STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2004
MARK ANDERSON
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL, M.D.
JACK W. HARPER
DEAN MARTIN
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2003
ANDY BIGGS
MEG BURTON CAHILL
EDDIE FARNSWORTH
LINDA GRAY
STEVE HUFFMAN
JOHN HUPPENTHAL
LINDA J. LOPEZ

JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, December 16, 2004
9:30 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of November 17, 2004.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION - Consideration of JLBC Staff Director Salary pursuant to A.R.S. § 38-431.03.

1. ARIZONA DEPARTMENT OF ADMINISTRATION
   A. Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicle and Aircraft.
   B. Consider Approval of Maximum Lodging Reimbursement Rates.

2. STATE COMPENSATION FUND - Consider Approval of Calendar Year 2005 and 2006 Budgets.

3. DEPARTMENT OF PUBLIC SAFETY - Quarterly Review of the Arizona Public Safety Communications Advisory Commission.

4. JOINT LEGISLATIVE BUDGET COMMITTEE - Consider Approval of Year 2005-2006 Strategic Program Area Review Topic Candidates.

5. ARIZONA DEPARTMENT OF TRANSPORTATION - Review of an Intergovernmental Agreement Between Arizona Department of Transportation and Maricopa County (Phoenix International Raceway).

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

7. GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING - Report on Federal Revenue Maximization Initiative.

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

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

The Chairman reserves the right to set the order of the agenda.
12/9/04

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 542-5491.

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HOUSE OF
REPRESENTATIVES

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

November 17, 2004

The Chairman called the meeting to order at 9:53 a.m., Wednesday, November 17, 2004, in Senate Appropriations Room 109. The following were present:

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

APPROVAL OF MINUTES

<u>Senator Burns moved</u> *that the Committee approve the minutes of October 14, 2004.* The motion carried.

EXECUTIVE SESSION

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

At 9:55 a.m., the Joint Legislative Budget Committee went into Executive Session.

<u>Representative Pearce moved</u> *that the Committee reconvene into open session.* The motion carried.

At 10:35 a.m. the Committee reconvened into open session.

<u>Representative Biggs moved</u> *that the Committee approve the state going to trial in the case of Irasema Gomez v. Officer Frank Torres, the Arizona Department of Public Safety, and the Arizona Department of Transportation*. By a show of hands the motion failed.

<u>Senator Anderson moved</u> *that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Irasema Gomez v. Officer Frank Torres, the Arizona Department of Public Safety, and the Arizona Department of Transportation*. The motion carried.

Due to a lack of a quorum, Chairman Burns adjourned the meeting at 10:35 a.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Senator Bob Burns, Chairman

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

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: December 9, 2004

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

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

Request

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

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

Recommendation

The Committee has at least the following options:

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

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

(Continued)

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

3) Request that ADOA report to the Committee by April 15, 2005 on the establishment of different motor vehicle rates, depending on the availability of state motor pool vehicles. For example, the federal government reimburses 37.5 cents per mile when a government vehicle is not available, but only 27 cents per mile when government-owned vehicles are available and an employee chooses not to use one. The department has expressed its willingness to implement this policy for all Executive branch fleets and reports that ADOA generally available short-term-use vehicles are currently employed at 63.5% of capacity.

   At a minimum, the report would contain annual usage impact on the various fleets; annual personnel and cost impact on the various fleets; all anticipated fleet rate increases to agencies; annual savings to state agencies by fund type; any safety or liability concerns and a plan for mitigating them; and an explanation of how the requested estimates were derived. This option could also be combined with either Options 1 or 2.

Analysis

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

The current IRS rates likely represent a conservative estimate of travel expenses. In its newest Employer's Tax Guide, the IRS allows private employers to begin reimbursing their employees at 40.5 cents per mile on January 1, 2005. To date, however, the GSA has not increased reimbursement levels for federal government employees.

The current GSA rates are based on an average gasoline price from late 2003, $1.53 per gallon. As of December 3, Arizona's average fuel price was $2.02 per gallon, while the national average was $1.94 per gallon. Additionally, ADOA has assessed that auto insurance rates in Arizona are above the national average. The most recent statistics published by the National Association of Insurance Commissioners reflect data from calendar year 2002 and rank Arizona 11th in the nation, up from 14th in calendar year 2001. Arizona's average annual car insurance premiums were more than $110 above the national average in 2002.

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

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

(Continued)

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

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

RS:SC:ss

Janet Napolitano
Governor

Betsey Bayless
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 North 15th Avenue • ROOM 401
PHOENIX, ARIZONA 85007
(602) 542-1500

September 9, 2004

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

Dear Chairman Burns:

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

Thank you for consideration of this matter.

Very truly yours,

Betsey Bayless

Betsey Bayless
Director

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

JANET NAPOLITANO
GOVERNOR

BETSEY BAYLESS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION
FINANCIAL SERVICES DIVISION • GENERAL ACCOUNTING OFFICE
100 NORTH 15TH AVENUE • SUITE 302
PHOENIX, ARIZONA 85007
Phone: (602) 542-5601 • Fax: (602) 542-5749

October 15, 2004

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

Dear Mr. Stavneak:

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

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

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

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

Sincerely,

D. Clark Partridge

D. Clark Partridge
State Comptroller

Attachment

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

U.S. General Services Administration

Back to Original

Travel

Privately Owned Vehicle Reimbursement Rates (POV)

Other Contacts

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

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

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

Privately Owned Vehicle Reimbursement Rates:

- Airplane .... 99.5 cents per mile

- Automobile Rates:

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

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

Past year's automobile rates are as follows:

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

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

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

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

<u>Mileage Reimbursement Analysis</u>

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

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

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

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

Janet Napolitano
Governor

Betsey Bayless
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

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PHOENIX, ARIZONA 85007

(602) 542-1500

AM PM 1 2 3 4 5 6 7 8 9 10 11 12
RECEIVED
DEC 07 2004
JOINT BUDGET COMMITTEE

December 7, 2004

The Honorable Robert "Bob" Burns, Chairman
Joint Legislative Budget Committee
Arizona State Legislature
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Burns:

Thank you for your inquiry regarding our request for changes to the mileage and lodging reimbursement rates. I understand the time constraints that face your committee, so we will wait patiently for the opportunity to address this subject.

You asked three questions, which are as follows:

1. What is ADOA's opinion of using the federal government's idea to reimburse at a lower rate if a motor pool vehicle is available, but not used?

   With your consent, ADOA would like to implement this policy, not only for the ADOA Fleet, but all Executive branch fleets. The General Accounting Office would establish a policy requiring an email acknowledgement, prior to the time of travel, that no fleet vehicle was available for the travel. Agencies would review each mileage claim and deny any claim at the higher rate that was not accompanied by the email verification that no fleet vehicles were available.

2. Is the motor pool underutilized?

   The ADOA taxi fleet (i.e. those vehicles available for short-term use that are not assigned to any agency) currently is only being used at 63.5% of its capacity.

3. How often does ADOA allow lodging reimbursement rates higher than what the Committee adopts?

   The Department takes a strong position related to travel policy administration. We recognize that given the size and scope of the State there are some very unique circumstances that cannot be reasonably foreseen or accommodated in policy. Accordingly, exceptions are approved based on circumstances in the best interest of the State. Emphasis is placed on obtaining approvals in advance when practicable.

During the current fiscal year (since July 1), we have approved 167 requests as lodging exceptions, averaging approximately 33 per month. A number of the requests arose as a result of the recent increases in the Federal rates. For example, some travelers reserved lodging within the State rate only to find on check-in that the rates have gone up due to the Federal increase. While this number may seem significant, during this same time frame, we have processed 11,229 travel claims with lodging reimbursements, totaling $2,214,935.34.

Finally, for your information, in the period between our initial request to be on the agenda and today, the federal mileage rate was increased to $0.405. In our letter, we had stated a federal mileage rate of $0.375. The effective date of this change is January 1, 2005.

Let me know if you require additional information.

Very truly yours,

Betsey Bayless

Betsey Bayless
Director

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: December 9, 2004

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

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

Request

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

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

Recommendation

The Committee has at least the following options:

1) Approve the rates as submitted. The requested rates are consistent with or below federal reimbursement levels. The various agencies of the state would have to absorb additional travel costs. ADOA estimates the annual fiscal impact of the changes on state agencies would be $664,000 among all funds. Meanwhile, the universities anticipate a combined annual expenditure increase of approximately $1.4 million from all funds.

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

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

(Continued)

Analysis

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

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

ADOA seeks to align Arizona's out-of-state lodging rates with federal guidelines. Overall, these changes would represent an approximate 10% increase to lodging reimbursements. Across state agencies, ADOA approximates that the new rates would have an annualized impact of $124,000 on the General Fund and $540,000 on all other appropriated and non-appropriated funds.

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

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

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

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

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

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

(Continued)

In certain circumstances, maximum lodging rates do not apply. Many hotels set a government rate using the most recent federal schedule and charge that daily rate to all government employees, even state employees. In situations where the federal rate is higher than the state rate, employees often request waivers from the ADOA General Accounting Office (GAO) to reimburse their additional costs. GAO encourages state employees to receive approval for such requests in advance. Since July 1, 2004, GAO granted waivers for 167 travel claims out of 11,200 processed, representing 1.5% of the total. Additionally, when state employees receive prior authorization to attend a conference on official state business, they may obtain reimbursement for their stay at the conference hotel regardless of the daily charge.

RS:SC:ss

JANET NAPOLITANO
GOVERNOR

BETSEY BAYLESS
DIRECTOR

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October 15, 2004

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

Dear Mr. Stavneak:

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

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

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

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

Sincerely,

D. Clark Partridge

D. Clark Partridge
State Comptroller

Attachment

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

Proposed In-State Travel
Maximum Lodging Rates

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

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

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

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

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

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

Proposed Out-of-State Travel
Maximum Lodging Rates

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

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

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

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

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

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

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

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

HOUSE OF
REPRESENTATIVES

DATE: December 9, 2004

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

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

Request

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

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

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

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

Recommendation

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

1. Approve the budget as requested.

(Continued)

2. Approve the budget as requested, but adjust the salary increase to be in line with statewide employee salary increases approved by the Legislature for FY 2005.
3. Take no action. SCF does not believe that the Committee's action limits their budget. The Committee never approved a FY 2004 budget. In FY 2001 to FY 2003, SCF's expenditures exceeded the approved level of spending.

Analysis

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

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

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

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

Table 1

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

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

(Continued)

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

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

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

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

The Chairman submitted additional questions to SCF after the November meeting. SCF's response to these questions is found in Attachment 2.

RS/EJ:jb
Attachments (2)

State Compensation Fund

Attachment 1

JLBC: Eric Jorgensen

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

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

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

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

RECOMMENDED CHANGES FROM CY 2004

Operating Budget

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

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

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

Employee Related Expenditures **OF** **400,000** **600,000**

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

Professional and Outside Services **OF** **600,000** **900,000**

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

Travel and Other Operating Expenditures **OF** **700,000** **1,600,000**

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

Special Line Items

Claim Adjustment Services

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

Base Adjustment **OF** **3,700,000** **5,200,000**

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

Rating Bureau Charges

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

Base Adjustment **OF** **(25,000)** **0**

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

Premium Tax

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

Base Adjustment and Rate Increase **OF** **7,420,000** **7,995,000**

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

Administrative Fees

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

Base Adjustment **OF** **100,000** **300,000**

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

Personal Property Tax

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

Base Adjustment **OF** **60,000** **85,000**

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

* * *

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

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

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

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

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

Budget Request Approved By ______________________ Signature of Agency Head | President & CEO — Title | September 30, 2004 — Date

Budget Request Prepared By Duane T. Miller, COO (602) 631-2078

Agency: State Compensation Fund

Fund Sources: Workers' Compensation Insurance Premium and Investment Income

Address: 3031 North 2nd Street, Phoenix, Arizona 85012

A.R.S. Citation: 23-981, E

($ in Millions)

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

SOURCE AND DISPOSITION OF FUNDS

Agency State Compensation Fund

($ in millions)

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

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

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

SUMMARY OF EXPENDITURES AND BUDGET REQUEST

($ in Millions)

Agency State Compensation Fund

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

SERVICE MEASUREMENTS

Agency : State Compensation Fund

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

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

SUMMARY OF POSITIONS, PERSONAL SERVICES AND EMPLOYEE-RELATED EXPENDITURES

Agency State Compensation Fund

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

PRESENT POSITION

Agency State Compensation Fund

($ 000 Omitted)

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

PROFESSIONAL AND OUTSIDE SERVICES

Agency State Compensation Fund

($000 0mitttted)

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

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

Agency State Compensation Fund

($000 0mittted)

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

TRAVEL

($ 000 Omitted)
Agency State Compensation Fund

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

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

Agency State Compensation Fund

($000 0mittted)

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

BELOW-THE-LINE ITEMS AND OTHER EXPENDITURES

Agency State Compensation Fund

($000 Omitted)

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

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

Attachment 2

Telephone: (602) 631-2050
FAX: (602) 631-2065
Email: dsmith@scfaz.com

DONALD A SMITH, JR., Esq., CPCU
PRESIDENT & CEO

3031 North Second Street, Phoenix, Arizona 85012

SCF of Arizona
workers' compensation insurance

RECEIVED
DEC 07 2004
JOINT BUDGET COMMITTEE

December 6, 2004

The Honorable Robert Burns
State Senator
Chairman, Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Senator Burns:

Thank you for the opportunity to respond to questions posed by the Committee in your November 23 letter. To begin, I would like to briefly address SCF's role in Arizona's workers' compensation system.

SCF of Arizona Summary Facts

- SCF is Arizona's leading writer of workers' compensation insurance. Market demands for coverage from SCF continue to increase as private carriers have substantially reduced underwriting capacity in Arizona. Contributing factors are industry consolidation, record insolvencies, the overflow impact of disruption in the California marketplace and Arizona's continued economic growth (58,000 new jobs in the past 12 months).
- Arizona is ranked 3rd lowest in the United States for workers' compensation costs.
- SCF's financial capacity to provide a complete market to Arizona businesses for workers' compensation insurance is a major factor in stabilizing Arizona's workers' compensation system and contributes directly to our state's desirable business environment.
- In states with problematic workers' compensation systems the high cost of workers' compensation insurance is a documented cause of jobs lost to other states.
- Present workers' compensation rates for SCF are **equivalent to those of the 1970's.**
- Return on invested assets of SCF rank in the top quartile of comparable private insurance companies and state compensation funds for 1, 3 and 5 year periods.
- A recent survey indicated 93% of policyholders with premiums in excess of $50K and 73% of all policyholders have a favorable impression of SCF. Less than 1% of all policyholders had a negative impression of SCF.
- SCF has returned over one billion dollars to Arizona businesses since 1969 through policyholder dividends.
- SCF operates in the highly regulated insurance industry where its operations are subject to oversight by the Industrial Commission of Arizona and the Arizona Department of Insurance. SCF is also subject to additional standards set by the National Association of Insurance Commissioners (NAIC) and SCF must report all operational statistics to the National Council on Compensation Insurance (NCCI).
- Annual certified audits of financial statements are completed by Deloitte and Touche, as required by law.
- In addition to filing annual audited financial statements, SCF results are periodically examined by the Arizona Department of Insurance.

SCF Role in Economic Development for Arizona

SCF promotes economic development in Arizona through:

- Stewardship of an effective, low-cost and stable workers' compensation system.
- Reinvesting assets in Arizona-based businesses in a manner consistent with prudent investment policies as adopted by the Board of Directors.
    - Holding $150 million in direct commercial mortgages, through a partnership with Bank One, in Arizona properties.
    - Knowledge Economy Fund commitment proposal will further expand capital access for Arizona companies, while enhancing returns on the SCF investment portfolio.

Responses to the specific questions addressed in your letter are as follows:

1. **SCF actual 2003 spending:**

   SCF's original budget submission in 2003 included Operating Expenditures of $47 million and "Special Line Items" (Uncontrollable Costs) of $23.4 million. Actual Costs for 2003 were Operating Expenditures of $47.5 million and Uncontrollable Costs of $29 million. Each expense category is addressed below:

   Operating Expenses:

   Actual 2003 Operating Expenses exceeded the 10/2002 budget submission by $500,000 primarily due to the decision by the Board of Directors to expand outside asset management services for SCF's investment portfolio. For 2004, estimated Operating Expenses are projected to be $300,000 less than the 10/2002 submission. In summary, premium volumes were more than 20% greater than projected while Operating Expenses were virtually equal to the amounts presented for the two years ending 12/2004.

   Note for 2003 the JLBC approval contemplated a reduction of Personal Services and Employee Related Expenditures by a total of $2.8 million. This issue is addressed separately in our response to Question #3.

   Special Line Items:

   As noted in the JLBC staff analysis, Special Line Items are contractual, regulatory or statutory incurred costs which are not subject to the control of SCF. These costs are primarily driven by premium volumes which exceeded plan projection due to the aforementioned demand for workers compensation coverage resulting from market conditions.

2. **2004 JLBC Budget Submission:**

   A.R.S. §23-981.E directs SCF to submit a two-year operating budget with each year separately delineated on even-numbered calendar years, for review and approval by the JLBC. SCF submitted all the required budget information in October 2002. The enabling statute does not address or direct the submission of a single year budget, nor does it provide for a single year review or approval. The SCF Board of directors approved a budget in 2004 as submitted by staff, and as authorized under §23-981.01.A and §23-981.01.B. A discussion of Operating Expense variances for 2004 was previously provided.

The SCF Board of Directors bears the primary fiduciary duty to make decisions in the best interests of SCF, its policyholders and their injured workers. Annual operating plans and expense budgets are reviewed and approved by the SCF Board of Directors prior to the end of each preceding calendar year.

3. Employee Compensation Program:

In 1993, SCF was directed under A.R.S. §23-981.01.B to formulate and administer a personnel system, separate and distinct from the State personnel system under title 41. Consequently, for over ten years now, SCF employees have not been State employees. SCF has been able to attract and retain high quality insurance professionals through a market driven compensation program. This has enabled SCF to keep headcounts relatively unchanged while workloads have dramatically increased

Market salary valuations by an independent consultant are based on information obtained from the following sources:

1. Joint Governmental Salary Survey (JGSS)
2. Mercer Group Survey
3. Arizona State Bar Attorney Survey
4. AASCIF (American Association of State Compensation Insurance Funds) Survey

This year, SCF provided 77 job titles to the consultant for salary comparison. Final results for the 2005 market salary adjustments have not been completed at this time. The last market salary adjustment was in January of 2003. Employees are also eligible for promotional increases based on the attainment and deployment of additional skills supporting increased workloads. These promotional increases have averaged 1.5% of total compensation over the past two years. Actual total Personal Services expenses for SCF for 2003 were $200,000 under the JLBC 10/2002 budget submission. In addition, estimated 2004 Personal Services expenses are $100,000 less than the 10/2002 submission.

4. Travel Expense Request:

Total travel expenditures represent approximately 1% of total operating expenditures. The significant increase in fuel costs, as reflected by an increase in IRS mileage rates of nearly 10%, will impact in-state travel. SCF is expanding its contacts with policyholders which will increase the amount of travel in-state. Out-of-state travel increases are impacted by both fuel costs and increased employee participation on national committees and councils. Please note SCF has historically had favorable variances in this line item as we require significantly more detail prior to actually approving travel requests than we do when budgeting. For example, budget numbers for 2003 and 2004 were $500,000 versus actual and estimate of $300,000 for these same years with anticipated favorable variances of $200,000 for both years.

5. Premium Rates and Dividends:

Workers' compensation insurance rates for Arizona are established annually by the National Council on Compensation Insurance (NCCI), an independent statistical rating agency selected by the Arizona Department of Insurance (ADOI). Private insurers and SCF are bound by the approved filing of NCCI but may file a request for deviations from these standard rates and obtain approval from the ADOI for same. SCF has for the last two years received approval for rates which are 10% below the standard rates. Each company may only file one set of rates with the ADOI which will then apply to all policyholders. Since SCF voluntarily functions as Arizona's guaranteed market, the single rate structure must be applied to a broad cross section of policyholders.

SCF's low operating costs, aggressive loss control and medical cost containment programs have all contributed heavily to its ability to pay significant dividends while offering the upfront rate discount. But the primary driver for dividend payouts has been the superior investment performance of SCF. Dividends are earned and paid to policyholders based on individual policy loss ratios, providing even further reduced insurance costs to those policyholders with the best risk profiles. As noted in the introduction, Arizona presently enjoys the 3rd lowest cost of workers' compensation insurance in the United States. SCF's operational effectiveness is a major factor in Arizona's superior ranking.

In closing, we are pleased to have the opportunity to respond to the questions of the JLBC and provide additional insight into the operations of SCF. If you require additional information please feel free to contact me at 602.631.2047.

Sincerely,

Donald A. Smith, Jr., Esq., CPCU
President & CEO

c: Rep. Russell Pearce, Vice-Chair, JLBC
Richard Stavneak, Director, JLBC
SCF of Arizona Board of Directors

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

November 23, 2004

Mr. Donald A. Smith, Jr.
President
State Compensation Fund
3031 N. 2nd Street
Phoenix, AZ 85012-3009

Dear Mr. Smith:

Your agency was scheduled to appear at the November 17th meeting of the Joint Legislative Budget Committee. I am sorry that due to time constraints we were unable to hear your agency's agenda item at that meeting. To facilitate consideration of your agency's item, I have the following questions:

1. Why has the Compensation Fund's spending exceeded the levels approved by the Committee?
2. How was the Compensation Fund able to operate in CY 2004 without a Committee approved budget?
3. What is the rationale for salary increases higher than the statewide employee salary increases?
4. Why is the Compensation Fund's travel budget request double last year's expenditures?
5. Since the State Compensation Fund has paid dividends every year to policyholders, does this mean that the Compensation Fund is setting premiums too high?

I would appreciate a response from you by Monday, December 6. If you have any questions, please contact your JLBC analyst.

Sincerely,

Robert L. Burns

Senator Robert "Bob"Burns
Chairman, Joint Legislative Budget Committee

RB:jb
xc: Representative Russell Pearce, Vice-Chairman, JLBC
Richard Stavneak, Director

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: November 5, 2004

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

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo III, Assistant Fiscal Analyst

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

Request

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

Recommendation

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

Analysis

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

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

(Continued)

Table 1

FY 2005 Statewide Interoperability Design Expenditure Plan

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

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

Current Updates

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

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

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

RS/ML:jb

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

JANET NAPOLITANO
GOVERNOR

DENNIS A. GARRETT
DIRECTOR

October 27, 2004

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

Dear Mr. Stavneak:

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

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

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

Sincerely,

Dennis A. Garrett

Dennis A. Garrett, Colonel
Director

1. STAFFING

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

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

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

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

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

2. PUBLIC SAFETY COMMUNICATIONS ADVISORY COMMISSION (PSCC) ACTIVITIES

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

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

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

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

3. COMMISSION MEETINGS

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

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

4. BUDGET

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

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

PUBLIC SAFETY COMMUNICATIONS COMMMISSION BUDGET FY2005

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

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

ARIZONA PUBLIC SAFETY
COMMUNICATIONS ADVISORY COMMISSION

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

Voting Members

Chairman Dennis A. Garrett, Director, Arizona Department of Public Safety
(602) 223-2464 - dgarrett@dps.state.az.us
Ray Allen, Assistant Fire Chief, Tucson Fire Department
(520) 791-3185 - Rallen1@ci.tucson.az.us
Amy Brooks, Captain, Apache Junction Fire Department
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Jan Hauk, President, Arizona Fire District Association
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Kenneth Witkowski, Chief, Gila River Indian Community Police Department
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Dewayne Woodie, Captain, Ganado Fire District / EMS
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Mike Worrell, Captain, Phoenix Fire Department
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Executive Director for PSCC

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

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Joint Legislative Budget Committee

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HOUSE OF
REPRESENTATIVES

DATE: December 8, 2004

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

SUBJECT: Joint Legislative Budget Committee – Consider Approval of Year 2005-2006 Strategic Program Area Review Topics 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 2005-2006 Strategic Program Area Review (SPAR) process. The intent of the SPAR process is to review issues that often involve multiple agencies and evaluate the efficiency, effectiveness, and necessity of the programs administered.

Recommendation

The JLBC Staff recommends the following 4 program areas for the Year 2005-2006 SPAR cycle:

- Workforce Development
- Homeland Security
- University Financial Aid
- Ports of Entry

Analysis

A.R.S. § 41-1275 requires that JLBC Staff, "in consultation with" OSPB, recommend to the Committee by January 1 of each odd-numbered year a list of program areas for SPAR. The SPAR process is designed to look at issues that involve multiple agencies and consists of three parts: 1) self-assessment by participating agencies, 2) review of the self-assessment by JLBC Staff and OSPB and recommendations to retain, eliminate, or modify the programs, and 3) legislative review.

(Continued)

The Committee "shall determine those program areas that are subject to [SPAR] from the list of program areas submitted" by JLBC Staff. Statute says that agencies may submit suggestions for the SPAR process. JLBC Staff received suggestions from two agencies: Office of Tourism (assorted programs) and Department of Economic Security (job placement privatization).

JLBC Staff recommends the following 4 program areas for the Year 2005-2006 SPAR cycle:

- <u>Workforce Development</u>: The Department of Economic Security administers the federal Workforce Investment Act grant, administers job training programs for welfare clients, and runs vocational rehabilitation programs. The Department of Commerce administers the Arizona Job Training Fund and runs other workforce development programs. This SPAR would review workforce development programs in these agencies as well as in the Department of Education, community colleges, Universities, and the Governor's Office.
- <u>Homeland Security</u>: The Arizona Office of Homeland Security administers homeland security grant monies received from the federal Department of Homeland Security for law enforcement and security threats. The Arizona Department of Health Services administers homeland security grant monies received from the federal Department of Health and Human Services for bioterrorism and public health threats. In FY 2003, these two grant programs provided monies to over a dozen state agencies in additional to several local governments. To date, the majority of FY 2004 monies have not been awarded. This SPAR would review the allocation and expenditure of grant monies in these agencies.
- <u>University Financial Aid</u>: There are a variety of fund sources that are available for financial aid for students attending the state universities. This SPAR would attempt to provide a comprehensive review of available financial aid relative to financial aid need within the university system.
- <u>Ports of Entry</u>: The Arizona Department of Transportation's Motor Vehicle Division administers commercial vehicle compliance with the state's weight, licensing, permit, and tax laws at the ports. The Arizona Department of Agriculture uses the ports to screen trucks and their cargo to intercept agricultural pests, weeds, and livestock diseases. The Department of Public Safety maintains a limited field presence at some ports to perform safety inspections of commercial vehicles along with other patrol and field duties. This SPAR would review port of entry use, coordination and cooperation in these agencies. Arizona Ports of Entry were previously the subject of a SPAR in FY 2000.

If these 4 program areas are selected as SPAR candidates, JLBC Staff and OSPB will send out instructions to relevant agencies. Agencies are required to submit their self-assessments to OSPB and JLBC Staff by June 1, 2005. JLBC Staff and OSPB "shall jointly produce a report of their findings and recommendations for whether to retain, eliminate or modify funding and related statutory references for the programs" and submit that report to the President of the Senate, the Speaker of the House of Representatives, and the Governor by January 1, 2006. The President and Speaker are required to assign the SPARs to the Appropriations Committees and may also assign the SPARs to relevant standing committees; at least one public hearing is required on each SPAR.

RS:SSh:ss

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF REPRESENTATIVES

DATE: December 8, 2004

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

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Assistant Director

SUBJECT: Arizona Department of Transportation - Review of an Intergovernmental Agreement Between Arizona Department of Transportation and Maricopa County (Phoenix International Raceway)

Request

The Arizona Department of Transportation (ADOT) and Maricopa County request Committee review of the intergovernmental agreement related to the design, reconstruction and improvement costs of highway improvements to enhance access to a sports entertainment facility (Phoenix International Raceway). Committee review is required pursuant to the authorizing legislation (Laws 2004, Chapters 182 and 282).

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request. The agreement contains the items required by the authorizing legislation, as well as additional statutory references and technical language changes suggested by Legislative Council.

The agreement and authorizing legislation stipulate the transfer of up to $416,667 annually from state sales collections between FY 2008 and FY 2019 for the state's obligation in financing the highway improvements. Transfers from the sales tax total $5,000,000 over the 12-year period. Maricopa County is responsible for any project costs above the state contribution. If major ownership interest in the facility changes before June 30, 2014, the county is responsible for reimbursing the state for sales tax transfers to date.

Analysis

Laws 2004, Chapters 182 and 282 authorized the use of state sales tax revenues to help pay for highway improvements to a sports facility (as defined in A.R.S. § 42-5032), if the facility is selected as the site of an additional major national sporting event by December 31, 2004. Phoenix International Raceway (PIR) has been awarded a second NASCAR race beginning in Spring 2005. As a result of anticipated increased

(Continued)

sales tax collections from the additional event, the legislation allows the transfer of up to $416,667 annually from state sales tax collections over a 12-year period beginning in FY 2008 to help pay for highway improvements to enhance access to PIR. Transfers over the 12-year period would total $5,000,000. Any costs for the project that are above the state contribution will be paid by Maricopa County. Preliminary cost estimates for the project are $5,100,000.

A similar arrangement was authorized in 1997 for construction of a bridge to improve access to PIR. Funding for the bridge project included $3,719,150 from Maricopa County, $1,284,000 from the City of Avondale, $4,627,000 from federal funds, $350,000 from the Corporation Commission Economic Strength Program, and $5,000,000 million from state sales tax collections. State sales tax monies of $416,667 were to be transferred annually between FY 1999 and FY 2010. The project was completed in 1999. State sales tax transfers are used to reimburse the county for advancing funding for the project.

While the county is authorized to issue bonds for the new highway improvement project if the county board of supervisors also authorizes the bond issuance by December 31, 2004, Maricopa County does not plan on issuing bonds to finance the project. The county will provide advance funding for the project and the annual transfers of state sales tax will reimburse the county. The Maricopa County Board of Supervisors is scheduled to review the 2 related agreements between ADOT and the county, and PIR and the county on December 15, 2004. The Committee is only required to review the agreement between ADOT and the county. The agreement between PIR and the county is attached as an informational item.

Chapters 182 and 282 required the agreement to include:

- Commitment of state and county to provide monies to finance the project.
- Outline of the responsibilities of each party regarding planning, design, construction, owning and maintenance of highway.
- Provide that payment for costs be made from other available contributions before use of state sales tax amounts.
- Provide that the county reimburse the state General Fund for sales tax transfers to date if major ownership interest in the facility is conveyed before June 30, 2014.
- Allow county to enter into agreement with sports facility to have owner of facility reimburse the county for expenses if the ownership of the facility changes before June 30, 2014.

The submitted agreement addresses the required items.

RS/LM:jb

Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

Victor M. Mendez
Director

Debra Brisk
Deputy Director

November 30, 2004

The Honorable Robert Burns
Chairman
Joint Legislative Budget Committee
1716 West Adams Street
Phoenix, AZ 85007

Dear Senator Burns:

SB 1123, Laws 2004, Chapter 182 authorizes the Arizona Department of Transportation (ADOT) to enter into an intergovernmental agreement with Maricopa County to finance highway improvements to a county highway to enhance access to a sports entertainment facility.

SB 1123 specifies a number of requirements the agreement must contain:

- The commitment of the county to contribute other funds for financing the county highway improvements.
- It must clarify responsibilities with regard to planning, designing, constructing, owning and maintaining the county highway.
- Provide for payments for transaction privilege tax funds over a 12-year period.
- Provide for reimbursement to the state general fund if the owners of the sports entertainment facility convey a majority ownership interest in the facility on or before June 30, 2014.
- It must contain a confirmation that the county has a legally binding assurance from the owners of the sports entertainment facility that the county will in turn, be reimbursed by the owners of the sports entertainment facility for any and all reimbursement expenses the county incurs if ownership of the sport entertainment facility changes.
- Finally, the agreement must be submitted to the Joint Legislative Budget Committee for review prior to execution by the county.

Attached for your approval is the text of the agreement between the Arizona Department of Transportation and Maricopa County. Also attached you will find a copy of the agreement between Maricopa County and the owner of the sports entertainment facility providing for reimbursements should a majority ownership interest be conveyed to another party on or before June 30, 2014.

We believe these documents meet the requirements of SB1123 and we respectfully request Joint Legislative Budget Committee approval of this agreement. If you have additional questions please contact Terry Trost, 712-8981.

Sincerely,

Victor M Mendez

Victor M. Mendez

cc: Representative Russell Pearce
Richard Stavneak, Director, JLBC
David Jankofsky, Director, OSPB
Lorenzo Martinez, JLBC
Marcel Benberou, OSPB
Michael S. Ellegood, MCDOT
Jon White, MCDOT

Maricopa County
Department of Public Works

2901 W. Durango St
Phx, AZ 85009
Phone: 602-506-4622
Fax: 602-506-4858
www.maricopa.gov

November 23, 2004

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AM 1 2 3 4 5 6 7 8 9 10 11 12 PM

Senator Robert Burns
Chairman, Joint Legislative Budget Committee
Attention: Richard Stavneak, Director
Arizona State Legislature
1716 West Adams Street
Phoenix, AZ 85007

Dear Chairman Burns and Members of the Committee:

Subject: Joint Legislative Budget Committee Review of an Intergovernmental Agreement Between the Arizona Department of Transportation and Maricopa County Pursuant to the Requirements of 2004 Senate Bill 1123

Senate Bill 1123, passed by the Arizona Legislature and signed into law by the Governor on May 3, 2004, authorizes the expenditure of up to five million dollars ($5,000,000.00) from transaction privilege tax revenues for the purpose of financing highway improvements to a County highway approaching and traversing the 115th Avenue bridge constructed pursuant to 1997 House Bill 2353. The improvements will enhance access to a sports entertainment facility as specified in the bill, in this instance the Phoenix International Raceway (PIR).

SB 1123 authorizes the Arizona Department of Transportation (ADOT) to enter into an intergovernmental agreement with Maricopa County to provide for the use of transaction privilege tax revenues for this purpose. The bill sets forth a number of requirements for the agreement. Among these are that the agreement must:

- Be executed by December 30, 2004;
- Contain the commitment of the County to contribute other funds for financing the highway improvements;
- Clarify responsibilities with regard to planning, designing, constructing, owning and maintaining the highway;
- Provide for payments from transaction privilege tax funds over a twelve-year period;
- Provide for reimbursement to the state general fund if the owners of the PIR convey a majority interest in the facility on or before June 30, 2014;

- Contain the County's confirmation that it has a legally binding assurance from the owners of PIR that the County will, in turn, be reimbursed by the owners of PIR for any and all reimbursement expenses the County incurs if ownership of PIR changes; and
- Be submitted to the Joint Legislative Budget Committee for review before execution of the agreement.

The draft agreement between ADOT and Maricopa County is enclosed for the Committee's review at its December meeting. A copy of SB 1123 is attached to the agreement as "Exhibit A." The draft agreement satisfies all of the requirements set forth in SB 1123. Also enclosed is the draft agreement between Maricopa County and Phoenix Speedway Corporation (owners of PIR) providing for reimbursement to Maricopa County should a majority interest in PIR be conveyed to another party on or before June 30, 2014.

If you have any questions or require any additional information, please contact Jon White of MCDOT;s Transportation Planning Division at 602-506-0012.

Sincerely,

Michael S. Ellegood, P.E.
Director of Public Works,
Transportation Director and County Engineer

Enclosures

AG Contract No.: KR04-1702TRN
ADOT ECS File No.: JPA 04-126
Project: Highway Improvements Project
Section: Western Segment of 115th Ave Bridge to Estrella Parkway
TRACS No.: N/A
Budget Source Item No.: N/A
MCDOT Contract No.:

Draft

INTERGOVERNMENTAL AGREEMENT

BETWEEN
THE STATE OF ARIZONA,
AND
THE MARICOPA COUNTY, ARIZONA,

THIS AGREEMENT is entered into ____, 2004, pursuant to Arizona Revised Statutes, § 11-951 through § 11-954, as amended, among the STATE OF ARIZONA, acting by and through its DEPARTMENT OF TRANSPORTATION (the "State") and the MARICOPA COUNTY, ARIZONA, acting by and through its BOARD OF SUPERVISORS (the "County).

I. RECITALS

1. The State is empowered by Arizona Revised Statutes § 28-108, § 28-112, §28-114, §28-401 and § 28-7652 to enter into this Agreement and has delegated to the undersigned the authority to execute this Agreement on behalf of the State.

2. The County is empowered by Arizona Revised Statutes § 11-251, §28-401 and § 28-7652 to enter into this Agreement and has by resolution, a copy of which is attached hereto and made a part hereof, resolved to enter into this agreement and has authorized the undersigned to execute this agreement on behalf of the County.

3. This Agreement shall supplement that certain Intergovernmental Agreement, JPA 97-033 which was entered into on September 11, 1997 by the parties hereto and the City of Avondale, filed with the Secretary of State under No. 21883.

4. The Arizona Legislature, through 2004 Senate Bill 1123 (S.B. 1123) and Senate Bill 1413 (SB1413), a copy of which is attached hereto as Exhibit "A" and made a part hereof, has authorized the transfer of up to Five Million Dollars ($5,000,000.00) from State transaction privilege tax revenues to the County, for the purpose of financing highway improvements to a County highway approaching and traversing the bridge constructed pursuant to the Agreement referenced above in Section I, paragraph 3. The County has determined that the County roads described in Exhibit B attached hereto, meet the requirements of S.B. 1123 and S.B. 1413, and shall be referred to herein as the "Highway Improvements Project".

5. The transfer of the funds up to $5,000,000.00 from transaction privilege tax revenues is contingent upon sufficient matching funds from the County in the amount of $100,000.00.

6. The intent of this Agreement is to define the terms for the transfer of, if required to complete the Highway Improvement Project, up to $5,000,000.00 of transaction privilege tax revenues from the State over a 12-year period to the County and the expenditure thereof.

7. The Highway Improvement Project will be constructed under the provisions of 2004 S.B. 1123 and S.B. 1413 and the estimated costs are as follows:

Total Estimated Construction Cost	**$5,100,000.00**
AZ State SB 1123 Funds	$5,000,000.00
Estimated County Funds	$ 100,000.00

II. SCOPE OF WORK

1. The County shall:

a. Be responsible to contribute its matching fund, in an amount estimated at $100,000.00 to complete the Highway Improvement Project.

b. Be the lead agency, provide and be solely responsible for design studies, plans, specifications and such other document and services required for construction bidding and construction.

c. Call for bids and award the construction contracts for the Highway Improvement Project. Administer same and make all payments to the contractor(s). Be responsible for all costs associated with the Highway Improvement Project over and above the funds committed herein, and for any contractor claims for extra compensation due to delays or whatever reason.

d. Beginning in July 2007 and continuing through June 2019, invoice the State annually for S.B. 1123 and S.B. 1413 Highway Improvement Revenue funds for the reimbursement of actual costs of the Highway Improvement Project, in an amount up to $416,667 per year or $5,000,000.00 over the course of repayment period.

e. Be responsible to enter into a binding agreement with the owners of the Phoenix International Raceway (PIR) under which the owners, or their successors, will reimburse the County for an and all expenses the County may incur if the County is required to reimburse the State for S.B. 1123 Highway Improvement Revenue funds pursuant to A.R.S. § 28-401. D, A.R.S. § 28-7652, B or A.R.S. § 42-5032. B.

f. If, on or before June 30, 2014, the owner of the PIR conveys a majority interest in PIR to another owner or entity, reimburse the State the full amount of S.B. 1123 Highway Improvement Revenue funds received by the County as of the date of the conveyance of majority interest as provided by § 42-5032.B.

g. Upon completion of construction, approve and accept the Highway Improvement Project, and be responsible to provide for, at its own costs and as an annual item in its budget, proper and perpetual maintenance.

2. The State shall:

a. Upon execution of this Agreement, provide copies to Arizona State Treasurer Office and Arizona Department of Revenue respectively.

b. Pursuant to A.R.S. § 42-5032.B, the payment obligated under this Agreement will be made by Arizona State Treasurer Office and the State Treasurer Office shall, within 30 days after the receipt and approval of invoices, reimburse the County over a 12-year period in yearly installments beginning on or about July 31, 2007 in an amount up to $416,667 per year for a total amount up to $5,000,000.00 from S.B. 1123 Highway Improvement Revenue funds.

c. The State / ADOT shall have no other direct or indirect responsibilities with respect to the payments obligated under this Agreement, design, construction or maintenance of the Highway Improvements Project.

III. MISCELLANEOUS PROVISIONS

1. The State has no direct interest in the design or construction of the Highway Improvements Project. The only interest of the State in the Highway Improvements Project is to convey funds for the use and benefit of the County by reason of the State law under which funds for the Highway Improvements Project are authorized to be expended. Should the Highway Improvements Project not be completed, be partially completed, or be completed at a lower cost then the amounts contributed by the State, or for any other reason should any of these funds not be expended, a proportionate amount of the funds provided under this Agreement shall be reimbursed to the State.

2. The County agrees to indemnify and save harmless the State, or any of its departments, agencies, officers or employees, from and against all loss, expense, damage or claim of any nature whatsoever which is caused by any activity, condition or event arising out of the performance by the State or the County of any of the provisions of this Agreement.

3. The terms, conditions and provisions of this Agreement shall remain in full force and effect until completion of the said Highway Improvements Project and related deposits or reimbursements; provided herein. However, any provisions for maintenance provided by the County shall be perpetual, unless or until such time as the City annexes the right-of-way of which the Highway Improvements are located or proposed to be located or assumed by another competent entity. Further, this Agreement may be terminated by either party at any time prior to the award of the design or construction contract, upon thirty (30) days written notice to the other party. It is understood and agreed that, in the event this Agreement is terminated by the County, the State shall in no way be obligated to maintain the said Highway Improvements Project.

4. This Agreement shall become effective upon filing with the Secretary of State.

5. This Agreement may be cancelled in accordance with Arizona Revised Statutes § 38-511.

6. The provisions of Arizona Revised Statutes § 35-214 are applicable to this Agreement.

7. This Agreement is subject to all applicable provisions of the Americans with Disabilities Act (Public Law 101-336, 42 U.S.C. 12101-12213) and all applicable federal regulations under the Act, including 28 CFR Parts 35 and 36. The parties to this Agreement shall comply with Executive Order Number 99-4 issued by the Governor of the State of Arizona and incorporated herein by reference regarding "Non-Discrimination".

8. Non-Availability of Funds. Every payment obligation of the State under this contract is conditioned upon the availability of funds appropriated or allocated for the payment of such obligation. If funds are not allocated and available for the continuance of this contract, this contract may be terminated by the State at the end of the period for which the funds are available. No liability shall accrue to the State in the event this provision is exercised, and the State shall not be obligated or liable for any future payments or for any damages as a result of termination under this paragraph.

9. In the event of any controversy, which may arise out of this Agreement, the parties hereby agree to abide by required arbitration as is set forth for public works contracts in Arizona Revised Statutes § 12-1518.

10. All notices or demands upon any party to this Agreement shall be in writing and shall be delivered in person or sent by mail addressed as follows:

For Agreement & General Correspondence:

Arizona Department of Transportation
Joint Project Administration
205 S. 17th Avenue, Mail Drop 616E
Phoenix, AZ 85007
FAX: (602) 712 7424

Maricopa County Department of Transportation
ATTN: Transportation Director
2901 West Durango Street
Phoenix, AZ 85009

For General Billing / Invoice Correspondence:

Arizona State Treasurer Office
1700 West Washington Street, 1st Floor
Phœnix, AZ 85007

Maricopa County Department of Transportation
ATTN: Transportation Director
2901 West Durango Street
Phoenix, AZ 85009

11. Pursuant to Arizona Revised Statutes, Section 11-952 (D), attached hereto and incorporated herein, is the written determination of each party's legal counsel that the parties are authorized under the laws of this state to enter into this Agreement and that the Agreement is in proper form.

IN WITNESS WHEREOF, the parties have executed this Agreement the day and year first above written.

MARICOPA COUNTY, ARIZONA

By__________________________________
ANDREW KUNASEK
Board of Supervisors

ATTEST

By__________________________________
FRAN MCCARROLL
Clerk of the Board

STATE OF ARIZONA
Department of Transportation

By__________________________________
VICTOR MENDEZ, Director
Arizona Department of Transportation

G: 04-126-MCDOT-PIR
REV3-6Dec2004-IH

AGREEMENT BETWEEN MARICOPA COUNTY

AND PHOENIX SPEEDWAY CORP.

FOR REIMBURSEMENT MEASURES IF PHOENIX SPEEDWAY

CORP. CONVEYS A MAJORITY OWNERSHIP OF PHOENIX

INTERNATIONAL RACEWAY ON OR BEFORE JUNE 30, 2014

This Agreement (the "Agreement") is made between the County of Maricopa, Arizona, a body politic acting by and through the Maricopa County Department of Transportation ("County"), and Phoenix Speedway Corp. ("PSC"), a Delaware corporation d/b/a/ Phoenix International Raceway ("PIR"). This Agreement shall become effective as of the date it is signed and approved by the Maricopa County Board of Supervisors. The County and PSC agree that the execution and implementation of this Agreement will result in a mutually beneficial relationship to improve public road and highway construction and maintenance and will further improve and facilitate traffic control within Maricopa County.

STATUTORY AUTHORIZATION

The County is empowered by Arizona Revised Statutes Annotated Section ("A.R.S. §") 11-251 to lay out, maintain, control and manage public roads within the County; by A.R.S. § 28- 6701 to establish public roads and highways; by A.R.S. § 11-201 to enter into contracts and into this Agreement specifically; and by A.R.S. § 42-5032 to, *inter alia*, enter into an Intergovernmental Agreement as described therein.

PURPOSE OF THIS AGREEMENT

As amended in 2004, A.R.S.§ 42-5032:

1) Authorizes the Arizona Department of Transportation ("the State") to enter into an Intergovernmental Agreement ("the IGA") with the County;

2) Authorizes the expenditure of up to Five Million Dollars ($5,000,000) for the purpose of financing improvements to a county highway approaching and traversing the bridge earlier constructed pursuant to A.R.S. § 42-5032 (A) ("the Improvements") located adjacent to PSC's "Sports entertainment facility" as defined by A.R.S. § 42-5032(E) known as Phoenix International Raceway or PIR and including the real property described on Exhibit "A" to this Agreement, which is incorporated by reference ("the Facility");

3) Authorizes the periodic payment by the State treasurer of transaction privilege tax revenues to the County in an aggregate amount equal to the funds paid for the Improvements; and

4) Requires the County to enter into a legally binding contract with PSC that, in the event PSC voluntarily conveys a majority ownership interest in the Facility to another entity or owner on or before June 30, 2014, PSC shall reimburse the County for any amounts the County is required to pay to the state general fund pursuant to A.R.S. § 42-5032 (B). This Agreement is intended to be a binding reimbursement agreement between the County and PSC in compliance with the requirements described in A.R.S. §42-5032 (B).

TERMS OF AGREEMENT

1. The County agrees to:

   1.1. Exercise a good faith effort to enter into the IGA with the State as described in A.R.S. § 42-5032 for financing the costs of the Improvements.

   1.2. In the event PSC voluntarily conveys a majority interest in the Facility to another entity or owner on or before June 30, 2014, determine the full amount that the County must reimburse the State under A.R.S. § 42-5032(B) and invoice PSC for that amount.

2. PSC agrees to:

   2.1. In the event PSC voluntarily conveys a majority interest in the Facility to another entity or owner on or before June 30, 2014, then PSC shall reimburse the County the amount the County is required to reimburse to the State general fund pursuant to A.R.S. § 42-5032(B).

   2.2. Notify the County in advance of any voluntary conveyance of a majority interest in the Facility to another entity or owner.

   2.3. Pay the County, within thirty (30) days of receipt of an invoice, an amount equal to the amount the County is required to reimburse the State under A.R.S. § 42- 5032(B) and does reimburse.

GENERAL TERMS AND CONDITIONS

3. This Agreement is entered into and to be performed in Arizona and shall be construed, interpreted and enforced under the laws of the State of Arizona.

4. If any provision of this Agreement is declared invalid, illegal or unenforceable, that provision shall be severed from the Agreement, and the remaining provisions shall otherwise remain in full force and effect.

5. The parties agree that this Agreement does not create a partnership, joint venture or other association.

6. This Agreement shall not be construed to imply authority to perform any tasks or accept any responsibility not expressly set forth herein.

7. This Agreement may be modified or amended only by a written instrument executed by the parties.

8. This Agreement constitutes the entire agreement between or among the parties and supersedes all other prior agreements and understandings, both written and oral, with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement this

_______________ day of _____________, 2004.

Maricopa County,
A Political Subdivision

Recommended by:

_______________________ __________

Michael S. Ellegood, P.E. Date
Director of Public Works
Transportation Director and County Engineer

Approved and Accepted by:

By:_____________________ __________
Chairman, Board of Supervisors Date

ATTEST:

____
Frank McCarroll, Clerk of the Board

Phoenix Speedway Corp.,
A Delaware corporation

Approved and Accepted by:

By:______________________

____

Attorney Certification Follows

ATTORNEY CERTIFICATION

The undersigned attorneys for the respective parties hereto, each certify that they have reviewed this Agreement and find that it is in proper form and within the Power and Authority granted their respective clients under the laws of the State of Arizona.

______________________________	______________________________
Deputy County Attorney	Merwin D. Grant Counsel for Phoenix Speedway Corp.
Date: __________, 2004	Date: ____________, 2004

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT "BOB" BURNS
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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

HOUSE OF
REPRESENTATIVES

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MEG BURTON CAHILL
EDDIE FARNSWORTH
LINDA GRAY
STEVE HUFFMAN
JOHN HUPPENTHAL
LINDA J. LOPEZ

DATE: December 9, 2004

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Economic Security- Review of Expenditure Plan for Discretionary Workforce Investment Act Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security (DES) is submitting an expenditure plan for $2.2 million in discretionary federal Workforce Investment Act (WIA) monies received by the state for FY 2005. Unlike most federal funds, the WIA monies are subject to legislative appropriation due to federal requirements. These monies cannot be spent until an expenditure plan has been reviewed by the Joint Legislative Budget Committee.

The Committee favorably reviewed $2.5 million in discretionary WIA expenditures in June 2004. Those monies represented core functions typically funded with WIA dollars. The December 2004 expenditure plan reflects items that are more discretionary.

Of the $2.2 million in proposed funding, $639,300 is one-time funding.

Recommendation

The Committee has at least the following three options:

1. A <u>favorable review</u> of DES' plan for $2.2 million in discretionary WIA expenditures.
2. Deferring a decision on the expenditure plan until DES provides more information on the new programs proposed by the Governor's Council.
3. An <u>unfavorable review</u>.

Since DES' request has raised numerous questions, JLBC Staff has asked DES for additional information. At the time of publication, Staff has not received a response from the agency. Where appropriate, Staff's specific questions have been included in the text of the program's description.

In September 2003, DES submitted an expenditure plan for WIA monies that included $1.8 million in discretionary program expansions. At that time, the Committee chose to defer discussion on these program expansions in order to determine if those monies could be used to solve FY 2004 shortfalls within DES' budget. The option to utilize WIA dollars became immaterial when DES received a supplemental appropriation that addressed all of the agency's FY 2004 shortfalls. As a result, the Committee favorably reviewed the $1.8 million expenditure plan in June 2004.

Analysis

The DES Workforce Development Administration (WDA) is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. The WIA legislation established block grants to states for workforce development. Funds are delivered to the local level to those in need of services, including job seekers, dislocated workers, youth, veterans, disabled individuals and employers. Services are provided through partnerships between various public and private sector employment and training agencies.

The Governor's Council has recommended the establishment of $1.0 million in new programs in FY 2005. The new programs include Training for Local Workforce Investment Areas, Local Labor Market Information, Early Childhood Scholarships and High Technology Education. There is also funding for a Master Teacher Program, which was funded with an unknown allotment of "Youth Programs" monies in FY 2004. There is a table at the end of this memo that delineates discretionary funding for both FY 2004 and FY 2005. The table includes programs to be reviewed by the Committee as well as funding that was approved at the June 2004 JLBC Meeting.

New Programs

Training For Local Workforce Investment Areas
Monies will provide $170,000 in technical assistance to local workforce investment areas (LWIAs) that fail to meet local performance measures, in addition to local areas in their continued delivery of services through the One-Stop system.

JLBC Staff Question:
Training for LWIA Board and staff members is listed as a required activity. Was this issue funded in FY 2004?

Local Labor Market Information
Funding will allow the Governor's Council on Workforce Policy and the Arizona Department of Commerce to coordinate and implement an outreach program emphasizing Labor Market Information (LMI) access and targeted training throughout the state to enable job seekers, educators, economic developers, and business leaders to make better decisions. The requested level of funding for this program is $180,000.

JLBC Staff Question:
What agency would be the recipient of Labor Market Information monies? We had given Commerce $250,000 in FY 2003 for Business Research and Statistics. Is this program similar to that initiative? Was this issue funded in FY 2004? Are there any FTEs associated with this funding?

Early Childhood Scholarships
These funds ($433,000) will continue the efforts of the School Readiness Board to impact school readiness by providing an opportunity for early childhood educators to obtain quality professional development and leadership development. The scholarship program will continue to focus on the metropolitan areas and the under-served rural populations.

JLBC Staff Question:
How many individuals are expected to receive scholarships for early education training? Is all of the $433,000 being used for scholarships, or is there an administrative component? The rationale indicates that the scholarship will continue the efforts of the School Readiness Board. Are WIA funds being used to supplant funding for the School Readiness Board for this program? If so, what funding source is WIA replacing? Please provide data on the number of individuals receiving scholarships and any other performance measures for this initiative for FY 2004

High Technology Education
The focus of these funds ($250,000) will be on developing cross-training programs with Aerospace/Defense and Semiconductor industries. Training will be designed to address the industry specific differences to ensure a smooth transition of talent to fill workforce gaps from one industry to another.

JLBC Staff Question:
Please provide more detail on the programs to be funded with the High Tech Education Funding. What companies would receive funding? How many individuals are projected to be served?

Existing Programs

The above programs will be funded, in part, by the elimination or scaling back of $1.3 million in programs funded in FY 2004. Programs recommended to be eliminated or scaled back include monies to assist Nursing Programs at the state's Community Colleges as well as Youth and Women's Programs.

In addition to the establishment of new programs, the Governor's Council also recommended to continue to support (to varying degrees) programs funded with WIA monies in FY 2004. These include programs targeting youth, women as well as master teachers.

Youth Programs
The requested funding ($301,000) will focus on youth workforce development programs targeted to youth (ages 14-21) who have dropped out of school as youth that have dropped out of school are at a higher risk of not being prepared for future employment, to retain employment, and are more likely to earn lower wages than someone who has attained a high school diploma or G.E.D.

JLBC Staff Question:
There is $301,000 being requested for Youth Programs. A portion of that funding is for youth that have dropped out of school. How much of the $301,000 is for this specific program? How many youth are expected to be served? What type of programs will be funded? Are there any FTEs associated with this funding?

Women's Programs
Funding totaling $450,000 will focus on employing women from vulnerable and hard to serve areas including domestic violence, substance abuse, disability or divorce and involvement with the criminal justice system.

JLBC Staff Question:
The FY 2004 funding level for Women's Programs included $65,000 for a staff person to fund the grant process. Is this position being funded in FY 2005? Would the $450,000 include funding for this position? Funding has decreased $50,000 for this initiative in FY 2005. What programs are being reduced from FY 2004 as a result of the decrease in requested funding for this program?

Master Teacher Program

The requested funding of $450,000 will provide high-poverty districts with the opportunity to train and retain high quality teachers with the goal of improving teacher effectiveness and student achievement. Funds will also be utilized for professional development of new and mid-career teachers seeking additional education or national board certification, opportunities for districts to use experienced highly performing teachers as mentors and to further develop highly performing teachers as both a retention tool and as a means to improve the skill of other teachers for the purpose of improving student achievement.

JLBC Staff Question:
How many Master Teachers will receive funding with the $450,000? How much WIA funding did this program receive in FY 2004? Are there any FTEs associated with this funding?

Additional JLBC Staff Questions:
Is there a program to train child care workers in FY 2005?
Is there a Nursing Initiative Program for FY 2005?

Governor's Council Recommendation of 15% Set-Aside

Programs to be Reviewed	Agency	FY 2004	FY 2005	Net Change
Training for LWIAs	LWIA	--	$170,000	$ 170,000
Local Labor Market Information	COM	--	180,000	180,000
Early Childhood Scholarships	ADE	--	433,000	433,000
High Tech Education		--	250,000	250,000
Master Teacher	ADE		450,000	450,000
Youth Programs	LWIA	1,000,000[1]	301,000	(699,000)
Women's Programs	GOV	500,000	450,000	(50,000)
Nursing Programs	CC	510,400	--	(510,400)
Subtotal: Plan to be Reviewed		***$2,010,400***	***$2,234,000***	***$223,600***
Programs Reviewed by Committee				
Eligible Training Provider List	ADE	$214,300	$127,000	$ (87,300)
Incentive Funds for LWIAs	LWIA	500,000	500,000	--
Technical Assistance	LWIA	125,000	250,000	125,000
System Building	LWIA	152,000	300,000	148,000
High Concentration of Youth Activities	LWIA	200,000	200,000	--
Virtual One Stop	DES	325,000	325,000	--
Evaluation	GOV	--	125,000	125,000
Apprenticeship	ADOC	130,000	70,000	(60,000)
ADOC/State Council	ADOC	600,000	600,000	--
Subtotal: Plan Already Reviewed		***$2,246,300***	***$2,497,000***	***$250,700***
TOTAL 15% SET-ASIDE		**$4,256,700**[2]	**$4,731,000**[3]	**$474,300**

Legend

ADE	*Department of Education*	*LWIA*	*Local Workforce Investment Areas*
GOV	*Governor's Office*	*ADOC*	*Department of Commerce*
DES	*Department of Economic Security*	*CC*	*Community Colleges*

1/ Includes funding for Master Teacher Program
2/ Of this total, $640,000 was not expended in FY 2004
3/ Includes $640,000 in prior year funding not expended in FY 2004

RS/JM:ck

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson • P.O. Box 6123 • Phoenix, AZ 85005

Janet Napolitano
Governor

David A. Berns
Director

NOV 29 2004

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

Dear Senator Burns:

The Arizona Department of Economic Security (DES) requests to be placed on the agenda for the review of federal Workforce Investment Act (WIA) projects funded with WIA discretionary monies pursuant to Laws 2004, 2nd Regular Session, Chapter 275, which includes the following footnote:

> "Monies appropriated to the workforce investment act - discretionary special line item may not be expended until a proposed expenditure plan has been reviewed by the joint legislative budget committee."

The Governor's Council on Workforce Policy (GCWP) met on October 8, 2004 and identified several of the issues in the table below to be funded in FY 2005 with WIA discretionary funding.

Activities	**WIA Required or Discretionary Program**	**FY 2005 Funding Level**
Training for Local Workforce Investment Area Board and Staff Members	Required	$170,000
Local Labor Market Information product outreach and research	Discretionary	$180,000
Women's programs	Discretionary	$450,000
Early Childhood Scholarship	Discretionary	$433,000
Master Teacher	Discretionary	$450,000
Youth Programs	Discretionary	$301,000
High Tech Education	Discretionary	$250,000
Subtotal		**$ 2,234,000**

Of the $2,234,000 proposed funding level for these projects, $769,600 is the remainder of the $3,266,600 of WIA appropriated discretionary funds for FY 2005 *(as $2,497,000 of the WIA appropriated discretionary amount was reviewed by the Joint Legislative Budget Committee at the June 29, 2004 meeting)*. In addition, this proposal includes $825,100 in WIA funds allocated to Arizona by the U. S. Department of Labor for programmatic purposes above the level of the FY 2005

Legislative Appropriation and $639,300 in prior year unexpended WIA discretionary funding. These additional WIA discretionary funds are subject to the footnote below, which allows for discretionary WIA monies above the appropriated level to be expended following JLBC review:

> "All federal workforce investment act discretionary funds that are received by the state in excess of $3,266,600 are appropriated to the workforce investment act - discretionary special line item. Excess monies may not be spent until a proposed expenditure plan for the excess monies has been reviewed by the joint legislative budget committee."

If you have any questions, please contact me at (602) 542-5678.

Sincerely,

David A. Berns

David A. Berns
Director

DB:WH

C:
The Honorable Russell K. Pearce, Vice-Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Clark Partridge, State Comptroller, Arizona Department of Administration
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting

DESCRIPTION OF SET ASIDE PROGRAMS

SUBMITTED FOR DECEMBER 2004 JLBC MEETING

$170,000 for required training

Among the required uses of Governor's discretionary funds under the Workforce Investment Act, is the provision of technical assistance to local workforce investment areas (LWIAs) that fail to meet local performance measures. In addition, the Act obliges ongoing assistance to local areas in their continued delivery of services through the One-Stop system. In keeping with these requirements, DES presents a series of training sessions each program year, tailored to local performance needs and designed to update local staff regarding federally mandated changes in One-Stop operations. The $170,000 proposed ensures continued training assistance for the balance of PY 2004/FY 2005.

$180,000 for Labor Market Information

The Research Administration plans to collaborate with the Governor's Council on Workforce Policy and the Arizona Department of Commerce to coordinate and implement an effective outreach program emphasizing Labor Market Information (LMI) access and targeted training throughout the state.

The customized training of important user groups and on-going collaboration with the Governor's Council on Workforce Policy and the Arizona Department of Commerce will lead to access to more effective workforce information that will enable job seekers, educators, economic developers, and business leaders to make better decisions. Businesses will be able to use the information to formulate recruitment strategies, develop compensation plans, and set human resources policies in a global labor market context. Economic developers will be able to better analyze the characteristics of labor supply to attract employers and advise firms on relocation and/or expansion plans. Education and training officials will use the information about present and future jobs, skill requirements, and hiring standards to guide students and inform curriculum and program development efforts. The interconnectedness of all these decisions will lead to economic prosperity for Arizona.

The outreach and training plan will be a one-time effort and should result in the customer satisfaction information and database as well as the new products described above. Once complete, Research Administration will continue to monitor.

$450,000 for Women's programs

These funds will promote workforce development programs that focus on employing women from vulnerable and hard to serve areas. These funds will provide resources, job training or job placement for women who are most vulnerable due to life circumstances including domestic violence, substance abuse, disability or divorce and involvement with the criminal justice system.

$433,000 for Early Education Scholarship

These funds will continue the efforts of the School Readiness Board to impact school readiness by providing an opportunity for early childhood educators to obtain quality professional development and leadership development. The scholarship program will continue to focus on the metropolitan areas and the under-served rural populations.

$450,000 for the Master Teacher Program

The priority of the Master Teacher program is to provide high-poverty districts with the opportunity to train and retain high quality teachers with goal of improving teacher effectiveness and student achievement.

These funds will utilized for:

- Fund professional development of new and mid-career teachers seeking additional education or national board certification.
- Fund opportunities for district to use experienced highly performing teachers as mentors.
- Recognize and further develop highly performing teachers as both a retention tool and as a means to improve the skill of other teachers for the purpose of improving student achievement.

$301,000 for youth programs

These funds will focus on youth workforce development programs targeted to youth (ages 14-21) who have dropped out of school. Youth who have dropped out of school are at a higher risk of not being adequately prepared for future employment, not being able to retain employment, and are more likely to earn lower wages than someone who has attained a high school diploma or G.E.D.

The goals of the program are to assist youth who have dropped out of school in attaining a G.E.D., to prepare them for postsecondary educational opportunities or advanced training, and to place them in employment.

These funds may also be utilized for other programs that benefit the youth in Arizona as identified by the State Council on Youth Workforce Development.

$250,000 for high tech education

The Aerospace industry is experiencing a shortage of workers in several engineering disciplines. The Semiconductor industry is laying off trained engineers. The focus of these funds will be on developing cross-training programs with Aerospace/Defense and Semiconductor industries. Training will be designed to address the industry specific differences to ensure a smooth transition of talent to fill workforce gaps from one industry to another.

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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

DATE: December 9, 2004

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

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

Request

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

Recommendation

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

Analysis

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

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

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

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

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

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

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

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

In another completed project, concerning the *Padilla vs. Rodgers* case, the courts have also ruled that the federal government must pay $3 million to the state for mandated court-ordered dialysis services provided to approximately 100 undocumented individuals. The Executive reports that AHCCCS has already drawn down approximately $3.5 million in federal funds representing state-only payments in FY 2003 and FY 2004. The $1.3 million of FY 2003 reimbursements will be reverted to the General Fund; the $2.2 million of FY 2004 reimbursements will be used to reduce a probable AHCCCS FY 2005 request. AHCCCS also anticipates that it will draw down $2.5 million in FY 2005 to help cover the costs of providing services for this population.

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

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

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

RS/SSH:jb
Attachment

Janet Napolitano
Governor

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

David P. Jankofsky
Director

October 15, 2004

RECEIVED
OCT 18 2004
JOINT BUDGET
COMMITTEE

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

Dear Richard:

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

Sincerely,

David P. Jankofsky
Director

Attachment

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

AHCCCS Revenue Maximization Summary
As of October 27th, 2004

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

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

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

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

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

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

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

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

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

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

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

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

DES Revenue Maximization Summary
As of October 27, 2004

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

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

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

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

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

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

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

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

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

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

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

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

STATE OF ARIZONA

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DATE: November 5, 2004

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

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Senior Fiscal Analyst

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

Request

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

Recommendation

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

The highlights of the report are:

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

Analysis

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

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

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

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

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

Jury Trials
Parental Termination Cases

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

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

RS/KH:ck

ROBERT BURNS
DISTRICT 9

STATE SENATOR
FORTY-SIXTH LEGISLATURE

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Arizona State Senate

July 20, 2004

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

Dear Mr. Goddard:

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

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

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

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

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

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

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

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

Sincerely,

Robert L. Burns

Senator Robert Burns
Appropriations Chairman

RB:ck
xc: Richard Stavneak, Director

TERRY GODDARD
ATTORNEY GENERAL

OFFICE OF THE ATTORNEY GENERAL
STATE OF ARIZONA

SHARON SERGENT
CHILD AND FAMILY
PROTECTION DIVISION

October 15, 2004

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

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

Dear Senator Burns,

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

Answer to Committee inquiries:

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

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

Figure 1
Net Number of Hires

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

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

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

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

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

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

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

Figure 2

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

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

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

Summary Table 1
JURY TRIAL REQUESTS

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

Summary Table 2
JURY TRIALS HELD

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

Conclusion

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

Sincerely,

Sharon E. Sergent

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

CC: Richard Stavneak, Joint Legislative Budget Committee

APPENDIX A

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

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

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

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DATE: December 9, 2004

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Arizona State Retirement System – Report on Contribution Rates

Request

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

Recommendation

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

Analysis

The JLBC Subcommittee on Retirement Rates met on October 21, 2004 to discuss the projected increase in the ASRS contribution rate. ASRS projects an increase from 5.2% to 7.75%. Attachment 1 is the JLBC Staff presentation for the subcommittee and Attachment 2 and 3 are ASRS documents.

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

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

(Continued)

The following chart shows the ASRS breakdown of the increase:

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

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

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

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

The Chairman submitted additional questions to ASRS after the November meeting. ASRS's response to those questions is found in Attachment 3.

RS/EJ:jb

JLBC Subcommittee on Retirement Contribution Rate

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

21 October 2004

Attachment 1

Topics

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

How ASRS Works

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

How ASRS Works

Qualification for Benefits

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

How ASRS Works

Benefits

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

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

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

How ASRS Works

Benefits

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

How ASRS Works

Increasing the Benefits

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

How ASRS Works

Cost of the System

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

Defined Benefit vs. Defined Contribution

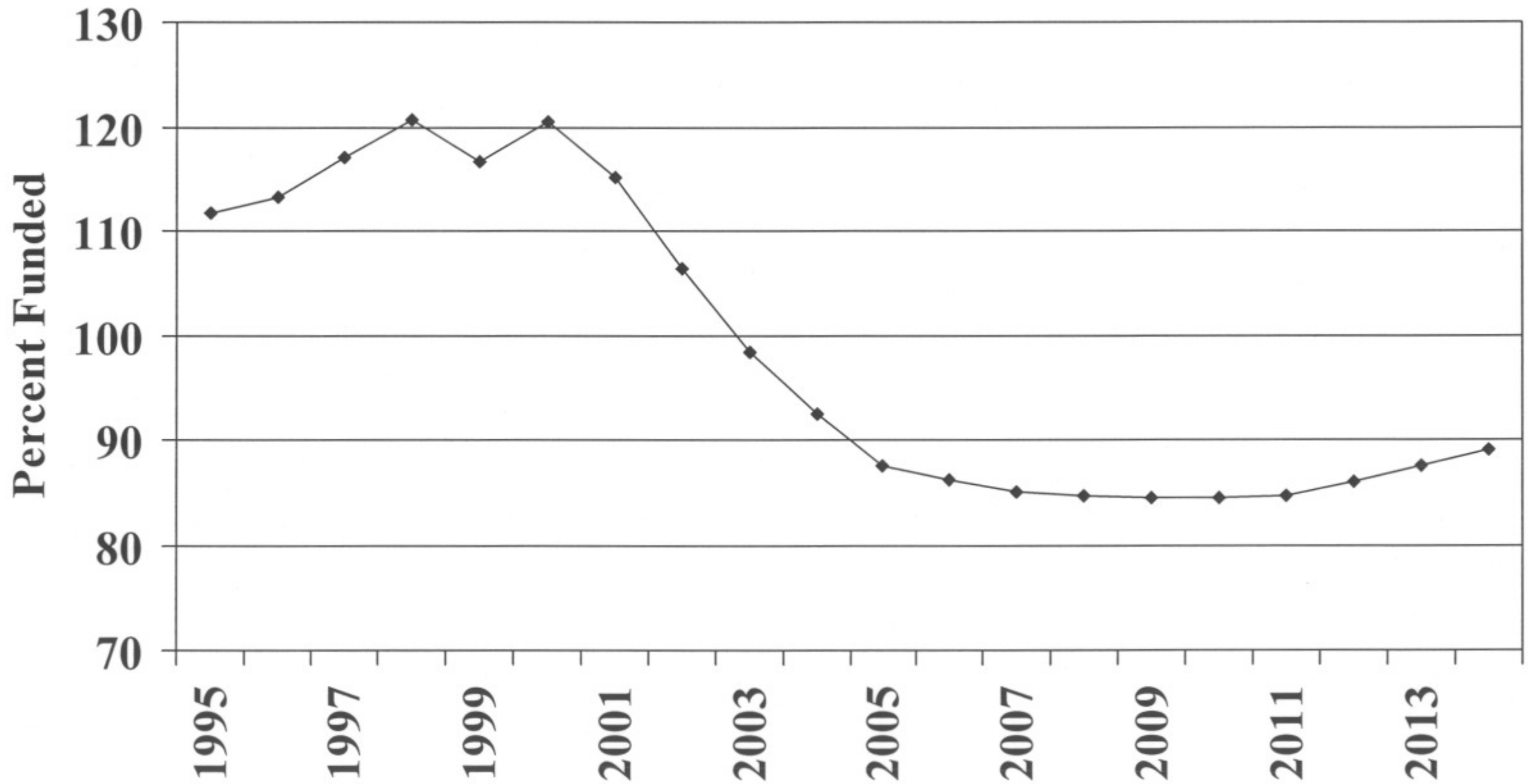
- A defined contribution system is different from the ASRS system.
- Employers are only responsible to make a contribution based on a fixed rate, determined by the terms of the plan.
- Once employer makes the contribution, employer has no more liability.
- Employee assumes risk.

How Rates are Calculated:

Making sure assets cover liabilities

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

Funded Status



How Rates are Calculated:

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

How Rates are Calculated:

Normal Cost

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

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

How Rates are Calculated:

Normal Cost

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

How Rates are Calculated:

Unfunded Actuarial Accrued Liability (UAAL)

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

Issues with Unfunded Liability

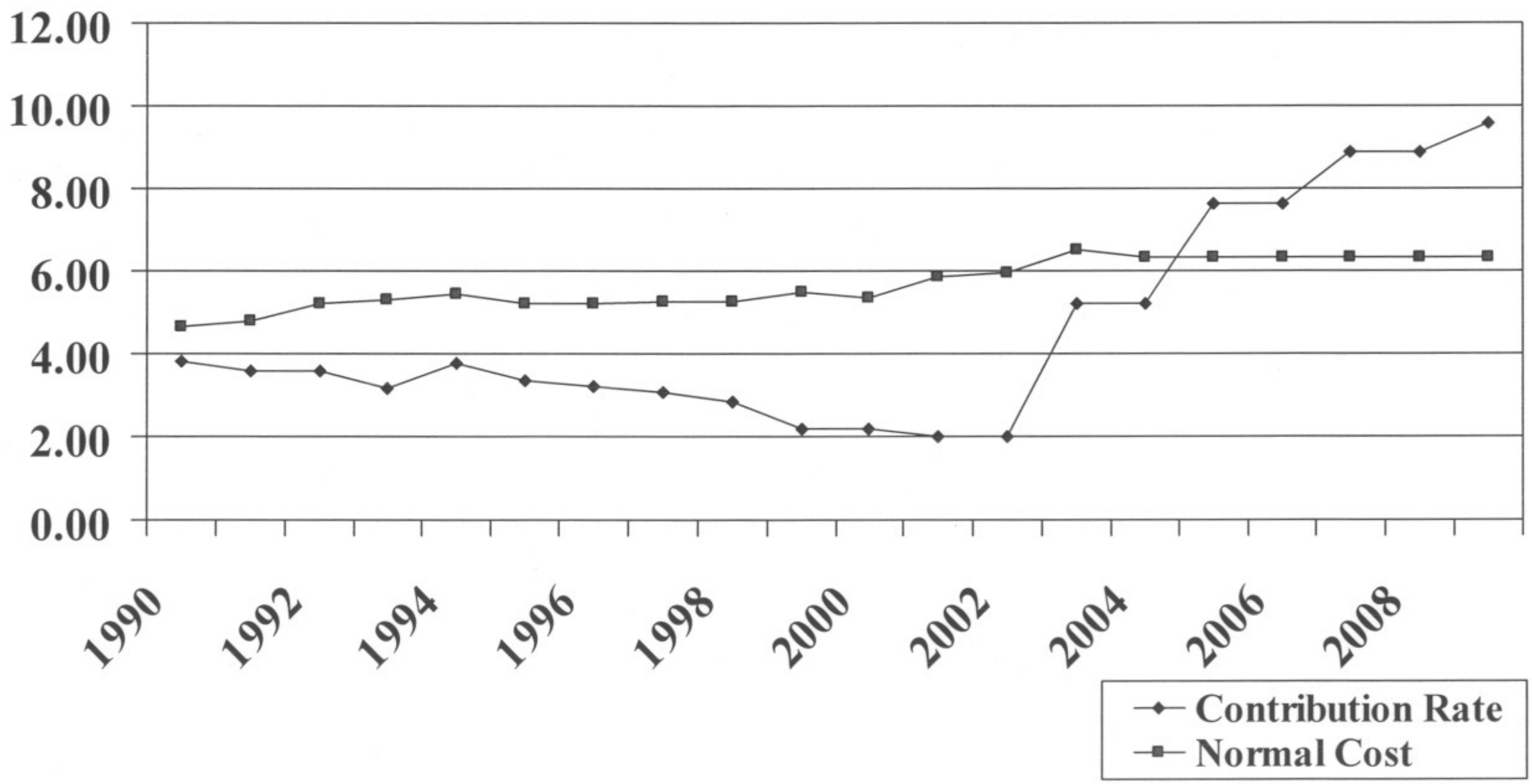
- Unfunded liability becomes problematic if:
  - No systematic progress is being made to pay off the unfunded portion over a reasonable time.
  - There is a consistent downward trend in the funding status of the plan.
- There is an additional cost associated with unfunded liability (above the normal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

How Rates are Calculated:

What changes the rate?

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

Normal Cost vs. Contribution Rate



Cost of the New Rate

General Fund

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

Cost of the New Rate

Public School Teachers

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

Arizona State Retirement System
Retirement Contribution Rate Factors

Attachment 2

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

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

Summary

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

Arizona State Retirement System
Explanation of Factors Contributing to Rate Change

2002

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

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

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

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

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

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

Increased Monthly Health Insurance Premium Benefits

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

2003

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

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

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

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

Rural Health Insurance Premium Benefits

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

2004

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

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

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

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

2005

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

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

Arizona State Retirement System

3300 North Central Avenue, Phoenix, AZ 85012

WWW.ASRS.STATE.AZ.US

Fact Sheet

Information:
(602) 240-2016

INVESTMENT RETURNS

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

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

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

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

Fiscal Year Annualized Rates of Return

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

August 2004

Effect of Investment Gains and Losses on Contribution Rates

Arizona State Retirement System - September 2004

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

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

ARIZONA STATE RETIREMENT SYSTEM

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TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1-800-621-3778

Paul Matson
Director

RECEIVED
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JOINT BUDGET COMMITTEE

December 6, 2004

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

Dear Senator Burns,

I am providing the following information to you in response to requests included in your November 23, 2004 letter addressed to me.

Question Number 1:

"How much would it cost to postpone or phase in the implementation of the new rates?"

Any postponement or phase-in of contribution rate increases will set contribution rates below the rate required to reduce the Plan's unfunded liabilities. The Plan's funded status will be 86.3% on June 1, 2005 at the 7.75% contribution rate that the actuary recommended and the ASRS Board accepted. Although 86.3% is below a 100% funding level, a 7.75% contribution rate will ensure that present retiree benefits can be fully paid out while unfunded actuarially accrued liabilities (UAAL) are paid down. A pension plan is considered "fully funded" if regular payments are being made under the plan to cover the normal cost in conjunction with a reasonably rapid amortization of the UAAL.

As requested, below is an illustration of estimated future contribution rates, funded status, and the UAAL level of the Plan under three scenarios:

1. The current actuarially recommended and Board determination to set contribution rates at 7.75% for the next biennium;
2. Postponement of the implementation of the 7.75% contribution rates until July 1, 2007; and
3. Phase in of the 7.75% contribution rate over a three-year period.

	Contribution Rates for Each Member and Each Employer		
	7/05	7/07	7/09
Current	7.75%	8.94%	9.57%
Postponement	5.20%	7.75%	10.18%
Phase in	6.05%	7.75%	9.93%

	Funded Status		
	7/05	7/07	7/09
Current	86.3%	83.9%	83.2%
Postponement	86.3%	81.2%	79.3%
Phase in	86.3%	82.5%	80.7%

	UAAL ($ in Millions)		
	7/05	7/07	7/09
Current	$3,778	$5,069	$6,055
Postponement	$3,778	$5,903	$7,457
Phase in	$3,778	$5,506	$6,964

As we have indicated in past meetings, the current rate of 7.75% is a phase-in of ultimately higher contribution rates. We expect rates to increase over future years but at a slower rate than in the recent past.

Additionally, any postponement or phase-in of the current contribution rate may not meet the requirements of Section 1, subsection A, Article 29 of the Arizona Constitution which states that:

> "Public retirement systems shall be funded with contributions and investment earnings using actuarial methods and assumptions that are consistent with generally accepted actuarial standards."

As such, a postponement or phase-in appears to be contrary to the constitutional requirement that the contribution rate be based on actuarial standards.

Question Number 2:

"How much would it save to set the rate annually instead of biennially?"

As requested, below is an illustration of projected contribution rates under the current statutory requirement which sets contribution rates biennially compared to a scenario where contribution rates change annually. The below illustration assumes that the Plan experience matches assumptions for all future years.

	Contribution Rates for Each Member and Each Employer	
Effective Date	***Biennial***	***Annual***
7/2005	7.75%	7.75%
7/2006	7.75%	8.59%
7/2007	8.94%	8.94%

7/2008	8.94%	9.22%
7/2009	9.57%	9.49%

Setting the contribution rate biennially generally produces a higher contribution in the first year of the biennium, and a lower contribution in the second year. The exception to this pattern during the above illustrated time frame are rates effective July 1, 2007, which are the same under both methods because they are based on the 2006 valuation, i.e., the valuation as of July 1, 2006, which is the year before any difference in rates occurs.

Question Number 3:

"How much do administration costs add to the contribution rate?"

The ASRS operating budget of $14,776,500 for FY05 is equivalent to 0.008 of the contribution rate percentage. The ASRS operating budget of $22,415,500 for FY06 would be equivalent to 0.012 of the contribution rate percentage. The ASRS operating budget for FY07 of $22,864,000 would be equivalent to 0.012 of the contribution rate percentage.

According to the latest Cost Effectiveness Measurement (CEM) report, the ASRS administrative costs are at the lower end of costs when compared to similar sized public pension plans. CEM surveys, compiles, and provides performance benchmarking data of domestic and international retirement plans.

Question Number 4:

"How much do Permanent Benefit Increases affect the contribution rate?"

The increase to the contribution rates over the 1999 to 2003 period stemming from permanent benefit increases is:

	Percentage for Each Member and Each Employer				
	1999	2000	2001	2002	2003
PBI Addition	0.85%	0.63%	0.21%	0%	0%

PBIs were granted to retirees by legislation passed during the 1994 legislative session (Laws 1994, Chapter 357). Retirees who have been retired at least 11 months or members on long term disability are eligible to receive PBIs. PBIs are paid from a reserve of excess investment earnings, i.e., returns on actuarial assets in excess of our assumption of eight percent. Once the excess investments reserve has been exhausted, no PBI will be granted. In the years 2002 and 2003, the return on actuarial investments was below the actuarially assumed rate of eight percent and as such, there were no excess investment earnings and thus no contribution rate increases attributable to PBI.

Furthermore, the PBIs paid out in 2002 and 2003 come from years in which the return on actuarial assets exceeded eight percent and therefore the cost of those PBI increases was included in the contribution rates in earlier years. If returns on actuarial investments rise above eight percent, then there will once again be a cost to the PBI.

If you have any additional questions, please feel free to contact me at (602) 240-2031.

Sincerely,

P M Matson

Paul Matson
ASRS Executive Director

cc: Representative Russell Pearce, Vice-Chairman, JLBC
Senator Mark Anderson
Senator Marsha Arzberger
Senator Timothy S. Bee
Senator Robert Cannell, M.D.
Senator Jack W. Harper
Senator Dean Martin
Senator Pete Rios
Representative Andy Biggs
Representative Meg Burton-Cahill
Representative Eddie Farnsworth
Representative Linda Gray
Representative Steve Huffman
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