

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF
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STEVE HUFFMAN
LINDA J. LOPEZ
STEPHEN TULLY

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

September 1, 2005

The Chairman called the meeting to order at 9:40 a.m., Thursday, September 1, 2005, in House Hearing Room 4. The following were present:

Members: Representative Pearce, Chairman Senator Burns, Vice-Chairman
 Representative Biggs Senator Bee
 Representative Boone Senator Garcia
 Representative Burton Cahill Senator Harper
 Representative Gorman Senator Martin
 Representative Huffman Senator Waring
 Representative Lopez
 Representative Tully

Absent: Senator Arzberger
 Senator Cannell

APPROVAL OF MINUTES

Representative Pearce moved that the Committee approve the minutes of July 21, 2005 as amended. The motion carried.

EXECUTIVE SESSION

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

At 9:43 a.m., the Joint Legislative Budget Committee went into Executive Session to discuss the Arizona Department of Administration Risk Management Services Proposed Settlement under Rule 14 and the FY 2006 State Retiree Health Insurance Contribution Strategy.

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

At 11:35 a.m. the Committee reconvened into open session.

Representative Pearce said the Committee would not make a motion on the Risk Management Proposed Settlement under Rule 14 until more information could be provided.

Senator Burns moved that the Committee, relative to Item B of Executive Session, approve the JLBC Staff recommendation that ADOA report back to the Committee possible ways to help retirees understand the difference between the ADOA and ASRS systems prior to the close of open enrollment. The motion carried.

AHCCCS - Review of Capitation Rate Change.

Mr. Stefan Shepherd, JLBC Staff, said this item is a review of a capitation rate change. Most of the increase is related to cost increases in utilization, pharmacy, physicians and in-patient health benefits. The remainder is primarily adjustments for administrative and outpatient/emergency room increases. In total, the changes are estimated to create a shortfall of approximately \$14 million General Fund and \$14 million County Match in the FY 2006 AHCCCS budget, although that could change depending on actual caseloads levels. In addition to the options provided to the Committee by JLBC Staff on the capitation rate, they also recommend that the Committee ask AHCCCS for a response on their plans for using contractors' prior performance in evaluating their responses for a Request for Proposals that AHCCCS will issue for on the ALTCS plan.

Senator Burns moved that the Committee give a favorable review to the AHCCCS capitation and fee-for-service inflationary rate changes with the stipulation that the favorable review does not constitute an endorsement of a supplemental request, and that AHCCCS provide a response on their plans for using contractors prior performance in evaluating their responses for a Request for Proposals that AHCCCS submitted for the ALTCS plan. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) – Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase.

Mr. Russell Frandsen, JLBC Staff, said currently in FY 2005 the rates are at 95.75% of the FY 2005 benchmark. The department received \$6 million to raise those rates to 97.61% of the FY 2005 benchmark. When adjusting the FY 2005 benchmark for inflation by 3.2%, as recommended by the federal Home Health Agency Market Basket, the real rate in FY 2006 will be 94.58%. Also, the department will not be able to meet its September 15 deadline for reimbursement but plans to have it done by November 15.

Senator Burns moved that the Committee give a favorable review to the DES implementation plan for the Developmental Disabilities Provider rate increase. The motion carried.

DEPARTMENT OF PUBLIC SAFETY (DPS) – Quarterly Review of the Arizona Public Safety Communications Advisory Commission (PSCC).

Mr. Martin Lorenzo, JLBC Staff, said in FY 2005 the PSCC hired 5 of 9 positions and expended approximately \$520,000 of their \$5 million appropriation. Of this amount, approximately \$161,000 was expended in the fourth quarter. Regarding the positions, PSCC has only filled 5 of 9 positions. Currently, they are in the process of drafting the job description for the technical writer position as well as advertising the 3 available telecommunication engineer positions nationwide. The PSCC has indicated they have conducted interviews for the 3 telecommunication engineer positions but have been unsuccessful in finding qualified candidates due to the department's salary levels. The PSCC original expenditure plan assumed higher salary levels for the 3 engineer positions than the DPS classification/compensation schedule allows.

The PSCC provided an updated timeline with specific goals and objectives for completion during FY 2006. Based on the revised timeline, the PSCC will begin to identify potential technical solutions for interoperability in mid FY 2006 (originally scheduled for early FY 2007), leading to the implementation of a pilot project in FY 2008 (previously not included in timeline). The PSCC anticipates fostering a full deployment plan in the beginning of FY 2009, consistent with the estimated completion date in the original timeline. Previously not indicated in the original timeline, the PSCC's estimates statewide interoperability will be achieved at the beginning of FY 2014.

The JLBC Staff recommends that in the next quarterly report DPS include progress relative to the updated timeline, as well as the extent of the PSCC involvement with the DEMA "short-term" interoperability solution and how the "short-term" solution will integrate with PSCC's solution.

Senator Waring questioned the lapsing of the \$2 million of their appropriation.

Representative Pearce said they essentially got more money than they needed. It was an estimate when it was given to them.

Mr. Curt Knight, Department of Public Safety, said there was a delay in startup in hiring staff and setting up the office. The actual operation of the office did not begin until mid to late October 2004.

Representative Pearce said he knows this is a huge undertaking in terms of the direction of this project. He asked when there would be a comprehensive timeline available for the Committee regarding what the long-term liability is on this issue and how we can go forward on it.

Mr. Knight said that they anticipate in FY 2008 or FY 2009 actually publishing the long-term deployment plan. They will have selected a solution(s), piloted it and proved it useful.

Senator Waring asked if they are caught up since they got a late start. Also, regarding the \$300 million figure, if the project is not going to be done until 2014 how do they project something like that with technology changing so fast.

Mr. Knight said that at this point they are probably behind the power curve. They have not hired all the staff they hope to, especially the technical staff. He said the \$300 million figure came from a study that was completed in July 2004. Consultants said the estimate of \$300 million would provide an integrated system across all public safety in Arizona to provide significant improvements to the radio interoperability.

Representative Pearce said that since the \$300 million is a 2004 figure, will PSCC report back with what the basic system is and what the one with all the bells and whistles is so the Committee can decide what is needed in order to move forward.

Mr. Knight said that they would return to the Committee with that information.

Representative Huffman asked about the lag of 5 years in the DPS timeline.

Mr. Knight said that the start of the 5-year lag is at the end of the identifying phase and piloting the solution(s). The detailed design is ready to go to bid at that time. They also put a high priority on having a microwave solution in place as part of the solution to go forward.

In response to Representative Huffman, Mr. Knight said that they are staying on top of changes in bandwidths (700 MHz). They are also monitoring the rebanding of the 800 MHz that comes forth from a federal initiative based on the cell phone interference.

Senator Burns moved that the Committee request that the next quarterly report include an explanation regarding accomplishments that directly relate to the updated timeline. In addition, the report should include information regarding the extent of the PSCC's involvement with the Department of Emergency and Military Affairs (DEMA) "short-term" interoperability solution and an explanation of how DEMA's "short-term" solution is anticipated to integrate with the PSCC's "permanent" interoperability solution. The motion carried

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.

Mr. Tyler Palmer, JLBC Staff, said this item is a review of the wireless expenditure plan from the Emergency Telecommunication Services Revolving Fund. In distributing these monies ADOA provides an oversight and management role. The FY 2006 emergency plan has a \$13.4 million wireless portion budgeted. Of that, approximately half is for ongoing costs and the other half is for one-time charges. By October 2005 Maricopa County will finish their Phase II deployment and will join Pima County as the only other county in the state with Phase II deployment. With the completion of Pima County and Maricopa Region, 80% of the access lines in Arizona will be Phase II compliant. At the end of FY 2008 ADOA projects a deficit of about \$9 million in this revolving fund. This will grow to approximately \$25.8 million by the end of FY 2010.

Another issue that needs to be resolved is a disagreement on how the statute should be interpreted between the Department of Revenue (DOR) and ADOA. DOR maintains that internet phones should be taxed and currently are taxed. ADOA says they are not taxed.

Senator Burns asked why the cost estimate increased significantly since the last report.

Ms. Barbara Jaeger, 911 Administrator, said actually the cost for deployment for Phase II has reduced. They had a \$17 million negotiation with several carriers. At this point in time they have only paid out 1 carrier Phase II one-time cost, both in Pima and Maricopa County, which leaves 7 additional carriers that they have to pay out this next fiscal year. At this point, they have no history of recurring charges from the carriers.

Mr. Richard Stavneak, Director, JLBC Staff, referred members to a chart (Attachment A) that shows total expenditures in this fund compared to last year. When you look at the long-run costs they are about \$8 million to \$10 million higher than they were last year.

Ms. Jaeger said that those costs were not paid out in the last fiscal year so they rolled over to the next fiscal year to pay out.

Mr. Stavneak said that the chart shows that through FY 2010 they were previously projecting expenditures in the \$20 million range and now those expenditures, in terms of the current estimate, are as high as \$41 million.

Senator Burns asked how Arizona compares with other states and where does Arizona fit in with deployment around the country.

Ms. Jaeger said they are making significant progress on their tax. They provided to the Committee an overview of what the taxes are nationwide. Most of the taxes are increasing, however, our tax is very low. With regards to deployment, after October they will have 80% deployed, which is extremely high. Some states have only deployed Phase I. They are planning, in the next fiscal year, deploying Phase II in the northern part of Yavapai County.

In response to Senator Martin, Ms. Jaeger said the tax does not expire, it goes down to a minimum of 20¢ in FY 2008. She also stated that in FY 2003 \$12 million was transferred out of the Emergency Telecommunications Revolving Fund into the General Fund and an additional \$3 million in FY 2004.

Senator Burns moved that the Committee give a favorable review to the \$13.4 million wireless portion of the Emergency Telecommunication Services Revolving Fund expenditure plan, with the provision that ADOA report back to the Committee by April 1, 2006 concerning the following:

- *The basis for long-term revenues and expenditures*
- *The estimated costs to implement Phase I and Phase II*
- *The historical cost to support ongoing services for each of the following: basic 911, enhanced 911 with automatic number identification (ANI), enhanced 911 with automatic location identification (ALI), wireless Phase I, and wireless Phase II*
- *The current annual operating costs and the annual operating costs assuming full deployment*

The motion carried.

ATTORNEY GENERAL – Review of Uncollectible Debts.

Ms. Leah Ruggieri, JLBC Staff, said this item is a request by the Attorney General for Committee review of its FY 2004 listing of \$10.7 million in uncollectible debts referred to the Attorney General by state agencies. A favorable review by the Committee will allow the State Comptroller to remove debt, certified by the Attorney General as uncollectible, from the state accounting system. Approximately 81% are debts that were owed to 4 agencies, the Registrar of Contractors (ROC), the Arizona Department of Revenue, the Industrial Commission, and the Motor Vehicle Division. The remaining 19% are debts owed to 34 other agencies.

Senator Garcia asked why the uncollectible debt is so large for the Registrar of Contractor.

Mr. Stavneak said there are a lot of contractors that owe fines to the ROC and they then choose to go bankrupt rather than pay the fines or other fees, and those are what are appearing on the report.

Mr. Mike Kempner, Section Chief Counsel, Attorney General's Office, said at this time he did not know why there was such debt for the ROC.

Senator Burns asked if the Attorney General's Office uses any private contractors for debt collection.

Mr. Kempner said they do not generally use them for collections in Arizona. However, they do hire them for out-of-state collections. He said they have enough people to handle the debtors in Arizona.

Representative Pearce asked what the Attorney General's Office does to make sure that these debtors are not still living in a million dollar house, and if they do have any assets, what is being done to collect from them.

Mr. Kempner said that they have units that do nothing but try to collect debts. In the Bankruptcy Division they currently have 3 attorneys and are going to hire 1 more, plus the secretarial staff and 1 paralegal. In the State Court Collections Unit they have 4 full-time attorneys that do nothing but work on debt collection. These cases are open anywhere from between 2 years and 9 years before they are closed out. He said they file liens, and the debts that are being written off must be satisfied first.

Senator Burns asked if they have a method for tracking the cost of these collections and average cost to collect debt since it requires so many resources.

Mr. Kempner said that in FY 2004 the collection rate was 26.2%.

Representative Pearce asked what that meant in actual expenses.

Mr. Kempner said that he did not have that information but could provide it to the Committee. He said it would probably be calculated on the basis of the salaries of personnel, which would be the biggest cost. Most of the out-of-pocket expenses are for people who go out of state.

Senator Burns moved that the Committee give a favorable review, as recommended by JLBC Staff, to the Attorney General's FY 2004 listing of \$10.7 million in uncollectible debts. The motion carried.

ARIZONA COMMISSION ON THE ARTS – Review of the Arizona Arts Endowment fund and Private Contribution.

Ms. Leatta McLaughlin, JLBC Staff, said each year the Committee reviews what the Commission receives in private monies that are donated for use in conjunction with public monies. In CY 2004 the Commission received \$5 million in private donations. This was a \$3 million increase from the previous calendar year. This increase is due to an improving economy and better communication with arts organizations.

Representative Pearce said that the commitment from the General Fund is \$20 million with the Commission becoming self-sustaining after 2009, under present statute. He said he does not like to see long-term commitments against the General Fund that is unpredictable from year to year. He felt like it would be beneficial to just go ahead and make the full payment now, which would be \$6 million.

Senator Harper said that he agrees with the principle of any budget surplus from the last budget, be spent primarily on one-time items so that the spenders do not try to put it in the base from year to year.

Senator Burns asked how the Commission is going to make up the difference once they stop receiving money from the General Fund.

Ms. Shelley Cohn, Executive Director, Arizona Commission on the Arts, said that it was her understanding that it was contributions to the Arts Endowment. She hoped they would continue to support the range of financial support for the Arts. She said that there has been a great effort on behalf of the Commission and the Arts community to look to long-

term funding and building endowments over time. That is a product of the maturity and growth of the Arts community. As they are managing their own annual operating budgets they are looking towards the future.

Senator Waring noted that contributions have been up and down, and asked why there are such extremes.

Ms. Cohn said that in the context of endowment giving, it is not something that people give to each year. They give to the annual funds on a regular basis but endowment giving is not on an annual basis.

Senator Burns moved that the Committee give a favorable review, as recommended by JLBC Staff, of the Arizona Arts Endowment Fund and Private Contributions report. The motion carried.

Chairman Pearce adjourned the meeting at 12:15 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman