STATE OF ARIZONA

# Joint Legislative Budget Committee

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**** R E V I S E D ****

JOINT LEGISLATIVE BUDGET COMMITTEE
Friday, December 19, 2008
9:30 A.M.
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of November 13, 2008

- DIRECTOR'S REPORT (if necessary).
  - Strategic Program Area Review

- EXECUTIVE SESSION
  A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
  B. Arizona Department of Administration - Risk Management Annual Report.
  C. Annual Performance Review of JLBC Staff Director.

1. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.

2. DEPARTMENT OF COMMERCE - Review of Memorandum of Understanding for the Arizona 21st Century Fund.

3. ARIZONA DEPARTMENT OF REVENUE
   A. Review of FY 2009 Data Center Expenditure Plan.
   B. Review of FY 2009 General Fund Revenue Enforcement Goals.

**4. DEPARTMENT OF ENVIRONMENTAL QUALITY - Review of Water Quality Permit Processing Times.**

The Chairman reserves the right to set the order of the agenda.
12/17/08
sls

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## MINUTES OF THE MEETING

## JOINT LEGISLATIVE BUDGET COMMITTEE

November 13, 2008

The Chairman called the meeting to order at 9:40 a.m., Thursday, November 13, 2008, in Senate Appropriations Room 109. The following were present:

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

**APPROVAL OF MINUTES**

Hearing no objections from the members of the Committee to the minutes of October 2, 2008, Chairman Burns stated that the minutes would be approved.

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS) - Review of Proposed Acute Care and ALTCS Capitation Rate Changes.**

Ms. Amy Upston, JLBC Staff, stated this item is a review of the capitation rates for AHCCCS' Acute Care and Long Term Care programs. Using budgeted caseload growth, JLBC Staff expects that these 2 programs will cost the General Fund approximately $27 million more than what was budgeted for the programs. The Committee has at least 2 options: 1) a favorable review since the proposed rates are a combination of actuarial inflation adjustments and legislatively authorized policy changes, or 2) an unfavorable review since the proposed rates are higher than the budgeted amount.

Mr. Tom Betlach, Deputy Director, AHCCCS, responded to member questions.

The Committee requested information on how much money is spent on transporting patients for non-emergencies. They would also like to know the federal requirements for transporting these patients.

*Representative Pearce moved that the Committee give a favorable review of the proposed changes of the Acute Care and Long Term Care programs as the proposed rates are a combination of actuarial inflation adjustments and legislatively authorized policy changes. These policy changes may need to be reconsidered in the future.* The motion carried.

(Continued)

**JLBC STAFF - Consider Approval of Index for School Facilities Board Construction Costs.**

Ms. Leatta McLaughlin, JLBC Staff, stated that this item is an approval of the cost index for the School Facilities Board (SFB) new school construction and building renewal formula amounts. Statute requires the Committee to at least annually adopt an inflation adjustment for these 2 formula amounts.

Mr. Dean Gray, Deputy Director, Facilities, School Facilities Board, responded to member questions.

*Representative Pearce moved that the Committee approve a 1.98% increase in the cost-per-square-foot factors excluding the implementation of FDK capital costs.* The motion carried.

**ARIZONA BOARD OF REGENTS - Review of FY 2009 Tuition Revenues.**

Ms. Leah Kritzer, JLBC Staff, stated that this item is Arizona Board of Regents (ABOR) report on tuition revenues for FY 2009. Every year the universities are required by statute to estimate tuition collections for the next year using the current year's tuition rate. The FY 2009 appropriated tuition collections were estimated using FY 2008 tuition rates; therefore, the FY 2009 systemwide tuition increases were not reflected in the original appropriated amount. The Committee has at least the following 2 options: 1) a favorable review, or 2) an unfavorable review, as additional tuition revenues may be needed to offset any university reductions to reduce the FY 2009 budget shortfall.

Ms. Sandra Woodley, Chief Financial Officer, ABOR, responded to member questions.

*Representative Pearce moved that the Committee give an unfavorable review to ABOR's expenditure plan for tuition revenue amounts greater than the amounts appropriated by the Legislature and all retained tuition and fee revenue expenditure for the current fiscal year.* The motion carried.

**STATE COMPENSATION FUND - Consider Approval of Calendar Year 2009 and 2010 Budgets.**

Ms. Caitlin Acker, JLBC Staff, stated that the State Compensation Fund (SCF) budget is $142.1 million for Calendar Year (CY) 2009 and $146.4 million for CY 2010. Currently, statute requires Committee approval of this budget. The Committee has at least 2 options: 1) approve the submitted budget, or 2) take no action.

Mr. Brent Nelson, Chief Financial Officer, State Compensation Fund responded to member questions.

Mr. Rick DeGraw, Senior Vice President, State Compensation Fund, responded to member questions.

*Representative Pearce moved that the Committee take no action on SCF's CY 2009 and CY 2010 Budgets.* The motion carried.

Without objection, the meeting adjourned at 10:52 a.m.

Respectfully submitted:

_____
Sandy Schumacher, Secretary

_____
Richard Stavneak, Director

_____
Senator Bob Burns, 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.

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DATE: December 12, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Dan Hunting, Fiscal Analyst

SUBJECT: Arizona Department of Administration - Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan

**Request**

Laws 1998, Chapter 6, 4th Special Session requires the Arizona Department of Administration (ADOA) to submit the wireless services portion of its Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan to the Committee for review. ADOA oversees and provides support to the communities of the state as they enhance their 911 emergency telecommunications systems. In practice, the department submits its complete expenditure plan annually, although expenditures on wire services are not subject to Committee review.

**Recommendation**

The Committee has at least the following 2 options:

1. A favorable review of the $7.5 million wireless portion of the ETSF expenditure plan.

2. An unfavorable review.

In FY 2009, ADOA expects to distribute $28.8 million from the ETSF. However, based on past expenditure patterns this estimate could be high, as over the past 4 years average expenditures averaged $19.0 million. Of the $28.8 million, $20.8 million is for wire services, $7.5 million is for wireless services, and $0.5 million is for administrative and management costs.

**Analysis**

ADOA works with county/city 911 administrators to distribute monies from ETSF for FCC-compliant telecommunications equipment, software, carrier services, and maintenance. The counties and cities are responsible for implementing the improvements to their 911 system. ADOA is responsible for providing

(Continued)

centralized oversight in developing project schedules to consider the greatest needs, especially in rural areas, and for maximizing regional efficiencies and local readiness. While ADOA prefers that each county complete implementation phases as a whole, the department does make allowances for cities or areas that are behind or ahead of the county schedule. Localities must provide and fully fund their own personnel, utilities, and facilities. ADOA also requires communities to submit Wireless 911 Service Plans to the agency for its approval.

Emergency 911 Wireless Service Status

Federal Communications Commission (FCC) Report and Order 96-204, issued in 1996, ordered the development and implementation of 911 services for wireless telecommunications systems in 2 phases. Phase I requires local public safety answering facilities to be able to identify the phone number of, and nearest cellular tower to, the caller as well as to relay calls to the nearest emergency response center. Phase II necessitates answering facilities to be able to identify the location of the caller. Mobile service carriers were required to upgrade their systems for Phase II capability by December 2005. *Table 1* highlights the status of Arizona's wireless 911 availability as of July 1, 2008.

**Table 1**

**Arizona Counties Emergency 911 Wireless Capability as of July 1, 2008**

| Phase I | Transition | Phase II |
|---|---|---|
| Winslow | Page-Lake Powell | Maricopa County |
| | Southern Yavapai County | Northern Yavapai County |
| | Cochise | Pima County |
| | | Graham County |
| | | Santa Cruz County |
| | | Pinal County |

* Counties not shown have no wireless Phase I or II capabilities.

Wireless Phase II was completed in Pinal County in FY 2008, with Southern Yavapai, Cochise, Mohave and Yuma Counties scheduled for completion in FY 2009. Areas that have not yet completed Phase I, such as Mohave and Yuma Counties, are being encouraged to move directly to Phase II. Currently, 80% of the state's population lives in areas where the location of a 911 caller can be identified. By 2011, the entire state will be covered. For a more comprehensive description of emergency 911 deployments see the attached *9-1-1 Phase II Implementation Plan*.

Funding Mechanism

A.R.S. § 42-5252 authorizes a tax on wire and wireless telecommunication service accounts. On July 1, 2007, the rate dropped to $0.20 per month for each wired and wireless phone account. The rate had been $0.28 in FY 2007, when the tax generated $23.1 million. Under the new rate, FY 2008 revenue was $17.3 million. ADOA estimates that revenues will gradually increase to $18.6 million by FY 2011. ADOA also foresees expenditures increasing from $19.5 million to $35.0 million during the same timeframe. ADOA projects that the fund will maintain a positive balance until FY 2011. (In FY 2009, $25 million of the fund balance was transferred to the General Fund.)

FY 2009 ETSF Expenditure Plan

ADOA distributes funds to the localities upon receiving copies of their invoices for emergency telecommunications services and equipment. In FY 2009, ADOA expects to distribute $28.8 million from ETSF. Of the $28.8 million, $7.5 million is for Phase I and Phase II wireless services. Of the $20.8 million in proposed wire services expenditures, $1.5 million is for a proposed transition to an IP enabled network. The current 911 system is based on technology not intended to support modern communications devices. The plan to build an Internet Protocol-enabled network is in line with recommendations from the National Emergency Number Association (NENA), on the future of emergency telecommunications standards.

(Continued)

ADOA previously budgeted $2.0 million in FY 2008 for this program, but industry standards for this next-generation 911 system are still in development, so designs cannot be finalized.

*Table 2* summarizes the actual ETSF distribution during the past 2 fiscal years and projected distribution during the current fiscal year.

**Table 2**

**ADOA Emergency Telecommunications Services Revolving Fund**
**FY 2007 – 2009 Expenditure Plan** 1/

| | Actual FY 2007 | Actual FY 2008 | Projected FY 2009 |
|---|---|---|---|
| Balance Forward | $ 47,574,700 | $ 53,468,300 | $ 55,886,500 |
| Tax Revenue | 23,074,200 | 17,332,300 | 17,332,400 |
| Interest Income | 2,321,000 | 2,576,300 | 1,435,200 |
| **Funds Available** | **$72,969,900** | **$73,376,900** | **$74,654,100** |
| | | | |
| Wireless Services | | | |
| Phase I Wireless | 557,700 | 294,200 | 176,100 |
| Phase II Wireless | 4,738,700 | 4,832,800 | 7,281,500 |
| **Wireless Services Subtotal** | **$ 5,296,400** | **$ 5,127,100** 1/ | **$ 7,457,700** 1/ |
| | | | |
| Wire Services | $13,462,000 | $11,889,000 | $19,280,500 |
| Proposed transition to IP enabled network | 0 | 0 | 1,514,600 |
| | | | |
| Administration | $ 743,200 | $ 474,300 | $ 563,000 |
| **ETSF Expenditure Plan Total** | **$19,501,700** 1/ | **$17,490,400** | **$28,815,800** |
| | | | |
| Transfer to General Fund | 0 | 0 | 25,091,600 |
| Fund Balance | $53,468,300 | $55,886,600 | $20,746,700 |

1/ Numbers do not add due to rounding

In November 2007, ADOA estimated that FY 2008 expenditures would be $25.9 million; however, actual expenditures over the course of the year were only $17.5 million. Some of this discrepancy may be attributed to lower levels of participation by rural counties than expected.

*Table 3* includes the wireless expenditure plans for FY 2009. Of the $7.5 million projected to be spent on wireless services in FY 2009, $6.0 million is for wireless carrier charges. Carrier charges are a subsidy provided to phone companies for providing emergency 911 services to their customers. The remaining $1.7 million of the wireless expenditure plan is for equipment and other expenses.

(Continued)

**Table 3**

**FY 2009 Wireless Expenditure Plan**

| | Wireless Carrier | Equipment & Other | Total |
|---|---|---|---|
| Cochise County | $ 163,500 | $ 333,300 | $ 496,800 |
| Coconino County | 6,000 | 24,200 | 30,200 |
| Colorado City | 1,000 | 44,100 | 45,100 |
| Gila River Tribal | 9,900 | 1,100 | 11,000 |
| Graham County | 53,100 | 1,100 | 54,200 |
| Maricopa County | 2,987,000 | 21,600 | 3,008,600 |
| Mohave County | 362,000 | 436,800 | 798,800 |
| Navajo Co/Apache County | 7,000 | - | 7,000 |
| Page | 101,700 | 2,200 | 103,900 |
| Pima County | 1,408,000 | 40,000 | 1,448,000 |
| Pinal County | 367,400 | 5,400 | 372,800 |
| Santa Cruz County | 73,500 | 2,200 | 75,700 |
| Winslow | 27,900 | - | 27,900 |
| Yavapai North | 228,900 | 244,600 | 473,500 |
| Yavapai South | 187,500 | 141,600 | 329,100 |
| Yuma County | 33,100 | 142,200 | 175,300 |
| **TOTAL** | **$6,017,500** | **$1,440,400** | **$7,457,900** |

Future Outlook

Arizona statute only requires wire and wireless telecommunication service accounts to pay a tax. Statute is unclear whether more recent technologies such as prepaid wireless accounts, internet based phones, and OnStar pay the 911 taxes.

RS/DH:sls

**JANET NAPOLITANO**
Governor

**WILLIAM BELL**
Director

# ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR
100 North Fifteenth Avenue, Suite 401
Phoenix, Arizona 85007
(602) 542-1500

RECEIVED
NOV 05 2008
JOINT BUDGET COMMITTEE

November 4, 2008

The Honorable Robert L. Burns, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 W. Washington Street
Phoenix, AZ 85007

Dear Senator Burns:

As stipulated in the Laws of 1998, 4th Special Session, Chapter 6, Section 5 – Emergency telecommunications fund: report of expenditure plans, the Department of Administration shall report its expenditure plans to the Joint Legislative Budget Committee for review. In fulfillment of this requirement, I am enclosing:

- The Wireless Program Report for fiscal year 2008.
- The 9-1-1 financial forecast for fiscal years 2009 through 2013 incorporating the Fund Balance transfers to the General Fund during FY2003, FY2004 and FY2009.
- The Status of Arizona 9-1-1 and the Estimated Costs and Deployment Schedule to Implement Wireless Phase II.
- Arizona Deployment Map
- State Fee Comparison and Organization Structure.
- The 9-1-1 Phase II Wireless Implementation Plan.
- State of Arizona 9-1-1 GIS Standards.

Please note that the financial forecast shows a program deficit in fiscal year 2011. With additional Wireless Phase II deployments and transitioning to an IP Enabled Network, costs will continue to increase. This anticipated deficit will prevent the full implementation of the critical wireless program and may require a revenue enhancement or increase.

Should you have any questions, please contact me at 602-542-1500 or Barbara Jaeger, the State 9-1-1 Administrator at 602-542-0911.

Sincerely,

William Bell
Director

c: The Honorable Timothy S. Bee, Senate President
The Honorable James P. Weiers, Speaker of the House of Representatives
Mr. Richard Stavneak, Staff Director, JLBC
Mr. James Apperson, Director, OSPB

Enclosures (4)

Arizona Department of Administration
State 9-1-1 Office
Wireless Program Report
2008

The State 9-1-1 program was established, through legislation in 1985, to provide a funding mechanism for the deployment and on-going costs of providing 9-1-1 services in Arizona.

Under A.R.S.§ Title 43, Article 6, Telecommunications Services Excise Tax, a tax is levied for each activated wire line, including Voice Over Internet Protocol (VoIP) access and wireless service account for the purpose of financing emergency telecommunications services. Current law reduced the tax from thirty-seven cents per month to twenty-eight cents per month in July 1, 2006. The tax was further reduced to twenty cents per month as of July 1, 2007.

The funds collected are administered by the Arizona Department of Administration under A.R.S. § 41-704 and rules have been established that govern the allowable expenditures and funding eligibility requirements by communities and political sub-divisions in the State.

Components eligible for funding include necessary and/or appropriate network, equipment and maintenance to handle the processing of 9-1-1 emergency calls. Of the revenue generated, the program distributes 98% of the fund for 9-1-1 call service delivery of wire line and wireless services. One percent of the revenue is allocated for local network management of contracts through the 9-1-1 system coordinators.

An amount not to exceed 2% of the annual revenue is used by the Arizona Department of Administration for program oversight expenditures.

Accounting methodology is in place to track all expenditures by community and/or 9-1-1 system. In July 2007, the Department of Revenue transitioned to collecting the tax as one entity and identifies this collection code as 9-1-1, no longer breaking out the wire line and wireless revenue.

All Public Safety Answering Point (PSAP) equipment used to answer and handle 9-1-1 calls are budgeted under wire line expenditures, although it should be understood that the equipment is used to answer both wire line and wireless 9-1-1 calls. Mapping equipment for Wireless Phase II is broken out and budgeted under Wireless Phase II equipment.

The Arizona 9-1-1 Wireless Phase II Implementation Plan has been updated to expand the program moving specified sites toward deployment of Phase II Wireless. Costs associated with legislative cost recovery and a copy of the plan is enclosed. The Statewide System Project plan covering each 9-1-1 System for FY08 has been updated and is also attached.

The wireless program criteria established for rollouts, stipulate that Enhanced 9-1-1 (voice, telephone number and address) has been completed for either an entire county or significant portions of a county. Each county or system must complete a Wireless 9-1-1 Service Plan, utilizing the format specified in the State guidelines and appoint a single point of contact for each county or area. The Geographic Information System (GIS) data must be completed and meet the same 95% accuracy rate as established for Enhanced Wire Line 9-1-1. Equipment mapping components will be installed prior to request for service letters being sent to the wireless carriers for Wireless Phase II service.

**Wireless Deployment**

Significant progress continues to be made in the deployment of Wireless Phase II. The two major regions in the state, Maricopa and Pima have completed their Phase II deployments constituting approximately 80% of the state's population. The Northern Yavapai County area, which encompasses the City of Cottonwood, City of Sedona, Town of Camp Verde and surrounding Yavapai County has also completed Phase II deployment.

During FY08, additional funds were expended from the $1 million dollar Public Safety Answering Point (PSAP) Readiness Fund grant to complete the Geographic Information Systems (GIS) work necessary for The City of Page and Mohave, Pinal and southern Yavapai Counties. GIS work for Graham and Santa Cruz Counties completed in the fall of 2006 and both Graham and Santa Cruz Counties completed their Phase II deployment in spring 2007. GIS work for Pinal County completed fourth quarter FY2007 and deployment for Pinal County and the Gila River Indian Community completed in March 2008.

With the completion of these projects, Wireless Phase II service is available from Nogales all the way to Phoenix. Pinal County is still considered one of the fastest growing county's in the nation and with the implementation of Wireless Phase II; the citizens will have an added level of public safety protection.

With the funds remaining in the grant, the PSAP Readiness Board authorized an expansion to the original Scope of Work. GIS work is currently underway in southern Yavapai County, Mohave County and Yuma County.

Cochise County's data has met the 9-1-1 GIS standard of 95% accuracy and mapping equipment has been ordered for all eight Public Safety Answering Points. Once the equipment is installed and operational, request for Wireless Phase II service letters will be sent to the carriers. There have been some delays in moving forward with Wireless Phase II in this county. One being a proposed physical move by two of the PSAPs and the other is limited resources available by the vendor for the sites. All equipment has now been ordered and installation dates have been set.

Southern Yavapai County has also met the 9-1-1 GIS standard and equipment for the Prescott Regional Center has been ordered and is scheduled for installation second quarter FY09. Once installed, request for Wireless Phase II service letters will be sent to the wireless carriers.

The GIS work in Mohave County and Yuma County will both be completed during FY09.

## Wireless Expenditures

During FY08, the majority of one time charges were expended for completed Wireless Phase II projects in the Gila River Indian Community and Pinal County.

The FY08 expenditures for Wireless Phase I & II are outlined in the table below.

| System | FY08 Expenditures | PI/PII |
|---|---|---|
| Colorado City | $ 5 | transition |
| Flagstaff | $ 8,705 | PII |
| Gila River Tribal | $ 7,192 | PII |
| Graham County | $ 52,253 | PII |
| Maricopa Region | $ 2,538,037 | PII |
| Mohave County | $ 1,066 | transition |
| Pima County | $ 1,315,833 | PII |
| Pinal County | $ 545,614 | PII |
| Santa Cruz County | $ 66,831 | PII |
| Yavapai County No. | $ 187,325 | PII |
| City of Page | $ 178,717 | PI/PII |
| City of Winslow | $ 25,173 | PI |
| | | |
| | **$ 4,858,594** | |

It should be emphasized that the 9-1-1 answering equipment is fiscally allocated to wire line equipment although this equipment handles calls for both wire line and wireless 9-1-1 calls. The acquisition of separate mapping equipment has been allocated to wireless Phase II expenditures.

The FY09 budget includes the following expenditures for systems currently Wireless Phase I and/or Phase II, those adding in new systems, and those that are close to or have completed their GIS requirements.

Expenditures include network components, both wireless carrier costs and selective router costs.

| System | FY09 Budget | PI/PII |
|---|---|---|
| Cochise County | $ 369,405 | to PII |
| Colorado City | $ 45,064 | to PII |
| Gila County | $ 2 | transition |
| Gila River Indian Community | $ 10,980 | PII |
| Graham County | $ 54,180 | PII |
| Maricopa Region | $ 3,008,620 | PII |
| Mohave County | $ 789,978 | to PII |
| Navajo Co/Apache Co | $ 1,800 | transition |
| Page | $ 132,620 | PI to PII |
| Pima County | $ 1,447,920 | PII |
| Pinal County | $ 372,780 | to PII |
| Santa Cruz County | $ 75,660 | PII |
| Winslow | $ 27,900 | PI |
| Yavapai No. | $ 483,778 | PII |
| Yavapai So. | $ 329,085 | to PII |
| Yuma County | $ 175,304 | to PII |
| | | |
| | $ 7,325,076 | |

Additional expenditures budgeted for fiscal year 2009 includes the implementation of a frame relay network for deployment of an Enterprise Mapping System. With significant county boundary issues recognized, this system allows GIS data to be distributed to the 9-1-1 centers within their county or share the data with other counties. These costs are already being expended in the Maricopa Region, Pima County and now Pinal County. When new map data is available, that data can be distributed via the frame relay network and updated information can be published more efficiently.

FY07 brought significant changes within the wireless industry and thus has positively affected the future of the Arizona 9-1-1 program. Several mergers and acquisitions reduced the number of wireless network providers and therefore reduced the cost recovery charged by the carriers. This and with a change of carrier philosophy some of the carriers have opted to not seek cost recovery from the State 9-1-1 program. They have instead opted to seek self recovery from their customers. This does not affect the costs associated with the selective routers, but does affect the amount billed by the individual carriers.

With an emphasis toward Homeland Security, the 9-1-1 program continues to fund the Telecommunications Service Priority (TSP) provisioning which was added in FY07. This federal program is designed to ensure elevated network restoration to anyone who registers and pays for the service. In the event of a national disaster and federal intervention is required for network continuity, the service will ensure that Arizona's 9-1-1 systems will be restored in a timely manner.

All network components including 9-1-1 circuits, Automatic Location Identification circuits, emergency back circuits and circuits that run to all selective routers have been included in the service package.

The State 9-1-1 Office strives to reduce costs for network and equipment components. During FY07, negotiations with Qwest changed the billing structure for the wireless selective router charges, which has proven to reduce costs for call delivery.

**Revenue – FY09 Projections**

Over the past two years there has been almost a 40% reduction in revenue. This can be attributed to the reduction in the tax from $.37 in FY06, to $.28 in FY07 and $.20 in FY08. The revenue reduction realized from FY06 through FY08 was more then $19,878,453. An additional $1,141,081 is projected from FY08 through FY09. The reduction for FY09 in projected revenues is based on an overall 5% increase in carrier services and the current $.20/mo. 9-1-1 tax rate. Additionally, with the Department of Revenue issued opinion in 2008, requiring the Voice over Internet Protocol (VoIP) carriers to remit the 911 tax, there has not been a significant increase in revenue realized.

The annual projected revenue for FY09, is estimated at $17,332,355. The interest income for the same time period is $1,435,204. The total estimated income for the fiscal year beginning July 1, 2008 is $18,767,559. The budget for FY09 has been established at $28,815,778. The difference between expenditures and projected revenue will utilize funds from prior years. There will be less interest income realized due to the State Legislature's fund transfer of $25,091,600 from the 9-1-1 Program Fund to the State's general fund.

The 9-1-1 Excise Tax revenue for FY08 closed at $19,908,639, a 28% reduction in revenue over FY07. Last year, the Department of Revenue announced they would no longer break out the wireless revenue generated from the ExciseTax, therefore, the total 9-1-1 revenue, will only have to be evaluated for future years.

In the FY07 report, the Department of Revenue still broke out the wire-line and wireless revenue and not including the interest income brought in $23,074,168 in revenue. This amounts to approximately 6.8 million customers. The fiscal end report for FY08, indicated that that total amount of customers for both wire-line, wireless and VoIP brought in $17,332,349, not including interest income which amounts to 7.2 million customers. Although this is a 5% increase in customer base between FY07 and FY08, estimates for the income for FY09 shows no increase.

| | FY07 Actual | FY08 Actual | % of Difference |
|---|---|---|---|
| | @$.28 | @$.20 | FY07-FY08 |
| | | | |
| Excise Tax | 23,074,168 | 17,332,349 | -33% |
| Interest | 2,321,033 | 2,576,290 | 10% |
| | | | |
| | 25,395,201 | 19,908,639 | -28% |
| | | | |

In preparing the 911 Project Plan through FY13, the tax decrease, customer base and reduced fees has been taken into consideration indicating that the program will reach a deficit in FY11.

One area where the reductions are immediately evident and is service affecting is the 3% administrative fees. Of this three percent, 2% is used for ADOA administrative services and 1% is distributed to the local level for network contract services.

The State 9-1-1 Office has five full time staff members allocated to the program, but currently only has sufficient funds to cover three and a ½ FTE's, There is currently four staff members but the difference is being covered by the project management funds out of the grant fund. These individuals not only have fiscal oversight, but work closely with the communities to deploy and support 9-1-1. With the 40% reduction in revenues over the two year time frame and the 2% cap on administrative spending, staff has been reduced by one position during FY08 and additional staff reductions are forthcoming. This impact may delay the deployment of Wireless PII.

**The Future of 9-1-1**

The 911 Project Plan addresses the need to transition to a more robust and technology forward network in coming years. The IP enabled network or Next Generation 9-1-1 designs are on the drawing board today. Industry standards are in the development phase, therefore, costs cannot be determined. The move toward a data network that provides ubiquitous service will ensure that calls can be routed anywhere without current boundary restrictions. New networks will provide the ability to utilize text messaging, as well as video streaming in future years.

During FY08, a collaborative effort between the State, Qwest, Intrado and Positron 911 systems was developed to design and implement a Next Generation (NG) trial in Arizona. It was determined that Gila County would be an ideal test bed for this project. The northern portion of Gila County is served out a separate selective router then the southern portion of Gila County as a result of a LATA boundary division. The installation of this Next Generation network including installation of soft switches, will allow for reliable and time sensitive transfer of calls. The four PSAPs in Gila County will be changed out to Positron Viper system designed specifically to transition to NG technology. During the trial, testing will include digital network features for text messaging, video streaming, IP ALI (Automatic Location Information), interconnection with the legacy networks, feature functionality, meshing and redundancy. This project is scheduled to complete by the end of FY09 at a cost of $1.6 million and should be noted that throughout this project all legacy network components will require continued support. Once all components have been successfully tested and are up and running, it is the intention to transition all sites to the new digital network and then remove the existing technology in Gila County.

The 9-1-1 system was designed to ensure that in an emergency, citizens have one reliable number to call for public safety assistance. The State 9-1-1 program strives to ensure that this goal is met in the most efficient and cost effective manner possible.

STATE OF ARIZONA

# Joint Legislative Budget Committee

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DATE: December 12, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Eric Billings, Fiscal Analyst

SUBJECT: Department of Commerce - Review of Memorandum of Understanding for the Arizona 21st Century Fund.

**Request**

Pursuant to A.R.S. § 41-1505.09 E, the Department of Commerce requests the Committee review the proposed extension of the Memorandum of Understanding with Science Foundation Arizona (SFAz) to use monies in the Arizona 21st Century Competitive Initiative Fund. SFAz is required by statute to report on a quarterly basis investments made with monies from the fund.

**Recommendation**

The Committee has at least the following 2 options:

1. A favorable review. SFAz's proposal generally meets the statutory guidelines for the 21st Century Fund.

2. An unfavorable review.

**Analysis**

Laws 2006, Chapter 334 established the Arizona 21st Century Competitive Initiative Fund to assist medical, scientific, and engineering research programs and infrastructure, with an emphasis in bioscience. Laws 2007, Chapter 260, as amended by Laws 2008, Chapter 291, provides funding of $22.5 million for FY 2009, $25 million for FY 2010, and $27.5 million in FY 2011.

The memorandum of understanding (MOU) includes 2 major changes from prior years to conform to Laws 2008, Chapter 291. The first change sets FY 2009 funding level at $22.5 million. The second change establishes new requirements for matching funds. Previously, only cash contributions were

(Continued)

allowed for matching. Chapter 291 changes this requirement to allow cash equivalents for up to 50% of the match.

The expenditure plan for the $22.5 million FY 2009 appropriation is similar to last year although no funding is being provided for several categories that were previously funded:

-- $17.5 million is set aside for research and development (R&D) grants with an emphasis on partnerships between industry and the universities and other research institutions. Of the FY 2008 appropriation, $10.3 million was allocated for this purpose.

-- $2.1 million for seed capital to develop research into startup companies that can win federal assistance and attract venture capital. Of the FY 2008 appropriation, $2.0 million was allocated for this purpose.

-- $2.2 million in scholarships to approximately 100 first-year graduate students in science and engineering fields to attend Arizona's research universities. Of the FY 2008 appropriation, $5.0 million was allocated for this purpose.

-- $0.7 million to support the administrative functions of the SFAz. Of the FY 2008 appropriation, $0.7 million was allocated for this purpose.

-- No funding is provided for research proposals that did not receive federal funding. Of the FY 2008 appropriation, $5.0 million was allocated for this purpose.

-- No funding is provided to support K-12 students' math and science programs and summer research internships for high school science and math teachers. Of the FY 2008 appropriation, $2.0 million was allocated for this purpose.

The proposed FY 2009 expenditures are required by law to be equaled by a commensurate amount of private funding. In FY 2009, $15.0 million in cash and $14.7 million in cash equivalents from private sources will be provided to SFAz for matching purposes detailed below:

-- $15.0 million in cash from industry, philanthropic, and governmental partners. Of the $15.0 million, $13.9 million was from industry, $1.0 million from philanthropic sources, and $100,000 from governmental entities.

-- $8.2 million in cash equivalents qualifying as a cash match. These funds come in the form of equipment, salaries, commodities, and other auditable cash equivalent items. All of the funding was derived from industry.

-- $3.6 million in cash from the donor directly to the research entity. Some donors are constrained by bylaws or federal regulations that prohibit them from donating directly to SFAz, so instead of foregoing a donation, these entities choose to direct funding to the grantee. These monies count toward the cash equivalent total. All of the funding was derived from industry.

-- $2.9 million in the form of in-house performance of R&D. Some donors choose to perform certain portions of the grantee's R&D at their facilities rather than contributing cash directly to SFAz or the grantee. The R&D furthers the purpose of the grant and is done with the knowledge of the grantee. Of the $2.9 million, $2.4 million was from industry, $58,400 from philanthropic sources, and $401,600 from governmental entities.

The value of the cash equivalents is determined by several sources including:

(Continued)

-- The research university which assesses the value of the industry partner match.

-- The industry partner's contractual agreement of the value of the contributions they provide.

-- SFAz's program officers and mail, site, and board reviews as well as periodic updates requested from grantees.

-- The Department of Commerce review of cash equivalents for matching purposes.

Detailed Expenditure Plan

SFAz will evaluate grant proposals based on the peer reviews of experts in the appropriate scientific fields. Recommendations will then be reviewed by the SFAz board of directors, whose members have experience in the fields of science and technology, industry, and reviewing and funding research.

The grant programs and distributions, explained below, are summarized in *Table 1*:

**Table 1**

**$ IN MILLIONS**

| Expenditure Categories | FY 2007 - FY 2008 Allocation | FY2007 – FY 2008 Expenditures | Unexpended FY 2007 - FY 2008 Balance | FY 2009 $22.5 Million Allocation |
|---|---|---|---|---|
| R & D Grants | $25.9 | $4.4 | $21.5 | $17.5 |
| Small Business Seed Capital | 4.5 | 2.2 | 2.3 | 2.1 |
| Graduate Research Fellowships | 11.3 | 2.8 | 8.5 | 2.2 |
| Administration | 1.0 | 0.7 | 0.3 | 0.7 |
| Federal Research | 9.0 | 4.7 | 4.3 | 0.0 |
| K-12 Student Programs | 4.3 | 1.7 | 2.6 | 0.0 |
| K-12 Teacher Internships | 4.0 | 1.5 | 2.5 | 0.0 |
| **Total** | **$60.0** | **$18.0** | **$42.0** | **$22.5** |

**R & D Grants** – SFAz calls this category "Strategic Research Groups" (SRG) and they propose to expend $17.5 million. This amount is intended to fund approximately 17 research partnerships between industry and research-performing institutions. The grants will be awarded for time periods between 12 and 24 months, with the forecasted average grant amount equaling approximately $1.0 million. Industry partners are expected to match SFAz's investment at a 1:1 ratio.

**Small Business Seed Capital** – SFAz calls this category "Small Business Catalytic Funding" and they propose to expend $2.1 million. This amount is intended to provide seed capital for the development of technologies created at research-performing institutions into spin-off companies. Whereas SRG grants fund partnerships between industry and research-performing institutions, SBC funding directly assists researchers at Arizona research-performing institutions up to the point where federal, venture capital, and private foundation funding sources can support their prospective businesses. SFAz stipulates that any SBC funding recipient that evolves into a company must remain in Arizona for 5 years or refund 3 times the amount of the grant to SFAz.

In FY 2009, SFAz plans to award 6 grants at an average value of $350,000.

**Graduate Research Fellowships** - SFAz proposes to expend $2.2 million of the FY 2009 appropriation for this program. In conjunction with private monies, approximately 25 new graduate students will be awarded scholarships for a period of 2 years in the amount of $40,000 a year. Nationally, graduate students at state universities are normally supported in their first year by teaching assistantships, which

(Continued)

prevent them from participating in research until their second or third year. SFAz plans on providing awards to all 3 state universities.

**Administration** - The remaining $700,000 from the 21st Century Competitive Initiative Fund will be divided among support for salaries of personnel and related equipment or program expenses and the costs of the panel review process.

**Federal Research Award** - SFAz calls this category "Competitive Advantage Awards" and they propose to allocate none of the FY 2009 appropriation to this category. This program assisted Arizona researchers in securing major grants from federal agencies.

Eligibility was limited to research projects that have already applied for a federal grant and were highly rated by the federal agency, but were not funded because of agency budget constraints. Unlike the $17.5 million in SRG grants, these projects required less start-up time since the federal grants had already been applied for once before and the research team was already in place. Grants were typically awarded for a 12-month duration.

**K-12 Student and Teacher Programs** - SFAz proposes to allocate none of the FY 2009 appropriation to this program. Funds for this category aided programs that increased Arizona K-12 students' knowledge of math and science. Programs from private and public schools, the Arizona Department of Education, colleges, and universities have competed for SFAz grants. Students from any school have been eligible to apply to any SFAz-supported program, with priority given to needs-based, rural Arizona, and Native American students. Funds have also been used for paid academic or business based summer research internships for high school science and math teachers to connect the classroom with advances in science. Grants funded multiple internships at the beneficiary institution.

SFAz reports that the newly created non-profit Science, Technology, Engineering, and Math Education Arizona (STEM) now performs the functions of the K-12 programs. This office was created by the Governor and is supported by SFAz. Funding for STEM is mostly provided from the Department of Education and private entities with no funding from the 21st Century Competitive Initiative Fund.

Evaluation and Performance

Pursuant to the Committee's recommendation during its November 15, 2006 meeting, SFAz submitted first year performance measures, with numeric goals, in its first quarterly report. These measures are displayed in *Table 2* and *Table 3*. The measures are consistent with science and engineering investment performance measures used by other states. *Table 2* displays SFAz's performance measures for the 4 R&D grant programs. These programs comprise $20.3 million of the $22.5 million in 21st Century Competitive Initiative Fund monies.

(Continued)

**Table 2**

**Performance Measures for June 2008 – R&D Grant Programs**

| Program | Scientific Publications | Patents Filed | Patents Issued/Technology Licensed | Companies Created | Jobs/Average Salaries | Dollars from Other Sources [1/] | Industry Match | Grad Students Participating | Awards Resulting in Commercial Products [1/2/] | Licensing and Royalty Revenue Earned [1/] |
|---|---|---|---|---|---|---|---|---|---|---|
| R & D Grants [3/] | 2 | 8 | 0 | 1 | 40/$50K | $11.2M | $17.3M | 57 | -- | 0 |
| Federal Research | 52 | 1 | 0 | 0 | 0 | $13.2M | 0 | 263 | -- | 0 |
| Small Business Seed Capital | 24 | 13 | 0 | 7 | 9/$68K | $5.8M | N/A | 10 | -- | 0 |

1/ The Committee recommended at the May 2007 JLBC Meeting that SFAz track the following additional performance measures for these R&D programs: 1) Number of awards per investment program that result in commercial products; 2) Amount of licensing and royalty revenue earned by grant recipients; 3) Break down the "Dollars from Other Sources" measure by federal, private foundation, and venture capital sources when submitting first-year results.

2/ Although no awards have resulted in commercial products as of June 2008, there are 9 R &D Grant and 9 Small Business Seed Capital commercial products that are currently under development.

3/ SFAz submitted 2 additional performance measures for the R & D grant programs, patents issued and technology licensed, but does not expect any patents to be issued or technology licensed for any of the programs during the first year. Information on these performance measures is not yet available.



(Continued)

*Table 3* displays SFAz's performance measures for the 3 educational grant programs. These programs comprise $2.2 million of the $22.5 million in planned FY 2009 21st Century Competitive Initiative Fund expenditures.

**Table 3**

**Performance Measures – Educational Programs June 2008**

| Program | Total Participants | % Rural Districts | % Low Income Dist. | % Native Amer. Dist. | % Completed Advanced Science/Math in H.S. | Program Quality Rating (Scale From 1 – 3) | Teachers Retained in AZ |
|---|---|---|---|---|---|---|---|
| K-12 Teacher Internships | 166 | 21 | 54 | 11.5 | N/A | 3 | -- |
| K-12 Student Programs | 1,720 | 35 | 51 | 15 | -- | 2 | N/A |
| Graduate Research Fellowships | 180 | N/A | N/A | N/A | N/A | N/A | N/A |

RS/EB:sls

Janet Napolitano
governor

ARIZONA DEPARTMENT
OF COMMERCE

Marco A. López, Jr.
director

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JOINT BUDGET
COMMITTEE

November 7, 2008

The Honorable Robert Burns
The Honorable Russell Pearce
Joint Legislative Budget Committee
1700 West Washington
Phoenix, AZ 85007

Dear President-Elect Burns and Senator-Elect Pearce:

Attached as Exhibit A is an executed amendment to state contract C001-07-01 (Science Foundation Arizona). The amendment has been approved by the Commerce and Economic Development Commission (CEDC), and the extension of this contract has been approved by the Arizona Department of Administration. The amendment includes extension of the current contract for one year, the addition of the $22.5 million appropriated in FY 09, the reallocation of funds between program categories, and the rollover of remaining FY2006-07 contract monies into FY 2008-09.

Pursuant to Laws 2008, Chapter 291, SFAz was required to demonstrate a match of at least $22.5 million before this contract could be amended (extended). Effective FY 2008-09, SFAz may now provide up to 50% of the required match in the form of "cash equivalents" made directly to SFAz and to third party entities (third party contributions count as part of the required cash match only if the contributor's governing documents prohibit the contribution directly to SFAz). The remaining 50% of the required match must be cash (US currency) contributions directly to SFAz. Exhibit B entitled "FY 2009 Match Inventory" provides a detailed breakdown of SFAz contracts and the corresponding FY 09 matches in four categories:

I. Industry/Philanthropic Cash Directly to SFAz,
II. Cash Equivalent Qualifying as Cash Match, and
III. Cash Equivalent (Cash Directly to Research Entity)
IV. Cash Equivalent (Performance of Internal R&D).

For FY 09, SFAz provided documentation showing a total match of $29,685,369, of which $15,011,772 is cash (US currency) directly to SFAz. As a result, the contract amendment was executed on November 7th.

The $22.5 million in State funding will be paid out incrementally. Exhibit C entitled "FY 2009 Match Draw Down" shows the anticipated quarterly schedule of payments to SFAz, based on the expected receipt of cash contributions and work performance for each contract. Also included in this document is the anticipated schedule for pay out of the remaining FY 2006-07 contract monies.

Please let me know if you have any questions.

Sincerely,

Marco A. López, Jr.
Director

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# CONTRACT AMENDMENT

CONTRACT#C001-07
AMENDMENT #4

PAGE 1 OF 1

ARIZONA DEPARTMENT OF COMMERCE
Our Job is JOBS!
Procurement Office
1700 W. Washington, Ste B-32
Phoenix, Arizona 85007

NAME OF CONTRACT: 21st Century Fund Management Services

PURPOSE OF AMENDMENT:

A. Amendment 4 is issued pursuant to Special Terms and Conditions, Paragraph 2 Contract Renewal of the above referenced contract; the State of Arizona hereby exercises its sole option to extend the existing contract from November 16, 2008 through November 15, 2009.

B. Definitions for this Amendment:

1. Acquisition cost of equipment: The net invoice price of the equipment, including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. Other charges, such as the cost of installation, transportation, taxes, duty or protective in-transit insurance, shall be included or excluded from the unit acquisition cost in accordance with the recipient's regular accounting practices.

2. Approved project: A project approved by the Contractor pursuant to an investments budget approved by the CEDC.

3. Auditable Cash Equivalent: Equipment, tangible real or personal property, or in-kind support to offset the direct costs of an approved project.

4. Cash: United States currency

5. Cost Share: Contributions, including cash and third party in-kind, or auditable cash equivalents will be accepted as part of the Contractor's matching requirement under Sec. 7. Laws 2007, chapter 260, section 6 (as amended by Sec. 6. Laws 2008, chapter 291) when such contributions meet all of the following criteria:

   a. Are verifiable from the records of the Contractor and the sub-contractor
   b. Are not included as contributions for any other federally or State-assisted project or program.
   c. Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
   d. Are for direct costs only
   e. Are not paid by the State government under another award
   f. Matching contributions must follow the basic guidelines of factors affecting allowability of costs. Matching contributions cannot be other State funds (supplanting) and cannot be charged to more than one State program.
   g. The Contractor and its subcontractors must maintain records that clearly show the source, the amount, and the timing of all matching contributions.
   h. Matching contributions need not be applied at the exact time or in proportion of the obligation of the State funds. However, the full matching share must be obligated by the end of the fiscal year in which the State funds have been made available for obligation to the approved project

6. Direct Costs: Those costs that can be identified specifically with an approved project and which can be directly assigned to the project relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as direct costs. All costs

incurred for the same purpose in like circumstances shall be treated as direct costs.

7. Governmental investments: Cash or auditable cash equivalent contributions made to the non-profit by an agency of the United States or other foreign government, a tribal government, a state government other than the State of Arizona, or a political subdivision of the State of Arizona to the extent allowed under Arizona law. Governmental investments do not include contributions from the State of Arizona or any state agency, board or commission.

8. In-kind support: Funds provided for a match that are in addition to and therefore, supplement funds that would otherwise be made available for the stated program purpose. The Contractor and its subcontractors shall provide sufficient documentation to demonstrate that the match is indeed being provided to supplement the program for which the funds are being provided.

9. Third-party: Private, philanthropic or governmental entities providing cash, auditable cash equivalent or in-support to the Contractor or its sub-contractors.

C. Amendment 4 is issued pursuant to by Sec. 6. Laws 2008, chapter 291 requiring certain changes to the Contract as follows:

1. $22,500,000 is appropriated form the state general fund in 2008-2009. Thereafter, $25,000,000 for 2009-2010, $27,500.000 for 2010-2011.

2. The following documentation shall be provided by private, philanthropic or governmental entities prohibited by their governing documents from making cash contributions in order for an auditable cash equivalent to be counted against the maximum of 50% cash match requirement in statute:

   a. A copy of the agreement showing both the contributing entity and SFAz as parties to an approved project consistent with the program categories identified under the agreement between SFAz and the State of Arizona;
   b. A copy of the contributing entity's organizational documents which prohibit the contribution of cash to SFAz, or a letter from a duly authorized representative of the entity attesting to and explaining the prohibition;
   c. Written proof of the value of the cash equivalent or the cost of equipment at the time of contribution; and
   d. An invoice from SFAz clearly requesting the cash equivalent counted against the 50% cash match requirement.

3. Contributions from Government Entities or any auditable cash equivalent contributions shall not constitute more than fifty percent of the match required pursuant to Sec. 6, Laws 2008, chapter 291.

D. The CEDC voted on _____ , 2008 to amend the contract as follows:

1. Approved the extension of the contract for one year for up to $22,500,000 pursuant to the budget attached as "Round 3 Investments"
2. Approved the reallocation of FY 07 and FY 08 contract monies pursuant to the "Round 3 Investments" budget attached.
3. The execution of this amendment is contingent upon Science Foundation Arizona providing the appropriate documentation to the CEDC of private, philanthropic or governmental investments equal to $22,500,000 or more for fiscal year 2008-2009. Monies under this contract will be paid out incrementally as the each cash or cash equivalent match is received or otherwise secured as part of the cost share for a written grant agreement by Science Foundation Arizona and documented by the CEDC.

E. In accordance with A.R.S. §35-397, the offeror hereby certifies that the offeror does not have scrutinized business operations in Sudan or Iran.

F. In accordance with A.R.S. §23-214, the offeror hereby certifies that the offeror is registered with and is participating in the E-Verify program.

G. All other terms and conditions remain unchanged.

CONTRACTOR:
Grant Nulle
Science Foundation Arizona
400 W. Van Buren Street
Phoenix, AZ 85004
Phone: 602 682-2800
Email: grant@sfaz.org

| | |
|---|---|
| Vendor hereby acknowledges receipt and understanding of the contract amendment. | The above referenced Contract Amendment is hereby executed this Sixth Day of November, 2008 at Phoenix, Arizona. |
| 6 Nov. 08 | Martha Lynch |
| Signature Date | Martha Lynch<br>Director Purchasing Services |
| Grant Nulle Director of Finance | |
| Typed Name and Title | |

Round 3 Investments

**Year 3-FY09**
**Science Foundation Arizona**
**21st Century Fund Investment Budget**

| Program | Expenditure Plan | % Share Total Budget |
|---|---|---|
| Competitive Advantage Awards (CAA) | $0 | 0.0% |
| Small Business Catalytic (SBC)* | $2,100,000 | 9.3% |
| Graduate Research Fellowships (GRF)** | $2,200,000 | 9.8% |
| K-12 Student & Teachers (K-12 S&T) | $0 | 0.0% |
| Strategic Research Groups (SRG)*** | $17,500,000 | 77.8% |
| Review/Mgmt. | $700,000 | 3.1% |
| **Totals** | $22,500,000 | 100.0% |

*SBC Designed Similar to SBIR/STTR; Existing Small Business Collaborates w/ Research Institution on Product R&D (Product Accelerator); must include Industry/Venture Capital Match

**Includes Funding for 25 Fellowships, Principally or Entirely Engineering

***SRG Program to include monies for Graduate Fellowships selected by PI or Industry Partner on the project; provides industry exposure for the Grad Fellows and potential Industry Matching Monies

# Science Foundation Arizona
# FY 2009 Match Inventory

27 Oct. 08

| Source | Total FY 09 $ | Industry $ | Philanthropic $ | Governmental $ |
|---|---|---|---|---|
| | | | | |
| **I. Industry/Philanthropic Cash Directly to SFAz** | | | | |
| | | | | |
| IPP/NAU Wind Energy Project | $13,074,500 | $13,074,500 | 0 | 0 |
| HTG/Ventana/BIO5 Genomics Project (Supplemental | $837,272 | $837,272 | 0 | 0 |
| Freeport/BoA/JPMorgan/City of Phoenix | $635,000 | 0 | $535,000 | $100,000 |
| Philecology Foundation/Biosphere 2 Teach Ctr. | $440,000 | | $440,000 | 0 |
| DMB Associates/ASU Aerospace Project | $25,000 | $25,000 | 0 | 0 |
| | | | | |
| Subtotal-Cash Matches | $15,011,772 | $13,936,772 | $975,000 | $100,000 |
| | | | | |
| **II. Cash Equivalent Qualifiying as Cash Match** | | | | |
| | | | | |
| Pharmaceutical Consortium/C-Path | $4,570,190 | $4,570,190 | 0 | 0 |
| Ventana Medical/C-Path | $1,475,364 | $1,475,364 | 0 | 0 |
| Raytheon/UofA Solar Project | $365,000 | $365,000 | 0 | 0 |
| Raytheon/ASU Multi-Core Computing | $998,500 | $998,500 | 0 | 0 |
| Raytheon/UofA Cancer Project | $405,892 | $405,892 | 0 | 0 |
| Raytheon Data Provenance/UofA | $371,760 | $371,760 | 0 | 0 |
| | | | | |
| Subtotal-Cash Equivalent Qualifying as Cash | $8,186,706 | $8,186,706 | $0 | $0 |
| | | | | |
| **III. Cash Equivalent (Cash directly to Research Entity)** | | | | |
| | | | | |
| Freeport McMoran et al Sustainable Mining | $1,468,000 | $1,468,000 | 0 | 0 |
| Heliae, LLC/ASU Jet Fuel Project | $866,339 | $866,339 | 0 | 0 |
| British Petroleum/ASU Biofuel Project | $842,786 | $842,786 | 0 | 0 |
| Intel, ERC, ASM America, SEZ/Nano-Manufacturing | $399,500 | $399,500 | 0 | 0 |
| | | | | |
| Subtotal- Cash Equivalent (Cash direct to research) | $3,576,625 | $3,576,625 | $0 | $0 |
| | | | | |
| **IV. Cash Equivalent (Performance of Internal R&D)** | | | | |
| | | | | |
| HTG/BIO5 Chemical Genomics | $1,047,250 | $1,047,250 | 0 | 0 |
| Ameripath/IGC/Pharma Ind. Collaborators | $908,561 | $722,297 | 0 | $186,264 |
| Breault Research Organizaztion/UofA Optics | $600,800 | $600,800 | 0 | 0 |
| UI/Calif. Energy Commission Solar Project | $215,300 | | 0 | $215,300 |
| SEZ/ASM America Sustainable Nano-Manufacturing | $80,000 | $80,000 | 0 | 0 |
| N. Ariz Center for Emerging Technologies, Inc. | $58,355 | | $58,355 | |
| | | | | |
| Subtotal- Cash Equivalent (Internal R&D) | $2,910,266 | $2,450,347 | $58,355 | $401,564 |
| | | | | |
| | | | | |
| **Total Cash to SFAz Matches** | **$15,011,772** | $13,936,772 | $975,000 | $100,000 |
| **Total Cash Equivalent Qualifying as Cash** | **$8,186,706** | $8,186,706 | $0 | $0 |
| **Total Cash Equiv. Direct to Research Entity** | **$3,576,625** | $3,576,625 | $0 | $0 |
| **Total Cash Equiv. Performance of Internal R&D** | **$2,910,266** | $2,450,347 | $58,355 | $401,564 |
| **Total FY09 Match-All Sources** | **$29,685,369** | $28,150,450 | $1,033,355 | $501,564 |

# Science Foundation Arizona
# FY 2009 Match Draw Down

**5 Nov. 08**

| Source | FY09 $ | Quarter Covered and Invoice Date | | |
|---|---|---|---|---|
| | | 1st & 2nd Quarters | 3rd Quarter | 4th Quarter |
| | | Invoice 11/1/08 | Invoice 12/1/08 | Invoice 3/1/09 |
| FY 09 APPROPRIATION | | | | |
| **I. Industry/Philanthropic Cash Directly to SFAz** | | | | |
| IPP/NAU Wind Energy Project | $5,889,131 | 0 | $5,889,131 | 0 |
| HTG/Ventana/BIO5 Genomics Project (Supplemental) | $837,272 | $837,272 | 0 | 0 |
| Freeport/BoA/JPMorgan/City of Phoenix | $635,000 | $635,000 | 0 | 0 |
| Philecology Foundation/Biosphere 2 Teach Ctr. | $440,000 | $440,000 | 0 | 0 |
| DMB Associates/ASU Aerospace Project | $25,000 | $25,000 | 0 | 0 |
| **Subtotal to be paid-Cash Matches** | **$7,826,403** | **$1,937,272** | **$5,889,131** | **$0** |
| | | | | |
| II. Cash Equivalent Qualifiying as Cash Match | | | | |
| Pharmaceutical Consortium/C-Path | $4,570,190 | $1,523,397 | $1,523,397 | $1,523,397 |
| Ventana Medical/C-Path | $1,475,364 | $491,788 | $491,788 | $491,788 |
| Raytheon/UofA Solar Project | $365,000 | $121,667 | $121,667 | $121,667 |
| Raytheon/ASU Multi-Core Computing | $998,500 | $332,833 | $332,833 | $332,833 |
| Raytheon/UofA Cancer Project | $405,892 | $135,297 | $135,297 | $135,297 |
| Raytheon Data Provenance/UofA | $371,760 | $123,920 | $123,920 | $123,920 |
| **Subtotal to be paid-Cash Equivalent Qualifying as Cash** | **$8,186,706** | **$2,728,902** | **$2,728,902** | **$2,728,902** |
| | | | | |
| III. Cash Equivalent (Cash directly to Research Entity) | | | | |
| Freeport McMoran et al Sustainable Mining | $1,468,000 | $489,333 | $489,333 | $489,333 |
| Heliae, LLC/ASU Jet Fuel Project | $866,339 | $288,780 | $288,780 | $288,780 |
| British Petroleum/ASU Biofuel Project | $842,786 | $280,929 | $280,929 | $280,929 |
| Intel, ERC, ASM America, SEZ/Nano-Manufacturing | $399,500 | $133,167 | $133,167 | $133,167 |
| **Subtotal to be paid- Cash Equivalent (Cash direct to research)** | **$3,576,625** | **$1,192,208** | **$1,192,208** | **$1,192,208** |

# Science Foundation Arizona
# FY 2009 Match Draw Down

5 Nov. 08

| Source | FY09 $ | Quarter Covered and Invoice Date | | |
|---|---|---|---|---|
| | | 1st & 2nd Quarters | 3rd Quarter | 4th Quarter |
| | | Invoice 11/1/08 | Invoice 12/1/08 | Invoice 3/1/09 |
| IV. Cash Equivalent (Performance of Internal R&D) | | | | |
| HTG/BIO5 Chemical Genomics | $1,047,250 | $349,083 | $349,083.33 | $349,083.33 |
| Ameripath/IGC/Pharma Ind. Collaborators | $908,561 | $302,854 | $302,853.67 | $302,853.67 |
| Breault Research Organizaztion/UofA Optics | $600,800 | $200,267 | $200,266.67 | $200,266.67 |
| UI/Calif. Energy Commission Solar Project | $215,300 | $71,767 | $71,766.67 | $71,766.67 |
| SEZ/ASM America Sustainable Nano-Manufacturing | $80,000 | $26,667 | $26,666.67 | $26,666.67 |
| N. Ariz Center for Emerging Technologies, Inc. | $58,355 | $19,452 | $19,451.67 | $19,451.67 |
| **Subtotal to be paid-Cash Equivalent (Internal R&D)** | **$2,910,266** | **$970,089** | **$970,089** | **$970,089** |
| | | | | |
| Total Cash to SFAz Matches | $7,826,403 | $1,937,272 | $5,889,131 | $0 |
| Total Cash Equivalent Qualifying as Cash | $8,186,706 | $2,728,902 | $2,728,902 | $2,728,902 |
| Total Cash Equiv. Direct to Research Entity | $3,576,625 | $1,192,208 | $1,192,208 | $1,192,208 |
| Total Cash Equiv. Performance of Internal R&D | $2,910,266 | $970,089 | $970,089 | $970,089 |
| Total FY09 Match-All Sources | $22,500,000 | $6,828,471 | $10,780,330 | $4,891,199 |
| **Total FY 09 Funds Invoice Amount for this Quarter** | **NA** | **$6,828,471** | **$10,780,330** | **$4,891,199** |
| | | | | |
| FY 07 APPROPRIATION | | | | |
| FY 07 Projects (No Match Required) | | | | |
| Final pay out on projects awarded FY 07 | 7,600,000 | 3,000,000 | 3,000,000 | 1,694,593 |
| **Total FY 07 Funds Invoice Amount for this Quarter** | **NA** | **3,000,000** | **3,000,000** | **1,694,593** |
| | | | | |
| **TOTAL (FYS 09 AND 07) INVOICE AMOUNT THIS QUARTER** | | **9,828,471** | **13,780,330** | **6,585,792** |
| | | | | |

STATE OF ARIZONA

# Joint Legislative Budget Committee

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PETE RIOS
STEVE YARBROUGH

DATE: December 12, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Juan Beltran, Fiscal Analyst

SUBJECT: Department of Revenue - Review of FY 2009 Data Center Expenditure Plan

**Request**

Pursuant to the FY 2009 Revenue Budget Reconciliation Bill (BRB) (Laws 2008, Chapter 290), the Department of Revenue (DOR) requests Committee review of their FY 2009 Data Center expenditure plan. DOR may utilize up to $1,570,000 of General Fund revenue for pay for expenses associated with the operation and relocation of a new Data Center. The BRB requires DOR to seek Committee review of the expenditure plan prior to any expenditure.

**Recommendation**

The Committee has at least the following 2 options:

1. A favorable review of the proposed $1.2 million expenditure plan.

2. An unfavorable review.

If this funding is retained in the FY 2010 budget, the JLBC Staff recommends that the project be funded by a direct appropriation rather than through the diversion of General Fund revenue.

**Analysis**

A Production Data Center (PDC) provides a physical facility to house the computer system servers that store electronic data and it also provides the technical support needed to manage that data. The Business Reengineering/Integrated Tax System (BRITS) Tax Administration System was housed and operated in a PDC maintained by AT&T under contract with Accenture. The BRITS system is currently being paid for through a gain-sharing arrangement, which pays the vendor 85% of tax enforcement revenues above an established baseline amount off the top of General Fund revenues. The state receives the remaining 15%. The data housing contract amendment, which started on October 1, 2007 and was extended through November 10, 2008, was paid for through this revenue sharing agreement between DOR and Accenture. DOR reports that the total cost of this contract was $2.6 million.

(Continued)

Effective November 10, 2008, DOR contracted with a new vendor for data housing services and relocated the existing PDC from Mesa to Tempe. DOR estimates the contract will cost $1.2 million for the remaining 7.5 months of FY 2009, from November 10, 2008 to June 30, 2009. According to DOR, their Information Technology division is not currently staffed to handle the support and production maintenance requirements for the BRITS environment and supporting infrastructure. *Table 1* details the components of the Data Center expenditure plan for the remainder of FY 2009.

**Table 1**

**FY 2009 Data Center Expenditure Plan**

| | |
|---|---|
| Server Hosting | $ 583,700 |
| Technical Support Services | 329,900 |
| Relocation Costs | 180,000 |
| Telecommunications (AZNET) | 83,600 |
| Data Backup and Retention | 14,500 |
| **Total** | **$1,191,700** |

*ITAC Review*

The Information Technology Authorization Committee (ITAC) is the Government Information Technology Agency's (GITA) oversight committee, which reviews and approves information technology projects with development costs over $1 million.

At its August 22, 2007 meeting, ITAC approved DOR's PDC relocation. The contract cost appears to be within ITAC's approved expenditure level.

RS/JB:sls

**STATE OF ARIZONA**
*Department of Revenue*
*Office of the Director*
*(602) 716-6090*

*Janet Napolitano*
**Governor**

*Gale Garriott*
**Director**

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JOINT BUDGET COMMITTEE

December 2, 2008

The Honorable Robert Burns
Chairman - Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Burns:

The Department of Revenue respectfully requests to be placed on the Joint Legislative Budget Committee's December agenda.

Laws 2008, Chapter 290, Section 10 states, "Notwithstanding any other law, the department of revenue may utilize up to $1,570,000 of general fund revenue deposits to pay data center charges after review of an expenditure plan by the joint legislative budget committee."

Please refer to Attachment A for the FY 2009 proposed expenditure plan.

I hope this information has been helpful and if you have any questions regarding this response, please contact Reed Spangler at 716-6883.

Sincerely,

Kristine Ward
Deputy Director – Arizona Department of Revenue

Cc: Representative Russell Pearce
Richard Stavneak – Director JLBC
James Apperson – Director OSPB
Marcel Benberou – OSPB
Juan Beltran - JLBC

## Attachment A

| Cost Item | FY 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Nov-08 | Dec-08 | Jan-09 | Feb-09 | Mar-09 | Apr-09 | May-09 | Jun-09 | FY 2009 TOTAL |
| ***One Time Relocation Costs*** | $110,000 | | | | $70,000 | | | | ***$180,000*** |
| ***Server Hosting*** | $53,760 | $53,760 | $53,760 | $53,760 | $92,160 | $92,160 | $92,160 | $92,160 | ***$583,680*** |
| ***Telecommunications (AZNET)*** | $10,455 | $10,455 | $10,455 | $10,455 | $10,455 | $10,455 | $10,455 | $10,455 | ***$83,640*** |
| ***Technical Support Services*** | $15,625 | $26,000 | $37,625 | $52,625 | $54,375 | $57,875 | $42,875 | $42,875 | ***$329,875*** |
| ***Data Backup and Retention*** | $0 | $1,270 | $1,270 | $1,270 | $3,880 | $2,270 | $2,270 | $2,270 | ***$14,500*** |
| **GRAND TOTAL - COSTS** | ***$189,840*** | ***$91,485*** | ***$103,110*** | ***$118,110*** | ***$230,870*** | ***$162,760*** | ***$147,760*** | ***$147,760*** | **$1,191,695** |

STATE OF ARIZONA

# Joint Legislative Budget Committee

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PETE RIOS
STEVE YARBROUGH

DATE: December 12, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Juan Beltran, Fiscal Analyst

SUBJECT: Department of Revenue - Review of FY 2009 General Fund Revenue Enforcement Goals

**Request**

Pursuant to a General Appropriation Act footnote, the Department of Revenue (DOR) requests review of its General Fund revenue enforcement goals for FY 2009. DOR is required to report by July 31, 2008 on their FY 2009 goals, and to provide an annual progress report to the Committee as to the effectiveness of the department's overall enforcement and collections program for FY 2008.

**Summary**

DOR's General Fund FY 2009 revenue enforcement goal is $361.3 million, which is $(29.4) million, or (7.5)%, below FY 2008 actual collections. According to DOR, these targets were based on the assumption that they would not have any mid-year budget reductions.

DOR calculated their FY 2009 goals by taking the average of actual collections over the past 3 years and then incorporating a recessionary factor of (2.6)% for collections, (6.1)% for audit, and (13.2)% for accounts receivables into the estimate. Compared to actual FY 2008 General Fund enforcement revenue, DOR's FY 2009 goals consist of:

- A decrease in audit revenue of $(12.7) million.
- A decrease in collections revenue of $(20.2) million.
- An increase in accounts receivables revenues of $3.5 million.

**Recommendation**

The Committee has at least the following 2 options:

1. A favorable review since, as required, the report provides information on DOR's General Fund revenue enforcement goals for FY 2009.

(Continued)

2. An unfavorable review, since DOR's overall General Fund revenue enforcement goal of $361.3 million for FY 2009 is $(29.4) million, or (7.5)% below their FY 2008 actual General Fund revenue enforcement collections of $390.7 million.

Under either option, JLBC Staff recommends that DOR continue to report license compliance and transaction privilege tax as separate items for FY 2010, since each program produces a significant dollar amount of audit revenue.

**Analysis**

The following table compares DOR's General Fund revenue enforcement goals for FY 2009 to their goals and results for FY 2008.

**DOR's General Fund Enforcement Revenue Goals in FY 2009**
**Compared to FY 2008 (Net of Duplications)**

| | FY 2008 Goals | FY 2008 Actual | FY 2009 Goals |
|---|---|---|---|
| Audit Division | | | |
| Corporate Tax | $ 26,681,400 | $ 29,590,500 | $ 30,010,800 |
| Nexus [1/] | 16,038,000 | 24,008,600 | 21,021,100 |
| Individual Tax | 6,737,200 | 9,570,300 | 10,204,100 |
| Transaction Privilege Tax | 12,835,200 | 20,731,000 | 17,180,200 |
| Luxury Tax | 594,000 | 1,030,700 | 432,100 |
| Discovery [2/] | 1,900,800 | 2,254,800 | 2,509,100 |
| License Compliance | 30,149,900 | 29,877,900 | 22,981,000 |
| Subtotal | 94,936,500 | 117,063,800 | 104,338,400 |
| Collections | 212,127,500 | 191,629,900 | 171,435,900 |
| Accounts Receivable [3/] | 62,699,300 | 82,012,200 | 85,562,900 |
| **Total:** | **$369,763,300** | **$390,705,900** | **$361,337,200** |

1/ The Nexus program is part of corporate audit, which locates out-of-state businesses with an Arizona business presence that are not paying Arizona corporate income tax.
2/ Discovery revenue is DOR's term for additional revenue attributed to BRITS, which can be traced to specific taxpayers.
3/ Taxpayer accounts paid before they would have been moved to collections, which allows collectors to work on other accounts.

The 3 main categories of enforcement revenue are audit, collections, and accounts receivable. Audit enforcement revenue includes revenue due to DOR's auditing of taxpayer returns, and finding and licensing unlicensed businesses. Accounts receivable revenue includes taxpayer accounts paid before they would have been moved to collections, which allows DOR's collectors to work on other accounts. After certain periods of time, unpaid taxpayer accounts are moved from accounts receivable to DOR's Collections Section.

RS/JB:sls

# STATE OF ARIZONA

*Department of Revenue*
*Office of the Director*
*(602) 716-6090*


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JOINT BUDGET COMMITTEE

*Janet Napolitano*
**Governor**

*Gale Garriott*
**Director**

November 13, 2008

The Honorable Robert Burns
Chairman - Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Burns:

When examined in the light of the current economic slowdown, the Department of Revenue's FY 2008 Revenue Enforcement Program produced outstanding results. To begin with, the Department increased its annual enforcement objective for FY 2008 by $63.7 million. Even after that significant increase and in spite of the difficult economic climate, the Revenue Enforcement efforts generated $556,416,687 (or 106.0% of the goal) and exceeded the FY 2008 objectives by $31.7 million.

Due to numerous economic and demographic changes, projecting enforcement revenues for FY 2009 is very difficult. After many hours of discussion, the methodology used by the Department was to establish initial revenue objectives based on actual collections over the past three years and then to apply an historical "recession factor" (Collections = -2.6%, Audit = -6.1%, Accounts Receivable = -13.2%) to discount the initial estimates and arrive at the final enforcement objectives. For fiscal year 2008-2009 the Department's Net Enforcement Objectives are (please see Attachment A for a General Fund breakdown of these numbers):

| | | |
|---|---|---|
| Audit Division | | |
| Transaction Privilege Tax - | $ 28,922,802 | |
| License Compliance - | $ 33,042,428 | |
| Individual Income Tax - | $ 10,204,101 | |
| Corporate Income - | $ 30,010,746 | |
| Nexus - | $ 35,388,990 | |
| Discovery - | $ 4,224,150 | |
| Luxury Tax - | $ 727,493 | |
| Audit Division Total | | $ 142,520,710 |
| Collections Division | | $ 246,493,088 |
| Accounts Receivable | | $ 123,023,640 |
| **FY 2009 Revenue Enforcement Goals** | | **$ 512,037,438** |

These targets are based on the assumption that the Department will not have any budget reductions affecting its revenue generating positions. Similarly, these estimates do not contemplate any increase in revenue as a result of implementing any new revenue generating programs. Any new revenue generating programs initiated during FY 2009 would be in addition to these goals.

For FY 2009, the Department will continue to report TPT and License Compliance revenues separately, but the Department would respectively request again that these two items be combined into one revenue line starting in FY 2010. To explain, the License Compliance Unit consists of desk auditors who focus on licensing unlicensed TPT taxpayers. Revenues generated by this unit were reported separately several years ago because, at that time, the unit was located (erroneously) in the Taxpayer Services Division, not the Audit Division. Because the unit performs audits, however, it was appropriate to move them into the Audit Division, which was done. Because the unit conducts TPT audits, it is appropriate to include those dollars with TPT revenues. Continuing to report License Compliance revenues on a line separate from the TPT line serves no useful purpose as far as we can tell.

These are difficult economic times and the Department has made a significant effort to reconcile the Revenue Enforcement Program's estimates with the current economic climate. I appreciate Representative Pearce's, JLBC's and your patience as we have taken longer than usual to provide the Department's FY 2009 estimates. I hope this information has been helpful and if you have any questions regarding this response, please contact Reed Spangler at 716-6883.

Sincerely,

Gale Garriott
Director

cc: Representative Russell Pearce
Richard Stavneak – Director JLBC
Jim Apperson – Director OSPB
Juan Beltran – JLBC
Marcel Benberou – OSPB

## Attachment A

**FY 2009 Revenue Enforcement Goals – General Fund**

| | | |
|---|---|---|
| Audit Division | | |
| Transaction Privilege Tax - | $ 17,180,141 | |
| License Compliance - | $ 22,981,011 | |
| Individual Income Tax - | $ 10,204,104 | |
| Corporate Income - | $ 30,010,746 | |
| Nexus - | $ 21,021,056 | |
| Discovery - | $ 2,509,139 | |
| Luxury Tax - | $ 432,130 | |
| Audit Division Total | | $ 104,338,322 |
| Collections Division | | $ 171,435,934 |
| Accounts Receivable | | $ 85,562,942 |
| **FY 2009 Revenue Enforcement Goals** | | **$ 361,337,198** |

Arizona Department of Revenue
Enforcement Revenues Net of Duplication
For FY2008
Month of June, 2008

## GENERAL FUND ENFORCEMENT REPORT

*4 QTR FY08*

| SOURCE OF REVENUE | Month of June, 2008 Actual | Month of June, 2008 Actual GF | Month of June, 2008 Objective | Month of June, 2008 Objective GF | YTD Actual | YTD Actual GF | YTD Objective | YTD Objective GF | % YTD Objective Reached | % Objective Reached |
|---|---|---|---|---|---|---|---|---|---|---|
| **GROSS REVENUE** | | | | | | | | | | |
| Collections | $ 19,934,969 | $ 13,864,771 | $ 25,416,667 | $ 17,677,292 | $ 275,528,300 | $ 191,629,933 | $ 305,000,000 | $ 212,127,500 | 90.34% | 90.34% |
| Individual Income Tax Audit | $ 1,583,852 | $ 1,583,852 | $ 916,666 | $ 916,666 | $ 17,381,777 | $ 17,381,777 | $ 11,000,000 | $ 11,000,000 | 158.02% | 158.02% |
| Corporate Audit | $ 3,315,624 | $ 3,315,624 | $ 2,250,000 | $ 2,250,000 | $ 31,017,967 | $ 31,017,967 | $ 27,000,000 | $ 27,000,000 | 114.88% | 114.88% |
| Transaction Privilege Tax Audit | $ 2,611,506 | $ 1,551,235 | $ 2,250,000 | $ 1,336,500 | $ 41,474,961 | $ 24,636,127 | $ 27,000,000 | $ 16,038,000 | 153.61% | 153.61% |
| License Compliance | $ 3,219,668 | $ 2,239,279 | $ 4,166,667 | $ 2,897,917 | $ 48,439,011 | $ 33,689,332 | $ 50,000,000 | $ 34,775,000 | 96.88% | 96.88% |
| Special Taxes: Nexus | $ 4,441,074 | $ 2,637,998 | $ 2,250,000 | $ 1,336,500 | $ 40,418,553 | $ 24,008,620 | $ 27,000,000 | $ 16,038,000 | 149.70% | 149.70% |
| Discovery | $ 749,323 | $ 445,098 | $ 266,667 | $ 158,400 | $ 3,795,998 | $ 2,254,823 | $ 3,200,000 | $ 1,900,800 | 118.62% | 118.62% |
| Luxury Tax | $ 1,507,179 | $ 895,264 | $ 83,333 | $ 49,500 | $ 1,735,113 | $ 1,030,657 | $ 1,000,000 | $ 594,000 | 173.51% | 173.51% |
| Accounts Receivable | $ 9,091,104 | $ 6,322,863 | $ 7,512,500 | $ 5,224,944 | $ 117,918,382 | $ 82,012,235 | $ 90,150,000 | $ 62,699,325 | 130.80% | 130.80% |
| **SUBTOTAL** | **$ 46,454,299** | **$ 32,855,984** | **$ 45,112,500** | **$ 31,847,719** | **$ 577,710,062** | **$ 407,661,471** | **$ 541,350,000** | **$ 382,172,625** | **106.72%** | **106.67%** |
| **Less: Duplications:** | | | | | | | | | | |
| Collections | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | | |
| Individual | $ 1,121,933 | $ 1,121,933 | $ 355,236 | $ 355,236 | $ 7,811,518 | $ 7,811,518 | $ 4,262,832 | $ 4,262,832 | 183.25% | 183.25% |
| Corporate | $ 20,713 | $ 20,713 | $ 26,550 | $ 26,550 | $ 1,427,467 | $ 1,427,467 | $ 318,600 | $ 318,600 | 448.04% | 448.04% |
| TPT | $ 426,040 | $ 253,068 | $ 449,325 | $ 266,899 | $ 6,574,210 | $ 3,905,081 | $ 5,391,900 | $ 3,202,789 | 121.93% | 121.93% |
| License Compliance | $ 428,215 | $ 254,360 | $ 554,166 | $ 329,175 | $ 5,480,174 | $ 3,255,223 | $ 6,649,992 | $ 3,950,095 | 82.41% | 82.41% |
| Nexus | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | | |
| Discovery | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | | |
| Luxury Tax | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | | |
| Accounts Receivable | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | | |
| **SUBTOTAL** | **$ 1,996,901** | **$ 1,650,073** | **$ 1,385,277** | **$ 977,860** | **$ 21,293,369** | **$ 16,399,289** | **$ 16,623,324** | **$ 11,734,316** | **128.09%** | **139.75%** |
| **REVENUE NET OF DUPLICATIONS** | | | | | | | | | | |
| Collections | $ 19,934,969 | $ 13,864,771 | $ 25,416,667 | $ 17,677,292 | $ 275,528,300 | $ 191,629,933 | $ 305,000,000 | $ 212,127,500 | 90.34% | 90.34% |
| Individual Income Tax Audit | $ 461,919 | $ 461,919 | $ 561,430 | $ 561,430 | $ 9,570,259 | $ 9,570,259 | $ 6,737,160 | $ 6,737,160 | 142.05% | 142.05% |
| Corporate Audit | $ 3,294,911 | $ 3,294,911 | $ 2,223,450 | $ 2,223,450 | $ 29,590,500 | $ 29,590,500 | $ 26,681,400 | $ 26,681,400 | 110.90% | 110.90% |
| Transaction Privilege Tax Audit | $ 2,185,466 | $ 1,298,167 | $ 1,800,675 | $ 1,069,601 | $ 34,900,751 | $ 20,731,046 | $ 21,608,100 | $ 12,835,211 | 161.52% | 161.52% |
| License Compliance | $ 2,791,453 | $ 1,941,456 | $ 3,612,501 | $ 2,512,494 | $ 42,958,837 | $ 29,877,871 | $ 43,350,012 | $ 30,149,933 | 99.10% | 99.10% |
| Special Taxes: Nexus | $ 4,441,074 | $ 2,637,998 | $ 2,250,000 | $ 1,336,500 | $ 40,418,553 | $ 24,008,620 | $ 27,000,000 | $ 16,038,000 | 149.70% | 149.70% |
| Discovery | $ 749,323 | $ 445,098 | $ 266,667 | $ 158,400 | $ 3,795,998 | $ 2,254,823 | $ 3,200,000 | $ 1,900,800 | 118.62% | 118.62% |
| Luxury Tax | $ 1,507,179 | $ 895,264 | $ 83,333 | $ 49,500 | $ 1,735,113 | $ 1,030,657 | $ 1,000,000 | $ 594,000 | 173.51% | 173.51% |
| Accounts Receivable | $ 9,091,104 | $ 6,322,863 | $ 7,512,500 | $ 5,224,944 | $ 117,918,382 | $ 82,012,235 | $ 90,150,000 | $ 62,699,325 | 130.80% | 130.80% |
| **TOTAL COLLECTION REVENUE** | **$ 44,457,398** | **$ 31,162,446** | **$ 43,727,223** | **$ 30,813,611** | **$ 556,416,685** | **$ 390,705,944** | **$ 524,726,672** | **$ 369,763,330** | **106.04%** | **105.66%** |
| **TOTAL REVENUE** | **$ 44,457,398** | **$ 31,162,446** | **$ 43,727,223** | **$ 30,813,611** | **$ 556,416,685** | **$ 390,705,944** | **$ 524,726,672** | **$ 369,763,330** | **106.04%** | **105.66%** |

STATE OF ARIZONA

# Joint Legislative Budget Committee

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PETE RIOS
STEVE YARBROUGH

DATE: December 18, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Dan Hunting, Fiscal Analyst

SUBJECT: Department of Environmental Quality - Review of Water Quality Permit Processing Times

**Request**

Pursuant to a General Appropriation Act footnote (Laws 2007, Chapter 255), the Department of Environmental Quality (DEQ) has submitted for review a report documenting water quality permit processing times for FY 2008 and projected estimates for FY 2009.

**Recommendation**

The Committee has at least the following options:

1. A favorable review of the request.
2. An unfavorable review of the request.

**Analysis**

Laws 2007, Chapter 255, required DEQ to submit a report on water quality permit processing times for FY 2008 and projected totals for FY 2009. This report was also required to include the total number of staff hours and total costs to process water quality permits, and the progress made in reducing permit processing times. In FY 2009, DEQ's Water programs were appropriated a total of $12.5 million, an amount unchanged from FY 2008.

<u>FY 2008</u>
In FY 2008, the department received a total of 2,127 water quality permit applications, a decrease of (27)% from FY 2007. Of 45 permit types listed, on average DEQ met the Licensing Timeframe (LTF) for all but 2 permit types. These 2 permit types are for individual Aquifer Protection Permits requiring a public hearing. The 3 permits issued in these 2 categories exceeded the allowed timeframe by an average

(Continued)

of 38 days. While the average processing time exceeded the licensing deadline for only 2 permit categories, ADEQ exceeded the deadline for at least 1 permit in 6 categories.

FY 2009

The department received a total of 531 applications during the period of July 1 to October 31, 2008. Last year's report show 1,216 permits received between July 1 and November 30, 2007. The department is projecting average time for all types of permits will be within the specified permit processing timeframe.

For all of FY 2009, the department projects it will receive 497 fewer water permit applications than the previous year, a decrease of (23.4)%. Total costs of processing permits are expected to decrease by $(434,200), or (7.2)%. As the decrease in the number of applications is projected to be significantly greater then the decrease in total processing costs, the average cost per permit is projected to increase 21.1% over FY 2008. At the same time, the average number of staff hours required to process these permits is expected to increase by 23.3% in FY 2009. The table below contains actual permit information for FY 2008 and projected information for FY 2009.

**Water Quality Permits**

| | Applications | Staff Hours | Average Hours Per Permit | Staff Costs | Average Cost Per Permit |
|---|---|---|---|---|---|
| FY 2008 | 2,127 | 118,704 | 55.8 | $6,041,000 | $2,800 |
| FY 2009 (est.) | 1,630 | 112,136 | 68.8 | 5,606,800 | 3,400 |
| **Total** | **3,757** | **230,840** | **61.4** | **$11,647,800** | **$3,100** |

RS/DH:ss

Janet Napolitano
Governor

# ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.azdeq.gov

Stephen A. Owens
Director

December 11, 2008

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JOINT BUDGET COMMITTEE

President-elect Robert L. Burns
Chair, Senate Appropriations Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Russell K. Pearce, Chair
House Appropriations Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Re: Report on Water Quality Permitting for FY2007-2008

Dear Chairman Burns and Chairman Pearce:

In accordance with House Bill 2781, Chapter 255, Section 31, Forty-eighth Legislature, First Regular Session (2007), the Department of Environmental Quality (ADEQ) is submitting a written report on the Water Quality Permitting Program for review by the Joint Legislative Budget Committee. The Report and associated attachments are enclosed. The report provides information on the water quality permit processing times, staff hours and total costs devoted to water quality permit processing for fiscal year 2007-2008 and projected figures for fiscal year 2008-2009.

Despite the recent slowdown in the real estate market throughout the state, the Department continues to process water quality permits for developments in process or in anticipation of the market turnaround. Since public reports, lots sales, construction and other development activities cannot occur without these approvals, adequate staffing and resources are critical to the Department being able to meet the demand.

If I can provide you with any further information or if you have any questions, please feel free to contact me at 602-771-2203.

Sincerely,

Stephen A. Owens
Director

cc: Richard Stavneak, Director, JLBC
James Apperson, Director, OSPB
Dan Hunting, Analyst, JLBC
Marcel Benberou, Analyst, OSPB

Water Quality Permit Processing Times Report
December 2008

ADEQ
Arizona Department of Environmental Quality

This Report is submitted to the Joint Legislative Budget Committee in accordance with House Bill 2781, Chapter 255, Section 31, Forty-eighth Legislature, First Regular Session (2007).

This Report details maximum, minimum and average water quality permit processing times for permits issued in fiscal year 2007-2008 as reflected in the Department's AZURITE database (Schedule 1). Schedule 2 shows the total number of staff hours and total costs devoted to water quality permit processing in fiscal year 2007-2008 and projected hours and costs for fiscal year 2008-2009 based on figures for the first quarter of FY09. The fiscal year 2007-2008 information includes actual applications completed, hours and costs; fiscal year 2008-2009 information is projected based on actual figures for the first quarter of FY09 (see Schedule 3). The FY09 estimates show a reduction in staff hours and costs which are an expected result of the number of staff vacancies and the state hiring freeze.

In fiscal year 2007-2008, the Department improved average permit processing times for a number of permit categories (Schedule 1). In fact, the Department improved processing times in 21 of 36 permit categories. Specifically, the Department reduced the time frames for approvals of: subdivisions utilizing either individual wastewater treatment facilities or community wastewater treatment facilities; complex drinking water treatment facility and well construction; public and semi-public swimming pool construction; small sewer collection system design and construction; standard Type 4 general permits (applications for single Type 4 permits and applications with two or three Type 4 permits combined); Type 3 reuse permits and for APP individual permits – "individual", "significant" and "other" amendments without public hearings. Schedule 3 provides the projected processing times for FY09.

In FY08, the AZPDES program was charged by the Legislature to reduce the time spent in processing permits by 10% by December 2007, with an overall 20% reduction by June 30, 2008. The Department exceeded these goals by achieving an overall average reduction of 25.02% in the time taken to process permits as compared to the previous year. Performance measures are reported in the AZIPS Report (Schedule 5).

The engineering review program also achieved significant improvements in efficiency in reviewing construction related approvals issued in FY08 over FY07 including a 24% improvement in review times. In fact, the Legislature charged the Department with improving Drinking Water Plan Review processing times by 10% and the Department met and exceeded that goal by reducing processing times by 24.7%. While there was a drop of 38% in the total number of Approvals to Construct and Construction Authorizations (880 in FY07 versus 547 in FY08), the number of Approvals of

Construction and Discharge Authorizations (1023 in FY07 versus 1053 in FY08) remained steady. ADEQ has increased efficiency due to process improvements, staff hiring and staff training. In FY08, the Department staffed the engineering review program with 3 registered professional engineers, 2 engineers-in-training, and a certified floodplain manager, all helping to shorten review times.

The Department continues to handle a large number of inquiries regarding the status of water quality permits in process. Despite the slowdown in the real estate market throughout the state, the Department processed 2,127 water quality permits subject to licensing time frames in 2007-2008. While this represents a 26.7% reduction in the number of total permits processed in the 2007-2008 fiscal year, these approvals included major municipal treatment facilities, mining operations, and other complex industrial facilities. The Department anticipates similar numbers of permitting actions for fiscal year 2008-2009. The Department is able to meet licensing time frame requirements in nearly every permitting action and expects to continue providing efficient reviews of water quality permits.

Finally, the Department has provided in Schedule 4 a summary of the Water Quality Division's Permitting Workload for FY2007, FY2008 and projections for FY2009. This summary includes all authorizations under general permits that the Division issues as well as individual permits.

In conclusion, in FY08 the Department improved water quality permit processing times in 21 of 36 permit categories, and achieved this improvement within the Department's appropriation authority and while complying with the state wide hiring freeze.

Arizona Department of Environmental Quality
Water Quality Division
LTF Report for FY08
July 1, 2007 - June 30, 2008

| Program | License Category | Actual Applications | Allowable LTF in Working Days | Max % of Timeframe Used | Min % of Timeframe Used | Average % of Timeframe Used |
|---|---|---|---|---|---|---|
| DRINKING WATER PROGRAMS | Standard drinking water treatment facility, project and well ATC | 69 | 43 | 83.72 | 2.33 | 44.08 |
| | *Standard drinking water treatment facility, project and well ATC* | *351* | *53* | *73.58* | *0.00* | *23.90* |
| | Complex drinking water treatment facility, project and well ATC | 14 | 83 | 51.81 | 7.23 | 21.94 |
| | Standard public and semi-public swimming pool design approval | 11 | 42 | 97.62 | 11.90 | 66.23 |
| | *Standard public and semi-public swimming pool design approval* | *24* | *52* | *65.38* | *15.38* | *36.78* |
| | Complex public and semi-public swimming pool design approval | 4 | 93 | 31.18 | 6.45 | 18.28 |
| | Standard drinking water treatment facility, project or well AOC | 28 | 43 | 93.02 | 2.33 | 51.25 |
| | *Standard drinking water treatment facility, project or well AOC* | *528* | *53* | *98.11* | *0.00* | *14.25* |
| | *Complex drinking water treatment facility, project, and well AOC* | *41* | *52* | *90.38* | *0.00* | *20.92* |
| | Standard public and semi-public swimming pool AOC | 21 | 42 | 78.57 | 16.67 | 23.67 |
| | Drinking water time extension approval | 1 | 22 | 9.09 | 9.09 | 9.09 |
| | *Drinking water time extension approval* | *52* | *32* | *78.13* | *0.00* | *11.30* |
| | *Complex drinking water time extension approval* | *1* | *73* | *1.37* | *1.37* | *1.37* |
| | (NRO) Standard drinking water treatment facility, project and well ATC | 6 | 43 | 30.23 | 4.65 | 23.26 |
| | (NRO) Standard drinking water treatment facility, project and well AOC | 22 | 43 | 67.44 | 0.00 | 33.72 |
| | (SRO) Standard drinking water treatment facility, project and well AOC | 6 | 43 | 4.65 | 2.33 | 3.49 |
| | Monitoring frequency change approval | 3 | 42 | 14.29 | 0.00 | 8.73 |
| GROUNDWATER PROGRAMS | Subdivision Individual Facilities | 58 | 67 | 100.00 | 2.99 | 36.34 |
| | Subdivision Community Facilities | 132 | 58 | 98.28 | 1.72 | 26.97 |
| | *Reuse, Individual Permit, No Public Hearing* | *2* | *221* | *92.76* | *14.48* | *53.62* |
| | *Reuse, Complex Individual Permit, Public Hearing* | *1* | *329* | *25.84* | *25.84* | *25.84* |
| | Reuse, Type 3 General Permit | 10 | 81 | 23.46 | 0.00 | 3.46 |
| | Biosolid applicator registration request acknowledgment | 30 | 15 | 93.33 | 0.00 | 42.22 |
| | *APP, Complex Individual Permit, No Public Hearing* | *1* | *284* | *104.93* | *104.93* | *104.93* |
| | APP, Individual Permit, No Public Hearing | 13 | 221 | 124.89 | 49.32 | 89.07 |
| | APP, Individual Permit, Public Hearing | 2 | 266 | 120.30 | 116.92 | 118.61 |
| | APP, Individual Permit, Significant Amendment, No Public Hearing | 27 | 221 | 121.27 | 36.20 | 83.04 |
| | APP, Individual Permit, Other Amendment | 22 | 135 | 100.00 | 6.67 | 75.12 |
| | APP, Type 3 General Permit | 21 | 81 | 87.65 | 2.47 | 41.21 |
| | APP, 4.01 General Permit, Pre-Construction 300 services or less | 86 | 53 | 98.11 | 13.21 | 55.88 |
| | APP, 4.01 General Permit, Post-Construction 300 services or less | 318 | 42 | 109.52 | 0.00 | 23.63 |
| | APP, 4.01 General Permit, Pre-Construction 300 services or more | 6 | 83 | 74.70 | 61.45 | 68.27 |
| | APP, 4.01 General Permit, Post-Construction 300 services or more | 6 | 53 | 86.79 | 32.08 | 59.43 |
| | APP, Standard Single 4.02, 4.03, 4.13 and 4.14 General Permits, Pre-Construction | 14 | 42 | 90.48 | 14.29 | 38.10 |
| | APP, Standard Single 4.02, 4.03, 4.13 and 4.14 General Permits, Post-Construction | 60 | 31 | 96.77 | 0.00 | 34.62 |
| | APP, 4.23 General Permit, Pre-Construction | 2 | 83 | 73.49 | 50.66 | 62.05 |
| | APP, 4.23 General Permit, Post-Construction | 9 | 53 | 52.83 | 0.00 | 20.96 |
| | APP, Standard Combined Two or Three Type 4 General Permits, Pre-Construction | 9 | 53 | 77.36 | 30.19 | 46.36 |
| | APP, Standard Combined Two or Three Type 4 General Permits, Post-Construction | 7 | 42 | 26.19 | 0.00 | 7.74 |
| | APP, Complex Combined Four or more Type 4 General Permits, Pre-Construction | 10 | 83 | 81.93 | 7.23 | 58.55 |
| | APP, Complex Combined Four or more Type 4 General Permits, Post-Construction | 9 | 53 | 73.58 | 0.00 | 20.75 |
| SURFACE WATER | AZPDES, Individual Permit, Major Facility, No Public Hearing | 20 | 284 | 124.65 | 20.44 | 67.71 |
| | AZPDES, Individual Permit, Minor Facility, No Public Hearing | 27 | 221 | 128.96 | 19.00 | 63.48 |
| | AZPDES, Individual Permit, Major Modification, No Public Hearing | 1 | 221 | 15.84 | 15.84 | 15.84 |
| | CWA 401 state certification of a proposed CWA 404 permit | 42 | 63 | 53.97 | 0.00 | 16.18 |
| | | | | | | |
| | TOTAL | 2127 | | | | |

Note: lines in italics represent new LTF categories in FY08 or LTF categories for which no applications were processed in previous year (FY07) so no baseline was available for comparison. In FY08, the Department created, by rule, several new water quality permit LTF categories. These new categories are reported here but have no comparators in FY07.

Schedule 1

Schedule 2

Water Quality Permit Processing

| | **Total Staff Hours** | **Total Staff Costs** |
|---|---|---|
| July 1, 2007 to June 30, 2008 | 118,704 | $6,040,979 |
| July 1, 2008 to June 30, 2009 | 112,136 | $5,606,781 |
| **Totals** | **230,840** | **$11, 647,759** |

Arizona Department of Environmental Quality
Water Quality Division
LTF Report for FY08
Projected Applications for FY09
July 1, 2008 - June 30, 2009

| Program | License Category | Actual Applications as of 10/31/09 | Projected Total Applications for FY09 | Allowable LTF in Working Days | Projected Average % of Timeframe Used |
|---|---|---|---|---|---|
| DRINKING WATER PROGRAMS | Standard drinking water treatment facility, project and well ATC | 5 | 20 | 43 | 40.00 |
| | Standard drinking water treatment facility, project and well ATC | 77 | 308 | 53 | 29.77 |
| | Complex drinking water treatment facility, project and well ATC | *0* | *7* | 83 | *21.94* |
| | Standard public and semi-public swimming pool design approval | 8 | 32 | 52 | 39.18 |
| | Complex public and semi-public swimming pool design approval | *0* | *2* | 93 | *2.69* |
| | Standard drinking water treatment facility, project or well AOC | 178 | 712 | 53 | 12.42 |
| | Complex drinking water treatment facility, project, and well AOC | *0* | *20* | 52 | *20.92* |
| | Standard public and semi-public swimming pool AOC | 16 | 64 | 42 | 12.20 |
| | Complex public and semi-public swimming pool AOC | 2 | 8 | 93 | 2.69 |
| | Drinking water time extension approval | 25 | 100 | 32 | 7.38 |
| | Complex drinking water time extension approval | *0* | *1* | 73 | *1.37* |
| | (NRO) Standard drinking water treatment facility, project and well AOC | *0* | *11* | 43 | *33.72* |
| | (SRO) Standard drinking water treatment facility, project and well AOC | *0* | *3* | 43 | *3.49* |
| | Monitoring frequency change approval | *0* | *1* | 42 | *8.73* |
| GROUNDWATER PROGRAMS | Subdivision Individual Facilities | 8 | 32 | 67 | 15.86 |
| | Subdivision Community Facilities | 23 | 92 | 58 | 17.32 |
| | Reuse, Individual Permit, No Public Hearing | 1 | 4 | 221 | 94.12 |
| | Reuse, Complex Individual Permit, Public Hearing | *0* | *1* | 329 | *25.84* |
| | Reuse, Type 3 General Permit | 2 | 8 | 81 | 30.86 |
| | Biosolid applicator registration request acknowledgment | 15 | 60 | 15 | 50.22 |
| | APP, Complex Individual Permit, No Public Hearing | *0* | *1* | 284 | *100.00* |
| | APP, Individual Permit, No Public Hearing | 2 | 8 | 221 | 100.00 |
| | APP, Individual Permit, Public Hearing | *0* | *1* | 266 | *100.00* |
| | APP, Individual Permit, Significant Amendment, No Public Hearing | 7 | 28 | 221 | 77.57 |
| | APP, Individual Permit, Other Amendment | 14 | 56 | 135 | 62.59 |
| | APP, Type 3 General Permit | 8 | 32 | 81 | 25.46 |
| | APP, 4.01 General Permit, Pre-Construction 300 services or less | 25 | 32 | 53 | 50.94 |
| | APP, 4.01 General Permit, Post-Construction 300 services or less | 65 | 328 | 42 | 26.56 |
| | APP, 4.01 General Permit, Pre-Construction 300 services or more | 2 | 10 | 83 | 68.27 |
| | APP, 4.01 General Permit, Post-Construction 300 services or more | 1 | *5* | 53 | 59.43 |
| | APP, Standard Single 4.02, 4.03, 4.13 and 4.14 General Permits, Pre-Construction | 4 | 8 | 42 | 19.05 |
| | APP, Standard Single 4.02, 4.03, 4.13 and 4.14 General Permits, Post-Construction | 13 | 60 | 31 | 27.96 |
| | APP, 4.23 General Permit, Pre-Construction | *0* | *1* | 83 | *62.05* |
| | APP, 4.23 General Permit, Post-Construction | 1 | 4 | 53 | 24.53 |
| | APP, Standard Combined Two or Three Type 4 General Permits, Pre-Construction | 1 | 4 | 53 | 46.36 |
| | APP, Standard Combined Two or Three Type 4 General Permits, Post-Construction | 3 | 15 | 42 | 19.84 |
| | APP, Complex Combined Four or more Type 4 General Permits, Pre-Construction | 2 | 10 | 83 | 58.55 |
| | APP, Complex Combined Four or more Type 4 General Permits, Post-Construction | 4 | 23 | 53 | 48.11 |
| SURFACE WATER | AZPDES, Individual Permit, Major Facility, No Public Hearing | 4 | 16 | 284 | 47.80 |
| | AZPDES, Individual Permit, Minor Facility, No Public Hearing | 6 | 24 | 221 | 55.51 |
| | AZPDES, Individual Permit, Major Modification, No Public Hearing | *0* | *1* | 221 | *15.84* |
| | CWA 401 state certification of a proposed CWA 404 permit | 8 | 32 | 63 | 10.12 |
| | | | | | |
| | TOTAL | 531 | 2185 | | |

Note: Italic type font denotes that as of 10/31/08, no applications have been received in these categories. Numbers shown are estimates based on applications to date and previous year's submittals.

Schedule 3

Arizona Department of Environmental Quality
Water Quality Division Permitting Workload
December, 2008

| STORMWATER PERMITS | ACTUAL FY 2007 | ACTUAL FY 2008 | ACTUALS FOR 7/1/08 THRU 10/31/08 | ESTIMATED FY 2009 |
|---|---|---|---|---|
| **Construction Notice of Intent (NOI) applications issued for construction activities** | | | | |
| Construction Authorizations | 2909 | 4470[1] | 1228 | 3600 |
| Permit Waiver Certifications | 168 | 142 | 19 | 125 |
| Construction Notices of Termination | 3307 | 6003[1] | 947 | 1000[2] |
| **Multi-Sector General Permit (MSGP) applications issued for industrial facilities** | | | | |
| Multi-Sector Authorizations[3] | 1020 | 1007 | 976 | 1500[4] |
| No Exposure Certificates | 76 | 96 | 48 | 50 |
| **DeMinimus General Permit** | | | | |
| DeMinimus Authorizations (All types) | 298 | 254 | 30 | 200 |
| DeMinimus Notices of Termination | 224 | 165 | 56 | 200 |

[1] The 2003 Construction General Permit (CGP) expired on 2/28/08 and the 2008 Construction General Permit was issued on 2/29/08. All projects that had not been terminated by the expiration date of the 2003 CGP were granted a 120-day administrative extension to either: submit a Notice of Termination, if the project was, or would be, done by that date; or to reapply under the 2008 CGP.
[2] Reflective of the housing market slowdown for FY2009. Many projects terminated coverage in FY2008 and do not anticipate refiling for coverage until the market picks up.
[3] Total active authorizations. The EPA MSGP expired in 2005 so no new authorizations could be accepted until either EPA or ADEQ issued a new MSGP. The reduction in numbers reflects terminations of coverage.
[4] ADEQ anticipates that the Arizona MSGP will be issued in the 4th quarter of FY 2009, thus all authorized facilities will be required to reapply under the new MSGP as well as all those facilities that have been unable to obtain coverage because no permit existed in which to apply.

| | ACTUAL FY 2007 | ACTUAL FY 2008 | ACTUALS FOR 7/1/08 THRU 10/31/08 | ESTIMATED FY 2009 |
|---|---|---|---|---|
| **Total Water Quality Permits Issued** | 2902 | 2127 | 531 | 2185 |
| **AZPDES Individual Permits** [5] | | | | |
| Major Facility | 8 | 20 | 4 | 16 |
| Minor Facility | 15 | 27 | 6 | 24 |
| Major Modification | 4 | 1 | 0 | 1 |

[5] Total WQD permits includes AZPDES, APP and engineering review approvals. Engineering review approvals including drinking water and wastewater facilities and infrastructure, subdivision approvals, biosolids applicators and certifications of federal permits and licenses.

# Budget Related Performance Measures

## Department of Environmental Quality

**Program:** 1.0 ADMINISTRATION
**Contact:** Patrick J. Cunningham, Deputy Director (602) 771-2204
**2nd Contact:** Patrick J. Cunningham,
**Statute:** A.R.S. §§ 49-101 to 49-1106

| ML | Budget | Type | Performance Measure | FY 2007 Actual | FY 2008 Estimate | FY 2008 Actual | FY 2009 Estimate | FY 2010 Estimate | FY 2011 Estimate |
|---|---|---|---|---|---|---|---|---|---|
| ☑ | ☑ | QL | Percentage of statutorily set permit timelines met through License Time Frame rule. | 98.4 | 99.0 | 99.47 | 99.0 | 99.0 | 99.0 |
| ☑ | ☑ | QL | Customer satisfaction rating for citizens (scale of 1-8) | 7.84 | 7.4 | 7.7 | 7.4 | 7.4 | 7.4 |

**Subprogram:** 2.1 AIR QUALITY MANAGEMENT AND ANALYSIS
**Contact:** Nancy Wrona, Air Quality Division Director (602) 771-2308
**2nd Contact:** Nancy Wrona,
**Statute:** A.R.S. §§ 49-401 to 49-593

| ML | Budget | Type | Performance Measure | FY 2007 Actual | FY 2008 Estimate | FY 2008 Actual | FY 2009 Estimate | FY 2010 Estimate | FY 2011 Estimate |
|---|---|---|---|---|---|---|---|---|---|
| ☑ | ☑ | OC | Number of days per year exceeding National Ambient Air Quality Standards (NAAQS) for Ozone (O3), Carbon Monoxide (CO), or Particulates (PM10). | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ☑ | ☑ | OC | Number of non-attainment areas exceeding nationial ambient air quality standards. | 4 | 5 | 5 | 5 | 5 | 5 |

**Subprogram:** 3.1 WASTE CONTROL AND MANAGEMENT
**Contact:** Amanda Stone, Waste Programs Division Director (602) 771-4209
**2nd Contact:** Amanda Stone,
**Statute:** A.R.S. §§ 49-701 to 49-973

| ML | Budget | Type | Performance Measure | FY 2007 Actual | FY 2008 Estimate | FY 2008 Actual | FY 2009 Estimate | FY 2010 Estimate | FY 2011 Estimate |
|---|---|---|---|---|---|---|---|---|---|
| ☑ | ☑ | OC | Percent of contaminated sites in Waste Programs Division closed requiring no further action (cumulative) versus known universe of contaminated sites in the Waste Programs Division (cumulative) | 83.0 | 82.0 | 84.5 | 82.0 | 82.0 | 82.0 |

**Subprogram:** 4.1 UNDERGROUND WATER REGULATION
**Contact:** Joan Card, Water Quality Division Director (602) 771-2306
**2nd Contact:** Joan Card,
**Statute:** A.R.S. §§ 49-201 to 49-391

| ML | Budget | Type | Performance Measure | FY 2007 Actual | FY 2008 Estimate | FY 2008 Actual | FY 2009 Estimate | FY 2010 Estimate | FY 2011 Estimate |
|---|---|---|---|---|---|---|---|---|---|
| ☑ | ☑ | EF | Percent reduction in Aquifer protection permit processing time. Measure effective FY2009. | 0 | 0 | N/A | 15.0 | 15.0 | 15.0 |

**Subprogram:** 4.2 SURFACE WATER REGULATION
**Contact:** Joan Card, Water Quality Division Director (602) 771-2306
**2nd Contact:** Joan Card,
**Statute:** A.R.S. §§ 49-201 to 49-391

| ML | Budget | Type | Performance Measure | FY 2007 Actual | FY 2008 Estimate | FY 2008 Actual | FY 2009 Estimate | FY 2010 Estimate | FY 2011 Estimate |
|---|---|---|---|---|---|---|---|---|---|

Schedule 5

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ☑ | ☑ | EF | Percent reduction in Arizona pollutant discharge elimination system (AZDPDES) permit processing time. | 0 | 20 | 25.02 | N/A | N/A | N/A |

**Subprogram:** 4.3 DRINKING WATER REGULATION
**Contact:** Joan Card, Water Quality Division Director (602) 771-2306
**2nd Contact:** Joan Card,
**Statute:** A.R.S. §§ 49-201 to 49-391

| ML | Budget | Type | Performance Measure | FY 2007 Actual | FY 2008 Estimate | FY 2008 Actual | FY 2009 Estimate | FY 2010 Estimate | FY 2011 Estimate |
|---|---|---|---|---|---|---|---|---|---|
| ☑ | ☑ | OC | Percentage of facilities from Drinking Water Priority Log assigned to enforcement staff. | 50.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| ☑ | ☑ | EF | Percent reduction in drinking water plan review processing time. | 0 | 10.0 | 24.7 | 10.0 | 10.0 | 10.0 |