement rates, and an estimate of the effects the recommended changes would have on Arizona if our recommendations are adopted.

Lodging

Out of State

The most recent changes in the Federal lodging rates of 415 locales were distributed as follows: 30% of all rates increased, 27% of all rates decreased and 43% of all rates remained the same.

Within the top twenty cities most visited by Arizona employees traveling for the State, the changes were distributed as follows: 50% increased, 5% decreased and 45% remained unchanged. These top twenty destinations represent approximately 60% of all reimbursed Arizona lodging. The average increase for these top twenty was 3.34%.

We propose that we change Arizona rates to coincide with Federal rates for the top twenty cities. We further propose that, for the remaining 395 locales, we decrease Arizona rates where the Federal rates have been decreased and leave them unchanged where the Federal rates have remained the same or have increased. Because the incident of increase was higher among the top twenty cities than it was among all locales, the distribution of changes among all other locales is as follows: 29% increased, 28% decreased and 43% remained the same.

If one assumes that the percentage of increase or decrease upon base is ratably allocated among all locales, then it might be argued that, as a whole, adopting Federal lodging rates across the board would result in an increase equal to the average rate of change times the difference between the percentage of destinations increasing minus the percentage of destinations decreasing.

The overall, weighted increase for the top twenty destinations is 3.34%. One could estimate the likely percentage change for all locales by multiplying the percentage of destinations increasing among the top twenty (50%) times their frequency (60%) and then subtracting the percentage of decreasing locales among the remaining cities (28%) times their distribution (40%) and, finally, multiplying this remainder times the rate increase experienced among the top twenty (3.34%). This approach would yield a likely across-the-board increase in cost of 0.63%--in other words, less than two-thirds of one percent.

When dealing with out of state rates, it must be borne in mind that the destinations of most out of state trips are to conferences. The reimbursements for conference accommodations are not governed by the overall reimbursement rates. This means, to a great extent, State travelers will be reimbursed at rates other than those shown in our analysis and any analysis we attempt in this area is, hence, bound to contain a substantial amount of inaccuracy.

In State

2001 Federal rates for reimbursement of hotel costs for stays in the State of Arizona have increased by 4.88% over those for 2000. We recommend that Arizona modify its rates to reflect current Federal rates. While it is recognized that this change will have the greatest impact upon the State's expenditures, it is, nonetheless, unavoidable. While, in the case of meals, one can argue that State travelers can eat at less expensive dining establishments, this does not hold true for lodging costs. Hotels are bound to accept neither Federal rates nor State rates; they rarely accept rates less than Federal rates. State employees, moreover, cannot refuse to undertake necessary travel on behalf of the State. Most in state travel does not involve attendance at conferences.

Meals

Out of State

A review of the changes to Federal meal rates for the top twenty destination cities, reveals a decrease of 1.91%.

Our strategy would be to decrease, when applicable, all locales to Federal rates and to ignore any other changes. Such a strategy applied to the top twenty would result in a decrease of 1.52% in meal costs. (A smaller percentage decrease than the Federal in that the State rate was less than the Federal.)

In State

There have been no Federal changes to meal reimbursement rates for the State of Arizona and we recommend no changes to State rates.

Page 3

Summary

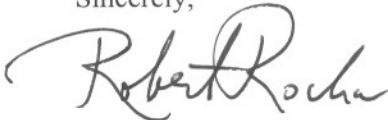
If one can reasonably estimate a 0.63% increase in the cost of out-of-state lodging and 1.52% decrease in the cost of out-of-state meals based upon the recommended changes, the net effect on the State's finances is minimal.

We have attached the following spreadsheets relating to meals and lodging:

1. Overall analysis of the projected overall impact on General and Other Funds that would result from the adoption of the GAO's recommendations. This spreadsheet shows the projected impact on the general fund and all other funds were the changes for in-state and out-of-state for both meals and lodging adopted.
2. In-state lodging. This spreadsheet, lists in order of dollar volume of expenditure, the projected impact of the recommended changes to the in-state lodging rates.
3. Out-of-state lodging. This spreadsheet, lists in order of dollar volume of expenditure, the projected impact of the recommended changes to the out-of-state lodging rates.

No spreadsheets have been prepared to deal with meals—there are only seven cities (including one in the top twenty) that will be changed.

Sincerely,

A handwritten signature in black ink that reads "Robert Rocha". The signature is fluid and cursive, with the first name "Robert" and last name "Rocha" clearly distinguishable.

Robert Rocha
State Comptroller

Attachments

RR:GFV:abm

CC: J. Elliott Hibbs
Lee Baron



JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

FINANCIAL SERVICES DIVISION • GENERAL ACCOUNTING OFFICE

STATE CAPITOL • 1700 WEST WASHINGTON • ROOM 290

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October 5, 2000

The Honorable Randall Gnant, Chair
The Honorable Robert Burns, Chair
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Senator Gnant and Representative Burns:

The Arizona Department of Administration respectfully requests to be placed on the agenda for the next meeting of the Joint Legislative Budget Committee (JLBC) for the purpose of discussing proposed changes to the State's Travel Reimbursement Rates for Lodging in accordance with A.R.S. § 38-624.C.

Under separate cover, The Arizona Department of Administration, General Accounting Office, will, before the meeting, transmit documents analyzing the financial impact of the proposed changes to the Director of the JLBC.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. Elliott Hibbs".

J. Elliott Hibbs
Director

JEH:GFV:abh

CC: Lee Baron
Robert Rocha ✓

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION - REVIEW OF RISK
MANAGEMENT DEDUCTIBLE

Request

The Arizona Department of Administration (ADOA) requests that the Joint Legislative Budget Committee (JLBC) review its Risk Management \$10,000 Deductible Program.

Recommendation

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

Analysis

Laws 1997, Chapter 85 provided that the Director of ADOA may impose on state agencies deductibles of up to \$10,000 per risk management loss. Deductible amounts established by the director shall be subject to annual review by JLBC. ADOA maintains the right to waive any deductible for just cause or in the best interest of the state. To date, ADOA has not assessed any deductibles.

The deductible program has 3 components, as described below:

1) Rule 14 Settlements and Judgments

The deductible program states that ADOA shall charge a \$10,000 deductible for each claim of \$250,000 or more (i.e., those claims approved by JLBC under Rule 14) unless the agency implements an approved plan to eliminate or limit similar future losses. ADOA helps agencies develop plans and reports universal compliance with the requirement.

(Continued)

2) Workers' Compensation Early Notification

Beginning January 1, 1998, ADOA gave state agencies one year to establish a record of reporting at least half of all workers' compensation claims within 48 hours. Beginning January 1, 1999, if an agency did not achieve this reporting level, ADOA could impose a 20% deductible, up to \$10,000, on any claim reported later than 10 days after the incident.

ADOA has provided agencies with extensive training and informational materials for use in educating their employees of the need for early reporting of workplace injuries. In FY 2000, 76% of all initial workers' compensation reports were received within 48 hours of the incident. To date, no agency has been assessed a deductible charge.

3) Opportunistic Loss Prevention

The deductible plan states that ADOA and each agency shall agree on the agency's most significant opportunity for loss prevention. ADOA will assess a \$10,000 deductible for each loss of this type unless the agency implements an approved loss prevention plan. All state agencies have submitted loss prevention plans. ADOA continues to work with agencies to update and improve those plans.

The JLBC Staff believes that the deductible program provides a good incentive for state agencies to avoid risk management losses. This is an important counter-balance to the possible adverse effect of ADOA bearing the cost for another agency's bad decision that results in a loss.

RS/PS:ss

JANE DEE HULL
Governor



J. ELLIOTT HIBBS
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

1700 WEST WASHINGTON • ROOM 601
PHOENIX, ARIZONA 85007

(602) 542-1500



November 7, 2000

The Honorable Randall Gnant
Arizona State Senate
1700 West Washington Street
Phoenix, AZ 85007

Dear Senator Gnant:

Pursuant to ARS 41-621E, the Director of the Department of Administration may impose on State departments, agencies, boards and commissions a deductible of not more than \$10,000 per loss that arises out of a property, liability or workers' compensation loss. Deductible amounts established by the director shall be subject to annual review by the Joint Legislative Budget Committee.

Rule 2-10-108, permits Risk Management to waive deductibles if agencies undertake certain established measures to mitigate future insurance losses. To date, these established measures have been met, and no deductible has been assessed.

We believe that the current deductible amount of \$10,000 per loss, has been constructive in its attempt to mitigate future insurance losses, and as a result we request no change to this amount.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. Elliott Hibbs".

J. Elliott Hibbs
Director

Cc: Members, Joint Legislative Budget Committee
Lee Baron, FSD Assistant Director
Frank Hinds, State Risk Manager
Charlotte Hosseini, ADOA Budget Manager
Paul Shannon, JLBC
Kristine Ward, OSPB

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CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Rebecca Hecksel, Assistant Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION - REPORT ON BENEFITS OF
PREVENTATIVE MAINTENANCE PLAN

Request

In accordance with Laws 1999, Chapter 1, 1st Special Session the Arizona Department of Administration (ADOA) submits its report on the benefits of the preventative maintenance services performed on state-owned buildings.

Recommendation

This item is for information only and no Committee action is required. With the appropriated funds, ADOA was able to perform preventative maintenance services on all fire alarm, and heating, ventilation and air conditioning (HVAC) systems in all state-owned buildings in the ADOA system.

Analysis

The Legislature appropriated \$500,000 and 7 FTE Positions in both FY 2000 and FY 2001 to ADOA from the Capital Outlay Stabilization Fund to implement a preventative maintenance program for state buildings. The program was created to allow ADOA to take a more proactive stance towards building maintenance. The preventative maintenance program is designed to extend the useful life of building systems, reduce the incidence of breakdowns, and improve equipment efficiency. Examples of systems that benefit from routine maintenance include roofing, plumbing, electrical systems, and parking lots and structures. At its August 1999 meeting, the JLBC approved ADOA's plan on the expenditure of the appropriated funds, which included creating a database to maintain detailed records on services performed and efficiencies gained.

The amount appropriated was sufficient to perform preventative maintenance services on 2 systems: fire alarm and HVAC.

(Continued)

Heating, Ventilation and Air Conditioning Equipment (HVAC)

The state operates 35 buildings that have an HVAC system. Necessary routine maintenance on this equipment includes changing air filters, cleaning coils, checking belts and checking for mold. In FY 2000, ADOA was able to clean and service all 68 large air handlers, some of which had not been serviced for 25 years. The air handlers are just one component of the HVAC systems; however, the work required to service them was very time intensive. In FY 2001, ADOA plans to service the remaining components of all of the HVAC systems. ADOA recorded improvements to the systems that were serviced including utility savings and increased air quality in the buildings.

Fire Protection System

The state is responsible for maintaining the fire protection systems for 32 of its buildings. The other 3 buildings have outside service providers who maintain the fire protection systems. The most important aspect of preventative maintenance on these systems is ensuring that they will work when they are needed. ADOA was able to identify and correct numerous deficiencies with the fire protection system, including inoperable sprinkler heads and rusted piping, that may have been severe enough to compromise the equipment had there been an actual emergency. Necessary routine maintenance on this equipment includes cleaning and inspecting heat detectors, smoke detectors, sprinkler heads and water supply valves. ADOA was able to service nearly 20,000 components of the fire protection system. By servicing these systems, the number of false fire alarms went from 80 in FY 1999 down to 54 in FY 2000.

In FY 2000, ADOA spent \$361,500 of the \$500,000 appropriation on servicing the HVAC and fire protection systems. ADOA was not able to utilize the full amount appropriated because the program was not fully staffed until January 2001 due to difficulties with hiring qualified staff at state salary levels. ADOA's FY 2001 preventative maintenance plan includes projects that will utilize the full appropriation for that year.

Although it is difficult to determine cost savings and efficiencies gained by the implementation of the preventative maintenance program in the short amount of time it has been applied, ADOA has maintained an extensive database and has provided the following performance measures:

Large Air Handlers Performance Measures

<u>Performance Measure</u>	<u>Projected Result</u>	<u>Actual FY 2000</u>
Decreased resistance of airflow over cooling coils (reduces the amount of electricity needed to circulate the air)	5%	36%
Percent increase in water temperature across coils (increased water temperature indicates cooler air output)	10%	4%
Percent increase overall efficiency	10%	13%
Estimated utilities savings	\$25,000	\$193,000

Fire Protection Systems Performance Measures

<u>Performance Measure</u>	<u>Projected Result</u>	<u>Actual FY 2000</u>
Percent reduction in number of false alarms	30%	32%
Percent reduction in false alarms causing building evacuations	15%	33%

Starting in FY 2003, ADOA plans to apply preventative maintenance procedures to the roofing systems of all state-owned buildings. ADOA will apply a preventative coating to the roofs in order to prevent or stop leaking which can lead to structural damage and electrical circuit shortage, and reduced air quality.



JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION
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(602) 542-1920

October 31, 2000

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



Re: Preventive Maintenance Report

Dear Mr. Stavneak,

In SB 1001, Forty-Fourth Legislative First Special Session 1999, the legislature authorized the Arizona Department of Administration (ADOA) to initiate a Preventive Maintenance program in FY 2000 for the State's office buildings. The legislation required ADOA to submit a report to JLBC on the benefits of the program by November 1, 2000.

A copy of the report is attached. If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert C. Teel".

Robert C. Teel, Assistant Director
ADOA General Services Division

RCT/cf
enclosure

cc: Representative Bob Burns
Senator Randall Gnant
J. Elliott Hibbs, Director, ADOA
Lorenzo Martinez, JLBC Analyst

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL – REVIEW ALLOCATION OF
SETTLEMENT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has notified the Committee of the allocation of monies received from 2 settlement agreements.

Recommendation

JLBC Staff recommends a favorable review of the allocation plan for both settlement agreements. Since there is some disagreement as to whether all settlement agreements have to be reviewed, we may want to clarify this issue in next year's budget.

Analysis

The FY 2000 and 2001 General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over \$100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures.

The Office of the Attorney General recently settled 2 cases that will result in the receipt of settlement monies over \$100,000. The first case involved violations of underground storage tank (UST) laws by Union Oil Company of California (Unocal). Unocal agreed to pay the state

(Continued)

\$450,000 in civil penalties which, pursuant to statute, will be deposited in the General Fund. The second case involved violations of air pollution laws by the Chemical Line Company (Douglas). The Chemical Line Company (Douglas) agreed to pay \$150,000 in civil penalties that, pursuant to statute, will be deposited in the General Fund.

Based upon the language of the footnote, it is not clear whether 1) settlements deposited in the General Fund, pursuant to statute, must also be reviewed by JLBC, and 2) settlements reached where the State of Arizona was not an injured party, but funds were received by the Attorney General on behalf of injured individuals must be reviewed by JLBC. The Attorney General does not believe that it is necessary for JLBC to review both of these types of settlements, but is willing to notify the Committee of such deposits. The JLBC Staff believes that the Legislature intended to review all settlements. This issue may be clarified in the upcoming biennium's General Appropriation Act.

RS/GG:ag



STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

JANET NAPOLITANO
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX, AZ. 85007-2926

MAIN PHONE : (602) 542-8500
FACSIMILE : (602) 542-7798

October 26, 2000

✓ The Honorable Brenda A. Burns
President of the Senate
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Jeff S. Groscost
Speaker of the House
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Randall Gnant
Chairman, Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Re: *State v. Union Oil Company of California*
Notice of Settlement



Dear President Burns, Speaker Groscost and Chairman Gnant:

This letter is to advise you that this office is entering into a settlement agreement in the above referenced lawsuit on behalf of the Office of the Attorney General and the Arizona Department of Environmental Quality ("ADEQ"), with the approval of its Director, Jacqueline E. Schafer. The settlement provides that the Union Oil Company of California ("Unocal") will pay \$450,000.00 in civil penalties for violations of underground storage tank ("UST") laws. Pursuant to A.R.S. § 49-1013(F), these funds will be deposited into the general fund. In addition to the civil penalty, Unocal has agreed to waive \$225,000.00 in claims against the State Assurance Fund ("SAF"), thus providing additional funds to other entities who have claims against the SAF for the costs of remediation of contamination from USTs.

President Burns
Speaker Groscost
Chairman Gnant
October 26, 2000
Page Two

This settlement will resolve the lawsuit and avoid additional litigation expenses.

Respectfully,

A handwritten signature in black ink, appearing to read 'E. Truman', with a long horizontal flourish extending to the right.

Edward B. Truman, Chief Counsel
Environmental Enforcement Section

cc: The Honorable Robert Burns
Richard Stavneak, Director/JLBC
Gina Guarascio, Analyst/JLBC
Michael Haener, Director of Legislative Affairs/AGO
John Stevens, Director of Financial Services Section/AGO



STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

JANET NAPOLITANO
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX, AZ. 85007-2926

MAIN PHONE : (602) 542-8500
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October 27, 2000

The Honorable Brenda A. Burns
President of the Senate
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Jeff S. Groscost
Speaker of the House
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Randall Gnant
Chairman, Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Re: Chemical Lime Company (Douglas)
Notice of Settlement

Dear President Burns, Speaker Groscost and Chairman Gnant:

This letter is to advise you that this office is entering into a settlement agreement in the above referenced lawsuit on behalf of the Office of the Attorney General and the Arizona Department of Environmental Quality ("ADEQ"), with the approval of its Director, Jacqueline E. Schafer. The settlement provides that the Chemical Lime Company (Douglas) will pay \$150,000.00 in civil penalties for violations of air pollution laws. Pursuant to A.R.S. § 49-463(D), these funds will be deposited into the general fund.



President Burns
Speaker Groscost
Chairman Gnant
October 27, 2000
Page Two

This settlement will resolve the lawsuit and avoid additional litigation expenses.

Respectfully,

A handwritten signature in black ink, appearing to read 'E. Truman', with a long horizontal flourish extending to the right.

Edward B. Truman, Chief Counsel
Environmental Enforcement Section

cc: The Honorable Robert Burns
Richard Stavneak, Director/JLBC
Gina Guarascio, Analyst/JLBC
Michael Haener, Director of Legislative Affairs/AGO
John Stevens, Director of Financial Services Section/AGO

STATE OF ARIZONA

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BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF CORRECTIONS - REPORT ON PRIVATE PRISON
REQUEST FOR PROPOSALS

Request

At its meeting held on August 10, 2000, the Committee gave a favorable review of an Arizona Department of Corrections (ADC) Request for Proposals (RFP) for a 1,000 bed privately-operated facility to house non-U.S. National inmates. Senator Lopez has requested that the Committee revisit the RFP in light of an opinion by Legislative Council on the legality of the RFP.

Background

The 1999 General Appropriation Act appropriated General Fund monies to ADC to contract for a 1,000-bed privately-operated prison facility. The appropriation also contained a footnote requiring that "the State Department of Corrections shall submit its plan for the category of beds to be privatized to the Joint Legislative Budget Committee for review and the beds shall not be segregated by race, ethnicity or nationality." The RFP reviewed by the Committee at the August meeting was entitled "Criminal Aliens Subject to United States Immigration and Naturalization Services Hearings and/or Deportation."

ADC believes that a privately-operated prison to house non-U.S. National inmates complies with the footnote by segregating all types of foreign national inmates instead of foreign nationals from one specific country (Mexico). At its meeting held on August 10, the Committee gave a favorable review of the RFP for a 1,000 bed privately-operated facility to house non-U.S. National inmates.

(Continued)

Subsequent to that review, Senator Rios requested a formal opinion from Legislative Council regarding whether the RFP violated state law by disregarding the footnote. Legislative Council concluded that “DOC’s proposed segregation of prison beds according to alienage status violates both the footnote and the Constitution’s equal protection guarantee.” The entire Legislative Council opinion is attached.

Given Legislative Council’s opinion, Senator Lopez has requested that the Committee revisit the issue.

RS/BR:ck



Arizona State Senate

From the office of...

MEMORANDUM

Senator Joe Eddie Lopez

To: Senator Randall Gnant, Chairman
Representative Bob Burns, Vice Chairman
Members of the Joint Legislative Budget Committee

From: Senator Joe Eddie Lopez *JEL*

Date: September 21, 2000

Re: Private Prison RFP



At its August 10, 2000 meeting, the Joint Legislative Budget Committee granted the Department of Corrections a favorable review of its RFP for a private prison for foreign nationals. The committee did so over the strong objections of both Senator Rios and myself. Following the meeting, Senator Rios requested that Legislative Council review the department's plans for the prison and determine whether or not it violated state law by disregarding the budgetary footnote.

Legislative Council staff indicated in their response to Senator Rios' request that the Department of Corrections' plan for this private prison not only violated state law by ignoring the budgetary footnote, but also federal law by violating the equal protection guarantees in the Constitution. I have attached a copy of this memo for your review.

I respectfully request that the matter be included on the October agenda of the Joint Legislative Budget Committee so that the committee might revisit this matter in light of Legislative Council's analysis.

cc: Richard Stavneak
Kim Baker
Michael Bradley
Melodie Jones
Travis Mallen
Reed Spangler

Susan Anable
Tom Betlach, Director, OSPB
Greg Gemson
Debbie Johnston
Chad Norris
Richard Travis

ARIZONA LEGISLATIVE COUNCIL

MEMO

September 13, 2000

TO: Senator Peter Rios
FROM: Ricki Kaplan, Council Attorney
RE: Footnotes in Appropriations Bills; Prison Segregation (R-44-183)

BACKGROUND

The 1999 general appropriations bill appropriated monies to the Department of Corrections (DOC) to contract for a privately operated 1,000 bed facility. A footnote in the appropriations bill provided that "the beds shall not be segregated by race, ethnicity or nationality." DOC recently issued a request for proposals for construction of the 1,000 bed prison, which provides that the facility will be used to house aliens who are subject to Immigration and Naturalization Services hearings or deportation after completing their sentences.

QUESTIONS

1. Does a footnote in the general appropriations bill have the same force and effect as legislation passed in a regular House or Senate Bill?
2. Does DOC's planned segregation of prisoners based on their citizenship violate the law?

ANSWERS

1. The general appropriations bill may only include appropriations for the operation of state government and other provisions that are *incidental to or explanatory of* the appropriations it contains. While budget footnotes may not create substantive law of general application, they may lawfully attach conditions to the expenditures they relate to.
2. Probably. State laws that classify persons based on alienage are subject to strict scrutiny. Courts will uphold such laws only if they are necessary to achieve a compelling government purpose. Even if the purpose is permissible, courts will examine whether there are less burdensome means to accomplish the same goals. Most state actions examined under this test fail.

DISCUSSION

1. The budget footnote in question is a valid restriction on the appropriation to DOC.

Article IV, part. 2, section 20, Constitution of Arizona, provides in part that "the general appropriation bill shall embrace nothing but appropriations for the different departments of the state, for state institutions, for public schools, and for interest on the public debt." Accordingly, Arizona courts have ruled that the Legislature may *not* include substantive legislation in the general appropriations bill. See e.g., Litchfield Elementary School Dist. No. 79 v. Babbitt, 125 Ariz. 215, 223 (Ct. App. 1980) ("The appropriations process cannot be used for legislation.").

In State v. Angle, 54 Ariz. 13, 21 (1939), the Arizona Supreme Court articulated the following general standard regarding the permissible contents of general appropriations bills:

The general appropriations bill can contain nothing but the appropriation of money for specific purposes, and such other matters as are merely incidental and necessary to seeing that the money is properly expended for that purpose only. Any attempt at any other legislation in the bill is void.

Thus, pursuant to case law, provisions (including footnotes) in the general appropriations bill cannot effectuate "general legislation." However, budget footnotes *can* establish qualifications and regulations for the expenditure of monies appropriated in the bill.

In the situation at hand, the budget footnote imposes conditions on the expenditure of general fund monies appropriated to DOC to build private prison beds. It is a legislative instruction on the expenditure of a specific sum of money. The footnote does not attempt to create substantive law applicable to *all* DOC expenditures, but only those covered by this appropriation. It does not contravene any existing statutes or create a new general requirement.

You asked our office if this footnote is "equivalent to legislation in a regular bill." We conclude that while the effect of the footnote is not the same as general legislation because it does not have general application, it does apply to the DOC appropriation in the general appropriations bill and has the same force and effect that a statutory law would have. In other words, a court should enforce the application of this restriction to DOC expenditures of these particular funds.

2. DOC's segregation of prisoners based on nationality violates the budget footnote and likely violates the Equal Protection Clause.

As stated above, we conclude that the footnote validly applies to the money appropriated to DOC to build 1,000 new prison beds. However, regardless of the footnote, it is unlikely that DOC could segregate prison inmates based on their country of citizenship. As you may be aware, courts apply one of three standards when examining challenges to government action on equal protection grounds. The most stringent standard is known as "strict scrutiny." If a suspect classification (i.e. race) or a fundamental right (i.e. privacy, freedom of speech) is involved, courts will apply the strict scrutiny standard and strike down the classification unless the government can prove that the action is *necessary* to achieve a *compelling government interest*. Not surprisingly, few government actions can meet this rigorous standard.¹

National origin and alienage are suspect classifications. Accordingly, courts use the strict scrutiny standard when examining state laws that classify persons according to their country of citizenship. See, e.g., Bernal v. Fainter, 467 U.S. 216 (1984); Graham v. Richardson, 403 U.S. 365 (1971) (striking down state restrictions on welfare benefits based on alienage classifications); Hernandez v. Texas, 347 U.S. 475 (1954) (Court held that state law excluding persons of Mexican descent from juries violated the Equal Protection Clause). As stated above, states must show that the classifications are necessary to meet a compelling government interest and that no less burdensome action can meet the government interest.

Interestingly, classifications based on alienage by the *federal government* are subject only to the rational basis test. The United States Supreme Court has held that because Congress has plenary power over immigration matters, courts should give great deference to congressional action in this area. See Matthews v. Diaz, 426 U.S. 67, 78-80 (1976). Accordingly, if federal prison authorities house aliens who are subject to deportation upon release separately from the rest of the prison population, courts will judge their actions under the lenient rational basis test. In fact, courts have upheld federal prison regulations that treat non-U.S. citizens differently than U.S. citizens in numerous instances. See Lizarraga-Lopez v. U.S., 89 F. Supp.2d 1166 (S.D. Cal. 2000) (upholding disparate treatment of deportable aliens and prisoners who were not deportable aliens); Marshall v. Reno, 915 F. Supp. 426 (D.D.C. 1996) (federal regulation denying noncitizens access to early release programs does not violate the Equal Protection Clause).

¹ Intermediate scrutiny is applied when "quasi-suspect" classifications (i.e. gender, illegitimacy) are involved. Courts judge other classifications pursuant to the "rational basis test." Government action will be upheld under this test unless it is not *rationally* related to any *legitimate government interest*.

According to DOC, some federal prisons do house foreign nationals separately from prisoners who are U. S. citizens. As stated above, courts will likely uphold such action under the rational basis test. DOC may claim that since its policies mimic federal policies, its classification should also be judged by the lenient rational basis test. In Barannikova v. Town of Greenwich, 643 A.2d 251 (Conn. 1994), the state argued that its policy of requiring that the income of an alien's sponsor should be deemed income of the alien for purposes of calculating the alien's welfare benefits should be examined under the deferential rational basis test because the policy paralleled federal laws. However, the court ruled that in the absence of federal legislation requiring states to enact similar laws, it would not create an exception for state laws that parallel federal laws. Accordingly, even if DOC classifies prisoners who are foreign nationals in a manner similar to the federal government, the agency's actions should still be subject to the strict scrutiny standard.

CONCLUSION

The anti-segregation footnote in the 1999 general appropriations bill is incidental to the appropriation to DOC to build private prison beds. While footnotes are not substantive laws of general application, they are enforceable with regard to the specific appropriations to which they apply.

DOC's proposed segregation of prison beds according to alienage status violates both the footnote and the Constitution's equal protection guarantees. Unless the department can demonstrate that the separation furthers a compelling government interest and that there is no less burdensome way to meet that interest, the classification will be struck down.

Please contact our office if you have further questions on this matter.

cc: Guadalupe Valencia

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Sta vneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF CORRECTIONS - REVIEW OF PUBLIC VS. PRIVATE
PRISON SERVICE COMPARISON REPORT

Request

Pursuant to A.R.S § 41-1609.01(M), the Arizona Department of Corrections (ADC) requests that the Committee review ADC's most recent service comparison report on state-operated vs. privately-operated prisons.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the ADC report.

Analysis

A.R.S § 41-1609.01(K) requires ADC to biennially compare the services provided at state prisons to services provided at each of the currently contracted privately-operated prisons. The services to be compared are as follows:

- Security
- Inmate management and control
- Inmate programs and services
- Facility safety and sanitation
- Administration
- Food Services
- Personnel practices and training
- Inmate health services
- Inmate discipline
- Other matters relating to services as determined by the ADC Director

(Continued)

The service comparisons are performed to evaluate the statutory requirement that private prisons provide “at least the same quality of services as this state at a lower cost or ...superior quality to those provided by this state at essentially the same cost.”

ADC currently contracts for 3 private prison facilities that have a total capacity of 1,450 beds and are classified as Level 2 (minimum) security facilities. By contract, private prisons are subject to the same correctional standards as state-operated prisons. ADC has an inspection unit that annually audits the performance of each state-operated and privately-operated prison to ensure that every facility is complying with the professional standards. An inspection team, with experts in each of the 10 above mentioned subject areas, rates each prison's performance as Satisfactory, Fair, or Unsatisfactory. For comparison purposes, the grades are assigned points to differentiate between the general performance classifications. Points are assigned as follows: Satisfactory = 5, Fair = 3, and Unsatisfactory = 0. This system allows for comparison within a particular subject area or an aggregate score for the entire prison.

For example, both public and private prisons are evaluated on inmate health service performance including health care administration, inmate treatment, staff medical training, pharmaceutical services, infection control, and additional measures. Each area is reviewed and graded with unsatisfactory gradings requiring corrective action. ADC has established 39 performance objectives within the inmate health services area. A total score of 195 points (39 areas times 5 points for a Satisfactory score) would equate to perfect compliance with professional standards. For FY 1999, state-operated prisons rated 92% and privately-operated prisons rated 93%.

For this report, ADC compared the services at the 3 privately-operated prisons to 15 state-operated Level 2 prisons. ADC concluded that overall the 3 private prisons provide services that equal or exceed services provided at state-operated prisons at a lower cost. As the report notes, some individual state-operated prisons outperformed the privately-operated prisons and the aggregate state score was higher than privately-operated facilities for some services areas. However, the performance of privately-operated prisons in all service areas is equal to service provided at state-operated prisons.

The report does not contain a comprehensive cost analysis but does include the daily per capita cost at each of the 3 privately-operate prisons and the aggregate statewide cost for state-operated Level 2 prisons. For FY 1999, the average private prison inmate cost was \$40.88 per day versus \$45.85 per day at state-operated facilities. In addition, the daily per capita cost at each of the 3 private facilities was lower than the aggregate state daily per capita cost. ADC estimates the FY 1999 average daily population at privately-operated prisons was 1,440 inmates resulting in a cost avoidance in FY 1999 of approximately \$2,717,100. The cost avoidance is based on savings to the state for each day an inmate is housed at a private prison instead of a state-operated facility.

The Executive Summary and Table of Contents of this service comparison report are attached and the entire report is available for review upon request. Pursuant to statute, a formal cost comparison study of state-operated and privately-operated prisons will be conducted in FY 2002 by ADC and the Governor's Office for Excellence in Government. Once completed that report will be submitted to the Committee for review.

RS/BR:ck
Attachment

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Pat Mah, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - CONSIDER APPROVAL OF
INDEPENDENT LIVING PROGRAM DATA ELEMENTS

Request

Laws 2000, Chapter 285 requires that the Joint Legislative Budget Committee (JLBC) determine data necessary for a report that the Department of Economic Security (DES) has to submit to the Legislature each year beginning January 1, 2001. The report pertains to the distribution of non-appropriated federal funds for foster care kids that are transitioning into living on their own. Specifically, JLBC is required to determine what non-appropriated federal fund expenditure data will be collected for the report.

Recommendation

The JLBC Staff recommends approval of the proposal outlined below. We are recommending a 5-year revenue data summary of the non-appropriated federal funds grant allocation and expenditure data from all funding sources for the prior fiscal year, current fiscal year and 2 budgeted fiscal years. We also recommend the inclusion of background and demographic information in the annual report to make it more useful.

Background

Laws 2000, Chapter 285 implemented changes made to federal law for assistance to individuals in the Child Protective Services (CPS) System who need independent living skills before aging out of the system (Independent Living program). The length of time that individuals are eligible for services was extended from 18 to 21 years of age. In addition, a new Transitional Independent Living Program was established to provide care and services to individuals for achieving self-sufficiency if they were ever placed in the state's care prior to the age of 18 years and are still under 21 years years of age. Both programs provide the same services, such as case management, leadership training for clients, educational

(Continued)

materials, occupational start-up costs, and financial incentives for reaching educational goals. The difference between the 2 programs is the client being served. The existing Independent Living Program is for those currently in the CPS system. The new Transitional Independent Living Program is for clients who are no longer part of the CPS system if they are still under 21-years of age and choose to request the services.

For the new Transitional Independent Living Program, DES is required to submit an annual report on the distribution of non-appropriated federal funds that have been and will be expended for the program. The annual report is to begin January 1, 2001 and is to go to the Governor, legislative leadership of each house, JLBC, and the Joint Legislative Committee on Children and Family Services. Laws 2000, Chapter 285 requires JLBC to determine what non-appropriated federal fund expenditure data will be collected for this annual report.

To comply with the requirement, JLBC Staff put together the following proposal for the Committee's consideration and approval.

Proposal

The federal non-appropriated grant monies for the new Transitional Independent Living Program are the same as those that have been used in the past for the existing Independent Living Program. They are federal Title I Independent Living Program grant monies. The department anticipates that approximately 25% to 30% of the monies will be expended for clients in the new Transition program and the remaining will continue to be expended for those in the existing Independent Living Program. The department reports that the federal government views these 2 programs as 1 single program. Therefore, the department plans to operate these programs as a single program. The department assumes that the annual report will need to include expenditures for both programs rather than just the newly established transitional program as required by law. We agree and believe that it will make the report more useful.

To know the amount of Title I Independent Living grant monies the state receives for these programs, we suggest a 5-year span on past and projected Federal Fiscal Year (FFY) allocations for the grant be included in the report. This should be in the Table 1 format shown below.

Table 1 - Federal Title 1 Independent Living Grant Allocation					
	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FY 2002
Account Beginning Balance	\$	\$	\$	\$	\$
New Grant Allocation					
Total Revenues					
Expenditures by State Fiscal Year					
Ending Balance	\$	\$	\$	\$	\$

There are other federal non-appropriated funds for these programs. The foster care children in these two Independent Living programs may be eligible for Title IV-E and Title XIX funding. Therefore, these non-appropriated federal funds also will need to be included in the report.

We would recommend an expenditure summary in the format of Table 2 shown on the next page. This table would show, by non-appropriated federal funding source, the total expenditures over 4 state fiscal years, including the prior fiscal year, current fiscal year, and 2 budgeted fiscal years. Expenditures for administration would be split from those for direct services.

(Continued)

Table 2 - Federal Non-Appropriated and State Funds Expenditures				
	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
FTE Positions				
Administration	\$	\$	\$	\$
Direct Services				
Total Non-Appropriated Expenditures	\$	\$	\$	\$
Funding Sources:				
Federal Independent Living Grant	\$	\$	\$	\$
Federal Title IV-E Grant				
Federal Title XIX Funds				
Total Non-Appropriated Expenditures	\$	\$	\$	\$
State Funds				
FTE Positions				
Administration	\$	\$	\$	\$
Direct Services				
Total General Fund Expenditures	\$	\$	\$	\$
Total General Fund and Non-Appropriated Expenditures	\$	\$	\$	\$
Number of Clients Served				

Besides the non-appropriated federal monies, these programs are funded from state General Fund dollars. Although the law does not require it, we suggest that expenditure data on the state funds be included in the report. It could be incorporated into Table 2 as shown in our example.

We further suggest information be included in the report to give the reader background material that is needed to understand the programs and their purpose. Those details should include a description of the programs, federal guidelines for use of Title I Independent Living Program monies, criteria for placement in the programs, description of direct services provided, the number served by fiscal year, percentage of clients who participated in each program for the entire fiscal year, and demographics of those who leave the programs.

RS/PM:ss

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jennifer Vermeer, Assistant Director

SUBJECT: AHCCCS - REPORT ON MEDICALLY NEEDY ACCOUNT

Request

Pursuant to A.R.S. § 36-2921 (E), the Arizona Health Care Cost Containment System (AHCCCS) is required to report to the Director of the Joint Legislative Budget Committee by November 1 on the annual revenues deposited to the Medically Needy Account of the Tobacco Tax and Health Care Fund and on the estimated expenditures for the state share of providing organ transplants in the AHCCCS program.

Recommendation

This item is for information only and no Committee action is required. We would highlight that AHCCCS has transferred \$29 million from the Medically Needy Account to the AHCCCS budget in FY 2001.

Analysis

As mentioned above, A.R.S. § 36-2921 (E) requires AHCCCS to report to the director of the JLBC on the annual revenues to the Medically Needy Account and on the estimated expenditures for the AHCCCS transplants program. AHCCCS is further required to report immediately to the director of JLBC if the amount in the Medically Needy Account will not be sufficient to fund all of the allocations in A.R.S. § 36-2921. The allocations funded by A.R.S. § 36-2921 are denoted with "*" in the attached table (Attachment A).

AHCCCS has provided the report and included the FY 2000 revenue collections and estimated expenditures for all FY 2001 allocations, including the transplants program. Revenues will be sufficient to fund all of the programs funded by A.R.S. § 36-2921.

In addition to AHCCCS' report, we have attached a table showing JLBC Staff's estimates for the Medically Needy Account. The JLBC Staff estimate shows the estimated ending balances, in addition to the revenue and expenditure amounts, and estimates for FY 2002 and FY 2003 (Attachment A). Subsequent to AHCCCS's October 30, 2000 report, the Governor's Office of Strategic Planning and Budgeting (OSPB) requested that AHCCCS transfer an additional \$29 million from the Medically Needy Account to AHCCCS to cover a projected FY 2001 shortfall in the AHCCCS program (Attachment B). The request is dated November 6, 2000 and we have included this additional expenditure in the JLBC Staff table. As noted in OSPB's letter, the Medically Needy Account is statutorily a non-appropriated fund. Traditionally, however, it has been treated as an appropriated fund.

During the 2000 legislative session, the JLBC Staff estimated that AHCCCS would have a FY 2001 General Fund shortfall of \$50 million. A fund source for the shortfall was not determined. Greater than anticipated enrollment and capitation increases have increased the FY 2001 shortfall estimate to \$70 million. The \$29 million transfer is intended to cover part of this anticipated shortfall. This transfer decreases the Medically Needy Account balance from \$82.1 million to \$53.1 million.

RS/JV:ck
Attachment

**Tobacco Tax and Health Care Fund
Medically Needy Account**

	<u>FY 2000 Actual</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Funds Available				
Balance Forward	\$71,581,200	\$78,579,200	\$53,081,200	\$57,465,100
Revertments ^{2/}	9,089,700	20,480,200	0	0
Transfer In - Tobacco Tax and Health Care Fund	78,418,600	76,645,600	75,104,200	73,593,700
Interest Revenue	4,478,700	3,880,600	3,184,800	3,256,600
Total Funds Available	\$163,568,200	\$179,585,600	\$131,370,200	\$134,315,400
AHCCCS Allocations				
Offset Loss in Federal Funding	\$ 1,020,800	\$ 4,542,200	\$ 1,072,900	\$ 1,172,100
Phase-Down of Quick Pay Discount	6,794,600	8,206,700	10,398,200	11,630,000
\$10 M Hospital Reimbursement	10,000,000	10,000,000	10,000,000	10,000,000
Maternity Length of Stay	4,545,900	2,572,800	4,422,600	4,555,300
HIV/AIDS Treatment	1,205,600	1,349,600	751,800	792,400
FY 2000 Medical Inflation	8,472,400	5,276,000	8,472,400	8,472,400
* Transplants	454,300	3,590,000	3,590,000	3,590,000
* Transfer to Medical Services Stabilization Fund	0	0	0	0
* Transfer to Premium Sharing Demo Project Fund	400,000	0	0	0
Transfer to Children's Health Insurance Fund	15,172,000	19,833,700	13,623,800	17,021,600
* Transfer to DHS Health Crisis Fund	29,000	960,000	0	0
* Transfer to DES Aging and Adult Administration	500,000	500,000	500,000	500,000
Transfer to AHCCCS for FY 2001 shortfall	0	29,000,000	0	0
DHS Allocations				
* Primary Care Programs	5,215,600	6,240,000	6,240,000	6,240,000
* Qualifying Community Health Centers	3,874,500	5,200,000	5,200,000	5,200,000
Community Health Centers	2,167,400	4,000,000	0	0
* Telemedicine	250,300	0	0	0
* Mental Health Programs for Non-Title 19	5,150,000	5,200,000	5,200,000	5,200,000
* Detoxification Services	517,100	0	0	0
* Renal Disease Management	237,200	260,000	260,000	260,000
* Evaluations	366,200	854,200	854,200	854,200
Public Health Education ^{3/}	0	0	0	0
* Rural Primary Care Provider Loan Repay Program	111,200	111,200	111,200	111,200
Primary Care Capital Construction Projects	2,500,000	0	0	0
Salome Health Services	0	0	0	0
HIV/AIDS Drug Assistance Program (ADAP)	1,000,000	1,000,000	0	0
* Nonrenal Disease Management	29,700	208,000	208,000	208,000
CHIP Direct Services	0	1,000,000	0	0
Ajo Health Services	95,000	0	0	0
Psychotropic Medications - SMI Non-Title XIX	8,000,000	16,600,000	3,000,000	3,000,000
Total Allocation	\$78,108,800	\$126,504,400	\$73,905,100	\$78,807,200
Balance Forward	\$85,459,400	\$53,081,200	\$57,465,100	\$55,508,200

* Allocations funded pursuant to A.R.S 36-2921.

1/ Revenue estimates assume a decrease of (2.0)%. Revenues actually declined by (1.18)% in FY 1999 and (2.65)% in FY 2000.

2/ Revertments include monies transferred pursuant to Laws 2000, Chapter 304 and unexpended DHS allocations.

3/ Shown as expended in FY 1998 when appropriated.

**Joint Legislative Budget Committee
Staff Memorandum**

1716 West Adams
Phoenix, Arizona 85007

Telephone: (602) 542-5491
Facsimile: (602) 542-1616

DATE: November 7, 2000

TO: Representative Bob Burns
Senator Randall Gnant

FROM: Richard Stavneak, Director *RS*

SUBJECT: MEDICALLY NEEDY ACCOUNT TRANSFER

Earlier today, OSPB provided us a copy of the attached letter. In the letter, OSPB requests that AHCCCS use \$29.8 million in the Medically Needy Account of the Tobacco Tax and Health Care Fund to offset the MN/MI portion of the current year AHCCCS shortfall. We have previously estimated that the overall cost of the AHCCCS shortfall, including all rate categories, is approximately \$66 million. We estimate that the current balance in the Medically Needy Account is approximately \$85 million.

The allocations of the Medically Needy Account are usually governed by statute. The Executive believes, however, that they have the authority to transfer the funds since the Tobacco Tax Fund is not subject to appropriation.

We will continue to research this matter. If you have any questions, please let us know.

RS:lm

Attachment

xc: Senator Sue Grace
Representative Susan Gerard
Michael Bradley, Policy Advisor to the House Majority
Dan Shein, Health Research Analyst, House
Richard Travis, Staff Director, House Democratic Staff
Wendy Baldo, Policy Advisor to the Senate Majority
Jason Bezozo, Health Research Analyst, Senate
Kim Baker, Senior Research Analyst, Senate





Jane Dee Hull
Governor

GOVERNOR'S OFFICE OF
STRATEGIC PLANNING AND BUDGETING

1700 West Washington, Suite 500, Phoenix, Arizona 85007
(602) 542-5381 • FAX: (602) 542-0868

Thomas Betlach
Director

November 6, 2000

Ms. Phyllis Biedess
Director
Arizona Health Care Cost Containment System

Dear Phyllis,

As you are aware, in 1994 the voters passed Proposition 200 establishing the Tobacco Tax. The State is directed to use the Tobacco Tax funds to provide health care services through the AHCCCS program established under A.R.S. § 36-2901, et seq. That direction is outlined in the provisions of A.R.S. §§ 36-771 through 36-775, which establishes the "Tobacco Tax and Health Care Fund".

The authority to use the Tobacco Tax and Health Care Fund is strictly within the Executive Branch and not subject to appropriation by the Legislature. (A.R.S. § 36-771 (C)). The authority of the Executive Branch is confirmed explicitly in the statutory language:

"Expenditures from each account are not subject to additional approval, *notwithstanding anything to the contrary.*" (Id., emphasis added.)

One of the accounts established under the Tobacco Tax and Health Care Fund is the Medically Needy Account. (A.R.S. § 36-774). The funds of the Medically Needy Account are to be used to provide health care services through the AHCCCS program for a certain segment of the population. (A.R.S. § 36-774 (A)). Those eligible include "persons who are determined to be medically indigent pursuant to § 11-297, (and) medically needy pursuant to § 36-2905." (Id.)

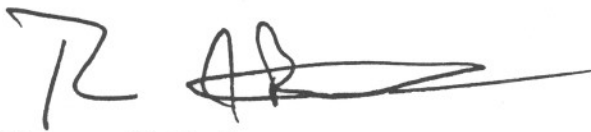
Ms. Phyllis Biedess
Page 2

This is to request that AHCCCS use the monies in the Medically Needy Account to cover the estimated Fiscal Year 2001 shortfall in the Medically Needy/Medically Indigent (MN/MI) program. I have attached a table that details the shortfall of over \$29 million in the current year for this program. I am requesting that AHCCCS transfer this funding from the Medically Needy Account to the AHCCCS system fund as established in A.R.S. § 36-2913 to cover these obligations.

Under the provisions of Laws 1999, First Special Session, Chapter 5, AHCCCS is authorized to withdraw "as necessary," the sum of \$19,833,700 from the AHCCCS Medically Needy Account for deposit in the Children's Health Insurance Program Fund to provide state match for the Kids Care program. In addition to the above actions, please ensure that only the first and second quarter allocations for the Children's Health Insurance Fund have been transferred from the AHCCCS Medically Needy Account.

I appreciate your assistance in this matter. If you have any questions please feel free to give me a call at 542-5381.

Sincerely,

A handwritten signature in black ink, appearing to be 'TB' followed by a stylized, elongated flourish.

Thomas Betlach
Director, Governor's Office of Strategic Planning and Budget

Medically Needy/ Medically Indigent
FY 2001

		Member Months	Weighted Capitation Rate	Total Cost
Appropriation				
	Regular	227,866	\$451.01	\$102,769,845
	Prior Period	2,064	\$10,201.03	\$21,054,916
Current Estimate				
	Regular	200,517	\$552.70	\$110,824,743
	Prior Period	1,805	\$18,298.28	\$33,028,386
Additional Cost				
	Regular	\$8,054,899		
	Prior Period	\$11,973,471		
Prior Period Rate Reconciliation*		\$9,781,000		
	TOTAL	\$29,809,369		

*Costs were higher than what was accounted for in the capitation rate in contract years '98, 99,00.



GL

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Committed to excellence in health care

Jane Dee Hull
Governor

October 30, 2000

Phyllis Biedess
Director



The Honorable Susan Gerard
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable Russell Bowers
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Gerard and Senator Bowers:

This annual report on the tobacco tax allocation is submitted in accordance with A.R.S. §36-2921(E).

Revenues deposited by the Arizona Department of Revenue to the AHCCCS Medically Needy Account for SFY 2000 totaled \$78,418,618. An additional \$4,465,456 was deposited by the Arizona State Treasurer related to interest earnings. The total revenues of the AHCCCS Medically Needy Account for SFY 2000 were \$82,884,074.

Estimated expenditures in SFY 2001 are outlined below:

Estimated Expenditures for SFY 2001 Allocations:

AHCCCS Allocations:

Transplants	\$ 3,590,000
Non-Categorical Hospital Discount	10,000,000
Offset Phase-down of Quick Pay Discount	8,206,700
Offset Loss in Federal Funds	4,542,200
Maternity Length of Stay	2,572,800
HIV/AIDS Treatment	1,349,600
Fiscal Year 2000 Medical Inflation	5,276,000
Children's Health Insurance Program	19,833,700
AHCCCS Subtotal	<u>55,371,000</u>

Tobacco Tax Allocation Report
October 30, 2000
Page Two

ADHS Medically Needy Allocations:	
Mental Health Programs for Non-Title XIX	5,200,000
Primary Care Programs	6,240,000
Qualifying Community Health Centers	5,200,000
Community Health Centers	4,000,000
Renal Disease Management	260,000
Program Evaluation Costs	854,200
HIV/AIDS Treatment	1,000,000
Nonrenal Disease Management	208,000
SCHIP Direct Services	1,000,000
Psychotropic Medications – New Generations	4,100,000
Psychotropic Medications - SMI Non-Title XIX	3,000,000
Mental Health Medications	9,500,000
Rural Private Loan Repay	111,200
ADHS Medically Needy Subtotal	40,673,400
ADES Allocation:	
Aging & Adult Administration	500,000
Subtotal SFY 2001 Allocations	96,544,400

Estimated SFY 2001 Expenditures for SFY 1998 Non-Lapsing Allocations:

ADHS Medically Needy Allocations:	
¹ Public Health Education	2,692,250
Subtotal SFY 1998 Non-Lapsing Allocations	2,692,250
Total Estimated Expenditures for SFY 2001	\$ 99,236,650

¹ The ADHS Public Health Education allocation is a \$7,500,000 SFY 1998 allotment that is scheduled to be drawn over a six-year period. The \$2,692,250 amount above represents the SFY 2001 allotment of \$2,341,500 and the unspent SFY 2000 allotment of \$350,750 to be paid in SFY 2001. Scheduled for future allocation are the remaining allotments for SFY 2002 and SFY 2003 of \$753,000 and \$670,000 respectively.

Tobacco Tax Allocation Report
October 30, 2000
Page Three

If you have any questions concerning this report, please contact myself or James A. Cockerham at 417-4680 or 417-4059, respectively.

Sincerely,

A handwritten signature in cursive script that reads "Phyllis Biedess".

Phyllis Biedess
Director

s:\dbf\tobtxltr00.doc

c: Tom Betlach, Director, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
James A. Cockerham, Assistant Director, DBF
Lynn Dunton, Assistant Director, OPAC
John O. Moorman, Finance Administrator, DBF

STATE OF ARIZONA

Joint Legislative Budget Committee

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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FAX (602) 542-1616

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

HOUSE OF
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JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – REPORT
ON EMERGENCY ALLOCATIONS

Request

The Department of Emergency and Military Affairs (DEMA) has provided a summary of the emergencies declared in FY 2001 to date.

Recommendation

This item is for information only and no Committee action is required. DEMA reports that there have been 4 emergencies declared and a total of \$885,000 allocated from the Governor's Emergency Fund in FY 2001. DEMA is considering obligating additional FY 2001 emergency funds for prior year emergencies. The JLBC has concerns about this approach, as it would limit the state's flexibility in addressing any new current year emergencies.

Analysis

Pursuant to A.R.S. § 35-192, the Governor may declare an emergency and authorize up to \$200,000 from General Fund monies that are available each year for emergency response and recovery. Expenditures of more than \$200,000 require approval from the Governor's Emergency Council, which consists of members representing various state agencies, and the total amount allocated each year may not exceed \$4 million.

In FY 2001, the following monies have been allocated for emergencies:

(Continued)

<u>FY 2001 Governor's Emergency Fund Allocations</u>			
<u>Date of Allocation</u>		<u>Allocation</u>	<u>Fund Balance</u>
	Beginning Fund Balance		\$4,000,000
7/28/2000	PCA 21101 - Gila County Potable Water Shortage	\$50,000	\$3,950,000
8/25/2000	PCA 21102 - Mohave County Wind Storm Emergency	\$30,000	\$3,920,000
10/17/2000	PCA 21103 - Tropical Storm Olivia	\$200,000	\$3,720,000
10/23/2000;11/9/2000	PCA 21104 - Arizona 2000 Flood Emergency ^{1/}	\$605,044	\$3,114,956
^{1/} The Governor allocated \$200,000 on October 23, 2000 and the Emergency Council allocated an additional \$405,000 on November 9, 2000.			

DEMA anticipates that the Arizona 2000 Flood Emergency will require additional monies beyond the \$605,000 allocation. At this time, the total estimated cost of the flood damage is \$13.4 million, of which \$3.35 million is the state's share. However, DEMA officials have emphasized that these estimates are very preliminary and do not include all areas of potential damage. Actual damage assessments could be much greater than \$13.4 million and may not be completed until the spring. DEMA does not expect that the FY 2001 costs will exceed the available \$4 million but indicates that additional FY 2002 monies may be needed for the flood damage.

The department also has almost \$4.1 million in costs from prior year emergencies. DEMA officials indicate that of this \$4.1 million, \$1.8 million may be paid from federal monies left from 1993 flood emergencies, but these monies must be matched by \$1.8 million in state and local funds. The remaining \$0.5 million must also be paid by the state unless other federal monies are found. The Governor's Emergency Council intended to commit FY 2001 monies for these emergencies but delayed obligating the monies when it became apparent that the costs of the Arizona 2000 Flood Emergency would be high.

We are looking into whether obligating current fiscal year monies for prior fiscal year emergencies is authorized under the statute governing emergency expenditures. The statute does not specifically address this issue, so it is not clear whether current fiscal year monies may be authorized for emergencies declared in prior fiscal years. In addition, we would raise the concern that there might not be sufficient monies to fund any new emergencies if the remaining FY 2001 monies are obligated for prior year emergencies.

RS/BK:ck

THE WHITE HOUSE

WASHINGTON

October 27, 2000

The Honorable Jane Dee Hull
Governor of Arizona
State Capitol, 1700 W. Washington
Phoenix, Arizona 85007

Dear Governor Hull:

As requested, I have declared a major disaster under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. § 5121 et seq. (the Stafford Act) for the State of Arizona due to damage resulting from severe storms and flooding beginning on October 21, 2000, and continuing. I have authorized Federal relief and recovery assistance in the affected area.

Individual Assistance, Public Assistance, and Hazard Mitigation will be provided. Consistent with the requirement that Federal assistance be supplemental, any Federal funds provided under the Stafford Act for Public Assistance and Hazard Mitigation will be limited to 75 percent of the total eligible costs in the designated areas.

The State Emergency Management Agency (SEMA) will manage the Public Assistance operation, including project eligibility reviews, process control, and resource allocation. FEMA will retain obligation authority, the final approval of environmental and historic preservation reviews, and will assist SEMA to the extent that such assistance is necessary and is specifically requested by SEMA. The Operational Agreement, as an addendum to the FEMA-State Agreement, will define the roles and responsibilities, procedures and processes in effect for this disaster declaration.

The Federal Emergency Management Agency (FEMA) will coordinate Federal assistance efforts and designate specific areas eligible for such assistance. The Federal Coordinating Officer will be Mr. David Fukutomi of FEMA. He will consult with you and assist in the execution of the FEMA-State Agreement for disaster assistance governing the expenditure of Federal funds.

Sincerely,

Bin Clinton

THE WHITE HOUSE

WASHINGTON

October 27, 2000

The Honorable James L. Witt
Director
Federal Emergency Management Agency
Washington, D.C. 20472

Dear Mr. Witt:

I have determined that the damage in certain areas of the State of Arizona, resulting from severe storms and flooding beginning on October 21, 2000 and continuing, is of sufficient severity and magnitude to warrant a major disaster declaration under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. § 5121 et seq. (the Stafford Act). I, therefore, declare that such a major disaster exists in the State of Arizona.

In order to provide Federal assistance, you are hereby authorized to allocate from funds available for these purposes, such amounts as you find necessary for Federal disaster assistance and administrative expenses.

You are authorized to provide Individual Assistance, Public Assistance, and Hazard Mitigation in the designated areas. Consistent with the requirement that Federal assistance be supplemental, any Federal funds provided under the Stafford Act for Public Assistance or Hazard Mitigation will be limited to 75 percent of the total eligible costs.

Further, you are authorized to make changes to this declaration to the extent allowable under the Stafford Act.

The State Emergency Management Agency (SEMA) will manage the Public Assistance operation, including project eligibility reviews, process control, and resource allocation. FEMA will retain obligation authority, the final approval of environmental and historic preservation reviews, and will assist SEMA to the extent that such assistance is necessary and is specifically requested by SEMA.

Sincerely,

Bill Clinton



JANE DEE HULL
GOVERNOR

STATE OF ARIZONA
Division of Emergency Management
5636 EAST McDOWELL ROAD
PHOENIX, ARIZONA 85008-3495
(602) 244-0504 1-800-411-2336




MICHAEL P. AUSTIN
DIRECTOR

MEMORANDUM



DATE: Thursday, October 26, 2000

TO: Bret Cloninger, Analyst, OSPB
Richard Stavneak, Director, JLBC
Beth Kohler, JOBC/JLBC

FROM: Michael P. Austin, Director 
Arizona Division of Emergency Management

SUBJECT: Governor's Request Major Disaster

Attached is a copy of Governor Jane Dee Hull's letter to President William J. Clinton requesting that he declare a major disaster for the State of Arizona as a result of severe storms and flooding beginning October 21, 2000 and continuing.



JANE DEE HULL
GOVERNOR
STATE OF ARIZONA

**GOVERNOR'S REQUEST
MAJOR DISASTER**

October 26, 2000

The Honorable William J. Clinton
President of the United States
The White House
Washington, D. C. 20500

Through: Martha Whetstone
Regional Director, FEMA Region IX
Building 105, P.O. Box 29998
Presidio of San Francisco, California 94129-1250

Dear Mr. President:

Under the provisions of Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. § 5121 et seq. (the Stafford Act), and implemented by 44 CFR § 206.36, I request that you declare a major disaster for the State of Arizona as a result of severe storms and flooding beginning October 21, 2000 and continuing. The counties affected as of today are La Paz, Maricopa, Santa Cruz and Cochise. We are anticipating additional precipitation later this week and possibly through the weekend, which is expected to cause further damage.

A severe weather disturbance dumped up to 4 to 6 inches of rain in the upper part of the Centennial Wash watershed in eastern La Paz and western Maricopa Counties in the early morning hours of 22 October, after the entire area had received heavy rains during the afternoon and evening of the 21st. The resulting flash flood caused extensive damage in the community of Wenden, and for many miles downstream. There was a significant rise in many of the streams in southeastern Arizona, some of which exceeded bankfull stage for a time, but they are now generally receding.

The storm that caused the severe weather has passed out of the state to the east, but another similar storm system currently off the California coast is expected to move across Arizona over the next couple of days. This next system is expected to bring more rainfall into the state, possibly up to an inch or more in southwest Arizona. This new storm system has the potential to cause more flood damage in La Paz, Maricopa, Cochise, and Santa Cruz Counties, where the watersheds are still soaked from the rain and flooding that occurred over the past weekend and may have an adverse effect on other jurisdictions throughout the state.

At the beginning of fiscal year 2001, we had already committed from the Governor's Emergency Fund \$3,610,336 for events exceeding our fiscal year 2000 budget. Our Governor's Emergency Fund each fiscal year allocates four million dollars. To date, the State has obligated \$5,437,810 for four events that have been declared a State of Emergency during fiscal year 2001. These expenditures have left a deficit in our emergency fund of \$5,048,146.

In response to the situation, I have taken appropriate action under State law and directed the execution of the State Emergency Plan on October 22, 2000, in accordance with Section 401 of the Stafford Act. A State of Emergency was declared on October 23, 2000, for La Paz and Maricopa Counties. Cochise and Santa Cruz Counties are continuing to receive precipitation on top of their already saturated ground.

On October 23, 2000, I requested a joint Federal, State, and local survey of the damaged areas. Preliminary assessments indicated the most severe impacts are in Wenden, an unincorporated community in La Paz County and Wickenburg and Aguila, communities in Maricopa County. Heavy flooding from Centennial Wash through most of the town of Wenden, caused the evacuation of 500 people. Damages included homes and businesses, trailer homes overturned and destroyed, roads washed out and major and minor erosion throughout the disaster areas. In addition the community of Wenden's domestic water supply was 50% damaged, irrigation systems were damaged as well.

I have determined that this incident is of such severity and magnitude that effective response is beyond the capabilities of the State and the affected local governments and that supplementary Federal assistance is necessary. I am specifically requesting Individual Assistance, including Disaster Housing, Individual and Family Grant (IFG), Disaster Unemployment Assistance, Crisis Counseling, Public Assistance, Hazard Mitigation and Small Business Administration disaster loans.

Preliminary estimates of the types and amount of assistance needed under the Stafford Act are tabulated in Enclosures A and B. Estimated requirements for assistance from certain Federal agencies under other statutory authorities are tabulated in Enclosure C. The event continues and I may ask for additional federal assistance.

The following information is furnished on the nature and amount of State and local resources in effect to alleviate the conditions of this disaster:

- The Arizona Division of Emergency Management activated the emergency operations center on October 22, 2000, and remains open in support of the event.
- The Arizona National Guard has been activated to assist with health and safety concerns from debris removal and emergency road repairs, and general engineering survey of roads.
- La Paz County opened an incident command post in Salome. The Arizona Division of Emergency Management is on site supporting their efforts. The Arizona State Land Department has supplied resource support to the post with communications systems and other logistics.
- Search and Rescue operations continue for seven unaccounted individuals. Rescue teams from Yuma, Yavapai, Maricopa and Mohave Counties are assisting with the difficult operation. Cadaver dogs are being used due to the nature of the environment in the Wenden area.

- An allocation of \$200,000 from the Governor's Emergency Fund, the maximum allowed by state law, has been provided to support response operations.
- State, county and municipal public works resources have begun repairs of public transportation routes. Unsafe roads, bridges and low water crossings have been barricaded to protect the public.
- The American Red Cross opened a shelter for displaced individuals, and provided meals to the public, and performed damage assessment on housing units.

I intend to implement the Individual and Family Grant (IFG) program as shown in Enclosure A.

I certify that for this major disaster, the State and local governments will assume all applicable non-Federal share of costs required by the Stafford Act. Total state and local expenditures are expected to exceed \$1,648,631, in accordance with the table in Enclosure D.

In accordance with 44 CFR § 206.208, the State of Arizona agrees that it will, with respect to any future direct Federal assistance requested, we will:

Provide without cost to the United States all lands, easements and rights-of-ways necessary to accomplish the approved work;

Hold and save the United States free from damages due to the requested work, and shall indemnify the Federal Government against any claims arising from such work;


Provide reimbursement to FEMA for the non-Federal share of the cost of such work in accordance with the provisions of the FEMA-State Agreement; and

Assist the performing Federal agency in all support and local jurisdictional matters.

Pursuant to Sections 403 and 407 of the Stafford Act, 42 U. S. C. §§ 5170 (b) & 5173, the State agrees to indemnify and hold harmless the United States of America for any claims arising from the removal of debris or wreckage for this disaster. The State agrees that debris removal from public and private property will not occur until the landowner signs an unconditional authorization for the removal of debris.

I have designated Mr. Michael P. Austin, Director of the Arizona Division of Emergency Management, as the Governor's Authorized Representative and State Coordinating Officer for this request. He will work with the Federal Emergency Management Agency in damage assessments and may provide further information or justification on my behalf.

Sincerely,



JANE DEE HULL
Governor

Enclosures

ENCLOSURE A TO MAJOR DISASTER REQUEST

Estimated Requirements for Individual Assistance The Stafford Act

County	Temporary Housing	Individual and Family Grants		Disaster Unemployment Assistance		Other
	(Indicate No.)	(Indicate No. and dollar amount)		(Indicate No. and dollar amount)		
County Name		No.	\$	No.	\$	
La Paz	186	131	327,500			
Maricopa	87	162	405,000			
Totals:	273	293	732,500			

The joint PDA teams surveyed a total of 419 primary homes (a significant amount of mobile homes) in two counties. Cost estimates and type of assistance are based on the nature of damages, water levels, length of time flooded, insurance coverage and the value of the structures. Estimates were derived on the basis of destroyed, major and minor damages.

The individuals affected by the flooding were for the most part low and fixed income with a high percentage of elderly. Approximately one percent of those affected had flood insurance.

Enclosure A

ENCLOSURE B TO MAJOR DISASTER REQUEST

Estimated Requirements for Public Assistance
The Stafford Act

CATEGORY

Applicant	A	B	C	D	E	F	G	Total
La Paz	528,000	157,500	1,916,200	0	0	0	25,000	2,626,700
McMullin Water	0	0	40,000	202,000	0	0	0	242,000
Wenden Water	0	3,000	0	0	0	12,000	0	15,000
Maricopa	77,177	20,000	920,471	0	1,300	0	39,200	1,058,148
Cochise	0	0	100,000	0	0	0	0	100,000
Santa Cruz	0	20,000	180,000	0	0	0	0	200,000
ADEM	0	100,000	0	0	0	0	0	100,000
ADOT	0	737,600	0	0	0	0	0	737,600
Nat'l Guard	0	500,000	0	0	0	0	0	500,000
Land Dept.	0	280,000	0	0	0	0	0	280,000
DPS	0	2,574	0	0	0	0	0	2,574
Totals:	605,177	1,820,674	3,156,671	202,000	1,300	12,000	64,200	5,862,022

Enclosure B

ENCLOSURE D TO MAJOR DISASTER REQUEST

Governor's Certification

I certify that for this current disaster, State and local government expenditures and obligations will include the non-Federal share of costs required by the Stafford Act. As stated in my basic letter, and based on information available at this time, tabulation of these estimated expenditures and obligations are as follows:

CATEGORY OF ASSISTANCE	AMOUNT	
	STATE	LOCAL
Individual Assistance:		
Housing		
Individual and Family Grants	\$183,125	
Other (specify)		
Total:	\$183,125	
Public Assistance:		
Category A - Debris Removal	\$90,777	\$60,518
Category B - Emergency Protective Measures	435,119	20,050
Category C - Roads and Bridges	473,500	315,667
Category D - Water Control Facilities	30,300	20,200
Category E - Buildings and Equipment	195	130
Category F - Utilities	1,800	1,200
Category G - Other (Parks, Recreational Facilities, etc.)	9,630	6,420
Total:	\$1,041,321	\$424,185
Grand Total:	\$1,224,446	\$424,185

Enclosure D



JANE DEE HULL
GOVERNOR

STATE OF ARIZONA
Division of Emergency Management
5636 EAST McDOWELL ROAD
PHOENIX, ARIZONA 85008-3495
(602) 244-0504 1-800-411-2336



MICHAEL P. AUSTIN
DIRECTOR

MEMORANDUM



DATE: Friday, October 20, 2000

TO: Bret Cloninger, Analyst, OSPB
Richard Stavneak, Director, JLBC
Beth Kohler, JOBC/JLBC

FROM: Michael P. Austin, Director
Arizona Division of Emergency Management

SUBJECT: Santa Cruz County Severe Rains and Flooding Proclamation

Attached is a copy of the Proclamation for Santa Cruz County signed by Governor Jane Dee Hull on October 17, 2000, due to excessive rains and flooding originating from remnants of Hurricane Olivia, causing the Nogales Wash, Santa Cruz River and its tributaries to flood, effective October 10 through 11, 2000.

*** IN ACCORDANCE WITH ESTABLISHED EMERGENCY PROCEDURES ***

WHEREAS, on October 17, 2000 the Santa Cruz County Board of Supervisors declared an emergency for the severe rains originating from remnants of Hurricane Olivia that caused damage to the County's infrastructure including roads, drainage channels, and utilities; and

WHEREAS, the severe rains caused excessive flow in Nogales Wash, the Santa Cruz River and its tributaries, and adjacent areas in Santa Cruz County, and caused a high level of erosion and infrastructure damage in these areas; and

WHEREAS, Santa Cruz County provided emergency protective measures; and

WHEREAS, recovery from the storm event is above and beyond the capabilities of Santa Cruz County; and

WHEREAS, the Governor is authorized to declare an emergency pursuant to A.R.S. §26.303.d; and

WHEREAS, the Legislature has authorized the expenditure of funds in the event of an emergency pursuant to A.R.S. §35-192, as amended;

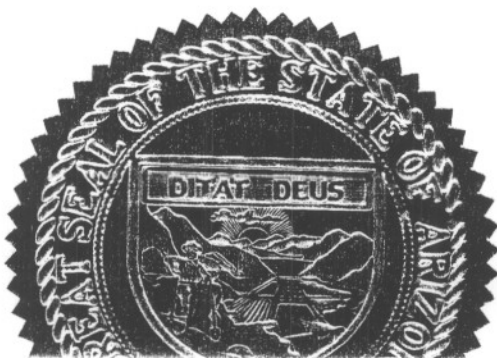
NOW, THEREFORE I, Jane Dee Hull, Governor of the State of Arizona, by virtue of the authority vested in me by the Constitution and Laws of the State, do hereby determine the excessive rains and flooding due to the remnants of Hurricane Olivia in Santa Cruz County justifies a declaration of a State of Emergency, pursuant to A.R.S. §26.303.d, and I do hereby:

- a. Declare that a State of Emergency exists in Santa Cruz County due to heavy rains from the remnants of Hurricane Olivia causing the Nogales Wash, Santa Cruz River and its tributaries' to flood, effective October 10 through 11, 2000; and
- b. Direct that the sum of \$200,000 from the General Fund be made available to the Director of the State Division of Emergency Management to be expended in accordance with A.R.S. §35-192, A.A.C. R8-2-301 to 321, Executive Order 79-4; and
- c. Direct that the State Emergency Operations Plan be used to direct and control state and other assets; and direct that the Director of the Division of Emergency Management is authorized to coordinate State assets.

IN WITNESS WHEREOF, I have
hereunto set my hand and
caused to be affixed the Great
Seal of the State of Arizona


GOVERNOR

DONE at the Capitol in Phoenix
on this the seventeenth day of
October in the Year Two





JANE DEE HULL
GOVERNOR

STATE OF ARIZONA
Division of Emergency Management
5636 EAST McDOWELL ROAD
PHOENIX, ARIZONA 85008-3495
(602) 244-0504 1-800-411-2336




MICHAEL P. AUSTIN
DIRECTOR

MEMORANDUM

DATE: Tuesday, October 24, 2000

TO: Bret Cloninger, Analyst, OSPB
Richard Stavneak, Director, JLBC
Beth Kohler, JOBC/JLBC

FROM: Michael P. Austin, Director 
Arizona Division of Emergency Management

SUBJECT: La Paz and Maricopa Counties Heavy Rains and Flooding Proclamation



Attached is a copy of the Proclamation for La Paz and Maricopa Counties signed by Acting Governor Betsey Bayless on October 23, 2000, due to heavy rains originating from severe thunderstorms, causing flooding throughout La Paz and Maricopa Counties, effective October 21, 2000 and continuing.

*** IN ACCORDANCE WITH ESTABLISHED EMERGENCY PROCEDURES ***

WHEREAS, severe thunderstorms and heavy rains throughout the State of Arizona began October 21, 2000 and continuing, caused flooding throughout La Paz and Maricopa Counties; and

WHEREAS, damage to family dwellings, street closures, shelters open to accommodate displaced citizens, and utility outages created a life threatening situation; and

WHEREAS, recovery from the storm event is above and beyond the capabilities of La Paz and Maricopa Counties; and

WHEREAS, the Governor is authorized to declare an emergency pursuant to A.R.S. §26.303.d; and

WHEREAS, the Legislature has authorized the expenditure of funds in the event of an emergency pursuant to A.R.S. §35-192, as amended;

NOW, THEREFORE I, Betsey Bayless, Acting Governor of the State of Arizona, by virtue of the authority vested in me by the Constitution and Laws of the State, do hereby determine the excessive rains and flooding in La Paz and Maricopa Counties justify a declaration of a State of Emergency, pursuant to A.R.S. §26.303.d, and I do hereby:

- a. Declare that a State of Emergency exists in La Paz and Maricopa Counties due to heavy rains and flooding effective October 21, 2000 and continuing; and
- b. Direct that the sum of \$200,000 from the General Fund be made available to the Director of the State Division of Emergency Management to be expended in accordance with A.R.S. §35-192, A.A.C. R8-2-301 to 321, Executive Order 79-4; and
- c. Direct that the State Emergency Operations Plan be used to direct and control state and other assets; and direct that the Director of the Division of Emergency Management is authorized to coordinate state assets; and
- d. Authorize the Adjutant General to mobilize and activate all or such part of the National Guard as is determined necessary to assist in the protection of life and property throughout the State.



IN WITNESS WHEREOF, I have hereunto set my hand and caused to be affixed the Great Seal of the State of Arizona

Betsey Bayless
ACTING GOVERNOR

DONE at the Capitol in Phoenix on this the twenty-third day of October in the Year Two Thousand and of the independence of the United States of America the Two Hundred

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RANDALL GNANT
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RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
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BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Patrick Fearon, Senior Fiscal Analyst

SUBJECT: ARIZONA STATE SCHOOLS FOR THE DEAF AND BLIND - REVIEW INTENDED
USE OF EXCESS VOUCHER FUNDS

Request

The Arizona State Schools for the Deaf and the Blind (ASDB) wishes to report its intended use of FY 2001 special education voucher monies that are in excess of \$7,302,600, as required by a General Appropriation Act footnote.

Recommendation

This item is for information only and does not require Committee action. The JLBC Staff, however, recommends that the Committee ask ASDB to report back on its plans for approximately \$100,000 in additional voucher revenues that have not been included in the spending plan presented in this memo.

Analysis

A footnote in the 1999 General Appropriation Act (Laws 1999, Chapter 1, 1st Special Session) requires ASDB to report its intended use of any special education voucher funds in excess of \$7,302,600 in FY 2001. ASDB estimates that it will receive a total of \$8,175,500 for FY 2001, or \$872,900 above the footnote threshold. The excess funding is attributable to higher than expected enrollment of vouchered students. ASDB expects to have a total enrollment of 587 elementary and high school students and 12 pre-school students this academic year, versus 540 elementary and high school students and 9 pre-school students estimated originally. ASDB's projected enrollment for the end of this fiscal year would be an increase of 2.2% over FY 2000—an increase that we believe is reasonable given recent trends.

We have confirmed ASDB's estimate of voucher revenues given its revised enrollment and per-student voucher revenue projections. After submitting its excess voucher report, however, ASDB discovered that it forgot to add \$100,000 in "trigger" funding to its excess voucher fund estimate. These funds are due to a FY 2001 "trigger" increase in the K-12 formula "base level," which also is used in the special education voucher funding formula. Those funds are not addressed in this report.

(Continued)

The \$872,900 in new voucher monies included in ASDB's report would increase the agency's FY 2001 budget by 3.0%. (The budget would increase faster than enrollment growth because most of the enrollment growth is occurring in disability categories that generate higher voucher revenues.) The Tucson and Phoenix campuses anticipate revenue increases of approximately \$400,000 and \$390,000 respectively, with the remaining \$82,000 in increases coming from the pre-schools.

ASDB plans to use its excess voucher funds as outlined in Table 1:

	Tucson		Phoenix		Pre-Schools		Total	
	<u>FTE</u> <u>Positions</u>	<u>Cost</u>	<u>FTE</u> <u>Positions</u>	<u>Cost</u>	<u>FTE</u> <u>Positions</u>	<u>Cost</u>	<u>FTE</u> <u>Positions</u>	<u>Cost</u>
Teachers	2.0	\$ 60,187	4.0	\$118,875	0.7	\$29,248	6.7	\$208,310
Teachers, Phys. Ed.	0.5	13,788	0.0	0	0.0	0	0.5	13,788
Teaching Assistants	10.5	124,430	5.0	66,915	1.5	19,658	17.0	211,003
Communication Specialist	1.5	47,938	1.5	53,088	0.0	0	3.0	101,026
Occupational Therapists	0.4	14,859	0.0	0	0.0	0	0.4	14,859
Interpreter/Tutor	0.0	0	1.0	13,659	0.0	0	1.0	13,659
Diagnostician	0.0	0	0.5	26,030	0.0	0	0.5	26,030
Nurse	0.0	0	0.3	5,291	0.0	0	0.3	5,291
Intervenors	1.0	16,500	0.0	0	0.0	0	1.0	16,500
Attendants	1.5	13,000	0.0	0	0.0	0	1.5	13,000
Bus Drivers & Chaperones	0.0	0	3.0	49,100	0.0	0	3.0	49,100
Employee Related Expenditures	0.0	55,233	0.0	63,262	0.0	9,293	0.0	127,788
Supplies & Materials	0.0	30,000	0.0	36,500	0.0	0	0.0	66,500
Equipment	<u>0.0</u>	<u>6,000</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>6,000</u>
Total	17.4	\$381,935	15.2	\$432,720	2.2	\$58,199	34.9	\$872,854

Proposed Spending Plan. ASDB plans to use the majority of its excess voucher funds to hire new teachers and other personnel. Its envisioned ratio of new teachers and other personnel to extra students is better than its current ratio, but the hiring would generally only bring the agency's ratios to targeted levels that we consider reasonable. Its envisioned salary levels are significantly higher than entry level because of the limited number of qualified personnel available and the need to compete for their services. Its projected non-personnel costs, however, are consistent with current ratios.

- **FTE Positions** - ASDB plans to hire new teachers, teacher assistants, and other academic and support personnel equal to 34.9 FTE Positions for the 50 additional students it expects this year. The new FTE Positions would bring ASDB's student teacher ratios close to its targeted ratios (*see Table 2 attached*), but the agency would not reach all the target ratios because it generally does not plan to hire in those areas where the teacher shortfall is less than 1 full FTE Position.
- **Salary and ERE Costs** - ASDB's entry-level salary for bachelor-level teachers is about \$25,625. However, assumed salaries for the new instructors in ASDB's calculations are about \$31,000 and are consistent with new master's-level instructors. ASDB indicates that they have assumed a higher salary range than entry-level because of the limited number of qualified personnel available and the need to compete for their services. Hiring a portion of the new personnel at entry-level rates would free up significant resources.
- **Other Operating Costs** - ASDB is planning to use only \$72,500 of its new voucher funds for supplies and equipment. These expenditures represent only about 8% of the total proposed expenditures of excess voucher monies for FY 2001.

Table 2: ASDB Student/Teacher and Student/Other Personnel Ratios

		<u>ADM Total</u>	<u>Current FTE</u>	<u>Requested FTE</u>	<u>Current Ratio</u>	<u>Target Ratio</u>	<u>Ending Ratio</u>
<u>Teachers</u>							
	Tucson: ASD	184.000	33.000	0.000	5.58	5.55	5.58
	Tucson: ASB	112.000	21.000	2.000	5.33	4.67	4.87
	Phoenix, PDSD	291.000	43.000	4.000	6.77	5.89	6.19
	Pre-Schools	<u>92.000</u>	<u>27.400</u>	<u>0.000</u>	<u>3.36</u>	<u>2.48</u>	<u>3.36</u>
	Total	679.000	124.400	6.000	5.46	4.73	5.21
<u>Other Personnel</u>							
	Tucson: ASD	184.000	19.700	6.375	9.34	5.20	7.06
	Tucson: ASB	112.000	22.350	7.125	5.01	4.16	3.80
	Tucson: Dual	296.000	9.500	0.500	31.16	30.30	29.60
	Phoenix, PDSD	291.000	35.750	6.450	8.14	4.41	6.90
	Pre-Schools	92.000	<u>10.000</u>	<u>1.500</u>	<u>9.20</u>	<u>6.50</u>	<u>8.00</u>
	Total		97.300	21.950	6.98	4.46	5.69

NOTE: "Other Personnel" excludes some positions for which there are no formal ratios, such as bus drivers and chaperones



ASDB-Agency
P.O. Box 88510
Tucson, AZ 85754
520.770.3719 V/TDD
520.770.3711 FAX

Board of Directors
Superintendent
Finance
Human Resources
Operations

ASDB-Tucson
P.O. Box 85000
Tucson, AZ 85754
520.770.3667 V/TDD
520.770.3003 FAX

K-12 Day Programs
K-12 Residential Programs
AZ School for the Deaf-Tucson
AZ School for the Blind
Extended School Day

ASDB-Phoenix
1935 W. Hayward Avenue
Phoenix, AZ 85021
602.336.6803 V/TDD
602.336.6944 FAX

K-12 Day Program
AZ School for the Deaf-Phoenix
(Phoenix Day School for Deaf)

ASDB-Statewide
P.O. Box 87010
Tucson, AZ 85754
520.770.3600 V/TDD
520.770.3011 FAX

Birth-12 Programs
Regional Cooperatives
Early Childhood Education
Technical Assistance to Schools

October 30, 2000

Senator Randall Gnant, Chairman of the Senate Appropriations Committee
Representative Robert Burns, Chairman of the House Appropriations Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Senator Gnant and Representative Burns:

We respectfully request that ASDB be placed on the next JLBC agenda for the purpose of reporting our intended use of excess voucher funds, as required by appropriation footnote.

The agency expects to have 605 vouchered students enrolled by the end of the first semester. This will result in approximately \$872,900 of additional voucher revenue by the end of the school year. The majority of the additional students expected are multiply disabled and require one-to-one support and a wide array of related services (i.e. physical therapy, behavior management, etc.) in addition to regular educational programs and residential services.

To accommodate the increased enrollment, additional classroom teachers and instructional aides will be hired at both the Phoenix and Tucson campuses. Related services positions will be increased to address the support required by each child's I.E.P. And finally, transportation and residential services will be augmented to handle the increased demands.

Attached is a detailed breakdown of both the expected increases in enrollment and the planned expenditure of additional voucher revenue.

Thank you for your consideration of this request. If you need additional information regarding this request, please contact Maude Shingler at (520) 770-3704.

Sincerely,

Kenneth D. Randall, Ed.D.
Superintendent

cc: Rep. Jeff Groscoast, Speaker of the House of Representatives
Sen. Brenda Burns, President of the Senate
Patrick Fearon, Fiscal Analyst JLBC
Richard Stavneak, Director of the Joint Legislative Budget Committee
Thomas Betlach, Director of the Governor's Office of Strategic Planning and Budgeting
Randy Hillier, Fiscal Analyst OSPB
Dr. Marcia Smith, President ASDB Board of Directors

Arizona State Schools for the Deaf and the Blind

Anticipated Institutional Voucher Revenue FY2001

	RATE	Enrollment	Projected Revenue
Tucson Campus			
School for Deaf			
HI	11,374	121	1,376,254
MD	15,702	28	439,656
MDSSI	18,314	35	640,990
School for Blind			
VI	15,229	32	487,328
MD	15,702	21	329,742
MDSSI	18,314	59	1,080,526
Phoenix Campus			
HI	11,374	218	2,479,532
MD	15,702	41	643,782
MDSSI	18,314	32	586,048
Preschools			
HI	11,374	7	79,618
VI	15,229	5	76,145
Sub Total:			8,219,621
LESS: Absenses/Low Enrollment:			<u>(44,100)</u>
Total Projected Revenue FY01:			8,175,521
Budgeted Revenue FY01:			<u>(7,302,600)</u>
PROJECTED ADDITIONAL REVENUE:			872,921

Arizona State Schools for the Deaf and the Blind

Expenditure of Additional Voucher Revenue FY2001

	FTE	Personal Services
TUCSON CAMPUS		
School for Deaf		
Teacher Assistant	4.875	55,292
Communication Specialist	1.500	47,938
Intervener (Deaf/Blind)	1.000	16,500
Classroom supplies, materials		5,000
School for Blind		
Teacher	2.000	60,187
Teacher Assistant	5.625	69,138
Student Personal Attendant	1.500	13,000
Braille text, supplies		25,000
School for Deaf, School for Blind		
Teacher-Adaptive Phys. Ed.	0.500	13,788
Occupational Therapist	0.375	14,859
Equipment		6,000
PHOENIX CAMPUS		
Teacher	4.000	118,875
Teacher Assistant	4.950	66,915
Communication Specialist	1.500	53,088
Educational Interpreter/Tutor	1.000	13,659
Educational Diagnostitian	0.500	26,030
Nurse	0.350	5,291
Bus Drivers/Chaperones	3.000	49,100
Fuel supplement		6,500
Classroom supplies, materials		30,000
PRESCHOOLS		
Teacher	0.750	29,248
Teacher Assistant	1.500	19,658
Employer Related (19%)		127,788
TOTAL EXPENDITURES	34.925	872,854

STATE OF ARIZONA

Joint Legislative Budget Committee

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BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tom Mikesell, Fiscal Analyst

SUBJECT: DEPARTMENT OF ENVIRONMENTAL QUALITY — REPORT ON VEI RFP

Request

The department is reporting on its activities surrounding the Request for Proposals (RFP) for the next Vehicle Emissions Inspection (VEI) Program contract. This report includes cost information on contract provisions as requested by the Committee at the September 14, 2000 meeting.

Recommendation

This item is for information only and no Committee action is required. The JLBC Staff recommends, however, that after the contract has been awarded, ADEQ report back to the Committee with specific fee information, including the incremental cost of use of 4-wheel dynamometers, performance bonds, mitigating factors for liquidated damages, and the effect of appropriating payments to the contractor. We recommend that, unless the Committee's December meeting is cancelled, the report be presented prior to the final signing of the contract.

At the September JLBC Meeting, the Committee gave a favorable review to the draft RFP, but requested that ADEQ report back on cost implications associated with some of the new provisions in the contract. As a result of this request, ADEQ solicited input from potential contractors on relative costs related to the provisions identified by the Committee and any other costly provisions. ADEQ has since issued an amendment to the RFP that either eliminates or mitigates those provisions that were thought to be the most costly. The requirements for an "exit lane" and a 4-wheel drive dynamometer at each station were eliminated. In addition, provisions relating to wait times, performance penalties, and On-Board Diagnostics (OBD) tests were modified. Provisions such as fraud detection, a web page, and test result transmission to the Motor Vehicle Division were not identified as costly and therefore were not changed.

(Continued)

The requirement that all test fees be deposited in the VEI Fund and that payments to the contractor be appropriated from the fund, was also identified as having a significant cost implication. The contractor's perceived uncertainty of the appropriations process may lead them to increase fees to allow them to hedge against the uncertainty. The RFP amendment did not address this provision, however, as statute currently requires all fees collected be deposited in the VEI Fund.

On October 26, a public proposal-offering meeting was held. Gordon Darby was the only contractor that attended. To date, they are the only company to offer a bid. ADEQ has put together a selection team to begin evaluating the bid. The team anticipates awarding the contract on December 15.

Analysis

Background

Federal law requires that Arizona operate a vehicle emissions inspection program in Maricopa and Pima Counties. The current VEI program contract is set to expire on December 31, 2001. ADEQ developed an RFP detailing program requirements beginning January 1, 2002. This RFP was given a favorable review by the Committee at its September 14, 2000 meeting. As part of the review, the Committee identified several potentially costly items in the RFP that represented changes from the current contract. As a result, the Committee requested information on test fees, particularly the incremental costs of items not included in the current program.

At an October 2 meeting, ADEQ solicited feedback from interested contractors on several potentially costly provisions in the RFP in addition to those provisions identified by the JLBC. A matrix provided by one contractor displayed its views as to the magnitude of the cost provisions (Attachment 1).

As a result of this feedback, ADEQ issued an amendment to the RFP on October 6, 2000. Some of the changes directly impact the provisions identified by the Committee and some of the changes impact the provisions identified in the contractor meeting. The issues identified at the September JLBC meeting, the action taken to address them, and the anticipated impact on the test fee, are as follows:

- **Fraud detection measures:** Contractor feedback indicated fraud detection measures, including videotaping of testing lane activity, would have a small incremental cost per test. The amendment to the RFP did not address this item.
- **Construction of 'exit lanes' at each testing station:** The amendment removed this requirement from the RFP. This was done to reduce capital construction costs, leading to a lower cost per test.
- **Web page listing real time testing station wait times:** Contractor feedback indicated that incremental cost of this provision would be small, and therefore the amendment did not address this issue. The Web page will provide a source for motorists to get up-to-date wait time data at a small per test cost.

- **Real time transmission of test results to the Motor Vehicle Division:** Contractor feedback indicated that the incremental cost of this provision would be small, and therefore the amendment does not address this provision. Its inclusion will allow better service for motorists who want to get their emissions inspection and registration on the same day.
- **Liquidated damages:** The contractor identified the fines for not meeting performance standards as significant. The RFP amendment allows the contractor to offer mitigating factors in the assessment of liquidated damages for violation of specified performance and reporting standards. For example, the contractor will have the opportunity to specify an expected number of monthly tests with the understanding that in months where this number is exceeded, motorist wait times may exceed the requirements of the contract without penalty.
- **Performance bonds:** The contractors did not indicate that a required performance bond has significant cost implications. ADEQ indicates that a financial guarantee of this type is necessary to protect the state's interests and therefore the amendment does not change the performance bond provisions.
- **Legislative appropriation of contractor payments:** The requirement that all test fees be deposited in the VEI Fund and that payments to the contractor be appropriated from the fund was also identified as having a significant cost implication. The contractors perceive payment through appropriation as less certain than the current method of simply retaining the fee at the time of the test. To account for this uncertainty the contractor may assess a risk premium. At this time it is not known how much this assessment will be. The amendment, however, requires bidders to specify the incremental cost associated with appropriating the payment. ADEQ was not able to change the requirement that fees be appropriated, as statute currently requires all fees collected be deposited in the VEI Fund.

Other issues identified at the October 2 contractor meeting, the action taken to address these issues, and the anticipated impact on the test fee, are as follows:

- **Strict monthly wait time standards:** According to potential bidders, this provision as originally worded in the RFP, would have required bidders to oversize testing networks to accommodate the highest volume times of the month. Typically, highest volumes are during the last week of the month. The amendment addressed this by excluding the last 6 operating days of the month from the calculation of wait times statistics, allowing bidders to design a testing network based on normal vehicle volumes rather than peak volumes. This may mean longer wait times for those who come during the end of the month, but does result in lower fixed costs and lower test fees.
- **4-wheel dynamometers at all testing stations:** The original RFP required each station to have the capability to provide constant 4-wheel drive vehicles an IM 147 test. These vehicles can not be tested on 2-wheel dynamometers and to equip each station with the necessary equipment was viewed by bidders as excessive in light of the small constant 4-wheel drive vehicle population. The amendment removed the requirement that all stations be equipped with 4-wheel dynamometers and replaced it with the requirement that the contractor design a network that allows these tests at a certain station or stations. The design must include a method that directs affected motorists to the proper station. The JLBC Staff feels that in order for this to be effective, the method must inform motorists where they need to go prior

to them arriving at the station. The requirement for 4-wheel dynamometers could not be removed completely as it is required under current law.

- **4% random testing for cost-effectiveness study purposes:** Originally, 4% of the vehicles tested were to be randomly re-tested with a full IM 147 test in order to provide data on the program's effectiveness. This was identified in the contractor meeting as an item with a potentially large impact on cost as it would have required an increased number of tests. The amendment reduces this requirement to 2.5% of vehicles that failed the test and 1% of vehicles that passed the test. Reducing the number of vehicles subject to the sample reduces the cost of this provision while still providing enough data for cost-effectiveness studies.
- **On Board Diagnostics (OBD) testing in addition to other forms of testing:** The OBD check is a process by which a vehicle's computer can report emissions problems through plug-in test equipment. It is expected that the federal Environmental Protection Agency will allow OBD in lieu of IM 147 for 1996 and newer vehicles in the near future. The original RFP requested pricing for testing using OBD in addition to the tailpipe tests in Maricopa and Pima Counties. Contractor feedback identified this as an item with a potentially large impact on test cost, since this would result in duplicate testing. The amendment addressed this by removing the OBD requirement from Pima County and by allowing this type of testing in lieu of IM 147 in Maricopa County for 1996 and newer vehicles. Allowing OBD in lieu of IM 147 for these vehicles in Maricopa County will result in lower operating costs as the OBD test is faster than IM 147. The savings associated with increased throughput will grow in the future as the OBD test will be applied to a growing percentage of the vehicle population.

The savings associated with OBD testing in Maricopa County can not be realized in Pima County as current statute requires the standard idle test. Implementing OBD without changing statute would result in duplication of testing thereby increasing contractor operating costs. The amendment eliminates the OBD requirement in Pima County so as not to inflate the test fee due to increased operating and capital equipment costs.

The contract amendment requires that the bidder report the incremental cost associated with several contract provisions, including use of 4-wheel dynamometers, performance bonds, mitigating factors for liquidated damages, and the effect of appropriating payments to the contractor. This will allow the selection team to better analyze the value of these provisions relative to their costs. The team can then negotiate with the bidder and adjust the contract prior to the final award.

ADEQ anticipates awarding the contract on December 15. At that time, actual cost and fee information will be made public. The JLBC Staff recommends that after the announcement of the contract award but prior to the final signing, ADEQ report back to the Committee on cost and fee information, including incremental costs of the use of 4-wheel dynamometers, performance bonds, mitigating factors for liquidated damages, and the effect of appropriating payments to the contractor. It is recommended that unless the Committee's December meeting is cancelled, that the report be presented prior to the final signing of the contract.

RS/TM:ck
Attachment

**NEW REQUIREMENTS IN SOLICITATION # EV01-0037 THAT INCREASE COST
SUBMITTED BY GORDON-DARBY 09/27/00**

Section	Page	Section	Issue	Discussion	Cost Impact
Program Requirements	6	2.3.5.3	Escape Lane	Depends upon site	?
Program Requirements	7	2.3.10.4	One 4wd dynamometer per station	Few vehicles, minor air benefit	L
Program Requirements	7	2.3.13	A/C for customer waiting area	Not currently provided, not currently a customer issue	S
Program Requirements	8	2.3.18	waiver center improvements	waiver center improvements	
Program Requirements	9	2.3.19	Cat efficiency bench cal and maintenance	Not in current contract	?
Program Requirements	10	2.3.23.1&2	video and polaroid	Not in current contract, video provided even though not in contract	S
Program Requirements	14	2.5.9	wait time monitoring	Not in current contract as "accurately measuring"	M
Program Requirements	17	2.5.19.3	magnetic cards	Not in current contract	S
Program Requirements	17	2.5.19.7	station summary	Not in current contract	S
Program Requirements	17	2.5.19.8	signs	Not in current contract	S
Test Procedure	19	2.6.5.2	Evap - Elec. & Plumbing Connection Inspection	Subject of discussion for several years - extensive requirements add training and test time.	?
Test Procedure	19	2. 6.5.5	OBD as an added test	OBD as an addition rather than a in lieu test adds greatly to test time	L
Test Procedure	20	2.6.5.6	4WD dynamometers	Few vehicles, minor air benefit	L
Test Procedure	20	2.6.5.9	random tests	4% may be excessive, adds time to all tests but particularly pre-1981	L
Test Procedure	21	2.6.6.4	add OBD in Area B	OBD as an addition rather than a in lieu test adds to test time	M
Data Management	24	3.1.2.5	duplicate mainframe	Added capital and ongoing cost to solve a problem that has not been a problem	?

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COST IMPACT KEY: S = SMALL L = LARGE
M = MODERATE G = GIGANTIC

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Section	Page	Section	Issue	Discussion	Cost Impact
Data Management	26	3.1.13	MVD Real Time	Task in progress now - unknown requirements since MVD has not completed requirements	S
Data Management	28	3.1.24	Software and Hardware for ADEQ database access	Unknown objective at this time	?
Data Management	28	3.2	new reports	New requirement	
Data Management	28	3.2.3	ADEQ file access	Unknown objective at this time	?
Data Management	33	3.2.22.1	Ad hoc reports	Unknown objective at this time	?
Data Management	36	4.2.3	measure wait time	Accurately measure wait time	?
Inspection Procedures	51	6.2.6	canister inspection	Increased inspection requirement	?
Inspection Procedures	54	6.5.3	visually verify repairs	Large increase in inspector requirements and test time	L
PI Requirements	58	7.3.6	hotlines	Staffed all operating hours	S
PI Requirements	58	7.4	website	New requirement	S
Special Terms & Conditions	62	5	no routine, defined fee adjustment	Increased risk to contractor - new provision	S
Special Terms & Conditions	64	5.5.3.3	Appropriation	Fee increased subject, even if in contract	?
Special Terms & Conditions	65	6.2	Method of Compensation	Delays time until contractor receives funds therefore minor loss of time value of money. Also, requires regular appropriation which can be a painful process	S
Special Terms & Conditions	68	10.1.2	Unlimited Damages	No limit to contractor's exposure	?
Special Terms & Conditions	69	10.6	Level of Service	Desirable, but materially exceeds service currently provided	M

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Special Terms & Conditions	69	10.6	Long term responsibility for wait time	Differs from previous contract in that contractor is responsible over contract, regardless of changed conditions	L
Special Terms & Conditions	69	10.6.1	Wait Time Penalty	Onerous penalty amounts	G
Special Terms & Conditions	69	10.6.2	Wait Time Penalty	Onerous penalty amounts	G
Special Terms & Conditions	70	10.8.3	Payments to Contractor	Subject to appropriation	?
Special Terms & Conditions	71	12	supplant with another contractor	Increased risk to contractor - new provision	?
Special Terms & Conditions	71	14	increased insurance requirements	Increased cost	?
Special Terms & Conditions	73	15	performance bond	Increased cost	?
Special Terms & Conditions	74	17.3	Non-exclusive	Unknown state objective	?



GOVERNOR
Jane Dee Hull

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DIRECTOR
Jacqueline E. Schafer



November 17, 2000

The Honorable Randall Gnant, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Senator Gnant:

The purpose of this letter is to provide an update on the status of the Car Care solicitation in preparation for the Joint Legislative Budget Committee (JLBC) meeting scheduled for November 28, 2000.

ADEQ issued the Request for Proposals (RFP) on September 19, 2000, after JLBC's review. In response to issues raised in the JLBC staff memoranda of September 7 and 13, and comments heard from the JLBC staff and members during the meeting, ADEQ made four major revisions to the RFP prior to issuance.

- The requirement that each station be equipped with dual dynamometers for the testing of constant four-wheel drive vehicles was removed to allow offerors to specify how they would address these lanes in the network.
- New provisions were added inviting offerors to submit suggestions to change areas of the RFP that drive avoidable costs.
- Specific cost and system performance impacts were requested for the following items identified in Tom Mikesell's memo to JLBC of September 13, 2000.
 - Fraud detection measures
 - Test station exit lane provisions
 - Web site requirements
 - Provision of real time data to the Motor Vehicle Division

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- Specific cost and system performance impacts were requested for the following items identified by JLBC members in their discussions during the meeting on September 14, 2000.
 - Use of four wheel dynamometers at all stations
 - Liquidated damages
 - Performance bonds
 - The effect of payment to the contractor being conditional on receiving an appropriation from the Legislature

On September 27, 2000, questions on the RFP were received from two offerors, Environmental Systems Products and Gordon-Darby, Inc.

In addition, offerors were given an opportunity at the Pre-proposal Conference, conducted on October 2, 2000, to discuss cost and system impacts of the items listed above and other provisions which could increase costs with little benefit to motorists or the State.

In response to the offerors' input, on October 6, 2000, ADEQ issued Amendment 1 to the RFP. This amendment included the following changes:

- The wait time metric and associated liquidated damages were deleted for the last six operating days of each month.
- The requirement to provide a means for motorists to exit the queue at some point in time without having to continue through the inspection bay was deleted.
- In Area A, Amendment 1 specified that On-Board Diagnostics (OBD) would be used in lieu of IM 147 for 1996 and newer model year vehicles, and in Area B deleted any requirement for OBD. In response to the concerns expressed by potential offerors, this change would allow vendors to propose a single network for Area A, substantially simplifying proposal preparation.
- Offerors were allowed to designate mitigating factors for liquidated damages.
- The requirement in Area A that 4% of the fleet receive a complete IM 147 test was reduced to 2.5% of failing vehicles and 1% of passing vehicles.

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- Offerors were required to discuss in their proposals the effect of the payment to the Contractor being subject to appropriation, provide a cost per test and estimated total cost.


Questions were solicited from vendors regarding Amendment 1, and were due on October 12, 2000. After considering that input, ADEQ issued Amendment 2 on October 17. The Amendment included numerous technical clarifications.

Proposal opening was conducted on October 26. The contractor selection team is currently evaluating proposals. The team has retained the services of Ms. Randie Stein, as a financial consultant, and Mr. Stan Sumich, former manager of the Oregon vehicle emissions program, as an adviser on program operations. The team also includes vehicle emissions program managers from Illinois and Wisconsin. The aggressive schedule that was presented to JLBC has been maintained and the schedule anticipates an award on December 15, 2000.

To assist you in tracking how ADEQ has addressed potential components of costs identified by JLBC staff and members as well as vendors, enclosed are two tables, which summarize each issue and how ADEQ has attempted to address it.

If you have questions or need more information, please contact Jim Buster or me at 207-2203, or Nancy Wrona at 207-2308.

Sincerely,


Richard W. Tobin II
Deputy Director

Enclosures

cc: Richard Stavneak

TABLE 1
SUMMARY AND DISPOSITION OF POTENTIAL COMPONENTS OF COST
IDENTIFIED BY THE JOINT LEGISLATIVE STUDY COMMITTEE MEMBERS AND STAFF

Potential Component of Cost	Current Status or Resolution
Fraud detection measures	The RFP was revised to ask offerors to include in their proposals specific cost and system performance impacts for this item. At the pre-proposal conference, offerors stated that the cost impact was low.
Test station exit lane provisions	The RFP was revised to ask offerors to include in their proposals specific cost and system performance impacts for this item. At the pre-proposal conference offerors stated that costs could be significant. Amendment 1 to the RFP eliminated this requirement.
Web site requirements	The RFP was revised to ask offerors to include in their proposals specific cost and system performance impacts for this item. At the pre-proposal conference, offerors stated that the cost impact was low.
Provision of real time data to the Motor Vehicle Division	The RFP was revised to ask offerors to include in their proposals specific cost and system performance impacts for this item. At the pre-proposal conference, offerors stated that the cost impact was low.
Use of four wheel dynamometers at all stations	The RFP was revised to eliminate this requirement to allow offerors to specify how they would address these lanes in the network. The RFP was also revised to ask offerors to include in their proposals specific cost and system performance impacts for this item. At the pre-proposal conference, vendors stated that the cost of this provision was high, with very little air quality benefit.

Potential Component of Cost	Current Status or Resolution
Liquidated damages	The RFP was revised to ask offerors to include in their proposals specific cost and system performance impacts for this item. At the pre-proposal conference, vendors stated that they had a high level of concern over potentially unlimited exposure. In Amendment 1 to the RFP, offerors were allowed to designate mitigating factors for liquidated damages.
Performance bonds	The RFP was revised to ask offerors to include in their proposals specific cost and system performance impacts for this item. At the pre-proposal conference, vendors stated that performance bonds represented an additional cost. The performance bond requirements have not been adjusted because ADEQ's bench marking showed that the amounts were in line with those required in other programs.
The effect of payment to the contractor being conditional on receiving an appropriation from the Legislature	The RFP was revised to ask offerors to include in their proposals specific cost and system performance impacts for this item. At the pre-proposal conference, vendors indicated concerns regarding delays in receiving funds from the State. Their main concern, however, was the ongoing risk of non-appropriation.

TABLE 2
SUMMARY AND DISPOSITION OF POTENTIAL COMPONENTS OF COST
IDENTIFIED BY POTENTIAL OFFERORS IN ADDITION TO THOSE
IDENTIFIED IN TABLE 1

Potential Component of Cost	Current Status or Resolution
Wait time monitoring	At the pre-proposal conference, offerors stated that the cost could be moderate for this new system feature. Discussions clarified the need for this system to support wait time measurements and approaches that could be used cost-effectively.
Pressure test, evaporative system connection inspection	At the pre-proposal conference, offerors stated that extensive requirements to visually verify all hoses and electrical connections add training and test time. In Amendment 1, ADEQ modified the requirement to be performed on at least 70% of the subject vehicles and further specified the components of the visual inspection. Offerors indicated in questions on Amendment 1 that this requirement may not be attainable and that it should be changed to a goal, to be reviewed periodically. ADEQ concurred and made conforming changes in Amendment 2.
On Board Diagnostics (OBD) as an added test in Area A	At the pre-proposal conference, offerors stated that OBD as an additional test would greatly increase test time, confuse motorists and would significantly impact cost. Amendment 1 specified that OBD would be used in lieu of IM 147 for 1996 and newer model year vehicles.
OBD as an advisory in Area B	At the pre-proposal conference, offerors stated that OBD as an advisory test would moderately increase test time. Amendment 1 deleted the requirement for OBD in Area B.

Potential Component of Cost	Current Status or Resolution
Duplicate mainframe	At the pre-proposal conference, offerors stated that the requirement for a duplicate mainframe added capital and on-going cost. In Amendment 1, this requirement was replaced with a performance requirement.
Visually verify repairs	At the pre-proposal conference, offerors stated that requiring inspection lane technicians to visually verify that actual repairs had been made on previously failing vehicles would significantly increase cost. ADEQ explained that the provision only required verification that the mechanic had completed information on the nature and extent of repair on the motorist's vehicle inspection report. Amendment 1 clarified this requirement as discussed by ADEQ at the pre-proposal conference.
Random tests in Area A	At the pre-proposal conference, offerors stated that the requirement for administering random IM 147 tests to 4% of all vehicles adds test time, especially for pre 1981 vehicles. In Amendment 1, the requirement was reduced to 2.5% of failing vehicles and 1% of passing vehicles.
Wait times, level of service, wait time penalty	At the pre-proposal conference, offerors stated that compliance with the wait time metrics and associated liquidated damages would significantly increase cost and network size. In Amendment 1, the wait time metric and associated liquidated damages were deleted for the last six operating days of each month. In Amendments 1 and 2, liquidated damage provisions were clarified and reduced.

