

JLBC MEETING

At its October 24th meeting, the Joint Legislative Budget Committee considered the following issues:

JLBC Staff – Approval of Index for School Facilities Board Construction Costs – The Committee adjusted the cost-per-square-foot factors used on the School Facilities Board (SFB) building renewal and new school construction financing by an inflation factor of 12.2%, as requested by SFB. The 12.2% increase was based on an average of Phoenix construction cost indices developed by a project management firm and an international construction consulting group. The 12.2% increase may generate \$38.9 million through FY 2011 for new construction authorized in the next year and could also increase Building Renewal costs by \$10.5 million to \$19.7 million in FY 2008.

The Committee also discussed the adequacy of prior year inflationary adjustments and heard testimony from SFB as well as from representatives from various school districts on the ability of school districts to build a school within the New School Facilities (NSF) formula amount. In addition, the Arizona Chapter of the Arizona Institute of Architects (AIA) requested an increase of 20% for FY 2008.

In FY 2006, SFB funded 38% of their projects over the new construction amount (total additional funding of \$20.4 million) and so far in FY 2007, SFB has funded 82% of its projects over the funding amount (for a total additional funding of \$9.2 million). SFB can fund above the per square foot factors if they determine that a school cannot be built within the minimum standards under the current funding formula. In FY 2007 SFB has funded K-6 schools at an average of \$131 per-square-foot, which is roughly equal to the 12% price adjustment approved by the Committee.

Department of Revenue – Review Business Reengineering/Integrated Tax System Contract Amendment – The Committee gave an unfavorable review to the Department of Revenue's (DOR) amendment to its Business Reengineering/Integrated Tax System (BRITS) contract due to the project being over-budget and not on-time.

The BRITS amendment is expected to cost \$14.8 million and would enable the department to finish converting individual income tax collections to BRITS. The \$14.8 million would result in foregone revenue to the General Fund (\$12.6 million), cities and counties (\$1.7 million) and Proposition 301 education programs (\$500,000). The \$14.8 million

contract amendment does not cover all of the original components of the BRITS project which included document imaging and customer relationship management (CRM) capabilities, whose costs could total approximately \$10 million.

In addition to the amendment, the Committee also discussed the gain-sharing agreement between the contractor and the state. Under the agreement, the BRITS contractor receives 85% of the increased enforcement revenue attributable to BRITS, with the state receiving the remaining 15%. The Committee had concerns that revenues paid to the contractor may not be attributable to the BRITS system versus other causes like the improved Arizona economy. DOR contends that the BRITS system has generated \$182 million in new revenues as a result of the system's implementation.

Beyond the unfavorable review, the Committee also adopted the following provisions: 1) DOR/GITA provide joint monthly status reports on the project until its conclusion; 2) DOR not pursue contract amendments for the document imaging and "customer relationship management" components until the individual income tax is implemented; 3) The Information Technology Authorization Committee (ITAC) report by December 31, 2006 to the JLBC as to improving general procedures for ensuring that all agencies keep them apprised of high dollar value contract changes to automation projects, and GITA's efforts to ensure that they provide sufficient monitoring; 4) JLBC Staff with DOR and OSPB jointly convene an outside panel to evaluate the BRITS baseline calculation and provide feedback regarding the effects of automation versus an improving economy on the increased level of collections; and 5) The Arizona Department of Administration (ADOA) report to the JLBC by November 30, 2006 as to steps to improve agencies' understanding of contract provisions.

Department of Revenue – General Fund Revenue Enforcement Goals – The Committee gave a favorable review to the Department of Revenue's FY 2007 General Fund Revenue Enforcement Goals. DOR's overall General Fund revenue enforcement goal for FY 2007 is \$333.4 million, which is \$12.1 million, or 3.8% above their FY 2006 goal of \$321.3 million. However, the \$333.4 million goal for FY 2007 is \$(57.6) million or (14.7)% below their FY 2006 actual General Fund revenue enforcement collections of \$391.1 million.

DOR's revenue enforcement goal consists of audit revenue, collections revenue, and accounts receivable.

Arizona Department of Administration – Review Emergency Telecommunications Services Revolving Fund Expenditure Plan – The Committee gave a favorable review to the Department of Administration’s (DOA) wireless portion of its Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan. The expenditure plan allocates \$9.4 million for the development and implementation of 911 telecommunication systems. Of the \$9.4 million, 1) \$1.4 million will be spent on Phase I costs associated with identifying the phone number and nearest cell phone tower of a caller and 2) \$8 million will be spent on Phase II costs, which will enable answering facilities to be able to identify the location of the caller.

Arizona Health Care Cost Containment System – Review of Capitation Rate Changes – The Committee gave a favorable review to capitation rate changes proposed by the Arizona Health Care Cost Containment System (AHCCCS) for the Traditional, Proposition 204, KidsCare and KidsCare Parents as well as the Long-Term Care populations. The capitation rate adjustments being sought by the agency were below budgeted levels and are expected to save the General Fund approximately \$6.4 million in FY 2007.

Arizona Commission on the Arts – Review of the Arizona Arts Endowment Fund and Private Contributions – The Committee gave a favorable review to the Arizona Arts Endowment Fund and Private Contributions Report submitted by the Arizona Commission on the Arts. According to the report, private contributions to the fund totaled \$3.2 million in CY 2005, which was \$2 million less than contributions collected in CY 2004. According to the Commission, private contributions decreased due to staff vacancies as well as the retirement of the previous director.