

STATE OF ARIZONA

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE

Monday, December 18, 2006

10:00 a.m.

Senate Appropriations Room 109

- R E V I S E D -

MEETING NOTICE

- Call to Order
- Approval of Minutes of November 15, 2006.
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
 - A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
 - B. Arizona Department of Administration - Review of Request for Proposal.*
 - C. Consideration of JLBC Staff Director Salary pursuant to A.R.S. § 38-431.03.
 - D. **Arizona Commission for the Deaf and the Hard of Hearing - Review of Telecommunication Relay Services Contract.**
- 1. ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Third Party Quality Assurance Report and Percentage of Third Party Transactions Report.
- 2. AHCCCS - Review of Comprehensive Medical and Dental Program Capitation Rate Changes.
- 3. ARIZONA STATE SCHOOLS FOR THE DEAF AND THE BLIND - Review of School Bus Replacement Expenditure Plan.
- 4. DEPARTMENT OF REVENUE - Review of Kerr Expenditure Plan.
- 5. DEPARTMENT OF PUBLIC SAFETY - Review of Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission.
- 6. JOINT LEGISLATIVE BUDGET COMMITTEE - Consider Approval of Year 2007-2008 Strategic Program Area Review Topic Candidates.

*This item may also be heard in open session.

7. SUPERIOR COURT - Review of Expenditures of Judicial Collection Enhancement Fund (JCEF) Balance for Probation Officer Salaries.
8. DEPARTMENT OF CORRECTIONS - Consider Approval of Requested Transfer of Appropriations.
9. STATE COMPENSATION FUND - Consider Approval of Calendar Year 2007 and 2008 Budgets.
10. DEPARTMENT OF ECONOMIC SECURITY - Review of Expenditure Plan for Adoption Services - Family Preservation Projects.

The Chairman reserves the right to set the order of the agenda.
12/14/06

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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DATE: December 11, 2006

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Arizona Department of Transportation – Review of Third Party Quality Assurance Report and
Percentage of Third Party Transactions Report

Request

The Arizona Department of Transportation (ADOT) requests review of its third party quality assurance. The General Appropriation Act for FY 2007 (Laws 2006, Chapter 344) included an increase of \$353,600 and 8 FTE Positions to contract with 145 authorized title and registration third parties in FY 2007 and eliminate the vehicle identification number inspections waiting list. ADOT is required to submit quarterly progress reports within 30 days after the end of each calendar quarter regarding increasing third party transactions, the status of Motor Vehicle Division (MVD) third party staffing, workload and quality assurance backlog.

ADOT also requests review of its third party transactions statistical validity report. The General Appropriation Act for FY 2007 requires ADOT to submit a report by November 30, 2006, on whether the percent of reviewed third party transactions can be reduced below 10% and still retain statistical validity

Recommendation

Third Party Quality Assurance Report

The JLBC Staff recommends that the Committee give a favorable review of the third party quality assurance report, given the progress ADOT has made in reducing the third party quality assurance backlog and removing the moratorium on certain new third parties. The next quarterly report on third party quality assurance, which is due by January 30, 2007, should include the same information as in their latest report.

Percentage of Third Party Transactions Statistical Validity Report

The JLBC Staff recommends that the Committee give a favorable review of the third party transactions report, given the progress ADOT has made in developing a new statistical sampling method, with the following stipulation:

- ADOT provide a progress report on their new statistical sampling method by April 30, 2007. The report should include whether they have reduced the percent of reviewed third party transactions below 10% and still retained statistical validity.

(Continued)

Analysis

The General Appropriation Act for FY 2007 (Laws 2006, Chapter 344) expanded ADOT's quarterly third party reports to include data and waiting lists for other third parties besides the title and registration third parties. In addition, it seeks to reduce or eliminate ADOT's third party waiting lists by adding 6 FTE Positions in FY 2007 for MVD staff to contract with 145 authorized title and registration third parties, and 2 FTE Positions in FY 2007 for MVD staff to eliminate the vehicle identification number inspections waiting list. There is also a footnote requiring that ADOT report for Committee review by November 30, 2006, whether ADOT can review less than 10% of the third party title and registration transactions and still retain statistical validity.

Third Party Title Transactions Quality Assurance

The section's backlog of title transactions decreased from 31 business days in FY 2006 to 20 business days in the first quarter of FY 2007, due to a pilot project that cut in half the percent of third party work that was reviewed by MVD quality assurance.

ADOT removed the moratorium on new third parties and is processing applications for 65 of the 118 entities on the former waiting list who are still interested in becoming third parties. There are currently 62 existing third parties, including 1 branch office that opened for business on September 30, 2006.

Third Party Vehicle Identification Number Inspections

ADOT removed the moratorium on new third parties and is processing applications for 64 of the 138 entities on the former waiting list who are still interested in becoming third parties. There are currently 776 existing third parties, including 16 new third parties.

Third Party Driver Schools

ADOT has 6 filled FTE Positions out of the 7 FTE Positions that oversee commercial and non-commercial driver schools and driver license examiners in the first quarter of FY 2007.

ADOT has filled all 4 FTE Positions that oversee traffic survival schools and high schools driver education in the first quarter of FY 2007. Their approved staffing has not changed from FY 2005. MVD licenses traffic survival schools and certifies instructors. Drivers with certain traffic violations are required by MVD or a court to attend and successfully complete a traffic survival school in order to avoid driver license suspension. There are 79 traffic survival school third parties and 55 entities are on the waiting list.

High school driver education is administered by the Department of Education. MVD licenses the driver education instructors. There are 76 high school driver education third parties. There is no high school driver education waiting list.

Percentage of Third Party Transactions Reviewed

Third party title transactions quality assurance reviews 10% of the title transactions for third parties who achieve 95% accuracy and 100% of the work for those who do not.

To reduce workload, ADOT was requested to review whether the 10% sample could be reduced. ADOT has developed a statistical sampling method, which they believe would reduce the percent of reviewed third party transactions and still retain statistical validity. ADOT will conduct a pilot to test the statistical sampling method.

The JLBC Staff recommends that the Committee give a favorable review of the third party transactions report, given the progress ADOT has made in developing a new statistical sampling method, with the stipulation that ADOT provide a progress report on their new statistical sampling method by April 30, 2007. The report should include whether they have reduced the percent of reviewed third party transactions below 10% and still retained statistical validity.



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

Victor M. Mendez
Director

David P. Jankofsky
Deputy Director

November 29, 2006

The Honorable Robert Burns
Chairman
Joint Legislative Budget Committee
1716 W. Adams St.
Phoenix, AZ 85007



Dear Senator Burns:

Laws of 2006, Chapter 344, Section 32 requires that the Department of Transportation report to the Joint Legislative Budget Committee on whether the percent of reviewed third party transactions can be reduced below 10 per cent and still retain statistical validity. In response to this requirement ADOT tasked a team to determine if the sampling review could be reduced below 10% and still be valid.

The Sampling Team identified a different sampling technique that reduces the sample size and is estimated to have the same level of statistical validity.

A pilot will be conducted in parallel with the current process. The results of the pilot will be vetted and any necessary adjustments to this new sampling technique will be made.

If you have any questions, please contact Terry Trost at (602) 712-8981.

Sincerely,

Victor M. Mendez

cc: Representative Russell Pearce, Vice-Chairman, JLBC
Richard Stavneak, Director, JLBC
Gary Yaquinto, Director, OSPB
Bob Hull, Principal Research/Fiscal Analyst, JLBC
Marcel Benberou, Assistant Director, OSPB



2001 Award Recipient



Arizona Department of Transportation

Office of the Director

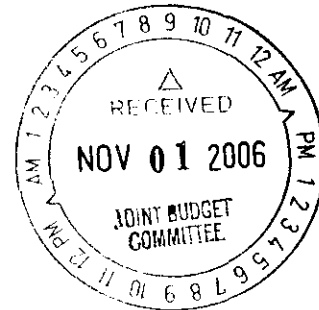
206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

Victor M. Mendez
Director

David P. Jankofsky
Deputy Director

October 31, 2006



The Honorable Robert Burns
Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Senator Burns:

Laws of 2006, Chapter 344, Section 32 requires that the Department of Transportation report to the Joint Legislative Budget Committee on the progress of increasing third party transactions, the status of third party staffing, workload, quality assurance backlog, the number of existing third parties, and the moratorium on accepting new third parties.

Authorized Third Parties are regulated in A.R.S. Title 28 Chapter 13. These entities have a contract with the Motor Vehicle Division to offer essentially the same services that are offered in Division field offices.

Driver License Examination contractors are third parties and are also regulated under Title 28. These contractors are only authorized to perform the same driver license examination that is available in a Division field office – CDL, Non-commercial or Motorcycle. An applicant must still go to a Division field office, or a traditional Third Party in some instances, to complete the process and be issued a credential.

Professional Driver Training Schools (PDS) are licensed under A.R.S. Title 32 Chapter 23 but are not considered third parties per se. The license is valid until the end of the calendar year and must be renewed annually. Professional Driver Training Schools train students how to operate a motor vehicle (commercial [CDL], automobile or motorcycle), or "offer training and educational sessions that are designed to improve the habits of drivers" (Traffic Survival School). Standard PDSs are allowed to issue a Certificate of Completion (CoC) that waives the requirement for the applicant to take the examination at a Division field office or T&R third party office. Traffic Survival Schools issue a CoC that, when presented to the Division, is evidence that the individual attended an assigned class and met the requirements of law.



First Quarter FY2007 Progress Report:

I. Title and Registration Partnerships Unit

A. Title and Registration Third Party

- Title and Registration Third Party Transactions:

3rd Party Transactions

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
FY2007	347,679			
FY2006	374,190	327,112	381,926	363,047
FY2005	261,508	287,846	299,835	325,218

There was a 7% decrease in third party title transactions over the first quarter of FY 2006.

- Title and Registration Third Party Staffing:

The Third Party Management Support Unit (Quality Assurance) has a total of 43 authorized FTEs. Of those 43 authorized FTEs 30 positions are permanent and 13 (recently created) are limited. In the first quarter of FY 2007, 24 of the 30 permanent positions and one of the 13 limited positions were filled. The remaining 18 vacant positions have been advertised and are in the hiring process.

Q/A Staff Status

	1st Qtr	2nd Qtr	3rd Qtr	4 th Qtr
FY2007	25			
FY2006	16	17	22	19

- Title and Registration Third Party Workload:

Number of Third Party Transactions Reviewed By MVD Personnel.

Transactions Reviewed

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
FY2007	44,833			
FY2006	41,829	50,673	57,592	50,010
FY2005	43,447	46,558	34,582	46,125

There was a 7% increase for reviewed transactions over the first quarter FY 2006.

- Title and Registration Third Party Average Number of Reviews Per Employee Per Month:

Average Review Per Employee

	1st Qtr	2nd Qtr	3rd Qtr	4 th Qtr
FY2007	1,359			
FY2006	1,092	1,876	1,600	1,667
FY2005	1,299	1,411	1,153	1,398

There was a 25% increase for the number of reviews per employee over first quarter FY 2006.

- Title and Registration Third Party Response to E-Mail Inquires:

Average E-mail Response

	1st Qtr	2nd Qtr	3rd Qtr	4 th Qtr
FY2007	2,900			
FY2006	2,600	2,657	3,235	3,183
FY2005	2,024	2,400	2,484	2,979

There was a 12% increase for the number of e-mail responses pertaining to quality assurance review over first quarter FY 2006.

- Title and Registration Third Party Backlog:

Backlog in Business Days

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
FY2007	20			
FY2006	41	39	31	13
FY2005	47	38	59	35

Backlog in Title Transactions

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
FY2007	23,090			
FY2006	38,604	37,286	39,930	19,531
FY2005	50,895	53,564	47,673	46,175

First quarter of FY 2007, there was a 20-business day backlog of 23,090 title transactions. This is a 41% decrease in the backlog from FY 2006 to FY 2007. This decrease resulted from a pilot project that cut in half the percent of work reviewed by MVD employees in an effort to reduce the backlog while maintaining quality control.

- Title and Registration Third Party Moratorium on Accepting New Title and Registration Third Parties:

There are currently 62 existing Title and Registration Third Parties. All of the 121 companies on the waiting list in FY06 have been contacted (or an attempt to contact was made) and notified to submit Business Plans. From the 121 companies contacted, we now have 65 in the implementation process.

Moratorium

	1st Qtr	2nd Qtr	3rd Qtr	4 th Qtr
<i>FY2007</i>	0			
<i>FY2006</i>	106	106	118	0
<i>FY2005</i>	40	67	76	76

B. Title and Registration Third Party Inspections

- Title and Registration Third Party Inspections

	1st Qtr
<i>FY2007</i>	37,647
<i>FY2006</i>	38,937

There was a 3% decrease in third party inspections over first quarter FY 2006.

- Title and Registration Third Party Inspection Staffing:

The Third Party Inspection Program has a total of four authorized FTEs (House Bill 2863 authorized 2 new positions). In the first quarter of FY 2007, two of the four positions were already filled. The remaining two positions were created, a hiring list was requested, interviews were conducted, and the new employees will begin employment in the second quarter of FY 2007.

***Third Party Inspection
Positions Already Filled***

	1st Qtr
<i>FY2007</i>	2
<i>FY2006</i>	1

- Title and Registration Third Party Inspections Workload:

For staffing reasons there were quality control reviews of third party inspections. Once the two new positions are filled and trained, quality control reviews of inspections will begin.

- Title and Registration Third Party Inspection Reconciliation Reports Reviewed:

Third Party Inspection Reconciliation Reports are submitted by the fifth day of each month and contain inventory usage information of each Third Party Inspection Company. All Reconciliation Reports are reviewed monthly.

<i>Inspection Reconciliations Reviewed</i>	
	1st Qtr
<i>FY2007</i>	1,098
<i>FY2006</i>	1,125

- Title and Registration Third Party Inspection Moratorium on Accepting New Inspection Third Parties:

We have attempted to contact all of the 138 companies on the waiting list. From the 138 companies contacted, there are 64 Third Party Inspection Companies currently in the implementation process.

<i>Moratorium</i>	
<i>FY2007</i>	0
<i>FY2006</i>	138

II. Driver License Examination/Professional Driving Schools

A. Driver License Examination

- Transactions:

<i>Commercial</i>		<i>Non-Commercial</i>	
	1st Qtr		1st Qtr
<i>FY2007</i>	3,085	<i>FY2007</i>	672
<i>FY2006</i>	2,507	<i>FY2006</i>	579

There was a 23% increase in commercial driver license examination score sheets processed and 16% increase in non-commercial driver license examination score sheets processed over first quarter FY 2006.

- Staffing:

SB 1254 authorized five additional staff positions to lift the moratorium on commercial driver license schools and examiners (3 FTE) and up to 15 Motorcycle schools (2 FTE). The total team headcount is six. There is one vacancy as of 9/30/06. (See the staffing bullet under Professional Driver Training Schools in "B" below for explanation of remaining FTEs.).

Driver License Examination	
	1st Qtr
FY2007	3
FY2006	1

- Workload:

Number of Driver License Examination score sheets data entered.

Commercial		Non-Commercial	
	1st Qtr		1st Qtr
FY2007	3,085	FY2007	672
FY2006	2,507	FY2006	579

Number of Driver License Examination score sheets reviewed.

Commercial		Non-Commercial	
	1st Qtr		1st Qtr
FY2007	3,085	FY2007	672
FY2006	0	FY2006	0

Average number of Driver License Examination score sheet reviews per employee per month over the first quarter of FY 2006:

Commercial Score sheets		Non-Commercial Score sheets	
	1st Qtr		1st Qtr
FY2007	514	FY2007	112
FY2006	0	FY2006	0

Driver License Examination Audit reviews completed:

Commercial		Non-Commercial	
	1st Qtr		1st Qtr
FY2007	21	FY2007	0
FY2006	25	FY2006	1

- Backlog: Where "backlog" means work that has been received, is still within statutory timeframe for processing, but not yet completed. All program data entry and processing is completed within statutory timeframes. Using the above definition, there is no Driver License Examination backlog.

Driver License Examination waiting list:

<i>Commercial</i>		<i>Non-Commercial</i>	
	1 st Qtr		1 st Qtr
<i>FY2007</i>	0	<i>FY2007</i>	0
<i>FY2006</i>	47	<i>FY2006</i>	31

B. Professional Driver Training Schools

- Transactions:

<i>Commercial</i>		<i>Non-Commercial</i>	
	1 st Qtr		1 st Qtr
<i>FY2007</i>	0*	<i>FY2007</i>	7,408
<i>FY2006</i>	0*	<i>FY2006</i>	6,821

* Professional Driver Training Schools that teach commercial drivers do not issue certificates of completion.

There was a 9% increase in non-commercial Professional Driver Training School certificates issued over first quarter FY 2006.

- Staffing:
SB 1254 authorized five additional staff positions designated to lift the moratorium on commercial driver license schools and examiners (3 FTE) and up to 15 Motorcycle schools (2 FTE). The total team headcount is six. There is one vacancy as of 9/30/06. (See the staffing bullet in Driver License Examination in "A" above for additional explanation.)

<i>Professional Driver Training</i>	
	1st Qtr
<i>FY2007</i>	2
<i>FY2006</i>	0

- Workload:

Number of Professional Driver School certificates data entered.

<i>Commercial</i>		<i>Non-Commercial</i>	
	1 st Qtr		1 st Qtr
<i>FY2007</i>	0*	<i>FY2007</i>	7,408
<i>FY2006</i>	0*	<i>FY2006</i>	6,821

* Professional Driver Training Schools that teach commercial drivers do not issue certificates of completion.

Number of Professional Driver School certificates reviewed over the first quarter FY 2006.

<i>Commercial</i>		<i>Non-Commercial</i>	
	1 st Qtr		1 st Qtr
<i>FY2007</i>	0*	<i>FY2007</i>	7,408
<i>FY2006</i>	0*	<i>FY2006</i>	0

* Professional Driver Training Schools that teach commercial drivers do not issue certificates of completion.

Average number of Professional Driving School certificates of completion reviews per employee per month over the first quarter of FY06:

<i>Commercial Schools</i>		<i>Non-Commercial Schools</i>	
	1 st Qtr		1 st Qtr
<i>FY2007</i>	0*	<i>FY2007</i>	1,236
<i>FY2006</i>	0*	<i>FY2006</i>	0

* Professional Driver Training Schools that teach commercial drivers do not issue certificates of completion.

Professional Driver Training School Audit reviews completed:

<i>Commercial Schools</i>		<i>Non-Commercial Schools</i>	
	1 st Qtr		1 st Qtr
<i>FY2006</i>	0	<i>FY2006</i>	2
<i>FY2007</i>	0	<i>FY2007</i>	2

- Backlog: Where "backlog" means work which has been received, is still within statutory timeframe for processing, but not yet completed.

All Program data entry and processing is completed within statutory timeframes. Using the above definition, there is no Professional Driving Training School backlog.

- **Moratorium:**
Motorcycle School Update – Expansion up to 15: Five schools and one branch have been licensed, and eight applications are in process. The motorcycle waiting list is currently at nine.

Commercial Driver License (CDL) Update - The waiting list for new CDL examiners and schools has been eliminated. To date 10 have been licensed or authorized and five applications are in process.

Driving School Update – Response to lifting the CDL moratorium is not as heavy as anticipated. There were 24 on the waiting list. Three applications are in process. The non-commercial waiting list, excluding motorcycle schools, has been eliminated.

Moratorium Waiting List:

<i>Commercial</i>		<i>Non-Commercial</i>	
	1 st Qtr		1 st Qtr
<i>FY2007</i>	0	<i>FY2007</i>	9
<i>FY2006</i>	43	<i>FY2006</i>	36

III. Traffic Survival School

- **Transactions:**

	1 st Qtr
<i>FY2007</i>	10,102
<i>FY2006</i>	9,293

There was a 9% increase in Traffic Survival School certificates issued over first quarter FY 2006.

- **Staffing:**
Traffic Survival School Program received no additional staffing or funding, therefore the moratorium remains in place.

- **Workload:**

Number of Traffic Survival School certificates data entered.

	1 st Qtr
<i>FY2007</i>	10,102
<i>FY2006</i>	9,293

Traffic Survival School Audit reviews completed.

	1 st Qtr
<i>FY2007</i>	4
<i>FY2006</i>	6

- Backlog: Where "backlog" means work that has been received, is still within statutory timeframe for processing, but not yet completed. All Program data entry and processing is completed within statutory timeframes. Using the above definition, there is no TSS backlog.
- Moratorium on Accepting New Traffic Survival Schools:

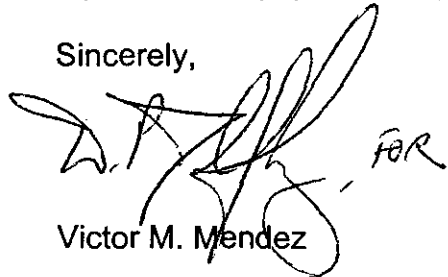
There are currently 79 Traffic Survival Schools. The Traffic Survival School Program received no additional funding or staffing, therefore the moratorium remains in place.

Traffic Survival School waiting list:

	1 st Qtr
FY2007	55
FY2006	49

If you have any questions, please contact Terry Trost at (602) 712-8981.

Sincerely,



FOR

Victor M. Mendez

cc: Representative Russell Pearce, Vice-Chairman
 Richard Stavneak, Director, JLBC
 Gary Yaquinto, Director, OSPB
 Bob Hull, Principal Research/Fiscal Analyst, JLBC
 Marcel Benberou, Principal Budget Analyst, OSPB

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STEPHEN TULLY

DATE: December 11, 2006

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

THRU: Richard Stavneak, Director

FROM: Russell Frandsen, Fiscal Analyst

SUBJECT: Arizona Health Care Cost Containment System – Review of Comprehensive
Medical and Dental Program 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 on changes to the Comprehensive Medical Dental Program (CMDP) capitation rates to the Committee for review. CMDP provides acute care medical services to children in foster care and is administered by the Department of Economic Security. AHCCCS is recommending a (1.2)% decrease to the CMDP capitation rates effective January 1, 2007 until December 31, 2007.

Recommendation

The JLBC recommends that the Committee give a favorable review to the agency request. The proposed rates are based upon an actuarial study and represent a decrease below the current rates of approximately (1.2)%. The proposed rate decrease will save approximately \$(63,200) from the General Fund (\$188,300 Total Funds) in FY 2007 and would lead to annualized General Fund savings of approximately \$(126,300) in FY 2008.

Analysis

Title XIX is a federal entitlement program and states are required to provide reimbursement rates in managed care programs that are actuarially sound. AHCCCS' actuaries use encounter data, financial information and projected enrollment to determine the actual cost of services, and thereby recommend increases or decreases in capitation rates. There are 2 payment categories within CMDP – Prospective rates and Prior Period rates. The AHCCCS request includes a

(Continued)

decrease of (1.3)% to the Prospective rates (which represents the vast majority of the CMDP population) and a 0.7% increase to the Prior Period rates. The Prior Period population represents 3.3% of the entire CMDP population of 120,970 children. Because the Prior Period population is so small, a 0.7% increase to this group's rate is more than offset by the (1.3)% decrease in the Prospective rates, resulting in an overall decrease of (1.2)%.

Prior Period Capitation (PPC) refers to the time between when someone applies for AHCCCS and the time that they are deemed eligible. During that time, the health plans are paid a higher rate. The overall budget impact of the PPC rate increase will depend on how much time is needed to determine eligibility. The current fiscal impact of these rates is based on the current average time it takes to determine eligibility.

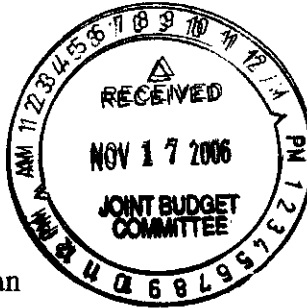
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Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Janet Napolitano, Governor
Anthony D. Rodgers, Director

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us



November 16, 2006

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

SUBJECT: Comprehensive Medical and Dental Program (CMDP) Contract Year Ending 2007 Capitation Rates

Dear Senator Burns:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda for the next Joint Legislative Budget Committee meeting for the purpose of reviewing adjustments to the Comprehensive Medical and Dental Program (CMDP) capitation rates for the period January 1, 2007 through December 31, 2007. This review is required in the footnotes to the General Appropriation Act.

As required by the Federal Balanced Budget Act of 1997, Title XIX and Title XXI 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.

CMDP Capitation Rates

AHCCCS has conducted a review of cost and utilization data for CMDP, the program contained within the Department of Economic Security (DES) that provides acute care medical services to children in foster care. Children enrolled in CMDP are a high acuity population with unique health care needs.

Based on cost and utilization trends as well as audited financial statement information, AHCCCS is recommending a 1.2% overall decrease to CMDP's capitation rates for the period January 1, 2007 through December 31, 2007. The prospective rate decreased by 1.3% whereas the Prior Period Coverage (PPC) rate increased by .7%.

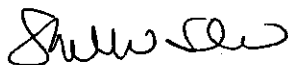
As detailed in the table below, the budgetary impact associated with the rate adjustment (holding membership constant in compliance with 42 CFR 438.6(c)(4)(iii)) is a decrease in total dollars of approximately \$376,600.

Senator Burns
November 16, 2006
Page 2

Rate Cell	Annualized Member Months Based on Proj Enrollment	CY 06 Rate	CY 07 Rate	Estimated CY 06 Capitation	Estimated CY 07 Capitation
Prospective	117,031	\$ 258.38	\$ 255.08	\$ 30,238,470	\$ 29,852,267
PPC	3,939	\$ 338.21	\$ 340.66	\$ 1,332,209	\$ 1,341,860
Total				\$ 31,570,679	\$ 31,194,127
Total impact on CY estimated 06 capitation					\$ (376,552)
Percentage impact on CY estimated 06 capitation					-1.2%

Please feel free to contact me at (602) 417-4647 or shelli.silver@azahcccs.gov if you have any questions.

Sincerely,



Shelli Silver
Assistant Director
Division of Health Care Management

cc. Anthony Rodgers, Director, AHCCCS
Tom Betlach, Deputy Director, AHCCCS
Jim Cockerham, Assistant Director, Division of Business and Finance, AHCCCS
Monica Coury, Assistant Director, Office of Intergovernmental Relations, AHCCCS
Gary Yaquinto, Governor's Office of Strategic Planning and Budgeting
Windy Marks, Actuarial Administrator, AHCCCS
Kathy Rodham, Finance Manager, AHCCCS
Richard S. [redacted], Director, Joint Legislative Budget Committee Staff

Comprehensive Medical and Dental Program (CMDP)

Actuarial Memorandum

I. Purpose:

The purpose of this actuarial memorandum is to demonstrate that the Comprehensive Medical and Dental Program (CMDP) capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

This memorandum presents a discussion of the adjustment to the capitation rates effective from January 1, 2007 through December 31, 2007 (CY07).

II. Base Period Experience:

Since CMDP has a relatively small membership base, multiple years and sources of data were used to increase the statistical credibility. For CY07, CMDP's encounter data was found to be credible for all service categories, except pharmacy. Therefore the base year experience is the contract year 2005 (CY05) encounter data for both Prospective and Prior Period Coverage (PPC) CMDP members. CMDP is experiencing submission problems with pharmacy encounters as its PBM is not transmitting/formatting the data correctly. CMDP is working with its PBM to fix this issue and is close to resolution. However, due to these issues Arizona Health Care Cost Containment System (AHCCCS) did not feel it was appropriate to use the pharmacy encounter data as the base data and instead used the 2005 fiscal year (FY05) audited financial statement and 2006 fiscal year (FY06) quarterly financial statements for the pharmacy service category.

Trend rates were calculated from the encounter data and other sources on a unit cost and/or utilization basis by category of service (COS) and a cap was applied to limit the negative and positive trends to a reasonable level. Other data sources include financial data, Center for Medicare and Medicaid Services (CMS) National Health Expenditure Report estimates, fee schedule changes and Global Insight Prospective Hospital Market Basket Inflation Index (GI) information. As noted above there are issues with the submission of pharmacy encounter data so trend rates for pharmacy were not based off of encounter data. No adjustment was made other than the ones already described.

CMDP has a relatively small membership base and the members are located statewide. Ideally, the experience should be analyzed by the different rate cells, which are comprised of members with similar risk characteristics; however, segregating the CMDP population into different rate cells would lead to a statistical credibility problem. Therefore, AHCCCS believes that having only two rate cells, Prospective and Prior Period Coverage (PPC), is more actuarially sound than creating more rate cells.

The experience only includes CMDP Medicaid eligible expenses for CMDP Medicaid eligible individuals. In addition, the experience includes reinsurance amounts. PPC rates are reconciled to a maximum of 2% gain or loss. There are no other incentives or risk sharing arrangements.

In general, the base period claim PMPMs are trended to the midpoint of the effective period or July 1, 2007. The next step involves adjusting for program changes, reinsurance offset and third party liability. In the final step, the projected administrative expenses and premium tax are then added to the projected claim PMPMs to obtain the capitation rates. Each step is described in the sections below.

III. Projected Trend Rates

The trend analysis includes encounter experience from October 2002 through September 2005. Where financial data is used (i.e. pharmacy service category) the data is also from October 2002 through September 2005. In addition to using encounter and financial data, AHCCCS used information from CMS National Health Expenditure (NHE) Report estimates, GI information, and changes in AHCCCS' Professional and Outpatient Fee Schedules, Dental Fee Schedule, Transportation Schedule and other sources. AHCCCS developed utilization and unit cost trend estimates using the encounter data. These trends were developed by major category of service (COS), with a cap on the percentage increase and decrease to smooth out unreasonable trends. Once these trends were developed they were analyzed by comparing the results to reports and studies (for example the CMS NHE report). The trend rates used in projecting the claim costs are as follows.

Table I: Prospective and PPC Average Annual Trend Rate

Service Category	Average Annual Trend	
	Prospective	PPC
Hospital Inpatient	14.7%	16.7%
Physician	6.6%	12.0%
Emergency Services	2.3%	N/A
Pharmacy	9.5%	N/A
Lab, X-ray, & med image	1.6%	N/A
Outpatient Facility	10.8%	N/A
Durable Med Equip	0.0%	N/A
Dental	6.3%	N/A
Transportation	11.8%	N/A
NF, Home HC	13.1%	N/A
Physical Therapy	-1.1%	N/A
Miscellaneous Med Exp	0.0%	7.5%

IV. Projected Gross Claim PMPM

The claim PMPMs were trended to the midpoint of the effective period, which is July 1, 2007. The PMPMs were trended twenty seven months when using CY05 encounter data. When using the financial data (i.e. for pharmacy data) the claim PMPMs were trended for thirty months. For the pharmacy service category the trended financials were weighted with 100% weight on the trended FY06 financials. For all other COS the weight was 100% on the encounters.

V. State Mandates, Court Ordered Programs and Program Changes

Due to the case of Ekloff vs Rodgers, a class action lawsuit against AHCCCS, members aged 3 through 20 who are incontinent as a result of a disabling condition, and who have a physician's prescription for incontinence supplies (i.e. diapers), are eligible to receive coverage for their incontinence supplies under the CMDP program. The impact on the CMDP program is estimated to be approximately \$150,000 for CY07. The statewide impact is a 0.57% increase. This is the only program change proposed for CY07.

VI. Projected Net Claim PMPM

The projected gross claim PMPMs were adjusted for the program change, reinsurance offset, and third party liability to obtain the net claim PMPM. There is no reinsurance offset or third party liability for PPC. For Prospective, the estimated reinsurance offset is \$9.52 PMPM and third party liability is \$0.31. The projected net claim PMPMs are as follows:

Table II: Projected Net Claim PMPM

Service Category	Projected CY 07 Claim Cost PMPM	
	Prospective	PPC
Hospital Inpatient	\$ 50.55	\$ 143.05
Physician	\$ 53.65	\$ 73.76
Emergency Services	\$ 10.94	\$ -
Pharmacy	\$ 33.08	\$ -
Lab, X-ray, & med image	\$ 7.04	\$ -
Outpatient Facility	\$ 24.05	\$ -
Durable Med Equip	\$ 8.03	\$ -
Dental	\$ 39.04	\$ -
Transportation	\$ 5.38	\$ -
NF, Home HC	\$ 0.71	\$ -
Physical Therapy	\$ 0.03	\$ -
Miscellaneous Med Exp	\$ -	\$ 89.72
Total	\$ 232.48	\$ 306.52
Less Reinsurance	\$ (9.52)	\$ -
Less TPL	\$ (0.31)	\$ -
Net Claim Cost	\$ 222.65	\$ 306.52

VII. Administrative Expenses

The FY06 administrative expenses from the FY06 quarterly financial statements were analyzed and projected to CY07. The administrative PMPMs are as follows.

Table III: Administrative Expenses

Rate Cell	CY 07	% of Capitation
Prospective	\$ 27.32	10.71%
PPC	\$ 27.32	8.02%

VIII. Proposed Capitation Rates and Their Impacts

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VI) and the projected administrative expenses PMPM (in section VII), divided by one minus the two percent premium tax. Table IV below shows the current and proposed capitation rates and the budget impact from CY06 to CY07 using the same membership basis.

Table IV: Proposed Capitation Rates and Budget Impact

Rate Cell	Annualized Member Months Based on Proj Enrollment	CY 06 Rate	CY 07 Rate	Estimated CY 06 Capitation	Estimated CY 07 Capitation
Prospective	117,031	\$ 258.38	\$ 255.08	\$ 30,238,470	\$ 29,852,267
PPC	3,939	\$ 338.21	\$ 340.66	\$ 1,332,209	\$ 1,341,860
Total				\$ 31,570,679	\$ 31,194,127
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DATE: December 11, 2006

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

THRU: Richard Stavneak, Director

FROM: Nick Klingerman, Fiscal Analyst

SUBJECT: Arizona State Schools for the Deaf and the Blind – Review of School Bus Replacement Expenditure Plan

Request

Laws 2006, Chapter 324 requires the Joint Legislative Budget Committee to review the Arizona State Schools for the Deaf and the Blind's (ASDB) expenditure plan for school bus replacement before any monies are expended for that purpose. ASDB has submitted their expenditure plan for review.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of ASDB's reported expenditure plan for school bus replacement.

Analysis

ASDB maintains a fleet of 23 buses at their Tucson Campus and 30 buses at their Phoenix Campus for a total of 53 buses. ASDB received an appropriation of \$850,000 in FY 2007 to replace 10 gasoline powered school buses with 10 diesel powered school buses.

ASDB plans to replace 10 gasoline buses with 10 diesel buses at a total cost of \$913,700. As described above, ASDB has an appropriation of \$850,000 for bus replacement; their submitted bus plan will exceed their appropriation by \$63,700, which ASDB plans to fund from their operating budget if monies are available. ASDB's bus replacement plan includes the purchase of 5 buses with a 54-passenger capacity. This is greater than the capacity of 5 of the buses that ASDB plans to replace and adds an additional \$10,000 cost per bus. ASDB has decided to purchase the larger buses because they will allow ASDB to increase the length of their bus routes, ultimately resulting in the need for fewer buses and drivers.

RS/NK:ss



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520.770.3711 FAX
www.asdb.state.az.us

Tucson Campus
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Phoenix Campus
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Desert Valleys
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Southeast
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Eastern Highlands
Regional Cooperative
1607 N. Navajo Blvd.
Holbrook, AZ 86025
928.528.6770 V/TDD
928.528.6779 FAX

November 22, 2006

Senator Burns
JLBC
1716 West Adams
Phoenix, AZ 85007

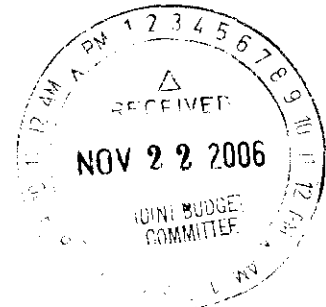
Dear Senator Burns:

When the JLBC appropriated \$850,000 for the purchase of new school buses for the ASDB campuses, the committee requested that I present the final package to the JLBC before purchasing the buses. We have completed our specifications and intend to purchase the buses through the Mojave contract with the State. We are ready to make a presentation at the December meeting of the JLBC if that is still the desire of the committee.

Please let me know if we can appear at the December meeting to present our package to the JLBC. I will be providing Nick Klingerman with the supporting documentation.

Sincerely,

Harold E. Hoff, Ph.D.
Superintendent
Arizona State Schools for the Deaf and the Blind



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STEPHEN TULLY

DATE: December 11, 2006

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Department of Revenue – Review of Kerr Expenditure Plan

Request

Pursuant to Laws 2006, Chapter 347, the Case Settlements Budget Reconciliation Bill, the Department of Revenue (DOR) requests that the Committee review its expenditure plan for Kerr administrative costs.

Recommendation

The Committee has at least the following 2 options:

- 1) A favorable review, since DOR submitted the required administrative expenditure plan and it appears to be reasonable.
- 2) An unfavorable review, since DOR did not submit the expenditure plan before expending any of the \$15,000,000 allocated for taxpayer payments, as required by Chapter 347.

Analysis

The case of Kerr v. ADOR involved the different state income tax treatment of federal employees' retirement system contributions and Arizona's employees' contributions to the State Retirement System for the years 1985-1990. DOR paid \$13.7 million in 1997-1998, to settle the original 1989 lawsuit. Subsequent court rulings extended the deadline for filing timely refund claims for tax cases like Kerr, which allowed additional federal employees to file for relief. On August 4, 2006, the court approved a settlement for the expanded group, which requires that DOR complete the taxpayer refunds within one year, by August 4, 2007. DOR estimates a cost of \$15 million for refunds due taxpayers.

Laws 2006, Chapter 316, the Supplemental Appropriations Budget Reconciliation bill, appropriated \$975,000 from the General Fund in FY 2006 to DOR for administration of the lawsuit. The \$975,000 is non-lapsing through June 30, 2007. In addition, Laws 2006, Chapter 347, the Case Settlements Budget Reconciliation bill, allocates \$15 million in FY 2007 to DOR for Kerr taxpayer payments, and requires that DOR present an expenditure plan for Committee review that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, before expending any of the \$15 million.

(Continued)

DOR did not submit its Kerr administrative expenditure plan for Committee review before paying any taxpayer refunds, as required by Chapter 347. Instead, DOR paid \$637,300 for Kerr taxpayer refunds in October 2006. DOR belatedly submitted their expenditure plan on November 22, 2006, after JLBC Staff questioned DOR regarding the status of the Kerr settlement and their expenditure plan.

Table 1 summarizes DOR's expenditure plan. DOR spent \$343,900 of the \$975,000 total appropriation in FY 2006, and expects to spend the remaining \$631,100 in FY 2007. Major expenditures include \$307,900 for DOR staff (including 20 auditors for 16 weeks), \$201,100 for temporary staff, \$234,600 for printing, mailing and postage, and \$104,000 for microfiche machine rental.

	<u>FY 2006</u>	<u>FY 2007</u>	<u>Total</u>
Personal Services (DOR staff)	\$ 56,500	\$193,000	\$249,500
Employee Related Expenditures	11,800	46,600	58,400
Professional & Outside Services			
Temporary personnel	84,100	117,000	201,100
Mailing and Printing Vendor	<u>26,500</u>	<u>86,000</u>	<u>112,500</u>
Subtotal P&O	110,600	203,000	313,600
Other Operating Expenditures			
Microfiche rental	83,000	21,000	104,000
Postage	16,100	106,000	122,100
Consumable Supplies	29,600	32,800	62,400
Other	<u>8,500</u>	<u>8,600</u>	<u>17,100</u>
Subtotal OOE	137,200	168,400	305,600
Equipment ^{1/}	27,800	20,100	47,900
TOTAL	\$343,900	\$631,100	\$975,000

^{1/} Includes items such as a copier, file cabinets and computers.

Additional Kerr Lawsuit Settlement Information

There are a total of 46,000 taxpayer claimants, including 18,000 individuals whose claims DOR has denied for being either filed late or for a year not included in the settlement. That leaves 28,000 claims for DOR to review. Total taxpayer refund amounts are distributed 80% for taxpayer payments and 20% for plaintiff attorney fees. DOR had total expenditures of \$1,029,300 through October 2006 for the Kerr settlement, as shown in Table 2. The \$1,029,300 includes \$392,000 for DOR administration, \$127,500 for plaintiff attorney fees, and \$509,800 for taxpayer payments of 643 claims.

	<u>FY 2006</u>	<u>FY 2007</u> <u>(4 Mo's)</u>	<u>Total</u>
DOR Administration ^{1/}	\$343,900	\$ 48,100	\$ 392,000
Attorney Fees ^{2/}	0	127,500	127,500
Taxpayer Payments ^{2/3/}	<u>0</u>	<u>509,800</u>	<u>509,800</u>
Total	\$343,900	\$685,400	\$1,029,300

^{1/} In addition, DOR reports operating budget expenditures of \$6,400 in FY 2006 for staff working on Kerr but not charged to Kerr.

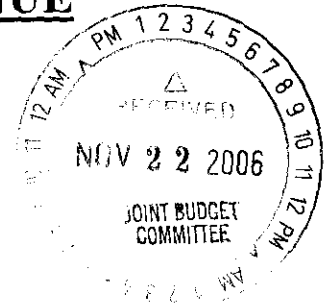
^{2/} Total taxpayer refund amounts are distributed 80% for taxpayer payments and 20% for plaintiff attorney fees.

^{3/} DOR began paying refunds to taxpayers in October 2006.



ARIZONA DEPARTMENT OF REVENUE

MEMORANDUM



DATE: November 20, 2006
TO: Director Garriott *[Signature]*
FROM: Reed Spangler, Anthony Forschino, Jorge Franks
SUBJECT: Kerr/FERC-2 FY 2007 Anticipated Expenditures

Laws 2006, Chapter 347 allocates \$15,000,000 in FY 2007 to DOR for payments associated with the case of Kerr v. State of Arizona. DOR is required to present an expenditure plan for review by the JLBC that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, before expending any of the \$15,000,000.

This memo is designed to comply with Chapter 347's requirements.

The Department's current estimate of claimant's payments remains at \$15,000,000. It is believed that this estimate can be revised by late January 2007. The settlement agreement sets the plaintiff attorney's fees at 20% of the claimant's payments (and will be paid out of the claimant payments, and not in addition to); therefore, all plaintiff attorney fees will be deducted out of the current \$15,000,000 estimate.

The attached spreadsheet shows the Department's expected expenditure plan to administer the Kerr/FERC-2 settlement. Of the \$975,000 allocated to the department in FY 2006, \$343,902 was expended in FY 2006. The remaining \$631,098 will be expended in FY 2007. There are no planned expenditures for Kerr/FERC-2 in FY 2008.

FERC 2 Budget Request by COBJ

	FY06	FY07	Total	
<u>Permanently Assigned Staff</u>	<u>\$56,528.00</u>	<u>\$193,000.00</u>	<u>\$249,528.00</u>	FY06 2 employees for 6 months; FY07 20 auditors for 16 weeks
<u>Employee Related Expenditures</u>	<u>\$11,822.00</u>	<u>\$46,600.00</u>	<u>\$58,422.00</u>	24% overall rate
Temporary Personnel	\$84,094.71	\$117,000.00	\$201,094.71	Temporary staff to research microfiche and film; FY06 6 temps for 8 months (8,686.82 hours); FY07 5 temps for 10 months
Mailing Vendor & Printing Vendor	\$26,468.33	\$86,000.00	\$112,468.33	Printing for FY06 & FY07 to 54,000 claimants
<u>POS Subtotal</u>	<u>\$110,563.04</u>	<u>\$203,000.00</u>	<u>\$313,563.04</u>	
Mainframe	\$1,970.82	\$3,000.00	\$4,970.82	ADOA charges for the use of the DOR mainframe
Phone for FERC 2 (602) 716-7878	\$116.12	\$5,000.00	\$5,116.12	Estimated monthly charges TIA lines
US Postmaster (PO Box 29099 Rental)		\$425.00	\$425.00	Renewal date February 2007
Microfiche/film Reader/Printers	\$83,037.14	\$21,000.00	\$104,037.14	FY06 10 months rental contract 7-12 machines; FY07 6 months 6 machines
Equipment maintenance		\$100.00	\$100.00	Maintenance contracts on equipment
Consumable supplies	\$29,635.74	\$32,817.91	\$62,453.65	Office supplies 50k files, toner for reader/printers & copiers, paper, labels
Publication	\$6,380.01		\$6,380.01	Publish notice in the Federal Times
US Postmaster (Outgoing Postage)	\$16,083.11	\$106,000.00	\$122,083.11	Postage for FY06 & FY07 to 54,000 claimants
<u>OOE Subtotal</u>	<u>\$137,222.94</u>	<u>\$168,342.91</u>	<u>\$305,565.85</u>	
Computers		\$5,610.00	\$5,610.00	FY07 5 computers
Other Equipment	\$27,766.11	\$4,545.00	\$32,311.11	FY06 9 reader/printer carriers & 25 file cabinets
Copier		\$10,000.00	\$10,000.00	FY07 copy records and documents
<u>Equipment Subtotal</u>	<u>\$27,766.11</u>	<u>\$20,155.00</u>	<u>\$47,921.11</u>	
<u>Administration Total</u>	<u>\$343,902.09</u>	<u>\$631,097.91</u>	<u>\$975,000.00</u>	

7/26/2006

STATE OF ARIZONA

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STEPHEN TULLY

DATE: December 11, 2006

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

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Fiscal Analyst

SUBJECT: Department of Public Safety – Review of the Expenditure Plan for the Gang and
Immigration Intelligence Team Enforcement Mission

Request

Pursuant to the General Appropriation Act (Laws 2006, Chapter 344), the Department of Public Safety (DPS) is required to submit for review an expenditure plan for the \$10 million and \$7 million appropriations for the Gang and Immigration Intelligence Team Enforcement Mission (GITEM) prior to their expenditure.

DPS is requesting the approval for the use of \$1.3 million of the \$10 million appropriation to fund the purchase of specialty equipment and the operating costs associated with 10 federal Border Patrol agents expected to work with GITEM. According to the General Appropriation Act, the \$10 million appropriation is to be used to expand GITEM at the local level, including the funding of local border personnel and other border security efforts.

With respect to the \$7 million appropriation, the department requests approval for the use of \$5.5 million to fund the costs associated with adding an additional 37 DPS officers to GITEM. Legislative intent specifies the \$7 million appropriation is to be used for an additional 100 sworn positions within DPS, including 50 for immigration and border security.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the request.
2. An unfavorable review of the request.

Under either option, the JLBC Staff recommends that the Committee add a provision that DPS submit a revised expenditure plan prior to: 1) expending any additional monies beyond the reviewed expenditures, or 2) expending the approved amounts on items not in their current plan.

(Continued)

At the July meeting, the Committee made 2 recommendations concerning: 1) the funding of a regional holding facility for illegal immigrants, and 2) the concept of using funding to assist local law enforcement in transporting illegal immigrants. While the department has reported they are no longer pursuing efforts to construct a regional holding facility, they are exploring methods to reimburse sheriffs offices for transportation costs.

Analysis

Expand GITEM - \$10 million

Laws 2006, Chapter 344 appropriates \$10 million to DPS to: 1) expand the existing GITEM into a multi-jurisdiction task force known as the Gang and Immigration Intelligence Team Enforcement Mission, and 2) for new functions relating to immigration enforcement, including border security and border personnel. *Table 1* depicts DPS' detailed expenditure plan for the use of \$2.3 million of in FY 2007. Of this amount, DPS received a favorable review at the July 2006 meeting to expend \$1 million to integrate the existing GangNet system and to purchase license plate readers. The department is now requesting approval for the use of an additional \$1.3 million.

Table 1			
FY 2007 GITEM Expenditure Plan - \$10 Million			
	<u>Proposed Plan</u>	<u>Previously Approved</u>	<u>Total</u>
FTE Positions (Non-DPS)	10	0	10
Personal Services	\$ 0	\$ 0	\$ 0
Employee Related Expenditures	0	0	0
Other Operating Expenditures			
10 Border Patrol Agents	206,800		206,800
Office Space	82,500		82,500
Equipment			
GangNet/LPR's	0	1,000,000	1,000,000
10 Vehicles	440,000	0	440,000
Armored Vehicle	340,000	0	340,000
Specialty Equipment	<u>200,000</u>	<u>0</u>	<u>200,000</u>
Total	\$1,269,300	\$1,000,000	\$2,269,300

As shown in the table, the \$1.3 million would be used to fund the purchase of:

- 10 vehicles (\$440,000) and other operating costs (\$289,300) for 10 federal Border Patrol agents, and;
- an armored vehicle (\$340,000) and other specialty equipment (\$200,000).

The specialty equipment, including the armored vehicle, would allow the department to use intelligence-led policing tactics, while maximizing officer safety.

While the federal Border Patrol agents are not DPS employees, they would be assigned to the GITEM task force. The department believes Border Patrol participation would allow GITEM to detain suspected illegal immigrants, improve state and federal cooperation on border security issues, and be cost effective as federal law prohibits U.S. agencies from accepting personnel funding from state or local governments. Due to federal law governing United States agencies, the proposed expenditures would fund the operating costs, excluding Personal Services, for the positions.

In the first quarter, no monies were expended from the \$10 million appropriation. Therefore, based on their plan, DPS would have an estimated \$7.7 million available for use through FY 2008.

(Continued)

Additional DPS Officers - \$7 million

In addition to the \$10 million, Laws 2006, Chapter 344 appropriates \$7 million and 100 FTE Positions for sworn DPS personnel, of which 50 are for immigration and border security. Previously, DPS received a favorable review for the use of \$410,000 to allow the department to expand their recruiting efforts. DPS is now requesting a favorable review for the use of an additional \$5.5 million. *Table 2* identifies the department's expenditure plan for the total \$5.9 million amount.

Table 2			
FY 2007 GITEM Expenditure Plan - \$7 Million			
	<u>Proposed Plan</u>	<u>Previously Approved</u>	<u>Total</u>
FTE Positions	37	0	37
Personal Services	\$1,818,500	\$0	\$1,818,500
Employee Related Expenditures	872,800	0	872,800
Other Operating Expenditures			
Officer Related	765,000	0	765,000
Recruiting	0	410,000	410,000
Office Space	367,500	0	367,500
Equipment			
Vehicles	1,628,000	0	1,628,000
Total	\$5,451,800	\$410,000	\$5,861,800

As indicated above, the department's plan would fund costs associated with 37 DPS sworn positions, including vehicles, training, risk management charges, fuel equipment and office space. Based on the departments existing cost per officer schedule, the proposed expenditure plan relating to the additional 37 officers appears to be reasonable.

Based on the plan, the additional 37 DPS sworn positions to be added to GITEM would be primarily filled by existing DPS personnel transferred from other department programs. In the first quarter, the department expended \$11,600 for costs relating to transferring a Lieutenant position to the program. As requested at the July Committee meeting, *Table 3* is the departments' timeline for hiring additional personnel.

Table 3	
FY 2007 GITEM Hiring Plan	
	<u>DPS Positions</u>
September '06	1
October '06	3
November '06	23
December '06	8
January '07	1
February '07	<u>1</u>
Total	37

Regional Holding Facility & Transportation

At the July meeting, the Committee recommended that DPS pursue negotiations with a local law enforcement jurisdiction to construct a regional holding facility for illegal immigrants near the Arizona-Mexico border. DPS is not pursuing this option as they report that southern Arizona law enforcement have indicated there is no need for a facility of this type since the Border Patrol responds to their needs. However, law enforcement agencies located in areas that have no Border Patrol presence reported that a lack of response by federal officials to detain illegal immigrants routinely results in the individual being released into the community.

(Continued)

The Committee also requested that DPS report on the concept of using funding to assist local law enforcement in transporting illegal immigrants to a qualified federal agency when the federal government refuses to take custody in a timely fashion. As a result, DPS is exploring a method to reimburse sheriff's offices for the initial detention and transportation of illegal immigrants from county jails to federal detention centers. The department believes they may not be able to distribute monies from their \$10 million appropriation to defray the costs of transportation if the receiving agency has not entered into a 287 memorandum of understanding (MOU) with the United States Department of Homeland Security (DHS). A General Appropriation Act footnote requires that agreements or contracts with cities, towns or counties may be entered into only if the police department or the county sheriff has entered into a 287 MOU with the DHS. A 287 MOU is an agreement between ICE and a state or local law enforcement agency that would allow ICE to provide the local authorities with the training and subsequent authorization to identify, process, and when appropriate, detain immigration offenders they encounter during their daily law-enforcement activities.

RS/ML:ym



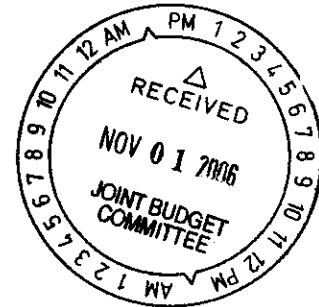
ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

"Courteous Vigilance"

JANET NAPOLITANO ROGER VANDERPOOL
Governor Director

October 30, 2006



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

Dear Mr. Stavneak:

Laws 2006, Chapter 344 requires the Department to submit quarterly expenditure reports to the JLBC regarding separate \$7 million and \$10 million appropriations to the Gang Intelligence Team Enforcement Mission (GITEM) Special Line Item. At its meeting on July 27, the Committee directed DPS to provide a timeline and expenditure plan for the hiring of additional GITEM personnel using these appropriations. In addition, the Committee requested that the Department explore using a portion of the \$10 million appropriation to construct a regional holding facility for illegal immigrants and to assist local agencies in transporting illegal immigrants when the federal government is unwilling or unable to take custody.

The following information addresses each of the above reporting requirements.

Quarterly Report

The Department used the first quarter of the fiscal year to plan for the significant expansion of the GITEM program. We take the responsibility to spend the increased funding very seriously and wanted to make sure we had a realistic plan in place. As a result, we expended very little of the appropriations in the first quarter; however, we have positioned ourselves to ramp up the program in the second quarter.

First quarter expenditures were limited to filling a new Lieutenant's position to help plan the program's expansion and some travel costs to meet with local officials on immigration and gang enforcement issues. First quarter expenditures were as follows:

Line Item	\$7 Million Approp.	\$10 Million Approp.
Personal Services	\$7,400	\$0
Employee Related Expenditures	3,900	0
Travel – In State	300	0
Total	\$11,600	\$0

Hiring and Expenditure Plan

The Department plans to increase GITEM staffing by 60 sworn personnel this fiscal year. Of this number, 37 will be DPS employees funded from the \$7 million appropriation, up to 10 will be other agency employees, whose operating costs will come from the \$10 million appropriation, and 13 will be other agency employees funded from the base appropriation.

It is important to note that the authorizing language for the \$10 million appropriation restricts its use for city, town, or county personnel to those agencies that have signed a memorandum of understanding with the federal government to enforce federal immigration laws. To date, we have found little interest among agencies to pursue these agreements. However, the Border Patrol is willing to commit officers to GITEM.

Border Patrol participation would allow GITEM to detain suspected illegal immigrants and to improve State and federal cooperation on border security issues. Border Patrol officers are also cost effective since federal law prohibits U.S. agencies from accepting personnel funding from State or local governments. As a result, GITEM would only pay for the operating costs of these 10 officers. GITEM has had federal participation in the past, and it has worked well.

It is unclear to the Department whether the Legislature contemplated federal participation in the expansion of GITEM. The authorizing language does not directly address this issue. DPS is seeking Committee input and direction on this issue, but the Department believes that some degree of federal participation is consistent with legislative intent and will maximize the chances of success for the GITEM program.

The hiring plans for the \$7 million and \$10 million appropriations are depicted in the following table:

Month Hired	DPS Lieutenant	DPS Sergeant	DPS Officer	Other Agency Officer	Total
September '06	1				1
October '06		2	1		3
November '06		8	15		23
December '06			8	5	13
January '07			1	3	4
February '07			1	2	3
Total	1	10	26	10	47

Note: Figures do not include an additional 13 Other Agency Officers to be hired through the base GITEM appropriation.

Based on the above hiring plan and expenditures previously endorsed by the JLBC, we currently expect to incur the following expenditures in FY 2007.

Line Item	\$7 Million Approp.	\$10 Million Approp.
FTE Positions	37	10
Personal Services	\$1,818,500	0
Employee Related Expenditures	\$872,800	0
Other Operating Expenditures	\$1,542,500	\$289,300
Equipment	\$1,628,000	\$1,980,000
Total	\$5,861,800	\$2,269,300

The other operating expenditures line includes training, risk management, vehicle maintenance, fuel, police equipment, office equipment, and office space for each position. It also includes \$410,000 for recruitment as approved by the JLBC on July 27. We expect to lease office space in the Yuma, Cochise County, and Coconino County areas to accommodate the GITEM expansion.

The equipment line includes 37 vehicles from the \$7 million appropriation and 10 vehicles from the \$10 million appropriation. In addition, this line includes \$1,000,000 from the \$10 million appropriation for technology improvements previously approved by the JLBC and \$540,000 for specialty equipment to assist in border security operations. The specialty equipment includes an armored vehicle for high risk operations/surveillance and wireless equipment for remote operations.

Regional Holding Facility

Agencies in southern Arizona near the Mexico border report that they generally have a good response from the Border Patrol and indicate that a regional holding facility for illegal immigrants is not necessary. Law enforcement agencies in counties without Border Patrol personnel indicate that the lack of response by federal officials to detain and remove suspected illegal immigrants routinely results in these individuals being released into the community causing concern. Generally, the only time that illegal immigrants are incarcerated in county jails is when they have been charged with a state crime.

Transportation of Illegal Immigrants

Municipal law enforcement agencies and the county sheriffs in central and northern Arizona will incur a significant financial burden incarcerating and transporting illegal immigrants to federal holding facilities. GIITEM has developed a plan to reimburse sheriff's offices for 85% of the employment costs of detention officers to collect, report, and disseminate intelligence on illegal immigrants and gang members in the county jail systems. Additionally, GIITEM is exploring a method to reimburse sheriff's offices for

Mr. Richard Stavneak, Director

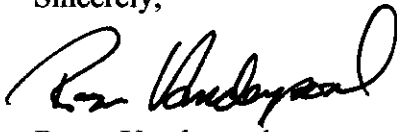
October 30, 2006

Page 4 of 4

the initial detention and transportation of illegal immigrants from county jails to federal detention centers when ICE or the Border Patrol could not respond within a reasonable time frame. This plan would not necessarily require the 287G MOU from ICE to be effective. However, a change in the language of the \$10 million appropriation may be necessary to implement this plan because many agencies are reluctant to obtain the MOU.

We look forward to reporting on our progress in our next quarterly report. If you have any questions, please contact Chief Mikel Longman, Criminal Investigations, at 602-223-2812 on operational matters or Phil Case, DPS Comptroller, at 602-223-2463 or pcase@azdps.gov on budgetary matters.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger Vanderpool", written in a cursive style.

Roger Vanderpool
Director

Attachments (2)



G.I.T.E.M.

**GANG & IMMIGRATION INTELLIGENCE TEAM
ENFORCEMENT MISSION**

October 30, 2006

Re: G.I.T.E.M Expansion Plan 2006-2007

GANGS AND ORGANIZED CRIME PERSPECTIVE:

Organized criminal activity poses a serious threat to our citizens, the nation and the world economy. Gangs, organized crime, and human smuggling groups have evolved into sophisticated trans-national organizations, which often form dangerous and formidable alliances to further their activities. Neighborhoods are terrorized by street gangs; immigrant and refugee communities fall victim to predators that use extortion and protection rackets against individuals and businesses. In an attempt to launder ill-gotten gains, criminal organizations exert unfair competition against legitimate businesses, promote systemic public corruption, and pose a serious threat to financial institutions, potentially destabilizing governments.

PROGRAM:

Effective July 1, 2006, GITEM is appropriated \$25,952,900 for FY 2007. The role of the State Gang Task Force has been expanded to include border security and immigration enforcement initiatives and the unit's acronym has been modified to GITEM, Gang & Immigration Intelligence Team Enforcement Mission. The new unit is authorized 50 additional sworn DPS positions to expand the gang enforcement mission and fifty sworn DPS positions to be used for immigration enforcement and border security. An additional seven million dollars is earmarked for the increased DPS personnel related expenses.

Ten million dollars is to be used for new efforts relating to immigration enforcement and border security, which includes other agency personnel dedicated to this endeavor. One million dollars from the immigration funds has been approved for technology enhancements including a comprehensive gang information and intelligence program (GangNet), which will provide valuable data to all Arizona law enforcement agencies, license plate readers (LPRs), case management software, and mobile data computers (MDC). A provision in this funding requires that other agencies contributing personnel must enter into a memorandum of understanding with the U.S. Department of Homeland Security (DHS) Immigration and Customs Enforcement (ICE) to obtain authorization to enforce immigration law.

Unfortunately ICE has not been supportive of DPS' year-long efforts to obtain "287G" training and authorization to enforcement immigration law, so it is anticipated that this will block other agencies efforts too. ICE in Arizona is undergoing a management change and until a new special agent in charge (SAC) is appointed no agreements are expected. This matter has been communicated to the highest level within DHS and the Department of Public Safety will continue to pursue this critical issue. The Governor's Office and the Joint Legislative Budget Committee (JLBC) is fully aware of this roadblock that prevents local law enforcement agencies from receiving reimbursement from the dedicated funding for immigration enforcement and border security.

ORGANIZATIONAL STRUCTURE:

GIITEM currently funds 69 positions. The expansion package for FY2007 and staffing timeline will add 37 DPS sworn officers, and with the inclusion of other agency personnel will increase total staffing to approximately 130 GIITEM members. GIITEM will be organized into three geographical districts including a Northern District, a Central District, and a Border District. Nearly all squads will benefit from additional staffing. The Northern District will add two squads: Navajo County and a Gang & Immigration Liaison Officer Program (GILO). The Central District will have an additional enforcement squad in the Phoenix metropolitan area, an Undercover Squad, and an Immigration Investigations Squad. The Border District in Southern Arizona will add a Gang Investigations Squad, a Border Security and Immigration Investigations Squad, a Cochise County Squad, and a Yuma County Squad. The attached organizational chart depicts the new GIITEM structure.

MISSION STATEMENT:

The mission of the Gang & Immigration Intelligence Team Enforcement Mission (GIITEM) is to:

- Deter criminal gang activity through investigations, enforcement and prosecution
- Dismantle gang and organized crime related criminal enterprises
- Deter border related crimes
- Disrupt human smuggling organizations
- Collect, analyze, and disseminate gang, organized crime and illegal immigration intelligence
- Provide anti-gang and crime prevention public awareness and community education

OPERATIONAL OBJECTIVES:

GIITEM will be a formidable force of dedicated personnel committed to public safety by combating gangs, human smuggling and organized crime. The Operational Objectives include the following:

- Border security related criminal enforcement, interdiction and investigations
- Target, disrupt and dismantle gangs and organized criminal groups, to include but not limited to:
 - Drug and human smuggling organizations (DHSOs)
 - Outlaw motorcycle gangs (OMGs)
 - Prison-based gangs
 - Criminal street gangs
 - Ethnic, regional and trans-national organized criminal enterprises, such as:
 - Asian organized crime groups
 - Mexican, Central and South American cartels
 - Reservation-based gangs
 - Russian and Eastern European organized crime groups
 - Traditional organized crime, i.e. Mafia
- Intelligence gathering and information sharing
- Public awareness and community education
- Law enforcement training and support

TASK FORCE PARTNERSHIPS

Partnerships with other agencies are critical to the success of the mission. GIITEM will promote and pursue participation from other criminal justice agencies throughout the state. GIITEM currently funds 15 personnel from 11 other agencies. DPS is now authorized to reimburse participating agencies 85% of the cost of their personnel assigned to GIITEM. It is anticipated that the increased reimbursement rate will result in additional other agency participation. Budget projections include the addition of 23 other agency personnel. Ideally there will be a corresponding number of other agency personnel working along side of DPS personnel in this statewide endeavor.

STAFFING PROJECTIONS:

GIITEM has an aggressive, yet reasonable staffing plan that provides for the assignment of 35 additional DPS officers to GIITEM by the end of 2006. Two more DPS officers are scheduled for assignment in early 2007.

BUDGET ISSUES:

Infrastructure to support the expansion and enhanced mission of GIITEM is critical to meeting staffing projections. To support new GIITEM personnel, vehicles and other police related equipment must be purchased, facilities must be obtained and/or expanded, and training must be provided. To accommodate the necessary purchases, staffing, and facilities expenses, we anticipate the following expenditures in FY2007:

\$7 million appropriation
\$5.9 million

\$10 million appropriation
\$2.3 million

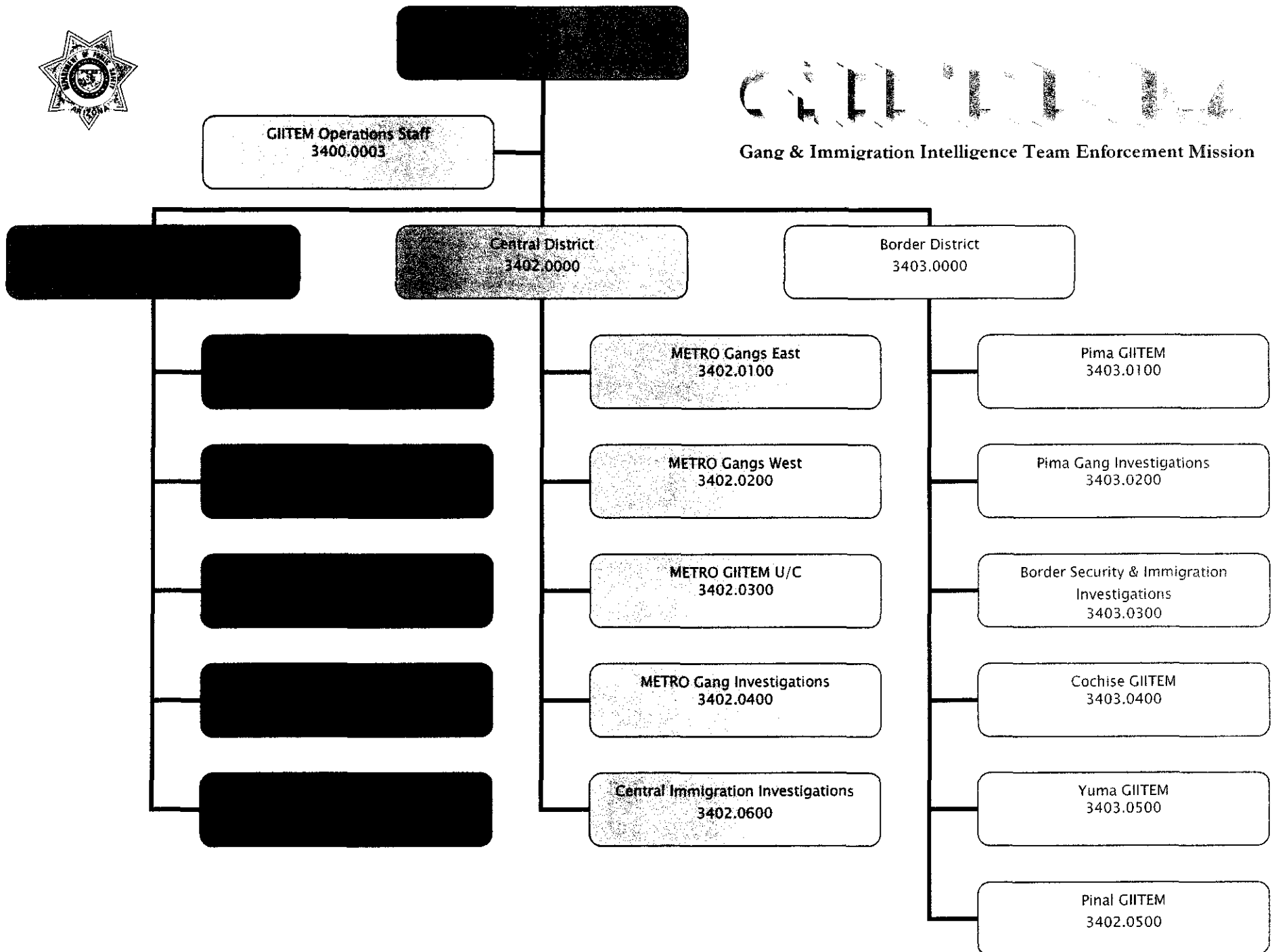
"Every society gets the kind of criminal it deserves. What is also true, is that every community gets the kind of law enforcement it insists on."

John F. Kennedy 1917-1963, Thirty-fifth President of the U.S.A.



CALL CENTER

Gang & Immigration Intelligence Team Enforcement Mission



STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: December 11, 2006

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

SUBJECT: Joint Legislative Budget Committee – Consider Approval of Year 2007-2008 Strategic
Program Area Review Topics Candidates

Request

The Joint Legislative Budget Committee (JLBC) Staff requests that the Committee approve the list of program areas to be reviewed in the Year 2007-2008 Strategic Program Area Review (SPAR) process. The intent of the SPAR process is to review issues that often involve multiple agencies and evaluate the efficiency, effectiveness, and necessity of the programs administered.

Recommendation

The JLBC Staff recommends the following 2 program areas for the Year 2007-2008 SPAR cycle:

- Substance Abuse
- Debt and Third-Party Financing

Analysis

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

JLBC Staff recommends the following 2 program areas for the Year 2007-2008 SPAR cycle:

- Substance Abuse: A 1998 Program Area Review (PAR) conducted by JLBC and OSPB Staff reported that 13 different state agencies provided substance abuse services at a cost of \$60 million, with the Department of Health Services providing approximately 60% of the funding. The 1998 PAR also

(Continued)

found that the management of substance abuse services was not coordinated and that data on the impact of the various programs were not collected or evaluated. This SPAR would update the work done in 1998 to determine which state agencies provide substance abuse services and at what funding level. The SPAR would also examine the coordination and evaluation of substance abuse services to determine if any progress has been made since the initial review 8 years ago.

- Debt and Third Party Financing: A number of state agencies, such as the Department of Administration, School Facilities Board, Department of Transportation, and the Universities, can issue debt or enter into an agreement with a third party to finance major capital projects. There are also several state-authorized entities with the power to issue debt, either for themselves or on behalf of another party, for which the state is not generally liable. In addition, the Department of Commerce administers the state's allocation of private activity bonding authority, which is issued by industrial development authorities, exempt from federal taxation, and used for industrial and other private purposes. This SPAR would provide a review of the sources and uses of, as well as the outstanding obligations associated with, these debt and third party financing agreements.

If these 2 program areas are selected as SPAR candidates, JLBC Staff and OSPB will send out instructions to relevant agencies. Agencies are required to submit their self-assessments to OSPB and JLBC Staff by June 1, 2007. JLBC Staff and OSPB "shall jointly produce a report of their findings and recommendations for whether to retain, eliminate or modify funding and related statutory references for the programs" and submit that report to the President of the Senate, the Speaker of the House of Representatives, and the Governor by January 1, 2008. The President and Speaker are required to assign the SPARs to the Appropriations Committees and may also assign the SPARs to relevant standing committees; at least one public hearing is required on each SPAR.

RS/SSh:ym

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DATE: December 11, 2006

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

THRU: Richard Stavneak, Director

FROM: Kevin Bates, Fiscal Analyst

SUBJECT: Superior Court – Review of Expenditures of Judicial Collection Enhancement Fund
(JCEF) Balance for Probation Officer Salaries

Request

Pursuant to a footnote in Laws 2006, Chapter 344 (General Appropriation Act), the Administrative Office of the Courts (AOC) requests Committee review of the expenditure of \$700,000 above of the appropriated amount received from probation surcharges.

The requested expenditure increase would bring the total amount of probation surcharge funding from \$2,723,800 to \$3,423,800. AOC intends to use monies from the JCEF balance for probation officer salaries.

Recommendation

The Committee has at least 2 options:

- 1) A favorable review. The use of these monies is consistent with their statutory purpose.
- 2) An unfavorable review. These one-time monies from the JCEF balance would be used for the ongoing expense of probation officer salaries.

Analysis

Laws 2006, Chapter 344 requires Committee notification if AOC plans to exceed the appropriated amount from the Probation Surcharge Special Line Item (SLI). In FY 2007, the Legislature appropriated \$2,723,800 to the Judiciary's Superior Court budget unit. These monies originated from surcharges levied on various criminal offenses, civil traffic violations and game and fish statute violations throughout the state.

(Continued)

Monies collected from the surcharge, excluding those collected in courts located in Maricopa County, are deposited into the JCEF and redistributed by AOC to the counties to supplement probation officer and surveillance officer salaries, as well as to support adult and juvenile probation departments, as allowed by statute. Maricopa County is allowed to keep surcharges collected within Maricopa County.

AOC's supporting detail provides information regarding the ability of the JCEF fund balance to support the requested \$700,000 expenditure, but it provides no specific information on how the amount was derived. AOC has verbally cited county-approved pay raises in recent years as the reason behind the need for the additional \$700,000. By statute, county boards of supervisors approve and set the salaries of probation officers. From FY 2003 to FY 2006, a probation officer's salary increased by an average of 16% statewide, or about \$5,400 per FTE Position. The Legislature approved statewide pay increases in FY 2005, FY 2006, and FY 2007, which totaled about \$4,100 for this 3-year period. The discrepancy between county-approved and state-approved pay raises has created a salary funding imbalance. AOC has maintained salaries at county-approved levels by keeping a certain number of probation officer positions vacant. As a result, AOC appears to be using the \$700,000 to fill these vacancies.

Forecasting probation surcharge revenues is complicated by a recent increase in the amount of the surcharge from \$5 to \$10 and because of the difficulty in forecasting the number of cases filed statewide. If the number of cases increases, the overall surcharge amount collected also should increase as the proportion of individuals paying the higher amount becomes greater. FY 2006 revenues (at the \$5 level and excluding Maricopa County) were \$1,401,400. At the same collection rate and with the surcharge increase to \$10, the FY 2007 revenue would be \$2,802,800.

To generate an additional \$700,000 per year, probation surcharge revenues would have to increase by 25% above the projected FY 2007 level. At the \$5 level, non-Maricopa County revenues in FY 2005 were \$1,476,200 and FY 2006 revenues were \$1,401,400.

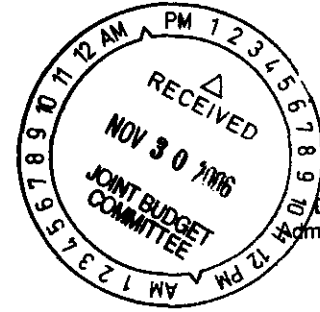
The current fund balance within the probation surcharge portion of the JCEF can support the \$700,000 increase, which AOC has indicated would be one-time funding. AOC estimates that the fund will have an ending FY 2007 balance of \$1,447,500. The requested funding would leave a remaining balance of \$747,500 at the end of FY 2007. If probation surcharge revenues in FY 2008 were similar to FY 2007, the fund balance could sustain the increased level of expenditure through FY 2008.

RS/KB:ss



Supreme Court
STATE OF ARIZONA
ADMINISTRATIVE OFFICE OF THE COURTS

Ruth V. McGregor
Chief Justice



David K. Byers
Administrative Director
Of the Courts

November 29, 2006

The Honorable Russell Pearce, Chairman
House Appropriations (P) Committee
1716 W. Adams
Phoenix, Arizona 85007

The Honorable Robert Burns, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, Arizona 85007

Dear Senator Burns and Representative Pearce,

Pursuant to the General Appropriations Act Chapter 344, Section 19; "All Judicial Collection Enhancement Fund receipts received by the Administrative Office of the Courts resulting from the probation surcharge in excess of \$2,723,800 in FY 2007 are appropriated to the Superior Court. Before the expenditures of Judicial Collection Enhancement Fund receipts in excess of \$2,723,800 in FY 2007, the Administrative Office of the Courts shall submit the intended use of the monies for review by the Joint Legislative Budget Committee."

The Administrative Office of the Courts is seeking JLBC's approval to increase the JCEF budget by \$700,000 to cover projected payroll deficits of the Adult Probation Departments.

The additional funds will be taken from the JCEF funds balance which is earmarked for probation services. The FY 2007 balance is projected to be approximately \$1.2 million.

If additional information is needed, please do not hesitate to contact Kevin Kluge, Chief Financial and Budget Officer or me.

Thank you for your and the Committee's consideration of this request.

Sincerely,

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

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

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STEPHEN TULLY

DATE: December 11, 2006

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

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Fiscal Analyst

SUBJECT: Arizona Department of Corrections – Consider Approval of Requested Transfer of Appropriations

Request

The Arizona Department of Corrections (ADC) requests Committee approval to transfer \$17,784,300 from the Employee Related Expenditures (ERE) line item to the Overtime/Compensatory Time Special Line Item (SLI). ADC projects that this transfer would to cover the estimated costs of overtime through the end of FY 2007.

Pursuant to the General Appropriation Act (Laws 2006, Chapter 344), any transfer to or from the Overtime/Compensatory Time SLI would require Joint Legislative Budget Committee review. A.R.S. § 35-173(D) also requires Committee approval prior to transferring monies to or from Personal Services or Employee Related Expenditures. As a result, the department's request would require Committee approval.

Recommendation

The Committee has at least the following 2 options:

1. Approve the department's request to transfer \$17,784,300 from the ERE line item to the Overtime/Compensatory Time SLI. Under this option, it is unclear if the monies remaining in the department's ERE line item are sufficient to cover their ERE costs in FY 2007.
2. Approve the transfer of \$6,654,300 from the ERE line item to the Overtime/Compensatory Time SLI. This amount represents excess monies allocated to the department resulting from Correctional Officer Retirement Plan (CORP) employer contribution rates being lower than the rates the ADC was funded in FY 2007. This transfer is anticipated to cover OT/CT expenses through February 2007.

Under either option, JLBC Staff recommends the department submit the FY 2006 actual and FY 2007 year-to-date and projected number of hours worked by all positions in the Correctional Officer series by

(Continued)

January 20. The hours should be categorized by the number of straight time, overtime, and compensatory time worked. This information would provide clarification on the impact filling additional positions would have on OT/CT expenditures.

Analysis

Laws 2006, Chapter 344 appropriated \$19,688,100 to ADC to fund costs associated with Overtime/Compensatory Time (OT/CT) in FY 2007. While the department expended \$40,605,700 in FY 2006 for OT/CT, the FY 2007 budget shifted monies from OT/CT to increase entry-level Correctional Officer (CO) salaries by \$2,943 to \$32,641. The higher pay was intended to reduce vacancies and thereby reduce overtime. Based on the department's Correctional Officer Status Reports, the ADC has experienced a net increase of 88 positions in the first 4 months of FY 2007, as compared to a net decrease of 72 positions in the last 4 months of FY 2006. The department is projecting a net increase of 60 new CO Positions will be filled each month.

Of the \$19,688,100 appropriation, the department has expended \$15,047,600 through October 2006. The average OT/CT expenditures per-pay-period is estimated to be \$1,383,400. At this rate of expenditure, the ADC appropriation will be fully expended by the end of December. The department projects a total need of \$37,472,400 for OT/CT in FY 2007.

The department's most recent monthly expenditure report through October projects a year end surplus of \$19,887,700 in ERE, which would be sufficient to cover their proposed transfer of \$17,784,300. It is unclear, however, if this level of surplus will be realized. The department's estimate of a \$19,887,100 surplus assumes funding benefits at a lower rate in FY 2007 than FY 2006. None of the known benefit rate changes would justify the lower level assumed by ADC. In addition, the department's September monthly expenditure report only estimated a surplus of \$4,655,100 in ERE. Given that there is only 4 months of expenditure data, it is difficult to extrapolate the department's full year needs at this point.

While the total FY 2007 ERE surplus is uncertain, it should be at least \$6,654,300. In FY 2007, agencies with employees in public safety retirement systems were over-funded as a result of actual retirement rates being lower than the funded rates. The ADC FY 2007 budget has an additional \$6,654,300 due to this adjustment which is available to fund a portion of the projected deficit in the OT/CT line. Based on the department's OT/CT expenditures of \$1,383,400 per-pay-period in October, this would fund the department's costs through February.

The Committee has the option of transferring the \$6,654,300 and revisiting the department's budget in February. This would allow: 1) for additional time to understand the department's policies relating to overtime and compensatory time, and 2) the agency and JLBC Staff to factor in an additional 2 or 3 months of expenditure data into the agency's funding requirements.

RS/ML:ym

Arizona Department of Corrections



JANET NAPOLITANO
GOVERNOR

1601 WEST JEFFERSON
PHOENIX, ARIZONA 85007

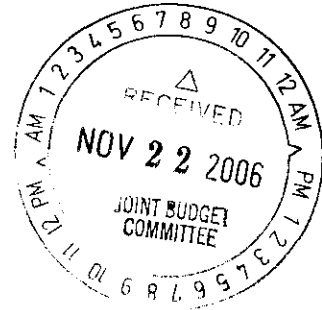


DORA B. SCHRIRO
DIRECTOR

November 21, 2006

The Honorable Robert Burns
Chair, Joint Legislative Budget Committee
Arizona Legislature
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Tom Boone
Vice Chair, Joint Legislative Budget Committee
Arizona Legislature
1700 West Washington Street
Phoenix, Arizona 85007



Gentlemen:

The purpose of this letter is to request placement on the next agenda of the meeting of the Joint Legislative Budget Committee a transfer of funds between appropriation line items. The transfer moves \$17,784,277 from the Employee Related Expense (ERE) appropriation to the Overtime and Compensatory Time appropriation. As you may recall, the department's FY 2007 Overtime appropriation is \$17 million less than it was in FY 2006 as \$17 million was moved to the Personal Services appropriation to partially fund the increase in Correctional Officer pay in FY 2007. While the number of filled Correctional Officer positions is increasing an average of 58 per month, it will take some time to fill the remaining vacant positions.

This transfer is projected to cover the estimated costs of overtime through the end of FY 2007.

Thank you kindly for your timely attention to this urgent request.

Sincerely,

Dora Schriro

Attachment

cc: The Honorable Janet Napolitano, Governor
The Honorable Ken Bennett, President, Arizona State Senate
The Honorable James Weiers, Speaker, Arizona House of Representatives
Richard Stavneak, Director, Joint Legislative Budget Committee
Gary Yaquinto, Director, Office of Strategic Planning and Budgeting

ARIZONA DEPARTMENT OF CORRECTIONS
Transfer Funding Worksheet
JLBC Letter November, 2007

Overtime / Comp-time

FY 07 Budget

\$ 19,688,100

Projection *

\$ 37,472,377

Projected Shortfall

\$ (17,784,277)

Sources to address Overtime/Comp time Shortfall:

Transfer from Employee Related Expenses (ERE)

\$ 17,784,277

Check

0

*** Overtime Projection Calculation:**

10/12006

Sept	Overtime	2,857,432
Oct	Overtime	<u>2,766,743</u>
		5,624,175
	Divide by Pay Periods	<u>4</u>
	Ave	1,406,044
	remain 17 Pay periods	17
		23,902,744
	Actual	<u>15,027,625</u>
	Total Projection	38,930,369

Savings of OT by growth factor (60/mo.) 6,787,620

	32,142,749
Projected O T Pay out	<u>5,329,628</u>
Total O.T. Requirement	37,472,377

FY 2007 Budget	<u>19,688,100</u>
Need	17,784,277

ERE	Add to ERE	1,035,400
<u>Salary</u>	Add to CO Salary	<u>5,752,220</u>
O.T. Savings Due to increased staffing		6,787,620

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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CHAIRMAN 2006
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL
JORGE LUIS GARCIA
JACK W. HARPER
DEAN MARTIN
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2005
ANDY BIGGS
TOM BOONE
MEG BURTON CAHILL
PAMELA GORMAN
STEVE HUFFMAN
LINDA J. LOPEZ
STEPHEN TULLY

DATE: November 8, 2006

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

THRU: Richard Stavneak, Director

FROM: Steve Grunig, Fiscal Analyst

SUBJECT: State Compensation Fund – Consider Approval of Calendar Year 2007 and 2008 Budgets

Request

The State Compensation Fund (SCF) has submitted its budgets for Calendar Year (CY) 2007 and CY 2008. Unlike state agencies, the State Compensation Fund is budgeted on a calendar year basis rather than a fiscal year basis.

Pursuant to A.R.S. § 23-981E, SCF is required to submit its operating and capital outlay budget to the Committee for review and approval. Due to a court ruling that SCF assets are not “public funds,” the SCF does not believe the Committee’s action limits its budget. Given the SCF perspective, the Committee did not take action when the CY 2005 and CY 2006 budgets were discussed at its December 16, 2004 meeting.

As detailed in page 1 of *Attachment 1*, the SCF budget for CY 2007 is \$104,480,000 and \$108,905,000 for CY 2008.

The amounts do not include any dividend or claims paid by the SCF. No Capital Outlay budget was submitted.

Recommendation

The Committee has at least 2 options in reviewing the requested budget:

1. Approve the submitted budgets.
2. Take no action. SCF does not believe that the Committee’s action limits their budget. When the Committee considered the CY 2005 and CY 2006 budgets in December 2004, no Committee action was taken.

(Continued)

Analysis

Budget

The SCF operating budget of \$104,480,000 and 530 employees in CY 2007 represents a \$4.6 million, or 4.6% increase above CY 2006. The CY 2008 operating budget of \$108,905,000 and 531 employees represents a \$4.4 million, or 4.2% increase above CY 2007 (see page 1 of *Attachment 1*).

The budget categories with the largest change in expenditures from CY 2006 to CY 2007 are the following:

- Premium Taxes – These are statutory assessments made by the Industrial Commission of Arizona against premiums of all workers' compensation insurance carriers. Premium Taxes will increase by \$1.3 million, or 6.5% above CY 2006.
- Employee Expenses – These include salaries, overtime, insurance and other employee benefits. Employee expenses will increase by \$2.2 million, or 6.0% above CY 2006. SCF did not provide detail on allocation of the \$2.2 million among salaries or benefits.
- Professional Fees and Services – These include outside asset managers, temporary help, statutorily mandated rating agency fees, bank credit card and collection charges and actuarial services. Professional fees and services will increase by \$450,000, or 5.3% above CY 2006.

The budget categories with the largest change in expenditures from CY 2007 to CY 2008 are the following:

- Premium Taxes – These will increase by \$1.1 million, or 5.2% above CY 2007.
- Employee Expenses – These will increase by \$1.4 million, or 3.5% above CY 2007.
- Claims Adjustment – These are actuarial reserves for expected costs to administer workers compensation claims to closure. Claims adjustment will increase by \$1.2 million, or 14.2% above CY 2007.

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

- Premium Income – SCF estimates that premium income will increase by \$73.1 million, or 18.5% from CY 2005 to CY 2008.
- Policyholders – SCF estimates that its number of policyholders will increase by 3,625, or 6.5% from CY 2005 to CY 2008.

Table 1				
STATE COMPENSATION FUND				
Growth in Premium Income, Investment Income, Policyholders and Claims Processed				
	Actual 2005	Estimated 2006	Estimated 2007	Estimated 2008
Premium Income (in Millions)	\$394.9	\$418.0	\$445.0	\$468.0
Dollar Increase	42	23.1	27	23
Percentage Increase	11.9%	5.8%	6.5%	5.2%
Investment Income (in Millions)	\$140.6	\$140.0	\$141.5	\$142.0
Dollar Increase	(41)	(1)	2	1
Percentage Increase	(22.7)%	(0.5)%	1.1%	0.4%
Policyholders	55,375	56,700	57,800	59,000
Change in Policyholders	3	1,325	1,100	1,200
Percentage Increase	0.0%	2.4%	1.9%	2.1%
Claims Processed	55,300	58,500	62,600	65,700
Change in Claims Processed	2,030	3,200	4,100	3,100
Percentage Increase	3.8%	5.8%	7.0%	5.0%

(Continued)

Page 2 of *Attachment 1* provides detail on SCF overall balance sheet.

- Total Assets – SCF estimates that total assets will increase by \$361 million, or 11.5% from CY 2005 to CY 2008.
- Total Liabilities – SCF estimates that total liabilities will increase by \$346 million, or 14% from CY 2005 to CY 2008.
- Retained Capital – Retained Capital is the sum of profits, after dividend payments, since the fund's inception. It is also called retained earnings, earned surplus, or accumulated earnings. SCF estimates that retained capital will increase by \$14.6 million, or 2.2% from CY 2005 to CY 2008. For each of CY 2007 and CY 2008, SCF estimates a 1% annual increase in Retained Capital.

Sufficient levels of retained capital are required to meet the liquidity and safety reserve needs of the fund. Any amount of retained capital above the required level is available for future dividend payments to policyholders. Page 3 of *Attachment 1* shows that SCF estimates the amounts allocated for dividends will decrease from \$70 million in CY 2006 to \$55 million in CY 2007, and \$50 million in CY 2008. Retained capital is affected by gains and losses from security transaction during the year (realized gains/losses) and by changes in year-end value of the investment portfolio (unrealized gains/losses).

CY 2001 through CY 2003, SCF expenditures exceeded the amounts approved by the Committee. The Committee did not take action on approving any budgets for CY 2004 through CY 2006. (*Attachment 2* is an excerpt from JLBC minutes of December 16, 2004.)

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

Donations

The Chairman had requested that Committee members receive a list of entities that receive donations from SCF. *Attachment 3* includes the donation policy of the SCF as well as 2 lists of donations for 2006 and 2007. SCF has donated a total of \$220,700 to 87 entities for projects or events that are scheduled in 2006. To date, SCF has donated \$13,000 to 5 entities for projects or events scheduled in 2007.

RS/SG:dt

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Email: dsmith@scfaz.com

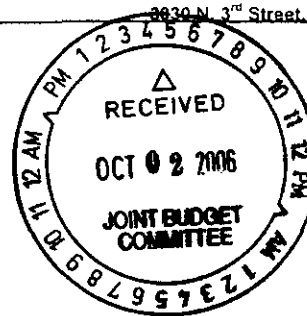
DONALD A. SMITH, JR., Esq., CPCU
PRESIDENT & CEO



At work for you

October 2, 2006

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



Dear Senator Burns:

Pursuant to A.R.S. § 23-981(E), SCF Arizona is pleased to provide the Joint Legislative Budget Committee with the attached information concerning its financial results and budgets for the 2007 and 2008 calendar years. In this letter, we would also like to share with you the significant activities and financial performance of SCF since 2005.

SCF Arizona continues to serve our state as the largest provider of workers' compensation insurance in Arizona and is proud to continue to provide the third lowest workers' compensation insurance rates in the country to our 56,000 policyholders. Present workers' compensation rates in Arizona are equivalent to those of the 1970's.

SCF Arizona operates in the highly regulated insurance industry, where its operations are subject to oversight by the Industrial Commission of Arizona and the Arizona Department of Insurance. SCF Arizona is also subject to additional standards set by the National Association of Insurance Commissioners and must report all operational statistics to the National Council on Compensation Insurance. SCF Arizona insures the openness of its activities with annual certified audits of financial statements by Deloitte and Touche, as required by law, and annual audited financial statements filed with and examined by the Arizona Department of Insurance.

SCF Arizona's overall financial performance during 2005 was outstanding. Our Board of Directors is pleased to report a 2005 dividend to our state's policyholders of \$70 million based upon annual premium payments of nearly \$400 million and net income from investments of nearly \$125 million. Return on invested assets of SCF Arizona rank in the top quartile of comparable private insurance companies and state compensation funds for 1, 3 and 5 year periods.

With last year's dividend of \$70 million, SCF Arizona has now returned more than one billion dollars to Arizona's policyholders in the past 35 years. A well run and healthy workers' compensation insurance system provides a strong economic engine to attract new businesses to our state and to provide a healthy and safe working environment for our policyholders and their workers.

With a strong portfolio of more than \$3 billion, SCF Arizona has invested more than \$150 million in Arizona and continues to explore ways to improve the business climate and business support in our state. SCF Arizona's employees have also served our state and our communities through an active volunteer program, contributing 5,700 hours of volunteer time and \$118,983 in charitable giving donations.

In 2005, SCF Arizona processed more than 432,000 medical service provider bills and saved Arizona policyholders more than \$48 million through the use of our Preferred Connection Network of medical providers statewide. At the same time, SCF Arizona vigorously fought workers' compensation fraud, with a 70% litigation success rate, thereby saving more than \$12 million annually for our policyholders.

an equal opportunity employer

Receiving more than 1.9 million pieces of mail and 322,000 telephone calls annually, SCF Arizona served our policyholders and our state's workers with high quality medical care and claims processing. Loss control expertise and Safety Expos were provided statewide and 63 safety seminars were conducted with the Arizona Department of Occupational Safety and Health.

Finally, SCF Arizona paid approximately \$20 million in property and premium taxes in 2005. SCF Arizona receives no state funding or support and operates solely on the revenue provided by investments and policyholder premiums. At SCF Arizona, we believe we have a social responsibility to injured workers and their families, an economic responsibility to Arizona businesses and a corporate leadership responsibility to continue to be a leading part of Arizona's economic growth engine.

2007-2008 Forecast

Looking ahead SCF Arizona continues to be financially sound and well positioned to meet the demands of Arizona businesses for workers' compensation insurance. Earned Premiums will grow at rates of 6% for 2007 and 5% for 2008. Our total Operating Expenses grow modestly and at rates less than revenue growth projections. Income from Investments grows slowly in spite of increasing assets due to reinvestment rates being lower than our current portfolio yield.

Income for 2005 was driven primarily by \$47 million of Realized Capital Gains created by repositioning the SCF investment portfolio. Net Income before Policyholder Dividends in 2007 and 2008 reflects our plans to introduce multiple premium rate structures. This platform will enable SCF to better match upfront premium rates with risk exposures reducing the dependence on back end dividends for 2007 and beyond. The bottom line is SCF continues to operate in the best interests of Arizona policyholders with a strong balance sheet and while providing one of the lowest rates for workers' compensation insurance coverage in the United States.

We hope you find this information regarding SCF operations useful. We would be pleased to provide you with additional information upon request. Please feel free to contact me at (602) 631-2047.

Sincerely,



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

cc: The Hon. Russell Pearce, Vice-Chair, JLBC
Richard Stavneak, Director, JLBC
SCF Arizona Board of Directors



2005 - 2008 JLBC Comparative Income Statement

(Shown in 000's)

	Actual 2005	Estimated 2006	Plan 2007	Variance		Plan 2008	Variance	
				\$	%		\$	%
Premiums Earned	\$ 394,894	\$ 418,000	\$ 445,000	\$ 27,000	6%	\$ 468,000	\$ 23,000	5%
Losses	361,832	396,650	422,750	26,100	7%	445,000	22,250	5%
Claims Administration Reserve	5,003	10,000	11,500	1,500	15%	13,000	1,500	13%
Total Incurred Claims	366,835	406,650	434,250	27,600	7%	458,000	23,750	5%
Gross Margin	28,059	11,350	10,750	(600)	-5%	10,000	(750)	-7%
Investment and Other Income								
Investment Income	140,642	140,000	141,500	1,500	1%	142,000	500	0%
Net Realized Gains(Losses)	46,668	(500)	-	500	-100%	-	-	N/A
Self Rater	(2,277)	(2,500)	(1,250)	1,250	-50%	(1,000)	250	-20%
Other Income	1,702	1,500	-	(1,500)	-100%	-	-	N/A
Total Other Income	186,735	138,500	140,250	1,750	1%	141,000	750	1%
Operating Expenses								
Premium Taxes	18,667	19,855	21,150	1,295	7%	22,250	1,100	5%
Employee Expenses	33,447	37,050	39,275	2,225	6%	40,650	1,375	4%
Travel	394	375	395	20	5%	405	10	3%
Association Safety Plan Fees	7,100	7,250	7,150	(100)	-1%	7,100	(50)	-1%
Professional Fees & Services	7,603	8,500	8,950	450	5%	9,100	150	2%
Supplies	6,752	7,450	7,300	(150)	-2%	7,500	200	3%
Training	876	1,250	1,500	250	20%	1,650	150	10%
Depreciation	3,127	4,450	4,750	300	7%	4,900	150	3%
Maintenance & Occupancy	5,818	5,750	5,910	160	3%	6,100	190	3%
Claims Adjustment	6,729	7,950	8,100	150	2%	9,250	1,150	14%
Total Expenses	90,513	99,880	104,480	4,600	5%	108,905	4,425	4%
Net Income before Dividends	\$ 124,281	\$ 49,970	\$ 46,520	\$ (3,450)	-7%	\$ 42,095	\$ (4,425)	-9%
Policyholder Dividends	\$ (60,000)	\$ (70,000)	\$ (55,000)	\$ 15,000	-21%	\$ (50,000)	\$ 5,000	-9%
Net Income	\$ 64,281	\$ (20,030)	\$ (8,480)	\$ 11,550	-58%	\$ (7,905)	\$ 575	-7%
Employee Headcount	507	517	530	13	3%	531	1	0%



2005 - 2008 JLBC Comparative Balance Sheet

(Shown in 000's)	Actual 2005	Estimated 2006	Plan 2007	Variance		Plan 2008	Variance	
				\$	%		\$	%
Invested Assets	\$ 3,057,532	\$ 3,165,750	\$ 3,275,750	\$ 110,000	3%	\$ 3,390,500	\$ 114,750	4%
Other Assets	75,128	92,500	98,250	5,750	6%	102,750	4,500	5%
Total Assets	<u>\$ 3,132,660</u>	<u>\$ 3,258,250</u>	<u>\$ 3,374,000</u>	<u>\$ 115,750</u>	<u>4%</u>	<u>\$ 3,493,250</u>	<u>119,250</u>	<u>4%</u>
Loss Reserves & Policyholder Liabilities	\$ 2,272,638	\$ 2,425,000	\$ 2,542,750	\$ 117,750	5%	\$ 2,650,900	\$ 108,150	4%
Other Liabilities	204,350	180,608	170,088	(10,520)	-6%	172,093	2,005	1%
Total Liabilities	<u>2,476,988</u>	<u>2,605,608</u>	<u>2,712,838</u>	<u>107,230</u>	<u>4%</u>	<u>2,822,993</u>	<u>110,155</u>	<u>4%</u>
Retained Capital	655,672	652,642	661,162	8,520	1%	670,257	9,095	1%
Total Liabilities and Capital	<u>\$ 3,132,660</u>	<u>\$ 3,258,250</u>	<u>\$ 3,374,000</u>	<u>\$ 115,750</u>	<u>4%</u>	<u>\$ 3,493,250</u>	<u>\$ 119,250</u>	<u>4%</u>



2005 - 2008 JLBC Retained Capital Projections

2005 Retained Capital - Actual:

Beginning Balance		\$ 640,456
2005 Operating Income	77,613	
Net Realized Gains(Losses)	46,668	
Net Unrealized Gains(Losses)	(31,302)	
Change in Non-Admitted	(17,763)	
Policyholder Dividends	(60,000)	
Net Change In Capital		15,216
Ending Balance		<u>\$ 655,672</u>

2006 Retained Capital - Estimate:

Beginning Balance		\$ 655,672
2006 Operating Income	50,470	
Net Realized Gains(Losses)	(500)	
Net Unrealized Gains(Losses)	20,000	
Change in Non-Admitted	(3,000)	
Policyholder Dividends	(70,000)	
Net Change In Capital		(3,030)
Ending Balance		<u>\$ 652,642</u>

2007 Retained Capital - Projection:

Beginning Balance		\$ 652,642
2007 Operating Income	46,520	
Net Realized Gains(Losses)	-	
Net Unrealized Gains(Losses)	20,000	
Change in Non-Admitted	(3,000)	
Policyholder Dividends	(55,000)	
Net Change In Capital		8,520
Ending Balance		<u>\$ 661,162</u>

2008 Retained Capital - Projection:

Beginning Balance		\$ 661,162
2008 Operating Income	42,095	
Net Realized Gains(Losses)	-	
Net Unrealized Gains(Losses)	20,000	
Change in Non-Admitted	(3,000)	
Policyholder Dividends	(50,000)	
Net Change In Capital		9,095
Ending Balance		<u>\$ 670,257</u>

2005 Risk-Based Capital Actual:

Company Action Level (CAL) RBC	\$ 220,850
Authorized Control Level (ACL) RBC	\$ 110,425
Ending Capital	\$ 655,672
Ending Capital/CAL	296.9%
Ending Capital/ACL	593.8%
Capital in Excess of 450%*	<u>\$ 128,760</u>

2006 Risk-Based Capital Estimate:

Company Action Level (CAL) RBC	\$ 231,893
Authorized Control Level (ACL) RBC	\$ 115,946
Ending Capital	\$ 652,642
Ending Capital/CAL	281.4%
Ending Capital/ACL	562.9%
Capital in Excess of 450%*	<u>\$ 100,884</u>

2007 Risk-Based Capital Projection:

Company Action Level (CAL) RBC	\$ 248,125
Authorized Control Level (ACL) RBC	\$ 124,062
Ending Capital	\$ 661,162
Ending Capital/CAL	266.5%
Ending Capital/ACL	532.9%
Capital in Excess of 450%*	<u>\$ 72,881</u>

2008 Risk-Based Capital Projection:

Company Action Level (CAL) RBC	\$ 265,494
Authorized Control Level (ACL) RBC	\$ 132,747
Ending Capital	\$ 670,257
Ending Capital/CAL	252.5%
Ending Capital/ACL	504.9%
Capital in Excess of 450%*	<u>\$ 42,896</u>

*Industry benchmark for safe operating RBC ratios established as 450%. Excess Capital provides potential dividend capacity payable in next calendar year.

Excerpt from JLBC Minutes of December 19, 2004

STATE COMPENSATION FUND (SCF) – Consider Approval of Calendar Year 2005 and 2006 Budgets.

Mr. Eric Jorgensen, JLBC Staff, said this item is a review of the SCF's budget.

Representative Biggs asked why the Committee reviews the SCF budget since it does not seem to matter to them and another way to look at it, is why do they not care. What authority do they have to exceed their budget?

Mr. Jorgensen said the JLBC Staff has addressed those questions to SCF and there is a statute that requires that the Committee review a budget but SCF does not see that as an appropriation and therefore do not feel bound by that.

Representative Biggs asked which statute requires the Committee to approve the budget, and is there some kind of exemption for SCF in having their budget approved. He also asked if there was a penalty imposed on an agency when they do not stay within their budget.

Mr. Jorgensen said the statute is A.R.S. § 23-981E and there is nothing in the statute that penalizes the agency for going over budget.

Senator Arzberger commented that the Workers' Compensation Fund briefed her thoroughly on their intentions to join the Venture Capital Fund and she had serious concerns because it has a very high risk. She would support it if it only went to businesses in the state and the money remains in the state.

Senator Burns asked why has the SCF's spending exceeded the levels approved by the Committee.

Mr. Duane Miller, SCF, said that for the 2-year period that they submitted in total, the expenditures exceeded the amounts approved by the Committee because of the changes that the Committee recommended for the employee compensation and as provided in A.R.S. § 23-981.01B, SCF is to develop a separate and distinct personnel system and have been such for over 10 years. The other items over the 2-year period where we exceeded operating expenses by \$500,000 in 2003, and that was due to a decision by the Board of Directors to engage outside asset managers to enhance the performance of investment portfolio. For 2004, they are expecting to have operating expenditures that are \$300,000 less than those in the submission to the JLBC in 2002.

Senator Burns asked how it was possible for SCF to operate in CY 2004 without a Committee-approved budget.

Mr. Miller said that their budget is reviewed and approved by their Board of Directors each operating year. As noted by JLBC Staff, the court decision recently handed down indicated that the SCF Board of Directors bears the primary fiduciary duty to make decisions in the best interest of SCF, its policy holders and injured workers.

Representative Biggs said he did not believe that answered the question – how do you operate in violation of the statute that requires you to get a budget approved by the Committee.

Mr. Miller said they did not operate in violation of the statute. They are required, by statute, to file a 2-year budget with each year separately delineated. That was done in 2002 and the Committee took action to only approve 1 year. Subsequent to that meeting, they sent a letter to the Director of the JLBC, as well as their CEO, Don Smith, who met with Chairman Pearce and advised them that the SCF was not certain how to respond in regards to the fact that the action of the Committee seemed to be inconsistent with the statute, and that did not seem to be a concern at that time.

Representative Biggs stated for clarification, the reason SCF functioned without an approved budget by this Committee is because the Committee did not approve the budget.

Mr. Miller said the Committee only approved 1 year even though SCF brought a 2-year budget before the Committee, which statute requires. He said SCF feels they fully complied with the statute. Mr. Miller said one question might be did the Committee comply with the statute when they only passed a 1-year budget instead of a 2-year budget. Mr. Miller said they feel they are held accountable for the outcomes for the policy holders of SCF. They do not take the actions of JLBC lightly but also know that they have to manage their business in a dimension that is somewhat different. SCF takes those recommendations back for review and discusses them with the Board of Directors who has the primary fiduciary duty for the allocation of those funds and determination of the appropriate expenditures. There seems to be a lot of questions and confusion regarding the statute at this time.

Senator Burns said that the Board is making decisions like an agency director would be. A director does not have the authority to redo their budget once it is put in place by the Legislature, so it seems that the SCF should operate in the same way.

Senator Burns asked for an explanation as to why the travel budget has nearly doubled.

Mr. Miller said that the travel budget did double but the expenditures are relatively insignificant, accounting for approximately 1% of total operating expenditures. The anticipated increase is partially due to the increased costs of fuel, a great impact on the IRS mileage rates which increased nearly 10% this past year. Also, they are expanding their loss control efforts and other contacts with policyholders which will increase the amount of in-state travel.

Senator Burns said the fund pays out dividends every year to policyholders and asked if this is an indication that the premiums are too high.

Mr. Miller said the Arizona Workers' Compensation rates are established annually by an outside statistical rating agency who is authorized to perform this service by the Department of Insurance. Private insurers are bound by this filing with the exception that SCF can submit their individual experience and request a deviation. For the past 2 years they were able to support a deviation in their filing to the Department of Insurance, which was 10% below those standard rates. The company may file only one set of rates and that applies to all their policyholders. They serve a broad cross-section of different types of policyholders in Arizona. The ultimate outcome if operating costs are lower, aggressive loss control programs and medical costs containment efforts that have been initiated by SCF, have given favorable experiences relative to those industry rates. The primary driver is the superior investment performance of our portfolio, which has enabled SCF to return, in the form of investment income dividends, to policy holders which has reduced their net costs of workers' compensation insurance.

Senator Burns said, in the continuing debate on whether the SCF is a state compensation fund or a private insurance company, he believes the SCF employees are part of the State Retirement System. He asked if the SCF receives some tax benefit as being classified as a state entity.

Mr. Miller said SCF employees are a part of the State Retirement System. There are other non-state employees such as school districts and municipalities that participate in the Retirement System. With regards to the tax benefits, SCF does pay all premium taxes, property taxes, other taxes and assessments in the state that any insurance carrier operating in Arizona would incur. The tax benefits that accrue to SCF are a federal tax exemption which is primarily a result of organizations that function as a guaranteed market for workers' compensation insurance.

Senator Cannell said in looking at the overall numbers, it looks like the SCF has been very successful in their investments. He asked for an explanation on the huge jump in investment income in 2004 and then flattening out.

Mr. Miller said the reason the numbers jumped significantly in 2003 and 2004 were realized capital gains on their equity portfolio. The relatively flat numbers are based primarily on income which will be derived from dividends and are much more predictable.

Senator Burns said one of the options proposed is to approve the budget as requested but to adjust the salary increase to be in line with statewide employee salary increases. He asked if the Committee were to vote that proposal out, what would the SCF reaction be.

Mr. Miller said they feel that it probably would have a significant impact on the turnover of their workforce, such has been experienced in the state employee workforce. Since the SCF is not bound by state employment practices, they feel it is in the best interest of their policyholders to maintain the compensation. Even in the face of significant increases in their premium volume and other activities they were able to hold employee costs relatively level during that same period.

Senator Burns stated that the answer is, if the Committee votes that option out, the SCF will ignore it.

Mr. Miller said they will take it under advisement to their Board of Directors.

Representative Gray asked if the Committee could get a list of the different conferences that people attended, the number of people that went and the cost for the out-of-state travel.

Mr. Miller said he would provide a historical list of the travel.

Senator Burns said no action will be taken on this item.

State Compensation Fund Donations Policy:

In regards to our community outreach giving, the Board has adopted the following statement:

SCF Arizona is the largest provider of workers' compensation insurance in the state of Arizona. Through a targeted community outreach effort, the Board of Directors of SCF Arizona is committed to supporting organizations dedicated to improving the quality of life and business climate for local residents. In providing such support, SCF is broadening the branding, awareness and knowledge of SCF Arizona while furthering the business interests of the company and the welfare and future value for our policyholders.

The SCF Board of Directors further believes that it is the corporate responsibility of SCF to be actively engaged in the communities we serve through direct sponsorship support and employee involvement. We believe that being a community partner is more than providing the highest quality service to our policyholders; it means taking ownership of the role we can play in making our state a better place to live for everyone.

The SCF Board further believes that, as members of the community, it is the corporate responsibility of SCF to discharge social and business responsibilities to improve the public image of the company. SCF Arizona functions in a proprietary nature and is imbued with the powers of a corporation. In this role, it should advance social, educational, safety and community interests as a responsible corporate citizen. Corporate expectations provide for specific advertising opportunities and general public exposure to generate public and business good will – all of which must be balanced with SCF's community outreach giving goals.

SCF Arizona will focus its community outreach efforts in the following strategic areas with a specific interest in programs that promote workplace safety:

- Education
- Community / Economic Development
- Human Services
- Arts/Culture
- Civic Leadership

In order to ensure that SCF Arizona serves our entire corporate base, the Community Outreach Programs will consider funding distribution with regard to our statewide client base.

Phoenix area	58%
Tucson area	21%
Flagstaff area	5%
Prescott area	5%
Lake Havasu area	5%
Yuma area	3%
Show Low area	3%

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Attachment 3

Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
11/29/05		Health	Statewide	American (AZ) Red Cross	Appreciation Breakfast			Don Smith		N/A	03/14/06	\$5,000.00
01/06/06	01/06/06	Education	Statewide	ASU Foundation - Los Diablo's	PAR Individual/Small Business					N/A	01/06/06	\$1,000.00
02/05/06	N/A	Asian/Business	Maricopa County	Asian Chamber of Commerce When: 2/4/06 6 p.m. no-host cocktails - 7 p.m. Asian Chicken Dinner. Where: Chaparral Suites Resort 5001 N. Scottsdale Rd. Scottsdale, AZ 85250	Lunar New Year of the Dog, Dinner - Contact Madeline Ong-Sakata @ 602-371-8452 - Mayor Gordon to attend & receive the 24K Thank You Award	Semi-Formal Dress - Table for 10 was purchased & 5 SCF tickets were released to students & diversity director from City of Scottsdale.	Ray & Felice Everett, Jan & Terry Johnson, Duane Miller	Ray Everett	Yes	N/A	02/16/06	\$2,500.00
03/23/06	03/03/06	Hispanic	Statewide	Cesar Chavez Foundation When: 3/23/06 11:30 a.m.-2 p.m. Where: Phx. Civic Plaza, 111 N. 3rd St., Phx., AZ 85004	5th Annual Cesar E. Chavez Day Luncheon - Contact Francisca Montoya at 602-272-0080 or fmontoya@cecmail.org	1/2 page ad: (horizontal format only) 7.5" wide x 4.5" deep in Commemorative Program Book Gold Section, Recognition from the Luncheon lectern, Logo on Foundation website for March & April 2006, Recognition during pre & post press conferences	FULL TABLE - (2 tickets to VIP reception Rick DeGraw & Ralph Hughes) - (Gold Circle Seating Section, Duane Miller, DeeAnn Palin, Michael Tatlock, Dan Hernandez, Patsy Hernandez, Rene Ramirez, Jan Johnson, Vera Duran)	Dan Hernandez	Yes 3/2/06	Yes	03/16/06	\$10,000.00
03/28/06	03/03/06	Safety	Statewide	Arizona Department of Transportation	National Work Zone Memorial Ceremony	Logo information sent to event coordinator.	150 box lunches provided by SCF Arizona	Harold Gribow & Duane Miller to give speech at event	Yes 3/3/06	N/A	Not Yet	Money coming from \$210
03/30/06	03/27/06	Humanitarian	Phoenix	United Food & Commercial Workers' Union Local 99 - When: 3/23/06 11:30 a.m. Registration & 12:30 p.m. Start - Where: 2201 E. Club House Drive, Phx 85048 (480-460-4631)	UFWC Local 99 10th Annual Charity Golf Tournament	Jill Maruca contacting Mike Vespoli about Special Recognition (Tee Sponsor)	Paul Wood, John Ignas, Justin Uptain	Ralph Hughes BOD	N/A	N/A	03/28/06	\$3,000.00
04/05/06	03/25/06	Business	Statewide	Ranking Arizona - When: 4/5/06, 5 p.m.-7 p.m. Where: Morton's The Steakhouse 2501 E. Camelback, Phoenix	The Best of Arizona Business Reception w/Hors d'oeuvres, Martinis & Wine	SCF listed as #8 in Property & Casualty Insurance in Ranking Arizona's Publication	Reservations for 2 guests. - Dale Newton to attend.	N/A	N/A	N/A		\$0.00
04/07/06	03/03/06	Humanitarian	Maricopa County	Valley of the Sun United Way - When: 4/7/06 Where: AZ Biltmore Resort, Frank Lloyd Wright Ballroom, 2400 E. Missouri, Phx. - Registration - 11 a.m. to 12 p.m., Lunch & Program 12 p.m. to 1:30 p.m.	06' Campaign Recognition Luncheon - Contact Aaron Stiner or Alberto Rodriguez @ 602-631-4871		3 seats still available. DeeAnn Palin, Jill Maruca, MaryAnn Sturm, Jan Johnson, Duane Miller, Joyce Mercer, Debbie Mittelman, Manuelita Chavez	Jill Maruca	N/A	N/A	03/20/06	\$350.00
04/12/06	12/05/05	Business	Statewide	AZ Small Business Association - When: 4/12/06, 11:30 a.m.-2 p.m. Where: Hall B at the Phoenix Civic Plaza	13th Annual Enterprise Business Conference - Contact Tracy Roberts 602-265-4563 x213 & Leslie Barrett, Member Services Director[LeslieBarrett@asba.com]	Four tickets to event, SCF logo in jpg format; 300 dpi or greater. Email ad to sazzarella@asba.com, graphic based e-flyer from ASBA to distribute to our client base.	Event Seating Full - Greg Hermie, Harold Gribow, Marc Olson, Jan Johnson - Event Tickets arrived 3/30/06.	Marc Olson (Home Ofc)	Yes	N/A	1/3/2006 - Check #604169	\$5,000.00

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Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
04/13/06	03/28/06	Hispanic	Statewide	Chicanos Por La Causa, Inc. - When: 04/13/06 - Registration/Reception 5:30 p.m. to 7 p.m. then dinner at 7 p.m. to 9 p.m. - Where: Sheraton Wildhorse Pass Resort, 5594 W. Wildhorse Pass Blvd., Chandler - In the Akimel O'otham Ballroom	Fundraising Dinner, 37th Annual - Celebrating Community Volunteerism - Contact Israel Barajas 602-257-0700 ex. 2121	Business/Cocktail Attire - Dinner Table for 10-Prominent Seating. One full page ad in dinner program book, company logo displayed on Dinner Scroll & exposure through Media package.	2 seats left. Rick DeGraw, Don Smith, Chris Kamper & Spouse, Gema Duarte Luna & Spouse, Cheryl & Ray Blazek	Dan Hernandez	Yes, 4/4/06	Yes	4/5/2006 - Check #606438	\$7,500.00
04/18/06	04/12/06	Children	Statewide	First Things First - website = firstthingsfirstaz.com - 602-266-5118 or 1-888-236-4197	Arizona Early Childhood Development & Health Initiative	SCF is a funding source only at this time.	N/A	Rick DeGraw	N/A	Yes 4/12/06	Check #606718 - Ralph Hughes to hand-deliver to vendor 4/18/06	\$10,000.00
04/21/06	03/13/06	Children	Maricopa County	St. Mary's Westside Food Bank Alliance - When: 4/21/06 11:30 a.m. Registration - 1 p.m. Tee-Off 5:30 p.m. Dinner Where: Wigwam Resort & Golf Club, 300 Wigwam Blvd., Litchfield Park, AZ 85340	5th Annual Kids Café Golf Open - Contact Jack Marks Director of Development	Proper golf attire required - Signage at tournament & dinner. Logo recognition in tournament program. Recognition on St. Mary's/Westside Food Bank Alliance Website & in their newsletter.	Dale Newton, Duane Miller, Jim Wood, Terry Teppo	Sheila Keitel-HR Home Ofc	Yes 3/8/06	N/A	1/11/2006 - Check #606136	\$2,000.00
04/22/06	03/03/06	Hispanic/Business	Statewide	AZ Hispanic Chamber of Commerce - When: 4/22/06, 6 p.m.-Midnight - Where: The Westin Kierland Resort, 6902 E. Greenway Pkwy., Scottsdale, 85254	48th Annual Black & White Ball & Business Awards - Contact Christopher Mendoza, 602-279-1800	Formal Attire - 1 table for ten at the dinner & logo recognition at the event.	FULL TABLE - Rick & Gina DeGraw, Paul Luna & Gema Duarte Luna, Ralph & Susan Hughes, DeeAnn & Chris Palin, Sandy & Juan Femiza	Dan Hernandez	Yes 3/3/06	N/A	3/16/2006 - Check #605876	\$5,000.00
04/24/06	04/10/06	Business	Statewide	The Project for Arizona's Future - Contact Karen Kruse @ 602-252-0832	N/A	Funding for research & information gathering.	N/A	Duane Miller	N/A	N/A	4/24/06 - Check #606841	\$5,000.00
04/25/06	Ongoing for each event.	Business	Phoenix	Greater Phoenix Chamber of Commerce - When: 4/25/06 @ 11:30 a.m.-1:30 p.m. - Where: Arizona Biltmore Resort, 2400 E. Missouri Av., Phoenix, AZ 85016	Phoenix Forum Series 06' - Event Speaker: Dee Dee Myers - Contact Michelle Rill at (602) 495-2198 or [mrill@phoenixchamber.com]	Business Attire - A table for 10 has been purchased for each event.	FULL TABLE - Rick DeGraw, Dale Newton, Roxanna Mason, Jan Johnson, Michael Tatlock, Mark Kendall, Ralph Hughes, Anna Rodriguez, Don Smith, Paul Secaur	Duane Miller & DeeAnn Palin	Purchasing the Series does not include any company advertising.	N/A	Paid	\$3,500.00
04/27/06	04/10/06	Education	Maricopa County	Maricopa Community Colleges Foundation (ACE, Achieving a college Education) - When: Thursday, 04/27/06 - 6 p.m. Reception - 7 p.m. Dinner - Where: AZ Biltmore Resort, Frank Lloyd Wright Ballroom, 2400 E. Missouri Av., Phx.	Heroes of Education Recognition Dinner Honoring Peter Fine - Contact Anne Patterson-James @ 480.731.8399 or Steven Schenk at 480.731.8403	Advertising Specs - 1/4 page 3.5 x 3.5. Logo recognition on MCCF website, newsletter & program. Send files to email name CAROL.DIEGO@DOMAIL.MARI COPA.EDU - ?S CALL 480.731.8718	Table for 10 - Bronze Sponsor - 1 seat may be donated back to a scholarship recipient.	Chris Kamper	Yes 4/7/06	N/A	Paid 4/19/06 Check #606769	\$5,000.00

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Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
05/01/06	04/26/06	Business	Statewide	Valley Leadership - When: Monday, 5/1/06 from 3 p.m. to 5 p.m. - Where: Copper Canyon High School, 9126 W. Camelback Road in the Media Room	The Center for the Future of Arizona - Presentation of the research, Beat the Odds followed by a dialogue with school principals	Valley Leadership in partnership with SCF Arizona, is co-hosting with WESTMARC & the Arizona Business Education Council	N/A	Don Smith, Duane Miller, Rick DeGraw	N/A	N/A	November 2005 for \$10,000	November 2005 for \$10,000
05/04/06	04/21/06	Children	Statewide	New Directions Institute (For Infant Brain Development) - When: 5/4/06 @ 11:30 a.m. Reception then Noon to 1:30 p.m. Luncheon & Awards Presentation - Where: AZ Biltmore Resort, 24th St., & Missouri, McArthur Ballroom	3rd Annual Science of Early Learning Award Luncheon - Contact Anne Tull Associate Director 602-371-1366, email atull@newdirectionsinstitute.org	Recognition in the luncheon's printed program	Table for 10 - Science of Learning Table Host: Jill Maruca, Sylvia Bates, Don Smith, Barb Angelini, Roxanna Mason, Carole Stinson, Diane Fincham, Ronah Auguste, Dan Witt	Rick DeGraw	N/A	N/A	Paid 4/23/06 Check #607055	\$1,000.00
05/06/06	05/06/06	Business	Mohave County	Mohave Valley Contractor's Assoc & Bullhead City Chamber of Commerce. When: 5/6/06 - 6:30 p.m. Where: Bullhead City Chamber of Commerce, Bullhead City	Kiwanis Wine & Jazz on the River fundraiser for the Academy of Building Industry. Contact Gene or Sherry Quinn at 928.758.3877 (Cheryl Blazek, Havasu office, will contact to confirm sponsorship).		8 event tickets and 8 wine glasses: Attendees (need 4 more) : Gary Bennett, Cheryl Blazek, Ray Blazek, Wendy Marcus	Cheryl Blazek, Havasu office	will be on 4/24/06	N/A	Paid 4/24/06 Check #606839	\$250.00
05/11/06	03/13/06	Health	Statewide	American (AZ) Heart Association When: 5/11/06 - 9:30 a.m. Registration begins - 10 a.m.-11:30 a.m. Educational Breakout sessions, silent auction & exhibits. Noon-1 p.m. Lunch program. Where: AZ Biltmore Resort, Conference Center, 2400 E. Missouri, Phx., 85016	2006 Go Red for Women Luncheon - Contact Valerie Manning or Jamie Rogers-Muth, Director Go Red For Women 602-414-5347	Keynote Speaker: Dr. Richard Carmona, U.S. Surgeon General. - SCF acknowledged in the luncheon program, 1 table of ten at the luncheon.	Roxanna Mason, Jan Johnson, Jill Maruca, Robyn Yeaton, Mary Cooper, Judy Gayne, JoAnn Heck, Maria Simpson	Don Smith	N/A	N/A	3/13/06 by CC	\$2,500.00
05/13/06	04/03/06	Humanitarian	Statewide	Labor's Community Service Agency When: 5/13/06 - Contact Kevin Murphy @ 602-263-5741	NALC National Food Drive (AFL-CIO)	SCF is a funding source only at this time.	N/A	Paula Koroso	N/A	4/11/2006	Paid 4/28/06 Check #607056, picked up by Kevin Murphy	\$13,500.00
05/13/06	04/11/06	Health	Statewide	Body Positive - When: Saturday, May 13, 2006 @ 6 p.m. is Registration & Silent Auction - Open Bar from 6 to 7:30 p.m.- Where: The Phoenician Resort, 6000 E. Camelback Road, Scottsdale	Night for Life 2006 Dance, Dinner, etc. - Contact Tracy Hatch @ 602-307-5330 X2242	Attire: Black-Tie - Enjoy silent & live auctions, dinner, awards, raffle emcees Charlotte Jorgensen & Jonathan Roberts from Dancing with the Stars & Dancing to the LA Groove Academy. Complimentary Valet parking is available.	Full - Guests may check in as SCF Arizona. Five seats available & table is shared with UP Fire Fighters - Attending are: Michael Tatlock, Tim Poe, Jessica Fotinos, Anna & Joe Rodriguez	Rick DeGraw	Yes, 4/11/06	N/A	Paid 04/24/06 Check #606840	\$1,750.00

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Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
05/18/06	03/29/06	Health	Statewide	American (AZ) Red Cross - When: 05/18/06 11:15 a.m. to 1:30 p.m. - Where: Veterans Memorial Coliseum	2006 Compassion in Action Luncheon - Contact Cathy Tisdale, CEO Grand Canyon Chapter or Advancement Ofc. On 602-336-6679	Table for 10, including 8 seats at table with Event VIP and guest or two Red Cross leaders - Deadline for all logos & ads for program are due 4/21/06. Email logo to dcrozier@arizonaredcross.org	FULL: Don Smith @ VIP Table, Elyse Rukkila, Kristi England, Audrika Gavins, Barb Angelini, Michael Tatlock, Roxanna Mason & 2 RC guests	Don Smith	Yes, 4/21/06	N/A	3/31/06 - Check #606331	\$7,500.00
5/19 & 5/20/06	03/20/06	Education	Tucson	University Medical Center Foundation - When: 05/19 & 05/20/06 - Where: The Lodge at Ventana Canyon, Tucson	Golden Hour Weekend (1 Golf Night & 1 Casino Night) Contact Board Member Judy Patrick or SCF employee Greg Fitzgerald	SCF to share sponsorship for the 2 day events with Wells Fargo		Greg Fitzgerald & Judy Patrick	Not Yet	Yes	Paid 5/15/06 Check #607307	\$10,000.00
06/01/06	05/18/06	Business	Statewide	Arizona Small Business Association - When: 06/01/06 @ 6 p.m. to 8 p.m.- Where: Arizona Biltmore Resort, 2400 E. Missouri, Phx	Arizona Companies to Watch - Contact Tracy Roberts, 602-265-4553 x 213	Four Tickets to event. 800 items w/SCF logo to include in give-away bags at event. - Black Tie Optional	Marc Olson, Harold Gribow, Ginny Arnett & Spouse	Marc Olson	Yes	N/A	Yes	\$0.00
06/02/06	??	Business	Yuma County	Yuma County Chamber of Commerce 4th Annual Family Nite Bash When: Friday, June 2 - 6 p.m. to Midnight - Where: Historic Downtown Yuma Main Street Plaza.	4th Annual Family Nite Bash	Geared toward the working community in Yuma County and surrounding communities.	No Table	Cindy Stevens	Yes	N/A	Yes, 5/22/06 by Judy Anderson	\$2,000.00
06/07 thru 06/09/06	03/13/06	Business	Western United States	Insurance Auditors Association of the West - When: 6/7 thru 6/9/06 - Where: Carefree Resort	Convention, Annual	SCF to post our banner & receive acknowledgement in the agenda		1st VP: Heather Poier - Secretary: Kerry Gobbell - Keith Smith TL Prescott	Yes	N/A	Paid 6/6/06 - Check #607793	\$1,000.00
06/15/06	05/03/06	Education	Statewide	AZ Foundation for Legal Svcs & Education - When: 6/15/06 - Where: Prescott	2006 State Convention Awards Luncheon - Promoting Access to Justice for all Arizonans	Recognition in program materials & AZ Attorney Magazine & name exposure at the event.	SCF is a lunch co-sponsor at \$550 which will support 10 awardees' attending the event.	Teri Thomson-Taylor	N/A	N/A	Paid 5/9/06 - Check #607198	\$550.00
6/21-6/24/06	03/15/06	Asian	Statewide	Japanese American Citizens League When: 6/21-6/24/06 - Where: Sheraton Wild Horse Pass Resort, Gila River Indian Community, 5594 W. Wild Horse Pass Blvd, Chandler 85226	National Convention, 39th Biennial - Contact Ted Namba 602-571-0247 Main # 623-435-1559	Exhibitors space w/2 chairs, one 6' skirted table & 1 sign, Banner Display in Exhibit Hall, Listing in the convention booklet as an exhibitor, Listing in the 2006 Annual Report, Acknowledgement on the JACL AZ Chapter website, Coupon in in convention registration bags	Corporate Exhibitor Only; Marc Olson will staff table; get times/details to him	Ray Everett	Yes	N/A	Paid 6/6/06 - Check #607787	\$800.00

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Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
06/22/06	05/18/06	Business	Maricopa County	Greater Phoenix Chamber of Commerce - When: 06/22/06 @ 11:30 a.m.-1:30 p.m. - Where: Arizona Biltmore Resort, 2400 E. Missouri Av., Phoenix, AZ 85016	Phoenix Forum Series 06' Event Speaker: Bobby Knight -		FULL - Anna Rodriguez, Jim Dunn, Chris Kamper, Dale Newton, Mike Roberson, Bob Sommers, Jim Berns, Tom Kluge, Jill Maruca & Guest		N/A	N/A	Yes	\$0.00
06/23/06	05/25/06	Business	Statewide	Arizona Chamber of Commerce & Industry - When: 06/23/06, 11:30 a.m. Registration - Noon Lunch & Program - Where: Camelback Inn, AJW Marriott Resort & Spa	Annual Meeting & Awards Luncheon	Logo to the chamber in EPS format.	Table for 10 - Don Smith, Rick Jones, Jack LaSota, Paula Koroso, Debbie Nessett		Yes	N/A	Paid 6/19/06 - Check #608136	\$5,000.00
06/27/06	06/20/06	Business	Maricopa County	Greater Phoenix Chamber of Commerce - When: 6/27/06, 8 a.m.-9:30 a.m. - Where: Arizona Biltmore Resort, 2400 E. Missouri Av., Phoenix, AZ 85016	12th Annual Legislative Wrap Up		Table for 10 - Jack LaSota, Susie Cannata, Christa Sevens, Rick Jones, DeeAnn Palin, Bill Sheldon, Michael Tatlock, Jim Berns, Tom Kluge, Mike Roberson	DeeAnn Palin	N/A	N/A	Yes - Don's CC	\$400.00
July??	06/01/06	Business	Statewide	Arizona Chamber of Commerce - When: - Where:	In the Arena, Governor Janet Napolitano	CANCELLED EVENT				N/A	Paid 6/19/06 - Check #608128	\$1,000.00
August?	06/01/06	Business	Statewide	Arizona Chamber of Commerce - When: - Where:	Republican Gubernatorial Primary Debate	CANCELLED EVENT				N/A	Paid 6/19/06 - Check #608129	\$1,000.00
08/16/06	07/24/06	Cultural	Maricopa County	Arts & Business Council - When: 8/16/06 @ 7 a.m. to 9:30 a.m. -- Where: Pointe Hilton Squaw Peak Resort	16th Annual Awards Breakfast	Melinda Poppe has been nominated for Volunteer Board Member of the year. Logo emailed by JM 7/24/06	Table for 10 - Melinda Poppe, Gail Maddock, Jo Leong (Ballet AZ), Rick DeGraw, Jill Maruca, Jim Stabler, Roxanna Mason, Casey Lopez		Yes	N/A	Paid 08/14/06 - Check #613046	\$500.00
08/18/06	07/06/06	Hispanic	Maricopa County	Valley Hispanic Bomberos (Firefighters) - When: 8/18/06 from 7 p.m. to 1 a.m. -- Where: Phoenix Mountain Preserve 1431 E. Dunlap, Phoenix	Annual Bomberos Summer Bash (Fundraiser) - Sam Chavira 602-451-0374	Company Banner at the Event	Table for 10 -- Ralph Hughes & Spouse, Rick DeGraw & Spouse, Chris Kamper & Spouse	None	Yes	Gema Luna has approved	Paid 8/10/06 - Check #612922	\$5,000.00
08/24/06	08/01/06	Business	Tucson	Tucson Metro Chamber of Commerce & UofA - When 08/24/06: 11:30 a.m. doors & Buffet Open -- Program Begins @ Noon -- Where: Grand Ballroom, Tucson Convention Center, 260 South Church	2006 Arizona Athletics Fall Kick-Off Luncheon	Company Banner at the Event	Table for 10 - Judy Patrick & Spouse, Mike Wilson (Policyholder), Lynette Box, Gerard Coley	Lynette Box	Yes	N/A	Paid 8/8/06 - Check #612819	\$500.00
08/24/06	08/02/06	Business	Mohave County	Colorado River Building Industry Association - When: 08/24/06 -- Where:	Council Forum - Brian Springberg will moderate & sponsors will be mentioned.	Local channel 45 broadcast, SCF name mentioned on commercial breaks with voiceover plugging SCF	Cheryl Blazek & Gary Bennett will attend.	Cheryl Blazek	N/A	N/A	Paid 9/21/06, Check #613949	\$50.00

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Attachment 3

Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
08/29/06	08/18/06	Education	Mohave County	Lake Havasu Area CoC - When: 08/29/06; 5 p.m.-7 p.m. - Where: London Bridge Resort Conference Center	Sponsor a Teacher 6th Annual Teacher Appreciation Mixer - Contact Kathy Tippet @ 028-855-4115 or kathyt@havasuchamber.com	Pending	Cheryl Blazek & Gary Bennett will attend.	Cheryl Blazek	N/A	N/A	Paid 8/29/06 - Check #613328	\$500.00
09/08/06	08/15/06	Hispanic	Maricopa County	Valle del Sol When: Friday, September 8; 11:50 a.m. - 2:00 p.m. Where: Phoenix Civic Plaza, south ballroom, 3rd St & Jefferson	Profiles of Success Hispanic Leadership Awards Celebration; Ronnie Lopez is an honoree.	1/2 page ad (emailed 8/21); table for 10; logo sent	Table for 10: FULL - Jan Johnson, Gema Duarte Luna, Vera Duran, Patsy Hernandez, Rick DeGraw, Lisa Tyson (URND), Hector Gallardo, Rene Ramirez, Don Smith, DeeAnn Palin		Yes	Approved by Gema Duarte Luna	Paid 8/30/06 - Check #613470	\$6,000.00
9/8-9/10/06	03/16/06	Business	Flagstaff	Flagstaff Downtown Business Alliance - When: 9/8, 9/9, 9/10/06 - Where: Downtown Flagstaff Route 66	Flagstaff Route 66 Days 2006 - Contact Debbie Kaiser, President @ 928-714-1000 or email at debbiek@swhospitality.com	Banner w/logo at the event, on their website as an event sponsor w/link to SCF website if desired plus corporate sponsor booth	Open Event	Ginny Arnett	Yes	N/A	Paid 7/24/06 - Check #612443	\$2,500.00
09/21/06	08/21/06	Business	Phoenix	Greater Phoenix Chamber of Commerce - When: 9/21/06, 7 to 7:30 a.m. is registration & networking, 7:30 to 10 a.m. is program & breakfast - Where: Arizona Biltmore Resort, 24th St. & Missouri	Economic Outlook 2007	Attendance only, not a sponsor event.	Table for ten: Anna Rodriguez, Dale Newton, Tina Stoffle, Jim Dunn, Don Smith, Paula Koroso, Melinda Poppe	None	N/A	N/A	Sent to Accounting 9/15	\$700.00
09/22/06	08/14/06	Business	East Valley, Maricopa County	East Valley Partnership - When: 09/22/06 8 a.m. to 11:30 a.m. - Where: ASU's Polytechnic campus, Student Union Ballroom, 7001 E Williams Field Rd, Mesa, AZ 85212	Urban Land Institute Breakfast - Contact Jennifer Whalley, 480-834-8335	SCF Logo on their website.	Table of eight: Rick Jones, Ed Redmond, Mary Owens, Don Smith, Linda Rice	Duane Miller	Yes	Gema Luna's Approval Received	Paid 08/21/06 - Check #613230	\$6,000.00
09/27/06	09/18/06	Business	Mohave County	Colorado River Building Industry Association - When: 09/27/06 @ 6 p.m. - Where: Realtors Center	Sponsorship for mayoral & city council candidate forum	Local channel 45 broadcast, SCF name mentioned on commercial breaks with voiceover plugging SCF	Cheryl Blazek & Gary Bennett will attend.	Cheryl Blazek	N/A	N/A	Paid 10/2/06 - Check #614142	\$50.00
09/27/06	07/19/06	Business/Health & Safety	Statewide	Arizona Small Business Association - When: 09/27/06 from Noon - 1:30 p.m. - Where: ASU Memorial Union	Health & Safety Conference	Don Smith has an invitation to speak from Keith Motschman but will not be speaking	10 Tickets: Carl Hamilton, Michelle Jacobs, Marc Olson, Lisa Tyson, Anna Somoza, Armando Sapien	None	Yes	N/A	Paid 08/14/06 - Check #613003	\$2,300.00

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Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
09/29-09/30/06	08/03/06	Hispanic	Statewide	Arizona Latino Research Enterprise When: 9/29 & 9/30/06 - Where: Scottsdale Conference Resort -- 9/29) Noon, Registration Open, 3 p.m. Opening Session, 4:30 p.m. Important Issues Affecting Arizona, 5:30 p.m. Town Hall Political Reception - 9/30) 7 a.m. Continental Breakfast, 8:30 a.m. Morning Sessions, Noon ALRE Legends Luncheon, 1:15 p.m. Afternoon Sessions, 7 p.m. Town Hall Closing Dinner	2006 Town Hall	Logo on all advertising & website, 1/2 page ad in Town Hall program, sponsor named in all press releases to media	Five sponsor invitations to Legislative Reception, Five participants from Sponsor in Town Hall, Five participants from sponsor in political debate, sponsor logo to appear on all ALRE events throughout the year. Attendees: Vera Duran, Tony Garcia, Linda Rice, Lisa Tyson	Members - Rick DeGraw, Linda Rice, Vera Duran, Tony Garcia	Yes	Gema Luna's Approval Received	Paid 08/31/06 - Check #613471	\$5,000.00
10/04/06	06/09/06	Business	Statewide	AzBusiness Magazine - When: 10/4/06 @ 5:30 p.m. - 7:30 p.m. -- Where: Ritz Carlton, 2401 E Camelback	Economic Engines of Arizona, 2006 Award Reception	1/2 page 4-color Ad in Oct/Nov Issue featuring Awards - Company Logo on all promo materials including: announcement ads in Magazine, mailed invitations, reception program, powerpoint slides and banner at event.	10 Tickets to the Reception: Don Smith, Dale Newton, DeeAnn Palin, Bruce Christian, Susan Plaza	None	Yes, 8/31/06	N/A	Paid 09/25/06 - Check #614001	\$3,506.00
10/04/06	09/12/06	Hispanic	Phoenix	Chicanos Por La Causa - When: 10/04/06, 5:30 p.m. to 6:30 p.m. is Registration & Reception then 6:30 p.m. Dinner & Awards Ceremony -- Where: Hyatt Regency, 122 N. 2nd St., Phoenix	8th Annual Esperanza Hispanic Teacher Awards - Contact Carlos Pastor 602.257.0700 x2120	Quarter page ad in event program book & Company listing in event newsletter	Table for Ten: - Rene Ramirez, Vera Duran, Monalisa Teyechea, Clara Murphy, Jill Maruca, Linda Rice; Donna Davis; Lydia Gonzalez, Tina Stoffle	Dan Hernandez	Yes	N/A	Paid 10/09/06 - Check #614296	\$3,500.00
10/07/06	09/08/06	Humanitarian	Statewide	Operation Freedom Bird/AZ Vet Centers - When: 10/07/06 -- Where: Sun City Country Club, 9433 N. 107th Av., Sun City, 623-933-1353	Annual Golf Tournament	?	Hole Sponsor Only		N/A	N/A	Paid 09/25/06 - Check # 614003	\$300.00
10/07/06	06/09/06	Children	Statewide	Children's Action Alliance - When: 10/07/06 @ 6 p.m. (dinner)-- Where: Scottsdale Resort & Conference Center, 7700 E. McCormick	Through the Eyes of a Child, 2006 Gala & Youth Art Auction; cocktail attire recommended	Pre-event reception & art preview, Preferred seating for 10 guests during program w/corporate recognition at table. Listing in event program, Inclusion on "thank you" poster at event, Half-page, full color advertisement in event program, Listed in CAA newsletter.	Table for 10: Rick DeGraw, Mary Owens, Roxanna & Edward Mason; Sheila Keitel & spouse Allan Brinson; Marche Smalcer and Farshad Athari; Lisa Tyson, Dennis Scroggins, Rep Linda Aguirre (11 OK'd by Paula at CAA).	None	Yes	Gema Luna's Approval	Not Yet	\$5,000.00

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Attachment 3

Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
10/12/06	09/29/06	Business	Maricopa County	Valley Leadership - When: 10/12/06 @ 7:30 a.m. to 9:00 a.m. - Where: Phoenix College Domes Conference Center, 10th Av/Osborn, Parking lot just South on Osborn	Community Dialogue Series: Attire is business casual	SCF Logo on their mailing for the series.	Rick DeGraw, Christa Severns, Duane Miller, Don Smith, Ginny Arnett	Ginny Arnett	Yes	N/A	Yes	Paid from 2005 budget
10/12/06	09/28/06	Business	Phoenix	Greater Phoenix Chamber of Commerce - When: 10/12/06 @ 11:30 a.m. (lunch) Where: Arizona Biltmore Resort, 24th Street & Missouri	Phoenix Forum Event: John Hofmeister President, Shell Oil; Business Casual attire recommended	President & CEO of Shell Oil will be with us to talk about how the US can ensure energy supply for the future.	Table for 10: Hat Anderson, Bruce Christian, Marshalette Web, Sylvia Salazar, Virgene Reinemund, Nita Houghton, Marche Smaicer	None	N/A	N/A	Yes	\$0.00
10/12 & 10/13/06	08/03/06	Hispanic	Statewide	Hispanic Women's Corporation - When: 10/12 & 10/13/06 - Where: Phoenix Convention Center	21st National Hispanic Women's Conference	10x10 exhibit booth (may not use); shared session sponsorship; 1/2 page b/w ad; 3 comp conference reg.	Table of ten for 10/13 Fri luncheon w/sponsorship; add'l conference attendees pd by SCF Luncheon table: Gema Duarte Luna, Rene Ramirez, Patsy Hernandez, Emily Ortega, Lydia Gonzalez, Laura Duran, Javier Grajeda	Jill Maruca coordinating attendance	Yes	Gema Luna's Approval	Paid 09/29/06 - Check #614138	\$5,000.00
10/13/06	08/29/06	Business	Maricopa County	Make a Difference - When: Friday, October 13, 2006, 6 p.m. to 10 p.m. - Where: The Gold Spot Gallery, 1001 N. 3rd Av., Phx 85004	Urban Fusion, 2nd Annual	Company name recognition in media & Promotional Material, Recognition on Make A Difference quarterly newsletter	Five tickets to event; Betty Booth & guest; Elyse Rukkila & guest;	None	Not Yet	N/A	Paid 09/11/06 - Check #613558	\$1,000.00
10/14/06	06/09/06	Children	Phoenix	Children's Museum of Phoenix	Travel Around the World, a Family Affair Gala 2006	Program ad only.				N/A	Paid 6/27/06 - Check #608305	\$250.00
Yearly	10/19/06	Cultural	Tucson	Arizona Theatre Company, The State Theatre	Annual Fund Invoice	N/A	N/A	Judy Patrick	N/A	N/A	Sent to Accting 10/19/06	\$4,733.47
10/20/06	10/11/06	Business	Statewide	Arizona Chamber Executives	Arizona Chamber Executives Fall Conference (Luncheon) - Rick Jones to speak.	Speaking engagement only.	N/A	Rick Jones	N/A	N/A	Sent to Accting 10/18/06	\$750.00
10/20/06	08/29/06	Education	Phoenix	City of Phoenix & the Phoenix Mayor's Commission on Disability Issues - When: Friday, October 20, 2006 from 11:30 a.m. to 1:30 p.m. - Where: Phoenix Convention Center, 3rd & Jefferson streets	2006 Ability Counts Awards Luncheon "Orchestrating Success" - The MCDI Ability Counts Scholarships	Acknowledgement in all event publicity, Premier luncheon table location with table signage, Recognition in the printed program.	Corporate Table for Eight: Laurie Brott, Bruce Trethewy, Sharon Janzen, Debby Mittelman, Jan Johnson, Jim Berns, Christine Nardi	Bill Sheldon	Not Yet	N/A	Paid 09/11/06 - Check #613555	\$1,000.00

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Attachment 3

Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
10/21/06	10/02/06	African American	Phoenix	Greater Phoenix Black Chamber of Commerce - When: 10/21/06, 10 a.m. to 6 p.m. - Where: Phoenix Convention Center, Halls 1 & 2, 100 N. 3rd St.	Arizona Black Expo	Banner sponsor	Open Event	Hat Anderson	Yes	N/A	N/A	\$0.00
10/21/06	09/12/06	Business	Phoenix	United Phoenix Fire Fighters - When: Saturday, October 21, 2006, Cocktails @ 5:30 p.m. & Dinner @ 7:15 p.m. - Where: Mountain Preserve Reception Center, 1431 E. Dunlap Avenue, Phoenix Contact: Rich Bauer, 602.277.1500.	2006 Annual Fire Fighters Ball for Charities	Semi-Formal Dress - Table for 10, On-Stage recognition with presentation & special thank you on the air from 98.7 The Peak	Preferred seating for table of 10: FULL: Ralph Hughes & Spouse, Rick & Gina DeGraw, Brandyn Stewart & guest, Mary Owens & guest; Mark Kendall and Deb Kendall	Rick DeGraw	N/A	N/A	Paid 10/04/06 - Check #614215	\$5,000.00
10/23/06	10/16/06	Business	Phoenix	Arizona Chamber of Commerce & Industry - When: Monday 10/23/06, Registration begins @ 8 a.m. - Program begins @ 8:30-9:30 a.m. - Where: The Hilton Scottsdale Resort, Sonora Ballroom (Southeast corner of N. Scottsdale Rd. & E. Lincoln Drive)	In the Arena Candidates Forum featuring the race for Arizona's 5th Congressional District seat.	N/A	No Attendees		N/A	N/A	Yes	Refer to 7/06 cancelled event
10/25/06	10/13/06	Business	Phoenix	Greater Phoenix Chamber of Commerce - When: Wednesday, 10/13/06 @ 11:15 a.m. to 1:30 p.m. - Where: Arizona Biltmore Resort	GPCC 19th Annual ATHENA Award honoring women in business	Business attire recommended	Table for 10: FULL Paula Koroso, DeeAnn Palin, Susan Plaza, Susan Torres, Jan Haus, Theresa Schmitz, Debby Mittelman, Gail Colburn, Martha McLellan, Kristin Bagnato, Don Smith		N/A	N/A	N/A	\$0.00
10/26/06	09/12/06	Business	West Valley, Maricopa County	WESTMARC - When: 10/26/06 - Where: Cardinals Stadium, Glendale Av. & Loop 101	14th Annual Best of the West Awards - Contact Amity Bravo, Manager of Operations & Communications @ 623.435.0431	1. Corporate logo in The AZ Republic advertisements 2. 1 full page (8.5"x11") advertisement in awards program 3. 1 Table of 10 in Gold Preferred seating 4. Corporate logo/name on Stadium ribbon 5. Corporate logo scrolled on event screen during dinner 6. Corporate logo recognition on event invitation 7. Corporate logo in awards video 8. Corporate recognition in awards program	Corporate Table for 10: Anna Rodriguez & guest, Polly Hall, Cindy Mauldin; Paul Quackenbush & Diana; Sylvia Salazar, Martha McLellan, Armando Grijalva, Don Smith	Dan Hernandez	Yes	Gema has approved.	Sent to Accting 10/18/06	\$6,000.00

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Attachment 3

Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
10/27/06	06/09/06	Children	Statewide	Anytown Arizona, Inc. - Send a Kid to Camp Campaign (\$2500) EVENT CANCELLED	Humanitarian Dinner (\$2500)	No material available yet. EVENT CANCELLED				N/A - 2 separate events @ \$2500 ea.	N/A	\$0.00
11/04/06	09/12/06	Asian/Pacific American	Phoenix	Pacific Rim Advisory Council (PRAC) & the City of Phoenix - When: Saturday, November 4, 2006, 12 p.m. to 5 p.m. - Where: Phoenix Convention Center, West Hall 1	11th Annual Asian Pacific American business Exposition 2006 - Contact City of Phoenix liaison to PRAC, Michael Shelton @ 602-495-5509	1. Page-size ad in the small program booklet (8.5x5.5"). 2. Logo placement on a large event welcome banner to be placed at the entrance to the show 3. Sponsor identification in pre-event promotion 4. Logo identification on 5,000 event announcements and 1,000 event programs 5. The inclusion of company information materials and/or promotional items in the event registration bag 6. Special recognition during the welcoming ceremony 7. Special recognition announcements throughout the expo	No Table	Ray Everett	Yes	N/A	Paid 10/18/06 - Check # 614491	\$2,500.00
11/04/06	04/05/06	Children	Phoenix	Ronald McDonald House Charities of Phoenix - When: 11/04/06 - Where: Wyndham Buttes Resort, Tempe - 2000 Westcourt Way	A McNight on the Town - 20th Birthday Gala - Annual Fundraising Event - Contact Vicky @ 602-798-5092	Name recognition in the event program & in table signage & recognition on RMHC website & in RMHC newsletter as a Rock 'N Roll Fan - Dress for your favorite dance style or decade - Poodle skirts to ballroom dance gowns.	Table for 10 - Bobby Koller, Sylvia Bates & Spouse, Christina Miles, Carole Stinson & Spouse, Roxanna Mason & Spouse	Bobbie Koller	Not Yet	N/A	Paid 10/18/06 - Check # 614483	\$2,500.00
11/07/06	10/12/06	Business	Phoenix	Greater Phoenix Chamber of Commerce - When: 11/07/06 @ 11:30 a.m. (lunch) Where: Arizona Biltmore Resort, 24th Street & Missouri	Phoenix Forum Event: Christopher Gardner, author & a former homeless person	Christopher Gardner, author of the book The Pursuit of Happyness. Chris is a stock broker and the founder of his own brokerage firm.	Table for 10: Roxanna Mason, Jan Johnson, DeeAnn Palin,	None	N/A	N/A	Yes	\$0.00
11/11/06	10/23/06	Humanitarian	Flagstaff	Flagstaff Family YMCA - When: 11/11/06 - Where: Radisson Resort	Fundraiser to build another YMCA in Flagstaff	Thank you write up in the Flagstaff paper for the sponsors	Corporate Table	Dianne Gutierrez	N/A	N/A	Sent to Acctg 10/27/06	\$800.00
12/05/06	08/23/06	Business	Statewide	Arizona Technology Council & the Arizona Department of Commerce - When: 12/05/06, 5-6:30 p.m.: Registration, Reception & Technology Showcase then 6:30 p.m.-9 p.m.: GCQI Dinner & Awards Ceremony -- Where: Pointe South Mountain Resort, 7777 South Point Parkway, 85044 CONTACT: Mariana Crone, Dir of Events & Programs 602.343.8324 ext 104	Governor's Celebration of Innovation - Fourth Annual	Black-tie optional	Table for 10: Will be filled by the NAST & locals	Duane Miller	Not Yet	N/A	Paid 09/25/06 - Check #613999	\$2,200.00

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Attachment 3

Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
12/06/06	09/29/06	Business	Maricopa County	Valley Leadership - When: 12/06/06 @ 7:30 a.m. to 9:00 a.m. - Where: APS Corporate Headquarters (Two AZ Center) - Rm Two South, 2nd Flr; 5th Ave/Van Buren; Parking @ AZ Center Parking Lot	Community Dialogue Series: <i>Attire is business casual</i>	SCF Logo on their mailing for the series.	DeeAnn Palin (Tentative)	Girny Amett	Yes	N/A	Yes	From 2005 budget
12/07/06	10/02/06	African American	Phoenix	Greater Phoenix Black Chamber of Commerce - When: 12/07/06 @ 5:30 p.m. Cocktails & 6:45 p.m. Dinner - Where: Ritz Carlton - Phoenix, 2401 E. Camelback Road	8th Annual Dinner & Business Celebration -- 2006 Business of the Year and the 2006 Community Advocate of the Year		David Young, Rochelle Scott, Marc Johnson, Hat Anderson, Linda Rice, Vera Duran, Njeri Walker, Albert Hamilton, Carl Hamilton	Hat Anderson	Not Yet	N/A	Not Yet	Waiting for Invoice
12/12/06	10/09/06	Business	Phoenix	Arizona Workers' Compensation Claims Association - When: 12/12/06 -- Where: Sheraton Crescent Hotel Dunlap & I-17	Annual Holiday Party Donation Drive	Three Table Sponsorship includes SCF name advertized alone on each table - \$300 each + 3 large raffle prizes (gift cards) at \$75 each.	AWCCA members only to attend.	Vera Duran	Yes	N/A	Paid 10/13/06 - Check #614360	\$1,125.00
12/15/06	08/02/06	Cultural	Statewide	Ballet Arizona When: 12/15/06 - Where: Phoenix Symphony Hall	Nutcracker Ballet Signature Night - SCF hosting a reception for invited guests/family before the Subscriber's Night Show.	SCF presence with banners as allowed; valet parking, food, drinks, etc.	Approximately 250 PH CEO's will be invited	Melinda Poppe is on the BAZ Board	Yes - this is part of our loan agreement with BAZ annually	Yes	N/A	Will pay for event costs

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Charitable Giving Approved Projects - 2006
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Attachment 3

Event Date	Contact Date	Organization/Committee/Activity	Project/Event	SCF Assigned Liaison	Table Attendees	Things for Communications &/or Info needed for Event	C&PA Notified?	Board Approval ?	SCF Sponsorship Amount
03/30/06	03/23/06	Legal Advocates Mentoring Program - Where: Tucson	Lamplighter Benefit Reception	Charitable Giving		SCF Attorney Veronique Pardee is an active volunteer		N/A	\$1,000.00
04/26/06		Governor's Commission on Service & Volunteerism - Sponsored by Governor and Governor's Commission on Service & Volunteerism - Where: Senate East Lawn, AZ State Capitol 1700 W Washington - When: 4:30 p.m. reception; Awards at 5:00 p.m.	Governor's Volunteer Service Awards Reception	Jill Maruca	Table of 10: (need 4 more) Christa Severns (sitting at Gov's table), Jill Maruca, Bill Sheldon, Heather Poier, Joanne Swoboda, John Ignas, Sheila Keitel	Company logo/name; person to assist on stage with Governor to give out awards;	Yes	Approved by Gema Luna	\$5,000.00
04/26/06	03/23/06	Chrysalis Domestic Violence Shelters. - Where: Arizona Biltmore Resort. Cocktails at 6:00 dinner at 7:00; raffle prizes	Chrysalis Honors....the Family. Reception and dinner event.	Debby Mittelman, SCF Attorney is a board member	Table of 10: (FULL) Debby Mittelman & guest Richard, Jan Johnson and spouse, Ray Everett, Jim Stabler & spouse; Marche Smalcer and date; Joyce Mercer	Quarter page ad due by April 7; comm svcs rqst done.		Approved by Gema Luna	\$5,000.00
04/27/06	03/09/06	Corporate Volunteerism Awards, 4th Annual - When: 4/27 @ 11:30 a.m. to 1:30 p.m. Luncheon & Awards Presentation Where: Wyndham Phoenix @ 50 E. Adams Street, Phx (Central & Adams)	Corporate Awards Luncheon - Hosted by the Volunteer Center & The Business Journal - Contact Sherry Ladd @ 602-263-9736, Ext. 505	Charitable Giving, Jill Maruca	Filled: Don Smith, DeeAnn Palin, Misty Kyer, Ginny Smith, Cheryl Blazek, Kristi England, Jill Maruca, Sarah Ramirez, Sylvia Bates, Mary Ann Sturm	Logo/company name to Volunteer Center (done). SCF is one of 3 finalists and Don will accept award on stage if SCF wins.		N/A	\$2,500.00
05/05/06	03/20/06	AWCCA Golf Tournament (14th Annual) - foursome - Where: Camelback Golf Club, Scottsdale When: 7:30 a.m. shotgun start	Kids' Chance & AZ Action for Foster Kids	Charitable Giving Sponsorship (Dennis Uptain is an officer.)	Filled - Players, Dennis Uptain, Chris Kamper, Jim Berns, Paula Koroso			N/A	\$1,300.00
05/11/06	03/23/06	Tucson Centers for Women & Children - Where: Tucson Doubletree Hotel	Mother's Day Luncheon	Marcy Tigerman, Rehab counselor in Tucson is a board member	Table of ten: Marcy Tigerman, Greg Fitzgerald, Judy Brooks, LaWana Mills, Susan Randall, Cora Carter, Theresa Duarte	logo to Robin Fasano; done by Jill M. Confirmed correct name/logo after newsletter had wrong name (by Jill 5/8/06).		Approved by Gema Luna	\$5,000.00
05/12/06		Fax Net 1 Golf Tournament - When: Friday, May 12. 11:30 lunch; 1:00 shotgun start Where: AZ Biltmore Golf & Country Club	Fax Net 1 15th Anniversary Golf Outing (Fax net 1 is dedicated to crime prevention)	Paul Secaur is Exec Director; Duane Miller is on the Board	Golf foursome: Ralph Hughes and guest Peter Hughes; Paul Richardson, Josh Ewing	We are sponsoring lunch and one golf foursome. Also need 10 volunteers for registration, gift bags, raffle ticket sales			\$2,000.00

Charitable Giving Approved Projects - 2006
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Attachment 3

Event Date	Contact Date	Organization/Committee/Activity	Project/Event	SCF Assigned Liaison	Table Attendees	Things for Communications &/or Info needed for Event	C&PA Notified?	Board Approval ?	SCF Sponsorship Amount
06/17/06	4/3/2006	Arizona Burn Camp Open (golf tournament); sponsored by the United Yavapi Fire Fighters- Where: Prescott	Arizona Burn Camp fundraiser for kids to attend Burn Camp; funding is for the AZ Foundation for Burns & Trauma.	Stephanie Dale (Yavapai Acct Svcs Team; other team members volunteer	Two foursomes + \$1,000 donation; both foursomes filled. SCF: Connie Sparks, Sharon Howard, Chris Anderson; others by Stephanie	Still getting details	Needs CG committee approval	N/A	\$1,520.00
08/19/06		American Cancer Society, Flagstaff	Climb to Conquer Cancer. 7 mile hike up Snow Bowl	Dianne Gutierrez		banners from NAS office; logo for t-shirts; register walkers and volunteers			\$2,000.00
10/20/06		Open Inn, Inc (Tucson)	Anniversary Celebration	Judy Patrick is on the Board	table of ten: Judy Patrick is filling the table, incl SAS team members	ad, logo.	yes	yes	\$5,000.00
10/30/06		AZ Clean & Beautiful , Governor's Pride in Arizona Conference & Awards Luncheon 11:00 registration, luncheon 12:00 - 2:00 p.m. Valley Ho Hotel in Scottsdale, 6850 E Main St.	Annual Governor's Pride in Arizona Awards Conference & Luncheon. Kingman District of ADOT is awarding our CRAS SCF office an award from the Statewide Adopt a Highway Program Coordinator. For our work at SR 95, milepost 180-182.	Cheryl Blazek	Table of ten: Cheryl Blazek, Jill Maruca, Gary Bennett, Kim Sweet, Glenn Michaels; Duane Miller, Dan Hernandez, Kristi England, Joyce Mercer		yes	N/A	\$750.00
11/02/06	10/4/2006	Big Brothers Big Sisters of Central Arizona	BIG Event (awards for Big Bros/Sis); adults only; AZ Science Center, 600 E Washington; 5:30 p.m. Hosted wine & cheese reception, 7:00 p.m. dinner and program	Janet Wilson	Table of 10: Janet Wilson, guest Ron Tillman, Jill Maruca, Kristin Bagnato, Bill Romaine, Tina Athey, Ray Everett, Duane Miller, Sandi Neuman (PH, Pres AZ Printer's Assoc), spouse (tentative)	Table of 10; logo for slide show.	Jill & Rick	n/a	\$1,000.00
11/04/06		Cathedral Health Services	3rd Annual CHS Extravaganza	Mary Ann House/ Vera Duran	Table of 10: Mary Ann House, Vera Duran,	Table of 10: Mary Ann and Dennis House, Vera Duran & guest, Rene and Rocio Ramirez, Roberto & Marta Ticas, Donna and Nate Davis	not yet	N/A	\$1,250.00

\$33,320

Community Outreach Approved Projects - 2007
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Attachment 3

Event Date	Contact Date	Issue &/or Ethnicity	Geographical Location	Organization/Committee	Project/Event Name	Specific Info about the Event Including Sponsor Needs (Logos, etc.)	Table/Event Attendees	SCF Assigned Liaison	C & PA Notified?	Board Approval ?	Paid	SCF Sponsorship Amount
01/10/07	09/29/06	Business	Maricopa County	Valley Leadership - When: 01/10/07 @ 7:30 a.m. to 9:00 a.m. - Where: Carnegie Center, 11th Ave/Washington - Parking available on street or parking lot on North side of Washington	Community Dialogue Series: <i>Attire is business casual</i>	SCF Logo on their mailing for the series.	DeeAnn Palin (Tentative)	Ginny Arnett	Yes	N/A	??	??
01/26/07	10/03/06	Business	Tucson	Greater Tucson Leadership - When: 01/26/07 -- Where:	State of the City Luncheon In conjunction with the Tucson Metro Chamber	*Signage including Sponsor company's logo in ballroom - *One table of ten at preferred location - *First right of refusal for next year's event - *CEO seated at prominent table with Mayor - *CEO recognized from the podium - *Any promotional advertising developed by the Chamber and/or Greater Tucson Leadership - *Recognition during event promotion - *Logo on invitation - *Company recognized in the <i>ChamberNews</i> newsletter - *Company recognized on the Chamber's website	Table for 10:	Jean Gage	Not Yet	N/A	Not Yet	\$5,000.00
02/22/07	08/16/06	Business	Arizona	Invest Southwest - When: Thursday, February 22, 2007 -- Where: Four Seasons Resort, Scottsdale	Arizona's Premier Capital Conference	\$3,500 general + \$2,500 lunch sponsor; Gen incl 4 conference admissions, 2 reception admissions for 2/21, 2 spots on mentor teams and recognition in event brochure, binder and promo material. Lunch sponsor incl seat at VIP table, table of 8, banner placement, ability to welcome key note spkr, logo in all event collateral, full page ad in binder and participation on spkr committee.	Table for 8 for luncheon: Also, 4 conference admissions, 2 reception admissions 2/21:	Duane Miller	Not Yet	Approved by Gema	Paid 09/11/06 Check #613557	\$6,000.00
02/24/07	10/25/06	Humanitarian	Arizona	Students Supporting Brain Tumor Research - When: Saturday, February 24, 2007, Noon to 3 p.m. - Where: Pinnacle High School - 3535 E. Mayo Blvd., Phoenix - Just NW of the 101 Loop & Tatum Blvd - Off Deer Valley Road	Sixth Annual Walkathon: For the Brain Tumor Society, Barrow Neurological Foundation, Phoenix Children's Hospital and T-GEN	SCF name on their web site, printed materials & shirts	None	Rick DeGraw	Not Yet	N/A	Not Yet	\$1,000.00
03/20/07	10/03/06	Business	Arizona	Arizona SHRM State Council - When: 3/20/07 for lunch -- Where: ??	Advocacy Day at the Capitol - What is happening in the Arizona Legislature related to HR	Mention as sponsor on all event advertising. Designated table at lunch the day of the event with up to 2 attendees. Company banner (up to 20" x 3") displayed at the event	2 Attendees for the event: Hat Anderson, Mary Prewett, Christine Nardi	Mary Prewett	Not Yet	N/A	Not Yet	\$1,000.00
\$13,000.00												

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: December 11, 2006

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Department of Economic Security - Review of Expenditure Plan for Adoption Services - Family Preservation Projects

Request

Pursuant to a footnote in the General Appropriation Act (Laws 2006, Chapter 344), the Department of Economic Security (DES) has submitted for Committee review an expenditure plan based on the recommendations of the Joint Legislative Committee on Adoption Promotion (JLCAP) for the \$1,000,000 appropriation to the Adoption Subsidy - Family Preservation Projects line item.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the DES plan, which would require an increased FY 2008 appropriation to continue these initiatives. DES may interpret such a decision as an endorsement of a higher appropriation.
2. A favorable review with the provision that the expenditure plan be restructured according to the priorities identified by JLCAP in order to remain within the \$1,000,000 appropriation in future years.

Under either option, the JLBC Staff recommends that the Committee request that DES provide performance measures for the proposed projects, as required by the budget footnote, by February 1, 2007. These performance measures should relate directly to the utilization of new resources and the expected outcomes.

Analysis

In the FY 2006 budget, the Legislature appropriated \$1 million from the Federal Temporary Assistance for Needy Families (TANF) Block Grant to DES for a new effort to promote and maintain adoption as a permanent option for children in the Child Protective Services (CPS) system. At the same time, the Joint Legislative Committee on Adoption Promotion (JLCAP) was created and charged with providing recommendations to DES on the most effective expenditure of the appropriated funds. A footnote required DES to consider any recommendations provided by the JLCAP in an expenditure plan to be reviewed by the JLBC. The JLCAP did not provide spending recommendations in FY 2006 and the monies were reverted to the TANF Block Grant. Monies were again appropriated in FY 2007 with the same conditions. The JLCAP met on November 29, 2006 to make spending recommendations.

(Continued)

DES presented 2 funding initiatives to the JLCAP. The JLCAP adopted those initiatives as their recommended uses of the appropriated funds.

The first initiative is increased resources for intake and recruitment of adoptive homes. Specifically, DES requested 2 additional FTE Positions for the adoption call center (currently staffed with 1 FTE Position), 1 FTE Position to re-engage parents who leave the system, and 1 FTE Position for Native American home recruitment. Additionally, DES would contract for training and consulting services to help create and maintain effective relationships with foster and adoptive families. The requested resources also included a family tracking database and a one-time upgrade to the call center telephone equipment. These resources would cost \$167,500 in FY 2007 and \$305,100 annualized in FY 2008.

The second initiative is increased support services for adoptive families. DES categorized this issue into 3 components that were then prioritized by the JLCAP. The Committee's first priority was to establish a crisis response line and provide crisis intervention to adoptive families. The second priority was to contract with specialized adoption therapists to help transition adopted children and their adoptive families. The last component is post-adoption support in the form of addressing extraordinary needs of adoptive families to prevent dissolution, continuing education and training, and support groups for the adoptive parents. The cost of these initiatives is \$439,800 in FY 2007 and \$1,457,300 annualized in FY 2008.

The total cost for both initiatives in FY 2007 is \$607,300, which is within the \$1 million FY 2007 appropriation. The cost of annualizing these programs in FY 2008, however, is \$1,762,400 or \$762,400 above the FY 2007 appropriation. To maintain these services, additional funds would have to be appropriated in FY 2008. *Table 1* provides a detail of the proposed FY 2007 expenditures and the annualized cost for FY 2008 of each component.

Table 1		
Adoption Subsidy – Family Preservation Projects Expenditure Plan		
	<u>FY 2007</u>	<u>FY 2008</u>
<i>Initiative 1: Intake and Recruitment</i>		
Extend call center operation (2 FTE Positions)	\$65,000	\$130,000
Re-engage former parents (1 FTE Position)	32,500	65,000
Native American home recruitment (1 FTE Position)	32,500	65,000
Specialized and targeted training (16 day per year)	14,400	28,800
Database development and maintenance (.25 FTE positions)	8,100	16,300
Call center upgrades	15,000	--
Subtotal	<u>\$167,500</u>	<u>\$305,100</u>
<i>Initiative 2: Support Services</i>		
Crisis Intervention (180 families per year)	\$258,000	\$774,000
Specialized adoption therapist services (990 families per year)	148,500	594,000
Adoption support group sessions (204 sessions per year)	7,700	30,600
Post-adoption services		
Child care for support groups (204 sessions per year)	2,000	8,200
Training sessions (36 sessions per year)	1,600	6,500
Extraordinary services (44 families per year)	22,000	44,000
Subtotal	<u>\$439,800</u>	<u>\$1,457,300</u>
Total Costs	<u>\$607,300</u>	<u>\$1,762,400</u>

One item required by the budget footnote that is missing from the report is performance measures to gauge the program's success. The JLBC Staff recommends that DES report its selected measures, along with any historical data DES may have, to this Committee by February 1, 2007. Such measures could include call center data (number of calls, wait times, abandonment rates, etc.), the number of new homes recruited, the number of new adoptions, and the number of dissolutions. These performance measures would then be reported to the Committee in the annual expenditure plan due each August 1.

RS/EJ:ym



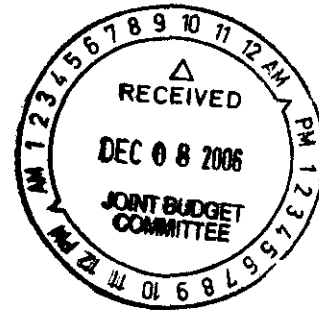
ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 W. Jefferson • P.O. Box 6123 • Phoenix, AZ 85005

Janet Napolitano
Governor

Tracy L. Wareing
Director

DEC 7 2006



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

Dear Mr. Stavneak:

Laws 2006, Chapter 344, section 10 includes the following footnote:

It is the intent of the legislature that the \$1,000,000 appropriated to the adoption services - family preservation projects special line item be used to promote adoption as an option for children, including but not limited to promoting the agency's adoption program and temporary adoption subsidy payment increases to current adoption subsidy clients. The department shall report the intended use of these monies to the joint legislative budget committee by August 1 of each year for the committee's review. The report shall include an evaluation of the most effective means of expending these funds and performance measures to gauge the program's success. The report shall reflect the recommendations of any statutory committee established to provide recommendations on this appropriation.

The footnote requires that the Department's report reflect the recommendations of the Joint Legislative Committee on Adoption Promotion established by Laws 2005, Chapter 328, Section 3. As reported to the Joint Legislative Budget Committee in a July 31, 2006 letter, the Joint Legislative Committee on Adoption Promotion had not yet met to make recommendations on the fiscal year 2007 appropriation.

The Committee met on November 29, 2006 to discuss the use of this appropriation. The Department presented the attached recommendation paper. The paper identified two areas for investment. The first need was the expansion of home recruitment intake and response. The Department recommended the expansion and enhancement of operations of the 1-(877) KIDSNEEDU home recruitment information and resource line, the development of a database to track inquiries from current and prospective adoptive parents, the provision of specialized training for staff working with prospective adoptive parents, hiring one staff person to provide constituent support and another staff person to recruit Native American foster and adoptive

Mr. Richard Stavneak, Director

Page 2

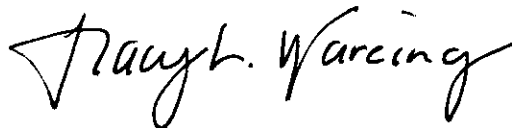
homes. The Committee adopted this recommendation in its entirety. The estimated cost is \$170,000.

The second identified need was adoption transition and post-adoption support services. The Department recommended funding specialized adoption therapists to assist with the transition of children from foster care to adoption, post-adoption support including training and support groups, and a 24-hour crisis intervention line. The Committee adopted this recommendation with the following priorities: 1) crisis response line and intervention to prevent adoption disruptions and dissolutions; 2) specialized adoption therapist services for the entire adoptive family to assist with the transition from foster care to adoption; 3) specialized post-adoption support services to provide for extraordinary needs that the families identify as essential (to include tutoring when not provided by other avenues) and to provide continuing education, training and support groups statewide.

In total, the estimated fiscal year 2007 cost of these initiatives is \$610,000. The annualized cost in fiscal year 2008 is \$1,460,000. This amount exceeds the current \$1,000,000 appropriation level; as a result, the appropriation must be increased in fiscal year 2008, or services curtailed, to remain within budget.

If you have any questions, please contact Stephen Pawlowski, Financial Services Administrator, at (602) 542-3786.

Sincerely,

A handwritten signature in black ink that reads "Tracy L. Wareing". The signature is written in a cursive, flowing style.

Tracy L. Wareing
Director

Attachment

cc: Members of the Joint Legislative Budget Committee
Representative Rick Murphy, Co-Chairman, Joint Legislative Committee
on Adoption Promotion
Senator John Huppental, Co-Chairman, Joint Legislative Committee
on Adoption Promotion
Gary Yaquinto, Director, Office of Strategic Planning and Budgeting

ADOPTION PROMOTION APPROPRIATION¹

The Department has identified two primary areas for enhanced development needed to promote and preserve families for children. The first is an expansion of our home recruitment intake and response system and the second is services and supports to adoptive families once an adoptive placement has been made.

Need #1: Expanding the Home Recruitment Intake and Response

The Department's enhanced home recruitment efforts direct individuals and families to call a toll-free home recruitment information and resource line (1-877-KIDSNEEDU).

Currently, the 1-877-KIDSNEEDU line is staffed by one (1) FTE during normal business hours, Monday through Friday. Calls received during evening hours, weekends, or while the FTE is on the phone currently create a situation where the caller rolls over to voice mail. Many of the callers do not leave a voice mail message.

It is essential for the Department to respond immediately and effectively to those individuals and families who call the toll-free line to learn more about foster and adoptive parenting. Research suggests that the initial response may make the difference in a family's decision to take the next step in becoming a resource home for children in foster care. Families want immediate answers to their questions once they make the initial call.

With the Department's increased recruitment efforts, including television announcements, additional permanent resources are needed to enhance the home recruitment intake and response system with expanded hours, increased staff coverage, and the necessary phone technology and automation for this expansion. It is essential that we follow families through the licensure and certification process to ensure they continue to be actively engaged in the recruitment process – from the first call through their first placement. The Department would also like to expand the functions of the home recruitment intake and response system to include follow-up and retention issues, such as determining the reasons families are leaving the system and recapturing those families who leave for preventable reasons.

To address Need #1, the following use of the appropriation is suggested:

- Expand the operation of the KIDSNEEDU telephone response. Provide staff for live response to the calls Monday through Friday, 8am to 9pm, Saturday and Sunday, 9am to 5pm. Have agency representative stay in contact with prospective resource parents – especially between the time of the initial call and the completion of training classes.

Two FTEs - Grade 17, Human Service Specialist II

¹ General Appropriations Act (Laws 2006, Chapter 344 [H.B. 2863]) includes the following Special Line Item: Adoption Services – Family Preservation Projects - \$1,000,000 – It is the intent of the Legislature that the \$1,000,000 appropriated to the Adoption Services – Family Preservation Projects Special Line Item be used to promote adoption as an option for children, including but not limited to promoting the agency's adoption program and temporary adoption subsidy payment increases to current adoption subsidy clients.

- Develop and maintain a web-based database so that follow-up to initial inquiries regarding foster and adoptive parenting can be tracked and correspondence and call-back lists can be generated. An enhanced database with routine maintenance will allow us to distribute information via mail, Email or newsletters to prospective families while they are in process of contemplating or pursuing adoption or foster care.

Automation programmer/developer

Administrative Support (.25FTE)

- Expand the scope of the toll-free home recruitment information and resource telephone line to allow for call rollover to another live staff when call activity is high. This will avoid prospective foster and adoptive parents being transferred to a recorded message and voice mail.

Enhanced telephone technology

- Provide specialized training to assist staff and contract providers engage, maintain and respond to prospective families during the licensing and adoption certification process from the first call to placement. Training may include: responding to initial inquiries; improving listening skills; maintaining contact with families who wait for a placement and conducting exit interviews for families who chose not to renew their foster care license.

Contract with national or local experts in recruitment response

- Hire a professional to receive and respond to constituent issues regarding foster and adoptive parenting with excellent listening skills and knowledge of foster and adoptive parenting. This individual will also follow-up with resource parents who have chosen to leave to explore their reasons and make an attempt to reengage them.

One full time employee (1.0 FTE) Grade 19 Project and Program Specialist II

- Fund a position dedicated to building awareness of Native American children in foster care and to promote recruitment of Native American homes.

One full time employee (1.0 FTE)

- Provide expert ongoing training, consultation and technical assistance to staff and contracted provider agencies on effective targeted and child specific recruitment and retention.

Contract with national or local expert in foster and adoptive recruitment

Need #2: Supporting Adoptive Placements

The needs of adopted children and their families do not end when the adoptive placement is made, or when the adoption is legally finalized. Post-placement support is critical to achieving the goal of finding permanent, stable, loving families for children, as well as maintaining those families who have already adopted. Adoptive parents need supports that will strengthen their families and enable them to handle the challenges of adoptive parenting. Resources earmarked

for increasing supports for adoptive families, before and after adoptions are finalized, are essential to strengthening the family and developing their capacity for long term sustainability.

While the Adoption Subsidy Program provides for some post-finalization services, the legislative scope of this program is limited to only the provision of services related to a child's pre-existing conditions. The Regional Behavioral Health Authorities are restricted to providing behavioral health services to the individual child to treat specific conditions. Additional supports and services are needed to fill the gaps in services available to adoptive families. Adoption preservation services, advanced training and education, and crisis intervention are needed to stabilize some adoptive placements and prevent children returning to foster care.

To address Need #2, the following use of the appropriation is suggested:

- Provide services from “specialized adoption therapists” to assist with the transition of some children from foster care to adoption. These services can assist with the integration of foster children and sibling groups into adoptive homes. These services will provide support to the entire family, which would include the pre-adoptive child or sibling group, the pre-adoptive parents and their other children.
- Fund and provide post-adoption support to adoptive families to preserve adoptions. Provide continuing education, training and support groups for adoptive parents statewide. Provide for extraordinary needs that families identify as essential for maintaining the adoption, and preventing dissolution.
- Provide a 24-hour crisis response line and crisis intervention for adoptive families with service providers who have adoption knowledge and experience to prevent adoption disruptions and dissolutions.

Utilize appropriation to provide comprehensive adoption support services.