

JLBC MEETING

At its June 14, 2006 meeting, the Joint Legislative Budget Committee (JLBC) considered the following issues:

Department of Corrections – Consider Approval of Requested Transfer of Appropriations – The Arizona Department of Corrections (ADC) originally requested Committee approval to transfer \$1.8 million from the Personal Services line item and \$0.2 million from the Employee Related Expenditures (ERE) line item to the Overtime/Compensatory Time Special Line Item. The department initially reported that additional funding was needed to make the final cash overtime payment for FY 2006 and to make a partial payment to employees with compensatory leave balances owed to them. The department subsequently withdrew its request, stating that the enacted supplemental appropriation would cover the immediate needs in these areas. Because ADC withdrew its request, this item was for information only and no committee action was taken.

Since the meeting, ADC has submitted to JLBC Staff year-end estimates for these line items. The department's estimates indicate that no transfers will be required prior to the end of the fiscal year.

Department of Economic Security – Review Transfer of Appropriations – The JLBC gave an unfavorable review to the Department of Economic Security's (DES) plan to transfer General Fund and Federal Temporary Assistance to Needy Families (TANF) Block Grant monies totaling \$13,500,000 from the TANF Cash Benefit Special Line Item (SLI). Of this amount, \$6,500,000 would be transferred to the Division of Benefits and Medical Eligibility (DBME) operating budget (\$3,500,000 GF and \$3,000,000 TANF), \$5,000,000 to the Children Support Services SLI (\$3,500,000 GF and \$1,500,000 TANF), and \$2,000,000 (all GF) to the Foster Care Placements SLI. The Committee gave an unfavorable review due to concerns with transferring monies from an entitlement program into the administrative program of the DBME operating budget.

The Committee gave a favorable review to a DES plan for a Federal Child Care Development Fund (CCDF) Block Grant transfer of \$4.0 million from the Day Care Subsidy Special Line Item (SLI) to the Transitional Child Care SLI.

Arizona Pioneers' Home – Review Transfer of Appropriations – The Committee gave a favorable review to a proposed Pioneers Home transfer of

approximately \$257,800 from the Personal Services line and the Prescription Drug Special Line Item (SLI) to the Employee Related Expenditures (ERE) line in FY 2006.

The transfer is necessary due to the current allocation for ERE not being sufficient to fulfill required employee benefits payments through the end of FY 2006. Because the Arizona Pioneers' Home has a detailed line item budget, A.R.S. § 35-173 requires Committee approval of transfers to or from the Personal Services and ERE line items.

AHCCCS – Review of Rural Hospital Reimbursement Capitation Rate Change – The Committee gave a favorable review to an AHCCCS request for an adjustment to its capitation rates in order to allocate monies from the Rural Hospital Reimbursement Special Line Item. The increase will affect only June 2006 payments and rates will return to their prior level in July 2006. AHCCCS reports that The Centers for Medicare and Medicaid Services (CMS) does not allow a Medicaid agency to make supplemental payments to providers in a managed care system and that an adjustment to the capitation rate is the only manner in which CMS will allow these monies to be distributed to the impacted hospitals.

Attorney General – Review of Allocation of Settlement Monies – The Committee gave a favorable review of the Attorney General's (AG) allocation plan related to the Liberty League International consent judgment. The judgment is the result of an investigation by the AG that was prompted by numerous consumer complaints. The state alleged that Liberty, a marketing company that sells personal development products, misled customers into spending money on their products by promising sizable commissions if they recruited new participants who were willing to purchase their products. As more individuals joined the program, however, recruitment became more difficult and as a result, participants earned little or no income from the business.

The judgment against Liberty required that they pay \$100,000 in civil penalties as well as AG costs and fees in the amount of \$15,000. The civil penalties and costs and fees have been placed in the Consumer Fraud Revolving Fund. Liberty League International will also make partial restitution to approximately 60 consumers who filed complaints.

Arizona Department of Transportation – Review of Third Party Quality Assurance Report – The Committee gave a favorable review of the Arizona

Department of Transportation's (ADOT) third party quality assurance report. The FY 2006 General Appropriation Act included an increase of \$140,000 and 3 FTE Positions for increased workload in the third party quality assurance program. ADOT is required to submit quarterly progress reports regarding increasing third party transactions, the status of third party quality assurance staffing, workload, backlog and the moratorium on accepting new third parties.

According to ADOT, the department has made progress toward eliminating the waiting list for new third party title and registration vendors. The department increased staffing by 2 FTE Positions in the third quarter of FY 2006, making a total of 22 filled FTE Positions out of 23 approved FTE Positions. In addition, ADOT authorized 5 current vendors to expand to other offices, and is currently conducting site visits for 19 more existing vendors who would like to expand to other offices. The department is also in the process of reviewing business plans for 67 prospective vendors.

Arizona Department of Education – Review of Kinder Morgan Settlement – The Committee gave a favorable review to the Department of Education's (ADE) plan to provide school districts in Yuma County with \$927,900 in corrected Basic State Aid funding due to a recent settlement in the Arizona Tax Court regarding property taxes paid in prior years by the Kinder Morgan Corporation. The favorable review conforms with statutory requirements regarding state aid corrections required as a result of Arizona Tax Court rulings.

The Arizona Court of Appeals on December 9, 2005 upheld an earlier Arizona State Tax Court ruling requiring the Arizona Department of Revenue to lower the assessed value of property owned by Kinder Morgan retroactively for FY 2001, FY 2002, FY 2003 and FY 2005. This has the effect of reducing the amount of K-12 Qualifying Tax Rate (QTR) and County Equalization Tax Rate (CETR) owed by Kinder Morgan for those years, with the state being required to make up the difference pursuant to A.R.S. § 15-915(B). Based on "before" and "after" property value numbers for Kinder Morgan under the court rulings, ADE has determined that affected school districts in Yuma County collectively are entitled to \$927,900 in additional Basic State Aid funding for the fiscal years in question

Arizona Department of Public Safety – Quarterly Review of the Arizona Public Safety Communications Advisory Commission – The Committee gave a favorable review of the Arizona

Public Safety Advisory Commission's (PSCC) FY 2006 third quarter expenditures and progress for the statewide interoperability design project. Third quarter expenditures totaled \$151,100 of nearly \$4.3 million in available FY 2006 funding. Through the third quarter, FY 2006 expenditures totaled \$421,200. Activities in the third quarter addressed projects identified in the PSCC timeline relating to both the "short-term" and "long-term" interoperable solutions. In the third quarter, the PSCC expended roughly \$151,100 for costs associated with the 6 filled staff positions. The PSCC filled none of the remaining 3 vacant FTE Positions (2 telecommunication engineer and 1 technical writer positions).

Arizona Department of Revenue – Review of Ladewig Expenditure Plan – The Committee gave a favorable review of the Department of Revenue's (DOR) estimated administrative expenditure plan of \$974,600 for the FY 2007 Ladewig project, with the condition that DOR report back with a revised expenditure plan if the provision to eliminate the requirement for the newspaper advertising of names of individuals with unclaimed property is enacted.

The bulk of the cost will be for Other Operating Expenditures for printing, postage and mailing warrants and form 1099's for taxpayer payments, and for unclaimed property advertising of returned Ladewig warrants. DOR's estimated cost of \$276,200 for unclaimed property advertising of returned Ladewig warrants will likely be reduced since the FY 2007 State Government Budget Reconciliation contained a provision to eliminate the requirement for the newspaper advertising of names of individuals with unclaimed property. DOR's permanent staff assigned to the Ladewig project and temporary personnel will continue to respond to the public and handle internal issues.

Arizona Department of Administration – Consider Approval of Transfer of Appropriations – The Committee gave a favorable review to the Department of Administration's (ADOA) request to transfer up to \$250,000 from the FY 2006 Capital Outlay Stabilization Fund (COSF) lump sum appropriation to the Utilities Special Line Item (SLI) to pay for increased utility rates. ADOA reports that, due to increased utility costs, the FY 2006 appropriation to the Utilities SLI is insufficient to cover actual costs. Actual utilities costs are projected to be \$5,971,400, which exceeds the FY 2006 \$5,733,800 Utilities SLI Appropriation by \$237,600. The increase of \$250,000 for the Utilities SLI represents a 4.4% increase.