

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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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 21, 2006

The Chairman called the meeting to order at 9:45 a.m., Thursday, September 21, 2006, in Senate Appropriations Room 109. The following were present:

Members: Representative Boone, Vice-Chairman Senator Burns, Chairman
 Representative Burton Cahill Senator Cannell
 Representative Gorman Senator Harper
 Representative Lopez Senator Martin
 Representative Pearce
 Representative Tully

Absent: Representative Biggs Senator Arzberger
 Representative Huffman Senator Bee
 Senator Garcia
 Senator Waring

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of August 24, 2006, Senator Burns stated the minutes would stand approved.

DIRECTOR'S REPORT

Mr. Richard Stavneak, Director, JLBC Staff, said that the Chairman will be appointing a subcommittee to review the results of our actuarial audits. Funds were budgeted last year to contract with several actuarial firms to review retirement, health insurance, risk management, and Title XIX rates.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) – Review of Motor Vehicle Division Counter Clerk Funding Shift Report.

Mr. Bob Hull, JLBC Staff, said that last session, the Legislature was very concerned about the increase in Motor Vehicle Division (MVD) customer wait times, which increased from 14 to 28 minutes over the past 3 years. The customer wait time was accompanied by a decrease of 168 counter clerks (19.4%). To address the problem, the Legislature added \$1.1 million (25 counter clerk positions), and required Committee review before any funds were transferred into or out of MVD, quarterly progress reports on MVD wait times, and a report due by the end of July 2006, reflecting where funding for counter clerks had been shifted. That is the report presented here today. ADOT reports that \$2 million of funding was shifted primarily from license plates and tags, shown in the table on page 2 of the memo.

The Committee has at least 2 options, shown on page 1 of the memo: A favorable review, since the report was submitted, or an unfavorable review, since no reasons were given for the funding shift and the \$2 million does not appear to account for the whole funding shift. An unfavorable review would also express the Committee's disagreement with ADOT's

funding reallocations. Under either option, JLBC Staff recommends that ADOT provide the additional information shown on page 1 of the memo.

Representative Burton Cahill asked for a description of the relationship between the additional funding appropriated to MVD and the population demand increase.

Mr. Hull responded that the number of customers in MVD field offices has decreased 10.6% over the last 4-5 years, as noted on page 2 of the memo due to greater use of on-line transactions.

Representative Burton Cahill asked where funds are categorized from internet transactions and commercial licenses. She also asked whether the transactions require more data to be collected, and if that is perhaps the reason that wait times are now longer.

Mr. Hull stated he did not have the detailed information being requested. The information would need to be obtained from ADOT. ADOT has reported that with increased security and document review, there has been some increase in work, but this has not been reflected in transaction time at the counter.

Mr. George Delgado, MVD Assistant Director, introduced himself and stated he was present to testify on behalf of the division.

Representative Pearce observed that wait times should include the wait time in line, before receiving a ticket.

Mr. Delgado responded that the measurement being implemented for FY 2007 is an average customer wait time based on arrival at the point where the customer receives a ticket. A pilot program is currently in place at 4 offices with palm pilots, which provides customers a ticket upon arrival. The division feels that this will alleviate the wait time problem.

Representative Pearce alluded to an incident where a customer waited 7-½ hours for one transaction. He stated that MVD ought to be the premier example of government service, because it is most people's first contact when they come to the state. Representative Pearce recounted that a few years ago the division was facing the challenge of addressing wait times of 2 to 3 hours, without requesting additional resources from the Legislature. Over 3 million annual transactions were eliminated, Service Arizona was developed, multi-year and lifetime registrations were introduced. He questioned why 168 positions were eliminated, but there was no reduction in funding.

Mr. Delgado responded that in FY 2003, MVD experienced a high turnover rate. An effort was initiated to create and fill limited, unfunded positions, which brought the total filled positions to 866. In April 2002, the customer service representative positions were reclassified, resulting in a pay increase for existing employees, and a higher entry-level salary for new employees. That, in addition to the national recession during this period, dramatically reduced turnover. Consequently, the customer service program had a larger contingent of employees than was sustainable by the budget. In November 2002, ADOT imposed a hiring freeze, which resulted in 815 filled Customer Service Representative positions at the end of FY 2003. The program overspent its budget by \$1.6 million as a result of the high staffing level. Other programs such as Competitive Government, Enforcement, Motor Carrier, and Division Operational Support Services were relied upon to fund the deficit. In 2004, the customer services budget was normalized, from \$25.1 to \$23.1 million for Personal Services, and has been consistent through FY 2005 and FY 2006.

Representative Pearce asked for a breakdown of the distribution of the \$2 million saved due to the 168 eliminated positions.

Mr. Delgado replied that the funds were used for passenger license plates, postage, new equipment and furniture for the division. Division copiers and some computers were replaced within the division.

Representative Pearce expressed concern over using personnel funds for these purposes, without bringing it before the Committee for approval.

Mr. Delgado explained that it is common industry practice to store a 9-month supply of plates in case of a major disaster, with passenger plates accounting for 75% of all plates produced. He stated that in the time he has been with ADOT fund reallocations have taken place, but in retrospect these are issues that should have been brought before the Committee for approval.

Representative Tully asked what type of emergency would warrant the surplus, whether the plates were blank, and where they were stored. He also asked how the common practice of keeping a 9-month supply of plates was established.

Mr. Delgado cited the example of the Florence plate-producing facility being shut down due to an illness. He stated that 722,000 fully embossed plates, for a 6.8-month supply, are stored in an ADOT warehouse in the area of 19th Avenue and McDowell. A study was conducted in all states that identified an average 9-12 month supply as the benchmark.

Representative Pearce asked what MVD is doing to reduce the customer wait times.

Mr. Delgado responded that the target is to fill 825 FTE Positions. Currently, there are 751 FTE Positions filled. The goal is to decrease the wait time to 15 minutes, by the end of FY 2007.

Representative Pearce moved that the Committee give an unfavorable review of the MVD Counter Clerk Funding Shift Report, since the report does not give reasons for the funding shift.

In addition, ADOT is to provide:

- 1) Further rationale as to the need to shift funding to license plates and tabs.*
- 2) Clarification as to whether the MVD clerk positions were intentionally left vacant or could not be filled for other reasons.*
- 3) Clarification of the total funding shift from FY 2003 to FY 2006, and the rationale for any additional funding shift above the \$2 million already identified.*
- 4) Estimated funding shift in FY 2007, if any, and the reasons for it.*

The motion carried.

ARIZONA BOARD OF REGENTS – Review of FY 2007 Tuition Revenue.

Ms. Leah Ruggieri, JLBC Staff, stated that the Arizona Board of Regents is requesting a favorable review from the Committee for their expenditure plan for tuition revenue amounts above the original FY 2007 budget, and all retained tuition and fee revenue expenditures for the current fiscal year. She referred to table 4 on page 3 of the memo, which shows where the \$28.1 million increase in tuition revenue amounts will be expended. She explained that the increases will cover inflationary increases such as higher utility bills, hiring of faculty to improve student/faculty ratios, as well as academic and support planning priorities. No funds will go to alumni associations.

Ms. Ruggieri noted that locally retained tuitions are non-appropriated money that the universities can retain of the tuition collections. She directed the Committee's attention to table 5 on page 4 of the memo which lists, by university, the locally retained tuition and fees, and where the universities plan to expend those funds in FY 2007. She reported that locally retained tuition and fees will increase by \$30.9 million above FY 2006 amounts. The majority of the increase will go toward financial aid, with \$1.2 million used to pay the debt service, and \$1 million to service existing facilities, with a small portion being used to pay for auxiliary services.

Mr. Michael Hunter, Assistant Executive Director for Government Affairs for the Arizona Board of Regents, introduced himself.

Representative Pearce asked whether retention rates of students who receive financial aid had improved.

Mr. Hunter responded that retention rates have improved, and offered to provide more detail, at a later date, of the successes on that subject. The Board of Regents staff is working with the universities on a financial aid report, which is provided annually to the Legislature. There have been statutory changes which require more detailed information on the breakdown of who is receiving financial aid, and what the success rate is.

Representative Pearce asked how much of the \$77 million was due to tuition increases.

Mr. Hunter replied that he did not have a system-wide statement, but one for each university, broken down by the collection amount versus the locally retained amount. For example, locally retained tuition at ASU increased by \$32.8 million, equal to a 22.4% increase. Of that, \$10 million was attributed to higher enrollment, and \$12.4 million to tuition increase.

Senator Martin mentioned that he had heard on the radio about a rally at one of the state universities regarding cost restrictions on financial aid to illegal immigrants. He inquired whether statistics were available on the growth attributed to students who are not U.S. citizens or legal residents.

Mr. Hunter stated that policy requires that, in order for students to receive in-state tuition, they must be legal residents of the state of Arizona. Students are required to check a box, on both State and Federal financial aid forms that states whether you

are a legal resident or U.S. citizen. Mr. Hunter was unsure how well this information is being verified. He said the Arizona Board of Regents (ABOR) has been relying heavily on the Federal government regarding financial aid matters.

Representative Pearce said that it is against the law for illegal immigrants to receive tuition assistance or grants, and that he was concerned that people in positions of authority are not complying with the law, by checking the students' immigration status. He further stated that ABOR should ensure that compliance with both State and Federal eligibility laws are enforced.

Representative Pearce moved that the Committee give a favorable review to the ABOR expenditure plan, with detailed information on retention rates to be provided to the Committee. The motion carried.

DEPARTMENT OF EDUCATION - Review of Kinder Morgan Settlement.

Mr. Steve Schimpp, JLBC Staff, gave a brief background, stating that the settlement pertains to 5 counties. Yuma was the only county that had its paperwork in order to be on the agenda for the June meeting. Maricopa and Cochise Counties have submitted their paperwork, and are entitled to \$1.6 million in aid, under state statute. The Committee provided a favorable review of the June request for approximately \$1 million in funding for Yuma County school districts, and the Department of Education is now requesting a favorable review for Maricopa and Cochise Counties. Mr. Schimpp informed the Committee that Pima and Pinal Counties have yet to report their settlement data, and thus this topic will again be heard at a future meeting.

Representative Pearce moved to accept the JLBC Staff recommendation to give a favorable review to provide school districts in Maricopa and Cochise Counties with \$1,578,600 in corrected Basic State Aid funding. The motion carried.

ADMINISTRATIVE OFFICE OF THE COURTS – Review of Reimbursement of Appropriated Funds.

Mr. Kevin Bates, JLBC Staff, stated that the Administrative Office of the Courts was requesting a favorable review of the expenditure of \$3.6 million in reimbursements, as it complies with statutory requirements. Statute allows for reimbursements of expenditures if the agency directors finds that the reimbursements are necessary and that the reimbursements were not specifically considered and rejected by the Legislature during the agency's original appropriation. He referred to page 2 of the memo that includes a short description of each individual reimbursement and a table listing the amounts and the total.

Representative Pearce moved to accept the JLBC Staff recommendation to give a favorable review to the Administrative Office of the Courts' request of \$3.6 million in reimbursements. The motion carried.

GOVERNMENT INFORMATION TECHNOLOGY AGENCY – Arizona Web Portal.

Mr. Tyler Palmer, JLBC Staff, reported that this item was for information only and no Committee action was required. He provided some background information, stating that the Government Information Technology Agency (GITA) manages a contract with IBM, who oversees the Arizona Web Portal, by developing web pages and manages the online transactions. He gave an example of an online transaction: The Motor Vehicle Records Request System, which is a service that allows insurance companies to purchase motor vehicle records. The payment for those records is held by IBM, who uses the money to cover their expenses, and maintenance and operation of the online portal. Any leftover funds are applied to projects approved by GITA.

In the past year, \$3.2 million had accrued as excess revenue to be used for projects. GITA plans to use \$2 million to purchase new servers and relocate them from the IBM warehouse in Texas to the ADOA warehouse in Phoenix. To increase legislative oversight over the expenditure of the excess revenue, the Legislature passed 2 laws during the last session. The first was a Web Portal Fund, intended to receive money from the revenues. However, since a contract already exists between GITA and IBM, the deposits will not be deposited into the Web Portal Fund until the signing of a new contract for October 2007. The remaining \$1.2 million will be used for future e-government projects.

Mr. Palmer reiterated that this was for information only, and no Committee action is required. However, the JLBC Staff recommends continuing to fulfill the intent of the legislation that GITA submit a report for review on the use of the \$1.2 million credit, when it is determined how it will be used.

Senator Martin asked whether the web portal was for the whole state or just the Executive Branch.

Mr. D.J. Harper, GITA, introduced himself, and responded to Senator Martin's question, saying that the web portal is available for use by the Executive, Legislative and the Judicial Branch.

Senator Martin pointed out that he regularly checks the web portal, and there is no link to the Judicial Branch.

Mr. Harper said he would ask the web master to proactively contact the chief information officers from the Legislature and Supreme Court, to make them aware that the web portal is available for postings.

Representative Pearce asked whether the credits will be deposited to the new State Web Portal Fund when the new contract is signed in 2007.

Mr. Harper answered by saying that all credits accrued under the new State Web Portal Fund will be deposited directly to the Web Portal Fund.

Representative Pearce inquired whether Mr. Harper envisioned ADOA bidding for the contract, or that it will stay in the hands of private vendors.

Mr. Harper said he could not speak for ADOA. However, on behalf of GITA, he stated that an open bid process will be available to any private sector company that wishes to participate.

Representative Pearce asked whether a Project Investment Justification (PIJ) was developed for this item.

Mr. Harper replied that no PIJ was submitted for this process, but that it was submitted to the Information Technology Committee as an agenda item. The reason for a PIJ not being submitted for this project was that it was part of an ongoing contract for services within the state. The Committee reviewed the planned expenditures and the transition plan, and gave a favorable review.

Mr. Stavneak stated that JLBC would forward a request to GITA to inform the Committee about how the \$1.2 million credit will be used.

EXECUTIVE SESSION

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

At 10:55 the Joint Legislative Budget Committee went into Executive Session.

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

At 11:30 the Committee reconvened into open session.

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

At 11:35 the Joint Legislative Budget Committee went into Executive Session.

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

At 11:40 the Committee reconvened into open session.

Representative Boone moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of *Baca v. State of Arizona, et.al.* The motion carried.

Representative Boone moved that the Committee approve the recommended settlement proposal by the Attorney General's Office and the Risk Management Department in the case of *Dement v. State of Arizona, et.al.*

Senator Harper requested a roll call vote on the motion.

The motion carried by a roll call vote of 6-3-0-7 (*Attachment 1*).

The meeting adjourned at 11:43 a.m.

Respectfully submitted:

Diana Torres, Secretary

Richard Stavneak, Director

Senator Robert Burns, Chairman

JOINT LEGISLATIVE BUDGET COMMITTEE

Meeting Date: Sept. 21, 2006

ITEM # 2 (Executive Session)

ITEM # _____

	<u>PRESENT</u>	<u>ABSENT</u>	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ARZBERGER	_____	✓					X
SEN. BEE	_____	✓					X
REP. BIGGS	_____	✓					X
REP. BURTON CAHILL	✓	_____		X			
SEN. CANNELL	✓	_____		X			
SEN. GARCIA	_____	✓		-			X
REP. GORMAN	✓	_____		-	X		
SEN. HARPER	✓	_____			X		
REP. HUFFMAN	_____	✓					X
REP. LOPEZ	✓	_____					X
SEN. MARTIN	✓	_____	X	X			
REP. PEARCE	✓	_____			X		
REP. TULLY	✓	_____		X			
SEN. WARING	_____	✓					X
REP. BOONE	✓	_____		X			
SEN. BURNS	✓	_____		X			
TOTALS	<u>10</u>	<u>6</u>	_____	<u>6</u>	<u>3</u>	_____	<u>7</u>

	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ARZBERGER					
SEN. BEE					
REP. BIGGS					
REP. BURTON CAHILL					
SEN. CANNELL					
SEN. GARCIA					
REP. GORMAN					
SEN. HARPER					
REP. HUFFMAN					
REP. LOPEZ					
SEN. MARTIN					
REP. PEARCE					
REP. TULLY					
SEN. WARING					
REP. BOONE					
SEN. BURNS					
TOTALS	_____	_____	_____	_____	_____