

STATE OF ARIZONA

Joint Legislative Budget Committee

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

November 20, 2007

The Chairman called the meeting to order at 9:40 a.m., Tuesday, November 20, 2007, in House Hearing Room 4. The following were present:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Adams	Senator Aboud
	Representative Biggs	Senator Aguirre
	Representative Cajero Bedford	Senator Flake
	Representative Rios	Senator Garcia
	Representative Yarbrough	Senator Harper
		Senator Verschoor
		Senator Waring
Absent:	Representative Boone	
	Representative Lopez	

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of October 18, 2007, Chairman Pearce stated that the minutes would be adopted.

DEPARTMENT OF ECONOMIC SECURITY - Review of Increase to Division of Developmental Disabilities' Therapy Rates.

Mr. Jay Chilton, JLBC Staff, stated that this item was on the agenda last month, but at the request of the agency it was not heard. Two years ago, the Auditor General reported that therapy services were the biggest unmet service need for individuals with developmental disabilities. The Department of Economic Security (DES) estimates that this rate change will have about a \$1.6 million annual General Fund impact. The rates go into effect on January 1, 2008, so there will be a 6 month cost in FY 2008 of about \$800,000. This increase was not included specifically in the FY 2008 budget but DES is using surpluses from existing appropriations to fund the adjustment. The new rates are not an increase as much as they are a realignment of the rate restructure. Currently, reimbursements depend on the distance that the therapist travels to provide the service of the clients. In order to incentivize more locally based providers to rural areas, the new system increases the base rate of rural areas but also eliminates the travel time reimbursement. The new system may decrease overall reimbursements for a therapist that travels from a metro to a rural area, for example, from Phoenix to the White Mountains, so some providers and client's parents have expressed concern that the adjustment might negatively impact the availability of service in rural areas. The JLBC Staff provided 2 options for the Committee to consider, a favorable or unfavorable review.

Discussion ensued on this item.

Ms. Mary Gill, Deputy Director, DES, responded to member questions.

Ms. Barbara Brent, Assistant Director, DES, responded to member questions.

Senator Burns moved that the Committee give an unfavorable review to the increase to the Division of Developmental Disabilities' Therapy Rates.

Senator Garcia moved a substitute motion for an unfavorable review with the provision that if the agency proceeds, they would be required to monitor the number of clients in rural Arizona that are receiving services and assure that they are still receiving these services after December 1, 2007.

Senator Burns and Chairman Pearce explained that the unfavorable review would mean that the agency should not proceed.

After further discussion, Senator Garcia withdrew his substitute motion.

Representative Rios moved a substitute motion for a favorable review and would like the client to proceed but evaluate and receive input from the clients. The substitute motion failed.

The original motion carried.

DEPARTMENT OF REVENUE - Review of General Fund Revenue Enforcement Goals for FY 2008.

Mr. Bob Hull, JLBC Staff, stated that the Department of Revenue's (DOR) General Fund revenue enforcement goal for FY 2008 is \$369.8 million which is greater than their FY 2007 goal of \$333.4 million, but less than the FY 2007 actual of \$427 million. The department attributes the decrease of the FY 2007 actual to one-time revenue in 2 of the audit items which they do not expect to be repeated in FY 2008. JLBC Staff provided 2 options for the Committee to consider, a favorable or unfavorable review. Under either option, the JLBC Staff recommended that DOR continue to report license compliance and transaction privilege tax as separate items for FY 2009, since each program produces a significant dollar amount of audit revenue.

Discussion ensued on this item.

Mr. Vince Perez, Assistant Director of the Audit Division for DOR, responded to member questions.

Senator Burns moved that the Committee give a favorable review to DOR's General Fund Enforcement Goals for FY 2008 and requested DOR to continue to report license compliance and transaction privilege tax as separate items for FY 2009, since each program produces a significant dollar amount of audit revenue. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION

A) Review of Telecommunications Contractor and Carrier Cost Rate Structure.

Mr. Dan Hunting, JLBC Staff, stated that the Arizona Department of Administration (ADOA) is recommending an increase in the states' telecommunications budget of \$671,000 for FY 2009. Increases in non-appropriated and other appropriated funds of approximately \$350,000 each will be offset by a small decrease in General Fund support. While AZNet has been successful in reducing both carrier charges and phone service costs, these savings are negated by the nature of the aging of this equipment. In FY 2009 ADOA will spend \$6.7 million dollars to replace end of life voice and data equipment. The JLBC Staff recommended that the Committee give a favorable review with the provision that a favorable review does not constitute an endorsement of any FY 2009 General Fund appropriations to cover higher AZNet costs or additional funding requests, nor does it constitute an endorsement of the ADOA expenditure plan.

Senator Burns moved that the Committee give a favorable review to ADOA's Telecommunications Contractor and Carrier Cost Rate Structure with the provision that a favorable review does not constitute an endorsement of any FY 2009 General Fund appropriations to cover higher AZNet costs or additional funding requests, nor does it constitute an endorsement of the ADOA expenditure plan. The motion carried.

B) Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.

Mr. Dan Hunting, JLBC Staff, stated that this fund receives revenue from a monthly tax on wired and wireless phone accounts of 20 cents per month. ADOA distributes money from this fund to cities and counties to aid in the development and enhancement of the 911 service throughout the state. Eighty percent of the states' population is now living in areas where

wireless 911 calls can be tracked to a specific location and travelers have continuous 911 coverage from Nogales up through Phoenix. ADOA's FY 2008 expenditure plan calls for \$25.9 million to be used for both wired and wireless upgrades. Of this amount, \$16.8 million is directed toward enhancements for the wired portion of the states' 911 system and to equipment used at 911 call centers that handle wired and wireless calls. Additionally, \$8.5 million is directed toward upgrades to the wireless 911 service, mostly to establish phase 2 wireless 911 which tracks wireless calls to a specific location. The JLBC Staff recommended the Committee give a favorable review to the \$8.5 million wireless portion of the ETSF expenditure plan.

Discussion ensued on this item.

Senator Burns moved that the Committee give a favorable review to the ADOA's \$8.5 million wireless portion of the Emergency Telecommunication Service Fund expenditure plan. The motion carried.

STATE TREASURER - Review of Changes to Management Fees.

Mr. Eric Billings, JLBC Staff, distributed *Attachment 1* to the Committee on the Treasurer's Management Fee Reduction Proposal. Pursuant to a footnote in the General Appropriation Act, the Treasurer is required to come before the Committee for review prior to changing their current 8 basis point asset management fee. Mr. Billings reviewed the attachment with the Committee. Currently management fees are collected from state agencies and local governments and deposited into the General Fund. General Fund monies are then appropriated to the State Treasurer. The Treasurer's proposal includes one of 2 options: 1) Eliminate management fees and instead allow the Treasurer to retain a portion of earnings, or 2) Allow the Treasurer to reduce the management fee to a level that will cover the costs of operation and allow the agency to retain these fees. Both options would require statutory change in order to be enacted. The purpose of reducing the management fees would be to attract more local government assets. This would allow for greater yields and improved pricing power in transactions. The JLBC Staff provided several options for the Committee to consider.

Mr. Dean Martin, State Treasurer, discussed their proposal and responded to member questions.

Senator Burns moved that the Committee give a favorable review of the plan to eliminate management fees in favor of funding the Treasurer's operations from earnings with the provision that the Legislature enact the necessary statutory changes. Prior to the Legislature enacting these changes, the management fee would become 6 basis points. The motion carried.

Without objection, the meeting adjourned at 11:35 p.m.

Respectfully submitted:

Sandy Schumacher, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman

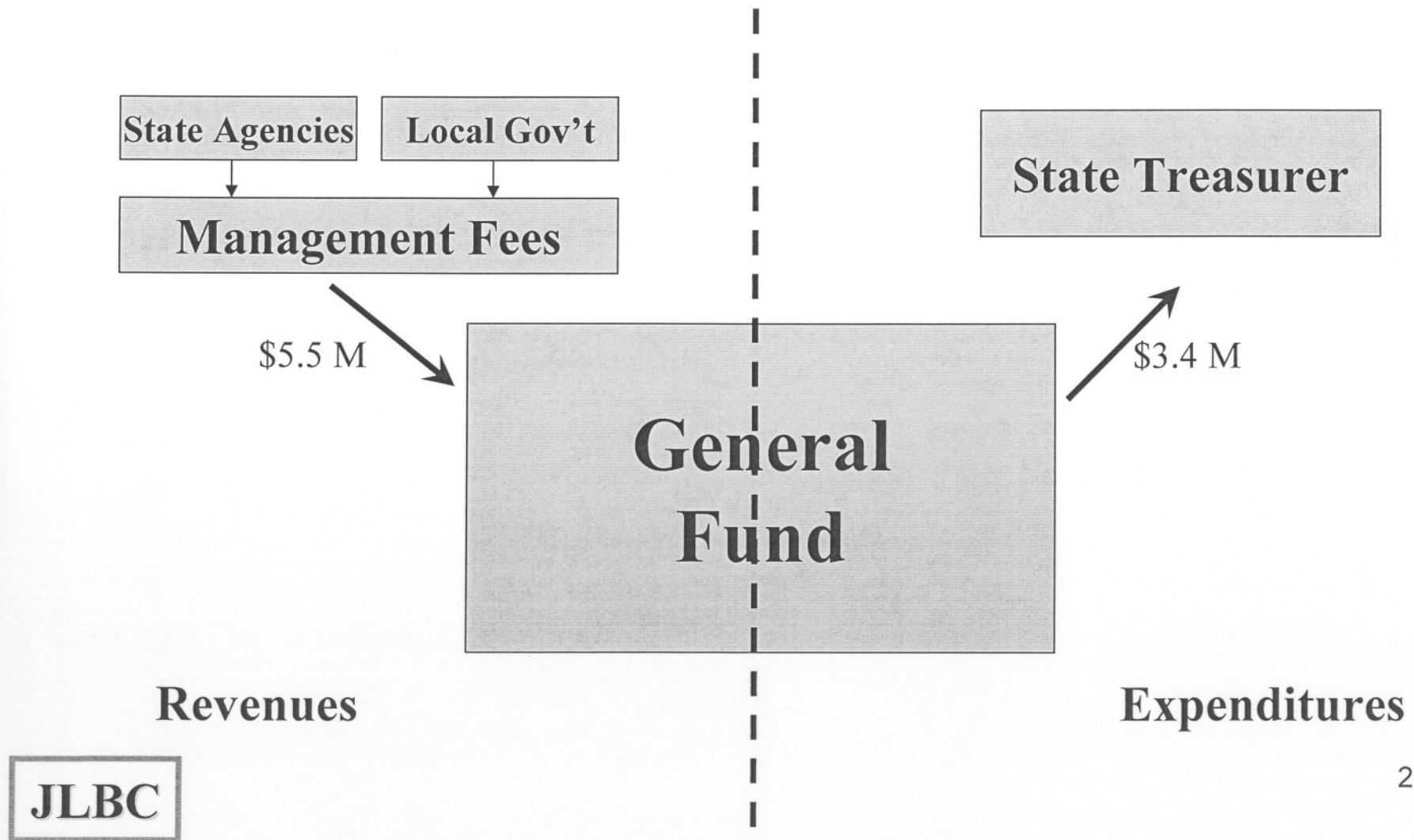
NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.

Treasurer's Management Fee Reduction Proposal

November 20, 2007

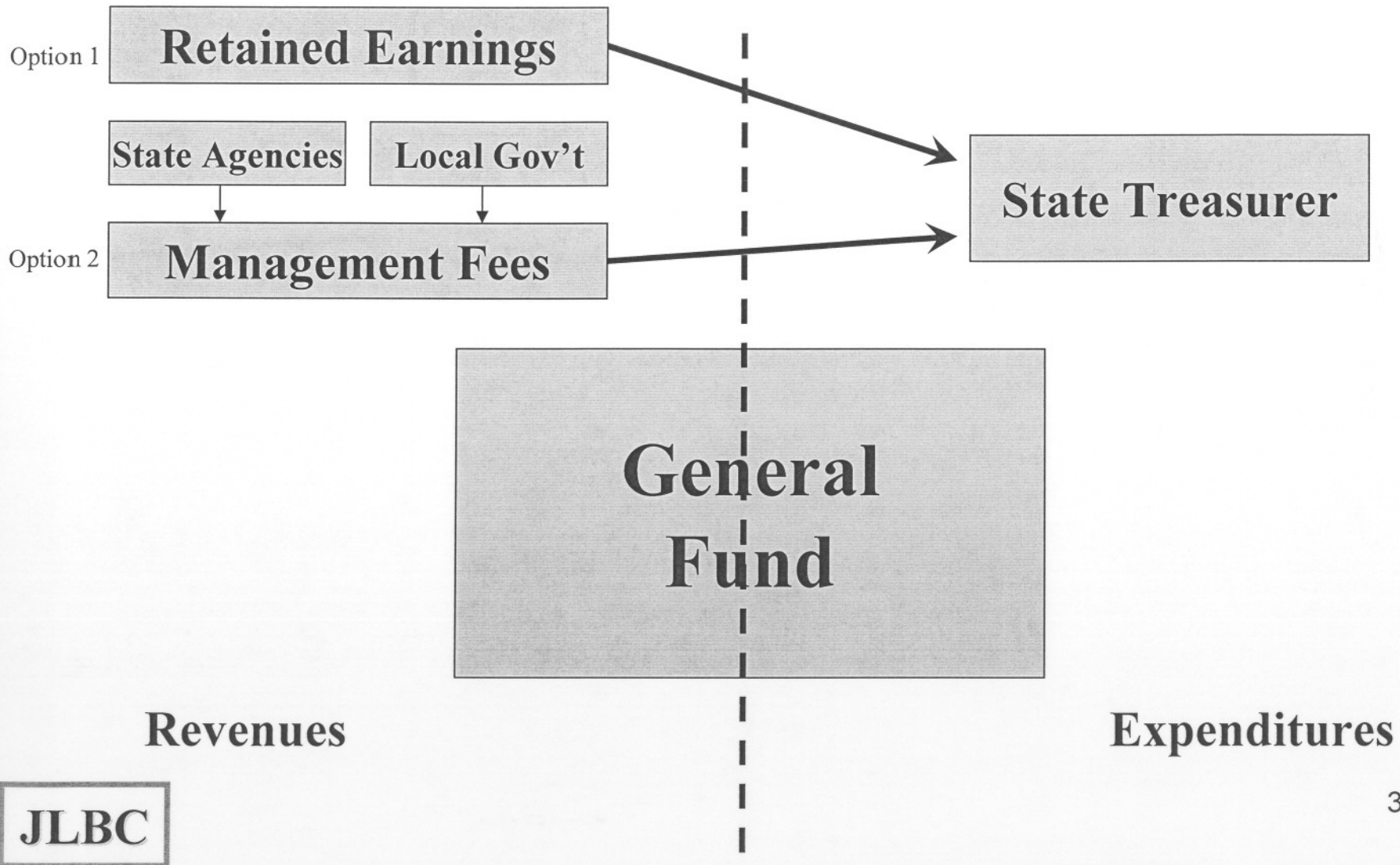
JLBC

- Management fees are now deposited in the General Fund.
- The Treasurer's budget is funded from General Fund.



Treasurer proposes to retain fees and eliminate its General Fund appropriation.

-- Both options require statutory changes.



This proposal would also allow the Treasurer to increase operating resources.

- Additional Funding - \$917,200 for analytical tools
- Cost Savings - \$571,800 from contract and accounting efficiencies
- Increased Yields – The Treasurer estimates between 3 & 12 Basis Points

The General Fund impact will depend on the following primary factors:

Gains

- Gains from the shift of the Treasurer's operating budget.
- Gains of higher investment yields.

Losses

- Loss of revenue due to lower or eliminated management fees.

Scenario 1: The net impact is a \$(2) M loss to the General Fund

- Loss occurs under either option
- Loss is based on a 3 basis point gain in yield
- Also assumes that state agency dedicated funds retain management fees savings

Scenario 2: Net impact is a General Fund gain

- Gains in excess of 14 basis points would mean net gains for the General Fund.
- Management fee savings from state agency dedicated funds could be deposited in the General Fund.

The Committee has the following options.

1. A favorable review of the plan to eliminate management fees in favor of funding the Treasurer's operations from earnings with the provision that the Legislature enact the necessary statutory changes.
2. A favorable review of the plan to reduce management fees to a level commensurate with the expenditure authority of the office with the provision that the Legislature enact the necessary statutory changes.
3. An unfavorable review.