STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, December 19, 2002
9:30 a.m.
Senate Appropriations Room 109

AGENDA

- Call to Order

- Approval of Minutes of November 25, 2002.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION - Arizona Department of Corrections - Report on Schofield v. State of Arizona (On Call Duty Pay).

1. ARIZONA DEPARTMENT OF ADMINISTRATION
   A. Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicle.
   B. Consider Approval of Lodging Reimbursement Rates.
   C. Consider Approval of Self-Insurance for State Employee Health Insurance and Bimonthly Report on the Implementation of Self-Insurance for State Employee Health Insurance.

2. SCHOOL FACILITIES BOARD - Consider Approval of Inflation Index.

3. COMMISSION FOR POSTSECONDARY EDUCATION - Consider Approval of Requested Transfer of Appropriations.

4. OFFICE OF THE ATTORNEY GENERAL
   A. Review Allocation of Settlement Monies.
   B. Review of Expenditure Plan for Antitrust Enforcement Revolving Fund.

5. ARIZONA LEARNING SYSTEMS/COMMUNITY COLLEGES - Determine Disbursement of Arizona Learning Systems Equipment.

6. ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT INFORMATION TECHNOLOGY AGENCY
   A. Report on HRMS Replacement Project.
   B. Review of Telecommunications Services Plan.

7. STATE DEPARTMENT OF CORRECTIONS
    A. Review of Pay Stipend and Hiring Bonus Program.
    B. Review of Private Prison Request for Proposal.

8. AHCCCS - Report on Cost Sharing Measures.

9. STATE COMPENSATION FUND - Consider Approval of Calendar Year 2003 and 2004 Budgets.

10. REPORT ON RECENT AGENCY SUBMISSIONS
    A. Arizona Department of Administration - Semi-Annual Report on Health Insurance Performance Standards.
    B. Attorney General - Report on Model Court.
    C. Arizona Criminal Justice Commission - Report on Criminal Justice Enhancement Fund.
    D. Department of Economic Security - Bimonthly Report on Children Services Program.
    E. Department of Economic Security - Report on Findings and Recommendations of the Developmental Disabilities Case Management Pilot Projects Committee.
    F. State Land Department - Report on Fire Suppression Revolving Fund.
    G. State Mine Inspector - Report on Abandoned Mines Safety Fund Expenditures and Contributions.
    H. Department of Revenue - Report on Ladewig Expenditures.
    I. Arizona Department of Transportation - Report on Vehicle Registration Enforcement.

The Chairman reserves the right to set the order of the agenda.
12/12/02

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

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE		HOUSE OF REPRESENTATIVES
RUTH SOLOMON CHAIRMAN 2002	1716 WEST ADAMS PHOENIX, ARIZONA 85007	LAURA KNAPEREK CHAIRMAN 2001
MARSHA ARZBERGER	PHONE (602) 542-5491	CAROLYN S. ALLEN
TIMOTHY S. BEE	FAX (602) 542-1616	MEG BURTON CAHILL
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JACK A. BROWN		LINDA J. LOPEZ
SCOTT BUNDGAARD		STEVE MAY
EDWARD J. CIRILLO		RUSSELL K. PEARCE
PETE RIOS		MARION L. PICKENS

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

November 25, 2002

The Chairman called the meeting to order at 8:13 a.m., Monday, November 25, 2002, in Senate Appropriations Room 109. The following were present:

Members:	Senator Solomon, Chairman	Representative Burton Cahill
	Senator Arzberger	Representative Gray
	Senator Bee	Representative Lopez
	Senator Bennett	Representative Pearce
	Senator Brown	Representative Pickens
	Senator Cirillo	
	Senator Rios	
Absent:	Senator Bundgaard	Representative Knaperek, Vice-Chairman
		Representative Allen
		Representative May
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Gina Guarascio	Bob Hull
	Brad Regens	Stefan Shepherd
	Jill Young	
Others:	Cynthia Odom	Attorney General's Office
	Vince Wood	Assistant Director, DES
	Bruce Liggett	Deputy Director, DES
	Bill Higgins	ADOT
	Catherine Eden	Director, Department of Health Services
	Mark Killian	Director, Department of Revenue
	Shawn Whiting	Social Worker, General Assistance Program
	David Bratteng	Private Citizen
	Tom Finnerty	St. Vincent de Paul
	Judy Bernas	Director, Government Relations, Univ. of Arizona
	Dr. Gary Passer	President, Navajo County Community College District
	Richard McNeely	Director, Biomedical Communications
	Monsignor Edward Ryle	Private Citizen

APPROVAL OF MINUTES

Senator Solomon moved that the minutes of October 24, 2002 be approved. The motion carried.

EXECUTIVE SESSION

Senator Bee moved that the Committee go into Executive Session. The motion carried.

At 8:14 a.m. the Joint Legislative Budget Committee went into Executive Session.

Senator Bee moved *that the Committee reconvene into open session.* The motion carried.

At 8:50 a.m. the Committee reconvened into open session.

A. ARIZONA DEPARTMENT OF ADMINISTRATION RISK MANAGEMENT SERVICES - Consideration of Proposed Settlements under Rule 14.

Senator Bee moved *that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Platte v. State of Arizona.* The motion carried.

B. DEPARTMENT OF REVENUE - Consider Approval of Remaining Ladewig Expenditure Plan under A.R.S. § 38-431.03.

Senator Bee moved *that the Committee approve the Department of Revenue's (DOR) total estimated expenditure plan of $27,607,100 for their 5-year administrative costs for Ladewig, as required by Laws 2002, Chapter 321. A new statutory allocation for administrative and settlement costs will be needed for each ensuing fiscal year beginning with FY 2004. Each year the Committee will give final approval of DOR's administration costs prior to the beginning of the next fiscal year to allow for updated information.*

The Committee also approved $7,497,000 for the remainder of the cost of DOR's plan for administrative costs in FY 2003. This would fully fund DOR's estimated administrative costs of $13,497,000 in FY 2003, when added to the $6,000,000 which the Committee approved at October's meeting. The total of $13,497,000, includes the $866,400, which was approved by the Committee in June for the first 3 months of FY 2003. The Committee requests that Personal Services monies (including overtime) only be spent on staff directly working on Ladewig, and that DOR continue to provide the Committee with monthly status and expenditure reports for the project. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) - Determine Adjustments to General Assistance Program (GA).

Mr. Stefan Shepherd, JLBC Staff, said that DES has requested that the Committee determine adjustments to the General Assistance program due to a projected insufficiency of funds. They have made this request pursuant to A.R.S. § 46-207. General Assistance is a program that provides financial assistance to persons who are unemployable because of a physical or mental disability. The program is intended to be a bridge to the federal Supplemental Security Income (SSI) program. After clients apply for GA the department is supposed to make an estimate as to whether or not the client is eligible for SSI. If they think that they are eligible they then can be approved for GA. When GA clients are approved for SSI the federal government will pay the state back for the GA benefits they paid out on behalf of those clients.

Senator Solomon asked how long it takes the federal government to reimburse the state for those clients. Mr. Shepherd said he was not sure of the length of time for reimbursement. The state was more concerned about the length of time it took for the federal government to determine if a client was SSI-eligible. It currently takes in excess of 1 year on average.

Senator Solomon stated that the state then carries a client for that period of time and then sometime after that if the client is SSI eligible the payment is forthcoming. In the last budget bill DES was instructed to be vigilant about accepting GA clients based on the belief that they would be accepted for SSI.

Mr. Shepherd said that is correct. Before the changes in the most recent legislative session the department was not required to determine whether or not a client would be eligible for SSI. The budget for the program was reduced to about $2.1 million because of the legislation. At this point, the department's best estimate for their projected deficit, should they continue the program as is currently run, for the rest of FY 2003 is close to $3 million.

Senator Solomon asked if these clients have children and whether they are eligible for assistance through other programs, such as food stamps.

Mr. Shepherd said clients that have children would be eligible for AHCCCS, food stamps and those kind of programs. For clients who do not have children there is no other formal program. They would have to get assistance from food banks and other emergency shelters.

Senator Cirillo said if since these GA clients are more in crisis in the first few months of GA receipt, another option would be to only have someone in the program for a certain number of months and then drop them. The new clients coming in would be able to use up the money so that would take care of the people who are more in crisis.

Mr. Shepherd made a correction to the GA clients without children in that they are eligible for food stamps.

Senator Solomon asked how it is determined that the need is greater in the first few months than the need in the remaining months. What are the changes in the clients' profile that indicate a lesser need.

Mr. Shepherd said that he understands it is based on information DES receives from their case workers in the field.

Representative Lopez asked why there is such a discrepancy in the estimate and what the actual figures are.

Mr. Shepherd said the discrepancy is probably twofold. One is the number of clients was increasing at the time the estimate was made. The base number of clients in the GA program was higher than the base number of clients that had been assumed in the appropriation before the appropriation was reduced. Secondly, the department had made an estimate that they thought about half of the clients on the GA program would no longer qualify under the new stricter eligibility rules. So far only about 20% of the clientele did not qualify.

Mr. Shepherd mentioned that the department is not sure how it would use SSI recoupment. If the Committee were to recommend shutting off the program DES would get additional SSI recoupments every month that reflect payments for GA benefits earlier this year, last year or a couple of years ago. Whatever the Committee chooses to do regarding this program, they may want to consider how to direct the department to spend additional SSI recoupments that it gets in, which is on the order of anywhere between $100,000 and $150,000 a month.

Representative Pickens asked if the SSI recoupments could be used for the GA program. Mr. Shepherd said that they are supposed to be used for the GA program.

Mr. Vince Woods, Assistant Director, DES, said the question regarding the timing of approval for SSI normally takes 12 months from the time the individual applies for SSI benefits to a decision being rendered. The amount of time for the department to recoup benefits happens when the individual is approved for SSI. The check is then sent to the department, not the recipient, for retroactive benefits, which is usually 12 months of back benefits. With regard to need being greater in the first few months, the information that the department receives is from discussions with advocates in the community. As to the number of GA clients with children, the program is mainly for adults. If they have minor children they are going to receive TANF benefits. The average GA benefit is $153.00 a month.

Senator Rios asked if these clients have to have an address to receive benefits.

Mr. Woods said they do not. They need an address in order to receive correspondence. The department has agreements with many homeless where their record of address is a shelter.

Mr. Woods said the department supports option 1 of the JLBC memo in the agenda book which is to keep the program running until all funding has been exhausted.

In response to Senator Solomon, Mr. Woods said they expect to run out of funds in mid December. They will have to stop taking applications from new clients after mid to late December. The program does not take a waiting list.

Senator Solomon said that this was a very painful process but felt the state has an obligation to protect their most vulnerable people, and General Assistance clients are very vulnerable.

Representative Gray asked what would happen to the employees if the program is stopped. Mr. Woods said that they actually have other responsibilities and their focus would be elsewhere, such as food stamps and TANF.

Mr. Bruce Liggett, Deputy Director, DES, said that this has been a very difficult year with the budget problems and they did consider requesting a supplemental appropriation, but with so many shortfalls in the department they are managing internally right now. Even with tightened criteria for eligibility the numbers of clients did not drop. At this point, for the department the options are limited.

Representative Lopez stated that the department recoups about $150,000 a month and asked what the monthly expenditure for this population is. Mr. Liggett said that they are projecting about $500,000 per month in expenditures.

Ms. Shawn Whiting, Advocate for General Assistance, spoke in support of the General Assistance program.

Mr. David Bratteng spoke in support of the General Assistance program.

Mr. Tom Finnerty spoke in support of the General Assistance program.

Monsignor Edward Ryle spoke in support of the General Assistance program.

Senator Solomon said that she was going to hold this item.

ARIZONA LEARNING SYSTEMS/COMMUNITY COLLEGES - Disbursement of Arizona Learning Systems (ALS) Equipment.

Ms. Jill Young, JLBC Staff, said that the Committee is required to direct the disbursement of ALS state-funded assets, which include 10 sets of video and telecommunications equipment and hub equipment. The Committee has at least 3 options:

1. Allow the community college districts to retain all or part of the equipment as proposed by each community college district.

2. Transfer possession of all or part of the ALS equipment to the University of Arizona Health Sciences Center for collaborative use by the Arizona University System per their proposal.

3. Sell all or part of the equipment. We do not have a precise estimate of the current value of these assets, but the sale could possibly generate $300,000. This is generally considered a last resort as articulated in the GITA letter.

JLBC Staff recommends that any equipment that cannot be utilized be sold and the funds returned to the General Fund, and that the Director of ALS be retained for 90 days to carry out the decision of the Committee and that the Committee receive a report within 75 days on that process.

Representative Pickens asked if the equipment could be utilized by itself or would further changes have to be made. Also could the University of Arizona Health Sciences Center use it and would they have to add to it to make it functional.

Ms. Young said it is her understanding that the community college use plan varies by each district. Approximately half of them would use the equipment to add an additional site to their currently existing networks. They would add it in without a lot of change. The Arizona university system would put that equipment into their existing statewide network that is all compatible with the ALS equipment. Each of the proposals would take some reconfiguration. There are plans on the part of those community college districts that need additional hardware to purchase the equipment necessary to make it work within their networks. None of the community college proposals included selling or giving up the existing ALS equipment.

Mr. Richard McNealy, Director, Biomedical Communications, University of Arizona, said that the equipment is identical to the equipment they have put throughout Arizona and the Arizona Telemedicine Program at their sites. It is perfectly compatible and gives them expansion capability into sites that they otherwise would not have funding for equipment. In their proposal they have divided it up into a series of goals. Goal 1 basically places equipment in 2 Colleges of Nursing, both at University of Arizona and ASU. This is very important because they are not on the statewide Telemedicine network right now. They also have a growing role in the Phoenix area and the Phoenix campus has 1 video conference room and the amount of activity for that room is such that they need a second location within that campus to video conference. The Arizona Cancer Center is currently not on the network. They also propose the use of the equipment to begin communications with the new translational genomics research institute that is being built in Phoenix. There is increased video conferencing with the Department of Health Services, and one of the units would be placed there for their presence on the U of A network. The network is growing at a great rate and we need to increase switching capacity that the hub equipment and the video bridging equipment as part of the ALS system could be utilized to greatly relieve the load on the current switching and video bridge board.

Senator Cirillo commented that the Telemedicine Program is well managed and has grown dramatically. It has done a tremendous service to the state. He said there is no question that the equipment should go to the Telemedicine Program.

Representative Pickens asked what is the cost to the universities to allow this kind of integration into what they already have. She also asked if this would be a help to the community colleges.

Mr. McNealy said the cost would be minimal, however, there would be local networking issues to work on with telecommunications staff with the University of Arizona and equipment to buy to do that. He said it would be of help in that it gives the network the capacity to engage in additional connections to the community colleges.

Dr. Gary Passer, President, Navajo County Community College District, said that all 10 community college districts did express the desire to retain the classroom equipment. The value of equipment new is a little over $40,000 per classroom. One district expressed the desire to use the 2 routers that are involved in the ALS system. None of the 10 districts wanted to use the telecommunications bridge. It is expensive and it is very large with high maintenance problems. Only 1 of the 10 districts would have to make modifications to use the ALS classroom equipment. It would be integrated into the existing systems and in some cases would expand sites. It will really help access in rural communities. It would be well-served and requested that the community colleges be allowed to keep the equipment and the routers.

Senator Arzberger commented that this equipment is now housed at community colleges and was intended for community college programs. She said she strongly supports the Telemedicine Program but if the equipment was meant for community colleges she would like to see the equipment stay there. She said it often takes 1 to 2 hours of travel to a campus in rural areas to take a course.

Senator Solomon asked why the equipment has not been expanded before now and why it has taken action by the Committee for a Request For Proposal to put this plan on the table.

Dr. Passer said when the equipment was installed for ALS purposes they had an agreement to leave those classrooms vacant for ALS programming. There were some blank spots in the programming and in most of the districts when there are blank spots those classrooms are utilized for in-district programming as well as ALS. If the Committee lets the community colleges retain this equipment, it will not be under the ALS program. The ALS program will no longer exist. All classes will be in-district programming and that will let them schedule the entire day for that classroom.

Ms. Judy Bernas, Director, Government Relations, University of Arizona Health Sciences Center, responded to Senator Solomon's question about how she believes this equipment will help the university ease the shortage of medical personnel. She said that the system that they have currently works with Telemedicine which has 67 sites across the state and their biomedical communications which can work with all the cable companies across the state. By being able to add new sites to the College of Nursing, ASU's College of Nursing and College of Pharmacy they can get a lot more education out to the rural areas. One of the most important things for the rural providers is having the resources of Telemedicine, and continuing medical education.

Senator Solomon asked about the 2+2 programs. Ms. Bernas said that they do not have anything set up with that program right now but are continuing to discuss it with community colleges. That is an important goal to expand their collaboration with the community colleges.

Representative Gray asked why the university system is not working with the community colleges, since they have the equipment, to bring in students from rural areas for the nursing programs.

Ms. Bernas said they are discussing working with community colleges. The community colleges often have the interactive equipment already. They were asked to put together a proposal in what they would see as their best use of the ALS equipment. They will continue expanding with the community colleges, which is one of their goals. Currently right now they are not doing any courses with the community colleges and they would like to be able to do that. Some of the community colleges have the right equipment, it is just working out the other details.

Senator Brown said he supports the universities and thinks they are doing a fine job but he feels they need to strengthen the community colleges and they need the support so they can send more kids to the university system. He supports keeping the equipment in the community colleges.

Senator Solomon recessed the Committee at 9:55 a.m. until the sound of the gavel.

Senator Solomon adjourned the meeting at 5:20 p.m., November 25, 2002.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Senator Ruth Solomon, Chairman

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

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Joint Legislative Budget Committee

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SENATE

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HOUSE OF
REPRESENTATIVES

DATE: November 20, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION – CONSIDER APPROVAL OF MILEAGE REIMBURSEMENT FOR STATE TRAVEL BY MOTOR VEHICLE

Request

In accordance with A.R.S. § 38-623D, the Arizona Department of Administration (ADOA) requests that the Committee approve the maximum mileage reimbursement rates. The change would be effective immediately after Committee approval. The rate is used to reimburse state employees who use their own vehicle while on official travel status.

Recommendation

The Committee has at least 2 options regarding this item:

- The Committee may choose to approve the rates as submitted, which would increase the cost of travel to the agencies, who will have to absorb the additional costs. ADOA estimates that the annual fiscal impact of these changes is $52,000 from the General Fund and $226,000 from all other funds in FY 2003, excluding the Universities.
- The Committee may choose to not approve the new rates, which has the effect of transferring some of the implied higher travel costs to employees.

Analysis

The federal government conducts an annual study based on market conditions across the nation including the cost of gasoline, repairs, maintenance, insurance, and depreciation It uses the data to update its travel reimbursement rates by November of each year. These rates are used by the Internal Revenue Service for tax purposes. ADOA compares Arizona's current rates to the federal rates and requests adjustments from the Joint Legislative Budget Committee. The federal government adjusted its mileage reimbursement rates to 36.5 cents per mile on January 1, 2002. At that time, ADOA did not believe an additional adjustment was necessary because of substantial decreases in the price of gasoline. Recent increases in gasoline prices have now provided justification for the proposed increase.

(Continued)

ADOA has requested that the increased reimbursement rate be effective immediately upon Committee approval. ADOA estimates impact of the new rates as an increase to the General Fund of $52,500 and an increase to all other appropriated and non-appropriated funds of $226,300 in FY 2003. ADOA utilized actual reimbursement amounts to estimate the impact. Those estimates did not include any cost data from the Universities, who do not utilize the ADOA accounting system.

RS:PS:ss

JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

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JUN - 7 2002
JOINT BUDGET
COMMITTEE

June 6, 2002

Senator Ruth Solomon, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Ms. Solomon:

We are submitting two areas to the Joint Legislative Budget Committee (JLBC) for review; the Retiree Accumulated Sick Leave (RASL) Fund pro rata payroll charge for FY03 and some recommended changes in the travel rates.

<u>**Retiree Accumulated Sick Leave (RASL)**</u>

A.R.S. §38-616 states that the pro rata payroll charge for the RASL Fund shall be established by the Director of the Department of Administration, subject to review by the JLBC. We recommend that the pro rata charge be maintained at the budgeted rate of .40 percent of the total benefit eligible payroll for FY03. This is within the limit established by statute and consistent with the State's appropriated budget.

<u>**Travel**</u>

<u>Mileage Reimbursement:</u> Effective January 1, 2002, the Federal Government increased the allowance for mileage reimbursement from 34.5 cents per mile to 36.5 cents per mile. At that time we reviewed the impact on the State. Due to significant reductions in gas prices last fall and our budget conditions, we did not feel an increase was warranted. However, gas prices have increased substantially once again. This latest increase is expected to be maintained. Accordingly, we request your review of this item.

<u>Lodging:</u> The Federal Government has adjusted their lodging allowances for several locations. We have reviewed these changes and are recommending some adjustments to the State's maximum lodging rates (see attached). For in-state lodging we are recommending 2 increases and 2 decreases. For out-of-state lodging, we are recommending increases to 7 of the top 20 most traveled destinations by State agencies. For the remaining out-of-state destinations, we are recommending decreases for 35 cities/seasons. The budgetary impact of these lodging changes is expected to be insignificant.

If you have any questions or need any additional information, please call me at 542-2122.

Sincerely,

D. Clark Partridge

D. Clark Partridge
Acting State Comptroller

Attachment

cc: J. Elliott Hibbs
Lee Baron
Tom Betlach
Kristine Ward
Richard Stavneak
Paul Shannon

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DATE:	November 20, 2002
TO:	Senator Ruth Solomon, Chairman Members, Joint Legislative Budget Committee
THRU:	Richard Stavneak, Director
FROM:	Paul Shannon, Senior Fiscal Analyst
SUBJECT:	ARIZONA DEPARTMENT OF ADMINISTRATION – CONSIDER APPROVAL OF LODGING REIMBURSEMENT RATES

Request

In accordance with A.R.S. § 38-624C, the Arizona Department of Administration (ADOA) requests that the Committee approve changes to maximum lodging rates for state employees on official travel. The new rates would become effective immediately after Committee approval.

Recommendation

The Committee has at least 2 options regarding this item:

- The Committee may choose to approve the rates as submitted, which would increase the costs of travel to the agencies, who will have to absorb the additional costs. ADOA estimates that a partial estimate of the net General Fund impact of these changes is $4,700 in FY 2003. This estimate is based only on travel purchased through the state's contracted travel agency and we cannot extrapolate this amount to a statewide total. We do not have a reliable estimate of the percentage of travel purchased by the contracted travel agency, other travel agencies, or directly by the agency.
- The Committee may choose to not approve the new rates, which has the effect of transferring some of the implied higher travel costs to the employee.

Analysis

Lodging rates were last approved by the Committee on November 28, 2000. ADOA is requesting an increase of between $7.00 and $34.00 per night for out-of-state lodging in 7 selected cities so that the state's reimbursement rates match federal reimbursement rates. Those cities include Washington, D.C., with an increase of $31.00 per night (for a total rate of $150.00 per night); Seattle, WA, with an increase of $34.00 per night; and Denver, CO, Chicago IL, San Antonio TX, and Orlando, FL, with increases at or below $26.00 per night. ADOA is also requesting a decrease of between $(1.00) and $(33.00) per night in 35 out-of-state cities or seasonal rates to match federal reimbursement rates.

(Continued)

ADOA additionally requests an increase in the in-state lodging rates of $5.00 for the off-season rates in Casa Grande and a $10.00 increase for the City of Yuma, and requests decreases to the off-season rates for Chinle and the Grand Canyon.

ADOA estimates that the General Fund impact of the lodging changes will be an increase of approximately $4,700 in FY 2003. ADOA utilized actual lodging expenditures from FY 2002 and inferred a percentage increase from the proportion of trips to the affected cities. The cost data was derived from the travel agency on contract with the state, but the impact is probably understated because some travel arrangements are made without the use of the agency. Similarly, ADOA cannot provide an estimate of the costs to the Universities because the campuses manage accounting information independently.

RS:PS:ss

JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

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June 6, 2002

Senator Ruth Solomon, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Ms. Solomon:

We are submitting two areas to the Joint Legislative Budget Committee (JLBC) for review; the Retiree Accumulated Sick Leave (RASL) Fund pro rata payroll charge for FY03 and some recommended changes in the travel rates.

Retiree Accumulated Sick Leave (RASL)

A.R.S. §38-616 states that the pro rata payroll charge for the RASL Fund shall be established by the Director of the Department of Administration, subject to review by the JLBC. We recommend that the pro rata charge be maintained at the budgeted rate of .40 percent of the total benefit eligible payroll for FY03. This is within the limit established by statute and consistent with the State's appropriated budget.

Travel

Mileage Reimbursement: Effective January 1, 2002, the Federal Government increased the allowance for mileage reimbursement from 34.5 cents per mile to 36.5 cents per mile. At that time we reviewed the impact on the State. Due to significant reductions in gas prices last fall and our budget conditions, we did not feel an increase was warranted. However, gas prices have increased substantially once again. This latest increase is expected to be maintained. Accordingly, we request your review of this item.

Lodging: The Federal Government has adjusted their lodging allowances for several locations. We have reviewed these changes and are recommending some adjustments to the State's maximum lodging rates (see attached). For in-state lodging we are recommending 2 increases and 2 decreases. For out-of-state lodging, we are recommending increases to 7 of the top 20 most traveled destinations by State agencies. For the remaining out-of-state destinations, we are recommending decreases for 35 cities/seasons. The budgetary impact of these lodging changes is expected to be insignificant.

If you have any questions or need any additional information, please call me at 542-2122.

Sincerely,

D. Clark Partridge

D. Clark Partridge
Acting State Comptroller

Attachment

cc: J. Elliott Hibbs
Lee Baron
Tom Betlach
Kristine Ward
Richard Stavneak
Paul Shannon

Lodging Analysis
June 6, 2002

Effective October 1, 2001, the Federal government adopted new rates for the reimbursement of lodging costs incurred by employees traveling on government business. The following is a brief review of the Federal changes, recommendations of how these changes should be applied to Arizona reimbursement rates, and an estimate of the effects the recommended changes would have on Arizona if our recommendations are adopted.

Executive Summary

We are recommending that out-of-state rates increase to the Federal rate for 7 of the top 20 most traveled destinations by State agencies. For the remaining out-of-state destinations, we recommend decreasing the State rate to match the Federal rate for 35 cities and seasons. For In-State lodging rates, we are recommending matching the federal rates resulting in an increase for two locations and a decrease for two locations. Although the proposed increases are more frequently visited locations, we believe the increases will be negligible.

Out-of-State Lodging

The most recent changes in the Federal lodging rates of the 631 domestic per diem rates for cities and seasons were distributed as follows: 54% of all rates increased, 6% of all rates decreased, and 40% of all rates remained the same.

Within the top twenty city locations most visited by Arizona employees traveling for the State, the changes were distributed as follows: 35% increased, 0% decreased, and 65% remained the same. These top twenty destinations represent approximately 52% of all reimbursed Arizona lodging. The average increase for these top twenty was 6.91%.

We propose that we change Arizona rates to coincide with Federal rates for the top twenty cities. We further propose that for the remaining 608 domestic per diem rates, we decrease Arizona rates where the Federal rates have been decreased and leave them unchanged where the Federal rates have remained the same or have increased. The distribution of changes among all other domestic per diem rates is as follows: 55% increased, 6% decreased, and 39% remained the same.

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

The overall, weighted increase for the top twenty destinations is 6.91%. One could estimate the likely percentage change for all destinations by multiplying the percentage of destinations increasing among the top twenty locations (35%) times their frequency (52%) and then subtracting the percentage of decreasing locations among the remaining destinations (6%) times their distribution (48%) and, finally, multiplying this remainder times the rate increase experienced among the top twenty (6.91%). This approach would yield a likely across-the-board increase in cost of 1.78%.

When considering out-of-state rates, it should be kept in mind that destination to many out-of-state trips are to conferences. The reimbursements for conference accommodations are not governed by the overall reimbursement rates. Therefore, many State travelers will be reimbursed at rates other than those shown in this analysis, and any analysis we perform in this area is therefore bound to contain inaccuracies.

In-State Lodging

2002 Federal rates for reimbursement of lodging for stays in Arizona have decreased by 0.3% under those for 2001. We recommend that Arizona modify its rates to reflect current Federal rates, including all increases and decreases.

Summary

If one can estimate a 1.11% increase in out-of-state lodging based on the recommended changes, the net effect on the State's finances is minimal.

We have attached the following spreadsheets:

1. Overall analysis of the projected overall impact on the General and Other Funds that would result from the adoption of the GAO's recommendations.

2. Out-of-state and in-state lodging spreadsheets which list in order of dollar volume of expenditure, the projected impact of the recommended changes to the out-of-state lodging rates.

3. 2002 Domestic per diem rates proposed changes for Top 20 Locations, All Other Locations, and In-State locations.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: December 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ADOA - CONSIDER APPROVAL OF SELF-INSURANCE FOR STATE EMPLOYEE HEALTH INSURANCE AND BIMONTHLY REPORT ON THE IMPLEMENTATION OF SELF-INSURANCE FOR STATE EMPLOYEE HEALTH INSURANCE.

Request

As required by Laws 2002, 2nd Regular Session, Chapter 328, the Arizona Department of Administration (ADOA) has submitted the second bimonthly report on the implementation of self-insurance for the state employee health and dental insurance plans.

Recommendation

The House and the Senate each passed an omnibus reconciliation bill in the 6th Special Session in November that contained a provision to delay self-insurance from October 1, 2003 to October 1, 2004. The Governor also requested this delay. As you know, the omnibus reconciliation bill was not enacted. Since that time, ADOA has issued Requests for Proposals (RFPs) soliciting bids to self-insure for health and dental plans. A.R.S. § 38-651 requires Committee approval for ADOA to implement self-insurance by October 1, 2003. While no action is required, the Committee may choose to consider:

- Approving ADOA implementing self-insurance by October 1, 2003 (pursuant to A.R.S. § 38-651)
- Not approving ADOA implementing self-insurance by October 1, 2003 (pursuant to A.R.S. § 38-651)
- Delaying action until a future date.

(Continued)

Analysis

Bimonthly Report on the Implementation of Self-Insurance.
The submission by ADOA complies with the requirements of Laws 2002, 2nd Regular Session, Chapter 328 by providing a bimonthly update on the department's progress in implementing self-insurance for state employee health and dental insurance plans. ADOA reports expenditures of $411,200 to date in FY 2003; of this amount, $33,900 was expended for project staff salaries and an additional $377,300 was expended for consulting services.

ADOA is pursuing a dual track for the procurement of state employee health insurance for FY 2004:

- The initial requests for proposal (RFP) for self-insured health and dental plans were released on December 9, 2002. Proposals are due from the vendors during the period January 17-20, 2003. All proposals will be reviewed immediately after the due dates.
- In light of the uncertainties surrounding self-insurance, the department is also preparing to negotiate a renewal of the fully insured employee health and dental insurance with Cigna and other current vendors. Should the requirement for self-insurance be delayed or abolished, renewing the current contracts becomes necessary to continue providing health and dental insurance to state employees.

ADOA also reports that the Self-Insurance Advisory Council meetings have been suspended while the self-insurance RFPs are being developed. No date for the resumption of the meetings has been provided.

During the 2002 6th Special Session, the Legislature considered delaying the implementation of self-insurance to October 1, 2004 and included the provisions as part of the Public Finance Omnibus Reconciliation Bill. However, the bill failed as a result of other non-related issues.

Finally, ADOA proposes several statutory changes as part of the state employee health insurance program:

- Modifying A.R.S. § 38-651 to allow a new maximum amount paid by the state to individual premiums beginning October 1, 2003;
- Add language to A.R.S. § 38-651 to exempt benefits program changes from the administrative rules making process;
- Modifying A.R.S. § 38-654 to establish the Special Employee Health Insurance Trust Fund (HITF) as an irrevocable trust for employee health insurance purposes;
- Modifying A.R.S. § 38-654D(4) to remove the administrative assessment and allow the dedication of HITF monies to be used as a claim reserve.

RS:PS:ss

JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION
HUMAN RESOURCES DIVISION
100 North Fifteenth Avenue, Suite 261
Phoenix, Arizona 85007
(602) 542-7290

December 4, 2002

The Honorable Ruth Solomon
Chair, Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Solomon:

This is to request placement on the December meeting agenda of the Joint Legislative Budget Committee for the attached bimonthly report on implementation of self insurance. This report covers the period October 1, 2002-November 30, 2002, and is required by Chapter 328, 45th Legislature, 2nd Regular Session. The report continues to show the progress towards the goal of self insuring by October 1, 2003.

If you have any questions related to this report, please contact me at 542-7290, or Susan Strickler, Benefits Manager, at 542-4788.

Sincerely,

Kathy Peckardt

Kathy Peckardt
Assistant Director

cc: J. Elliott Hibbs, ADOA
Richard Stavneak, JLBC
Kristine Ward, OSPB

ADOA
Arizona Department of Administration

Self-Insurance Progress Report

December 4, 2002

Chapter 328, 45th Legislature, 2nd Regular Session, mandates the Arizona Department of Administration (ADOA) to self-insure group health and dental benefits by October 1, 2003 and requires bi-monthly reporting on the implementation progress. This is the second report to the Joint Legislative Budget Committee and covers the period October 1, 2002-November 30, 2002. ADOA has developed a plan to implement self-insurance by October 1, 2003. The following outlines the progress to date in key areas of program implementation:

Project Budget

HB2708 appropriated $1.5 million in FY '03 for costs associated with the implementation of the self-insurance program.

Identified expenditures are:

- Personal services and employee related expenditures for a Project Manager and Administrative Assistant
- Professional and outside services for consulting
- Communication costs

	Anticipated	Incurred as of 11/30/02	Appropriation
			$ 1,500,000
Personal Services	$ 91,700	$ 28,269	
Employee Related Expenditures	$ 19,300	$ 5,666	
Professional and Outside Expenditures			
Mercer Consulting	$ 1,239,000	$ 377,311[1]	
Communication Costs[2]	$ 150,000		
Total	**$ 1,500,000**	**$ 411,246**	
REMAINING BALANCE			**$ 1,088,754**

Proposed Legislation

While ADOA currently has statutory authority to establish a self-insurance program (A.R.S. §38-651), statutory changes are needed to resolve or clarify several anticipated issues:

Language in A.R.S. § 36-651(D) would be amended to increase the State maximum paid towards individual monthly premium payments. This is needed in view of the expected increases in health care premiums for the plan year starting October 1, 2003.

[1] $215,517.96 incurred 7/1/02-9/30/02; $81,793.22 incurred for October 2002; $80,000 estimated for November 2002.

[2] Four direct-mail newsletters will be distributed to employees/retirees between the months of December and March explaining the transition to self-insurance and necessary plan information.

In order to facilitate the administration of the self-insurance program, it is proposed to add Section N to A.R.S. § 38-651. This language proposes that, while ADOA must establish policies governing the administration of the self-insurance program as well as the resolution of any disputes by an unbiased third party medical panel, such policies are exempt from the requirements of the Administrative Procedures Act (APA). Having to adopt rules each and every time a change is made to the State's benefits program is unworkable.

A.R.S § 38-654 would be amended to establish the HITF as an irrevocable trust, and to provide that funds deposited in the HITF are irrevocably dedicated for employee health insurance purposes. This will protect the fund from being placed in jeopardy during periods of revenue shortfalls.

ADOA proposes to strike the existing A.R.S. § 38-654 D (4) which sets a rate on the administration costs per month and modify the section to add an additional use for the dedication of monies within the HITF fund to be used for claim reserves required under self-insurance. The administrative amounts have been established by legislative appropriation for some time rather than following the statute. This simply modifies the statutes to recognize existing practice.

Background:
The Legislature has directed that ADOA self-insure employee health insurance by October 1, 2003. While ADOA currently has statutory authority to establish a self-insurance program (A.R.S. § 38-651), statutory changes are needed to resolve or clarify several anticipated issues:

A.R.S. § 38-651 (D) places a maximum on the State portion of the monthly premium payment for health insurance. With the recent increase in premiums, the State portion of the out-of-state/out-of-network premium for the PPO plan exceeded the maximum. In addition, the expectation of future increases in health care costs means that current limits may no longer be sufficient. ADOA proposes to increase the maximum amounts to bring the plan back within statutory compliance and to prevent future premiums from exceeding the maximum. The Legislature always reviews the proposed decisions on benefits contract awards and premium contribution strategies before adoption and announcement. That is not changed under this proposal.

Section N has been added to A.R.S. § 38-651 to exempt the self-insured program from the Administrative Procedures Act (APA):

- There is question as to whether policies relating to coverage, claims and other administrative matters are subject to the rule-making provisions of the APA, A.R.S. § 41-1001 *et seq* and may not be applicable.
- The extensive and lengthy process involved with the APA would restrict the State/ADOA from changing or modifying necessary policies on an expedited basis to adjust for medical claim trends, health care market adjustments and financial needs to maintain HITF Fund solvency.
- The APA provides that disputes must be resolved using the Office of Administrative Hearings (OAH). ADOA proposes to use, under a self-insurance approach, a review panel of medical specialists to adjudicate medical issues before a case is appealed to the Office of Administrative Hearings. This will reduce the number of appeals to OAH for medical determinations. If the case is eventually reviewed by OAH, the Administrative Law Judge will have additional medical evidence to consider.

A.R.S. § 38-654 establishes the Health Insurance Trust Fund to fund employee health insurance programs. Currently, appropriated funds deposited in the HITF may be removed and redirected by the Legislature for other purposes. It is vital with a new self-insurance program that the State maintain a sufficient reserve to meet several months of anticipated claims until enough claims history is available to accurately anticipate costs. It is necessary, therefore, to amend the statute to provide that reserve funds may not be re-appropriated for other purposes. Funds would only be used for the purposes of paying claims, administering and maintaining employee and retiree benefits.

A.R.S. § 38-654 establishes the HITF and specifically, Section D. (4), stipulates that not more than $1.50 per employee per month shall be used for administrative purposes. There is and has been a conflict between this wording and the amounts collected through provider contracts for administrative and wellness purposes. The $1.50 wording was in statute prior to the appropriation of administrative expenditures by the legislature and, thus served as a cap on administrative costs. Since FY 1999, the administration budget has been appropriated, and the statutory language has been ignored, as appropriations were made exceeding this cap. The current contract for medical insurance includes a $4.10 per employee/per month surcharge, and the dental contract includes a $1.00 surcharge. With the advent of appropriation status for the administrative portion of this fund, and particularly under self-insurance, the wording ($1.50) can be eliminated from statute.

Modification of Section D (4) adds authorization for ADOA to utilize monies within the fund for claim reserve purposes.

Fiscal Impact:
There is no fiscal impact related to above proposed changes. Since the administrative appropriation supercedes the provider collection rate, the wording is no longer necessary.

Self-Insurance Advisory Council

The last meeting of the Council was October 24, 2002. Meetings were suspended until after the RFP's were released or a delay is granted by the legislature.

RFP Distribution

Program RFP's will be released the week of December 2, 2002. A pre-proposal conference has been scheduled for December 20, 2002. All proposals will be due to the State Procurement Office on January 20, 2002.

Technical review committees will be organized and will begin reviewing proposals on January 21, 2002. ADOA will request to be on the JLBC agenda for the April or May meeting to discuss the contract awards pursuant to ARS §38-658 in executive session.

Available FY '04 Options

A scope of work was distributed among the contracted Human Resources consulting firms to research and recommend possible health insurance alternatives for the FY '04 plan year. During the consultant interviews, it was apparent there were few options available due to limited claims data, budget constraints, and the short time frame in which to implement any option. Therefore, the scope of work was terminated.

CIGNA Renewal

ADOA will continue with a dual track for FY '04 to include a possible CIGNA renewal and implementation of self-insurance. Pursuant to contract provisions, CIGNA submitted its introductory renewal estimate on November 15, 2002. The final renewal request will be submitted on February 28, 2003 when additional claims data is analyzed by CIGNA. ADOA and CIGNA will be negotiating throughout this period and anticipate finalization of rates in March, 2003. CIGNA has requested the initial renewal rates be kept confidential until after February 28, 2003 due to proprietary concerns.

Project Developments

ADOA is continuing to research procedures for Medicare issues, Federal requirements for development of Summary Plan Descriptions (SPDs), and independent review organizations. These issues will be discussed in the next progress report when our research has been finalized.

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

DATE: November 18, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – CONSIDER APPROVAL OF INFLATION INDEX

Request

The School Facilities Board (SFB) requests that the Committee approve an increase of 4.8% in the cost-per-square foot factors used in its building renewal and new school construction financing formulas, based on the Marshall Valuation Service (MVS) construction cost index for July 2002. The 4.8% adjustment would take effect for new school construction in FY 2003. The adjustment for building renewal would be scheduled to take place in FY 2004. Laws 2002, Chapter 330, however, suspended the building renewal formula in that year. In February 2000, the Committee selected the MVS index as a benchmark for adjusting the cost-per-square-foot figures each year.

At the August 2002 meeting, the Committee considered approval of an inflation index. The Committee considered many options at the meeting, including 1) a 4.8% increase based on the MVS construction cost index for July 2002; 2) a 1.0% increase, which is equal to the Gross Domestic Product (GDP) price deflator for FY 2002; 3) a 0.6% increase, which is equal to the inflation increase that was adopted in FY 2002; and 4) no inflation increase. The Committee did not take action at the August meeting, opting instead to defer any decision until SFB had submitted to JLBC Staff its new school construction report for FY 2004.

Recommendation

The Committee has at least four options:

1) Approve a 4.8% increase in the cost-per-square-foot factors used in the building renewal and new school construction financing formulas based on the MVS index. The index, which the Committee has used in the past, would cost $9.4 million in FY 2004. A.R.S. § 15-2041D.3c requires the cost-per-square-foot to be adjusted “for construction market considerations.”

(Continued)

2) Approve a 1% increase in the cost-per-square-foot factors used in the building renewal and new school construction financing formulas. This increase is equal to the Gross Domestic Product (GDP) price deflator for FY 2002. This option would cost $2 million in FY 2004, but is not based on a construction-specific inflation index.

3) Approve a 0.6% increase in the cost-per-square-foot factors used in the building renewal and new school construction financing formulas based on the MVS index for the period July 1, 2000 to June 30, 2001. The Committee selected this as the adjustment for FY 2002 at the August 2001 meeting. This option would cost $1.2 million in FY 2004.

4) Do not approve an increase in the cost-per-square-foot factors used in the building renewal and new school construction financing formulas. This option, which would require the Legislature to notwithstand the statutory indexing requirement in session law, would have no cost in FY 2004.

The Committee wanted to receive more information from the SFB new school construction report on demographic assumptions, proposed construction schedule and new school construction costs before approving an index. According to the report, SFB plans to spend about $391 million on new construction projects in FY 2003 and about $229 million in FY 2004.

Analysis

This section includes 1) background information regarding the SFB inflation index, 2) an explanation of the options available for the current index, 3) a summary of the estimated impact of each option on the state, and 4) a discussion of the new school construction report.

<u>Background Information</u>

The original Students FIRST legislation (Laws 1998, Chapter 1, 5th Special Session) established funding amounts per square foot of space for new construction and building renewal (e.g., $90 per square foot for Grades K-6). It required, however, that those amounts be adjusted periodically for inflation (A.R.S. § 15-2041D.3c). The latter provision states that the funding amount per square foot "shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee as necessary but not less than once each year."

At its February 2000 meeting, the Committee approved the MVS construction cost index for Class C structures (masonry bearing walls) for Phoenix for the period from July 1 through June 30 of each year. At that time, the relevant MVS index was 3.5%, so the Committee approved that index for the subsequent budgetary period. Later that year (during September 2000), the Committee approved an additional 4.6% "catch up" increase based on revised data from MVS.

At its August 2001 meeting, the Committee again used the MVS index for Class C structures. At that time, the relevant MVS index was 0.6%.

<u>Options for the Current Index</u>

The MVS index for "Class C – Masonry Bearing Walls" structures for Phoenix for the period from July 1, 2001 through June 30, 2002 is 4.8%. Approving this option would be consistent with past decisions of the Committee. It would require, however, a greater increase in expenditures of the 2 options. In addition, the MVS only provides information on buildings in the city of Phoenix. We do not have information on the index for areas in Arizona outside of Phoenix. Therefore, we do not know how accurate the index is statewide.

(Continued)

A 1% increase would equal the GDP deflator for FY 2002. Though this option is not specifically tied to a construction index, it is a standard inflationary index and it is used to adjust K-12 maintenance and operations funding.

It should be noted that both of the above options are based on inflation that has occurred in the past. Neither of the measures is prospective.

The current cost-per-square-foot factors, and what those factors would become according to each of the above two options, are presented in the table below.

SFB Cost Per Square Foot Factors
Current and Proposed

	Urban Cost/Sq. Ft.			Rural Cost/Sq. Ft. (Urban * 1.05)		
Grade Level	Current	Proposed		Current	Proposed	
		4.8%	1.0%		4.8%	1.0%
Preschool w/Disabilities & K-6	$98.01	$102.71	$98.99	$102.91	$107.85	$103.94
Grades 7-8	$103.47	$108.44	$104.50	$108.64	$113.85	$109.73
Grades 9-12	$119.80	$125.55	$121.00	$125.79	$131.83	$127.05

In addition to the above 2 options, the Committee also considered a 0.6% increase at the August meeting, which is equal to the previous year adjustment.

Affect on State Budget for K-12 Building Renewal

There would be no affect on the Building Renewal Fund in FY 2003 or FY 2004 no matter what index is approved. Laws 2002, Chapter 330 suspended the building renewal formula in those years and determined a building renewal distribution amount of $38,274,100 in FY 2003.

Affect on State Budget for New School Construction

The SFB assumes that an increase in the cost-per-square-foot factors *would* affect costs for new school construction during FY 2003. If a 4.8% increase were approved, the estimated fiscal impact for this change for FY 2003 would be $495,600. SFB indicates that the new factors would increase the cost of new school construction by approximately $9,912,800 to be spread over FY 2003 and FY 2004. Based on the typical funding flow for new school facilities, only about 5% of that sum**C**$495,600**C**would be expended in FY 2003. The remainder (estimated at $9,417,200) would be expended in FY 2004, with some expenditure possibly slipping into FY 2005.

Assuming a 10% increase, the estimated fiscal impact for FY 2003 would be $103,300. The impact in FY 2004 (with again the possibility of some expenditures in FY 2005) would be $1,961,900 in this scenario. The total impact, therefore, would be $2,065,200.

Laws 2002, Chapter 330 give SFB authority to conduct lease-to-own transactions in an amount not to exceed $400 million. Because the costs arising from the new construction cost factor are small compared with the total funding required for new construction in FY 2003, costs may be able to be absorbed within the existing amounts set aside in the budget for this year. Either inflation adjustment, however, would affect SFB's FY 2004 estimated funding.

(Continued)

New School Construction Report

A.R.S. § 15-2002A.13 requires SFB to submit its demographic assumptions, proposed construction schedule, and new school construction cost estimates for the following fiscal year to the Joint Committee on Capital Review. *Attachment 1* is the JLBC Staff preliminary analysis associated with that report. As the analysis indicates, SFB analyzes district enrollment figures on a case by case basis. The board, therefore, did not include any statewide student enrollment projections in the report. Based on historical data, JLBC Staff estimates statewide district enrollment to grow by 2.3% in FY 2003 and 2.4% in FY 2004. This is about equal to the FY 2002 growth rate of 2.4%. The growth rate for FY 2002 is slightly inflated, however, due to the inclusion, for the first time, of Joint Technology Education District (JTED) students in the data. Excluding those students, student enrollment grew by 1.8% in FY 2002.

Also included in the report is the board's projected funding of new school construction projects by year. The board expects to spend approximately $391 million on new projects in FY 2003 and about $229 million in FY 2004. As noted in the analysis, however, SFB may be projecting some FY 2003 expenditures that will actually occur in FY 2004.

RS:JC:ss

Attachment 1

Analysis of New School Construction Report

Demographic Assumptions

The School Facilities Board (SFB) bases its demographic assumptions on its analysis of school district forecasts of their Average Daily Membership (ADM), included in the Capital Plans submitted by districts to the board. To conduct the analysis, SFB uses state population data, grade progression estimates, historical ADM growth, and, if applicable, residential housing growth. Analysis of student enrollment growth is performed on a district by district basis.

The SFB staff expects to recommend to the board for approval 23 new school construction projects for 20 school districts from December 2002 to March 2003. Only 13 of these districts, however, submitted a Capital Plan to SFB by the September 1 deadline. For the districts that submitted data, SFB estimates FY 2004 enrollment to grow in each district by an average of 9.8% for grades P-8 and by an average of 13.2% for grades 9-12. The 5-year average enrollment growth for these districts is 6.6% for grades K-8 and 6.2% for grades 9-12. The SFB, therefore, expects student enrollment in these districts to increase more rapidly than the historical rates of growth. This is due to SFB often using district enrollment projections, which rely more on projected residential housing development data than historical growth data.

Construction Schedule

The SFB estimates that it will oversee 64 new school construction projects in FY 2004. Of the total, SFB estimates that 57 projects will be ongoing from a previous year and 7 projects will begin construction in FY 2004. This estimate, however, only includes projects that have already been given board approval. In addition, SFB staff expects to recommend 23 new projects to the board for approval from December 2002 to March 2003. Though SFB has provided total cost and yearly cash flow estimates for these 23 projects (see Cost Estimates section below), SFB has not provided estimated plan review, bid, construction start, or construction complete dates.

Cost Estimates

The board estimates it will provide total funding of $229,407,700 for 55 new school construction projects in FY 2004. Of the total, SFB estimates providing $161,071,300 for 35 projects that have already been given board approval and $68,336,400 for 20 projects that SFB staff will recommend to the board for approval from December 2002 to March 2003. Of the $68,334,400 for the 20 projects yet to be approved, $2,188,300 is due to design and architecture fees (5% of the total cost of the project) for 6 projects that SFB estimates will actually begin construction in FY 2005.

The number of projects SFB estimates providing funding for in FY 2004 does not correspond to the number of projects the board estimates will actually be scheduled for new school construction work in that year. For board approved projects, SFB staff estimates construction work on 64 projects, but only estimates providing funding for 55 projects. The reason for this is that SFB has cash flowed all of a project's expenditures in FY 2003 for some projects the board believes will actually be completed within the first few months of FY 2004. JLBC Staff, therefore, believes either that projects will be finished earlier than the board is currently estimating or that some of the board's estimated FY 2003 expenditures will actually occur in FY 2004.

In addition, the number of projects SFB staff plans to recommend to the board for approval (23) does not correspond to the number of projects SFB estimates providing funding for in FY 2004 (20). This is due to SFB's assumption that 2 of those projects will be completely funded in FY 2003 and 1 project will be funded in FY 2005. JLBC Staff believes that it is unlikely that projects approved in the latter half of FY 2003 could also be completed and funded in the same year. It is more likely that the majority of the $14,161,500 in estimated expenditures for these 2 projects will occur in FY 2004 and FY 2005.

STATE OF ARIZONA SCHOOL FACILITIES BOARD
MEMORANDUM

TO: SENATOR RUTH SOLOMON, CHAIR
REPRESENTATIVE LAURA KNAPEREK, VICE CHAIR
RICHARD STAVNEAK, JLBC STAFF DIRECTOR

FROM: ED BOOT, INTERIM EXECUTIVE DIRECTOR

SUBJECT: INDEXING OF SCHOOL CONSTRUCTION COSTS

DATE: 8/8/02

The School Facilities Board staff requests to placed on the August JLBC agenda for the purpose of approving the cost of construction index factor.

A.R.S. 15-2041, Section D, Subsection 3(c), states in part "…The cost per square foot shall be adjusted annually for construction considerations based on an index identified or developed by the joint legislative budget committee as necessary but no less than once each year."

Last August, JLBC approved a 0.6 percent increase based on the Marshall Evaluation Service index for class C (masonry bearing walls) construction in the Phoenix Market. The increase reflected inflation between July 2000 and July 2001.

The Marshall index lists the July 2001 to July 2002 increase in building costs at 4.8 percent. The impact of this increase on the dollars per square foot provided is reflected in Table 1. We recommend using this figure to update the statutory cost per square foot.

Table 1

Grade Level	Current Amount	Adjusted Amount
K - 6	$98.01	$102.71
7 - 8	$103.47	$108.44
9 - 12	$119.80	$125.55

The increase will affect both the building renewal and new construction programs. For building renewal there is no impact for FY 2003, and the estimated FY 2004 impact is $0 with the legislative suspension of the formula. The new construction impact is estimated at $9,912,807.79. This impact will be spread between FY 2003 and FY 2004.

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

DATE: November 18, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jill Young, Fiscal Analyst

SUBJECT: COMMISSION FOR POSTSECONDARY EDUCATION – CONSIDER APPROVAL OF REQUESTED TRANSFER OF APPROPRIATIONS

Request

The Commission for Postsecondary Education requests Committee approval to transfer appropriations in FY 2003. Specifically, the Commission requests to transfer $52,500 as shown below:

TRANSFER FROM:		TRANSFER TO:	
Family College Savings Program SLI	$48,700	Personal Services	$42,600
College and Career Guide SLI	3,800	Employee Related Expenditures	9,900
TOTAL	$52,500	TOTAL	$52,500

Recommendation

The JLBC Staff recommends that the Committee approve the agency request.

Analysis

The Commission's budget format for FY 2003 is Modified Lump Sum by Agency with Special Line Items. Pursuant to A.R.S. § 35-173E, this budget format requires the Committee to approve any transfer to or from Personal Services and Employee Related Expenditures (ERE) from or to any other budget program or expenditure class.

This transfer is necessary to offset a $(100,000) General Fund reduction in general administration enacted in the last regular session and is consistent with the intent at the time of enactment. The monies being transferred from the Family College Savings Program SLI are administration dollars that will be used on that program as well as other programs.

RS:JY:ss

ARIZONA COMMISSION FOR POSTSECONDARY EDUCATION
2020 NORTH CENTRAL, SUITE 550
PHOENIX, ARIZONA 85004-4503
TEL: (602) 258-2435
FAX: (602) 258-2483
E-Mail: toni@azhighered.org
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NOV 13 2002
JOINT BUDGET COMMITTEE

November 12, 2002

The Honorable Laura Knaperek, Chair
Joint Legislative Budget Council
1716 West Adams
Phoenix, Arizona 85007

Dear Representative Knaperek:

As a modified lump sum agency, the *ARIZONA COMMISSION for POSTSECONDARY EDUCATION* (the *COMMISSION*) is required to request *JLBC* approval in order to transfer funds from Operations to Personnel Services.

Accordingly, the *COMMISSION* is requesting the *Committee's* approval to transfer $52,500 for personnel and ERE from the *Arizona Family College Savings Program (AFCSP)* and *Arizona College & Career Guide (ACCG)* to the Postsecondary Fund as well as $47,500 for Professional and outside Services and Other Operating Expenses, including *College Goal Sunday (CGS)* and other *Twelve Plus* programs, totaling $100,000.

The *COMMISSION'S* general administration from the State General Fund has been eliminated for FY 2003; therefore, we have no alternative but to use the aforementioned Postsecondary Funds from non-state funds to supplement this reduction.

Your consideration of this request is very much appreciated.

Respectfully,

Verna L. Allen
Executive Director

CC: Senator Ruth Solomon, Co-Chair, JLBC
JLBC Director
Jill Young, JLBC Budget Analyst
Dawn Nasary, OSPB Budget Analyst

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
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HOUSE OF REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
LINDA J. LOPEZ
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS

DATE: November 19, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Fiscal Analyst

SUBJECT: ATTORNEY GENERAL – REVIEW ALLOCATION OF SETTLEMENT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General (AG) has notified the Committee of the allocation of monies to be received from 4 settlement agreements.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for the following 2 settlements: Sears, Roebuck Company and Household Finance Corporation.

In addition to the 2 above mentioned settlements, the AG has notified the Committee of settlement agreements with Salton, Inc and with music distributors involved in antitrust litigation, but distribution plans for these settlement monies have not yet been determined. As the intent of the General Appropriation Act footnote is for the Committee to advise the AG on the distribution of settlement monies, the JLBC Staff recommends that the Committee defer review of these 2 settlements until we have more information on the specific distribution plans.

Analysis

The FY 2002 and 2003 General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review.

Consumer Fraud
The Office of the Attorney General recently settled 2 consumer fraud cases that will result in the receipt of settlement monies over $100,000. The first case involved violations of the Arizona Consumer Fraud

(Continued)

Act by Sears, Roebuck and Co. related to a 1993 court order directing the company to clearly post maintenance agreement signs in both English and Spanish. The original court order required the company to specify that Sears' maintenance agreements cannot be obtained in Mexico, and can only be performed in an authorized service center in the United States. In the settlement agreement, Sears agreed to pay a total of $200,000 for investigative costs, attorneys' fees, and civil penalties. Pursuant to A.R.S. § 44-1531.01, these monies will be deposited in the Consumer Fraud Revolving Fund. Monies in this fund are used for consumer fraud education, investigations and enforcement operations.

The second settlement involved violations by Household Finance Corporation related to the company's alleged unfair and deceptive lending practices. The complaining states alleged that Household violated state laws by misrepresenting loan terms and failing to disclose material information to borrowers. In the settlement agreement, Household agreed to pay up to $484 million in restitution, of which approximately $5.4 million represents restitution to Arizona consumers. These monies will be distributed directly to consumers by a national administrator, utilizing a formula not yet determined. In addition to restitution, Household Finance agreed to pay the participating states up to $10.2 million for attorney costs and fees. The amount paid to Arizona has not been determined, but the AG's Office estimates that it will be no less than $200,000 and will be deposited in the Consumer Fraud Revolving Fund.

Antitrust

A third settlement involved violations by numerous music distributors and retailers related to illegal practices intended to raise the price of prerecorded music. Pursuant to the settlement agreement, the companies agreed to pay a total of $67.4 million for the payment of attorneys fees and direct distribution to consumers in each settling jurisdiction, and to provide approximately 5.5 million music CDs for distribution by the state Attorneys General for the benefit of consumers in each state.

The court has not yet determined the amount each state will receive in recovered attorney expenses, but the Arizona AG's Office estimates that the state will receive approximately 99,500 CDs for distribution to nonprofit and government entities selected by the Arizona Attorney General. In addition, injured consumers will be allowed to file claims for direct cash distribution. The amount of cash available to Arizona consumers depends on the number of claims filed. If the number of claims exceeds the amount of funds available, Arizona will receive $896,348 to be distributed in a manner to benefit consumers throughout the state. In this scenario, the participating states will submit distribution plans for the court's approval. Any recovered attorney expenses will be deposited in the Arizona Attorney General's Anti-Trust Revolving Fund.

The JLBC Staff recommends that the Committee review this settlement when the AG can provide a specific distribution plan for the 99,500 CDs. In addition, the JLBC Staff requests that the AG provide the Committee with a cash distribution plan if the number of claims exceeds the funds available.

A fourth settlement involved violations of federal and state antitrust laws by Salton, Inc., which is the manufacturer of the "George Foreman" indoor grill. The settling jurisdictions complained that Salton Inc. arranged an illegal resale price maintenance scheme that prevented retailers from discounting prices, and excluded rivals from the marketplace. Salton agreed to pay approximately $8.2 million over 3 years, of which approximately $145,800 will be paid to the State of Arizona and distributed in a manner to benefit consumers throughout the state. The participating states are required to submit a distribution plan for approval by the courts, but a deadline for these plans has not yet been determined. Since the AG's Office has not finalized a distribution plan for the settlement monies, the JLBC Staff recommends that the committee review the plan as soon as it is available.

RS/KH:ck

STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL
CONSUMER PROTECTION & ADVOCACY SECTION

JANET NAPOLITANO
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX 85007-2926

MAIN PHONE: (602) 542-3702
TELECOPIER: (602) 542-4377

October 21, 2002

The Honorable Randall Gnant
President of the Senate
State Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Jim Weiers
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable Ruth Solomon
Chair, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

RECEIVED
OCT 22 2002
JOINT BUDGET
COMMITTEE

Re: *Settlement with Sears, Roebuck and Co.*

Dear Madam and Gentlemen:

This Office will be filing today a Consent Judgment and an Assurance of Discontinuance with Sears, Roebuck and Co. (Sears) regarding alleged violations of the Arizona Consumer Fraud Act (A.R.S. § 44-1521 *et seq.*) The Consent Judgment is based on Sears' alleged violation of a 1993 Court order which directed Sears to clearly and conspicuously post signs in English and Spanish advising that service under Sears' maintenance agreements cannot be obtained in Mexico and can only be performed in an authorized service center in the United States. Pursuant to a separate Assurance of Discontinuance, Sears also must comply with general advertising standards for all merchandise, as well as standards for maintenance agreements.

Under the two agreements, Sears will pay a total of $200,000 for investigative costs, attorneys' fees, and civil penalties. Pursuant to A.R.S. § 44-1531.01, these funds will be deposited in the consumer fraud revolving fund to be used for consumer fraud education, investigations and enforcement operations.

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

Please call me at (602) 542-7701 if you have any questions regarding this matter.

Sincerely,

Robert A. Zumoff

Robert Zumoff
Chief Counsel
Consumer Protection & Advocacy Section
(602) 542-7701
Fax: (602) 542-4377

cc: The Honorable Jack Brown
The Honorable Ken Cheuvront
Mr. Richard Stavneak
Ms. Kim Hohman
Mr. Michael Haener
Mr. John Stevens

STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

JANET NAPOLITANO
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX, AZ. 85007-2926

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FACSIMILE: (602) 542-4085

October 11, 2002

PM 1 2 3 4 5 6 7 8 9 10 11 12 AM
RECEIVED
OCT 11 2002
JOINT BUDGET COMMITTEE

VIA HAND-DELIVERY

The Honorable Randall Gnant
President of the Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Jim Weiers
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable Ruth Solomon
Chair, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

RE: Settlement with Household Finance Corp.

Dear Madam and Gentlemen:

This morning, our Office joined with 43 other states and the District of Columbia in announcing a settlement with mortgage lender Household Finance Corp. ("Household") regarding Household's alleged unfair and deceptive lending practices in the subprime market. (A copy of the Agreement in Principle is attached.) The states alleged that Household violated state laws by misrepresenting loan terms and failing to disclose material information to borrowers. Consumers complained that Household charged far higher interest rates than promised, charged costly prepayment penalties, or deceived consumers about insurance policies.

Household agreed to pay up to $484 million in restitution to consumers nationally. Arizona consumers could receive up to $5,502,500 in restitution. This money will be distributed directly to consumers by a national administrator, utilizing a formula to be determined later. Household will also pay the administrator $110,050 for the costs associated with the distribution of funds to Arizona consumers. In addition, Household has agreed to pay the states up to $10.2 million for costs and attorneys fees. Arizona's share has not been determined, but will be no less than $200,000.

The states will file Consent Decrees in their respective states no later than December 15, 2002. On or about the date the Consent Decrees are filed, Household will pay the states their costs and attorneys fees. Within 90 days of that date, Household will pay into a settlement fund the up to $484 million, for distribution by the national administrator.

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

Please call me at (602) 542-7713 if you have any questions regarding this matter.

Very Truly Yours,

Paul A Bullis

Paul A. Bullis
Division Chief Counsel
Telephone: (602) 542-7713
Facsimile: (602) 542-8885

cc: Hon. Jack Brown
Hon. Ken Cheauvront
Richard Stavneak
Kim Hohman
Michael Haener
John Stevens

STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

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September 6, 2002

PM 1 2 3 4 5 6 7 8 9 10 11 12 AM
RECEIVED
SEP 10 2002
JOINT BUDGET COMMITTEE
AM 1 2 3 4 5 6 7 8 9 10 11 12 PM

VIA HAND-DELIVERY
The Honorable Randall Gnant
President of the Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Jim Weiers
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable Ruth Solomon
Chair, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Re: State of New York, *et al.* v. Salton, Inc. (U.S. Dist.Ct. S.D.N.Y.)

Dear Madam and Gentlemen:

This morning, our office joined with 44 other states, the District of Columbia and the Commonwealth of Puerto Rico in settling antitrust claims against Salton, Inc. ("Salton"), the manufacturer of the "George Foreman" indoor contact grill. The settling jurisdictions, on behalf of themselves and as *parens patriae* on behalf of natural persons residing in their borders, filed a complaint alleging that Salton orchestrated an illegal resale price maintenance scheme that prevented retailers from discounting prices and excluded rivals from the marketplace, in violation of federal and state antitrust laws.

Salton has agreed to pay approximately $8,200,000 over three years to resolve the claims. Settlement funds are to be divided among the settling jurisdictions to benefit consumer and commercial interests. Arizonans' estimated share will total approximately $145,800. This money is for the benefit of Arizona consumers and will be distributed to consumers on a *cy pres* basis as described in the agreement. A draft of the settlement terms is attached.

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

Please call me at (602) 542-7713 if you have any questions regarding this matter.

Sincerely,

Paul A. Bullis

Paul A. Bullis
Public Advocacy Division Chief

Enclosures

cc: Hon. Jack Brown
Hon. Ken Cheuvront
Richard Stavneak
Kim Hohman
Michael Haener
Timothy Nelson
John Stevens
(w/ out enclosures)

STATE OF ARIZONA

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JANET NAPOLITANO
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September 30, 2002

VIA HAND-DELIVERY

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

The Honorable Jim Weiers
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable Ruth Solomon
Chair, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Re: Compact Disc Antitrust Litigation

Dear Madam and Gentlemen:

Earlier today, our office joined 39 other states and three territories in settling antitrust litigation against eight defendants in the United States District Court for the District of Maine. The litigation alleges that several music distributors (i.e. BMG Music and Bertelsmann Music Group, Inc., EMI Music Distribution, Warner-Elektra-Atlantic Corporation, Sony Music Entertainment, Inc., Universal Music Group, Inc., Universal Music & Video Distribution Corp. and UMG Recordings Inc.) and large music retailers (i.e. Trans World Entertainment Corporation, Tower Records, Musicland Stores Corporation) entered into illegal conspiracies intended to raise the price of prerecorded music to consumers.

The settlements have three major components:

1. <u>Sales Practice Changes</u>. Defendants have agreed to an injunction preventing them from forcing retailers to increase CD prices, thereby ensuring strong price competition between defendants.

2. <u>Cash Component</u>. Defendants have agreed to pay $67,375,000 in cash. A portion of this amount will be used, subject to court approval, to pay attorney's fees and costs, as well as costs of administering the settlement. The remainder will be directly distributed to consumers.

   - *Attorneys' fees and costs*. Our office will receive attorneys' fees for time expended on this matter. The amount, which has not yet been determined, must be approved by the court. Additionally, we will be reimbursed for all payments to the multi-state cost share fund, which was used for expert witness fees and other litigation expenses.

   - *Direct distribution*. Injured consumers will be provided the opportunity to file claims for direct cash distribution. Consumers will be told how to file a claim at a later date. The amount of cash to be provided to Arizona consumers depends upon how many such consumers file the appropriate claim. Importantly, in the event that the direct distribution claim rate exceeds the amount of funds available, the entire settlement amount will be rolled into a *cy pres* distribution. Under this scenario, $896,348 will be made available for *cy pres* distribution to benefit Arizona consumers.

3. <u>Product Component</u>. Defendants have agreed to provide approximately 5,541,000 music CDs (valued at $75,500,000) for distribution by the state attorneys general to not-for-profit corporations, charitable groups and governmental entities (e.g. schools and libraries) for the benefit of all consumers in each state. Arizona will receive 99,532 CDs (valued at $1,359,791) for distribution to these entities.

A copy of each settlement agreement is attached for you convenience.

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

Please contact me if you have any questions.

Sincerely,

David D. Weinzweig
Assistant Attorney General
Antitrust Unit
Telephone (602) 542-7578
Facsimile: (602) 542-9088

DDW:se

cc: Hon. Jack Brown
Hon. Ken Cheuvront
Richard Stavneak
Kim Hohman
Michael Haener
Timothy Nelson
John Stevens
(w/out enclosures)

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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

HOUSE OF REPRESENTATIVES

DATE: November 19, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Fiscal Analyst

SUBJECT: ATTORNEY GENERAL – REVIEW OF EXPENDITURE PLAN FOR ANTITRUST ENFORCEMENT REVOLVING FUND

Request

Pursuant to a footnote in the General Appropriation Act (GAA), the Office of the Attorney General (AG) has notified the Committee of the allocation of monies to be received from a recent antitrust settlement agreement. Pursuant to a second GAA footnote, the AG requests Committee review of its expenditure plan to spend an additional $266,200 from the Antitrust Enforcement Revolving Fund in FY 2003.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for the recent settlement with Stericycle, Inc., as well as the request to spend additional revenue from the Antitrust Enforcement Revolving Fund in FY 2003. The expenditure plan follows the use of monies outlined in statute and will enable the agency to fulfill its payroll and operating obligations through FY 2003.

Analysis

The FY 2002 and 2003 General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review.

The Office of the Attorney General recently settled a case that will result in the receipt of settlement monies over $100,000. The case involved violations of state antitrust laws by Stericycle, Inc., related to the company's anti-competitive practices in the transportation of chemotherapy waste. In the settlement agreement, Stericycle Inc. agreed to pay the State of Arizona $320,000 in civil penalties and attorneys' fees over 3 years. Of this amount, the AG estimates that approximately $120,000 will be deposited in the Antitrust Enforcement Revolving Fund and $200,000 will be deposited in the General Fund.

Pursuant to A.R.S. § 41-191.01, any monies received as cost reimbursement of antitrust litigation are deposited in the Anti-Trust Enforcement Revolving Fund. The first installment of $75,000 was deposited in the fund on September 27, 2002. The AG estimates an additional $45,000 will be deposited before the end of FY 2003. Statute also requires any monies received in addition to the reimbursement of legal expenses to be deposited in the General Fund, unless the settlement agreement specifies otherwise. The AG's Office estimates that the remaining $200,000 of the settlement amount will be deposited in the General Fund over 3 years.

Pursuant to a footnote in the FY 2003 General Appropriation Act, before the expenditure of any Antitrust Enforcement Revolving Fund receipts in excess of $138,800 in FY 2003, the AG must submit an expenditure plan for review by the Committee. The footnote specifies that any monies in excess of $138,800 are appropriated, but the expenditure plan for the additional revenue must be reviewed prior to any expenditures. In FY 2003, the agency estimates that the Antitrust Enforcement Revolving Fund will receive approximately $157,800 in revenue (the Stericycle, Inc. agreement is included in this estimate). In addition to new revenue, the agency has requested to spend an additional $108,400 from the existing fund balance, for an increase of $266,200 over the fund's original FY 2003 appropriation of $138,800. The agency is now estimating total Antitrust Enforcement Revolving Fund expenditures of $405,000 for FY 2003. (*See table below for comparison of FY 2002 and FY 2003 expenditures from the fund.*)

Pursuant to A.R.S. § 41-191.02, monies in the Antitrust Enforcement Revolving Fund are used for court costs and investigative expenses related to the enforcement of antitrust laws, except monies in the fund cannot be used for attorney compensation. The AG plans to expend $405,000 for personnel costs, operating expenses, investigative and court costs, and a statutorily required report on fuel prices in the Phoenix and Tucson areas. The AG is required to compile and save data on average rack fuel prices for the Phoenix and Tucson petroleum pipeline terminals as well as the average dealer tank wagon prices for Phoenix and Tucson on a weekly basis.

The following is a breakout of the agency's FY 2002 expenditures from the fund as well as the intended expenditures for FY 2003:

Antitrust Enforcement Revolving Fund Expenditures

	FY 2002	FY 2003
FTE Positions [1/]	5.0	6.0
Personnel Costs	$214,400	$265,200
Investigative/Court Costs for Multi-State Cases	45,000	45,000
Automotive Report [2/]	34,000	34,200
Operating Expenses	68,200	60,600
	$361,600	$405,000

1/ Includes the following positions in FY 2003: Economist, Financial Investigator, Legal Assistant III, Legal Assistant II, and 2 Legal Secretaries.
2/ Required by Statute.

The additional monies will provide the AG with the resources to pay investigative and court costs associated with future antitrust cases, as well as fulfill its payroll and operating obligations through FY 2003. This expenditure plan follows the intent of monies appropriated to the Antitrust Enforcement Revolving Fund and the JLBC Staff recommends a favorable review.

RS/KH:ck

STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

JANET NAPOLITANO
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX, AZ. 85007-2926

MAIN PHONE: (602) 542-5025
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September 18, 2002

VIA HAND-DELIVERY

The Honorable Randall Gnant
President of the Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Jim Weiers
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable Ruth Solomon
Chair, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Re: Stericycle, Inc. Antitrust Settlement

Dear Madam and Gentlemen:

On September 18, 2002, the Office of the Arizona Attorney General ("Attorney General") filed a Complaint and Consent Decree in Maricopa County Superior Court that settled an antitrust investigation against Stericycle, Inc. ("Stericycle"). The investigation involved allegations that Stericycle violated the Arizona Uniform State Antitrust Act by: (1) unlawfully obtaining and/or maintaining its monopoly in the market for transporting chemotherapy waste by engaging in anticompetitive conduct that eliminated or delayed the ability of potential competitors to offer alternative services; and (2) unlawfully agreeing to divide geographic markets and customer bases with a competitor in the medical waste management industry.

Stericycle agreed to settle the allegations by paying the State of Arizona ("State") civil penalties and attorneys' fees totaling $320,000, and has agreed to change its business practices in Arizona by, among other things, opening its Chandler, Arizona incineration facility to other medical waste transporters and paying rebates to certain transporters that were excluded in the past. The settlement terms are outlined in a copy of the Consent Decree attached hereto. The attached Consent Decree has only been signed by the parties.

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

Please contact me if you have any questions.

Sincerely,

David D. Weinzweig
Assistant Attorney General
Antitrust Unit
Telephone: (602) 542-7578
Facsimile: (602) 542-9088

DDW:nac
Enclosures

cc: Hon. Jack Brown
Hon. Ken Cheuvront
Richard Stavneak
Kim Hohman
Michael Haener
Timothy Nelson
John Stevens
(w/ out enclosures)

STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL
1275 WEST WASHINGTON, PHOENIX, ARIZONA 85007-2926

JANET NAPOLITANO
ATTORNEY GENERAL

MAIN PHONE: 542-4266
FAX: 542-4085

RECEIVED
NOV 13 2002
JOINT BUDGET COMMITTEE

November 12, 2002

The Honorable Ruth Solomon
Chair, Joint Legislative Budget Committee
1700 W Washington
Phoenix, AZ 85007

Dear Senator Solomon:

This letter is written to report the intended use of expenditures from the Antitrust Enforcement Revolving Fund (ATRF). All revenues received by the ATRF are appropriated. However, a footnote to the general appropriations act states, "Before the expenditure of any Antitrust Enforcement Revolving Fund receipts in excess of $138,800 in FY 2003, the Attorney General shall submit the intended uses of the monies for review by the Joint Legislative Budget Committee."

With the recent Stericycle, Inc. antitrust settlement agreement, the estimated funds available for FY03 will exceed $405,000. The Office of the Attorney General estimates that the FY 2003 expenditures will be $405,000 for the following purposes:

- Personnel costs - $265,200
- Multi-state cases - $45,000
- Automotive report (legislatively mandated) - $34,200
- Operating costs - $60,600

These expenses represent the costs allowed by § 41-191.02. They include such items as filing fees, court costs, travel, depositions, transcripts, reproduction costs, expert witness fees, and investigations expenses.

If additional information would be helpful, please let me know.

Yours very truly,

Janet Napolitano
Attorney General

cc: The Honorable Laura Knaperek, Vice Chair, Joint Legislative Budget Committee
Richard Stavneak, JLBC
Kristine Ward, OSPB

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

DATE: November 18, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jill Young, Fiscal Analyst

SUBJECT: ARIZONA LEARNING SYSTEMS/COMMUNITY COLLEGES – DISBURSEMENT OF ARIZONA LEARNING SYSTEMS EQUIPMENT

Request

Pursuant to a footnote in the General Appropriation Act (Laws 2002, Chapter 327), Arizona Learning Systems (ALS) terminated at the end of August 2002 and the JLBC is responsible to direct the disbursement of ALS state-funded assets. State-funded assets include video and telecommunications equipment at one site in each of the 10 community college districts and hub equipment housed at Rio Salado Community College in the Maricopa County Community College District (MCCCD).

At its meeting held on August 22, 2002, the Joint Legislative Budget Committee (JLBC) deferred action on the disbursement of ALS state-funded assets until it received additional information. The JLBC has received reports from the 10 community college districts, the Arizona University System, and the Government Information Technology Agency (GITA).

Recommendation

The Committee is required to direct the disbursement of ALS state-funded assets, which include 10 sets of video and telecommunications equipment and hub equipment. In this, the Committee has at least 3 options:

1. Allow the community college districts to retain all or part of the equipment as proposed by each community college district.

2. Transfer possession of all or part of the ALS equipment to the University of Arizona Health Sciences Center for collaborative use by the Arizona University System per their proposal.

(Continued)

3. Sell all or part of the equipment. We do not have a precise estimate of the current value of these assets, but the sale could possibly generate $300,000. This is generally considered a last resort as articulated in the GITA letter.

In any of the options before the Committee, there may be equipment that cannot be utilized. JLBC Staff, therefore, recommends that any equipment that cannot be utilized be sold and the funds returned to the General Fund.

JLBC Staff further recommends that the ALS Executive Director be retained for 90 days to carry out the disbursement decision of the Committee and any related activities necessary to dismantle the network and that the director submit a follow-up report within 75 days on the transition process, expenditures, and remaining funds from ALS appropriations to be reverted to the General Fund.

Analysis

The Committee heard this item at its August meeting and deferred action on the disbursement of the state-funded assets of ALS until they received additional information. JLBC Staff sent a letter to the community colleges, the University of Arizona Health Sciences Center (AHSC), the Arizona Board of Regents (ABOR), the Arizona Telemedicine Program, and GITA requesting use plans by the community colleges, proposals on uses for the ALS equipment, and any other input or interest by October 21, 2002. We received use plans from the 10 community college districts, a collaborative proposal by the Arizona University System through AHSC, an informational letter from GITA, and an additional request from the Maricopa County Community College District.

Below you will find summaries of the information received. Copies of the complete proposals and letters submitted to JLBC and a full equipment list are available upon request. We have attached the August JLBC memo on ALS for additional background information.

Community College District Use Plans
The 10 community college districts submitted use plans for the ALS equipment physically in their possession. This equipment includes one set of identical video and telecommunications equipment at a site within each district. In general, the community college districts intend to redirect the ALS video equipment for a different use within their intra-district networks. The additional equipment would either allow them to extend distance learning to a new location or add a second classroom at a central location to increase course offerings. Approximately half of the districts will move the equipment to another location as part of their proposal and some of the plans require the purchase of additional equipment to utilize the ALS state-funded equipment. The individual district use plans did not address the use of the centrally located hub equipment. A brief synopsis of each proposal is outlined below.

District	Use Plan for ALS Equipment
Cochise County Community College District (Cochise College)	Add a second classroom to their current ITV network at their Sierra Vista campus and purchase additional hardware for the Douglas campus and eventually the Willcox Center so the systems could communicate with each other.
Coconino County Community College District (Coconino Community College)	Move it to the Page campus as a second ITV classroom at that location to meet the high demands of students in the area.
Graham County Community College District (Eastern Arizona College)	Add a second classroom at the Thatcher campus to their existing distance education delivery system to increase course offerings.
Maricopa County Community College District (Maricopa Community Colleges)	Utilize equipment in its current capacity as part of it multimedia room at its Rio Salado campus primarily for classes, videotaping, and workforce development.

(Continued)

District	Use Plan for ALS Equipment
Mohave County Community College District (Mohave Community College)	Utilize at one site in their intra-district ITV network (which is scheduled to be operational January 2003) for classes, meetings, and community use.
Navajo County Community College District (Northland Pioneer College)	Add another site to their current district-wide ITV network in either Ganado or Sanders (both communities have requested access to ITV courses).
Pima County Community College District (Pima Community College)	Keep the ALS equipment at their Community Campus to communicate with and offer courses in the rural districts with which they have contracts for service.
Pinal County Community College District (Central Arizona College)	Integrate the ALS equipment into their recently purchased intra-district network. It is unclear with which systems this equipment would communicate.
Yavapai County Community College District (Yavapai College)	Discussed 3 different initiatives to utilize the ALS equipment in their proposal. In general, they plan to integrate the ALS equipment into their existing intra-district ITV network.
Yuma/La Paz Counties Community College District (Arizona Western College)	Integrate the ALS equipment into their internal network to increase their distance learning capacity.

Maricopa County Community College District Office Proposal

Under separate cover, MCCCD requested 2 specific pieces of the hub equipment, a Cisco Lightstream switch and a Cisco 7200 series router (the purchase price of these items in 2000 was $123,800). This equipment would allow for videoconferencing capabilities between the Maricopa colleges and replace an obsolete component of their existing system.

The hub equipment ran the ALS network and is currently located at Rio Salado Community College in the MCCCD system. The Arizona University System proposal also includes the use of the hub equipment; however, the community college district use plans outlined above did not address the disbursement of the hub equipment.

Arizona University System Proposal

The University of Arizona Health Sciences Center (AHSC) submitted a proposal to make use of all or part of the ALS equipment collaboratively with Arizona State University (ASU), Northern Arizona University (NAU), and the newly established Translational Genomics Research Consortium. They propose to utilize the equipment to expand educational programs to address critical shortages in nursing, pharmacy, medicine, and public health, as well as improve statewide communication for health and sciences faculty. The ABOR submitted a letter in support of this proposal. Their joint goals are outlined below.

Installation Location for Equipment	Goal
UA and ASU Colleges of Nursing	Increased presence of nursing educational opportunities on the network to facilitate video-based courses and meetings.
UA College of Pharmacy	College of Pharmacy participation in statewide healthcare education/emergency response activities.
AHSC Phoenix Programs Office	Addition of a second videoconference capability from AHSC Phoenix office to increase classes offered and statewide meeting participation.
Arizona Cancer Center (Phoenix)	Establishing a video-based networking capability for the Arizona Cancer Center to allow more active involvement in statewide educational and clinical matters (they currently do not have videoconferencing capabilities on-site).

(Continued)

Installation Location for Equipment	Goal
Translational Genomics Research Institute	Videoconference capability for the institute at the temporary headquarters and later their permanent facility to facilitate the statewide planning process and on-going research efforts.
Arizona Department of Health Services (ADHS)	Videoconference capability for ADHS to serve cooperative programs among the universities in the educational, research, and public health arenas.
NAU College of Health Professions, AHSC Phoenix office, Arizona Telemedicine Network Operations Center	Replace video equipment at the AHSC Phoenix office and NAU College of Health and replace "Hub equipment" at AHSC in Tucson. Any remaining equipment would be utilized to upgrade network components of the Arizona Telemedicine Network. The aforementioned upgrades would enhance network reliability.

Government Information Technology Agency Letter
GITA made attempts to see if other agencies could utilize the ALS equipment and network. Due to concerns about having the necessary staff and funds to install, support, and maintain the equipment and network, there was no definite interest in the system.

GITA further expressed that the state should attempt to maximize the use of the highly underutilized equipment since the resale value of the technology will be minimal in the current economy. As a last resort, they recommend the equipment be sold.

Logistical Issues
The ALS network has been maintained and is still connected in accordance with the Committee's previous decision at its August meeting. The network needs to be shut down as none of the proposals before the Committee would utilize the existing network. If the community college districts retained the equipment, they would run it through their own intra-district networks and if the Arizona University System obtained the equipment, they would utilize their existing statewide network. According to the ALS Executive Director, the contractor is being cooperative in allowing ALS to end its contract before the original terms expire. They estimate that it will take approximately 60 days to shut down the network and resolve any contract issues.

If the Committee decides to transfer ALS state-funded assets from one entity to another, arrangements must be made. One option is to utilize professional de-installers to move equipment as this program has done in the past. In addition, there may be equipment that cannot be utilized by either the community colleges or the universities. In this situation, selling any equipment that cannot be utilized remains an option to recoup funds.

In order to carry out the Committee's decision and shut down the network, we recommend that the Executive Director of ALS be retained for 90 days. We also recommend that the Executive Director submit a follow-up report to the JLBC within 75 days on the transition process, expenditures, and remaining funds from ALS appropriations to be reverted to the General Fund.

RS/JY:ss
Attachment

STATE OF ARIZONA

Joint Legislative Budget Committee

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

DATE: August 15, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Jill Young, Fiscal Analyst JY

SUBJECT: COMMUNITY COLLEGES – REVIEW OF THE OPERATIONS AND BUSINESS PLAN FOR ARIZONA LEARNING SYSTEMS

Request

Pursuant to a footnote in the General Appropriations Act (Laws 2002, Chapter 327), an operations and business plan for continued statewide use and financial viability of the Arizona Learning Systems (ALS) must be submitted to the Joint Legislative Budget Committee (JLBC) for its review or ALS will terminate by the end of August 2002. ALS did not submit a plan, therefore, the system will terminate at the end of August 2002. The Committee has the responsibility to direct the disbursement of ALS state-funded assets upon termination.

Recommendation

The Committee has at least 3 options:

1. Allow community college districts to retain equipment upon termination of ALS.

2. Sell all or part of the equipment upon termination of ALS. We do not have a precise estimate of the current value of these assets, but the sale could possibly generate $300,000.

3. Transfer state-funded assets of ALS to an alternate management group for statewide use. The Arizona Area Health Education Center (AHEC) has submitted a proposal to JLBC to assume management of the system and continue its statewide use through the collaboration of AHEC, the universities and the community colleges.

   If the Committee would like to pursue this issue, JLBC Staff believes more information is necessary. The major issues to be resolved are: 1) the financial viability of the system and 2) the interest of the community colleges to participate.

(Continued)

The JLBC Staff recommends that ALS staff be retained during the transition period to coordinate the termination of ALS and disbursement of state-funded assets and that any remaining funds be reverted to the General Fund.

Analysis

History

ALS is a consortium of Arizona's 10 community college districts to promote distance learning across district boundaries using Internet, interactive video-conferencing (ITV), and other technologies. The ALS telecommunications plan, originally approved by JLBC in December 1996, was to create a coalition of educational and governmental agencies that would contract with a private company to construct a network that would be available for lease. In addition to increasing educational opportunities, ALS was to spur economic development by making advanced telecommunications accessible to the private sector in rural areas.

ALS was intended to develop in 3 phases: 1) Construct a pilot network of 10 sites, one in each community college district, for the delivery of distance learning classes; 2) Expand the ALS network to another 67 community college sites; and 3) Expand the ALS network to university and K-12 sites. At the request of the community college districts and the State Board of Directors for Community Colleges (State Board), the Arizona Legislature appropriated $1.1 million in FY 1997 and $2.8 million in FY 1998 to implement Phase 1 of the ALS network. No additional monies have been appropriated for ALS since FY 1998. A FY 2002 budget request by the State Board for Phase 2 was not approved by the Legislature, although one community college district has procured ALS compatible equipment for additional sites at its own expense.

ALS started classes in Spring 2001 and continued offerings through Spring 2002. The courses were both ITV and Internet-based. Any revenue generated by ALS classes was split between the originating college, receiving college and ALS. ALS enrollment for each of the semesters is as follows:

	Spring 2001	Fall 2001	Spring 2002
Enrollment	3	2	113

The low enrollment has been attributed to insufficient marketing and student awareness, lack of course integration with specific certificate or degree programs, and inadequate staffing.

If ALS terminates, Arizona students have at least 2 options for distance learning from public institutions. Maricopa County Community College District, through its Rio Salado campus, offers Internet courses and on-line student services. Northern Arizona University also offers a variety of courses and degree programs over the Internet and ITV.

Budget

As of August 2002, approximately $3.5 million has been expended for network implementation, network management and operations, academic development, and ALS administrative support. Approximately $391,000 remains unexpended to date from the FY 1998 appropriation and interest earned, which would be transferred to the General Fund in the event that ALS is terminated. The following table shows the breakdown of expenditures in each category.

(Continued)

ALS Expenditures	
Network Implementation	$1,737,700
Network Management & Operations	674,500
Academic Development	475,600
ALS Administrative Support	626,800
Total Expenditures	**$3,514,600**

The annual operating expenses for ALS are approximately $500,000. Current funding would only cover operating expenses for part of FY 2003.

Recent Legislation

The State Board wrote a report to JLBC in April 2002 regarding ALS, which conveyed concerns that the system cannot continue operations as it has. The following 2 paragraphs are excerpts from the conclusion if the report:

> "The State Board, therefore, respectfully recommends that the next six months be used for the pursuit and drafting of a business and operational plan/model that will bring together the myriad potential participants for the future of this statewide system.
>
> Should such a request not be considered affirmatively by JLBC, then the State Board recommends Alternative B which terminates the operation of the Network and provides its associated equipment to each of the community college districts for their use, and returns all unencumbered funds to the State of Arizona."

In response to the State Board conclusions concerning ALS, a footnote was created in the General Appropriations Act (Laws 2002, Chapter 327). It reads:

> "Arizona learning systems shall develop an operations and business plan for continued statewide use and financial viability of the system. If a plan is not developed and submitted to the joint legislative budget committee for its review by July 31, 2002, Arizona learning systems shall terminate by the end of August 2002. If Arizona learning systems is terminated, state-funded assets for the Arizona learning systems shall be disbursed as directed by the joint legislative budget committee and any remaining state appropriations for Arizona learning systems shall be returned to the state general fund."

As of July 31, 2002, JLBC did not receive an operations and business plan from ALS for continued statewide use. Therefore, ALS will terminate as of the end of August 2002.

JLBC has the responsibility to direct the disbursement of the state-funded assets of ALS. State-funded assets include video and telecommunications equipment at one site in each of the 10 community college districts and hub equipment housed at Rio Salado Community College. At the time of purchase in 2000, equipment costs totaled approximately $1.1 million. It is difficult to estimate the current value of the equipment. The ALS Executive Director estimates that the video equipment may be worth 30-40% of the original value and the telecommunications equipment may be worth 10% of the original value.

(Continued)

Options

There are at least 3 options for ALS:

1. Allow community college districts to retain equipment upon termination of ALS.
   This option could allow continued connectivity within districts that have procured additional compatible equipment. Mohave County, for example, has purchased ALS compatible equipment for additional college sites to increase communication and broaden course offerings within the district. The state, however, will not recoup any of its investment.

2. Sell all or part of the equipment upon termination of ALS.
   This option allows some the state's investment to be recouped. If a district has invested in the network by purchasing ALS compatible equipment for multiple district sites, as a result of this option, the district may be required to expend funds for replacement equipment in order to continue using its internal network or connectivity may be disabled.

3. Transfer state-funded assets of ALS to an alternate management group for statewide use.
   The Arizona Area Health Education Centers (AHEC) has submitted a proposal to JLBC for the continued statewide use of the system. AHEC proposes to assume management of the network and pay for operations with existing funds. AHEC views its future role as the "anchor tenant" for the network that would collaborate with others to expand the network's use and ensure its financial viability.

   AHEC is a program through the Arizona Board of Regents housed within the University of Arizona Health Sciences Center that attempts to improve the supply and distribution of health care professionals through community/academic educational partnerships. AHEC strives to attract under-represented ethnic and racial students into the health professions. Additionally, the organization focuses its attention on supporting the state's health professionals with continuing training and career enhancements. AHEC proposes to use the network primarily to deliver health education and training across the state through the creation of Arizona Health Outreach Network (AzHON). AzHON would serve as a communication interface between the University of Arizona Health Science Center, AHEC, and the community colleges.

If the Committee is interested in pursuing this third option, we recommend receiving clarification on the following issues:

- AHEC proposes to work with the community college districts in the provision of health education. We have not had an opportunity to receive feedback from the community college districts in their interest in cooperating in such a venture.

- After discussions with community colleges, we recommend that AHEC develop a financial plan to demonstrate that AzHON will be self-supporting. It is unclear how AHEC will fund operations past FY 2003 if partners and other revenue sources are not found. AHEC has received approximately $4.4 million for the last 2 years from Proposition 204. JLBC Staff does not anticipate available Proposition 204 money for public health programs after FY 2003.

- Finally, if community college districts did not choose to participate, it would be useful to understand how AHEC would utilize the network.

Copies of the State Board's report to the JLBC (April 2002) and the full AHEC proposal are available upon request.

RS:JY:ss

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DATE: November 18, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT INFORMATION TECHNOLOGY AGENCY – REPORT ON HRMS REPLACEMENT PROJECT

Request

As part of the favorable review of the expenditure plan for the Human Resources/Payroll System, formally known as the Human Resources Information Solution (HRIS), the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) are required to report back quarterly to provide information on the project.

Recommendation

This item is for information only and no Committee action is required. ADOA and GITA have submitted separate reports on the progress of the project. ADOA reports the project is "on time and on budget." GITA concurs with this assessment and will continue to closely monitor the project.

Analysis

The HRIS project is monitored by the project staff and GITA for progress in several different functional areas, which are assigned to the following:

- Project Administration group provides oversight of the implementation of the system and communication with the client agencies within the system. Functionality issues with the Department of Public Safety are reported to have been resolved. Similar issues with the Legislature and its component agencies are being resolved during November. This group is also researching the use of the current payroll and benefits data into the new system.

(Continued)

- The Business Functionality group implements the business process foundation for the operation of the system. This unit is preparing for integration testing and has successfully simulated the hiring and compensation of a hypothetical employee.
- The Technology group provides the technical foundation for the project. This group incorporates the various components of the system into a functional business product. Currently, this group is conducting increasingly comprehensive integration testing as well as preparing technical documentation.
- The Training Management group develops and implements the training curriculum for the project. Every state agency using the system has a designated Agency Training Facilitator (ATF), who will train their agency personnel in the use of the system. The process of training these individuals was begun over the summer. Agencies are monitored for their completion of these tasks and are notified when they are not on schedule.
- The Change Management group investigates and implements the steps necessary to implement changes from the current system into the new system. This group has delivered a document that outlines the prospective organization of payroll and benefits roles, both within ADOA and at the agencies, for review by the project management; this document is further reviewed by payroll and benefits consultants hired by the project. When approved, this document will be used to determine the training needs of the agencies. This group also notes those areas where solutions have not been agreed upon ("gaps"), which are monitored until resolution is achieved. This gap analysis will be further reviewed over the fall, with completion set for this December. A newsletter distributed by this group provides project information to agency personnel and, in a summarized form, to agency heads.

The project received a letter grade from the project contractor (IBM) of "B." The project is not encountering unforeseen problems. ADOA has not changed any of the implementation dates. The first phase of the project, generating paychecks with the new system, is scheduled to "go live" on April 14, 2003. Additional components of the system will be implemented in the first quarter of FY 2004.

GITA provided a separate update on the project's progress. GITA also believes that the project is on time and on budget. GITA indicates that the next phase of the project, integration testing, will take the most time and is the most complex series of tasks undertaken by the project to date. These tasks are shorter term in nature, but are more tedious and time sensitive.

According to GITA, the next phase of the project will involve the development of features and functions that are not currently available. To realize the efficiency gains of these new features, the HRIS project will need a marketing/educational plan that informs agencies about the capabilities of the new system.

In summary, GITA states that the project is "getting back on target" and that considerable progress has been made. GITA will continue to closely monitor the progress of the project.

RS:PS:ss

JANE DEE HULL
GOVERNOR

CRAIG STENDER
DIRECTOR

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

To: Senator Ruth Solomon, Arizona Senate
Representative Laura Knaperek, Arizona House of Representatives
Richard Stavneak, Joint Legislative Budget Committee (JLBC)

CC: Elliott Hibbs, Department of Administration
Tim Boncoskey, Arizona Department of Administration

From: Craig Stender, Government Information Technology Agency C.S.

Date: October 15, 2002

Re: **IT Monitoring Quarterly Status Report on DOA HRIS**

This Status Report reflects Government Information Technology's (GITA) September update for the Department of Administration's Human Resource Information System (HRIS) project as requested by the Committee. The Department of Administration will provide their quarterly project update under separate cover.

Based on feedback and informational updates from the HRIS project team, the project appears to be on time and on budget.

Status of major accomplishments to date:

- The most significant deliverable (Approved Development Items) was given to Project Management Office (PMO) for review and approval in mid-September. Meta Group and GITA personnel have assisted the PMO in the review and approval of these items. To date, more than half of the items have been approved and released to the developers.

- IBM's Project Management Review team interviewed contractors, State employees and assistant directors of DOA during their internal review process. The IBM project team received a "B" grade for the HRIS project and specific areas of concern have been addressed.

- On September 30, Integration Testing began to validate the configurations developed as a result of earlier work to describe and test the new work processes. As configurations are proved, they will then be ready for transformation into the Arizona format. Integration Testing is the longest duration and most complex series of tasks undertaken by the project so far.

- The original data cleansing report in August contained over 2,200 errors; today, it has decreased to 900. Normal cleansing error rates for a project of this scale would be 4,000-5,000 according to Meta Group.

- The HRIS team and DPS reached an agreement on DPS not using Lawson's "Time and Attendance" functionality. DPS will continue to use their legacy system until they can adapt their business processes to use Lawson's functionality.

Continue to monitor Phase I issues:

- The need for the development of an Advisory Governance body that would include all major agencies for the purposes of driving the State to full utilization of the system's capabilities still needs to be investigated.

- The majority of activities remaining in Phase I (to be completed by April 2003) will be application coding, unit and system testing, training and communications to the users.

- Some agencies serviced by CAMP are still lagging in their requirements to HRIS but, due to their small numbers, it is not a critical issue at this time.

GITA's opinion on Phase I:

- The design portion of Phase I is complete. HRIS is entering the construction and testing portion of Phase I. The work is well defined, but more tedious. The project team will be working on much shorter term tasks and deliverables that are more time sensitive. The HRIS Management Team is monitoring the project closely and GITA feels that Phase I is in good shape.

Phase II issues to monitor:

- Phase II functionality allows for a great amount of business re-engineering that will move paper-based business processes to "paperless." Phase II will include a pilot test of several agencies that will use the new features and functions (e.g., workflow analysis, data warehouse capabilities, custom and standard report capabilities, etc.) of the system that do not exist in the current environment. This new functionality will need to have a marketing/educational plan in place to ensure full usage. Full usage will allow the State to realize efficiency gains. Our concern is ensuring that the large- and medium-size agencies utilize the tools purchased with HRIS.

Conclusion:

- GITA believe the HRIS project is getting back on target and considerable progress has been made since the last report. GITA will continue to closely monitor the progress of the project.

Should you require additional information and/or clarification, please contact me at 602/364-4770.

CS:mc

JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

TIMOTHY BONCOSKEY
PROJECT DIRECTOR

Arizona Department of Administration

Human Resources Information Solution

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October 11, 2002

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OCT 11 2002
JOINT BUDGET COMMITTEE

The Honorable Ruth Soloman, Chairman
Members, Joint Legislative Budget Committee
Arizona State Legislature
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Solomon and Members of the Committee:

This letter and the attached September monthly report reflect the status of the HRIS project. This Quarterly update was request by the Committee as part of the favorable review of the HRIS expenditure plan last January. The Government Information Technology Agency (GITA) will provide their quarterly report on the project under separate cover.

The development efforts of the project continue to be "On-time and On-budget". The operational plan for HRIS (the FY 2004 budget) has been prepared and shared with your staff. Since the last report the following events have occurred and contract deliverables received:

<u>Significant July Achievements</u>

- Revised Fit Gap Analysis completed and delivered.
- CRP 2 Documentation delivered.
- Baseline Configuration 90% complete.
- ATF Training Workbooks and Navigational Tutorial completed and distributed.
- HRMS Data Cleansing team data identification report programming complete.
- Launched bi-weekly email to Agency Heads from HRIS Chair Bill Bell.
- Began weekly "critical path" report on project status.

<u>Significant August Achievements</u>

- *Baseline Configuration* milestone completed and approved.
- HRMS Data Cleansing kicked off with Agencies.
- Agency Interface workshops scheduled and conducted.

Significant September Achievements

- The TEST1 product line (Final Test Configuration) was created and Integration Test kicked off.
- The functional team demonstrated the hiring of an applicant, tax and benefits entry, time entry, overtime calculation, gross-to-net payroll calculation, time accrual update, payment processing, payroll close, time accrual processing, and online viewing of payroll information via the Employee Self Service portal.
- The HRIS team and DPS reached a mutually beneficial resolution of issues relating to DPS' participation.
- Prepared for and participated at the Inter-Agency Cabinet meeting of 9/18.
- Prepared and participated in IBM Project Management Review which was conducted September 16-18. The Project received the coveted and planned for "B" rating from the review team.

The following **Contract Deliverables** were accepted and approved by the State:

- Harmonization Assessment Document (D.8)
- Change Readiness Assessment Report (D.9)
- Updated High Level Implementation Strategy (D.10)
- Transition Management Strategy (D.11)
- Package Integration Standards and Procedures Document (D.13)
- Development Standards and Procedures Document (D. 14)
- Future Process/Function Attributes Document (D.17)
- Future Process Definition Document (D.18)
- Detailed Fit Gap Analysis Document (D.19)
- Future Organization Design Document (D. 22), added (D.22B)
- Approved Development Items List (D.23), interfaces and reports pending
- Configuration Parameters Document (D.24), edits pending
- Deployment Education and Training Plan (Section 7, D25 and D29)
- Change Leadership Plan (D.26)
- Communications Plan (D.27)

If you need any further information or have additional questions, please contact me at 542-1500, or Tim Boncoskey, HRIS Project Director, at 274-8571.

Sincerely,

William Bell
Deputy Director

Cc: J. Elliott Hibbs, ADOA Director
Kris Ward, OSPB Director
Richard Stavneak, JLBC Staff Director
Craig Stender, GITA Director
Tim Boncoskey, HRIS Project Director

STATE OF ARIZONA

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HOUSE OF REPRESENTATIVES

DATE: November 20, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT INFORMATION TECHNOLOGY AGENCY – REVIEW OF TELECOMMUNICATIONS SERVICES PLAN

Request

Laws 2002, Chapter 327 requires the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) to submit a report for review by the Committee on any options, including privatization and allowing agencies to procure their own telecommunications services, that would increase the fiscal efficiency of Arizona telecommunication services.

Recommendation:

The JLBC recommends a favorable review of ADOA/GITA's recommendation to privatize state government's telecommunication system, pending private sector input into possible methods of conversion.

The JLBC has also identified 3 policy issues within the report: ADOA has recommended a centralized governance and funding model, and state ownership of the telecommunications assets. GITA concurs with the centralized governance and funding model, but recommends private ownership of telecommunication assets. The policy issues are: whether or not to centralize governance of the system, whether or not to centralize funding for the system, and whether or not the state should own the telecommunication assets.

The Appropriations Committee Chairs have proposed legislation for the November Special Session that requires GITA to prepare a Request for Proposal that would privatize state government's telecommunication system.

(Continued)

Background

Arizona Telecommunications Services (ATS) was established in 1951 to negotiate long distance rates for the state. In 1988, the state began installing state-owned centralized telephone systems in Phoenix and Tucson. In 1997, ATS's authority was expanded to allow the transmission of data, video, and graphic images.

ATS currently is a division of ADOA's Information Technology Division (ISD), with 57.5 FTE Positions. There are 3 subdivisions within ATS: the Projects Group, which is responsible for the development of services, architecture and oversight of project management and vendor led projects; the Operations Group, which provides network engineering, wide area network (WAN) support, and voice engineering; and the Service Center, which provides direct customer service. Additionally, ATS has a Finance & Planning group that provides accounting and budgeting support, and also a switchboard for the Phoenix Capitol Mall and Tucson state offices. ATS provides approximately 14,000 subscriber lines on the Capitol Mall and in Tucson. Capitol Mall telephone services are provided by a switching mechanism that is capable of handling Voice Over Internet Protocol Telephone (VOIP) services over data networks.

ATS also provides a fiber optic data network (MAGNET) that connects 31 buildings in Phoenix and Tucson. This network provides high-speed data and Internet connectivity. ATS also provides toll bypass long-distance services to the Department of Corrections and the Game and Fish Department.

Toll bypass refers to the avoidance of toll charges assessed by telephone companies for long-distance telephone calls. Currently, toll bypass is achieved by some state agencies through the leasing of dedicated network lines that link 2 geographically removed locations. Toll bypass can also be achieved by digitizing voice communications and transmitting those digital signals over dedicated data network lines that are similar to, but separate from, Internet lines. The most common method of sending digital voice signals uses a technology known as VOIP. For a VOIP telephone call to achieve toll bypass savings, there must be a state owned VOIP connection in the remote location.

Analysis

The ADOA/GITA report identified 2 areas for cost savings. The most significant of these was through VOIP toll-bypass. Some toll bypass savings are already being realized by purchasing dedicated circuits between locations where long distance calls are common (e.g. in the Department of Corrections.) Utilizing VOIP technology can significantly increase those savings by creating what is essentially a private, digital telephone network. This network would provide toll bypass savings for calls within the state where the private network is established. VOIP technology also makes traditional voice communications systems unnecessary, generating additional savings by eliminating redundant traditional voice systems.

The ADOA/GITA report team utilized a total cost of ownership (TCO) methodology to analyze the state's telecommunication systems. The 14 largest state agencies, not including the universities or the courts, representing 80% of the total state telecommunication costs, provided detailed financial information on their telecommunications costs. From that data, the report estimated the other 20% of the state's costs (excluding the universities and the courts). The report team also created a detailed inventory of data and voice equipment and conducted interviews and meetings with agency personnel.

There were 4 models described in the report: As Is, Decentralized, Shared Services, and Privatized. The report provides 2 options in each model. All 4 models assume that the state will move to VOIP technology in some form over a 5 year span. The first option, Data Network Upgrade, is a basic move

(Continued)

towards VOIP services where toll-bypass opportunities are available. This option creates a state-owned telephone network that digitizes voice communications between cities, but still uses existing traditional telephone equipment. The second option, Full VOIP Implementation, assumes that VOIP is implemented in every agency, with every desktop enabled with a VOIP telephone handset that creates fully digitized signal from user to user. Because this option involves a much more extensive purchase of equipment for every state agency building around the state, many of which are not prepared for this technology, Full VOIP Implementation requires a significant capital investment that would need to be financed over a 9 year period. The differences between the models lie in how that transition is implemented:

- The As Is model maintains the status quo. In this model, the VOIP transition is implemented by ATS for ATS customers and by the agencies themselves in those cases where agencies currently provide their own telecommunications systems.
- The Decentralized model removes ATS from the management of the telephone and data systems, with agencies contracting, managing, and delivering their own telecommunication systems.
- The Shared Services model provides all telecommunication services centrally through a public/private partnership, with the exception of agency-specific Local Area Networks (LANs), which will continue to be managed by the agencies.
- The Privatized model assumes that the private sector will provide a wide spectrum of options for the delivery of voice and data communications services. This model would result in reductions in FTE Positions in ADOA and at agencies with their own telecommunications systems. This could be accomplished with either state or private ownership of the telecommunications assets.

ADOA/GITA Telecommunication Models
Costs/(Savings) Compared to Current Expenditures
Over a 5-Year Period (in millions of dollars)

	Data Network Upgrade Only (no financing required)	Full VOIP Implementation (requires financing)
As Is Model	$(35,662.8)	$44,330.1
Decentralized Model	3,700.7	49,550.6
Shared Services Model	(39,263.8)	40,728.9
Privatized Model	(41,218.6)	38,774.1

Currently, the total annual cost of ownership (TCO) for the state's telecommunications system is $66,368,700 (excluding the universities and the courts). Of this amount, approximately $11 million is assumed to be base equipment funding. The report bases its savings as a comparison to that TCO amount, which is assumed stable for a five-year period. This also assumes that agencies would continue to receive equipment funding at the same level of FY 2002. With those assumptions, the chart above demonstrates that the greatest savings are available with a privatized data network upgrade, which will result in savings of $(41,218,600) over 5 years. Significantly, full VOIP implementation increases the cost of telecommunication services due to the high capital investment and resulting financing costs. The report estimates the capital investment associated with the implementation of Full VOIP at over $90 million. VOIP is a relatively new technology that could present unanticipated problems, especially as rival standards are developed. There is a risk that the technologies implemented could become obsolete more quickly than anticipated.

For reference, the first year savings of the various models are listed below:

(Continued)

ADOA/GITA Telecommunication Models
Costs/(Savings) Compared to Current Expenditures
First Year Only (in millions of dollars)

	Data Network Upgrade Only (no financing required)	Full VOIP Implementation (requires financing)
As Is Model	$(1,053.2)	$(6,214.7)
Decentralized Model	36,186.7	2,209.2
Shared Services Model	(1,053.2)	(6,214.7)
Privatized Model	(1,670.5)	(6,832.0)

The savings in the first year of the project in the Full VOIP Implementation can be misleading as the costs of financing escalate in the remaining 4 years. ADOA/GITA have prepared an amortization schedule that details the costs of financing:

Full VOIP Implementation Financing
Proposed Amortization Schedule

Year	Principal Payment	Interest Payment	Total Financing Cost
Year 1	$5,108,700	$851,500	$5,960,200
Year 2	8,440,500	1,200,900	9,641,300
Year 3	11,837,800	1,538,100	13,264,900
Year 4	15,207,700	1,511,800	16,719,500
Year 5*	18,547,600	1,455,700	20,003,300

*The principal and interest due Year 6 through Year 9 totals $34,427,200

As mentioned in the Recommendation Section of this memo, the Committee is presented with two unresolved policy issues. Both ADOA and GITA recommend centralizing both the management of the privatization contracts and centralization of the telecommunications budget. Centralized management of the privatization contracts is a significant departure from current practice, where many larger agencies maintain control over their voice and data networks. Similarly, every agency is currently provided with a telecommunications budget that is used to purchase equipment, services from ADOA and/or private vendors and to hire technical telecommunications staff. Under the centralized budget model, the telecommunications budget for the state would be allocated to one centralized telecommunications agency that would provide telecommunications services for all State agencies. To implement a centralized telecommunications budget, all telecommunications budgets and related personnel would be removed from the various agencies and appropriated to the centralized agency. This would require a detailed understanding of the agencies' telecommunications budgets to achieve the savings outlined above. Since the agencies would no longer be accountable for their telecommunications budgets, there could also be conflict between agencies perceived telecommunications needs and the services provided by the centralized agency.

Finally, the report identified short-term operational savings totaling $1,523,600 that are being implemented in FY 2003.

RS:PS:ss

JANE DEE HULL
Governor

J. ELLIOTT HIBBS
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

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RECEIVED
NOV 19 2002
JOINT BUDGET COMMITTEE

November 18, 2002

The Honorable Ruth Solomon
Chair, Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Solomon:

This is to request that the joint report on Statewide Telecommunications Services, prepared by the Arizona Department of Administration and the Government Information Technology Agency, be placed on the agenda for the upcoming November meeting of the Joint Legislative Budget Committee. This report, which is required by Chapter 327, 45th Legislature, Second Regular Session, has been delivered to you under separate cover.

We look forward to presenting the results of this extensive review and our recommendations for privatization of telecommunications services to the Committee. If you have any questions related to this report, please contact me at 542-1500, or Craig Stender at 364-4770.

Sincerely,

J. Elliott Hibbs
Director

Cc: Craig Stender, GITA
Richard Stavneak, JLBC
Kristine Ward, OSPB

I. Executive Summary

Purpose

This report has been prepared in response to requirements in House Bill 2706 (Appendix A). The Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) were tasked in that bill with reviewing telecommunications options and submitting a plan to the Joint Legislative Budget Committee (JLBC) by November 1, 2002. All options developed were intended to improve service delivery and increase the fiscal efficiency of Arizona statewide telecommunications services.

Recommendations

Arizona State Government should pursue either a Shared Service or a Privatized service delivery model. (These service delivery models are described in detail in the body of the report). The ADOA prepared cost analyses on both of these models. The ADOA Privatized financial analysis was based upon the State retaining ownership of the assets. Both of the ADOA cost analyses showed favorable 5-year budget impacts. An alternative Privatization scenario, private ownership of assets, is favored by GITA. However, the ADOA cost evaluation contained in the body of the report concludes that the Privatized Model appears to offer more potential.

A detailed discussion on the cost analyses begins on page 33 of the report. It should be noted that this recommendation is a radical departure from the existing service delivery model.

Further, given the internal weaknesses identified in the Factor Analysis contained within the body of the report, Arizona State Government needs to:

- Adopt a centralized governance model with strong executive authority and Legislative involvement.
- Depending upon which method of privatization is selected, centralized telecommunications funding to leverage resources and gain greater accountability may be desirable.
- Strongly consider the resources available in the private sector either through an outsource (leveraging the economies of scale available through public/private partnerships) or co-source (shared services) to improve efficiency, acquire expertise and ease the financial burden.

Study Methodology

The team used a variety of data collection methods, including an extensive review of the literature and a survey of fourteen of the largest agencies representing 80% of the State's telecommunications expenditures. Further, data analysis tools included the use of the Gartner Group Total Cost of Ownership (TCO) Manager Models. Finally, strategic analysis tools were also used, including an Internal Factor Evaluation (IFE) and an External Factor Evaluation (EFE).

Findings and Conclusions

Factor Analysis
The Internal Factor Evaluation (IFE) indicates that the current statewide telecommunications delivery systems are inadequate. Further, the External Factor Evaluation (EFE) clearly indicates that present statewide strategies are neither taking advantage of emerging opportunities nor avoiding external threats.

Gartner Analysis
The Gartner analysis indicates that there are significant opportunities for cost reductions through consolidation including personnel and transmission.

- For the Wide Area Data Network, the State spent $2,764,056 more on transmission facilities, personnel, hardware and software than its best-in-class clone. In the area of personnel, the State has more IT WAN FTEs than would be utilized by a best-in-class organization. Personnel costs for the State were $2,010,145 higher than the best-in-class.

- By directing more traffic to its private network (PTN access) and by utilizing dedicated circuits to long distance carriers (VNS access), the peer is able to obtain a better cost per minute than the State who is sending more traffic over the public network (VNS usage). For the Wide Area Voice Network, the State is, therefore, paying $2,248,332 more than the best-in-class clone.

When compared with the Statewide Total Cost of Ownership figure, $66,368,703 across all fund sources, the Gartner analysis reveals potential savings of 11%. A detailed discussion begins on page 16 of the report.

State Government and Voice over Internet Protocol/IP (VoIP) Telephony
While there were no current applications driving State government towards a wholesale implementation of VoIP/IP Telephony, there are standard business needs (e.g., infrastructure gaps, equipment obsolescence, security, and disaster recovery) that support gradual migration. A detailed discussion begins on page 12 of the report.

Service Delivery Options
Delivery of telecommunications services can vary both by structure and by method.
Four viable options were analyzed for this report: "As Is," Decentralized, Shared Services, Privatized (Outsourced). These options are discussed in detail in the body of the report.

- The results of the cost evaluation indicate that the "As Is" and Decentralized service delivery models do not produce favorable 5-Year budget impacts.
- As discussed earlier in the recommendation section of the report, the results of the cost evaluation indicate that the Shared Services and Privatized service delivery models do offer favorable 5-Year budget impacts with the Privatized Model offering the most potential. Between the Shared Services and the Privatized views, five-year savings ranging from $3.6 million to $5.6 million would be realized over the current service delivery model.

- Privatization offers significant benefits to the State: 1) the State gets already trained and competent personnel for new technologies, 2) if the vendor provides the equipment and services, the State does not need to make large capital investments, 3) with the rapid changing of technology and evolving standards with VoIP/IP Telephony, the State avoids the position of servicing debt on obsolete equipment as the vendor is now responsible for upgrading the technology, 4) vendor management is simplified, and 5) Service Level Agreements (SLAs) are financially driven.

  With the privatized model, there is a wide spectrum of options for private sector participation. These options may be classified into two groups: those that retain public ownership of the assets while contracting out management, operation, and even investment, and those that involve at least partial or temporary private ownership of assets.

Short-Term Cost Savings Opportunities
Ten potential short-term cost savings opportunities totaling $5,025,000 were identified by a team composed of the Governor's Office of Strategic Planning and Budgeting, GITA, Department of Administration, and four (4) agencies.

The short-term costs savings opportunities included $2.5 million for the sale and lease-back of the Arizona telecommunications services central switching mechanism. ATS solicited information from equipment wholesalers, equipment manufacturers, and telecommunications carriers to determine the residual value of the MSL-100. No one expressed interest in buying the switch outright. However, several parties were interested in obtaining the switch as part of a package deal to buy the customer base or as a trade-in against new equipment acquisitions.

The short-term cost savings opportunities included $700,000 through the prepayment of carrier services. This option was eliminated from consideration due to issues regarding the financial viability of various telecommunication carriers, Federal restrictions, and cash flow concerns.

Of the $1,825,000 remaining amount, $1,523,571 in savings has been realized and efforts continue on this initiative.

Next Steps

- Seek any legislative changes required to adopt a centralized governance model with strong executive authority and Legislative involvement.
- Seek legislative changes, if required, to centralize telecommunications funding.
- Establish a telecommunications stakeholder committee with Legislative input.
- Secure an appropriation for consultant support to draft a Request for Proposal (RFP), understanding that the outside consultant would be removed from bidding.
- Convene RFP committee, establish a charter, assign work groups, and define requirements.
- Create an RFP to outsource all statewide telecommunications operations with Service Level Agreements (including call center operations, billing, and customer relationship elements) that would provide full flexibility for vendors to bid on all degrees of ownership.
- Finalize, publish and issue the RFP.
- Review RFP responses including vendor responses regarding Statewide FTE transition.
- Award contract(s). Target: October 2003.

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

DATE: November 19, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst
Tony Vidale, Fiscal Analyst

SUBJECT: STATE DEPARTMENT OF CORRECTIONS – REVIEW OF PAY STIPEND AND HIRING BONUS PROGRAM

Request

The State Department of Corrections (ADC) requests Committee review of a pay stipend for the Arizona State Prison Complex (ASPC) – Lewis Rast Unit and a hiring bonus program for the ASPC – Lewis, Eyman, and Florence prisons. The Committee is not required to review this item, however, ADC is requesting Committee review of the pay stipend and hiring bonus programs. While they have sufficient funding in FY 2003 to implement both programs, the department will only proceed if they have assurances that the Legislature will annualize the funding in the FY 2004 budget. ADC believes that a favorable review will establish a legislative commitment to annualize the cost. In the past, ADC has implemented pay stipends and hiring bonuses to address vacancies without legislative review or additional funding.

Recommendation

The Committee has at least three options:

1. The Committee may choose to favorably review the pay stipend for 125 correctional officers at ASPC – Lewis (10% of base salary) at an annual cost of $353,000. The department has indicated the pay stipend costs could be absorbed in FY 2003, however, funding would need to be provided for FY 2004 and beyond. The Committee may also choose to defer discussion on the pay stipend until the FY 2004 appropriations process.
2. The Committee may choose to favorably review the hiring bonus program for approximately 3,000 correctional officers ($5,160 per position) for ASPC – Lewis, Eyman, and Florence at an annual cost of approximately $7.7 million. The Committee may also choose to defer discussion on the hiring bonus program until the FY 2004 appropriations process.

(Continued)

3. The Committee has a third option to consider instead of option 1 and/or option 2 for the pay stipend and hiring bonus program. The Committee may choose to recommend that the department privatize the 350 beds at ASPC – Lewis Rast Unit. The department's FY 2003 appropriation includes $7,749,100 in Corrections Fund monies to operate the final 350 beds at the ASPC – Lewis. Based on the most recent private prison contract entered into by the department, this option would have a total cost of $4,886,400 ($38.25 per diem per bed) and create an annual savings of $2,862,700.

Analysis

Pay Stipends
The ADC has utilized pay stipends and hiring bonuses to attract and retain correctional officers at prisons located in geographical areas that have proven difficult to staff. Since the mid 1980's, the Arizona Department of Administration has approved pay stipends and hiring bonuses for certain correctional officer positions. The most recent pay stipends and hiring bonuses offered were in FY 2000 and FY 2001, respectively. No funding was provided for the stipends or bonuses in the appropriations process.

ADC was appropriated $7.7 million in FY 2003 from the Corrections Fund to open 350 state-operated beds at Lewis, however, to date the department has been unable to open these beds due to unsuccessful recruitment efforts for correctional officers. Under the department's proposal, 10% pay stipends would be offered to approximately 125 correctional officers at the ASPC – Lewis Rast Unit. Providing a 10% pay stipend to the officers would have an annual cost of $353,000, which the department can absorb in FY 2003 utilizing savings from the delayed opening of the Rast Unit (funded for operation since July 2002). The department believes it cannot continue to absorb this cost in FY 2004 and would require additional funding to cover the costs in future years. The department currently provides stipends to correctional officers at Eyman, Florence, Lewis, and Winslow at an annual cost of $14.0 million. To date, the department has not received an appropriation for the stipends.

Hiring Bonus Program
The department is also proposing a hiring bonus program for ASPC – Lewis, Eyman, and Florence. The hiring bonus program consists of $5,160 per new hire for a two-year commitment to one of these prisons or $100 per pay period for two years for incumbent personnel, which provides hiring bonus parity. The program would have a total annual cost of approximately $7.7 million in FY 2003 and provide bonus pay for 2,966 authorized positions. The costs of the hiring bonus program could be absorbed in FY 2003 using vacancy savings; however, there is the potential that these costs would need to be funded in FY 2004. These costs would be in addition to the pay stipend offered at the Lewis Rast Unit.

Privatization
Instead of addressing pay stipends and hiring bonuses, the Committee could recommend the 350 state-operated beds at the ASPC – Lewis Rast Unit be privatized using a portion of the funds appropriated to open the state-operated beds in FY 2003. A.R.S. § 41-1609 authorizes ADC to contract with private institutions located inside or outside the state dedicated to the confinement of persons who are committed to the department. On publication, any request for proposals for private prison contracts must be provided to the Committee for review. Using the most recent contract rate of $38.25 per bed for 350 beds, an annual savings of $2,862,700 could be achieved on the department's current appropriation of $7,749,100 for the Lewis Rast Unit.

RS:TV:ss

November 6, 2002

The Honorable Ruth Solomon
Arizona State Senate
1700 West Washington Street, Suite 110
Phoenix, Arizona 85007

The Honorable Laura Knaperek
Arizona House of Representatives
1700 West Washington Street, Suite 114
Phoenix, Arizona 85007

Dear Senator Solomon and Representative Knaperek:

I am requesting the following issues as agenda items for the next Joint Legislative Budget Committee (JLBC):

- ASPC-Lewis Rast Unit pay stipend
- A hiring bonus program for the ASPC-Lewis, Eyman and Florence prisons

Your decision not to hear these agenda items for the October JLBC meeting has guaranteed further delay of opening the Arizona State Prison Complex (ASPC) Lewis Rast Unit. We were seeking your support for a geographic pay stipend and a hiring bonus program, which when applied together, have proven integral to our ability to attract and retain security staff at ASPC-Lewis. As we stated in our October request, we believe we can absorb the costs of these programs in Fiscal Year (FY) 2003, but may need Legislative support in FY 2004.

Although state leadership restored funding to the Department to open the 350 bed Rast Unit beginning in July of this year, the Rast Unit remains unopened due to the Department's inability to hire Correctional Officer IIs (CO IIs) at ASPC-Lewis. The Department currently has nearly 4,000 more inmates than it has designated beds with which to house them. It is critical that the 350 Rast Unit beds be made available to house inmates.

The current CO II vacancy rate is 18.44% for all state prisons, which has steadily increased since July 2002 when the vacancy rate was 15.81%. For the same period, the ASPC-Lewis vacancy rate increased to 32.24% from 26.64%; ASPC-Eyman increased to 20.25% from 18.29%; and ASPC-Florence increased to 22.26% from 18.03%. As you can see, we are losing ground rapidly.

The Honorable Ruth Solomon
The Honorable Laura Knaperek
November 6, 2002
Page 2

As demonstrated in my letter dated October 8, 2002, the hiring bonus program at ASPC-Lewis was empirically successful in decreasing the Lewis vacancy rate from nearly 50% in December 2000 to 0% by July 2001. I have enclosed a copy of the October 8 letter which provides a full explanation of the history of pay stipends and the suggested hiring strategies.

I appreciate your consideration of these matters for the next JLBC meeting.

Sincerely,

Terry L. Stewart
Director

TLS/HG/s

cc: George Weisz, Deputy Chief of Staff, Office of the Governor
Richard Stavneak, Director, Joint Legislative Budget Committee
Kristine Ward, Director, Governor's Office of Strategic Planning and Budgeting
Elliott Hibbs, Director, Arizona Department of Corrections
Charles L. Ryan, Deputy Director, Arizona Department of Corrections
Liza Burns, General Counsel/Legislative Liaison, Arizona Department of Corrections

Arizona Department of Corrections

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JANE DEE HULL
GOVERNOR

TERRY L. STEWART
DIRECTOR

October 8, 2002

The Honorable Ruth Solomon
Arizona State Senate
1700 West Washington Street, Suite 110
Phoenix, Arizona 85007

The Honorable Laura Knaperek
Arizona House of Representatives
1700 West Washington Street, Suite 114
Phoenix, Arizona 85007

Dear Senator Solomon and Representative Knaperek:

I am requesting the following issues as agenda items for the October Joint Legislative Budget Committee (JLBC):

- Arizona State Prison Complex (ASPC)-Lewis Rast Unit pay stipend
- A hiring bonus program for the ASPC-Lewis, Eyman and Florence prisons

History of Pay Stipends

The pay stipend program is critical to the Arizona Department of Correction's (ADC) ability to attract and retain staff at prisons located in geographic areas of the state that have proven extremely difficult to adequately staff. Since the mid-1980s, geographic pay stipends have been approved by the Arizona Department of Administration (ADOA) for certain correctional officer and medical professional staff classifications. Through the years, it has been necessary to continue and, in some cases, enhance the stipend program due to changing economic issues.

In every case where pay stipends have been approved, the ADC, ADOA and/or Governor's Office staff have notified Legislative Leadership of the importance of the pay stipend program before the Department implemented them. While Leadership did not commit to supporting the funding, they did in every case understand the need for competitive salaries. The Department's current liability for the pay stipend program is approximately $14 million, and to date the cost remains unfunded.

The pay stipend program has proven to be a successful strategy for targeted recruitment and retention of staff in many of the areas where it has been implemented. However, for (ASPC)-Eyman and ASPC-Florence, the stipends have only served to help mitigate a chronic and severe inability to attract and retain staff. Our experience shows that the location of the Eyman and Florence prison complexes in the town of Florence adds to this difficulty, e.g., competing with the availability of employment, housing and other features available in the metropolitan areas.

When ASPC-Lewis was sited near the town of Buckeye, the ADC raised concerns that the same hiring and retention problems that exist at the Eyman and Florence prison complexes would also exist at ASPC-Lewis. Our concerns proved valid. We could not attract correctional officers without a stipend. Even when we implemented a 10% stipend for Lewis in January of 2000, as of September 2000, 50% of the authorized correctional officer (CO II) positions remain unfilled. Consequently, we were unable to open nearly half of the 4,150 available prison beds at ASPC-Lewis due to this difficulty.

Legislative Intent

Despite the Legislature's intent to open the ASPC-Lewis Rast Unit in September 2002, the appropriation did not include funding to provide a stipend for the Rast positions. Consequently, recruitment efforts which began in June have been patently unsuccessful. It is evident that it will be many months before these beds can be activated. This state of affairs is not acceptable considering the ADC's current shortage of more than 3,800 beds resulting from the Department's predicted, and now realized, growth in inmate population.

Two Suggested Hiring Strategies

I believe your support for implementation and funding of two hiring strategies will, first, resolve the Rast Unit problem and, secondly, lessen the constantly eroding and critically high vacancy rates at the Lewis, Eyman and Florence prison complexes.

ASPC-Lewis Rast Unit Pay Stipend

The first hiring strategy is to provide ongoing funding for the approved but unfunded 10% hiring stipend at the Rast Unit. As indicated previously, the Department has absorbed the costs of geographic pay stipends through vacancy savings. However, we can no longer afford to absorb new costs associated with new stipends. Due to the already delayed opening of the Rast Unit, my staff and I believe the cost can be temporarily absorbed in Fiscal Year (FY) 2003, however, funding must be provided for FY 2004 and beyond. The recent budget cuts do not allow absorption of the 10% stipends, which are required to open the Rast Unit, on an ongoing basis. The annual cost for Personal Services and related marginal costs is $353,000.

Hiring Bonus Program

The second hiring strategy is to re-institute a hiring bonus program. As previously stated in this letter, the Department's inability to attract CO IIs at ASPC-Lewis has historically resulted in delayed prison bed openings, and it continues to delay the opening of the Rast Unit. The hiring problem in FY 2001 was resolved when a hiring bonus of $5,160 was approved in December 2000.

The hiring bonus was implemented for all new hires and lateral transfers in a manner that would obligate them to stay at ASPC-Lewis for two years. It also encouraged retention of incumbent personnel by paying an additional $100 per pay period for two years, thereby, providing hiring bonus parity. The hiring bonus was approved by Elliot Hibbs, Director, ADOA, however, no funding was provided through the appropriation process.

This hiring bonus program proved to be highly successful. The CO II vacancy rate of nearly 50% in December 2000 decreased to 0% by July 2001. The $5,160 hiring bonus portion of the program ended when a 0% vacancy rate was reached. Subsequent to the elimination of the hiring bonus, the Lewis operational vacancy rate has steadily eroded to levels comparable to the chronic operational vacancy rates at the Eyman (21.9%) and Florence (24.6%) complexes. The Lewis vacancy rate reached 32.3% as of September 24, 2002.

In order to resolve the immediate and growing vacancy rate of CO IIs, I believe it is imperative that a hiring bonus at ASPC-Lewis, ASPC-Eyman and ASPC-Florence be implemented immediately. Implementation would occur in the same manner that proved empirically successful at ASPC-Lewis in 2001.

We believe that the cost of the hiring bonus can be temporarily absorbed during FY 2003 due to the high vacancy rates experienced to date. However, if the program is as successful as expected, additional funds may be required to continue paying the incumbent $100 per paycheck portion of the program in FY 2004. This cost will be contingent upon the implementation date and the program's overall success rate.

In summary, we believe we can temporarily fund the required stipends for the Rast Unit this fiscal year. However, if additional funding for the stipend would not be authorized for FY 2004, then we could not afford to start them now. Additionally, we believe we can temporarily fund a hiring bonus program at Lewis, Eyman, and Florence, but must caution you that we may need supplemental funding in a worst case scenario. While we will make every attempt to apply both strategies within our appropriated resources, significant costs for overtime associated with short staffing, unanticipated costs for control of disturbances or other unforseen events preclude us from assuring you we can implement these programs within existing resources. In the final analysis, if you are not supportive of these two programs, the Rast beds will have to remain vacant until staff become available, and Florence and Eyman will have to continue to operate at dangerously low staffing levels.

I appreciate your consideration of these matters for the October JLBC meeting.

Sincerely,

Terry L. Stewart
Director

TLS/HG/s

cc: George Weisz, Deputy Chief of Staff, Office of the Governor
Richard Stavneak, Director, Joint Legislative Budget Committee
Kristine Ward, Director, Governor's Office of Strategic Planning and Budgeting
Elliott Hibbs, Director, Arizona Department of Administration
Chuck Ryan, Deputy Director, Arizona Department of Corrections
Liza Genrich, General Counsel/Legislative Liaison, Arizona Department of Corrections

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HOUSE OF REPRESENTATIVES

DATE: December 13, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Principal Fiscal Analyst
Tony Vidale, Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF CORRECTIONS – REVIEW OF PRIVATE PRISON REQUEST FOR PROPOSAL

Request

The Arizona Department of Corrections (ADC) requests Committee review of a recently issued Request for Proposal (RFP) for 2,200 female beds. The 2,200-bed private prison will house Levels 2, 3, and 4 female inmates (minimum to high-medium security) and be ready for occupancy by August 2004. The project would increase ADC's bed capacity by 2,200. The beds vacated by the female inmate population would continue to be operated by the department and would be backfilled with male inmates. The RFP also contains an option to expand bed capacity by an additional 1,000 beds. A.R.S. § 41-1609.01 requires that, on publication, any RFP issued by ADC pertaining to an adult incarceration contract be provided to the Committee for review. The Committee may suggest modifications to the RFP but does not review the bids or the final contract.

Recommendation

The Committee has at least 3 options regarding this item:

- The Committee may choose to favorably review the ADC private prison RFP, including the expansion option. A favorable review would allow the department to privatize nearly all of the female inmate population, including Level 5 inmates, with the exception of Death Row inmates and Reception and Diagnostic inmates. There are no monies in ADC's current budget for this project and funding would be addressed when the Legislature considers the FY 2005 budget. Once operational, it will annually cost the department at least an additional $35 million to house 2,200 female inmates at the private prison. Even with a favorable review, the project could be stopped prior to August 2004 at no financial cost to the state. Canceling the project after awarding the contract, however, would probably create future problems with our private prison vendors.

(Continued)

- The Committee may choose to favorably review the RFP for only the 2,200 non-Level 5 beds (the part of the RFP which corresponds to the population size and security level inmates identified in the General Appropriation Act). The Committee could further choose to direct ADC to amend the RFP to allow expansion contingent on approval from the full Legislature. Adoption of this option would allow the department to proceed with the project and should not impact the opening date of the beds.
- The Committee may choose to defer review of the RFP and enable the next Legislature to consider privatization of the female inmate population as one complete issue. Adoption of this option would prevent the department from proceeding and may delay the opening date of the beds. A private prison RFP, for this number of beds, typically requires at least 18 months from JLBC review to opening. Therefore, deferring review more than 1 or 2 months will most likely impact the facility's opening date.

If either options 1 or 2 are selected by the Committee, JLBC Staff recommends the Committee direct ADC to amend the RFP to change the annual per capita costs stated in the proposal to reflect the most recent "Operating Per Capita Cost Report" published by the department.

Analysis

The FY 2003 General Appropriation Act includes a footnote that permits ADC to issue an RFP proposal to privatize the non-level 5 female inmate population by contracting for 2,200 privately operated beds to be opened in August 2004. Funding for these beds is not provided in the department's FY 2003 appropriation and no funding is required in FY 2004 because the beds would not come on-line until FY 2005. While operating monies are not needed until FY 2005, the department has released the RFP now to provide sufficient time for the private prison industry to construct a 2,200 to 3,200 bed facility. The RFP also contains a provision that would allow for expansion of 1,000 beds due to a population forecast by the department that projects a female inmate population of 3,200 at the beginning of FY 2005. The 1,000-bed option to expand would also include the Level 5 female inmate population, which the current footnote excludes, as well as Levels 2, 3, and 4 inmates.

A.R.S. § 41-1609.01 requires that, on publication, any RFP issued by ADC pertaining to an adult incarceration contract be provided to the Committee for review. The department is charged with evaluating the private prison proposals to ensure they comply with statute, including the requirement that privately-operated prisons must provide comparable services at a reduced cost, and the Office of the Attorney General reviews the contract to confirm it follows statute.

The statutory requirements include, but are not limited to:

- The private prison vender must provide at least the same quality of services as the state at a lower cost or superior quality of service at the same cost.
- The department must conduct a biennial comparison of the services provided by the private contractor compared to services provided at state-operated facilities. The Committee has review responsibility for the service and cost comparison studies.
- The department retains the task of awarding earned release credits and calculating inmate release dates.
- The private vendor is liable for the costs of any emergency, public safety or security services provided to the private prison by the state or political subdivision.

The department can enter into a contract for new beds; however, ADC cannot bind the Legislature to provide future funding for the beds. As required by statute, the contract requires an annual appropriation by the Legislature and includes a clause that the state incurs no legal liability if monies are not

(Continued)

appropriated and the contract is cancelled. Even with a favorable review, the Legislature could decide not to appropriate the monies and cancel the contract before FY 2005 begins.

While the state may legally end the contract without paying for the construction of the private beds, such a practice would most likely impact the state's relationship with the private prison community and negatively impact future attempts to contract for private beds.

JLBC Staff recommends amending the RFP to change the annual per capita costs because the figures used in the RFP are lower than ones from the department's most recent analysis of operating costs. Using rates lower than those published in the most recent "Operating Per Capita Cost Report" could limit the number of responders to the RFP.

A favorable review of the ADC RFP is recommended as the RFP meets the intent of statutes related to privatized prison beds.

The Table of Contents and Introduction for the RFP is attached. The entire RFP is available upon request.

RS:TV:ss
Attachments

Arizona Department of Corrections

1601 WEST JEFFERSON
PHOENIX, ARIZONA 85007
(602) 542-5556

JANE DEE HULL
GOVERNOR

RECEIVED
DEC 05 2002
JOINT BUDGET COMMITTEE

CHARLES L. RYAN
ACTING DIRECTOR

December 5, 2002

The Honorable Ruth Solomon
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Laura Knaperek
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Solomon and Representative Knaperek:

The enclosed private prison Request for Proposal (RFP) is submitted for review by the Joint Legislative Budget Committee (JLBC) pursuant to Arizona Revised Statute § 41-1609.01 (A). I respectfully request that the review of the RFP be placed on the agenda for the December 19, 2002, JLBC meeting.

Laws 2002, Chapter 327, contains a footnote directing the ADC "to solicit bids to privatize the non-level 5 female inmate population by contracting for 2,200 privately operated beds to be opened in August 2004." The enclosed RFP is for the construction and operation of a 2,200-bed private prison for levels 2, 3 and 4 female inmates. The RFP was published November 7, 2002, under the procurement code exemption authorized by Laws 2002, Chapter 2, 5th Special Session.

There are several issues to consider in reviewing this RFP. The Department's preference is to privatize nearly the entire female population, including level 5 inmates, with the exception of Death Row inmates and the Reception and Diagnostic (R&D) inmates. The ADC would retain Death Row due to security concerns. State law prohibits delegating classification functions to a private operator, thus, requiring the ADC to retain the R&D inmate population as well. Consequently, the ADC included an option to privatize level 5 inmates in the RFP.

Privatizing this population group is consistent with the Department's longstanding practice of contracting out "one-way" populations. Inclusion of level 5 inmates permits the establishment and operation of a full multi-custody level facility in which inmates progress through the classification system without being returned to an ADC facility. Please note that implementing this provision of the RFP is contingent upon a favorable review by the JLBC and approval of legislation to amend the aforementioned footnote accordingly.

Equally important is the designated capacity of the proposed private prison. As noted, the legislative footnote specified 2,200 private female beds. However, at the time of the RFP's publication, the ADC projected the female inmate population would exceed the capacity of the 2,200 female private prison by 600 beds in August 2004. Thus, the ADC also included an option in the RFP to increase capacity of the private prison from 2,200 beds to 2,800 beds. Implementing this provision of the contract is also contingent upon a favorable JLBC review and approval of legislation.

However, the designated capacity of the female private prison merits further consideration given the Department's November 21, 2002, inmate population forecast which accounts for "an acceleration in commitments from Maricopa County during 2001 and 2002." The updated forecast, enclosed for your review, demonstrates a total inmate growth from 118.35 per month to 160.23 per month. The previous female forecast projected a total monthly growth rate of 10.61 for female inmates. The revised female forecast projects a monthly growth rate of 26.23, which is a net increase of 15.62 more female inmates per month than the previous forecast.

Based on the latest projection, there will be 3,013 female inmates by August 2004, and 3,275 female inmates by June 2005. In light of the revised forecast, the Department recommends expanding the capacity of the 2,200-bed female private prison by 1,000 inmates instead of the 600 inmate expansion that is presently in the RFP. Should the JLBC concur with this recommendation and provide a favorable review, the ADC will amend the RFP accordingly and pursue a legislative amendment to the Laws 2002, Chapter 327 footnote.

The expansion of the private prison facility is crucial because it allows the ADC to convert the existing female prison (Arizona State Prison Complex - Perryville), to an all male facility upon the establishment of the female private prison. Accordingly, the ADC will transfer female Death Row and R&D from Perryville to the Southern Arizona Correctional Release Center (SACRC). Converting Perryville to a male institution will allow the ADC to manage growth in the inmate population and bring some relief to prison overcrowding while simultaneously avoiding the up-front capital costs necessary to expand the prison capacity for male inmates. Moreover, expanding the capacity of the female private prison also allows the ADC to accommodate the female inmate growth through the end of Fiscal Year 2005.

I look forward to the JLBC review of this RFP and the opportunity to discuss these matters with the Committee. Please do not hesitate to contact me at (602) 542-5497 if you have any questions, comments or concerns. Thank you for your attention to this matter.

Sincerely,

Charles L. Ryan
Acting Director

CLR/SAS/lls

Enclosures

cc: George Weisz, Deputy Chief of Staff, Office of the Governor
Kristine Ward, Director, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Bill Greeney, Budget Manager, Governor's Office of Strategic Planning and Budgeting
Brad Regens, Senior Staff Analyst, Joint Legislative Budget Committee
Liza Burns, Legislative Liaison, Arizona Department of Corrections
Helen Gouvert, Administrator, OSPB, Arizona Department of Corrections
Mike Kowren, Chief Procurement Officer, Arizona Department of Corrections
Scott A. Smith, Administrator, Private Prisons, Arizona Department of Corrections

SOLICITATION NO. 020099DC
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INTRODUCTION
SECURE PRIVATE PRISON SERVICES

Custody level of assigned female inmates shall be levels 2, 3, and 4, i.e., minimum, medium, and high medium custody. Total number of female beds under Contract shall be 2200: A) 1500 Level 2 beds; B) 400 Level 3 beds; and C) 300 Level 4 beds.

A separate housing area is required to accommodate twenty (20) Return To Custody (RTC) inmates. RTC inmates are female releasees who are waiting due process hearings for allegedly violating conditions of their release imposed by the Board of Executive Clemency or by the Department. Approximately 15 released female inmates are returned to custody each month for allegedly violating conditions of their release. Duration of incarceration for RTC inmates will be based on the needs of Department and/or the need to guarantee due process. The Department projects that assigned releasees will spend approximately forty-five (45) days at the secure private prison. RTC inmates are housed as Level 4 inmates and are part of the 300 Level 4 beds referenced above. RTC inmates are not mandated by Statute or Department Policy to participate in inmate programs, i.e., education, etc.

A separate unit is required to accommodate twenty (20) adjudicated minor female inmates. Adjudicated minors are housed as Level 4 inmates and are part of the 300 Level 4 beds referenced above. Currently the Department has less than six (6) adjudicated minors. Adjudicated minors shall be housed separately from adult inmates by sight and sound. The number of adjudicated minors may increase based on court sentencing. It is projected the adjudicated female population may increase by one (1) inmate per year through 2005.

If legislative approval is granted, included is an ***"Option -to- Expand"*** the secure private prison by 600 beds: A) 250 Level 5 beds; B) 200 beds, Level 2/34 design; and C) 150 Level 4 beds. The Option-to-Expand shall include a Release Program for female inmates. Refer to Section 15, Option to Expand, for further details. The Option-to-Expand may be exercised at the discretion of the Department anytime during the initial Contract, or any renewal period thereafter. Upon execution of the Option-to-Expand time-frames for completion will be negotiated.

The Department will guarantee an occupancy rate of 90%, per level, noting that funding for this project requires an annual appropriation by the legislature.

Co-mingling of the different levels, to include RTC inmates, both physically and operationally is prohibited and shall only be allowed at the express authority of the Department. Each housing unit must be self-contained, i.e., services, programs, etc. However, the Department reserves the right to utilize vacant beds of one custody level with inmates of another custody level.

The Department desires to have this facility ready for full occupancy on August 1, 2004. **Preference will be given to an Offeror who demonstrates the ability to meet this schedule**. A loading schedule that would maximize utilization of the facility based on the above date must be provided. Proposals offering other occupancy time-frames will be awarded points based on Offeror's scheduled availability of beds.

Location of the secure private prison must be within the State of Arizona. All counties are acceptable. To ensure optimum opportunity for a successful secure private prison operation and assurance of staff/inmate safety, the proposal evaluation will include analysis of the availability of local operational factors to include: labor resources, officer turnover rates, criminal justice competition and other related factors which tend to adversely effect cost-effective operations of a prison. To assist in the development of site selection, the officer vacancy rate for State prisons is provided. Multi-jurisdictional offers shall not be considered. The initial Contract term shall be ten (10) years. The Department shall have the option of renewing the Contract for two consecutive terms of up to five (5) years each.

The term ***"private prison"*** used herein shall mean a secure correctional facility operated by a private correctional firm in compliance with requirements set forth in an executed Contract with the State of Arizona, Department of Corrections. Throughout this solicitation, the term ***"private prison"*** shall mean singular or plural. Privatized facilities shall, at all times, be considered ***prisons***. The name of each private prison shall be determined by the Department.

Services shall include the provision of a structure, either existing, or to be constructed, and for the management and operation of the secure private prison, to include all aspects of prison operations, i.e., physical plant, maintenance, inmate programs and services. Contract type shall be a firm fixed price. The provision of all services (structure/operation) shall be the basis for deriving a per diem rate.

Additionally, the Offeror must provide a design addressing the construction of multi-use building(s), which may be utilized for light industry, as well as other potential uses such as office space.

The secure private prison, as previously defined, shall be established in accordance with A.R.S. § 41-1609.02. If legislatively, the proposed site is subsequently changed, the Offeror shall submit within 20 days a revised proposal to reflect changes relevant to the newly selected site. Revised proposals shall be evaluated in accordance with the siting factors. Any change in the proposed site initiated by the Offeror shall be reported in writing to the Department within 72 hours. Offerors failing to provide required notice of site change may be disqualified at the sole discretion of the Department.

It is the expectation of the Department that all able bodied inmates shall be actively involved in work related assignments and self improvement/treatment programs, where applicable. Current programming includes, but need not be limited to, the following: Substance Abuse Treatment; Substance Abuse Education; General Equivalency Diploma (GED); Adult Basic Education (ABE); Special Education, Vocational/Occupational Education; Domestic Violence Support; and assorted life skill and self improvement programs as well as a wide variety of both internal and external inmate work programs.

To ensure the maximum number of inmates are employed, it is the desire of the Department to optimize the development of third party Inmate Work Contracts between Arizona Correctional Industries (ACI) and private companies. Offerors shall provide, in their submitted proposal, letters of interest from private companies expressing their interest in engaging in Inmate Work Contracts through ACI. Preference will be given to an Offeror who submits letters of interest demonstrating community interest in possible third party Inmate Work Contracts. Current ACI work programs include: Data Fulfillment Center-75 workers, Graphic Arts-85 workers, Sewing Factory-27 workers, Motor Vehicle Call-in Center- 46 workers, State Hospital-14 workers, and Pegasus Televerde-100 workers. Depending on the siting of the facility, the current ACI work programs may or may not be relocated. Proposals should include building space that can be utilized for on-site ACI work programs.

During the initial term of the Contract, or any renewal thereof, the Department shall have the right to purchase the private prison. Per A.R.S. § 41-1609, the Department is requiring a portion of the per diem be applied to the private prison Contractor's Purchase Option Schedule. This portion of the per diem shall be applied to the purchase option price. It is the expectation of the Department that the purchase price, at the end of the twenty (20) year Contract term, would be reduced to a zero (0) balance. Furthermore, it is the expectation of the Department to assume ownership of the facility, to include ownership of the land, at the end of the twenty (20) year Contract period, unless the Option to Purchase is exercised before. The Department may then choose to self-operate or contract for management services. The owner/operator shall be required to maintain the facility and all infrastructures in the same operational condition throughout the contract period as when the contract is initiated.

Department Written Instructions, which include Department Orders (DO's), Director's Instructions (DI's), Technical Manuals, and other pertinent Department documents, as well as required forms to this Solicitation shall govern the private prison Contractor's performance in provision of services required herein under the eventual Contract. Current Department Written Instructions applicable to this Solicitation are identified by *Specification #1, Department Materials*. To assist Offerors in preparing their proposal, the Department will provide these materials on CD, in WordPerfect, version 7, or greater.

Two electronic copies of the proposal on CD, using WordPerfect, Version 7 or greater, shall be submitted by the secure private prison Offeror.

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

DATE: October 16, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jennifer Vermeer, Assistant Director

SUBJECT: AHCCCS - REPORT ON COST SHARING MEASURES

Request

Pursuant to a footnote in the General Appropriation Act, AHCCCS has submitted a report on cost sharing measures that could be added to the AHCCCS program.

Recommendation

This item is for information only and no Committee action is required. AHCCCS estimates a total maximum state savings of $14 million to $17.3 million if all of the cost sharing strategies are implemented. Federal approval of waivers is required in several instances, however, so any savings would not likely be realized until FY 2004.

While no Committee action is required, AHCCCS is requesting guidance on how to proceed with the cost sharing measures.

Analysis

A footnote in the General Appropriation Act requires AHCCCS to report by October 1, 2002 on savings that could be achieved if applications fees and other cost sharing measures were implemented. The report shall detail the saving associated with each option by program and any administrative costs associated with each option. AHCCCS's report includes increasing the amounts and types of copayments, implementing monthly premiums, and enrollment fees.

AHCCCS notes several important caveats on implementing any of the cost sharing arrangements.

- Federal Medicaid law and regulations limit the types of cost sharing options that can be implemented, the populations that can be charged, and the amounts that can be charged.

- Any revenue collected must be shared with the federal government at the Federal Matching Assistance Percentage (FMAP).
- Waivers are required to implement some of the cost sharing strategies discussed in the report. AHCCCS reports that waiver approval through the federal Centers for Medicare and Medicaid Services (CMS) would likely take 4-6 months. As a result, they project it may take until October 1, 2003 to implement these strategies.
- Under AHCCCS's current structure, any revenues collected through these strategies are retained by the providers. These payments are then deducted from the amount they receive in reimbursement or capitation rates. As a result, increasing cost sharing would not directly benefit the state. The savings would come through future decreases to capitation rates due to the increased revenue at the providers.
- Therefore, in order to generate immediate savings to the state, the capitation rates would need to be decreased prospectively. Otherwise, any savings would not be generated until some point in the future.

The following table summarizes the revenue estimates and important caveats for each of the cost sharing options.

Cost Sharing Arrangement	Maximum Potential Revenue	Comments
Copayments	$7 - $10.3 million (State Share)	• Federal law requires copays on the traditional Medicaid population to be nominal and must be waived if the enrollee cannot pay. • AHCCCS currently requires copays on some services. The experience in AZ and other states is a collection rate of 2%. • Copays cannot be imposed on certain services. • There is more flexibility for expansion populations (such as Proposition 204). • Federal law limits the amount that can be charged for copays. • A waiver would be required to deny services if copays are not paid. To date, CMS has not approved this type of waiver. (See page 4 of the report for detail on each proposed copay).
Monthly Premiums	$3.9 million (State Share)	*AHCCCS:* • No premium can be charged on traditional Medicaid populations. • Monthly premiums are currently charged in the KidsCare program and are allowed for adults in the KidsCare program (also known as HIFA parents) up to certain limits. • There is some flexibility to charge premiums on expansion populations (see page 5 of the report for more detail).
	$1.8 million (State Share)	*DD-ALTCS:* • Parental income is not counted toward eligibility in the Developmentally Disabled Long-Term Care program. Monthly premiums could be charged to this population. • A waiver is required (see page 7 of the report for more detail).
Enrollment Fees	$1.3 million (State Share)	• An enrollment fee would be charged to applicants when they are initially enrolled in the program. • The fee can apply to the Proposition 204 and KidsCare programs (children and adults). • This could result in people not applying when they are healthy and only enrolling when they become sick. This could have unknown consequences for providers and the AHCCCS program. (see page 7 of the report for more detail)
Total Collections	$14 – 17.3 million (State Share)	(See page 8 of the report for more detail)

RS/JV:lm

Arizona Health Care Cost Containment System

Cost Sharing Options

Submitted to the Joint Legislative Budget Committee
Phyllis Biedess, AHCCCS Director
October 1, 2002

AHCCCS

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Committed to excellence in health care

Jane Dee Hull
Governor

Phyllis Biedess
Director

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JOINT BUDGET
COMMITTEE

October 1, 2002

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

Dear Mr. Stavneak:

In accordance with Laws 2002, Chapter 327 § 6, AHCCCS is submitting the requested Cost Sharing Report that identifies new or additional cost sharing measures that could be implemented. The Report primarily discusses strategies that have a chance of approval by the Centers for Medicare and Medicaid Services (CMS).

Medicaid law is very restrictive about the amount of cost sharing that can be imposed on the traditional Medicaid population. There is more flexibility on expansion populations such as the 100% of Federal Poverty Level groups, KidsCare children and the parents of KidsCare children. Any proposal will require federal approval, which could take four to six months, and authorizing state legislation. The strategies that the Cost Sharing Report identifies as possibilities are: new as well as increased copayments and monthly premiums, a monthly premium for households with children enrolled in the long term care program and an initial enrollment fee for eligibility groups who have higher income levels.

Although the Cost Sharing Report contains estimates of the amount of new revenue that could be generated, the figures are optimistic and require several qualifications. First, not all of the revenue will directly benefit the General Fund. For example, copayments are collected by providers, not the AHCCCS program, and the total amount is used to determine a potential offset to an increase in capitation rates. For the Traditional Medicaid population, copayments must be waived if the enrollee can not afford to pay which reduces the rate of collection to about 2% for this population. Second, fees may have a chilling effect on enrollment and may actually increase health care costs if people wait to enroll until they are seriously ill. Third, the estimates for the expansion population are based on CMS' approval of a waiver that gives the state the ability to mandate a copayment or deny services. Finally, AHCCCS does not have solid experience in estimating all of the ramifications of higher cost sharing amounts. The actual revenue that may be generated could be lower than the forecasts or there may be unintended consequences that increase the cost to the program if healthy people do not enroll until they are sick.

801 East Jefferson • Phoenix, AZ 85034 • P.O. Box 25520 • Phoenix, AZ 85002 • (602) 417-4000
Internet: www.ahcccs.state.az.us

AHCCCS wants guidance from the Joint Legislative Budget Committee before proceeding with these cost sharing measures. If a decision is made to pursue any or all of these strategies, CMS will need at least four to six months to make a decision. Therefore, AHCCCS believes that October 1, 2003 is the earliest date to operationalize changes to cost sharing. It will take at least 12 months from implementation to determine if the forecasts are accurate and if the strategies can save money for the program.

If you have any questions, please contact Lynn Dunton at (602) 417-4447.

Sincerely,

Phyllis Biedess

Phyllis Biedess
Director

Enclosure

c Jennifer Vermeer, Assistant Director, JLBC

Cost Sharing Options

BACKGROUND

The Arizona Health Care Cost Containment System (AHCCCS) is required to report to the Joint Legislative Budget Committee (JLBC) on the savings that could be achieved in programs if application fees and other cost sharing measures are implemented. Laws 2002, Chapter 357, requires the report to discuss:

1) Savings associated with each option broken out by program, and
2) Administrative costs associated with implementing each option.

Guiding Principles

In preparing this report, AHCCCS used the following guiding principles.

- If allowable by federal law, AHCCCS eligible persons will have some form of cost sharing.
- Lower income populations will have lower cost sharing amounts.
- Impact on the provider community must be considered.
- Cost sharing will be implemented in the most efficient way to reduce administrative costs.
- Data will drive the conclusions.
- Any additional funds that are collected must be shared with the federal government at the Arizona FMAP rate.

Terms Used Throughout Document

- **ALTCS -** Arizona Long Term Care System - The AHCCCS program that provides long term care services to the elderly and physically or developmentally disabled persons.
- **CMS -** Centers for Medicare and Medicaid Services - The federal agency that regulates Medicaid.
- **Expansion population -** Persons added because of voter approval of Proposition 204 with income up to 100% of FPL.
- **HIFA -** A federal initiative that enabled Arizona to cover the parents of KidsCare children with 75% federal funding.
- **KidsCare children -** A program to cover children up to the age of 19 with household income up to 200% of FPL.

- **Traditional Medicaid** - Individuals who are aged, blind or disabled, a pregnant woman or children who have lower incomes than the Expansion population.

FINDINGS

AHCCCS reviewed federal law and regulations, practices in other states and waiver possibilities to determine the feasibility of requiring higher copayments, premiums and other cost sharing strategies for Traditional Medicaid, KidsCare children, HIFA parents and Expansion enrollees. Federal law and regulations are very clear that copayments must be nominal for Traditional Medicaid enrollees and must be waived if a person can not pay. Copayments amounts can be higher for Expansion populations. Considering these parameters, the state could request CMS approval for the following changes to current cost sharing requirements:

- Add new copayments and increase others through a waiver approved by CMS - this change will not increase revenue to the General Fund for the reasons explained below.
- Increase the monthly premium for KidsCare children and include a monthly premium for the new HIFA Parents.
- Request federal approval to collect monthly premiums for children enrolled in ALTCS. The estimates are based on a 5% premium for households with income above 221% of FPL. This threshold was chosen because it approximates the current eligibility level of 300% of SSI for the ALTCS program.
- Request waiver approval to impose an initial enrollment fee for KidsCare children, HIFA Parents and the Expansion population that must be paid before an applicant is enrolled with AHCCCS.

COPAYMENTS

The current copayment amounts are described in Appendices 1 and 2. Copayments are fixed amounts that are collected by providers, such as physicians or laboratories, at the time a service is rendered. In turn, the health plans or program contractors reduce reimbursement to these contracted providers to reflect the dollar amounts that are collected by the provider. Even at the nominal levels, the experience in Arizona and other states is that only about 2% of the possible copayments are collected from Traditional Medicaid populations since the copayment must be waived if the person can not afford to pay.

For the purposes of this report, AHCCCS used a 2% collection rate (25% for prescriptions) for the Traditional Medicaid population and a threshold of 50% and 75% as the collection rate for KidsCare children, HIFA parents and the Expansion population. If providers collect copayments at this level, the revenue that will be generated is between $7,000,000 and $10,250,000. However, increasing the copayments is not a direct fiscal benefit to the state since AHCCCS does not collect the copayments. Revenue that is generated by new or increased copayments will be considered as part of the actuarial analysis of capitation rates and could result in smaller capitation rate increases in the future.

Federal law is very specific about the amount of copayments and sets the following parameters:

1) Copayments must be nominal and waived for traditional Medicaid members who can not afford to pay.

2) No copayments can be imposed on:

- Family planning (Medicaid).
- Services received by children under 18 years of age, pregnant women, individuals receiving hospice care and institutionalized individuals (Medicaid).
- Well baby and well-child services (KidsCare).
- Routine preventive and diagnostic services (KidsCare).

3) Unless a waiver is granted by CMS, the maximum copayment is $3 for traditional Medicaid recipients.

4) SCHIP limits the amount of out-of-pocket expenses for copayments and monthly premiums to no more than five percent of the household income of KidsCare children and HIFA parents.

5) CMS will consider higher copayments on Expansion populations such as the Proposition 204 groups and HIFA parents.

6) States are required to return the federal share (FMAP) portion of the copayments to the federal government which reduces the amount of revenue that could be realized from new or increased copayments.

Considering the federal requirements, CMS guidance and the experience in other states, the state could add or increase copayments as reflected in Table 1. In order for the state to generate revenue that merits an increase in copayments, it is essential that CMS allow the state to refuse a Medicaid service for KidsCare children and HIFA parents and Expansion populations if the copayment is not paid. To date, CMS has not approved any state's request to deny services if the Medicaid recipients can not afford to pay. If the request is not approved by CMS, physicians, hospitals and other providers must provide services and will be penalized if the state lowers reimbursement to account for copayments that can not be collected. Other waivers will be needed to increase copayments for the non-emergency use of the emergency room and for non-emergency transportation. CMS has not approved higher copayments for Traditional Medicaid populations but have approved a few waiver requests to increase copayments on Expansion populations.

Table 1-State Share of Revenue to Providers Due to Increased or Added Copayments (Does not include behavioral health and the RHBAs)

Program	**Generic Prescriptions** $2 Traditional Medicaid $5 All Others	**Brand Name Prescriptions** $2 Traditional Medicaid $8 Expansion and HIFA $5 KidsCare	**Non-Emergency Use of the Emergency Room** $6 Traditional Medicaid $10 KidsCare <150% $30 All Others	**Non-Emergency Transportation** $5 Traditional Medicaid and KidsCare <150% $10 All Others	**All Other Services** $2 Traditional Medicaid $5 All Others
Traditional Medicaid (1)	$322,000	$132,000	Negligible for this group since hospitals must stabilize an "emergency" and waive the copayment if the person can not pay	$8,000	$12,000 (Primary Dr.) $22,000 (Specialist) $3,000 (Lab and X-ray)
Prop 204 Expansion Groups (2)	$1,383,000-$2,074,000	$904,000-$1,355,000	$31,000-$46,000	$338,000-$507,000	$1,903,000-$2,854,000 (Primary Dr.) $589,000-$884,000 (Specialist) $881,000-$1,321,000 (Lab and X-ray)
HIFA Parents (2)	$83,000-$125,000	$55,000-$82,000	$3,000-$4,000	$15,000-$22,000	$118,000-$177,000 (Primary Dr.) $27,000-$40,000 (Specialist) $36,000-$54,000 (Lab and X-ray)
KidsCare <150% of the FPL (2)	$29,000-$44,000	$12,000-$18,000	Negligible	$4,000-$5,000	$0 (3) (Primary Dr.) $9,000-$13,000 (Specialist) $20,000-$30,000 (Lab and X-ray)
KidsCare >150% of the FPL (2)	$24,000-$35,000	$10,000-$14,000	$1,000	$6,000-$9,000	$0 (3) (Primary Dr.) $7,000-$10,000 (Specialist) $16,000-$24,000 (Lab and X-ray)
GRAND TOTAL	$1,841,000-$2,600,000	$1,113,000-$1,601,000	$35,000-$51,000	$371,000-$551,000	$3,643,000-$5,444,000

1. Traditional Medicaid estimates are based on collecting 2% of the copayments (25% for prescriptions) since a state can not deny services if the person can not pay.

2. KidsCare, HIFA and Expansion Populations estimates are based on collecting a range of 50% and 75% of the copayments. This percentage is dependent on getting CMS approval to deny services if the copayment is not paid.

3. There is no data on primary doctor copayments for KidsCare since copayments can not be assessed on well baby or well child visits.

4. Enrollment information as of 7/1/02

5. This is a snapshot of the data. Utilization and enrollment may change over time and increase or decrease the collections.

Administrative Costs

There will be new administrative costs at the health plan or program contractor level to pay providers to collect these copayments.

MONTHLY PREMIUMS

Premiums are monthly amounts a member pays to maintain enrollment in AHCCCS. The federal limitations are:

1) States can not charge a monthly premium on Traditional Medicaid populations.
2) There is some flexibility to assess a monthly premium on Expansion populations with approval by CMS.
3) AHCCCS may impose a premium for KidsCare children and HIFA parents but the combined total of all cost sharing can be not more than five percent of the household income.
4) States are required to return the federal share (FMAP) portion of the premium to the federal government which reduces the amount of revenue that the state may realize.

Monthly Premiums for KidsCare and HIFA Parents

As shown in Table 2, the state may assess a monthly premiums on HIFA Parents, impose a monthly premium for KidsCare children under 150% of the FPL and increase the monthly premium by $5 for all other KidsCare children between 150% to 200% of the FPL.

The estimated revenue is calculated based on 100% payment of the premiums since the premium must be paid in order to continue participation in the program.

Table 2-Increased Premium Amounts Based on 100% Collection (State Share Only)

Premiums/per month	100% to 150% FPL	150% to 175% FPL	175% to 200%FPL
KidsCare	$15 for one KidsCare child $25 for more than one KidsCare child	$20 for one KidsCare child $30 for more than one KidsCare child	$25 for a household with one KidsCare child $35 for more than one KidsCare child
	$1,312,000	**$472,000**	**$346,000**
Premiums/per month	**100% to 150% FPL**	**150% to 175% FPL**	**175% to 200%FPL**
HIFA Parents	$15 for each HIFA parent	$20 for each HIFA parent	$25 for each HIFA parent
	$1,348,000	**$225,000**	**$205,000**
		GRAND TOTAL	**$3,908,000**

Administrative Costs

AHCCCS currently collects premiums for the KidsCare Program. Administrative costs to increase the premiums can be absorbed by the agency.

Assess Monthly Premiums on Households With ALTCS Eligible Children

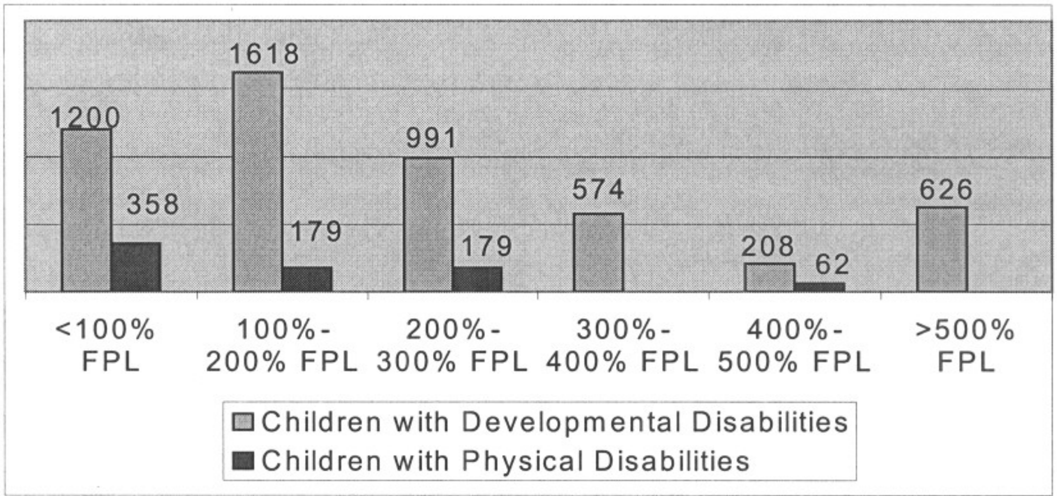
Currently, parental income is not counted when a child under the age of 18 applies for enrollment in ALTCS. In 1987, the state decided not to count parental income in order to cover as many disabled children as possible with federal funds and to reduce the waiting list for services provided to children with developmental disabilities.

There are almost 6,000 physically or developmentally disabled children enrolled in ALTCS who live at home with parents with household income levels that range from under 100% of the FPL to well over 1500% of the FPL (see Table 3). Even at the higher income levels, parents do not pay anything toward the cost of ALTCS services for their children.

The state could pursue a waiver from CMS that would allow the state to assess a monthly premium based on household income above 221% of the FPL for children enrolled in ALTCS. This FPL level approximates the current eligibility level of 300% of SSI that is used to determine financial eligibility for the ALTCS program. This FPL also targets households with higher income (e.g. a family of four with a monthly income of over $3,333).

CMS has advised the state that any change in the long term care program will require the state to negotiate a budget neutrality agreement for ALTCS, which will increase administrative costs to the agency for this task. If the state receives approval, rules must be promulgated to support the amount of the premiums.

Table 3- Households by Income Levels



An example of the amount of the monthly premium based on household income is depicted in Table 4.

Table 4-ALTCS Monthly Premiums (State Share Only)

5% of Household Income	Premium Amount	Estimated Total Revenue
Income from 221%-300% of FPL	$138	$410,000
Income above 300%-400% of FPL	$187	$416,000
Income above 400%-500 of FPL	$250	$263,000
Income above 500% of FPL	$312	$757,000
	GRAND TOTAL	$1,846,000

1. The ALTCS estimation was based on a sample size of 305 children under the age of 18 who reside at home with a parent.

2. The dollar figure represents a household of 3.

Enrollment Fees

Utah received CMS' approval to impose an enrollment fee on Expansion populations at the time of initial enrollment. The state could request a waiver from CMS to impose a $25 enrollment fee at the time of initial enrollment. AHCCCS has estimated the revenue that would be generated by this new fee in Table 5 but can not quantify the impact to the AHCCCS' budget if healthy people do not enroll until they are sick or what the amount of the increase in uncompensated care for hospitals and providers will be.

Table 5-Add a $25 Enrollment Fee at 100% Collection (State Share Only)

$25 Enrollment Fee	Increased Revenue
Prop 204 Expansion Groups	$595,000
HIFA Parents	$182,000
KidsCare Children	$483,000
TOTAL	$1,260,000

NECESSARY ACTIONS TO IMPLEMENT COST SHARING CHANGES

In order to increase or add copayments, enrollment fees and monthly premiums the legislature must amend AHCCCS' statutes and CMS must approve a waiver before the state could:

- Set copayment amounts above the "nominal" standard in federal and state law.
- Deny a service if a member refuses to pay the copayment.
- Add enrollment fees and increase or add new premiums.

ENHANCED REVENUE

Table 6 provides a total estimate of potential offset for higher copayments and new revenue that may be generated by new or higher premiums. These estimates are based on several variables including state and federal approval, enrollment numbers at today's levels or higher and the willingness of the providers to collect copayments.

Any budget estimate must take into account that copayments will not increase revenue to the state in the short term. The long term benefit to the state will depend on whether the amount of copayments that are collected by the providers is sufficient to warrant a future offset to the overall medical inflation cost that is factored into capitation rates to keep them actuarially sound.

Table 6-Estimated Collection of Higher and New Copayments

Source	Total Revenue	Federal Share	State Share	Statute Change	Waiver Request
Add Generic Prescription Copayment (1) • $2 Traditional Medicaid • $5 All Others	$5,801,000- $8,209,000	$3,959,000- $5,608,000	$1,841,000- $2,601,000	Yes	No
Add Brand Name Prescription Copayment (1) • $2 Traditional Medicaid • $5 KidsCare Children • $8 Expansion and HIFA	$3,494,000- $5,039,000	$2,381,000- $3,438,000	$1,113,000- $1,601,000	Yes	No
Increase Copayments for the Non-Emergency Use of the ER (2) • $6 Traditional Medicaid • $10 KidsCare Children <150% • $30 Expansion, HIFA, and KidsCare Children >150%	$111,000- $164,000	$76,000- $112,000	$35,000- $51,000	Yes	Yes
Add Copayment for Non-Emergency Transportation (2) • $5 Traditional Medicaid and KidsCare Children <150% • $10 Expansion, HIFA and KidsCare Children>150%	$1,162,000- $1,730,000	$791,000- $1,179,000	$371,000- $551,000	Yes	Yes
Increase/Add Copayment for Primary Doctor (2) • $2 Traditional Medicaid • $5 All Others	$6,362,000- $9,524,000	$4,329,000- $6,481,000	$2,033,000- $3,043,000	Yes	Yes
Increase/Add Copayment for Specialist (2) • $2 Traditional Medicaid • $5 All Others	$2,053,000- $3,045,000	$1,398,000- $2,075,000	$654,000- 970,000	Yes	Yes
Increase/Add Copayment for Lab and X-ray (2) • $2 Traditional Medicaid • $5 All Others	$3,016,000- $4,517,000	$2,058,000- $3,084,000	$956,000- $1,433,000	Yes	Yes
Total Copayments	$21,999,000- $32,228,000	$14,992,000- $21,977,000	$7,003,000- $10,250,000		

Over a 12-month period, premiums could generate new revenue to the state if CMS approves the waiver.

Table 7 - New or Higher Premiums

Source	Total Revenue	Federal Share	State Share	Statute Change	Waiver Request
Premiums for HIFA Parents and KidsCare Children	$17,050,000	$13,142,000	$3,908,000	Yes	Yes
Premiums for ALTCS	$5,638,000	$3,792,000	$1,846,000	Yes	Yes
Enrollment Fees	$4,720,000	$3,460,000	$1,260,000	Yes	Yes
Total Premium Collections	$27,408,000	$20,394,000	$7,014,000		

GRAND TOTAL	$49,407,000-$59,636,000	$35,386,000-$42,371,000	$14,017,000-$17,264,000

1. Traditional Medicaid estimates are based on collecting 2% of the copayments (25% for prescriptions) since a state can not deny services if the person can not pay.

2. KidsCare, HIFA and Expansion populations estimates are based on collecting range of 50% and 75% of the copayments. This percentage is dependent on getting CMS approval to deny services if the copayment is not paid.

Appendix 1

AHCCCS Current Copayments

Traditional Medicaid

Service	Copayment
Non-emergency use of the emergency room	$5
Non-emergency surgery procedure	$5
Doctor's office or home visit and all diagnostic and rehabilitative x-ray and laboratory services associated with the visit	$1

KidsCare Children

Service	Copayment
Non-emergency use of the emergency room	$5

Appendix 2

Federal Copayment Limits

Traditional Medicaid

Copayments can range from $0.50 to $3 depending on the cost of the service.

Cost of Service	Copayment
0-$10	$0.50
$10.01-$25	$1
$25.01-$50	$2
$50.01 and higher	$3

*Non-emergency use of the emergency room can be increased from $5 to $6 with a waiver.

Exclusions

Copayments may not be charged on:

- Family planning; and
- Services received by children under 18 years of age, pregnant women, individuals receiving hospice care and institutionalized individuals.

KidsCare Children

For KidsCare children under 150% of the FPL, non-emergency use of the emergency room copayments cannot exceed $10 and copayments on all other services cannot exceed $5. Total cost sharing (copayments, premiums, and enrollment fees) cannot exceed 5% of the household annual income.

Total Out of Pocket @ 5% Cap

Family Size	5% of 100% FPL	5% of 150% FPL	5% of 175% FPL	5% of 200% FPL
1	443.00	664.50	775.25	886.00
2	597.00	895.50	1,044.75	1,194.00
3	751.00	1,126.50	1,314.25	1,502.00
4	905.00	1,357.50	1,583.75	1,810.00

Exclusions

Copayments may not be charged on:

- Well baby and well-child services, and
- Routine preventive and diagnostic services.

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DATE: December 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Grunig, Fiscal Analyst

SUBJECT: STATE COMPENSATION FUND – CONSIDER APPROVAL OF CALENDAR YEAR 2003 AND 2004 BUDGETS

Request

In accordance with A.R.S. § 23-981E, the State Compensation Fund (SCF) budgets for Calendar Year (CY) 2003 and CY 2004 are submitted for review and approval by the Joint Legislative Budget Committee. Unlike state agencies, the State Compensation Fund is budgeted on a calendar year basis rather than a fiscal year basis.

As detailed in *Attachment 1*, the SCF requests a budget of $70,370,000 for CY 2003. This includes an operating budget of $47,000,000 and Special Line Items (SLI) that total $23,370,000. The SLIs are largely driven by market forces.

The SCF requests a budget of $74,480,000 for CY 2004. This includes an operating budget of $48,600,000 and SLIs that total $25,880,000. The request represents a net increase of 5.8% above the CY 2003 recommended budget.

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

Recommendation

Prior to discussing a potential CY 2003 budget, SCF's budgeting practices have a raised a concern. SCF expenditures in both CY 2001 and CY 2002 exceeded amounts approved by the Committee. In CY 2001, actual operating expenditures were $3.4 million or 9% higher than the approved amount for CY 2001 and Special Line Item expenditures were $5.3 million or 78% higher than the approved amount. In CY 2002, actual operating expenditures will be $3.2 million or 8% higher than the approved amount for CY 2002 and Special Line Item expenditures will be $11.6 million or 135% higher than the approved amount.

Some of the components of the SCF budget, such as number of policy holders, claims and management fees, are workload and market driven, and as a result may be difficult to predict. However, the administrative

(Continued)

component of the SCF budget has also been increased above the amount approved by the Committee, primarily for salary increases. The Fund did not notify the Committee before exceeding its authorized spending limits. The Fund does not believe that Committee action binds them. To strengthen budgetary controls, the Committee may want to recommend the introduction of legislation to require future SCF budgets be subject to full legislative appropriation.

As long as the JLBC retains final control of the SCF budget, the Committee could strengthen its budget oversight by :

- Approving only the CY 2003 budget at this time;
- Requiring any increases above the approved amount be submitted to the Committee for approval prior to expenditure;
- Requiring quarterly expenditure reports to track that SCF remains within budget.

The JLBC Staff recommends a CY 2003 operating budget amount of $67,478,300. This represents an increase of $19,644,900 or 41%, above CY 2002 *(See Attachment 1).* Of the recommended amount, $14,773,700 is for Special Line Item increases in claim adjustment services, rating bureau fees, premium taxes and administrative fees.

The recommendations include increased funding of $4,871,200 for the operating budget. This amount includes Personal Services and Employee Related Expenditures associated with the addition of one-time 20 FTE Positions, funding for upgrading the automation system including desktop software, and technical adjustments related to retirement rate and health insurance increases. While premium rates declined in both CY 2001 and CY 2002, increases in premium revenues and assessments will require operational expenses to increase due to the greater volume of activity. SCF's market share of workers' compensation premiums has increased from 32% in CY 2000 to an estimated 55% market share in CY 2002.

Salary is a policy consideration for the Committee not addressed in the staff's recommendation. SCF has requested $2.8 million for salary adjustments in excess of the Committee's original approval for CY 2002 plus a new 5.2% increase in CY 2003. State employees received a $1,450 increase in June. Traditionally, the Committee has aligned SCF salary increases with state employee pay. In the CY 2000 – CY 2001 biennium, however, JLBC allowed higher increases because SCF chose to reallocate already approved Personal Services dollars to pay for the increases.

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

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

Table 1	**Actual 2001**	**Estimated 2002**	**Estimated 2003**
Premium Income	227.1	252.6	268.0
Actual Increase	41.7	25.5	15.4
Percentage Increase	22.5%	11.2%	6.1%
(in Millions)			
Investment Income	119.3	135.7	140.2
Actual Increase	(27.2)	16.4	4.5
Percentage Increase	-18.6%	13.7%	3.3%
(in Millions)			
Policyholders	49,952	50,100	51,500
Actual Increase	1,434.0	148.0	1,400.0
Percentage Increase	3.0%	0.3%	2.8%
Claims Processed	43,398	48,500	52,000
Actual Increase	6,741.0	5,102.0	3,500.0
Percentage Increase	18.4%	11.8%	7.2%

RS/SG:jb
Attachment

State Compensation Fund

JLBC: Steve Grunig
OSPB: Keith Fallstrom

DESCRIPTION	CY 2001 ACTUAL	CY 2002 APPROVED	CY 2003 Recommend.
PROGRAM BUDGET			
State Compensation Fund	39,745,000	39,237,100	44,108,300
Claim Adjustment Services SLI	6,555,000	1,905,000	10,900,000
Rating Bureau Fees SLI	907,000	510,000	1,150,000
Premium Tax SLI	4,777,000	4,450,000	5,620,000
Administrative Fees SLI	2,896,000	1,655,000	5,700,000
Personal Property Tax SLI	0	76,300	0
AGENCY TOTAL	**54,880,000**	**47,833,400**	**67,478,300**
OPERATING BUDGET			
Full Time Equivalent Positions	552.0	559.0	579.0
Personal Services	19,800,000	20,391,000	20,991,000
Employee Related Expenditures	6,000,000	5,068,000	6,368,000
Professional and Outside Services	3,800,000	2,777,500	4,200,000
Travel - In State	160,000	337,300	337,300
Travel - Out of State	85,000	112,000	112,000
Other Operating Expenditures	9,700,000	9,027,300	11,700,000
Equipment	200,000	1,524,000	400,000
OPERATING SUBTOTAL	39,745,000	39,237,100	44,108,300
Special Line Items (SLI)	15,135,000	8,596,300	23,370,000
AGENCY TOTAL	**54,880,000**	**47,833,400**	**67,478,300**
FUND SOURCES			
State Compensation Fund	54,880,000	47,833,400	67,478,300
TOTAL	**54,880,000**	**47,833,400**	**67,478,300**

CHANGE IN FUNDING SUMMARY	CY 2002 to CY 2003 JLBC	
	$ Change	% Change
State Compensation Fund	19,644,900	41%

AGENCY DESCRIPTION — *The State Compensation Fund insures employers against liability for workers' compensation, occupational disease compensation, and medical, surgical, and hospital benefits pursuant to the provisions of Arizona and federal statutes. The JLBC approves the State Compensation Fund's biennial operating and capital outlay budget each even-numbered year. At the November 28, 2000 meeting, the JLBC approved the board's Calendar Year 2001 and 2002 budgets.*

PERFORMANCE MEASURES	CY 2001 Appropriated	CY 2001 Actual	CY 2002 Appropriated	CY 2003 Recommend.
• Number of policyholders	50,000	49,952	53,000	51,500
• Number of claims processed	39,500	43,398	43,500	52,000
• Premium income (dollars in millions)	$200.0	$227.1	$212.0	$268.0
• Investment income (dollars in millions)	$148.1	$119.3	$153.5	$140.2

RECOMMENDED CHANGES FROM CY 2002

CY 2003

Staffing Changes **OF 600,000**

The JLBC recommends a State Compensation Fund (SCF) increase and an additional one-time 20 FTE Positions for market driven staffing changes. As a result of reduced premium writing by private insurers, SCF's market share has increased from 32% of total Arizona workers' compensation premiums written in CY 2000 to an estimated 55% market share in CY 2002. SCF's premium income and number of claims processed both grew by approximately 20% in CY 2001. Similar growth patterns have occurred in CY 2002 and are projected to continue through CY 2003. As a result, SCF will require an additional 20 full-time customer service representatives in CY 2003. This represents a 3.5% increase for the staff as a whole.

Employee Related Expenditures **OF 1,300,000**

The JLBC recommends a SCF increase for the 3.21% increase in ASRS pension contribution rates and an estimated average increase of $1,100 per FTE for increased health insurance rates. SCF does not participate in the state health insurance plan.

Professional and Outside Services **OF 1,422,500**

The JLBC recommends a SCF increase for asset management expenses. This represents a 51.2% increase. SCF has increased its use of outside professional asset managers for management of its investment portfolio. Previously SCF used internal staff in concert with outside advisors. SCF evaluates the performance of equity managers using the S&P 500 Index and evaluates the performance of fixed income portfolio managers using the Lehman Brothers indices. Since early 2001, SCF began using 6 different outside asset managers to handle its equity portfolio. While the previous equity managers had under-performed the S&P 500 Index, the new managers have outperformed the S&P 500 index by approximately 4%, net of fees, since their engagement. On an initial investment of approximately $200 million of equities, this has resulted in a reduction of losses of approximately $8 million. External managers for the fixed income portfolio have only been used since the end of the first quarter of 2002 and it is difficult to assess their performance at this time.

Other Operating Expenditures **OF 2,672,700**

The JLBC recommends a SCF increase for administrative system upgrades and facilities maintenance. SCF is continuing the implementation of a new administrative system and planned upgrade of existing desktop software. Because SCF does not meet the definition of a budget unit, it is not required to comply with Government Information Technology Agency (GITA) guidelines. GITA agreed to informally review the SCF plan for technology expenditures for CY 2003. The GITA analysis concluded that the planned expenditures were justified, low-risk, and appeared to be needed to perform SCF functions.

Elimination of One-Time Equipment **OF (1,124,000)**

The JLBC recommends a SCF decrease for elimination of one-time equipment. For CY 2002, SCF received approval for one-time funds to upgrade its computer network by replacing its mainframe system with a client-server based platform.

Below the Line Expenditures **OF 14,773,700**

The JLBC recommends a SCF increase for claim adjustment services, rating bureau fees, premium taxes and administrative fees. Claim adjustment services represents a reserve set aside for ongoing claims. The amount is adjusted as a result of changes in claims volume and changing trends in the cost of settling each individual claim. Rating bureau charges are fees imposed by the National Council on Compensation Insurance and are related to premium volume. SCF premium rate levels have declined during 2001 and 2002. Aggregate rates decreased 1.5% for 2001 and 1% for 2002. This is reflected in a lower cost per $100 of payroll for businesses, but because SCF has had a greater volume of activity, total premium revenue and premium tax assessments have increased. Administrative fees are amounts paid to association groups in exchange for enrollment and loss control services. SCF contracts with various association groups operating in Arizona for workers' compensation policy enrollment and loss control services. Currently, each association group receives 1.5% of association premium for administrative services, 1.5% premium for loss control services and a bonus of up to 1% based on the loss ratio of the association group. These expenses are primarily driven by premium volume, while the bonus amount is based on premium volume, it is also loss sensitive. In most cases, SCF has little discretionary ability to control these costs.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Salary Increases

SCF has also requested $2,841,000 in CY 2003 for salary increases. SCF has completed a salary survey, which indicates compensation levels are an average of 9% below market. SCF is attempting to bring salaries for all positions within 5% of market. This will require $1,100,000 for salary increases in CY 2003. The amounts requested also include prior promotional increases and ERE adjustments of $1,741,000 above the amount originally approved by the Committee for CY 2002.

BELOW THE LINE EXPENDITURES

Expenditure Classification	CY 2003 Increase over est. CY 2002	Percent Increase	CY 2004 Increase over CY 2003	Percent Increase
• Claim Adjustment Services	$8,995,000	472%	1,400,000	13%
• Rating Bureau Fees	$640,000	125%	350,000	30%
• Premium Tax	$1,170,000	26%	260,000	5%
• Administrative Fees	$4,045,000	244%	500,000	9%
• Personal Property Tax	$(76,000)	NA	0	NA

SUMMARY OF FUNDS * Represents Calendar Years	CY 2001 Actual	CY 2002 Estimate

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

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

	CY 2001 Actual	CY 2002 Estimate
Funds Expended-Operating	54,900,000	62,600,000
Funds Expended-Dividends and Claims	207,200,000	274,400,000
Year-End Fund Balance	470,000,000	510,900,000

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DONALD A SMITH, JR., CPCU
PRESIDENT & CEO

3031 North Second Street, Phoenix, Arizona 85012

SCF of Arizona
workers' compensation insurance

November 13, 2002

The Honorable Ruth Solomon, Chair
Joint Legislative Budget Committee
c/o Richard Stavneak, Director
1716 West Adams Street
Phoenix, Arizona 85007

Dear Senator Solomon:

In accordance with A.R.S. §23-981, the State Compensation Fund requests to be on the agenda for the Joint Legislative Budget Committee's November meeting.

The State Compensation Fund is seeking review and approval of the Operating and Capital Outlay Budget for the 2003-2004 calendar years.

Thank you for your favorable consideration.

Respectfully yours,

Donald A Smith Jr.

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

STATE OF ARIZONA
STATE COMPENSATION FUND
BUDGET REQUEST FOR THE YEAR 2001 & 2002

Budget Request Approved By	Signature of Agency Head	President Title	September 30, 2002 Date
Budget Request Prepared By	Duane T. Miller, Chief Financial Officer	(602) 631-2240	

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

($ in Millions)

Source of Revenue	Actual 2001	Estimated 2002	Estimated 2003	Estimated 2004
Workers' Compensation Insurance Premium	$ 227.1	$ 252.6	$ 268.0	$ 280.0
Net Investment Income	141.9	138.7	140.0	141.5
Capital Gains	-23.2	-2.5	0.0	0.0
Admin Fees & Other	0.6	-0.5	0.2	0.3
	$ 346.4	$ 388.3	$ 408.2	$ 421.8

SOURCE AND DISPOSITION OF FUNDS

Agency State Compensation Fund

SOURCE OF FUNDS	Actual 2001	Estimated 2002	Estimated 2003	Estimated 2004
Balance Forward from Prior Year	$392.6	$470.0	$510.9	$545.7
Revenue	346.4	388.9	408.2	421.8
Total Available Total Available Total Available	$739.0	$858.9	$919.1	$967.5

DISPOSITION OF FUNDS	Actual 2001	Estimated 2002	Estimated 2003	Estimated 2004
FTE	552.0	558.0	579.0	559.0
EXPENDITURES:				
Personal Services	$19.8	$21.0	$22.7	$22.8
Employee-Related Expenditures	6.0	6.2	7.5	7.8
All Other Operating Expenditures				
Professional & Outside Services	3.8	3.8	4.2	4.5
Travel In-State	0.2	0.3	0.3	0.3
Travel Out-of-State	0.1	0.2	0.2	0.2
Other Operating Expenditures	9.7	10.6	11.7	12.6
Equipment	0.2	0.3	0.4	0.4
SUBTOTAL - All Other Operating Expenditures	14.0	15.2	16.8	18.0
Below-the-Line Expenditures	15.1	20.2	23.4	25.9
Compensation and Medical Benefits	207.2	224.4	238.0	253.0
Policyholder Dividends	0.0	50.0	60.0	60.0
Administrative Adjustments (1)	6.9	11.0	5.0	(2.0)
Total Expenditures	269.0	348.0	373.4	385.5
Balance Forward to Next Year:	$470.0	$510.9	$545.7	$582.0

(1) Reflects reduction in balance for Unrealized Losses on Equity Investments

SUMMARY OF EXPENDITURES AND BUDGET REQUEST

($ in Millions)

Agency State Compensation Fund

	(A) 2001 Actual Expenditures	(B) 2002 Approved Expenditures	(C) 2003 Base Adjustments	(D) 2003 Total Request (B) + (C)	(E) 2004 Base Adjustments	(F) 2004 Total Request (D) + (E)
SOURCE OF REVENUE:						
Workers' Compensation Insurance Premium	$227.1	$212.0	$56.0	$268.0	$12.0	$280.0
Net Investment Income,Capital Gains & Other	165.3	153.5	-13.3	140.2	1.6	141.8
TOTAL FUNDS	$392.4	$365.5	$42.7	$408.2	$13.6	$421.8
EXPENDITURE DETAIL:						
FTE Positions	552.0	559.0	20.0	579.0	-20.0	559.0
Personal Services	$19.8	$20.4	$2.3	$22.7	$0.1	$22.8
Employee-Related Expenditures	6.0	4.8	2.7	7.5	0.3	7.8
Professional & Outside Services	3.8	2.8	1.4	4.2	0.3	4.5
Travel In-State	0.2	0.3	0.0	0.3	0.0	0.3
Travel Out-of-State	0.1	0.1	0.1	0.2	0.0	0.2
Other Operating Expenditures	9.7	9.0	2.7	11.7	0.9	12.6
Equipment	0.2	1.5	-1.1	0.4	0.0	0.4
SUBTOTAL	39.8	38.9	8.1	47.0	1.6	48.6
Total Below-the-Line	15.1	8.6	14.8	23.4	2.5	25.9
TOTAL EXPENDITURES	$54.9	$47.5	$22.9	$70.4	$4.1	$74.5

SERVICE MEASUREMENTS

Agency : State Compensation Fund

Service Measurements	Actual 1999	Actual 2000	Actual 2001	Estimated 2002	Estimated 2003	Estimated 2004
Number of Policyholders Serviced	46,899	48,518	49,952	50,100	51,500	53,000
Number of Claims Processed	35,603	36,657	43,398	48,500	52,000	56,000
			($ in Millions)			
Premium Income	$180.1	$185.4	$227.1	$252.6	$268.0	$280.0
Net Investment Income, Capital Gains & Other	$165.3	$146.5	$119.3	$135.7	$140.2	$141.8

Given the private sector drastically reduced underwritings in the Arizona marketplace the State Fund will see significant service measurement increases

SUMMARY OF POSITIONS, PERSONAL SERVICES AND EMPLOYEE-RELATED EXPENDITURES

Agency State Compensation Fund

DESCRIPTION	(A) 2001 Actual Expenditures	(B) 2002 Approved Expenditures	(C) 2003 Base Adjustments	(D) 2003 Total Request (B) + (C)	(E) 2004 Base Adjustments	(F) 2004 Total Request (D) + (E)
FULL TIME EQUIVALENT POSITIONS						
Regular Positions	552.0	559.0	20.0	579.0	(20.0)	559.0
Elected Officials	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL (To Schedule 3)	552.0	559.0	20.0	579.0	(20.0)	559.0
PERSONAL SERVICES						
Regular Positions	$19.8	$20.4	$2.3	$22.7	$0.1	$22.8
Overtime Worked	0.0	0.0	0.0	0.0	0.0	0.0
Premium Overtime	0.0	0.0	0.0	0.0	0.0	0.0
Elected Officials	0.0	0.0	0.0	0.0	0.0	0.0
Boards & Commissions	0.0	0.0	0.0	0.0	0.0	0.0
Shift Differential	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL (To Schedule 3)	$19.8	$20.4	$2.3	$22.7	$0.1	$22.8
EMPLOYEE-RELATED EXPENDITURES						
ERE Rate				0.3300		0.3421
Regular ERE	$6.0	$4.8	$2.7	$7.5	$0.3	$7.8
TOTAL (To Schedule 3)	$6.0	$4.8	$2.7	$7.5	$0.3	$7.8

PRESENT POSITION

Agency State Compensation Fund
($ 000 Omitted)

Classification Title	Band	Family	2002		2003 Adjustments			2003		2004 Adjustments			2004	
			Total FTE	Per Ser. Base	Total FTE	position decreases	salary increases	Total FTE	Per Ser. Base	Total FTE	position decreases	salary increases	Total FTE	Per Ser. Base
Clerical Services Assistant	I	A	59	$ 1,211			$95	59	$1,306	(3)	($60)	$39	56	$1,285
Data Entry Operator	I	B	2	55			4	2	59			2	2	61
Financial Services Assistant	I	C	24	630			50	24	680	(1)	(25)	21	23	676
Office Support Assistant	I	D	24	611			49	24	660	(1)	(25)	21	23	656
Secretary	I	E	16	505			40	16	545	(1)	(35)	17	15	527
Printing Services Technician	II	A1	2	49			4	2	53			2	2	55
Printing Services Coordinator	II	A2	2	67			5	2	72			2	2	74
Desktop Publisher	II	B1	1	25			2	1	27			1	1	28
Graphics Designer	II	B2	2	69			5	2	74			2	2	76
Audio-Visual Technician	II	D	1	34			3	1	37			1	1	38
Human Resources Assistant	III	A1	2	70			5	2	75			2	2	77
Human Resources Specialist	III	A2	4	179			15	4	194			6	4	200
Purchasing Agent	III	B	4	130			11	4	141			4	4	145
Training Specialist	III	C	3	113			10	3	123			4	3	127
Communications Specialist	III	D	2	70			5	2	75			2	2	77
Accountant	III	E	7	301			23	7	324			10	7	334
Workers' Comp Insurance Representative (WCIR)	III	F	268	8,890	20		1,395	288	10,285	(11)	(315)	316	277	10,286
Rehabilitation Services Specialist	III	G	16	657			52	16	709	(1)	(40)	22	15	691
Computer Operations Specialist	IV	A	9	249			19	9	268			8	9	276
Network Support Specialist	IV	B	14	605			47	14	652			21	14	673
Operating System Specialist	IV	C	3	128			10	3	138			4	3	142
Data Resources Specialist	IV	D	4	185			14	4	199			6	4	205
Programmer Analyst	IV	E	27	1,341			106	27	1,447	(1)	(50)	44	26	1,441
Attorney	V	A	15	1,108			87	15	1,195			37	15	1,232
Team Leader - Administrative Support	VI	A	3	129			10	3	139			4	3	143
Team Leader - Specialty Teams/Support Operations	VI	B	10	579			45	10	624	(1)	(50)	20	9	594
Team Leader - District Offices (Multifunctional Teams)	VI	C	18	969			76	18	1,045			32	18	1,077
Team Leader - Legal	VI	D	2	191			15	2	206			6	2	212
Team Leader - Information Technology	VI	E	5	343			27	5	370			12	5	382
Executive Staff			10	907			71	10	978			32	10	1,010
Total			559	$ 20,400	20	0	$2,300	579	$22,700	(20)	($600)	$700	559	$22,800

PROFESSIONAL AND OUTSIDE SERVICES

Agency State Compensation Fund

($000 0mittted)

Expenditure Classification	2001 Actual Expenditures	2002 Approved Expenditures	2003 Base Adjustment	2003 Request
Asset Mangement Services	1,550	0	1,650	1,650
Audit by independent firm of Certified Public Accountants. (Deloitte & Touche)	89	95	30	125
Actuarial audit of liability for claims unpaid. (Milliman & Robertson, Inc.)	147	145	30	175
Outside Attorneys	102	125	(15)	110
Audit by State Insurance Department. (DOI)	15	15	0	15
Outside temporary help services.	180	165	45	210
Medical Director - Claims Dept.	232	250	0	250
Preferred Provider Organization (PPO) Network Services	135	40	110	150
Collection services.	10	125	(50)	75
I H Consulting Services	35	108	2	110

PROFESSIONAL AND OUTSIDE SERVICES

Agency State Compensation Fund

($000 0mittted)

Expenditure Classification	2001 Actual Expenditures	2002 Approved Expenditures	2003 Base Adjustment	2003 Request
Investigative services/Attorney General's office	45	70	5	75
Outside computer consulting services.	640	672	38	710
Computer microfiche services.	5	34	6	40
Services for distribution of policyholder information.	47	65	10	75
Employee health and benefit consultant	15	18	2	20
Claims reserving services (MIRA Project)	25	50	(50)	0

PROFESSIONAL AND OUTSIDE SERVICES

Agency State Compensation Fund

($000 0mittted)

Expenditure Classification	2001 Actual Expenditures	2002 Approved Expenditures	2003 Base Adjustment	2003 Request
Telecom/Datacom/Network Consulting	12	25	10	35
General Outsourcing Client/Server Technology	505	750	(375)	375
All Other Professional Services	5	25	(5)	20

Professional Services has undergone a major change with the decision by management and outside board of directors to engage out services. This significant expense will be more than offset by enhanced yield to investment portfolio in excess of $2 billion. All other are in line with prior years and reflect outside resources required through July of 2004 to implement new administrative system.

Total Professional & Outside Services	3,794	2,777	1,443	4,220

TRAVEL

($ 000 Omitted)
Agency State Compensation Fund

TRAVEL IN-STATE	(A) 2001 Actual Expenditures	(B) 2002 Approved Expenditures	(C) 2003 Base Adjustments	(D) 2003 Total Request (B) + (C)	(E) 2004 Base Adjustments	(F) 2004 Total Request (D) + (E)
Public Transportation	7	0	0	12	6	18
Non-Public Transportation	30	31	45	76	19	95
Subsistence	123	306	(106)	200	15	215
TOTAL TRAVEL - IN STATE	160	337	(61)	288	40	328

TRAVEL OUT-OF-STATE						
Public Transportation	32	44	0	59	0	65
Non-Public Transportation	0	2	0	2	0	2
Subsistence	53	67	89	156	19	175
TOTAL TRAVEL - OUT OF STATE	85	113	89	217	19	242

Destination	Purpose of Trip	Employees	# Days/Employee	Total Cost 2003	Total Cost 2004
AASCIF Conference		15	3	71	80
CPCU Conference		8	2	26	30
NCCI Seminars		12	3	58	65
Other Professional Development		20	2	62	67

OTHER OPERATING EXPENDITURES

Agency State Compensation Fund

Expenditure Classification		2001 Actual Expenditures	2002 Approved Expenditures	2003 Base Adjustment	2003 Request	2004 Base Adjustment	2004 Request
7050	Dues & Subscriptions	150	166	44	210	15	225
7052	Utilities	673	16	586	602	73	675
7053	Postage & Freight	824	784	124	908	292	1,200
7054	Telephone & Facsimile	671	780	45	825	65	890
7055	Printing and Photography	165	177	236	413	87	500
7057	Licenses and Fees	65	41	16	57	3	60
7058	Computer Software	1,370	3,827	(1,077)	2,750	(80)	2,670
7060	Insurance	277	268	22	290	35	325
7061	Training & Education	252	552	188	740	110	850
7082	Lease/Rental-Land & Bldgs	2,639	82	2,768	2,850	100	2,950
7085	Lease/Rental-Other Machine	22	22	7	29	6	35
7540	Repair/Maintenance-Contract	1,182	920	(241)	679	61	740
7570	Operating Supplies	1,258	1,186	122	1,308	117	1,425
TOTAL OTHER OPERATING-To Schedule 3		9,548	8,821	2,840	11,661	884	12,545

Internal rent allocations on properties owned by State Fund were not reflected in prior budgets. We are exploring possible sale of these properties as part of the new investment strategy, therefore rent has now been added along with appropriate utilities charges.
Computer Software continues at elevated levels reflecting updates to all administrative systems through 2004.
Significant increase in Training and Education is part of aggressive plan to promote professional development of staff in response to new organizational structure.

OTHER OPERATING EXPENDITURES

Agency State Compensation Fund

($ 000 Omitted)

Expenditure Classification		2001 Actual Expenditures	2002 Approved Expenditures	2003 Base Adjustment	2003 Request	2004 Base Adjustment	2004 Request
	Maintenance & Repairs:						
7081	Vehicles	102	115	95	210	30	240
7084	Building	926	36	323	359	16	375
7086	Equipment	154	769	(659)	110	15	125
	Total - Line 7540	1,182	920	(241)	679	61	740
	Operating Supplies:						
7051	Business	482	538	(25)	513	37	550
7069	Non-Capitalized Equipment	379	538	(95)	443	32	475
7080	Vehicles	100	109	(22)	87	23	110
7083	Maintenance	297	1	264	265	25	290
	Total - Line 7570	1,258	1,186	122	1,308	117	1,425

Budget reflect reallocation of expenses between building and equipment maintenance. Overall decrease in Line 7540 reflects move to tenant status
Similar explanation fro changes in Operating Supplies

BELOW-THE-LINE ITEMS AND OTHER EXPENDITURES

Agency State Compensation Fund

($000 Omitted)

Expenditure Classification	(A) 2001 Actual Expenditures	(B) 2002 Approved Expenditures	(C) 2003 Base Adjustments	(D) 2003 Total Request (B) + (C)	(E) 2004 Base Adjustments	(F) 2004 Total Request (D) + (E)
Claim Adjustment Services	$6,555	$1,905	$8,995	$10,900	$1,400	$12,300
Rating Bureau	907	510	640	1,150	350	1,500
Premium Tax	4,777	4,450	1,170	5,620	260	5,880
Administrative Fees	2,896	1,655	4,045	5,700	500	6,200
Other		76				
TOTAL BELOW THE LINE To Schedule 3	$15,135	$8,596	$14,850	$23,370	$2,510	$25,880

Claims adjustment services are driven by increase volume in Compensation and Medical Benefits paid and are a key tool in managing overall claim costs
Rating Bureau charges are fees imposed by National Council on Compensation Insurance and are related to premium volume
Premium taxes are also assessed on premium volume
Administrative Fees are amounts paid to Association Groups in exchange for enrollment and loss control services.
These are contractual and tied to premiums and loss ratios

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: December 12, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

Request

The JLBC has received a number of statutorily required reports during the past month. Each report is briefly described below.

Recommendation

The reports are for information only and no Committee action is required. We do not intend to discuss the reports at the JLBC meeting unless a member has a question. If any member knows in advance that they will have questions, we would appreciate knowing that before the meeting so as to ensure the relevant agency is available.

Reports

A. Arizona Department of Administration - Semi-Annual Report on Health Insurance Performance Standards.

Pursuant to A.R.S. § 38-658B, the Director of the Arizona Department of Administration (ADOA) shall report to the Committee at least semi-annually on the performance standards for health plans, including indemnity health insurance, hospital and medical service plans, dental plans, and health maintenance organizations. ADOA reports that Cigna, the health insurance provider, met 6 of their 8 contract standards. Cigna missed a portion of their "customer satisfaction" standards and all of their "access to provider" standards. ADOA is in the process of assessing $20,000 in liquidated damages for the unmet standards. All 4 dental insurance providers met all performance standards.

B. Attorney General - Report on Model Court.

Laws 2001, Chapter 238 requires the Office of the Attorney General to submit a quarterly report summarizing program information related to Model Court. The agency's summary for the 1st Quarter of FY 2003 reports total expenditures at approximately $603,200. As of January 1, 1999 there were approximately 6,000 open dependency cases (cases open before statewide implementation of Model Court). By the end of the 1st Quarter of FY 2003, 702 of the original 6,000 remain.

The total number of children (both new and existing) placed during the 1st Quarter of FY 2003 was 531. Of this amount, 65 children represent backlog cases. A case is considered a "backlog" case if it was open before January 1, 1999, or before statewide implementation of Model Court. The number of cases does not correspond directly to the number of children (i.e. each case may involve more than one child). Of the 531 children placed, 36 were adopted by a relative, 77 were adopted by a non-relative, 38 were placed with a guardian related to the child, 22 were placed with a guardian not related to the child, and 358 were reunited with a parent. The agency reports a total of 7,331 children still awaiting placement. Of this amount, 1,311 children (or 702 cases) represent backlog cases. In the 4th Quarter of FY 2001, there were approximately 7,500 children still awaiting placement. Of this amount, approximately 1,700 children (or 1,175 cases) represent cases open prior to January 1, 1999.

C. Arizona Criminal Justice Commission - Report on Criminal Justice Enhancement Fund.

Pursuant to A.R.S. § 41-2401C, the Arizona Criminal Justice Commission (ACJC) is required to report by December 1, 2002 on the receipt and expenditures of Criminal Justice Enhancement Fund (CJEF) monies distributed to law enforcement agencies. CJEF consists of a 47% assessment on certain fines, penalties, and forfeitures imposed and collected by the courts. CJEF monies are statutorily distributed to various law enforcement agencies for criminal justice related activities. Agencies utilize CJEF funds to support law enforcement, prosecutorial, judicial, and correctional projects. A portion of CJEF monies are appropriated with the remainder distributed to agencies as non-appropriated. In FY 2002, CJEF revenues totaled $34,604,100 and the total funds available (including the beginning balance and adjustments) for the fiscal year was $46,481,100. Total CJEF expenditures were $35,198,300 in FY 2002, leaving an ending balance of $11,282,800.

D. Department of Economic Security - Bimonthly Report on Children Services Program.

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) has submitted the bimonthly Children Services report for December 1. The report includes actual expenditure and caseload data through October 2002. Year-to-date expenditures total $25,169,600. This amount is a decrease of (0.7)% below October 2001 year-to-date expenditures of $25,335,200. DES currently projects a FY 2003 General Fund deficit of $(9,107,200), which is lower than the $(9,597,200) deficit projected in the last bimonthly report. October 2002 client counts are (6.4)% (1,004 children) lower than October 2001 client counts.

DES was not able to provide data on residential placement clients and expenditures in time for this report. The Committee requested this data at its August meeting and was incorporated in DES' last bimonthly Children Services report.

E. Department of Economic Security - Report on Findings and Recommendations of the Developmental Disabilities Case Management Pilot Projects Committee.

Pursuant to a provision in Laws 1999, Chapter 292, the Department of Economic Security (DES) has submitted a report of the findings and recommendations from the Developmental Disabilities Case Management Pilot Projects Committee. Chapter 292 established a pilot to provide Division of Developmental Disabilities (DDD) clients a range of case management options beyond DDD case management. DDD established 3 pilot sites in which 248 clients participated. Of the 248 clients, 9 families or individuals became their own case managers, while the other 239 families received case management services from contracted agencies. Based on the pilot's satisfaction survey, the Projects Committee recommends expanding the range of case management options statewide. DES supports the Projects Committee's recommendations but has said that statewide expansion would be based on cost-neutrality. Some members of the Projects Committee also recommending paying families or individuals who are their own case managers; DES will evaluate this recommendation based on cost-neutrality as well.

F. State Land Department - Report on Fire Suppression Revolving Fund.

A.R.S. § 37-623.02E requires the State Land Commissioner to submit a report by December 31 of each year on the uses of monies authorized to be expended from the Fire Suppression Revolving Fund, and any additional monies authorized by the Governor to prepare for periods of extreme fire danger. The Fire Suppression Revolving Fund is a non-appropriated fund consisting of legislative appropriations, reimbursements, and monies authorized through statutory emergency provisions. In FY 2002, there was a total of $12,521,032 in liability incurred for the fund for a variety of authorized purposes.

In terms of fire fighting activity, Fire Suppression Revolving Fund monies were used to fight a total of 844 fires, resulting in a paid liability of $3,809,048 and an unpaid liability of $1,467,217 as shown in the table.

Location of Fire	Number	Paid Liability	Unpaid Liability
State & Private Land	515	$1,523,620	$ 761,811
Federal Land - Out of State	60	1,389,961	36,321
Federal Land - In State	269	895,467	669,085
Total	844	$3,809,048	$1,467,217

The remaining monies were expended as follows:

- $4,580,604 for the state's share of costs for several large fires under the jurisdiction of the Federal Emergency Management Agency (FEMA), including the Rodeo-Chedeski fire which burned over 468,000 acres (47.2% of total liability).
- $617,972 to pre-position resources to prepare for potential fires (8% of total liability).
- $174,143 to pay for several Type 1 Management teams sent to assist in the emergency response to the 9/11 terrorist attacks and to assist in 2 Department of Emergency Management emergency responses (1.4% of liability).
- $141,685 to respond to 319 false alarms (1.4% of total liability).

Due to the complex billing arrangement created by the interagency cooperative agreements used by the State Land Department's Fire Management Division, not all of a year's liabilities are paid in the current year. These unpaid liabilities are paid in future years with monies remaining in the fund as well as reimbursements to the fund, such as payments from the federal government for fires that occurred on federal land. After subtracting the amount of paid liability from the fund's total liability, a total unpaid liability of $3,197,575 remains.

G. State Mine Inspector - Report on Abandoned Mines Safety Fund Expenditures and Contributions.

The State Mine Inspector has a statutory responsibility to establish a program to locate, inventory, classify, and eliminate public safety hazards at abandoned mines. To this end the Abandoned Mines Safety Fund (AMSF) was created. The Mine Inspector must submit an annual report to JLBC on or before December 1 detailing the contributions to the AMSF and the expenditures by the fund during the preceding fiscal year.

Because of limited funding in the AMSF, the Mine Inspector completed only one project during FY 2002. That project involved reconstruction of the main gate at the Tonopah Belmont Mine. The gate was originally installed as part of the Tonopah Belmont Bat-Gating Project that was completed in June 2001. In June 2002, an individual fell to his death after entering the mine through a vandalized section of the gate. The Mine Inspector immediately contracted for the construction of a sturdier, more substantial gate.

After $10,000 in expenditures for gate reconstruction, the fund had a FY 2002 ending balance of $4,800. No General Fund contributions are appropriated to the fund in FY 2003. Over the next two years the Mine Inspector has identified 11 projects totaling $194,000.

H. Department of Revenue - Report on Ladewig Expenditures.

In November 2002, the Committee approved $27,607,100 for the Department of Revenue's (DOR) total estimated 5-year administrative requirement expenditure plan. The Committee also approved a total of $13,497,000 to fully fund DOR's estimated administrative costs in FY 2003, including $7,497,000 for a technology project for data conversion which was contingent upon Information Technology Authorization Committee (ITAC) approval. ITAC approved this project at their November 27, 2002 meeting.

During November, DOR reports that they met all deadlines for public mailings and notifications, and began using a vendor to handle their Ladewig mail. The department pursued their tape data recovery and microfiche digitization project. The tax court has scheduled a fairness hearing for December 16 at which time the preliminary settlement may be made final. DOR's monthly status report shows expenditures of $39,700 for Ladewig in November 2002, making total expenditures of $407,500 for the first 5 months of FY 2003.

I. Arizona Department of Transportation - Report on Vehicle Registration Enforcement.

The General Appropriation Act requires the Arizona Department of Transportation (ADOT) to develop performance measures, to identify the return on investment for vehicle registration enforcement, and to report to the Committee on their status by December 1, 2002. ADOT's report includes 37 performance measures for vehicle registration enforcement, which are summarized in the following table. ADOT reports that vehicle registration enforcement activities produced 1,248 registrations and $216,600 of revenue at a cost of $37,800, for the first 4 months of FY 2003. The $216,600 includes revenue directly resulting from the 1,248 registrations. ADOT reports that they are testing a formula, which they believe would produce an estimate for the amount of indirect revenues attributable to the deterrent effect of having and publicizing a vehicle registration enforcement program. ADOT plans to report both direct revenue and their estimates of indirect revenue, in the department's future monthly performance measure reports. The return on investment was $5.73 of revenue for each $1 spent on vehicle registration enforcement, for the first 4 months of FY 2003.

Summary of ADOT's Vehicle Registration Enforcement Performance Measures

		FY 2003				
Performance Measures	**FY 2002 Total [1/]**	**July**	**Aug.**	**Sept.**	**Oct.**	**FYTD**
Vehicle Registration Enforcement Leads	2,669	671 [2/]	535	432	8,741	10,379
Leads Closed	2,171	426	625	331	1,204	2,586
Vehicle Registrations	794	152	264	242	590	1,248
Revenues [3/]	$261,100	$16,600	$16,600	$31,000	$152,400	$216,600
Expenditures	N/A	$ 7,300	$ 6,400	$ 7,900	$ 16,200	$ 37,800
Return on Investment ($ Revenue per $ Expenditure)	N/A	$ 2.27	$ 2.59	$ 3.92	$ 9.41	$ 5.73

1/ Represents activity from January 1, 2002 through June 30, 2002.
2/ Includes 498 vehicle registration enforcement leads carried over from FY 2002.
3/ Includes revenue from vehicle license tax, registration fee, air quality compliance fee, and postage.

RS:lm