

Attorney General - Department of Law

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	547.9	547.9	570.9 ^{1/}
Personal Services	28,343,900	29,276,700	31,862,900
Employee Related Expenditures	10,020,500	11,225,200	12,272,000
Professional and Outside Services	563,500	603,500	851,500
Travel - In State	142,000	137,400	137,400
Travel - Out of State	115,900	209,200	241,600
Other Operating Expenditures	6,335,300	6,021,600	6,086,900
Equipment	1,125,900	71,000	98,900
OPERATING SUBTOTAL	46,647,000	47,544,600	51,551,200
SPECIAL LINE ITEMS			
Capital Postconviction Prosecution	0	500,000	800,100
Child Safety and Family Services	0	0	1,000,000
Military Airport Planning	84,700	90,000	90,000 ^{2/}
National Mortgage Settlement Distribution	612,500	0	0
Northern Arizona Law Enforcement	0	0	0 ^{3/}
Risk Management ISA	8,453,100	9,439,500	9,443,000
State Grand Jury	176,700	181,100	181,100
Victims' Rights	3,224,700	3,997,800	3,758,600
AGENCY TOTAL	59,198,700	61,753,000	66,824,000^{4/5/}
FUND SOURCES			
General Fund	23,366,000	22,464,600	23,465,100
<u>Other Appropriated Funds</u>			
Antitrust Enforcement Revolving Fund	143,700	244,200	244,300
Attorney General Legal Services Cost Allocation Fund	2,073,400	2,087,500	2,087,600
Collection Enforcement Revolving Fund	5,347,300	5,387,800	6,888,200
Consumer Protection - Consumer Fraud Revolving Fund	3,360,900	4,106,200	5,306,800
Court-Ordered Trust Fund	612,500	0	0
Interagency Service Agreements Fund	12,617,100	13,525,400	14,830,300 ^{6/}
Risk Management Revolving Fund	8,453,100	9,439,500	9,443,000
State Aid to Indigent Defense Fund	0	500,000	800,100
Victims' Rights Fund	3,224,700	3,997,800	3,758,600
SUBTOTAL - Other Appropriated Funds	35,832,700	39,288,400	43,358,900
SUBTOTAL - Appropriated Funds	59,198,700	61,753,000	66,824,000
Other Non-Appropriated Funds	32,180,800	39,546,000	39,200,700
Federal Funds	5,470,200	6,022,700	5,316,600
TOTAL - ALL SOURCES	96,849,700	107,321,700	111,341,300

^{1/} Includes 14.6 GF and 99 OF FTE Positions funded from Special Line Items in FY 2015.

^{2/} A.R.S. § 26-263 annually appropriates \$85,000 from the General Fund for Military Airport Planning. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act. A total of \$5,000 for statewide allocations in this line item is appropriated in the General Appropriation Act.

^{3/} The General Appropriation Act, as originally passed, included \$500,000 from the General Fund in FY 2015 for the Northern Arizona Law Enforcement Special Line Item. This amount was line-item vetoed by the Governor thus reducing the total appropriation by a corresponding amount.

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

^{5/} The Attorney General shall submit to the Joint Legislative Budget Committee for review the quarterly reports on legal settlements required by A.R.S. § 41-192, 44-1531.01 and 44-1531.02. (General Appropriation Act footnote)

^{6/} In addition to the \$14,830,300 appropriated from the Interagency Service Agreements Fund in FY 2015, an additional \$800,000 and 11 FTE Positions are appropriated from the Interagency Service Agreements Fund in FY 2015 for new or expanded interagency service agreements. The Attorney General shall report to the Joint Legislative Budget Committee whenever an interagency service agreement is established that will require expenditures from the additional amount. The report must include the name of the agency or entity with which the agreement is made, the dollar amount of the contract by fiscal year and the number of associated FTE Positions. (General Appropriation Act footnote, as adjusted for statewide allocations)

AGENCY DESCRIPTION — The Attorney General is an elected constitutional officer. The office provides legal counsel to state agencies, represents the state in juvenile dependency matters, enforces civil rights, environmental, consumer protection and anti-trust laws, and investigates and prosecutes criminal cases, handles criminal appeals, and assists county attorneys.

Operating Budget

The budget includes \$51,551,200 and 457.3 FTE Positions in FY 2015 for the operating budget. These amounts consist of:

	FY 2015
General Fund	\$22,194,000
Antitrust Enforcement Revolving Fund	244,300
Attorney General Legal Services Cost Allocation Fund	2,087,600
Collection Enforcement Revolving Fund (CERF)	6,888,200
Consumer Protection - Consumer Fraud (CPCF) Revolving Fund	5,306,800
Interagency Service Agreements (ISA) Fund	14,830,300

These amounts fund the following adjustments:

Debt Collection Expenses

The budget includes an increase of \$1,500,000 from CERF in FY 2015 for debt collection expenses. CERF receives 35% of the monies recovered by the Attorney General’s Office from debts owed to the state and is used for expenses related to debt collection owed to the state and general operating expenses. The increase will fund additional debt collection staff.

Expanded Interagency Service Agreement

The budget includes an increase of \$1,300,000 and 11 FTE Positions from the ISA Fund in FY 2015. Of the \$1,300,000, \$200,000 is for an expanded Interagency Service Agreement (ISA) with the Department of Revenue for tax compliance litigation support and \$700,000 is for Arizona Health Care Cost Containment System (AHCCCS) for increased defense and enforcement of the Master Settlement Agreement. The AHCCCS increase reflects the portion of a \$1,200,000 transfer of AHCCCS’ Traditional Medicaid Services line item monies to the Attorney General for legal services provided to AHCCCS. The ISA Fund was not adjusted previously to reflect this transfer (*see Tobacco Enforcement below for more details*). The remaining \$400,000 is for a restructured ISA contract with the Game and Fish Department, and does not provide net new resources.

Federal Grant Backfill

The budget includes an increase of \$600,000 from the CPCF Revolving Fund in FY 2015 to backfill funding from a federal grant that expired in FY 2013 to support the Criminal Division’s investigations and prosecutions of complex fraud, corruption, criminal enterprise, drug trafficking, and money laundering cases in Southern

Arizona. The General Appropriation Act also continues a FY 2014 supplemental CPCF Revolving Fund appropriation of \$600,000 for the same purpose. The new \$600,000 in FY 2015 is above the revised FY 2014 post-supplemental amount, making the increase since the original FY 2014 budget of \$1,200,000.

Tobacco Enforcement

The budget includes an increase of \$600,000 from the CPCF Revolving Fund in FY 2015 for costs associated with tobacco settlement litigation. This adjustment is in addition to the \$1,200,000 ISA transfer from AHCCCS. Of the ISA transfer amount, \$700,000 is transferred to the Attorney General’s Office for legal services. The remaining \$500,000 is passed through the Attorney General to outside counsel for litigation support. These monies will fund expenditures in connection with defending and implementing a multi-year settlement reached in December 2012 that resolved a dispute between tobacco companies and the state over enforcement of the Master Settlement Agreement.

(Please see Other Issues section in AHCCCS for more details.)

Statewide Adjustments

The budget includes an increase of \$6,600 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	500
Antitrust Enforcement Revolving Fund	100
Attorney General Legal Services Cost Allocation Fund	100
CERF	400
CPCF Revolving Fund	600
ISA Fund	4,900

(Please see the Agency Detail and Allocation section.)

Capital Postconviction Prosecution

The budget includes \$800,100 from the State Aid to Indigent Defense Fund in FY 2015 for Capital Postconviction Prosecution. These amounts fund the following adjustments:

Capital Postconviction Prosecution

The budget includes an increase of \$300,000 from the State Aid to Indigent Defense Fund in FY 2015 to fund capital postconviction prosecution.

Statewide Adjustments

The budget includes an increase of \$100 from the State Aid to Indigent Defense Fund in FY 2015 for statewide adjustments.

This line item funds costs associated with prosecuting capital cases after the initial conviction. The FY 2015 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 12) continues to permit the Attorney General to use State Aid to Indigent Defense Fund monies for this purpose.

The FY 2014 General Appropriation Act designated the FY 2014 funding as one-time pending further legislative review of the appropriate location for these duties. The act also required the Attorney General to submit a report to the Joint Legislative Budget Committee detailing its plan for transitioning Maricopa County capital postconviction prosecution responsibilities to the county over the next 4 years.

The Attorney General no longer plans to transition these responsibilities. In its report, the Attorney General stated that the appropriate location for capital postconviction proceedings is the Attorney General and not Maricopa County for 2 reasons:

1. The Attorney General is the only agency with expertise in federal law, which is litigated during capital postconviction proceedings; and
2. Keeping capital postconviction relief responsibilities with the Attorney General will prevent further delay and save the state additional costs associated with prolonged proceedings.

The Attorney General's Office presented its plan to the Joint Legislative Budget Committee at the Committee's December 17, 2013 meeting. The Committee gave neither a favorable nor an unfavorable review.

Child Safety and Family Services

The budget includes \$1,000,000 and 12 FTE Positions from the General Fund in FY 2015 for Child Safety and Family Services. These amounts fund the following adjustments:

Child Safety and Family Services Legal Services

The budget includes \$1,000,000 and 12 FTE Positions from the General Fund in FY 2015 to fund additional legal representation growth in Department of Child Safety cases (formerly Child Protective Services).

This line item funds the Attorney General's office to provide legal representation for the Division of Child Safety and Family Services (DCSFS), including client interviews, investigative and expert services, and preparation for pre-trial hearings and trials. The Department of Economic Security (DES) also includes

\$18,260,500 for these services, passed through to the Attorney General.

(Please see DCSFS Attorney General Legal Services in the DES section.)

Military Airport Planning

The budget includes \$90,000 and 1 FTE Position from the General Fund in FY 2015 for Military Airport Planning. These amounts are unchanged from FY 2014.

A.R.S. § 26-263 appropriated \$85,000 annually (prior to statewide adjustments) from the General Fund to the Attorney General's Office. Therefore, \$85,000 of this funding does not appear in the General Appropriation Act. The legislation sought to preserve the state's military bases by appropriating monies to several state agencies and charging them with certain responsibilities. Monies in this line item pay for the department's duties under the original 2004 legislation, including review and determination of compliance with land use plans.

Northern Arizona Law Enforcement

The General Appropriation Act, as originally passed, included \$500,000 from the General Fund in FY 2015 for Northern Arizona Law Enforcement. This amount was line-item vetoed by the Governor.

This new line item would have funded 4 Mohave County Sheriff's Office deputies to provide 24-hour patrols of the Arizona Strip.

Risk Management ISA

The budget includes \$9,443,000 and 93 FTE Positions from the Risk Management Revolving Fund in FY 2015 for the Risk Management ISA. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$3,500 from the Risk Management Revolving Fund in FY 2015 for statewide adjustments.

This line item provides funding for the Attorney General's contract with the Risk Management Division of the Arizona Department of Administration. Attorneys from the Attorney General's Office defend the state in most risk management cases regarding agency liability.

State Grand Jury

The budget includes \$181,100 and 1.6 FTE Positions from the General Fund in FY 2015 for the State Grand Jury. These amounts are unchanged from FY 2014.

This line item funds expenses incurred by the Attorney General to investigate and try matters that are under the jurisdiction of the State Grand Jury.

Victims' Rights

The budget includes \$3,758,600 and 6 FTE Positions from the Victims' Rights Fund in FY 2015 for Victims' Rights. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(239,400) from the Victims' Rights Fund in FY 2015 for the elimination of one-time funding. In FY 2014, the budget included a one-time increase of \$239,400 for grants management software.

Statewide Adjustments

The budget includes an increase of \$200 from the Victims' Rights Fund in FY 2015 for statewide adjustments.

This line item provides monies to state and local agencies that are required to notify victims during various steps in the criminal justice process. The program includes 7.68% of Criminal Justice Enhancement Fund monies and an assessment on parents of juvenile offenders.

Other Issues

Attorney General Legal Services Cost Allocation Fund

The FY 2013 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 302) revised the mechanism for agencies to pay their Attorney General pro rata charges. Prior to FY 2013, agencies paid a percent of their Personal Services to the Attorney General as part of a statewide allocation of that department's expenses. This pro rata charge was separate from any funding arrangement contained in an agency's intergovernmental agreement with the Attorney General.

The FY 2013 Criminal Justice BRB eliminated the 0.675% pro rata Personal Services charge. An agency's General Fund appropriation and Federal Funds are no longer charged for Attorney General Services. The pro rata for all other monies has been converted into a flat dollar charge as annually specified by the General Appropriation Act.

The FY 2015 General Appropriation Act continues to set level of charges at \$1,809,500 and specifies the charge per agency as required by Laws 2012, Chapter 302. See *Table 1* for a list of agencies and their corresponding Attorney General Legal Services charge.

Consumer Restitution and Remediation Revolving Fund

In addition to the Consumer Restitution and Remediation Revolving Fund, the Attorney General also deposits money into the CCPF Revolving Fund. The CCPF Revolving Fund derives its revenue from any investigative

or court costs, attorney fees or civil penalties recovered by the Attorney General as a result of enforcement of either state or federal statutes pertaining to consumer fraud.

In 2013, the Legislature created a new Consumer Restitution and Remediation Revolving Fund (Laws 2013, Chapter 143) that the Attorney General would use for monies collected from lawsuits that are reserved for remediation or restitution. In addition, the statute directs any monies resulting from compromises or settlements by or against the state, excluding restitution, reimbursement, or CCPF monies, into the General Fund.

The Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving Fund is to be used for monies collected from lawsuits intended to compensate a specific, identifiable person, including the state, for economic loss resulting from violations of consumer protection laws. This subaccount is not subject to legislative appropriation.

The Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund consists of monies collected as a result of a settlement to rectify violations of consumer protection laws, other than monies collected for the benefit of specific, identifiable persons. Monies in this subaccount up to \$3,500,000 are continuously appropriated. Any amount of money collected over that amount is subject to legislative appropriation. The Attorney General must submit an expenditure plan to the Joint Legislative Budget Committee for review before expending any monies in this subaccount.

Chapter 143 and a General Appropriation Act footnote require the Attorney General to report quarterly to the Joint Legislative Budget Committee on the receipts and disbursements from the fund by subaccount (A.R.S. § 44-1531.02) and in the CCPF Revolving Fund (A.R.S. § 44-1531.01), as well as deposits made pursuant to other specified settlements (A.R.S. § 41-192).

National Mortgage Settlement Fund Distribution

In 2012, Arizona, along with 49 other states and attorneys general, reached a state-federal settlement with the nation's 5 largest residential mortgage loan servicers. The National Mortgage Settlement is a result of state and federal investigations that the 5 loan servicers did not act legally in signing foreclosure documents, thus acting fraudulently in servicing and foreclosure business practices. The total settlement was \$25 billion, of which Arizona's share was an estimated \$1.3 billion.

The settlement requires Arizona to use the funds received from the settlement "for purposes intended to avoid preventable foreclosures, to ameliorate the effects of the foreclosure crisis, to enhance law enforcement efforts to prevent and prosecute financial fraud or unfair or deceptive acts or practices, and to compensate the state for

costs resulting from the alleged unlawful conduct of the Defendants.”

Of the \$1.3 billion, the Attorney General received approximately \$97,000,000 in a direct payment from the National Mortgage Settlement. The FY 2013 General Appropriation Act required the Attorney General to direct \$50,000,000 of these monies to the General Fund. In May 2012, a lawsuit was filed arguing that the state could not transfer money from the settlement to the General Fund. In October 2012, a Superior Court judge ruled that the State Legislature can decide how to spend the funds from the settlement. In March 2013, the Court of Appeals upheld the Superior Court ruling but the Arizona Supreme Court subsequently directed the Attorney General to not transfer the \$50,000,000 to the General Fund pending final resolution of the case in the Supreme Court. In September 2013, the Supreme Court decided not to review the lower court’s ruling. Accordingly, the \$50,000,000 was transferred from the Attorney General to the General Fund in October 2013.

Laws 2013, Chapter 118 appropriates the remainder, approximately \$47,000,000, of the settlement to the Attorney General for distribution pursuant to applicable court orders. The Attorney General also has discretion to determine how to expend the remainder of the state’s allocation. In FY 2013, the Attorney General expended \$612,500 to provide assistance to homeowners affected by fraudulent mortgage servicing and foreclosure practices and for other purposes consistent with the settlement. In FY 2014, the Attorney General plans to expend \$15,522,400 of the non-lapsing appropriation for similar purposes. The FY 2014 estimate does not appear under the National Mortgage Settlement Fund Distribution Special Line Item because those are non-lapsing monies.

The Attorney General plans to use the approximate amount of the \$47,000,000, plus \$10,000,000 from a settlement with Bank of America not subject to this appropriation, as follows:

- \$20,000,000 for the Arizona Mortgage Relief Fund, a flexible mortgage loan program that is designed to provide loans to allow borrowers to remain in their homes;
- \$10,000,000 for consumer restitution for eligible consumers who previously filed complaints with the Attorney General’s Office against certain foreclosure rescue companies or against Bank of America in connection with their mortgage servicing practices;
- \$5,000,000 for enforcement and monitoring;
- \$5,000,000 for housing counseling;
- \$4,750,000 for adjustments in the housing market and enhancement of the most successful programs;
- \$4,000,000 for legal services;
- \$3,500,000 for Veterans’ housing opportunities;
- \$2,500,000 for relocation assistance;

- \$2,000,000 for outreach, marketing, and education; and
- \$250,000 for job training.

Arizona’s remaining share of the National Mortgage Settlement has been used to provide consumer relief to Arizona borrowers, including principal reduction, a refinancing program, and payments to foreclosed borrowers. The monitor of the National Mortgage Settlement verified in a March 2014 report that banks satisfied their consumer relief obligations under the settlement.

In August 2013, the Attorney General also announced that checks, totaling \$1,480 per loan foreclosed while being serviced by the 5 servicers between January 1, 2008 and December 31, 2011, had been mailed to those who lost their homes to foreclosure as a result of the servicers’ alleged misconduct. These foreclosed borrower payment amounts were funded directly by participating servicers and were administered nationally by a third party administrator. Approximately 65,000 Arizonans received payments totaling \$96.5 million.

Table 1**FY 2015 Attorney General Legal Services Charges**

<u>Agency</u>	<u>Legal Services Charge</u>
Arizona Department of Administration	\$127,700
Office of Administrative Hearings	3,000
Commission on the Arts	3,100
Automobile Theft Authority	1,400
Citizens Clean Elections Commission	2,700
State Department of Corrections	2,000
Arizona Criminal Justice Commission	8,700
Arizona Schools for the Deaf and the Blind	100,200
Commission for the Deaf and the Hard of Hearing	4,100
Early Childhood Development and Health Board	47,100
Department of Education	132,000
Department of Emergency and Military Affairs	30,000
Department of Environmental Quality	135,600
Exposition and State Fair Board	20,900
Department of Financial Institutions	1,900
Department of Fire, Building, and Life Safety	2,500
State Forester	12,100
Department of Gaming	35,000
Arizona Geological Survey	6,800
Department of Health Services	170,000
Arizona Historical Society	700
Department of Housing	18,100
Department of Insurance	10,500
Department of Juvenile Corrections	9,400
State Land Department	2,100
Department of Liquor, Licenses & Control	11,400
Arizona State Lottery Commission	24,800
Arizona State Parks Board	45,800
State Personnel Board	600
Arizona Pioneers' Home	12,100
Commission on Postsecondary Education	1,800
Department of Public Safety	677,400
Arizona Department of Racing	2,300
Radiation Regulation Authority	3,800
Arizona State Retirement System	69,100
Department of Revenue	4,900
Secretary of State	1,800
State Treasurer	9,200
Department of Veterans' Services	52,700
Department of Weights and Measures	<u>4,200</u>
Total Legal Services Charges	\$1,809,500