

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUSSELL K. PEARCE
CHAIRMAN 2010
PAULA ABOUD
AMANDA AGUIRRE
CHUCK GRAY
JACK HARPER
STEVE PIERCE
REBECCA RIOS
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

<http://www.azleg.gov/jlbc.htm>

HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2009
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OLIVIA CAJERO BEDFORD
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MATT HEINZ
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RICK MURPHY
VIC WILLIAMS

**** C A N C E L L E D ****

JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, December 17, 2009

CANCELLED - 2:00 P.M.

Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order
- [Approval of Minutes of September 22, 2009](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
 - A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
 - B. State Department of Corrections - Review of Request for Proposals for 5,000 Private Prison Beds per A.R.S. § 38-431.03A2.
- 1. [ARIZONA DEPARTMENT OF ADMINISTRATION, ATTORNEY GENERAL, AND JUDICIARY - Review of Requested Exchange of Fund Transfers.](#)
- 2. [DEPARTMENT OF HEALTH SERVICES - Review of Requested Transfer of Appropriations.](#)
- 3. [AHCCCS - Review of Proposed Acute Care and Long Term Care \(ALTCS\) Capitation Rate Changes.](#)
- 4. [ATTORNEY GENERAL - Review of Allocation of Settlement Monies.](#)
- 5. [ARIZONA BOARD OF REGENTS - Review of FY 2010 Tuition Revenues.](#)

6. GOVERNMENT INFORMATION TECHNOLOGY AGENCY - Quarterly Review of the Arizona Public Safety Communication Advisory Commission.

The Chairman reserves the right to set the order of the agenda.

12/9/09

sls

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) 926-5491.

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

September 22, 2009

The Chairman called the meeting to order at 3:15 p.m., Tuesday, September 22, 2009, in House Hearing Room 4. The following were present:

Members:	Senator Pearce, Vice-Chairman	Representative Kavanagh, Chairman
	Senator Aboud	Representative Cajero Bedford
	Senator Aguirre	Representative McComish
	Senator Gray	Representative Murphy
	Senator Harper	Representative Williams
Absent:	Senator Pierce	Representative Biggs
	Senator Rios	Representative Campbell
	Senator Waring	Representative Heinz

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of June 23, 2009, Chairman Kavanagh stated that the minutes would stand approved.

STATE PARKS BOARD - Review of Requested Exchange of Fund Transfers.

Mr. Art Smith, JLBC Staff stated that this item is a review of requested exchange of fund transfers for the State Parks Board (SPB). The FY 2010 budget includes a number of fund transfers for the agency and as with FY 2009, there is a provision that allows agencies to come before the Committee with an alternate fund transfer proposal as long as they are neutral to the General Fund. The table below shows the list of fund transfers required in the FY 2010 budget. The JLBC Staff presented options to the Committee.

(Continued)

FY 2010 Fund Transfer Exchange				
Fund Specified in Laws 2009, Ch. 11 ^{1/}	Ch. 11 Transfer Amount ^{2/}	Transfer Type	Replacement Fund ^{3/}	Revised Transfer Amount ^{4/}
State Lake Improvement Fund	\$3,048,200	EBT ^{5/}	Arizona Heritage Fund Off-Highway Vehicle Recreation Fund	\$2,548,200 \$500,000
State Parks Enhancement Fund	\$1,901,500	EBT ^{5/}	Arizona Heritage Fund	\$1,901,500
State Parks Enhancement Fund	725,900	FRAT ^{6/}	Arizona Heritage Fund	725,900
State Parks Enhancement Fund	557,600	Salary ^{7/}	Arizona Heritage Fund	557,600
Arizona Heritage Fund	163,900	Salary ^{7/}	Arizona Heritage Fund	163,900
Reservation Surcharge Fund	54,800	FRAT ^{6/}	Arizona Heritage Fund	54,800
Reservation Surcharge Fund	41,800	Salary ^{7/}	Arizona Heritage Fund	41,800
Publications and Souvenirs Fund	22,700	Salary ^{7/}	Arizona Heritage Fund	22,700
State Parks Fund	19,700	Salary ^{7/}	Arizona Heritage Fund	19,700
Partnerships Fund	14,000	Salary ^{7/}	Arizona Heritage Fund	14,000
Total	\$6,550,100			\$6,550,100

^{1/} Fund source for reductions mandated by Laws 2009, Chapter 11.
^{2/} Amount for reductions mandated by Laws 2009, Chapter 11.
^{3/} Funds from which agencies are requesting transfers in order to accommodate the mandated reductions.
^{4/} Transfer amounts proposed by agency.
^{5/} Excess balance transfers (EBTs) sweep money from anticipated FY 2010 ending balances into the General Fund.
^{6/} Fund reduction and transfers (FRATs) reduce annual FY 2010 spending from the agency's Other Funds. An amount equal to these reductions would be swept into the General Fund. The Parks Board proposal would sweep from Arizona Heritage Fund balances.
^{7/} Salary lump sums reduce annual FY 2010 personnel spending from the agency's Other Funds. An amount equal to these reductions would be swept into the General Fund. The Parks Board proposal would sweep from Arizona Heritage Fund balances.

Mr. Jay Ziemann, Assistant Director, State Parks Board, responded to member questions.

Senator Pearce moved that the Committee give a favorable review to the Arizona State Parks Board request for the proposed exchange of fund transfers shown in the table above. The motion carried.

DEPARTMENT OF HEALTH SERVICES - Review of Behavioral Health Title XIX Capitation Rate Changes.

Mr. Art Smith, JLBC Staff, stated that this item is a review of the Department of Health Services' (DHS) capitation rate changes for behavioral health population. The proposed rates are expected to cost the General Fund approximately \$652,000 above the budgeted amount. The JLBC Staff presented options to the Committee.

Dr. Laura Nelson, Acting Deputy Director, Department of Health Services, responded to member questions.

Senator Pearce moved that the committee give an unfavorable review to the DHS' change in capitation rates for the Title XIX behavioral health programs as the capitation rate exceeds the budgeted amount by a net of \$651,000 from the General Fund due to program expansions. The motion carried.

ATTORNEY GENERAL - Review of Allocation of Settlement Monies.

Ms. Marge Zylla, JLBC Staff, stated that the Attorney General's (AG) office is requesting favorable reviews of the allocation monies received from 5 different settlements. Each has a designated amount that will be deposited into the Consumer Fraud Fund to support consumer fraud investigations, consumer education and enforcement of the Consumer Fraud Act. The total from all 5 settlements to be deposited into the fund is \$2.5 million. The JLBC Staff recommended a favorable review.

(Continued)

Senator Pearce moved that the Committee give a favorable review of \$2,547,000 from 5 settlements of the total, \$2,463,300 is to be deposited into the Consumer Protection - Consumer Fraud Revolving Fund as follows: 1) A \$845,400 allocation resulting from mediation as part of ongoing Average Wholesale Price (AWP) litigation with pharmaceutical companies (an additional \$83,700 was spent on outside counsel, 2) a \$117,000 allocation to the AG from a consent judgment with Tim's Auto Group, 3) a \$400,000 allocation to the AG from a consent judgment with Wal-Mart Stores, 4) a \$1,000,000 civil penalty from a consent judgment with Central Coast Nutraceuticals (CCN), and 5) a \$100,000 civil penalty from a consent judgment with Payless Car Rental. The motion carried.

GOVERNMENT INFORMATION TECHNOLOGY AGENCY - Quarterly Review of the Arizona Public Safety Communication Advisory Commission.

Mr. Dan Hunting, JLBC Staff, stated that this item is a review of the FY 2009 expenditures of the Arizona Public Safety Communication Advisory Commission.

Due to lack of a GITA representative to answer questions, the Chairman decided to hold this item until the next JLBC meeting.

DEPARTMENT OF EDUCATION - Review of Kinder Morgan and Xanterra Settlements.

Mr. Steve Schimpp, JLBC Staff, stated that the Department of Education (ADE) is seeking a favorable review of its plan to provide 2 school districts with funding for Basic State Aid. The JLBC Staff recommended a favorable review.

Senator Pearce moved that the Committee give a favorable review of the Arizona Department of Education's plan to provide 2 school districts with a total of \$153,900 in corrected Basic State Aid funding due to recent settlements in Arizona Tax Court regarding property taxes paid in prior years by the Xanterra and Kinder Morgan Corporations. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Risk Management Deductible.

Mr. Dan Hunting, JLBC Staff, stated that this item is a review of the deductible that the Arizona Department of Administration (ADOA) Risk Management may charge to agencies that have sustained significant losses. ADOA recommends a continuation of the current \$10,000 deductible. The JLBC Staff recommended a favorable review.

Senator Pearce moved that the Committee give a favorable review of the ADOA Risk Management deductible of \$10,000. The motion carried.

EXECUTIVE SESSION

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

At 4:15 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 5:00 p.m. the Committee reconvened into open session.

A. Arizona Department of Administration - Risk Management Services - Consideration of Proposed Settlements under Rule 14.

Senator Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Blanchard v. State of Arizona, et al. The motion carried.

Senator Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Sellers v. State of Arizona, et al. The motion carried.

B. Arizona Department of Administration - Risk Management Annual Report.

This item was for information only and no Committee action was required.

Without objection, the meeting adjourned at 5:05 p.m.

Respectfully submitted:

Sandy Schumacher, Secretary

Richard Stavneak, Director

Representative John Kavanagh, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams.
A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.

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DATE: December 8, 2009

TO: Representative John Kavanagh, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Principal Fiscal Analyst
Marge Zylla, Fiscal Analyst
Jon McAvoy, Fiscal Analyst

SUBJECT: Arizona Department of Administration, Attorney General, and Judiciary - Review of
Requested Exchange of Fund Transfers

Request

The FY 2010 General Appropriation Act (Laws 2009, 1st Regular Session, Chapter 11, Section 111) and the FY 2009 Budget Reduction and Transfer Bill (Laws 2009, 1st Special Session, Chapter 1, Section 29) require JLBC review of agency requests to transfer monies between their own funds in order to comply with transfers required by these acts. The Arizona Department of Administration (ADOA), the Attorney General's Office (AG), and the Arizona Judiciary have requested Committee review of a collective total of \$1,714,500 in fund transfers pursuant to these bills.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the proposed exchange of fund transfers for ADOA, the AG, and the Judiciary. These transfers do not change levels of expenditure authority for any funds.

Analysis

Table 1 summarizes the requested fund transfer exchanges for each agency.

(Continued)

Table 1

Requested FY 2010 Fund Transfer Switches

Fund Specified in Laws 2009, 1st Regular Session, Ch. 11 ^{1/}	Ch. 11 Transfer Amount ^{2/}	Transfer Type	Agency Proposed Fund ^{3/}	Revised Transfer Amount ^{4/}
ADOA				
Special Services Revolving Fund	\$ 34,200	Salary ^{5/}	Motor Vehicle Pool Revolving Fund	\$ 34,200
Special Services Revolving Fund	216,500	FRAT ^{6/}	Motor Vehicle Pool Revolving Fund	216,500
State Surplus Materials Revolving Fund	62,200	Salary ^{5/}	Motor Vehicle Pool Revolving Fund	62,200
State Surplus Materials Revolving Fund	<u>425,800</u>	FRAT ^{6/}	Motor Vehicle Pool Revolving Fund	<u>425,800</u>
<i>Subtotal</i>	<i>\$738,700</i>			<i>\$738,700</i>
Attorney General				
Collections Enforcement Revolving Fund	\$865,500	FRAT ^{6/}	Consumer Protection – Consumer Fraud Revolving Fund	\$865,500
Fund Specified in Laws 2009, 1st Special Session, Ch. 1 ^{7/}	Ch. 1 Transfer Amount ^{8/}	Transfer Type	Agency Proposed Fund ^{3/}	Revised Transfer Amount ^{4/}
Judiciary				
Grants and Special Revenues Fund	\$110,300	Salary ^{5/}	Criminal Justice Enhancement Fund	\$110,300
Total	\$1,714,500			\$1,714,500

^{1/} Fund source for reductions mandated by Laws 2009, 1st Regular Session, Chapter 11.

^{2/} Amount for reductions mandated by Laws 2009, 1st Regular Session, Chapter 11.

^{3/} Funds from which agencies are requesting transfers in order to accommodate the mandated reductions.

^{4/} Transfer amounts proposed by agency.

^{5/} Salary lump sums reduce annual FY 2010 personnel spending from the agency's Other Funds. An amount equal to these reductions would be swept into the General Fund.

^{6/} Fund reduction and transfers (FRATs) reduce annual FY 2010 spending from the agency's Other Funds. An amount equal to these reductions would be swept into the General Fund.

^{7/} Fund source for reductions mandated by Laws 2009, 1st Special Session, Chapter 1.

^{8/} Amount for reductions mandated by Laws 2009, 1st Special Session, Chapter 1.

ADOA

The FY 2010 General Appropriation Act requires ADOA to complete \$19,024,400 in fund transfers. These transfers are comprised of Excess Balance Transfers (EBTs), Fund Reduction and Transfers (FRATs), and salary lump sum reductions. EBTs sweep money from the anticipated FY 2010 ending balances into the General Fund. FRATs reduce the annual FY 2010 spending from the agency's other funds and sweep the savings into the General Fund. Salary lump sums reduce the annual FY 2010 spending for agency personnel costs and sweep the savings into the General Fund. *Table 1* summarizes the requested fund transfers.

The Special Services Revolving Fund receives its revenues through payments made by agencies using various centralized printing, copying, and repair services offered by ADOA. The fund is used to provide supplies, printing, copying, repair, and other office services for state agencies. ADOA states that this fund cannot meet the mandated \$34,200 salary lump sum reduction and \$216,500 FRAT because the rates for these services are set so that significant balances do not occur. According to ADOA, the balance in this fund will be negative if these monies are swept.

(Continued)

The State Surplus Materials Revolving Fund receives its revenues from the sale of state surplus property. The fund is used to collect, store, and administer the sale of state surplus property. The majority of revenues are returned to donor agencies. The department retains a service and handling fee. ADOA states that this fund cannot meet the mandated \$62,200 salary lump sum reduction and \$425,800 FRAT because much of the property they sold was purchased from constitutionally protected funds, such as the Highway User Revenue Fund, and these proceeds cannot be transferred to the General Fund. According to ADOA, the balance in this fund will be negative if these monies are swept because of the constitutionally protected funds constraint.

The Motor Vehicle Pool Revolving Fund receives its revenues from charges to agencies for the use of motor pool vehicles, and these monies are used to operate the motor vehicle pool. ADOA is requesting that the salary lump sum reductions and FRATs from the 2 funds mentioned above be swept from this fund instead. The total amount ADOA is requesting to be swept from this fund is \$738,700. This would be in addition to this fund's \$1,351,400 mandated transfers as authorized by the FY 2010 General Appropriation Act and includes a \$78,700 salary lump sum and \$1,272,700 FRAT. If the Committee favorably reviews ADOA's request, this fund's total FY 2010 transfers would be \$2,090,100, which includes \$738,700 in ADOA requested transfers and \$1,351,400 in already mandated transfers.

Attorney General

The FY 2010 General Appropriation Act requires the AG to transfer a total of \$1,365,500 from the Collections Enforcement Revolving Fund to the General Fund. These transfers are comprised of a \$1,000,000 FRAT and a \$365,500 salary lump sum reduction. The AG is requesting to transfer \$865,500 from the Consumer Protection-Consumer Fraud Revolving Fund instead of the Collections Enforcement Revolving Fund to facilitate these transfers. *Table 1* summarizes the requested fund transfer. According to the AG, the Collections Enforcement Revolving Fund does not have sufficient available funds to complete the fund transfer. The Collections Enforcement Revolving Fund receives 35% of monies from state debt recovered by the AG. The Consumer Protection-Consumer Fraud Revolving Fund consists of monies recovered from consumer fraud penalties.

Judiciary

The FY 2009 Budget Reduction and Transfer Bill (Laws 2009, 1st Special Session, Chapter 1, Section 29) requires the Judiciary to transfer a total of \$110,300 from the Grants and Special Revenues Fund to the General Fund. This amount includes a Supreme Court salary lump sum reduction of \$94,500 and a Superior Court salary lump sum reduction of \$15,800. The department is requesting to transfer \$110,300 from the Criminal Justice Enhancement Fund instead of the Grants and Special Revenues Fund to facilitate these transfers. *Table 1* summarizes the requested fund transfer. According to the Administrative Office of the Courts, the Grants and Special Revenues Fund cannot comply with the proposed transfer since the fund is made up of funding from various private grants, user fees, and federal grants to fund specific purposes.

RS/LMc/MZ/JM:ss

JANICE K. BREWER
Governor



DAVID RABER
Interim Director

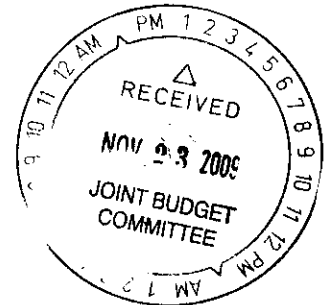
ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 N 15TH AVE, SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500

November 19, 2009

Mr. D. Clark Partridge
State Comptroller
General Accounting Office
100 N. 15th Avenue
Phoenix, Arizona 85007



Dear Mr. Partridge:

Pursuant to Laws 2009, Chapter 11, Section 111 (SB 1188), the Arizona Department of Administration (ADOA) requests authorization to transfer \$738,700 from the Motor Vehicle Pool Revolving Fund to the following funds:

Division/Section	Transfer Amount	From	To
State Surplus Property	\$488,000	Motor Vehicle Pool Revolving Fund	State Surplus Property Revolving Fund
FY 09 Administrative Adjustments	\$250,700	Motor Vehicle Pool Revolving Fund	Special Services Revolving Fund
Total	\$738,700		

The attached cash flow projections for the State Surplus Property Revolving Fund and the Special Services Revolving Fund show the current budgets without the transfer. The transfer amounts will have the effect of increasing the ending cash balance.

Please note the following:

- The biggest expenses for State Surplus are the proceeds from the auction of property that are due to the agencies that originated the property. Much of the property was purchased from constitutionally protected funds such as the Highway User Revenue Fund. Those proceeds from auctions cannot be transferred to the General Fund. The transfer proposed above keeps the fund from a negative balance while operating under those constraints.

- The Special Services Revolving Fund contains monies for the State Boards Office, the Mailroom, the Print Shop and Repair Services. All of those activities derive revenues based on a cost recovery methodology. Rates are set so that significant balances do not accumulate in the fund, which keeps the service as affordable as possible to the agencies and boards. The proposed transfer keeps the balance in the fund from going negative.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to be 'PS', followed by a long horizontal line extending to the right.

Paul Shannon
Assistant Director,
Budget and Resource Planning

c. Richard Stavneak

Attachment

Fund: 4208, for Index(es): 78100, 78200, 78500, 78700, 11012, and 14080

CC: J. Wright, S. Perica, B. St.Andre, Paul S., Joe W., Bill H.

Arizona State Boards - Fund 4208 Index 78900
Cash Expenditure Projections
Fiscal Year 2010
For the Month Ending October 31, 2009

APPROPRIATION															YTD APPROP	APPROP REM
APPROPRIATION (LESS SETASIDE)															\$ 80,225	\$ 204,375

	BUDGETED REVENUE	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD CASH REVENUES	FY 2010 PROJECTED REVENUE
BUDGETED REVENUES AY10	\$ 284,600	\$ 47,885	\$ 6,112	\$ 386	\$ 53,276	\$ -	\$ -	\$ 54,383	\$ -	\$ -	\$ 54,383	\$ -	\$ -	\$ -	\$ 107,658.62	\$ 108,766

OBJECT	EXPENDITURES	BUDGET	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD EXPENDITURE \$	PROJECTED EXPENDITURE \$	(OVER) OR UNDER BUDGET
6000	PERSONAL SERVICES	\$ 143,200	\$ 17,028	\$ 8,181	\$ 10,086	\$ 10,086	\$ 10,086	\$ 15,128	\$ 10,086	\$ 10,086	\$ 10,086	\$ 10,086	\$ 10,086	\$ 10,086	\$ -	\$ 45,379	\$ 85,727	\$ 12,094
6100	ERE	52,780	7,668	2,686	3,919	3,255	3,917	5,876	3,917	3,917	3,917	3,917	3,917	3,917	-	17,527	33,297	1,955
6200	PROFESSIONAL & OUTSIDE	-	-	30	30	60	30	30	30	30	30	30	30	30	-	120	240	(360)
6500	TRAVEL - IN STATE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6600	TRAVEL - OUT OF STATE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7000	OTHER OPERATING EXPENSES	88,620	955	4,089	2,692	9,461	497	1,496	4,230	352	343	4,273	1,729	4,385	1,899	17,198	19,203	52,219
8400	CAPITAL EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8500	OTHER EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9000	COST ALLOCATIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9100	OPERATING TRANSFERS OUT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTALS		\$ 284,600	\$ 25,651	\$ 14,986	\$ 16,727	\$ 22,862	\$ 14,529	\$ 22,530	\$ 18,263	\$ 14,385	\$ 14,376	\$ 18,306	\$ 15,762	\$ 18,418	\$ 1,899	\$ 80,224.76	\$ 138,467	\$ 65,908

CASH OR CF APPROP LESS SETASIDE	BEGINNING CASH	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD CASH REVENUES AND	FY 2010 PROJECTED REMAINING	YEAR TOTAL
CASH COLLECTIONS	\$ 3,482	\$ 47,885	\$ 6,112	\$ 386	\$ 53,276	\$ -	\$ -	\$ 54,383	\$ -	\$ -	\$ 54,383	\$ -	\$ -	\$ -	\$ 107,659	\$ 108,766	\$ 216,425
CASH EXPENDITURES	(25,651)	(14,986)	(16,727)	(22,862)	(14,529)	(22,530)	(18,263)	(14,385)	(14,376)	(18,306)	(15,762)	(18,418)	(1,899)	(1,899)	(80,225)	(138,467)	(218,692)
ENDING CASH	\$ 22,234	\$ (8,874)	\$ (16,340)	\$ 30,414	\$ (14,529)	\$ (22,530)	\$ 36,120	\$ (14,385)	\$ (14,376)	\$ 36,077	\$ (15,762)	\$ (18,418)	\$ (1,899)				\$ (2,267)
Prior Yr Revenue (note: ASBO has no prior year revenue)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prior Yr Expenditures	(1,010)	-	-	(205)	-	-	-	-	-	-	-	-	-	-	(1,215)	-	(1,215)
NET CASH FLOWS FROM PRIOR YEARS	\$ (1,010)	-	-	\$ (205)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
PROJECTED CASH NOW---06/30/10	\$ 21,224	\$ (8,874)	\$ (16,340)	\$ 30,209	\$ (14,529)	\$ (22,530)	\$ 36,120	\$ (14,385)	\$ (14,376)	\$ 36,077	\$ (15,762)	\$ (18,418)	\$ (1,899)				YTD CASH ENDING CASH
Cash at End of the Month	\$ 24,706	\$ 15,832	\$ (509)	\$ 29,700	\$ 15,171	\$ (7,360)	\$ 28,761	\$ 14,376	\$ 0	\$ 36,077	\$ 20,316	\$ 1,898	\$ (1)				\$ 29,700

By: Pam Cobb 11/9/09

CFA test

0.00

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0.00

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Management Services Division - State Surplus

Cash Expenditure Projection

Fiscal Year 2010

For the Month Ending October 31, 2009

Fund: 4214, for Index(es): 75100, 75001, 75150, 75200, 11009

APPROPRIATION															YTD APPROP	APPROP REM
SLI SALES PROCEEDS	\$ 2,512,000														\$ 6,125	\$ 2,505,875
APPROPRIATION (LESS SETASIDE)	\$ 1,258,000														\$ 386,827	\$ 871,173

	ESTIMATED REVENUE	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD CASH REVENUES	FY 2010 PROJECTED REVENUE*	TOTAL PROJECTED CASH*
REVENUES	\$ 1,962,666	\$ 31,945	79,493	\$ 373,761	\$ 182,933	\$ 57,403	68,117	\$ 75,241	\$ 401,662	\$ 66,361	\$ 446,268	\$ 49,969	\$ 81,446	\$ 48,069	\$ 688,131	\$ 1,294,535	\$ 1,962,666

OBJECT	BUDGET TO ACTUAL WITH PROJECTIONS	BUDGET	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD EXPENDITURES	FY 2010 PROJECTED EXPENDITURES	PROJECTION (OVER) OR UNDER
6000 PERSONAL SERVICES	Appropriation 45000	\$ 616,300	\$ 45,303	30,905	\$ 32,979	\$ 35,149	\$ 31,956	\$ 47,934	\$ 31,956	\$ 31,956	\$ 31,956	\$ 31,956	\$ 31,956	\$ 31,956	\$ -	\$ 144,336	\$ 271,626	\$ 200,338
6100 BRE		292,900	20,414	13,867	14,547	16,107	15,152	22,728	15,152	15,152	15,152	15,152	15,152	15,152	0	\$ 64,936	\$ 138,792	\$ 99,172
6200 PROFESSIONAL & OUTSIDE		100,000	603	11,419	9,441	10,961	6,038	6,038	9,275	8,980	6,185	9,833	9,539	6,185	3,093	\$ 32,424	\$ 65,166	\$ 2,410
6500 TRAVEL - IN STATE		18,000	0	1,792	1,374	1,597	1,615	1,615	1,615	1,615	1,615	1,615	1,615	1,615	1,615	\$ 4,762	\$ 14,535	\$ (1,297)
6600 TRAVEL - OUT OF STATE		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
6800 AID / SALES TAX COLLECTED		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
7000 OTHER OPERATING EXPENSES		203,600	18,201	12,091	12,140	73,146	8,058	7,575	39,671	5,954	3,966	38,404	8,197	7,877	3,090	\$ 115,578	\$ 122,790	\$ (34,769)
8100 CAPITAL OUTLAY		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
8400 CAPITAL EQUIPMENT		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
8500 OTHER EQUIPMENT		3,000	0	5,361	0	0	0	0	0	0	0	0	0	0	0	\$ 5,361	\$ -	\$ (2,361)
9000 COST ALLOCATIONS		32,400	5,938	5,290	0	8,203	4,860	4,860	4,860	4,860	4,860	4,860	4,860	4,860	4,860	\$ 19,430	\$ 38,880	\$ (25,910)
9100 OPERATING TRANSFERS OUT		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
TOTALS Excluding 14020 set aside		\$ 1,266,200	\$ 90,459	80,725	\$ 70,481	\$ 145,163	\$ 67,679	\$ 90,750	\$ 102,529	\$ 68,517	\$ 63,734	\$ 101,820	\$ 71,319	\$ 62,785	\$ 12,658	\$ 386,827	\$ 641,789	\$ 237,584
OBJECT EXPENDITURES	Approp 45050 DOFS	\$ 2,512,000	\$ -	-	\$ 6,125	\$ -	\$ 90,750	\$ -	\$ -	\$ 325,700	\$ -	\$ 311,000	\$ -	\$ 10,000	\$ 39,000	\$ 6,125	\$ 776,450	\$ 1,729,425
COMPOBJECT EXPENDITURES FOR FUND 4214		\$ 3,778,200	\$ 90,459	80,725	\$ 76,606	\$ 145,163	\$ 158,428	\$ 90,750	\$ 102,529	\$ 394,217	\$ 63,734	\$ 412,820	\$ 71,319	\$ 72,785	\$ 51,658	\$ 392,952	\$ 1,418,239	\$ 1,967,009

CASH OR GF APPROP LESS SETASIDE	BEGINNING CASH 7/1/09 (End of 13th FY09)	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD CASH REVENUES AND EXPENDITURES	FY 2010 PROJECTED REMAINING	YEAR TOTAL
CASH COLLECTIONS	\$ 275,903	\$ 31,945	79,493	\$ 373,761	\$ 182,933	\$ 57,403	\$ 68,117	\$ 75,241	\$ 401,662	\$ 66,361	\$ 446,268	\$ 49,969	\$ 81,446	\$ 48,069	\$ 668,131	\$ 1,294,535	\$ 1,962,666
CREDIT CARD DEPOSIT only if in process	\$ -	\$ -	-	\$ (17,709)	\$ 17,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BUDGET MANAGEMENT TRANSFERS	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CASH EXPENDITURES		(90,459)	(80,725)	(76,606)	(145,163)	(158,428)	(90,750)	(102,529)	(394,217)	(63,734)	(412,820)	(71,319)	(72,785)	(51,658)	(392,952)	(1,418,239)	(1,811,191)
NET CASH FLOW FY10		\$ (58,514)	(1,232)	\$ 279,446	\$ 35,479	(101,026)	\$ (510,633)	\$ (27,288)	\$ 7,445	\$ 2,627	\$ 33,448	\$ (21,350)	\$ 8,661	\$ (3,589)	\$ 275,179	\$ (611,705)	\$ (336,526)
CASH FLOWS FROM 14020	4,400	\$ -	-	\$ -	\$ -	(2,600)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,600)	\$ (2,600)
Prior Years Revenue		\$ 22,418	15,002	\$ -	\$ 2,070	\$ 1,608	\$ 1,608	\$ 1,608	\$ 1,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 79,490	\$ 6,430	\$ 45,920
Prior Years DOF Expenditures		\$ -	-	\$ (126,396)	\$ (48,180)	(90,750)	(162,422)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 174,550	(253,172)	(78,616)
Other Prior Year Expenditures		(11,366)	(1,268)	-	(8)	-	-	-	-	-	-	-	-	-	\$ (12,642)	\$ -	(12,642)
Total Prior Years Expenditures		(11,366)	(1,268)	(126,396)	(48,188)	(90,750)	(162,422)	-	-	-	-	-	-	-	\$ (187,198)	(253,172)	(440,370)
NET CASH FLOWS FROM PRIOR YEARS		\$ 11,052	13,734	\$ (126,396)	\$ (46,098)	(89,142)	(160,815)	\$ 1,608	\$ 1,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (147,708)	\$ (246,742)	(394,450)
COMBINED CASH FLOWS		\$ (47,462)	12,502	\$ 153,050	\$ 9,381	(192,768)	(671,448)	(25,681)	\$ 9,053	\$ 2,627	\$ 33,448	(21,350)	\$ 8,661	(3,589)	\$ 403,374	\$ -	\$ (457,672)
Cash end of Month/ or Projected at Month End		\$ 228,441	240,943	\$ 393,993	\$ 403,374	\$ 210,606	\$ (460,842)	\$ (486,523)	\$ (477,470)	\$ (474,842)	\$ (441,394)	\$ (462,744)	\$ (454,083)	\$ (457,672)			

TRENDED

PROJECTED CASH NOW--06/30/09

Prepared by: Pam Cobb Date: 11/10/09

Jul-09	40,026	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	13th month
\$ 245,643	249,492	\$ 311	(457,672)									

Notes: Operation expenditures are projected based on current activity.

8/19/2009	9/15/2009	10/14/2009	11/10/2009									
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To: Joyce, Paul, Joe, Steve, Bill, cc: Brian

Date:

BSA

CFA test

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JANICE K. BREWER
GOVERNOR

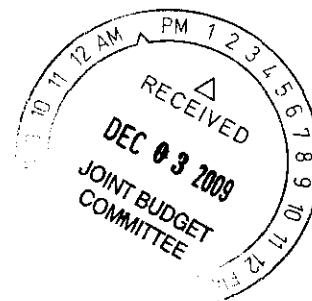
DAVID RABER
INTERIM DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

GENERAL ACCOUNTING OFFICE
100 NORTH 15th AVENUE • SUITE 302
PHOENIX, ARIZONA 85007
Phone: (602) 542-5601 • Fax: (602) 542-5749

December 1, 2009

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



Dear Mr. Stavneak:

Laws 2009, 49th Legislature, 1st Regular Session, Chapter 11 (SB1188), Section 111 requires the state comptroller to coordinate all activity with the Governor's Office of Strategic Planning and Budgeting (OSPB) and notify the Joint Legislative Budget Committee (JLBC) staff of any cash transfers pursuant to this section.

To date, the transfer requests listed in the following transfer summary schedule (see reverse side) have been reviewed as follows:

The first items for the Arizona State Parks have been reviewed by the JLBC and given a favorable review at its September 22, 2009 meeting. The General Accounting Office (GAO) and OSPB have also reviewed these requests and will process them as originally determined by section 111, i.e., they will be transferred to the agency fund that is required to comply with a reduction or transfer required by this act so that the reduction or transfer is consistent with this statutory authority.

The items for the Office of the Attorney General and the Department of Administration have not been reviewed by the JLBC, and are therefore requested to be placed on its meeting agenda so that the transfers can be made.

If you have any questions or need additional information, please call me at (602) 542-5405.

Sincerely,

A handwritten signature in cursive script, appearing to read "D. Clark Partridge".

D. Clark Partridge
State Comptroller

cc: John Arnold, Director, OSPB

Laws 2009, 49th Legislature, 1st Regular Session, Chapter 11 (SB1188)
Section 111 Transfer Summary

Agency	Amount		Fund Name
Arizona State Parks	\$ 5,886,200	from	Arizona Heritage Fund
	\$ 2,548,200	to	State Lake Improvement Fund
	\$ 3,185,000	to	State Parks Enhancement Fund
	\$ 96,600	to	Reservation Surcharge Fund
	\$ 22,700	to	Publication and Souvenirs Fund
	\$ 19,700	to	State Parks Fund
	\$ 14,000	to	Partnerships Fund
	\$ 500,000	from	Off-Highway Vehicle Recreation Fund
	\$ 500,000	to	State Lake Improvement Fund
Office of the Attorney General	\$ 865,500	from	Consumer Fraud Revolving Fund
	\$ 865,500	to	Collections Enforcement RevolvingFund
Department of Administration	\$ 738,700	from	Motor Vehicle Pool Revolving Fund
	\$ 488,000	to	State Surplus Property Revolving Fund
	\$ 250,700	to	Special Services Revolving Fund



Supreme Court

STATE OF ARIZONA

ADMINISTRATIVE OFFICE OF THE COURTS

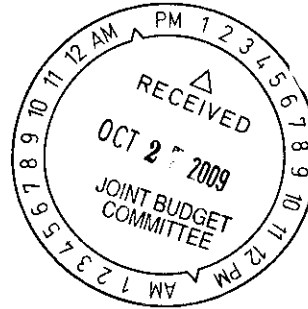
Rebecca White Berch
Chief Justice

David K. Byers
Administrative Director
of the Courts

October 22, 2009

The Honorable Russell K. Pearce, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, Arizona 85007

The Honorable John Kavanagh, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, Arizona 85007



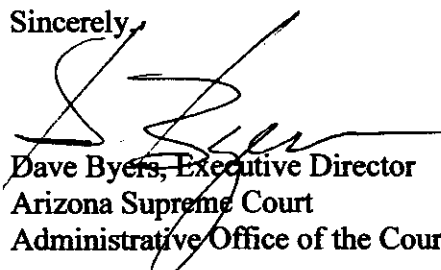
Dear Senator Pearce and Representative Kavanagh,

In accordance with Section 29 of the FY 2008 – 2009 budget reduction bill (Senate Bill 1001) the Supreme Court is requesting a fund transfer of \$110,300 from the Criminal Justice Enhancement Fund to the Grants and Special Revenue Fund.

The requested transfer is necessary to facilitate the fund transfer to the state general fund required in Section 7 of the FY 2008 – 2009 budget reduction bill allocated to the Grants and Special Revenue Fund.

The section 7 reduction included other state funds that were appropriated to state agency units in fiscal year 2008-2009 and from nonfederal non-appropriated funds for personnel expenses and related benefits costs. No program fund balance within the Grants and Special Revenue Fund is appropriate to accommodate the transfer therefore the fund can not comply without the requested transfer.

Sincerely,


Dave Byers, Executive Director
Arizona Supreme Court
Administrative Office of the Courts

Cc: Richard Stavneak, JLBC Director
Jon McAvoy, JLBC Analyst
Mike Baumstark, AOC Deputy Director
Kevin Kluge, AOC Chief Financial Officer

STATE OF ARIZONA

Joint Legislative Budget Committee

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PHONE (602) 926-5491

FAX (602) 926-5416

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VIC WILLIAMS

DATE: December 8, 2009

TO: Representative John Kavanagh
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Art Smith, Senior Fiscal Analyst

SUBJECT: Department of Health Services - Review of Requested Transfer of Appropriations

Request

Pursuant to a FY 2010 General Appropriation Act footnote, the Department of Health Services (DHS) requests Committee review of multiple transfers. The transfers are detailed on page 2 of the department's request.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the proposed transfers.
2. An unfavorable review.

Analysis

The FY 2010 budget (Laws 2009, 3rd Special Session, Chapter 11) allocated the entire \$(46,909,100) General Fund lump sum reduction against DHS' operating budget with the understanding that the department could subsequently shift a portion of the reduction against its programmatic Special Line Items (SLI). These reductions represent a combination of the midyear FY 2009 budget reductions and additional reductions enacted as part of the FY 2010 budget plan.

DHS proposes a transfer of \$332,800 in General Fund monies from its programmatic SLIs to the Breast and Cervical Cancer and Bone Density Screening SLI in order to receive enhanced federal

(Continued)

matching monies for Title XIX services under the American Recovery and Reinvestment Act (ARRA).

DHS also proposes to transfer \$900,000 in Tobacco Tax and Health Care Fund Medically Needy Account monies from the Community Health Centers SLI to the Seriously Mentally Ill Non-Title XIX SLI. In addition to the proposed General Fund shift to agency operations, this would eliminate the \$1,881,400 total fund appropriation for Community Health Centers; however, the program would still receive \$11,600,000 in Fiscal Stabilization Monies provided under ARRA for FY 2010.

RS/AS:sls

**Arizona
Department of
Health Services**

Office of the Director

150 N. 18th Avenue, Suite 500
Phoenix, Arizona 85007-3247
(602) 542-1025
(602) 542-1062 FAX
Internet: www.azdhs.gov

JANICE K. BREWER, GOVERNOR
WILL HUMBLE, INTERIM DIRECTOR

November 05, 2009

The Honorable John Kavanagh, Chair
Joint Legislative Budget Committee
Arizona House of Representatives
1700 W Washington St.
Phoenix, AZ 85007

The Honorable Russell Pearce, Vice Chair
Joint Legislative Budget Committee
Arizona State Senate
1700 W Washington St.
Phoenix, AZ 85007

Gentlemen:

Pursuant to Laws 2009, Third Special Session Chapter 11, the Arizona Department of Health Services requests placement on the next meeting agenda of the Joint Legislative Budget Committee to review the transfer of \$40,899,367 General Fund and \$900,000 Tobacco Tax and Health Care Fund between appropriation line items.

The enclosed table identifies the transfers necessary to carry forward General Fund reductions made during Fiscal Year 2009 and to continue the operation of the Department and State Hospital in relation to additional General Fund reductions found in Laws 2009, Third Special Session Chapter 11.

Thank you for your attention to this matter.

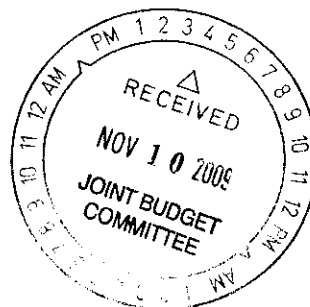
Sincerely,



Will Humble
Interim Director

WH/dh

Enc.



**Arizona Department of Health Services
FY 2010 Appropriation Transfers Proposal**

Programs	Current Appropriation	Transfers	Requested Appropriation
General Fund			
AGENCYWIDE OPERATING	28,532,500	40,566,567	69,099,067
ATTORNEY GENERAL SERVICES	394,900	(23,694)	371,206
ASSURANCE AND LICENSURE	4,651,300	(488,560)	4,162,740
LABORATORY SERVICES	4,088,600	(337,103)	3,751,497
TB PROVIDER CARE AND CONTROL	1,210,500	(618,808)	591,692
VACCINES	6,132,900	(6,132,900)	0
AIDS REPORTING AND SURVEY	1,125,000	(125,000)	1,000,000
ASIIS	477,600	(257,215)	220,385
HEPATITIS C SURVEY	309,400	(309,400)	0
DIABETES PREVENTION	100,000	(100,000)	0
COMMUNITY HEALTH CENTERS	981,400	(981,400)	0
TELEMEDICINE	260,000	(260,000)	0
LOAN REPAYMENT	100,000	(100,000)	0
DIRECT GRANTS	460,300	(460,300)	0
REIMBURSEMENT TO COUNTIES	67,900	(67,900)	0
SCORPION ANTI VENOM	150,000	(30,000)	120,000
POISON CONTROL CENTERS	1,950,000	(960,000)	990,000
TERATOGEN	60,000	(60,000)	0
CHILDREN'S REHAB SERVICES	3,587,000	(3,587,000)	0
ADULT SICKLE CELL ANEMIA	33,000	(33,000)	0
BREAST AND CERVICAL CANCER	1,015,800	332,800	1,348,600
HIGH RISK PERINATAL	4,780,600	(2,687,238)	2,093,362
COUNTY PRENATAL SERVICES	1,033,600	(1,033,600)	0
SENIOR FOOD PROGRAM	500,000	(500,000)	0
CHILDREN'S BHS STATE ONLY	8,851,800	(531,108)	8,320,692
DUAL ELIGIBLE PART D COPAY	802,600	(802,600)	0
SERIOUS MENTAL ILL STATE ONLY	30,191,900	(4,167,002)	26,024,898
SERIOUS MENTAL ILL TXIX ST MATCH	79,165,500	(900,000)	78,265,500
SUBSTANCE ABUSE NON TXIX	11,135,400	(7,045,951)	4,089,449
MENTAL HEALTH NON TXIX	1,947,300	(700,000)	1,247,300
CONTRACT COMPLIANCE	1,856,100	(673,400)	1,182,700
ACPTC	8,480,700	(1,052,088)	7,428,612
ELECTRONIC MEDICAL RECORDS	300,000	(300,000)	0
COMMUNITY PLACEMENT TREATMENT	5,574,100	(5,574,100)	0
General Fund Total	210,307,700	-	210,307,700
Tobacco Tax - Medically Needy Account			
COMMUNITY HEALTH CENTERS	900,000	(900,000)	0
SERIOUS MENTAL ILL STATE ONLY	30,924,800	900,000	31,824,800
Tobacco Tax Total	31,824,800	0	31,824,800

STATE OF ARIZONA

Joint Legislative Budget Committee

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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MATT HEINZ
JOHN MCCOMISH
RICK MURPHY
VIC WILLIAMS

DATE: December 8, 2009

TO: Representative John Kavanagh, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Amy Upston, Principal Analyst

SUBJECT: AHCCCS – Review of Proposed Acute Care and Long-Term Care (ALTCS) Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report capitation and fee-for-service inflationary rate changes with a budgetary impact to the Committee for review prior to implementation.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the rates as the proposed changes are lower than budgeted. The proposed rates would cost \$(16.6) million less from the General Fund than budgeted in FY 2010, assuming budgeted caseloads. The \$16.6 million represents a surplus of \$16.0 million in Acute Care and a \$0.6 million surplus in the Long-Term Care program. Savings described in this memo take into account the enhanced federal match rate from the American Recovery and Reinvestment Act.

Analysis

Changes in capitation rates are influenced primarily by changes in utilization, provider reimbursement, and policy issues. For Contract Year Ending (CYE) 2010, AHCCCS also made changes to administration and reinsurance to lower costs during CYE 2010.

Acute Care

This population represents members who participate in the Traditional Medicaid, Proposition 204, and KidsCare programs. In most years, capitation rates are set at the beginning of the contract year (October 1) and maintained throughout the contract year. In FY 2009, AHCCCS reduced acute care capitation rates beginning May 1, 2009.

(Continued)

In FY 2010, the approved Acute Care budget estimated capitation rate growth at 1.5% over the revised CYE 2009 rates. The JLBC Staff estimates that the increase in CYE 2010 will be lower at (1.7)% below the revised CYE 2009 rates (and (2.9)% below the original CYE 2009 rates). Based on enrollment projections used in developing the FY 2010 appropriation, this would cost \$(16.0) million less than budgeted from the General Fund (\$66.5 million in Total Funds). *Table 1* shows the proposed capitation rates for each patient group.

<u>Populations</u>	<u>Current CYE 09 Rate</u>	<u>Budgeted CYE 10 Rate</u>	<u>Proposed CYE 10 Rate</u>	<u>CYE 09-CYE 10 % Change</u>
<u>Traditional Medicaid/KidsCare</u>				
Age<1	\$ 510.18	\$ 522.99	\$ 491.52	(3.7)%
Age 1 – 13	111.52	114.32	112.86	1.2
Age 14 - 44 (Female only)	240.21	246.83	245.72	2.3
Age 14 - 44 (Male only)	144.50	147.73	148.11	2.5
Age 45+	402.12	411.79	407.32	1.3
SSI with Medicare	155.01	159.29	157.25	1.4
SSI without Medicare	737.20	753.34	753.39	2.2
Family Planning	18.92	19.32	17.38	(8.1)
Deliveries	6,571.97	6,734.55	6,629.40	0.9
<u>Title XIX Waiver Group</u>				
Prop 204 – TANF	\$ 240.45	238.31	\$ 242.69	0.9
Prop 204 – SSI	195.91	213.82	195.75	(0.1)
Prop 204 – Medically Eligible	1,348.63	1332.85	1,291.47	(4.2)
Prop 204 – Conversions/Newly Eligible	556.66	535.67	523.39	(6.0)
Prop 204 – Births	6571.97	6734.55	6,629.40	0.9
Acute Care Weighted Average				(1.7)%
<u>ALTCS</u>				
Statewide Average Rate	\$3,008.04	\$3,054.34	\$3,039.21	1.0%

Long-Term Care (ALTCS)

ALTCS services are provided to the elderly and physically disabled in need of long-term care either in nursing care facilities or in home and community-based settings.

The approved FY 2010 budget provided for a 1.5% capitation rate increase, and AHCCCS' proposed amount includes a 1.0% increase. Based on enrollment projections used in developing the FY 2010 appropriation, this proposed change would cost \$(566,500) less than budgeted from the General Fund and \$(412,600) less from counties (\$3.8 million in Total Funds).

Rates for Acute Care and ALTCS are composed of adjustments in the following categories:

Utilization

Both Acute Care and ALTCS utilization rates are expected to increase over the revised CYE 2009 rates. Utilization represents the rate at which AHCCCS members use services. Overall, Acute Care members are expected to utilize 2.4% more services. Within the ALTCS program, utilization for nursing facilities is expected to increase by 1.2% and for home and community based services by 5.1%.

Provider Reimbursements

For CYE 2010, the proposed capitation rates remain the same for providers which have already received a (5)% rate reduction and reduce provider rates by (5)% for most providers which have not already received

(Continued)

a reduction. Thus, no provider would receive a rate reduction greater than (5)% from the rates that were in place on October 1, 2008.

Beginning October 1, 2009, new rate reductions would occur for ambulatory surgical centers, home and community based services, and transportation services that are regulated by the Department of Health Services (DHS). On February 1, 2009, the physician fee schedule and transportation rates not regulated by DHS were reduced by (5)%; these reductions will be fully incorporated into the capitation rate for CYE 2010. Hospital Inpatient and Outpatient rates were frozen on October 1, 2008. This rate freeze will continue and no further reductions for CYE 2010 will be made. Nursing Facility rates were not reduced in CYE 2009 and will be maintained at the current levels in CYE 2010.

In addition to the standard adjustments for utilization, and the aforementioned reimbursement rates, the following changes have been incorporated into capitation rates:

- **Outlier Methodology Revision** – The FY 2008 budget directed AHCCCS to revise the methodology used to pay hospital claims with significantly high operating costs known as “outliers.” These claims are paid by applying a cost-to-charge ratio that is used to approximate the hospital’s actual cost of providing the services. FY 2010 concludes the third year of a 3-year phase-in for the revised methodology. This revision led to an AHCCCS-estimated General Fund savings of \$(8.1) million in FY 2010 for both the Acute Care and Long-Term Care programs. The FY 2010 budget had assumed savings of \$(7.6) million for this revision.
- **H1N1 Influenza** – In response to the World Health Organization’s identification of the H1N1 flu pandemic, the AHCCCS contractor will be encouraging high-risk members to get immunized against the H1N1 flu. AHCCCS estimates this additional vaccination will cost the General Fund approximately \$3.6 million. These costs will be realized in the Acute Care program. The FY 2010 budget did not include this additional cost.
- **Pharmacy Costs** – AHCCCS analyzed the costs for the 300 most utilized generic medications, and computed potential savings if AHCCCS Acute contractors, which pay above the average cost, were able to lower their generic pharmacy costs. Based on their calculations, AHCCCS estimates a potential General Fund savings of \$(1.0) million in the Acute Care program. No savings was included in the FY 2010 budget for this item.
- **Medical Management Changes** – The following medical management changes will begin starting in CYE 2010: medical necessity criteria will be established for genetic testing, allergic immunotherapy coverage will be eliminated, medical necessity criteria for negative pressure wound therapy will be revised, and somnography will be limited to 1 per contract year unless clinical circumstances require additional studies. AHCCCS estimates these 4 changes will result in General Fund savings of \$(0.8) million for both the Acute Care and ALTCS programs. The FY 2010 budget did not incorporate savings for these items.
- **Dental Services** – Beginning in CYE 2010, AHCCCS is eliminating reimbursement for dental behavioral management, modifying coverage for some x-ray services based on age appropriateness, and establishing a maximum age limitation for dental sealants and permanent teeth. These changes lead to an AHCCCS-estimated General Fund savings of \$(0.6) million in the Acute Care program. The FY 2010 budget did not include additional savings for these items.

Administrative Changes

In addition to provider rate adjustments, AHCCCS made 2 administrative changes resulting in General Fund savings of \$22 million (\$91 million in Total Funds). The first reduced administrative funding to managed care organizations (MCO) by 5.9%. Previously, an 8.5% administrative expense had been built into the capitation rate for Acute Care MCOs and up to 8% for the ALTCS program. This reduction lowers the administrative expense to 8% and up to 7.5%, respectively.

(Continued)

Secondly, the risk contingency rate was reduced from 2% to 1%. A risk contingency is added to capitation rates to cover unforeseen circumstances and/or pricing mismatches (e.g. actual trends differ from assumptions). If this risk contingency is not necessary, or is insufficient, it is retained as profit (or loss) and there is no limit.

Reinsurance Adjustments

The Health and Welfare Budget Reconciliation Bill (Laws 2009, 3rd Special Session, Chapter 10) permitted AHCCCS to reduce reinsurance deductibles. Reinsurance represents payments made to health plans for patients with unusually high costs. After a certain deductible has been met, AHCCCS will pay 75% to 85% of the cost of service until it reaches \$650,000. After this level, AHCCCS pays 100% of the cost. Previously, health plans had a choice of setting reinsurance thresholds at \$20,000, \$35,000 or \$50,000. This policy eliminates the \$50,000 deductible option and lowers the deductible for plans which chose this option to \$35,000. Plans which previously had a \$35,000 deductible now have a \$20,000 deductible. Plans which had a \$20,000 deductible will maintain that deductible.

When health plans have a lower reinsurance deductible, they receive more payments through reinsurance. The capitation rate is adjusted downward to reflect this reinsurance deductible, but overall, total payments received by the health plans should be cost neutral. However, lowering the reinsurance deductible changes when payments are made to health plans. Typically, approximately 20% of reinsurance payments are made in the fiscal year in which they occur, 74% are made in the next fiscal year, and 6% the fiscal year following that. AHCCCS estimates that lowering the reinsurance thresholds will reduce General Fund costs by \$11 million (\$47 million Total Funds) in FY 2010. This savings, however, will increase costs by a corresponding amount over the next 2 fiscal years.

RS/AU:ss



AHCCCS

Our first care is your health care

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

September 30, 2009

The Honorable John Kavanagh, Chairman
Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Kavanagh:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to review the following items.

- Long Term Care Capitation Rates for Contract Year Ending 2010
- Acute Care Capitation Rates for Contract Year Ending 2010

As required by the Federal Balanced Budget Act of 1997, Title XIX Managed Care Programs must have actuarially sound capitation rates. The following proposed rate adjustments are in the process of being reviewed by the Centers for Medicare and Medicaid Services (CMS) for an October 1, 2009 implementation.

Long Term Care Capitation Rates

The AHCCCS budget for State Fiscal Year 2010 assumed a 1.5% overall change in capitation rates for the Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD) program. The budget assumed that this could be accomplished with a combination of reductions to provider reimbursement rates and non-medical Managed Care Organization (MCO) payments. The overall rate adjustment for the ALTCS EPD program for Contract Year Ending (CYE) 2010 is negative (0.4%).

As detailed below the CYE 2010 rates include several different provider reimbursement rate reductions. These reductions are critical in being able to achieve a decrease in capitation rates.

In addition, the program continues to see a favorable mix change as a larger percentage of members moved into Home and Community Based Services (HCBS) rather than the more expensive Nursing Facility settings. Since 1999 the ALTCS program has seen a shift from 43% of the population in HCBS to the projection for CYE 2010 of 67.8%. As detailed in the attached graph the six year average for ALTCS EPD rates is 4.8%.

The capitation rate adjustments reflect the EPD population and do not include the Developmentally Disabled population, which is administered through the Arizona Department of Economic Security. The actuarial memo that has been submitted to CMS for approval is attached for additional information.

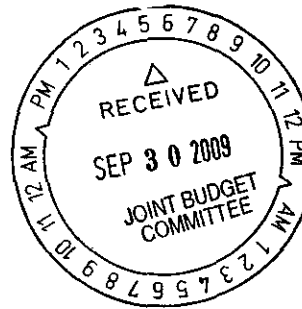
Governor
Anthony D. Rodgers, Director

801 East Jefferson, Phoenix AZ 85034

PO Box 25520, Phoenix AZ 85002

Phone 602-417-4000

www.azahcccs.gov



Acute Care Capitation Rates

The AHCCCS budget for State Fiscal Year 2010 assumed a 1.5% overall change in Acute Care capitation rates. The overall weighted decrease for CYE 2010 Acute Care capitation rates is a negative (2.1%) as compared to the current rates that became effective May 1, 2009. When compared to the capitation rates that were implemented October 1, 2008, the new capitation rates reflect a reduction of (3.0%).

Similar to ALTCS, the ability to develop negative trended capitation rates is largely driven by reductions made in provider reimbursement and non-medical MCO payments. These reductions are not a long-term strategy for managing medical costs. Medicaid requires that members have appropriate access to care and the AHCCCS model is predicated on having successful health plans to help manage utilization. Policy-makers should not anticipate an overall decrease or flat rate for the AHCCCS acute and ALTCS system can be replicated next year.

As detailed in the attached graph, the six year Acute Care annual average capitation rate has increased by 5.1%.

Provider Rate Adjustments

As described in the detail above, the Capitation rates for both Acute and ALTCS EPD incorporate a number of adjustments to the AHCCCS provider reimbursement rate schedule.

- Hospital Inpatient and Outpatient rates will be frozen at the October 1, 2008 levels pursuant to HB 1013, the Health & Welfare Budget Reconciliation Bill (BRB).
- Nursing Facility rates are not adjusted but will be maintained at current levels.
- The non-ADHS regulated rates for transportation were decreased by 5% on February 1, 2009 and these reductions were incorporated into the capitation rates.
- The ADHS regulated transportation rates are outside the scope of AHCCCS provider reimbursement rate schedules and are largely dictated by ARS 36-2232(A)(1) and ARS 36-2239(D). As a result of the limitations associated with the statutory framework, AHCCCS would have needed to incorporate an increase of 8.5% in cost trend, resulting in a cost exceeding \$5 million. However, pursuant to the Health & Welfare BRB, AHCCCS is afforded some flexibility related to these payments in CYE10, and will be reducing rates by 5%.
- The physician fee schedule was reduced by 5% on February 1, 2009 and the reductions were fully incorporated into the capitation rates.
- Rates for Home and Community Based Services will be reduced by 5% on October 1, 2009 and these reductions were incorporated into the capitation rates.
- The Ambulatory Surgical Center rates will be reduced 5% on October 1, 2009 and these reductions were incorporated into the capitation rates.
- Note that AHCCCS does not have a pharmacy fee schedule as it is the responsibility of the plans to develop contractual rates. The capitation rates recognize an increase of 4.1% in cost trend. However, AHCCCS is pursuing strategies for MCOs to reduce overall pharmacy expenditures and includes a (0.7%) reduction to the pharmacy component of the cap rate to recognize savings that MCOs can generate.

Managed Care Organization Payment Changes

As described above both the ALTCS EPD and Acute capitation rate adjustments include significant changes to non-medical MCO payments.

- Administration funding is reduced by approximately 5.9%.
- The risk contingency that has historically been established at 2% is reduced to 1%.
- These changes, combined, result in savings of \$91 million.
- The Acute Care MCO reinsurance thresholds are reduced by one level for the new contract period resulting in an estimated one-time savings of \$47 million for the contract period. It should be noted that the majority of these costs will be shifted to the next year as reinsurance payments.

Overall Fiscal Impact

Given the assumption for the FY 2010 budget was an increase of 1.5% in capitation rates and that the final rates are a decrease of (0.4%) in ALTCS EPD and a decrease of (3.0%) for Acute, the overall total fund savings for CYE 2010 (as compared to the October 1, 2008 rate) is projected to be (\$153) million, of which approximately \$37 million is State Match. If capitation rates would have increased by 1.5% on October 1, 2009 the added annual cost would have been approximately \$89.5 million for a total fund savings of \$242.5 million.

From an overall perspective it is interesting to note that if capitation rates would have increased at the historical average of approximately 6%, the estimated cost would have been approximately \$358 million for CYE 2010, a reduction of over \$500 million.

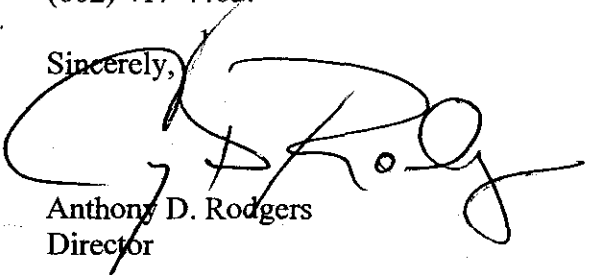
Even with capitation rates coming in below expectations, as part of the Fiscal Year 2011 budget submittal, AHCCCS has updated the current year estimate and is now anticipating a FY 2010 General Fund shortfall of almost \$100 million (assuming increased match) due to caseload growth exceeding budgeted expectations, tobacco tax shortfalls, and the timing associated with several items during the close out of FY 2009.

Policy Changes

Per the legislative mandate in ARS 36-2901.06 and 36-2941 AHCCCS has not included any changes beyond the limits that are now delineated in law.

Should you have any questions on any of these issues please feel free to contact Tom Betlach at (602) 417-4483.

Sincerely,



Anthony D. Rodgers
Director

c: Eileen Klein, Governor's Office
Richard Stavneak, JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

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VIC WILLIAMS

DATE: December 8, 2009

TO: Representative John Kavanagh
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Fiscal Analyst

SUBJECT: Attorney General – Review of Allocation of Settlement Monies

Request

The General Appropriation Act (Laws 2009, 1st Regular Session, Chapter 11) contains a footnote that requires Joint Legislative Budget Committee (JLBC) review of the expenditure plan for settlement monies over \$100,000 received by the Office of the Attorney General (AG) or any other person on behalf of the State of Arizona, prior to expenditure of the monies. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review.

This request is for review of a total of \$12,000,000 from 2 settlements: 1) a \$900,000 allocation resulting from mediation as part of ongoing Average Wholesale Price (AWP) litigation with pharmaceutical companies, of which \$810,000 will be deposited into the Consumer Protection-Consumer Fraud Revolving Fund, and 2) a \$300,000 allocation to the AG's Consumer Protection-Consumer Fraud Revolving Fund from a consent judgment with Merck & Co. Inc.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plans from the AWP settlement agreement with Bristol Myers Squibb Co., Oncology Therapeutics Network Corp., and Apotechon, Inc. and the Merck & Co. Inc, et. al. consent judgment. The allocation plans are consistent with A.R.S. § 44-1531.01, which relates to the distribution of monies recovered as a result of enforcing consumer protection or consumer fraud statutes.

Analysis

Average Wholesale Price (AWP) Litigation: Bristol Myers Squibb Co., Oncology Therapeutics Network Corp., and Apotechon, Inc.

In September 2009, the Committee favorably reviewed an allocation of \$930,000 resulting from AWP litigation, \$845,400 of which is a deposit into the Consumer Fraud Revolving Fund.

(Continued)

The AWP of prescription drugs was a widely used benchmark for pricing prescription drugs, determining reimbursement levels for healthcare providers under Medicare and Medicaid programs, and establishing payment amounts due from insurers and consumers under Medicare and private insurance. In December 2005, the AG filed suit against several pharmaceutical manufacturers alleging that the companies reported inaccurate prices to trade publications, which led to inflated reimbursement rates.

As a result of court-ordered mediation, the State of Arizona and some additional pharmaceutical companies (Bristol Myers Squibb Co., Oncology Therapeutics Network Corp., and Apotechon, Inc.) have reached an agreement that requires the defendants to pay \$900,000 to Arizona. Of the total, \$90,000 will go toward outside counsel attorney fees, as the case is being addressed in Massachusetts. The remaining \$810,000 will be deposited into the Consumer Protection-Consumer Fraud Revolving Fund to support consumer fraud investigations, consumer education, and enforcement of the Consumer Fraud Act. The settlement does not acknowledge any wrongdoing on the part of the pharmaceutical companies.

The lawsuit involving the remaining pharmaceutical companies is still ongoing, as are other AWP cases from different states and a nationwide class action suit that includes Arizona consumers. When the settlements receive final court approval, Arizona consumers will have the opportunity to submit claims for reimbursement.

Merck & Co. Inc, et.al.

In June 2009, the Attorney General and 35 other states entered into an “assurance of discontinuance” with the involved companies as a result of their consumer fraud investigation of the marketing and sale of Vytorin, a cholesterol lowering drug. The investigation focused on the companies’ delay in releasing results from a clinical trial that showed that Vytorin was no more effective than the generic drug Simvastatin.

The settlement requires the companies to pay \$300,000 to the AG. This amount will be deposited into the Consumer Protection-Consumer Fraud Revolving Fund for attorneys fees, investigation costs, and to support consumer fraud investigations, consumer education, and enforcement of the Consumer Fraud Act.

The settlement also requires the companies to receive FDA approval and comply with FDA comments before running any “direct to consumer” television drug advertisements. In addition, the injunction prohibits the companies from misrepresenting data when marketing to doctors and failing to adequately disclose conflicts of interest in regard to articles, studies, speakers, and Data Safety Monitoring Boards.

MZ:lm



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Dena Rosen Epstein
Consumer Protection &
Advocacy Section
Direct: (602) 542-7717
Dena.Epstein@azag.gov

October 21, 2009

The Honorable Robert L. Burns
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Kirk Adams
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

The Honorable John Kavanagh
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, AZ 85007



Re: *State ex rel Goddard v. Bristol-Myers Squibb, et al.*, CV 2005-018711 (Ariz. Sup. Ct.), removed and transferred to *In re Pharmaceutical Industry Average Wholesale Price Litigation*, MDL No. 1456

Gentlemen:

The State of Arizona recently settled a case against Bristol-Myers Squibb Company, Oncology Therapeutics Network Corporation and Apotichon, Inc. (collectively, "BMS") resolving claims asserted in the Average Wholesale Price Litigation described below.

In December 2005, our Office, through outside counsel, filed suit in Maricopa County Superior Court against several pharmaceutical manufacturers for manipulating the Average Wholesale Price ("AWP") of prescription drugs in connection with the marketing and sale of certain prescription drugs sold in Arizona. AWP has been a widely utilized benchmark for pricing prescription drugs and for reimbursing physicians and other healthcare providers for the administration of certain drugs under the Medicare and Medicaid programs. It has also been used to determine amounts paid by insurers and co-pays by consumers under the Medicare program or through private insurance.

The State's Complaint alleges that the defendants violated the Arizona Consumer Fraud Act (A.R.S. § 44-1521 et seq.) by, among other things, providing false information about their reported prices to trade publications, which in turn led to inflated reimbursement

The Honorable Robert L. Burns
The Honorable Kirk Adams
The Honorable John Kavanagh
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rates. The lawsuit seeks various forms of relief, including injunctive relief, civil penalties, restitution for Arizona consumers, costs, and attorneys' fees.¹

After the lawsuit was filed, the defendant pharmaceutical manufacturers successfully removed the case to federal district court in Massachusetts. Several other AWP cases are also pending in Massachusetts district court, including a nationwide consumer class action that includes Arizona consumers. Settlements on behalf of the consumer class have been reached with many of the defendants. Arizona consumers will have the opportunity to submit claims for reimbursement once the settlements receive final court approval.

Over the last several months, the State of Arizona and defendants have been participating in a court-ordered mediation. As a result of that mediation, Arizona previously settled with Abbot Laboratories and several other defendants, as reported to the Joint Legislative Budget Committee in August, 2009 and addressed at the Committee's September 22, 2009 meeting. The settlement against BMS discussed here is the second settlement to result from the mediation. Litigation against the remaining defendants in the AWP case -- Astra Zeneca, B. Braun, Dey, Johnson and Johnson and Schering-Plough Warrick Group -- is still on-going.

The settlement agreement requires the Settling Defendants to pay \$900,000 in exchange for a release of the claims asserted in the lawsuit. As provided in our agreement with outside counsel and as approved by the court, outside counsel received approximately \$90,000 of the settlement amount for their attorneys' fees. Pursuant to A.R.S. § 44-1531.01(B), ninety percent, or \$810,000, of the settlement funds were deposited into the Consumer Fraud Revolving Fund. In accordance with A.R.S. § 44-1531.01(C), these funds will be used for consumer fraud enforcement and education.

This settlement does not constitute an admission of liability.

Our notification of this settlement is made without prejudice to our Office's long-standing position that it is not under any legal obligation to provide notices of settlements to the Joint Legislative Budget Committee. We are providing this notification to you as a courtesy so that you will be aware of this important settlement.

If you have any questions, please feel free to contact me at (602) 542-7717 or by e-mail at dena.epstein@azag.gov.

Sincerely,



Dena Rosen Epstein
Acting Section Chief Counsel
Consumer Protection and Advocacy Section

¹ The industry has moved away from its heavy reliance on AWP as a pricing benchmark in the years since Arizona filed this lawsuit.

The Honorable Robert L. Burns
The Honorable Kirk Adams
The Honorable John Kavanagh
October 21, 2009
Page 3

cc: The Honorable Russell K. Pearce
The Honorable Jorge Luis Garcia
The Honorable David Lujan
Mr. Richard S. Stavneak
Ms. Marge Zylla (Settlement Agreement enclosed)
Mr. Joe Kanefield
Mr. Ruben Alonzo
Mr. Greg Stanton
Mr. John T. Stevens, Jr.

#593051



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

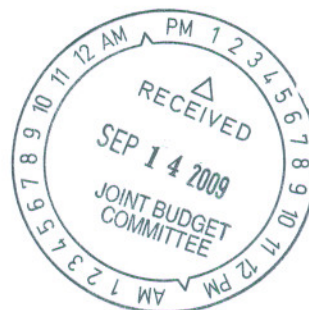
Dena Rosen Epstein
Consumer Protection &
Advocacy Section
Direct: (602) 542-7717
Dena.Epstein@azag.gov

September 10, 2009

The Honorable Robert L. Burns
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Kirk Adams
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

The Honorable John Kavanagh
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, AZ 85007



Re: *State ex rel Goddard v. Merck & Co. Inc, Schering-Plough Corporation, et. al.*

Gentlemen:

Arizona recently joined with 35 other state Attorneys General to settle a multi-state action against drug companies Merck & Co. Inc, Schering-Plough Corporation and a joint venture of the two companies, MSP Singapore Company, LLC. ("the Companies") in connection with the cholesterol lowering drugs Vytorin © and Zetia ©.

The settlement, in the form of an Assurance of Discontinuance, resolves an investigation into the companies' lengthy delay in releasing negative results from a clinical trial regarding Vytorin©. This study showed that Vytorin© -- a combination of the drugs Zetia© and Simvastatin© --- was no more effective in reducing the formation of plaque in carotid arteries than the cheaper, generically available drug Simvastatin©.

Although the clinical trial ended May 2006, a partial reporting of negative results did not occur until January 2008 and complete results were not published until the following April. Prior to release of the study's results, Vytorin© had been heavily promoted in direct-to-consumer advertisements.

The Honorable Robert L. Burns
The Honorable Kirk Adams
The Honorable John Kavanagh
September 10, 2009
Page 2

The settlement in this case incorporates parts of the 2008 multi-state settlement with Merck regarding Vioxx® (a pain drug that was taken off the market). Here, Merck as well as Schering-Plough and the joint venture company MSP, agree to be bound by certain injunctive terms from the Vioxx settlement with respect to Vytorin and Zetia. Among the injunctive terms that now apply to Vytorin and Zetia are requirements to:

- Obtain pre-approval from the Federal Drug Administration for all direct-to-consumer television advertisements.
- Comply with FDA suggestions to modify drug advertising.
- Register clinical trials and post their results.
- Prohibit ghost writing of medical articles.
- Reduce conflicts of interest for members of Data Safety Monitoring Boards that ensure the safety of participants in clinical trials; and
- Comply with detailed rules prohibiting the deceptive use of clinical trials.

In addition, the settlement requires the companies to pay a total of \$5.4 million to the participating states. Arizona's share of the settlement is \$300,000. This recovery is to be deposited in the consumer fraud revolving fund in accordance with Arizona law, A.R.S. § 44-1531.01(B), as well as the Assurance, and will be used for consumer fraud enforcement and education pursuant to A.R.S. § 44-1531.01(C).

Our notification to you of this settlement is made without prejudice to this office's long-standing position that it is not under any legal obligation to provide notices of settlement to the Joint Legislative Budget Committee. We are providing this notification to you as a courtesy so that you will be aware of this important settlement.

Thank you. If you have any questions, please feel free to contact me at (602) 542-7717 or by e-mail at dena.epstein@azag.gov.

Sincerely,



Dena Rosen Epstein
Acting Section Chief Counsel
Consumer Protection and Advocacy Section

cc: The Honorable Russell K. Pearce
The Honorable Jorge Luis Garcia
The Honorable David Lujan
Mr. Richard S. Stavneak
Ms. Marge Zylla (enclosing copy of Assurance)

The Honorable Robert L. Burns
The Honorable Kirk Adams
The Honorable John Kavanagh
September 10, 2009
Page 3

Mr. Joe Kanefield
Ms. Ruben Alonzo
Mr. Greg Stanton
Mr. John T. Stevens, Jr.

#544973

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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PHONE (602) 926-5491

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DATE: December 8, 2009

TO: Representative John Kavanagh, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kimberly Cordes-Sween, Principal Fiscal Analyst

SUBJECT: Arizona Board of Regents – Review of FY 2010 Tuition Revenues

Request

The Arizona Board of Regents (ABOR) requests Committee review of its expenditure plan for tuition revenue amounts greater than the amounts appropriated by the Legislature and all retained tuition and fee revenue expenditures for the current fiscal year.

Recommendation

The Committee has at least the following 2 options.

1. A favorable review.
2. An unfavorable review.

In total, appropriated FY 2010 tuition collections are estimated to be \$684.3 million. This amount is \$56.4 million above the FY 2010 budget. The universities primarily plan on using the additional \$56.4 million in their operating budgets to backfill General Fund budget reductions. To a lesser extent, these monies will also cover inflationary increases and miscellaneous academic and support planning priorities.

Non-appropriated locally retained tuition and fees for FY 2010 are estimated at \$429.3 million, \$37.9 million higher than FY 2009. Statute allows the universities to retain a portion of tuition collections for expenditures, as approved by ABOR. These “locally” retained tuition monies are considered non-appropriated. Any remaining tuition collections are then submitted as part of each university’s operating budget request and are available for appropriation by the Legislature.

(Continued)

Analysis

Appropriated Tuition

Table 1 shows ABOR changes to resident and non-resident undergraduate tuition from FY 2009 to FY 2010. ABOR policy is to set undergraduate resident tuition at the top of the bottom one-third of all senior public universities.

Table 1 Arizona University System FY 2009 to FY 2010 Undergraduate Tuition and Fees Changes ^{1/}								
	Resident ^{2/}				Non-Resident ^{3/}			
	FY 2009	FY 2010 ^{3/}	\$ Change	% Change	FY 2009	FY 2010 ^{3/}	\$ Change	% Change
ASU-Tempe/DPC	\$5,313 to \$5,659	\$6,159 to \$6,840	\$846 to \$1,181	15.9% to 20.9%	\$17,949	\$19,625	\$1,678	9.3%
ASU-East/West	\$5,099 to \$5,659	\$5,933 to \$6,840	\$834 to \$1,181	16.4% to 20.9%	\$17,945	\$19,622	\$1,677	9.3%
NAU	\$5,217 to \$5,446	\$5,681 to \$6,627	\$905 to \$1,181	17.3% to 21.7%	\$15,546 to \$16,544	\$16,631 to \$17,854	\$1,085 to \$1,310	7.0% to 7.9%
NAU-Distance Ed.	\$4,850	\$5,583	\$733	15.1%	\$15,364	\$16,289	\$925	6.0%
UofA-Main/HSC	\$5,531	\$6,842	\$1,311	23.7%	\$18,665	\$22,251	\$3,586	19.2%
UofA-South	\$4,804	\$5,963	\$1,159	24.1%	\$18,609	\$22,193	\$3,584	19.3%

^{1/} The amounts represent combined full-time tuition for fall and spring semesters, as well as mandatory fees. Undergraduates must take at least 12 credit hours to qualify for full-time status. Graduate full-time status depends upon research and teaching responsibilities. Mandatory fees include AFAT and student recreation charges, but do not include special class or program fees. A new economic recovery surcharge fee will be charged for FY 2010 only.

^{2/} These amounts represent the range of tuition and fees for continuing students enrolled prior to fall 2008 to future students planning to begin in fall 2009. Beginning in fall 2008, ASU provided a guaranteed tuition rate for each cohort of resident undergraduate students on all of its campuses and NAU provided a fixed tuition rate for each cohort of undergraduate students (both resident and non-resident) on its Flagstaff campus. UA will begin providing a guaranteed tuition rate in the fall of 2009 for all of its students.

^{3/} These amounts include the economic recovery surcharge. The following economic recovery surcharges will be charged: ASU Resident - \$510, ASU Non-Resident - \$710, NAU Resident - \$350, NAU Non-Resident - \$450, UA Resident - \$766, and UA Non-Resident - \$966.

Table 2 displays FY 2009 and FY 2010 appropriations by fund for the Arizona University System. The FY 2010 budget includes \$627.9 million in tuition, which reflects tuition growth from projected student growth and partial tuition rate increases, but not the economic recovery surcharge revenues. The higher tuition rates generated \$56.4 million more than budgeted, for a total of \$684.3 million. ABOR notes that, of the \$56.4 million in additional state collections, \$45.9 million is a result of the Economic Recovery Surcharge. Approximately \$61.9 million is estimated to be collected from Economic Recovery Surcharge revenues in FY 2010. The Economic Recovery Surcharge is a new mandatory fee which was approved by ABOR for the FY 2010 academic year and is subject to annual renewal.

Table 2 Arizona University System FY 2009 and FY 2010 Appropriations (in millions)			
	FY 2009	FY 2010 Before Tuition Increase	FY 2010 After Tuition Increase
General Fund	\$938.9	\$ 891.7	\$ 891.7
Collections Fund	538.1	627.9	684.3
Total	\$1,477.0	\$1,519.6	\$1,576.0

Table 3 presents FY 2010 appropriations estimates of ABOR's FY 2010 All Funds Operating Budget Report and resulting additional tuition revenues by campus. Of the \$56.4 million in additional tuition,

(Continued)

ASU received \$16.9 million, U of A \$28.8 million, and NAU \$10.7 million. ASU-East and ASU-West may be reflecting a decrease in tuition collections as a result of lower enrollment rates.

Table 3 Arizona University System FY 2010 Appropriations and Additional Tuition Revenues by Campus			
Campus	FY 2010 Appropriation	FY 2010 All Funds Operating Budget	Additional Tuition
ASU-Tempe/DPC	\$289,864,800	\$316,565,200	\$26,700,400
ASU-East	34,209,100	29,612,300	(4,569,800)
ASU-West	33,551,800	28,307,400	(5,244,400)
NAU	62,327,800	73,068,900	10,741,100
UofA-Main	187,458,300	215,379,200	27,920,900
UofA-Health Sciences Center	20,471,200	21,380,000	908,800
Total	\$627,883,000	\$684,313,000	\$56,430,000

Table 4 provides some information on the uses of additional appropriated tuition revenues by university. Attached, ABOR has provided further detail.

Table 4 Arizona University System Use of Additional Appropriated Tuition Revenues by Campus ^{1/}			\$ in Millions
ASU	Backfill for the General Fund		\$20.6
	College/School Support from Special Program Fees		4.5
	Employee Related Expenses Rate and Premium Increase		<u>1.6</u>
	Total		\$26.7
NAU	Backfill for the General Fund		\$10.7
UofA	Enrollment Growth and General Education Support		\$11.4
	Hiring, Retention, and Faculty Commitments		7.4
	College of Medicine Tucson Campus		1.4
	College of Medicine Phoenix Campus		1.2
	Support to Colleges from Differential Tuition Revenue		0.6
	Health Benefit Rate Increases		3.7
	Utility Rate Increases		2.1
	Operation and Maintenance		<u>1.0</u>
	Total		\$28.8

^{1/} Total spending by campus does not include the decrease in tuition collections for ASU-East and ASU-West of \$(4.6) million and \$(5.2) million, respectively.

RS/KCS:ss
Attachment



Arizona Board of Regents
2020 North Central Avenue, Suite 230
Phoenix, AZ 85004-4593
602-229-2500
Fax 602-229-2555
www.azregents.edu

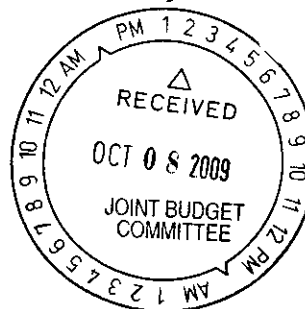
Arizona State University

Northern Arizona University

University of Arizona

October 6, 2009

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



Dear Representative Kavanagh:

A footnote included in the General Appropriations Act requires that the Arizona Board of Regents submit an expenditure plan to the Joint Legislative Budget Committee of any tuition revenue amounts which are different from the amounts appropriated by the legislature, and all tuition and fee revenues retained locally by the universities.

Enclosed for your information is a summary report of tuition revenues that support the FY 2010 state operating budget as reported to the Board at its September 2009 meeting, and university tuition and fees expenditure plans. The increase in tuition and fees revenues can be attributed to a combination of increased student enrollments from the estimates made last fall during the budget process, and tuition and fee rate increases, including an economic recovery surcharge approved by the Board of Regents. Of the \$56.4 million in additional tuition that supports the state operating budget, \$45.9 million of that can be attributable to the economic recovery surcharge, which is subject to annual review by the Board.

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

Sincerely,

Joel Sideman
Executive Director

xc: Richard Stavneak, Director, JLBC
Eileen Klein, Director, OSPB

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Governor Jan Brewer Superintendent of Public Instruction Tom Horne
Student Regents: Ross Meyer, ASU Jennifer Lyn Ginther, NAU
Executive Director: Joel Sideman

**ARIZONA UNIVERSITY SYSTEM
TUITION AND FEES IN SUPPORT OF THE
2009-10 STATE OPERATING BUDGET**

	STATE COLLECTIONS (1)		
	AS REPORTED IN THE 2009-10 INITIAL ALL FUNDS OPERATING BUDGET REPORT	2009-10 APPROPRIATIONS REPORT	CHANGE
Arizona State University Tempe	316,565,200	289,864,800	26,700,400
Arizona State University Polytechnic	29,612,300	34,209,100	(4,596,800)
Arizona State University West	28,307,400	33,551,800	(5,244,400)
TOTAL ASU	374,484,900	357,625,700	16,859,200
Northern Arizona University	73,068,900	62,327,800	10,741,100
University of Arizona	215,379,200	187,458,300	27,920,900
University of Arizona Health Sciences Center	21,380,000	20,471,200	908,800
TOTAL UA	236,759,200	207,929,500	28,829,700
TOTAL	684,313,000	627,883,000	56,430,000

(1) State Collections as reported in the Initial FY 2010 All Funds Operating Budget Report includes \$50M in one-time economic recovery surcharge revenue, subject to annual renewal by ABOR.

ARIZONA STATE UNIVERSITY at the TEMPE Campus
FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Initial All Funds Report	295,920,900	174,263,200
Collections As Reported in the FY10 Appropriations Report	289,864,800	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	6,056,100	174,263,200
Economic Recovery Surcharge (1)	20,644,300	5,048,300
Total Increase/(Decrease) from FY10 Appropriations Report	26,700,400	179,311,500
Amount Reportable Including Economic Recovery Surcharge (2)	26,700,400	179,311,500

ALLOCATIONS BY PROGRAM

Instruction		
Backfill for Expenses Previously Supported with General Funds	20,644,300	
College/School Support from Special Program Fees	4,499,300	
Local Account Operating Support		12,093,400
Organized Research		
Local Account Operating Support		0
Public Service		
Local Account Operating Support		0
Academic Support		
Local Operating Budget Support		683,500
Student Services		
Local Account Operating Support		2,125,500
Institutional Support		
Unfunded ERE Rate and Premium Increases	1,556,800	
Local Account Operating Support		453,000
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		48,656,000
Other Financial Aid		66,786,700
Auxiliary Enterprises		
Auxiliary Operating Support		2,516,300
Debt Service		
Debt Service Payments		33,997,100
Plant Funds		
Minor Capital Project Set Aside		12,000,000
	26,700,400	179,311,500

NOTES:

(1) One time surcharge subject to annual renewal by ABOR.

(2) Amount reportable will partially offset the FY10 \$67,194,500 permanent General Fund budget reduction.

ARIZONA STATE UNIVERSITY at the POLYTECHNIC Campus
FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Initial All Funds Report	27,698,700	8,954,200
Collections As Reported in the FY10 Appropriations Report	34,209,100	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	(6,510,400)	8,954,200
Economic Recovery Surcharge (1)	1,913,600	553,400
Total Increase/(Decrease) from FY10 Appropriations Report	(4,596,800)	9,507,600
 Amount Reportable Including Economic Recovery Surcharge (2)	 0	 9,507,600
 ALLOCATIONS BY PROGRAM		
Instruction		
Local Account Operating Support		150,700
Organized Research		
n/a		0
Public Service		
n/a		0
Academic Support		
Local Account Operating Support		0
Student Services		
Local Account Operating Support		1,215,200
Institutional Support		
Local Account Operating Support		36,000
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		5,321,600
Other Financial Aid		2,784,100
Auxiliary Enterprises		
Auxiliary Operating Support		0
Debt Service		
Debt Service Payments		0
Plant Funds		
Minor Capital Project Set Aside		0
	<u>0</u>	<u>9,507,600</u>

NOTES:

(1) One time surcharge subject to annual renewal by ABOR.

(2) Amount not reportable. All Funds Budget tuition revenue amount including the Surcharge is less than the appropriated amount.

ARIZONA STATE UNIVERSITY at the WEST Campus

FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES

INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Initial All Funds Report	25,932,200	18,258,100
Collections As Reported in the FY10 Appropriations Report	<u>33,551,800</u>	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	<u>(7,619,600)</u>	18,258,100
Economic Recovery Surcharge (1)	<u>2,375,200</u>	743,500
Total Increase/(Decrease) from FY10 Appropriations Report	<u>(5,244,400)</u>	19,001,600
 Amount Reportable Including Economic Recovery Surcharge (2)	 0	 19,001,600

ALLOCATIONS BY PROGRAM

Instruction		
Local Account Operating Support		83,200
Organized Research		
n/a		0
Public Service		
n/a		0
Academic Support		
Local Account Operating Support		0
Student Services		
Local Account Operating Support		65,000
Institutional Support		
Local Account Operating Support		24,800
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		6,044,600
Economic Recovery Surcharge Financial Aid Set Aside		743,500
Other Financial Aid		11,040,500
Auxiliary Enterprises		
Auxiliary Operating Support		0
Debt Service		
Debt Service Payments		0
Plant Funds		
Minor Capital Project Set Aside		1,000,000
	<u>0</u>	<u>19,001,600</u>

NOTES:

(1) One time surcharge subject to annual renewal by ABOR.

(2) Amount not reportable. All Funds Budget tuition revenue amount including the Surcharge is less than the appropriated amount.

NORTHERN ARIZONA UNIVERSITY
FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	<u>STATE COLLECTIONS</u>	<u>TOTAL LOCAL RETAINED COLLECTIONS</u>
Base Collections as Reported in the FY10 Initial All Funds Report (1)	69,278,100	60,748,200
Collections as Reported in the FY10 JLBC Appropriations Report	62,327,800	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	6,950,300	60,748,200
Economic Recovery Surcharge (1)	3,790,800	947,500
Total Increase/(Decrease) from FY10 Appropriations Report	10,741,100	61,695,700
Amount Reportable Including Economic Recovery Surcharge	10,741,100	61,695,700
STATE COLLECTIONS INCREASE ALLOCATION BY PROGRAM		
Instruction		
State Budget Reduction Backfill	7,219,800	
Public Service		
State Budget Reduction Backfill	1,826,500	
Academic Support		
State Budget Reduction Backfill	1,694,800	
LOCAL RETAINED COLLECTIONS		
Local Funds Student Operating Support		7,802,400
Scholarships/Fellowships/Financial Aid		
Regent's Financial Aid Set-Aside		15,352,500
Institutional Financial Aid		20,004,700
All Other Financial Aid		1,382,200
Plant Funds		1,378,200
Debt Service Payments		15,775,700
	<u>10,741,100</u>	<u>61,695,700</u>

Notes

- 1 One-time surcharge subject to annual renewal by ABOR

UNIVERSITY OF ARIZONA
FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Initial All Funds Report	219,559,200	151,083,000
Collections As Reported in the FY10 Appropriations Report	207,929,500	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	11,629,700	151,083,000
Economic Recovery Surcharge (1)	17,200,000	8,700,000
Total Increase/(Decrease) from FY10 Appropriations Report	28,829,700	159,783,000
 Amount Reportable Including Economic Recovery Surcharge	 28,829,700	 159,783,000
 ALLOCATION BY PROGRAM		
Instruction		
Enrollment Growth and General Education Support	11,350,600	
Hiring, Retention and Faculty Investments	7,400,000	
College of Medicine Tucson Marginal Tuition	1,433,900	
College of Medicine Phoenix Marginal Tuition	1,221,500	
Support to Colleges from Differential Tuition Revenue	623,700	
Local Account Operating Support		3,195,900
Organized Research		
n/a		
Public Service		
n/a		
Academic Support		
Local Account Operating Support		514,500
Student Services		
Local Account Operating Support		6,821,100
Institutional Support		
Shortfall in State Funding for Health Benefit Rate Increases	3,700,000	
Shortfall in State Funding for Utility Rate Increases	2,100,000	
Shortfall in State Funding for Operation and Maintenance	1,000,000	
Local Account Operating Support		4,907,800
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		27,140,400
Student Aid Awards (formerly waivers)		74,913,900
Graduate Assistant Tuition Remission		6,393,400
All Other Financial Aid		7,699,700
Auxiliary Enterprises		
n/a		
Debt Service		
Debt Service Payments		26,072,400
Plant Funds		
Minor Capital Project Set Aside		2,123,900
	28,829,700	159,783,000

NOTES:

(1) One time surcharge subject to annual renewal by ABOR.

STATE OF ARIZONA

Joint Legislative Budget Committee

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

<http://www.azleg.gov/jlbc.htm>

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VIC WILLIAMS

DATE: December 8, 2009

TO: Representative John Kavanagh, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Dan Hunting, Senior Fiscal Analyst

SUBJECT: Government Information Technology Agency - Quarterly Review of the Arizona Public Safety Communication Advisory Commission

Request

Pursuant to A.R.S. § 41-3542C, the Government Information Technology Agency (GITA) has submitted for review its FY 2010 first quarter expenditures and progress report for the statewide interoperability design project.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the agency's request. First quarter expenditures totaled \$177,400 of \$3,018,700 in FY 2010 appropriated funding. Activities in the first quarter of FY 2010 include implementation of the Arizona Interagency Radio System (AIRS) in 14 of 15 counties and revision of the Statewide Communications Interoperability Plan (SCIP).

Analysis

Background

The Arizona Public Safety Communication Advisory Commission (PSCC) was established to develop a statewide, standard-based interoperability system that 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 interoperability communication system have been estimated to be as high as \$300 million.

Activities

In the first quarter of FY 2010, the SCIP was revised to be aligned with the National Emergency Communication Plan. The SCIP describes the current status of public safety communications in Arizona and serves as the roadmap for improving communications interoperability in the state. The final draft of the SCIP will be published on December 10, 2009. After a period of public comment, a vote for formal

(Continued)

adoption of the plan will be held at the January 19, 2010 meeting of the Public Safety Communications Advisory Commission.

In FY 2009, PSCC increased the number of AIRS user agencies to 134. This short-term solution, while allowing interagency communication, is limited to a single talk group, which is described as a single conversation between users in a geographical area. The PSCC describes this functionality as “basic interoperability” for first responders. Statewide deployment of AIRS, which includes the installation of equipment at over 40 sites, is expected by the end of the 2009 calendar year, pending installation of antenna facilities in La Paz County. Difficulty in accessing the rugged mountaintop site has delayed installation of the antenna, and PSCC is working on alternatives. At this time, AIRS provides interagency communication in all counties except for La Paz. When the La Paz antenna becomes operational, AIRS will provide coverage to all 15 counties in Arizona.

The long-term solution differs from the short-term solution in that it will allow an unlimited number of talk groups, creating a more robust interoperability solution open to more simultaneous users than AIRS. With respect to the “long-term” interoperable solution, the PSCC continues to develop the conceptual design and has identified necessary sites for the statewide system.

Expenditures

Laws 2004, Chapter 275 included a non-lapsing appropriation of \$3 million to the Department of Public Safety (DPS) in FY 2005 for the design costs of a statewide radio interoperability communication system. At the beginning of FY 2010, \$358,500 was remaining from that non-lapsing appropriation, which was reverted to the General Fund by Laws 2009, Chapter 12.

Laws 2008, Chapter 285 transferred the PSCC from DPS to GITA. The PSCC was appropriated \$896,100 from the General Fund in FY 2010. A lump sum reduction of \$(44,100) and a Personal Services reduction of \$(33,300) reduced the final PSCC appropriation to \$818,700.

In addition, a FY 2008 General Appropriation Act footnote specifies legislative intent for the PSCC to use \$2,200,000 of non-appropriated Anti-Racketeering Fund monies for the detailed design of the long-term interoperability solution. Prior to expending these monies, the PSCC is required to submit an expenditure plan to the Joint Legislative Budget Committee for review. To date, none of this funding has been spent.

In the first quarter, the PSCC expended \$177,400 for operating costs associated with personnel expenses, federal engineering costs, and data site project support. As a result, there is \$2,841,300 in funding available for the remainder of FY 2010.

Table 1 indicates funds available and expenditures for FY 2010.

Table 1			
<u>PSCC Appropriation and Expenditures</u>			
	FY 2010 Funding	FY 2010	Remaining
	<u>Available</u>	<u>1st Quarter</u>	<u>Balance</u>
		<u>Expenditures</u>	
Personal Services	\$ 475,000	\$ 94,000	\$ 381,000
Employee Related Expenditures	142,500	55,200	87,300
Professional & Outside Services	93,000	18,000	75,000
Travel - In State	5,000	1,200	3,800
Travel - Out of State	5,000	700	4,300
Other Operating Expenditures	89,000	8,300	80,700
Non-Lapsing Expenditure Authority	2,200,000	--	2,200,000
Equipment	9,200	0	9,200
Total Operating Expenditures	\$3,018,700	\$177,400	\$2,841,300

JANICE K. BREWER
GOVERNOR

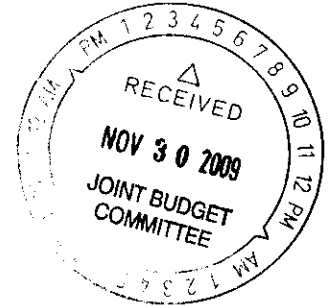


CHAD KIRKPATRICK
DIRECTOR

STATE OF ARIZONA
GOVERNMENT INFORMATION TECHNOLOGY AGENCY
100 N. 15th Avenue, Suite 440
Phoenix AZ 85007

November 30, 2009

Dan Hunting
JLBC Analyst
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007



Dear Dan,

I am pleased to provide this quarterly report to the JLBC covering the activities of the Public Safety Interoperable Communications Office within the Government Information Technology Agency (GITA-PSIC), the Public Safety Communications Advisory Commission (PSCC) and the Statewide Interoperability Executive Committee (SIEC).

The strategic initiatives that guide the activities of GITA-PSIC are grouped into five key interoperability subject areas: Governance; Standard Operating Procedures; Technology; Training and Exercise; Usage and Outreach. These strategic initiatives are listed in Attachment A and published on the PSIC website (www.azgita.gov/psic). Key accomplishments in each area are outlined below.

Governance

During third quarter CY09, GITA-PSIC made significant progress on SCIP Initiative #1: Expanding and implementing our interoperable communications governance model. This initiative was identified as both short term and high priority, and is viewed as an essential precursor to achieving other key strategic interoperability objectives. Key advances in Governance during the third quarter CY09 are outlined below:

Annual Review and Update of the SCIP (SCIP Objective 1.1)

GITA-PSIC worked closely with stakeholders on reviewing and updating Arizona's Statewide Communications Interoperability Plan (SCIP) which is required by the Federal Government in regard to federal interoperability grants. The SCIP is our roadmap for communications interoperability initiatives in Arizona.

During the third quarter CY09 a significant rewrite of the SCIP was conducted based on revisions to our key strategic initiatives and new requirements that each State align its SCIP with the National Emergency Communication Plan (NECP) (issued after our initial SCIP was developed).

The SCIP update, still in draft form, reflects changes in Arizona's communications landscape since 2007. The goal of the update is to enhance readability, accuracy, and applicability of the document's content while maintaining conformance to National SCIP Criteria.

The SCIP changes include:

- Updating/streamlining language
- Removing outdated and inaccurate content and or relocating extraneous content to appendices
- Condensing related sections together to minimize unnecessary redundancy
- Updating strategic plan initiatives as approved by the PSCC on May 19, 2009
- Reflecting in-progress project accomplishments
- Incorporating updated information from stakeholder groups
- Documenting improved data on the current status of communications interoperability in Arizona
- Documenting the updated organizational structure of GITA-PSIC, the PSCC and the SIEC
- Facilitating the ability to secure grant funding and attendant progress on initiatives by clearly documenting alignment with the National Emergency Communications Plan (NECP)

GITA-PSIC worked closely with our contractor to develop a preliminary draft SCIP on August 15, 2009. GITA-PSIC then conducted numerous interviews with key State and local personnel and carried out additional data gathering during September 2009. An updated public draft SCIP was then circulated to the PSCC and stakeholders for public review and comment, with additional drafts and public review periods expected during the fourth quarter of CY 2009. The current draft SCIP is published on the GITA-PSIC website (www.azgita.gov/psic).

Develop Tactical Interoperable Communication Plans (TICPs) (SCIP Objective 1.3)

GITA-PSIC worked with the Federal Office of Emergency Communications (OEC) at the Department of Homeland Security (DHS) to secure a Technical Assistance (TA) award to the Yuma region for the purposes of developing a Tactical Interoperable Communication Plan (TICP) at no cost to the State. TICPs document the interoperable communications resources available within a designated area, who controls each resource and what rules of use or operational procedures exist for the activation and deactivation of these resources. Two workshops were conducted by OEC in August and September 2009 to support development of the Yuma region TICP. The TICP for this region is expected to be completed in fourth quarter of CY09. Along with the TICPs in the Phoenix and Tucson metro areas, this Yuma TICP helps build out the picture of interoperable communication assets in Arizona. As more TICPs are developed a statewide picture of such resources will become clearer.

Utilization of CASM Inventory & Analysis Tool (SCIP Objective 1.3)

The State has also been developing a project plan for populating the Communications Assets Survey and Mapping (CASM) tool. Arizona is adopting the use of national CASM tool to collect and maintain information on public safety communications statewide. CASM is a web-based tool to support interoperable communications analysis that provides:

- A single repository to facilitate information sharing
- Communication assets inventory assessment (agency, region, statewide)
- Inter-agency interoperability analysis

- Tactical Interoperability Communication Plan (TICP) interface
- Enables evaluation of an agency's "Need vs. Ability" to communicate

The CASM project is funded by an Interoperable Emergency Communications Grant Program (IECGP) award to the City of Phoenix that will be managed by GITA-PSIC through a Memorandum of Understanding (MOU) with Phoenix. The MOU for the CASM project is expected to be complete in the fourth quarter, with project implementation beginning in first quarter CY 2010.

Strengthening Arizona's Governance Model (SCIP Initiative #1)

The strengthening of Arizona's governance model has been a top priority in CY 2009.

The State completed the National Governors Association (NGA) Policy Academy on Interoperable Communications Governance during the third quarter CY09. The Final Report of our activities submitted as part of the Policy Academy is attached as Attachment B. Overall, Arizona's governance model will need periodic updates to meet the State's ever changing interoperability challenges, but the State has strengthened its governance foundation.

GITA-PSIC requested technical assistance from the Department of Homeland Security's Office of Emergency Communications – Interoperable Communications Technical Assistance Program (OEC-ICTAP), to assist with an assessment of the State's interoperable communications governance structure. The assessment report was finalized during the third quarter CY09, and presented to the Public Safety Communications Advisory Commission (PSCC) Governance Workgroup at their August 12th meeting. The report has been published on the GITA-PSIC website (www.azgita.gov/psic).

The State also conducted an internal analysis of the PSCC General Policies and Arizona State statutes impacting its operations to develop recommendations for moving its governance structure forward. Discussions of further changes to our governance structure has been deferred until early 2010 when new PSCC appointees will be seated and when the SCIP, which will inform the activities the governance structure supports, will be complete.

Technology

Technology related accomplishments during the third quarter CY09 by GITA-PSIC and our partners include:

- Project Oversight of Arizona Interagency Radio System (AIRS) projects (SCIP Initiative #4). The Wireless Systems Bureau of DPS (DPS/WSB) has not yet been able to access the planned site for installation of an AIRS suite in La Paz County. La Paz is the only remaining county without an AIRS suite. An alternate plan has been developed in an effort to provide AIRS capability to La Paz before the end of this calendar year. Other installations for expansion of AIRS are pending as well.
- GITA-PSIC continues to work closely with regional/local partners around the State, on long-term cost-effective approaches to furthering the interoperability goals of these regions (SCIP Initiative #5). Our activities are documented under the Outreach section of this report below.
- Project Oversight of DPS Microwave Project Upgrade from Analog to Digital Technology (SCIP Initiative #6). GITA-PSIC continues to work closely with DPS/WSB on interoperable communications issues, including the Digital Microwave project. Currently, there are 3 digital

paths left to be activated in order to complete Southern Loop connectivity, which DPS/WSB is committed to having in place by the end of this calendar year. DPS is prepared to brief the JLBC on the status of the Microwave project.

- Project Oversight of Arizona Division of Emergency Management (ADEM) Strategic Technology Reserve (STR) Project (SCIP Initiative #7). ADEM continued the deployment of STR equipment during the third quarter CY09, including the delivery of communications van and related equipment to the remaining counties (Pima, Navajo and Gila). The project has not meet its anticipated 10/17/09 amended completion date as ADEM continues to work out issues with deployment of the satellite phone/radio component of the STR. GITA continues to provide oversight on this project.
- A State Agency Group, led by the Arizona Department of Public Safety, is currently in formation. The Group will be responsible for advancing collective plans for operable and interoperable solutions for State agencies (SCIP Initiative #8). .

Standard Operating Procedures (SOPs)

During third quarter CY09, efforts in regard to the Standard Operating Procedures (SOPs) initiative was focused on development of a SOP for the statewide Arizona Interagency Radio System (AIRS). AIRS supports VHF, UHF and 800 MHz frequencies used throughout the State, with a cross-band repeater configuration that allows communication between bands. Interoperability capabilities vary from agency to agency and county to county; however, most areas have AIRS channels programmed in their radios. The lack of a standard SOP for this system to date has been a significant impediment to its effective use in support of interoperability.

Accomplishments during the third quarter CY09 in regard to the AIRS SOP include:

- Additional outreach to AIRS monitoring and dispatching agencies and AIRS users to ascertain usage and practices
- Documentation of discussions, recommendations and items needing further consideration regarding:
 - Nomenclature & Channel Alignment
 - National Interoperable Channels
 - AIRS Testing
 - Monitoring Best Practices
 - Lead Agency Best Practices
 - Unresolved Operational Issues
 - Dispatcher/User Actions
 - Other Technical/Operational Issues
- Development and editing of additional content with the assistance of Subject Matter Experts from partner agencies and workgroup-related organizations
- Workgroup review of draft material and teleconference discussions

The AIRS SOP is expected to be complete and approved by the SIEC during the fourth quarter CY 2009. GITA-PSIC will then move forward with developing and implementing an AIRS Training program (see Training and Exercise section below). Development of the AIRS SOP has also identified AIRS-related

oversight issues that will be brought forward for the SIEC to address. Examples of identified issues include:

- Monitoring Coverage
- AIRS Testing
- Appropriate use of regional and statewide channels

Training & Exercise

Accomplishments during the third quarter CY09 by GITA-PSIC and its partners regarding Training and Exercise initiatives and objectives are as follows:

Training

Regarding SCIP Objective 10.1 – Develop and Implement AIRS Training: An MOU to transfer federal funds from a local jurisdiction to GITA-PSIC was signed to enable the creation of AIRS training materials. Development of a project plan is expected to be complete in the fourth quarter CY09, with project implementation beginning in first quarter CY10.

Regarding SCIP Objective 10.2 – Implement COM-L Training Program: GITA-PSIC is working with the Arizona Division of Emergency Management (ADEM) and regional partners, to advance communications interoperability training initiatives. Communications Unit Leader (COM-L) training is a new nationally recognized training program that provides a common level of training and credentialing for COM-Ls across the state/nation. Through the efforts of the PSIC Office and its regional partners, six COM-L trainings were offered in Arizona during CY09. Currently all COM-L class certificates are sent to the Arizona Department of Homeland Security (AZDOHS) and subsequently stored at GITA-PSIC. During the third quarter CY09, the SIEC formed a working group that will:

- Determine a plan for the credentialing of COM-L in AZ
- Create uniform tracking for COM-L certification in AZ
- Create method of credentialing COM-L task book signers
- Create process for determining that basic competency level is reached prior to task book sign-off
- Determine process for tracking COM-L completion

Exercise

GITA-PSIC continues to work with municipal, county, State, Tribal, and Federal agencies whenever possible to identify and participate in interoperable communications exercise opportunities.

The development of a high level action plan for implementing a multi-year communications-focused regional Training and Exercise Plan (TEP) and a consolidated statewide TEP is expected to be addressed during the fourth quarter of CY09.

Usage & Outreach

During the third quarter CY09, GITA-PSIC, DPS, AZDOHS and ADEM partnered to meet with regions within the state who are interested in moving forward with regional technology planning for interoperable communications (SCIP Initiative # 5). Discussion points at these meetings included updated information on interoperable communications projects and resources available to the regions for advancing interoperability efforts. The first regional meeting occurred on September 2nd when State agency representatives met with public safety agencies and stakeholders in Cochise County. Approximately 50 attendees representing 2 dozen first responder agencies participated in the two-hour program. Two additional regional meetings are scheduled during the fourth quarter with more anticipated in CY10.

Additional Usage & Outreach activities during third quarter CY09 included:

- Collaboration with technology experts, organization leaders and cross-discipline, cross-jurisdictional first responders
- PSCC, SIEC, and Stakeholder recruitment and support
- Participation in Training and Exercises
- Outreach to stakeholders regarding upcoming FCC Narrowbanding requirements, GITA-PSIC activities and AIRS
- Submission of recommendations to the Governor for appointments to the PSCC to fill vacant positions or to replace positions where initial terms are expired and members are no longer active. These recommendations reflect:
 - Legislative requirements for Commissioners to represent all five emergency response regions
 - A desire for the Commission to represent multiple disciplines, localities and organizations

GITA-PSIC staff participated in many meetings throughout the State during the third quarter CY09, including: Annual Conference of the Association of Public Safety Communications Officials; Arizona Fire Chief's Association; Cochise County Emergency Medical Services Council; Collaborative Border Regional Alliance; Interoperable Communications Policy Forum; Mohave County Fire Officer's Association; Mohave County regional outreach; National Governors Association Policy Academy; Northern Arizona Emergency Medical Services Council; PCWIN - Pima County Wireless Integrated Network; Phoenix UASI Communications Subcommittee; Phoenix UASI; Phoenix Fire Department; FEMA Region IX Regional Emergency Communications Coordination Working Group; Regional Wireless Council Board; Southwest Border Communications Working Group; Western Arizona Counties Emergency Medical Services Council; and the Western RAC. GITA-PSIC staff continues to be engaged with Federal, Tribal, border and regional interoperable communications groups as well.

Public Meetings

PSCC Meeting – July 21, 2009 – 1 to 3 PM - Agenda Items: Multi-Band Radio Pilot Project; Strategic Technology Reserve (STR); Northern Arizona Update; SIEC Update; Update on COM-L Classes; PSIC Outreach Update; Yuma OP-TTX: Final Report; U.S. Department of the Interior (DOI) State Outreach Program & SW Border Regionalization Project; and PSIC Office updates.

SIEC Meeting – August 12, 2009 – 10 AM to 12 PM - Agenda Items: Appointment of additional SIEC member; PL Changes for Nogales Hill and Childs Mountain AIRS repeaters; Formation of COM-L Workgroup; 2010 Technical Assistance Requests; and Discussion and Revisions to AIRS Standard Operating Procedures.

Governance Workgroup Meeting – August 12, 2009 – 1 to 3 PM - Agenda Items: NGA Policy Academy: Focus on Governance; Governance Assessment Report; and PSCC Charter Discussion.

PSCC Meeting – September 15, 2009 – 1 to 3 PM - Agenda Items: SIEC Status Report; AZDOHS Update; Regional Update: PCWIN; ADEM STR Update; Statewide Communications Interoperability Plan (SCIP) Update Status; and PSIC Office Updates.

Budget

For FY 2010, \$818,700 was appropriated from the General Fund to the Government Information Technology Agency for the public safety communications program. As of September 30, 2009, \$177,438.87 had been expended or encumbered. A breakdown of expenditures by category is attached as Attachment C: FY2010 Q1 GITA-PSIC Expenditures. The PSIC support office within GITA continues to realize vacancy savings and utilize federal grants whenever possible to support its goal of advancing interoperable communications in Arizona in the most fiscally responsible manner.

Remaining funding includes the \$2.2M of non-lapsing Anti-Racketeering Fund monies specified in the General Appropriation Act footnote as legislatively intended for PSCC to use for the detailed design of the long-term interoperability solution. No expenditures associated with this fund occurred during the third quarter of CY 2009. Prior to expending any of these monies, GITA-PSIC is required to submit an expenditure plan to JLBC for review.

Technical Assistance Requests

The OEC/ICTAP Technical Assistance (TA) program supports and promotes the ability of emergency responders and government officials to continue to communicate in the event of natural disasters, acts of terrorism, or other man-made disasters. The program works to ensure, accelerate, and attain operable and interoperable emergency communications nationwide through the offering of Technical Assistance grants to the States. Arizona received four TA's in CY 2009:

- GOV-ASMT: Statewide Governance Assessment
- SOP-DEV: Statewide AIRS SOP Development
- OP-TTX: Yuma Communications Focused Table Top Exercise
- TIC-PKG: Yuma Tactical Communications Enhancement Package


During the third quarter CY 2009, GITA-PSIC requested five TAs for 2010 to meet identified SCIP initiatives, one of which provides direct support to a designated Urban/Metropolitan area as required by OEC/ICTAP. The application was submitted after recommendations were circulated to the PSCC and stakeholders for public review and comment. The requested TAs and their timeline include:

1. RIC-PKG: Regional Communications Enhancement Package (Border Region) - Early 2010
2. TIC-PKG: Tactical Communications Enhancement Package - Early 2010
3. ENG-SYS: LMR System Analysis for Pinal region – June 2010
4. RIC-PKG: Regional Communications Enhancement Package – Mid 2010
5. UASI Request: GOV-ASMT: Governance Structures Assessment for PC-WIN (Pima County) - Early 2010

OEC/ICTAP is expected to announce the 2010 TA awards during the fourth quarter CY09.

Please don't hesitate to contact me with any questions you might have regarding activities of GITA-PSIC, PSCC and SIEC.

Best wishes,



Chad Kirkpatrick
State CIO & Director

Cc: Matt Morales, Director of Communications & Intergovernmental Affairs, GITA
Lisa Dee Meyerson, Manager, PSIC Office, GITA

Attachment A: Strategic Initiatives and Supporting Objectives
Attachment B: NGA Policy Academy Final Report
Attachment C: FY2010 Q1 GITA-PSIC Expenditures

Attachment A: Strategic Initiatives and Supporting Objectives

Revised Strategic Initiatives and Supporting Objectives approved by the Arizona Public Safety Communications Advisory Commission (PSCC) on May 19, 2009 after extensive statewide stakeholder input:

Continuum	ID	Approved: 5/19/2009		Tracking			
		Strategic Initiative ■ Supporting Objective	Priority	Term	Target Completion Date	Lead	Status
Governance	1	Expand and implement Interoperable Communications Governance Model & Plan.	High	Short	2010	PSCC	In progress
	1.1	■ Conduct an annual SCIP review and update the plan	High	Ongoing	Annual	PSCC	In progress
	1.2	■ Develop a Comprehensive Emergency Communications Plan addressing regional emergencies, catastrophic loss and mass evacuation/ingress	High	Short	2010	TBD	TBD
	1.3	■ Develop TICPs and utilization of CASM	Med.	Med.	2011	Regional Partners	In progress
	1.4	■ Strengthen SIEC	Med.	Short	2009	PSCC/SIEC	In progress
	2	Develop Long-term Plan for Statewide interoperability for voice and data.	Med.	Med.	2011	PSCC	In progress
	2.1	■ Develop Long-term Plan for Statewide Interoperability for voice	Med.	Med.	2011	PSCC	In progress
	2.2	■ Develop Long-term Plan for Statewide Interoperability for data	Med.	Med.	2011	PSCC	Not started
	3	Develop & implement Long-term Funding and Sustainability Strategy for interoperable communications.	Med.	Med.	2011	PSCC	Not started
Technology	4	Complete the Arizona Interagency Radio System (AIRS) by deploying remaining AIRS suites.	High	Short	2009	DPS/WSB	In progress
	5	Implement, enhance and promote functional Regional Systems in support of interoperable communications.	High	Ongoing	On-going	Regional Partners	In progress
	6	Upgrade the statewide Microwave (MW) backbone infrastructure to digital technology.	High	Long	2017	DPS/WSB	In progress
	6.1	■ Complete the MW Southern Loop Upgrade	High	Short	2009	DPS/WSB	In progress
	6.2	■ Complete the MW Western Loop Upgrade.	High	Med.	2012	DPS/WSB	Not started
	6.3	■ Complete the MW Northern Loop Upgrade	High	Long	2017	DPS/WSB	Not started
	7	Implement the State Strategic Technology Reserve (STR).	High	Short	2010	ADEM	In progress
	8	Upgrade operable communication systems for State Agencies in support of interoperable communications.	High	Long	2015	State Agency Committee	In progress
	8.1	■ Implement immediate solutions to enhance operable communication systems for State agencies in support of interoperable communications	High	Short	2010	State Agency Committee	In progress
SOPs	8.2	■ Implement upgrades to operable communication systems for State agencies in support of interoperable communications	Med.	Long	2015	State Agency Committee	Not started
	9	Establish Policies, Standards and Procedures (PSP) Framework, and implement PSPs, including SOPs, for interoperable communications.	High	Med.	2011	PSCC/SIEC	In progress
Training & Exercise	10	Develop and implement a Training Plan to address interoperable communications.	Med.	Med.	2011	PSCC	New
	10.1	■ Develop and implement AIRS Training	High	Short	2010	PSCC	Not started
	10.2	■ Implement COML training program	Med.	Med.	2010	TBD	Not started
	10.3	■ Implement COMT training program.	Med.	Med.	2011	TBD	Not started
	11	Develop and implement a strategy for exercises focused on or incorporating interoperable communications.	Med.	Med.	2011	PSCC	New
Usage & Outreach	12	Create and implement an education and outreach plan in support of interoperable communications.	Med.	Med.	2010	PSCC	In progress