STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

STATE
SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

HOUSE OF
REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

REVISED MEETING NOTICE

DATE: Tuesday, November 28, 2000

TIME: ~~1:30 p.m.~~ 1:00 p.m.

PLACE: SENATE APPROPRIATIONS ROOM 109

TENTATIVE AGENDA

- Call to Order
- Approval of Minutes of October 19, 2000.
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- DIRECTOR'S REPORT (if necessary).

1. STATE COMPENSATION FUND - Consider Approval of Calendar Year 2001 and 2002 Budgets.

2. JOINT LEGISLATIVE BUDGET COMMITTEE
   A. Consider Approval of Year 2001-2002 Strategic Program Area Review Candidates.
   B. Report on JLBC and JLBC Staff Statutory Responsibilities.

3. STATE BOARD OF NURSING - Review of Unanticipated Costs.

4. ARIZONA DEPARTMENT OF ADMINISTRATION
   A. Consider Approval of Lodging and Meal Reimbursement Rate Expenses for In-State and Out-of-State Travel.
   B. Review of Risk Management Deductible.
   C. Report on Benefits of Preventative Maintenance Plan.

5. OFFICE OF THE ATTORNEY GENERAL - Review Allocation of Settlement Monies.

6. DEPARTMENT OF CORRECTIONS
   A. Report on Private Prison Request for Proposals.
   B. Review of Public vs. Private Prison Service Comparison Report.

7. DEPARTMENT OF ECONOMIC SECURITY - Consider Approval of Independent Living Program Data Elements.

8. AHCCCS - Report on Medically Needy Account.

9. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - Report on Emergency Allocations.

10. ARIZONA SCHOOL FOR THE DEAF AND THE BLIND - Report Intended Use of Excess Voucher Funds.

11. DEPARTMENT OF ENVIRONMENTAL QUALITY - Report on VEI RFP.

The Chairman reserves the right to set the order of the agenda.
11/20/00

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 542-5491.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

October 19, 2000

The Chairman called the meeting to order at 1:40 p.m., Thursday, October 19, 2000, in Senate Appropriations Room 109. The following were present:

Members:	Senator Gnant, Chairman	Representative Burns, Vice-Chairman
	Senator Arzberger	Representative Blewster
	Senator Cirillo	Representative Gonzales
	Senator Wettaw	Representative McGibbon
		Rresentative Weason
Absent:	Senator Bowers	Representative Daniels
	Senator Bundgaard	Representative McGrath
	Senator Jackson	Representative McLendon
	Senator Lopez	
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Gina Guarascio	Bob Hull
	Gretchen Logan	Pat Mah
	Tom Mikesell	Brad Regens
	Lynne Smith	Stefan Shepherd
	Jennifer Vermeer	
Others:	Representative Cooley	House of Representatives
	Representative Updike	House of Representatives
	Debbie Spinner	Office of the Attorney General
	Cindy Ray	Office of the Attorney General
	Greg Gemson	Appropriations Analyst, House
	Debbie Johnston	Assistant Research Director, Senate

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of September 14, 2000 Senator Gnant stated that the minutes would be approved as submitted.

Representative Burns moved that the Committee go into Executive Session. The motion carried.

At 1:40 p.m. the Joint Legislative Budget Committee went into Executive Session.

Representative Burns moved that the Committee reconvene into open session. The motion carried.
At 2:15 p.m. the Committee reconvened into open session.

Representative Burns moved that the Committee approve the recommended settlement proposals by the Attorney General's Office in the following cases.

1. Bell v. State of Arizona
2. Melendrez/Rivera v. State of Arizona (UPI, et al.)
3. State of Arizona, Dept. of Administration v. Schallock, et al

The motion carried.

DEPARTMENT OF HEALTH SERVICES (DHS)

A. Review of Capitation Rate Changes.

Mr. Richard Stavneak, Director, JLBC Staff, noted that he needed to add some additional information to what was in the memo. These are capitation rates that DHS receives for Behavioral Health Services. This item indicates it would be for capitation rates that start as of October 1, 2000. DHS is currently asking AHCCCS that it be made retroactive to July 1, which would cost an additional $287,000 above the $270,000 shown in the table. In favorably reviewing this, the Committee would need to decide to give a favorable review to either the October 1 or July 1 starting date.

Senator Cirillo moved that the Committee approve a favorable review of the Capitation Rate Changes with the effective date of July 1.

Mr. Stavneak said that is assuming they get the federal approval of a July date.

The motion carried.

B. Review of Plan to Distribute $50M for SMI Services and $20M for Children's Behavioral Health Services of Tobacco Settlement Monies.

Mr. Stavneak said that on Item 1B there is also an amendment to the JLBC Staff recommendation. We are talking about a $50M and $20M pot of money from tobacco settlement appropriated in the Special Session for Behavioral Health Services. The JLBC Staff has some details, but could use more. The JLBC Staff suggested in the memo that DHS provide that information by December. But in further discussions with them we have discovered DHS will not have that data until the end of January. So we would amend the JLBC Staff recommendation to suggest the department report back with additional information by the end of January with regard to how these services are going to be spent.

Senator Wettaw asked if the $50M is going to entail a carry-on appropriation for the following year.

Ms. Gina Guarascio, JLBC Staff, responded that the legislation clearly stated that this is a one-time appropriation.

Representative Blewster stated that she felt the Committee should not act on this item because they do not know what is going to happen with the Initiative and they are talking about the same money.

Representative Burns moved that the Committee accept the JLBC Staff recommendation of a favorable review of the SMI plan with the one exception on page 2, 2nd paragraph of the JLBC Staff memo, to change the date from December to January for the department to report back with more specific information regarding the number of housing units that will be built or purchased, as well as the number of people that will be served by each program providing specialized recovery support and vocational rehabilitation services. The motion carried.

The Children's Behavioral Health Services plan was submitted for information only; no Committee action was required.

STATE PARKS BOARD - Review Intended Use of Reservation Surcharge Monies.

Mr. Chris Earnest, JLBC Staff, said this item is a review of the expenditure plan of additional revenues to the Reservation Surcharge Revolving Fund that State Parks administers. They anticipate receiving an additional $50,000 than was originally appropriated. A footnote allows them to expend those monies upon review of JLBC and they intend to use those monies for 2 additional FTE Positions in FY 2001. The JLBC Staff recommends a favorable review.

Representative Burns moved *that the Committee give a favorable review as recommended by JLBC Staff to the State Parks Board request to expend the $50,000.* The motion carried.

DEPARTMENT OF CORRECTIONS - Reconsider Review of Private Prison Request for Proposals

Senator Gnant deferred this item until Senator Lopez could attend.

JOINT LEGISLATIVE BUDGET COMMITTEE - Consider Approval of Year 2001-2002 Strategic Program Area Review (SPAR) Candidates

Mr. Stefan Shepherd, JLBC Staff, said this relates to selecting the candidates for the SPARs for the 2001-2002 process. In the memo JLBC Staff listed the 4 SPAR candidates that received the most interest from legislators and OSPB. They have not formally made a recommendation related to those candidates in the memo.

Representative Weason asked if you would be able to look at all the agencies in the SPAR process and find out how much money is being used on administration to see if money could be saved.

Mr. Shepherd said looking at cross-agency issues, such as administrative costs, is something that could be looked at in the SPAR process.

Representative McGibbon asked what exactly needs to happen next in the selection process for SPARS.

Mr. Stavneak said if you asked us to make recommendations we would make that decision based on the interest expressed in talking with the Committee members. The 4 listed are the ones that came to the top of the list in conversations. It is very important that this list be made from member recommendations. He also noted that statute does require a SPAR to be done on the Water Quality Assurance Revolving Fund (WQARF)starting in 2002 and every 5 years thereafter. If the Committee decides not to select WQARF as a 2001-2002 SPAR candidate, JLBC Staff would recommend that legislation be introduced, either as a separate bill or as part of an Omnibus Reconciliation Bill to delay this requirement.

Representative Burns inquired about the breakdown of agencies listed in the JLBC Staff memo. He noted there are a total of 10 listed at various levels. He said if the Committee does not make a recommendation now they would have do so at some point.

Mr. Stavneak said the Committee would need to vote on candidates, however, it would not need to be at this time.

Representative Burns said he would like to see the Advertising issue moved up on this list.

Senator Gnant said that the Committee members have until November 15 to get their nominees to Mr. Stavneak. The list will be presented to the members at the next meeting to be held on November 28. Mr. Stavneak said he would facilitate that by sending a memo to the members and he would indicate the level of time expected to be spent on each one.

SCHOOL FACILITIES BOARD - Report on Deficiencies Corrections and Computer Purchases.

Senator Gnant said this would be skipped at this point.

The meeting adjourned at 2:30 p.m. due to a lack of quorum.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Senator Randall Gnant, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF
REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Rebecca Hecksel, Assistant Analyst

SUBJECT: STATE COMPENSATION FUND – CONSIDER APPROVAL OF CALENDAR YEAR 2001 AND 2002 BUDGETS

Request

In accordance with A.R.S. § 23-981E, the State Compensation Fund (SCF) budgets for Calendar Year (CY) 2001 and CY 2002 are submitted for review and approval by the Joint Legislative Budget Committee. This statute provides that the "Operating and Capital Outlay budget of the State Compensation Fund for the two ensuing calendar years, with each year separately delineated, shall be submitted for review and approval on or before October 1 of each even-numbered year by the Joint Legislative Budget Committee."

As detailed in Attachment 1, the SCF requests a budget of $46,455,600 for CY 2001. This includes an operating budget of $39,581,900 and Special Line Items that total $6,873,700. The request represents a net increase of 14% above the CY 2000 approved budget.

The SCF requests a budget of $47,929,100 for CY 2002. This includes an operating budget of $40,987,800 and Special Line Items that total $6,941,300. The request represents a net increase of 3% above the CY 2001 budget. No request for Capital Outlay has been made.

The requested amounts do not include any dividend or claims paid by the SCF.

Recommendation

The JLBC Staff recommends that the Committee approve the <u>CY 2001</u> operating budget appropriation of $46,161,900. This amount would represent an increase of $5,304,600, or 13%,

(Continued)

above CY 2000 *(See Attachment 1)*. Of the recommended increase, $3,742,300 is to replace the SCF's 9-year-old computer mainframe with one that is client-server-based and web enabled.

The recommendation also includes increased funding for replacement vehicles, salary adjustments, changes to the office structure and the elimination of (51) FTE Positions. The recommended CY 2001 FTE reduction is in addition to the reduction of (107) FTE Positions in the CY 1999 - 2000 budget. Although the SCF is anticipating a 10% growth in policyholders and a 19% growth in claims over the next three years, it has been able to reduce its employee needs by continuing to utilize new technology and by developing its team-oriented organizational structure.

The JLBC Staff recommends that the Committee approve the CY 2002 operating budget appropriation of $47,607,900. This amount represents an increase of $6,750,600, or 17%, above the existing CY 2000 budget. The SCF requires an increased appropriation level for merit salary adjustments and to continue to develop its new computer technology and organizational structure.

Attachment 2 shows the historical changes in premium and investment income, and the number of policyholders and claims.

RS:RH:ss
Attachments (2)

Attachment 1

State Compensation Fund

Donald A. Smith, Jr., President

DESCRIPTION	CY 1999 ACTUAL	CY 2000 ESTIMATE	CY 2001 REQUEST	CY 2001 JLBC	CY 2002 REQUEST	CY 2002 JLBC
PROGRAM BUDGET						
State Compensation Fund	35,789,500	33,591,100	39,581,900	39,288,200	40,987,800	40,666,600
Claim Adjustment Services SLI	2,033,000	2,366,000	1,896,100	1,896,100	1,905,000	1,905,000
Rating Bureau Fees SLI	550,900	809,800	505,600	505,600	510,000	510,000
Premium Tax SLI	2,551,500	4,000,000	4,400,000	4,400,000	4,450,000	4,450,000
Personal Property Taxes SLI	68,100	90,400	72,000	72,000	76,300	76,300
AGENCY TOTAL	**40,993,000**	**40,857,300**	**46,455,600**	**46,161,900**	**47,929,100**	**47,607,900**
OPERATING BUDGET						
Full Time Equivalent Positions	678.0	629.0	578.0	578.0	559.0	559.0
Personal Services	20,175,000	20,400,000	20,500,000	20,491,000	20,400,000	20,391,000
Employee Related Expenditures	4,276,000	5,091,000	5,180,000	5,093,300	5,154,700	5,068,000
All Other Operating Expenditures:						
Professional and Outside Services	2,314,500	1,215,400	2,426,800	2,426,800	2,777,500	2,777,500
Travel - In State	236,900	233,500	337,300	337,300	337,300	337,300
Travel - Out of State	65,500	86,100	112,000	112,000	112,000	112,000
Other Operating Expenditures	8,337,100	6,067,100	9,182,300	9,182,300	10,682,300	10,682,300
Equipment	384,500	498,000	1,843,500	1,645,500	1,524,000	1,298,500
OPERATING SUBTOTAL	35,789,500	33,591,100	39,581,900	39,288,200	40,987,800	40,666,600
Special Line Items	5,203,500	7,266,200	6,873,700	6,873,700	6,941,300	6,941,300
AGENCY TOTAL	**40,993,000**	**40,857,300**	**46,455,600**	**46,161,900**	**47,929,100**	**47,607,900**
FUND SOURCES						
State Compensation Fund	40,993,000	40,857,300	46,455,600	46,161,900	47,929,100	47,607,900
SUBTOTAL - Other Appropriated Funds	40,993,000	40,857,300	46,455,600	46,161,900	47,929,100	47,607,900
SUBTOTAL - Appropriated Funds	**40,993,000**	**40,857,300**	**46,455,600**	**46,161,900**	**47,929,100**	**47,607,900**
TOTAL - ALL SOURCES	40,993,000	40,857,300	46,455,600	46,161,900	47,929,100	47,607,900

CHANGE IN FUNDING SUMMARY	CY 2000 to CY 2001 JLBC $ Change	CY 2000 to CY 2001 JLBC % Change	CY 2000 to CY 2002 JLBC $ Change	CY 2000 to CY 2002 JLBC % Change	Biennial $ Change
Other Appropriated Funds	5,304,600	13.0%	6,750,600	16.5%	12,055,200

AGENCY DESCRIPTION — *The State Compensation Fund insures employers against liability for workers' compensation, occupational disease compensation, and medical, surgical, and hospital benefits pursuant to the provisions of Arizona and federal statutes.*

PERFORMANCE MEASURES	CY 1998 Est./Actual	CY 1999 Est./Actual	CY 2000 Estimate	CY 2001-02 Estimate
• Number of policyholders	48,000/47,848	48,500/47,936	48,000	50,000/53,000
• Number of claims processed	37,800/39,037	35,900/35,603	36,600	39,500/43,500
• Premium income (dollars in millions)	$190.0/$206.4	$165.0/$180.1	$185.0	$200.0/$212.0
• Investment income (dollars in millions)	$185.4/$166.4	$190.0/$165.3	$149.8	$148.1/$153.5

RECOMMENDED CHANGES FROM CY 2000

		CY 2001	CY 2002
Staffing Reductions	OF	$(1,969,600)	$(2,708,300)

The JLBC recommends a total biennial decrease of $(4,677,900) due to the elimination of (70) FTE Positions. This amount includes a CY 2001 decrease of $(1,969,600) and (51) FTE Positions below CY 2000 and a CY 2002 decrease of $(2,708,300) and (70) FTE Positions below CY 2000. The State Compensation Fund (SCF) continues to reduce its staffing level through attrition as it implements new technology and changes its organizational structure.

Salary Adjustments OF 2,062,900 2,676,300

The JLBC recommends a total biennial increase of $4,739,200 for agencywide salary adjustments. This amount includes a CY 2001 increase of $2,062,900 above CY 2000 and a CY 2002 increase of $2,676,300 above CY 2000. The SCF has requested that Personal Services monies that are associated with the eliminated FTE Positions *(see Staffing Reductions policy issue)* be retained in the agency budget to grant employees a 9% salary market adjustment in CY 2001 and a 2.5% merit adjustment in CY 2002. An additional $93,300 is needed in CY 2001 and $32,000 in CY 2002 above the staffing reduction savings to fund the full salary increase. These monies will bring the salaries of all agency positions up to market averages.

The SCF conducted its own salary survey and found that its salaries are 13% below that of comparable employers within Arizona. The SCF used salary data from the Arizona Department of Administration's Joint Governmental Salary and Benefits Survey, which provides employment data from private and public employers in Arizona. This is the same survey that the State Employee Compensation Committee uses to make its recommendations for statewide salary adjustments to the Legislature. The conclusion of the SCF study is that a 9% increase in Personal Services appropriations will allow all agency positions to be brought to market average. In addition, the SCF is currently experiencing a 28% agencywide turnover rate, exclusive of downsizing.

In previous years, the JLBC has made recommendations for salary adjustments for the SCF so that they would be comparable with what all other state agencies would be receiving in that year. In this biennium, the salary adjustments that we are recommending for the SCF are larger than the statewide goal of being within 5% of market. However, since the SCF is choosing to fund this increase by reallocating current Personal Services dollars, the JLBC recommends the salary increase requested by the SCF.

Replace Computer Network OF 3,742,300 5,240,700

The JLBC recommends a total biennial increase of $8,983,000 to replace the agency's computer network. The amount includes a CY 2001 increase of $3,742,300 above CY 2000 and a CY 2002 increase of $5,240,700 above CY 2000 for equipment and consulting. The SCF will replace its mainframe system with a client-server-based platform that is more cost effective and flexible. The current system is 9 years old and is difficult to modify to enable integration of other applications. The current system is not web enabled, hindering SCF's ability to compete with other carriers. In addition, the new web enabled platform will better serve SCF's new decentralized team-oriented office structure as it will improve communications and access to data *(see Decentralized Team-Oriented Structure policy issue)*. The SCF expects to have the new system fully implemented by the end of CY 2002.

Since the SCF is not an Executive Branch agency, its technological improvement projects are not subject to approval by the Government Information Technology Agency (GITA). At the request of JLBC however, GITA reviewed the project and gave a favorable informal opinion of the technology and cost estimates.

Increased Workload OF 555,600 605,000

The JLBC recommends a total biennial increase of $1,160,600 for expenses related to an increased workload. This amount includes a CY 2001 increase of $555,600 above CY 2000 and a CY 2002 increase of $605,000 above CY 2000. The additional funding is needed for increased operating expenditures associated with a growing number of policyholders such as printing, postage, utilities, audits, and temporary employee usage.

Administrative Fees OF 555,000 555,000

The JLBC recommends a total biennial increase of $1,110,000 for fees that are charged by policyholder association groups to include the SCF in their workers' compensation plans. This amount includes an increase of $555,000 in both CY 2001 and CY 2002 above CY 2000.

Decentralized Team-Oriented Structure OF 553,500 651,300

The JLBC recommends a total biennial increase of $1,204,800 for costs associated with SCF's new operating structure. This amount includes a CY 2001 increase of $553,500 above CY 2000 and a CY 2002 increase of $651,300 above CY 2000. Of the recommended FY 2003 amount, $203,000 is for one-time construction costs. The SCF has adopted a new decentralized operating structure in which each district office has a complete, multi-functional team that performs all functions of the business. This organizational structure has allowed SCF to reduce its FTE Position needs by 24% since it was initiated in 1998. The JLBC recommended increase reflects funding for reconfiguration of office space and for training programs that will enable employees to convert from single task jobs to multi-task jobs.

Vehicles OF 69,500 (155,500)
The JLBC recommends eliminating $(198,000) for one-time CY 2000 vehicles and adding $267,500 for the purchase of 16 vehicles in CY 2001. The CY 2002 amount eliminates the one-time CY 2001 funding and adds $112,000 for the purchase of 7 additional vehicles. The SCF has a policy of replacing vehicles with at least 80,000 miles on the odometer. This recommendation is consistent with the SCF's historical replacement policies. The SCF plans on taking bids for alternative fuel vehicles.

Outreach Program OF 127,900 141,500
The JLBC recommends a total biennial increase of $269,400 for increased fees associated with the Outreach Program. This amount includes a CY 2001 increase of $127,900 above CY 2000 and a CY 2002 increase of $141,500 above CY 2000. The SCF attends local association group and trade shows to enhance the public's awareness of the SCF.

Claim Adjustment Services OF (469,900) (461,000)
The JLBC recommends a total biennial decrease of $(930,900) to the Claim Adjustment Services Special Line Item due to the implementation of cost saving measures. This amount includes a CY 2001 decrease of $(469,900) below CY 2000 and a CY 2002 decrease of $(461,000) below CY 2000. The $8,900 increase in CY 2002 above CY 2001 is due to anticipated claim growth in that year. These monies are appropriated for such services as independent medical evaluations, witness expenses, and unanticipated costs associated with large claims.

Rating Bureau Fees OF (304,200) (299,800)
The JLBC recommends a total biennial decrease of $(604,000) to the Rating Bureau Fees Special Line Item due to reduced rates charged by the National Council on Compensation Insurance. This amount includes a CY 2001 decrease of $(304,200) below CY 2000 and a CY 2002 decrease of $(299,800) below CY 2000. The $4,400 increase in CY 2002 above CY 2001 is due to additional fee adjustments.

Premium Tax OF 400,000 450,000
The JLBC recommends a total biennial increase of $850,000 to the Premium Tax Special Line Item. This amount includes a CY 2001 increase of $400,000 above CY 2000 and a CY 2002 increase of $450,000 above CY 2000. This is a tax on workers' compensation premiums that is paid to the Industrial Commission.

Personal Property Taxes OF (18,400) (14,100)
The JLBC recommends a total biennial decrease of $(32,500) to the Personal Property Taxes Special Line Item. This amount includes a CY 2001 decrease of $(18,400) below CY 2000 and a CY 2002 decrease of $(14,100) below CY 2000. These monies are appropriated for taxes on SCF equipment.

SUMMARY OF FUNDS	**CY 1999**	**CY 2000**	**CY 2001**	**CY 2002**
* Represents calendar years starting with 1999.				

State Compensation (TRA9002/A.R.S. § 23-981) **Non-Appropriated**

Source of Revenue: Workers' compensation insurance premiums; investment income, including capital gains; other income.
Purpose of Fund: To insure employers against liability for workers' compensation, occupational disease compensation and medical, surgical and hospital benefits pursuant to the provisions of Arizona and federal statutes.

Funds Expended-Operating	40,993,000	40,857,300	46,161,900	47,607,900
Funds Expended-Dividends and Claims	230,800,000	228,700,000	232,800,000	241,900,000
Year-End Fund Balance	390,607,000	455,849,700	524,987,800	600,979,900

Attachment 2

STATE COMPENSATION FUND

Growth in Premium Income, Investment Income, Policyholders and Claims Processed

	Actual 1996	Actual 1997	Actual 1998	Actual 1999	Estimated 2000	Estimated 2001	Estimated 2002
PREMIUM INCOME	294.7	240.9	206.4	180.1	185.0	200.0	212.0
Actual Increase	(48.9)	(53.8)	(34.5)	(26.3)	4.9	15.0	12.0
Percentage Increase	-14.2%	-18.3%	-14.3%	-12.7%	2.7%	8.1%	6.0%
(in Millions)							
INVESTMENT INCOME	147.6	147.7	166.4	165.3	149.8	148.1	153.5
Actual Increase	14.3	0.1	18.7	-1.1	-15.5	-1.7	5.4
Percentage Increase	10.7%	0.1%	12.7%	-0.7%	-9.4%	-1.1%	3.6%
(in Millions)							
POLICYHOLDERS	48,546	47,936	47,848	46,899	48,000	50,000	53,000
Actual Increase	(77)	(610)	(88)	(949)	1,101	2,000	3,000
Percentage Increase	-0.2%	-1.3%	-0.2%	-2.0%	2.3%	4.2%	6.0%
CLAIMS PROCESSED	50,522	43,998	39,037	35,603	36,600	39,500	43,500
Actual Increase	(10,082)	(6,524)	(4,961)	(3,434)	997	2,900	4,000
Percentage Increase	-16.6%	-12.9%	-11.3%	-8.8%	2.8%	7.9%	10.1%

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: JOINT LEGISLATIVE BUDGET COMMITTEE - CONSIDER APPROVAL OF YEAR 2001-2002 STRATEGIC PROGRAM AREA REVIEW CANDIDATES

Request

The Joint Legislative Budget Committee (JLBC) Staff requests that the Committee approve the list of program areas to be reviewed in the Year 2001-2002 Strategic Program Area Review (SPAR) process.

Background

Based on a request made by Senator Gnant at the last Committee meeting, JLBC Staff polled Committee members on their preferences for the Year 2001-2002 SPAR candidates. JLBC Staff received 3 responses. The votes and "effort level" of each of the 8 candidates are listed below. In terms of effort, each SPAR was labeled as high effort (3), medium effort (2), or low effort (1).

Program Area	Votes Received	Effort Level
Prescription Drugs	3	High
Children's Delivery System	2	High
Water Quality Assurance Revolving Fund	2	Medium
Developmental Disabilities (DD) Home and Community Based Services	2	Low
County Assistance	1	High
Advertising	1	Medium
Aircraft Operations	1	Medium
Job Training	0	High

(Continued)

JLBC Staff recommends that the Committee not select both the Children's Delivery System SPAR and the DD Home and Community Based Services SPAR. It has been previously suggested that the Children's Delivery System SPAR focus on DD clients. If both these SPARs were selected, DES' Division of Developmental Disabilities would like be the primary respondent for 2 SPARs, which we believe would be too much work for that Division.

Analysis

A.R.S. § 41-1275 provides that the JLBC shall determine which program areas will be subject to each biennial SPAR process. (In prior years, the programs were named in a bill.) The JLBC Staff, in consultation with the Governor's Office of Strategic Planning and Budgeting (OSPB), shall recommend a list of program areas for the SPAR process to the JLBC by January 1 of each odd-numbered year. The program areas selected shall submit their Self-Assessments to OSPB and JLBC Staff by June 1 of each odd-numbered year. JLBC Staff and OSPB shall complete their SPAR reviews of each program area and jointly produce a report of findings and recommendations by January 1 of each even-numbered year. The reports are then considered by the Legislature.

At the October 19 Committee meeting, Senator Gnant asked that JLBC Staff survey members for their preferences for the 2001-2002 SPARs prior to this meeting. We sent out a survey to all Committee members on November 7, asking for a response by November 17. The survey asked Committee members to select from a list of 8 SPAR topics. These topics were selected from an initial survey of legislators, JLBC Staff suggestions, and OSPB suggestions.

We organized the 8 topics by how much agency and staff each topic would entail. Topics requiring the most effort were assigned a score of "3," those requiring a moderate amount of effort were assigned a "2," and those we expected to require comparatively little effort we gave a score of "1." We suggested that in submitting their preferences, Committee members limit the total score of preferences to no more than 10 points. For example, selecting the topics Job Training (3), County Assistance (3), Water Quality Assurance Revolving Fund (2), and Aircraft Operations (2) would generate a total score of 10. The results of the survey are shown on the table on the preceding page.

We have attached some materials from previous Committee meeting agenda books that provide additional information on all the SPAR program areas considered, including the 8 which Committee members were polled on.

RS/SSh:jb
Attachments

Possible 2001-2002 SPAR Topics
JLBC Staff

Agency	Program Area	Description of Program
Land Dept., State Mines & Mineral Resource, Dept. of Mines Inspector, Dept. of Geological Survey, Arizona	Dept. of Natural Resources	These agencies perform related functions. In some states these functions are centralized in one agency.
Economic Security, Dept. of Education, Dept. of Commerce, Dept. of Community Colleges, St. Board of	Job Training	All of these agencies provide some type of job training.
AHCCCS Health Services, Dept. of Courts Criminal Justice Commission, AZ Revenue Sharing Water Resources, Dept. of	County Assistance	State monies pass-through all of these agencies. SPAR could research whether it might be more efficient to consolidate the funding.
Pioneers' Home, AZ Veterans' Services, Dept. of U of A Medical School/Hospital Arizona State Hospital Juvenile Corrections, Dept. of Corrections, State Dept. of Health Services, Dept. of AHCCCS Economic Security, Dept. of	Prescription Drugs	All of these agencies purchase prescription drugs or contract with providers who purchase prescription drugs. Given the high cost of medication, the SPAR could examine implementing bulk purchasing or group discounts.
Commerce, Dept. of Environmental Quality, Dept. of	Greater AZ Development Authority/Water Infrastructure Finance Authority	The 2 agencies operate similar types of programs. The SPAR could research the effectiveness of this type of program.
Health Services, Dept. of Judiciary	Children's Behavioral Health	Both agencies contract for behavioral health services for, at times, similar populations.
Parks Board, Arizona State AZ State Museum in ABOR	Cultural Preservation	Both agencies perform cultural preservation. In some states this function is centralized.
Environmental Quality, Dept. of	Water Quality Assurance Revolving Fund (WQARF)	A.R.S. § 49-282H requires that the WQARF program undergo the PAR process at specified intervals, including 2002. PARs have subsequently been changed to SPARs.

Economic Security, Dept. of Health Services, Dept. of AHCCCS Education, Dept. of Juvenile Corrections, Dept. of Courts	Children's Delivery System	All of these agencies provide case management and other services to children. Because of size of issue SPAR could focus on one particular type of client (e.g., clients who are developmentally disabled, regardless of their other diagnoses.)
Lottery Commission, Arizona State Tourism, Dept. of AHCCCS Health Services, Dept. of Administration, Dept. of	Advertising	All of these agencies contract for significant amounts of advertising funds. The SPAR could examine if there are more cost-effective ways of conducting advertising.
Economic Security, Dept. of	DD Home and Community Based Services	SPAR could focus on finding reasons for significant growth in caseload and expenditures in this program.

Attachment B

2001-2002 SPAR Topics
Agency Nominations [1/]

Agency	**Program Area**	**Description of Program**
Administration, AZ Dept. of	Travel Reduction	Promotes a reduction in state employees' travel in single occupancy vehicles. There are also travel reduction requirements for the private sector and schools.
Suggested by the Auditor General	Investigators of Civil Enforcement	Numerous commissions and boards have complaint investigators. A SPAR could evaluate whether it would be more efficient to centralize the investigative role similar to the Office of Administrative Hearings.
Suggested by the Auditor General	Aircraft Operations	The Auditor General suggested reviewing the use of state aircraft and other aircraft programs at the Dept of Transportation, Dept. of Public Safety and the Game and Fish Dept.
Corporation Commission	Railroad Safety	Enforces railroad safety relating to track maintenance, equipment safety, and rail-highway crossings. This would be a single program/agency SPAR. Could also include ADOT with regard to rail-highway crossings.
	Corporations Division	Regulates public utilities and the securities industry, grants corporate status, and ensures safe railroads and gas pipelines. Could also include the Secretary of State's Business Services program, which is responsible for corporate filings and trademark registration.
Economic Security, Dept. of	Home & Community Based Services (DACS)	Provides home and community based services such as respite, housekeeping, and attendant care. Could also include home and community based services provided in AHCCCS and DHS.
	Coordinated Homeless Programs	Planning and coordination of community based organizations that provide services to assist the homeless. Could also include DHS behavioral health and housing programs provided by the Regional Behavioral Health Authorities and the Dept. of Commerce housing programs.
Game and Fish Dept., AZ	Game Management	Manages game-wildlife populations by regulating hunting and assessing habitats.
Regents, AZ Board	University Library Operations	Provides library services to the universities.

1/ Unless otherwise noted, each agency nominated its own programs.

Tax Appeals, State Board of	Appeals process	Provides a process for taxpayers to appeal decisions by the Department of Revenue (DOR) and the Office of Administrative Hearings (OAH). SPAR could also include DOR and OAH.
Transportation, Dept. of	MVD 3rd Party	This would be a single agency SPAR and might include comparing the efficiency of using 3rd Parties vs. doing the activity in-house.
	Highways Administration Traffic Operations	This would be a single agency SPAR and might include comparing the use of technology to relieve traffic congestion vs. building more roads.
Treasurer, State	Credit card usage	Bill passed during the 2000 legislative session allows agencies to accept credit cards. The State Treasurer suggested that a 2003-2004 SPAR could include the primary agencies that decide to take advantage of the new process.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON JLBC AND JLBC STAFF STATUTORY RESPONSIBILITIES

For your information, we are enclosing a list of Joint Legislative Budget Committee and JLBC Staff statutory responsibilities. As you will see from the lists, the Committee has 123 statutory responsibilities in terms of approving, reviewing or accepting reports. In addition, the Staff has 59 statutory responsibilities of some type.

In a separate document, we also track whether the Committee and Staff have met their statutory duties in a timely fashion each fiscal year and whether agencies have transmitted their required reports to the JLBC by their due date.

The attached internal JLBC Staff memo provides further details about each of the attachments. This information is also available on our Web site.

RS:lm
Attachment

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

HOUSE OF REPRESENTATIVES

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: BOARD OF NURSING – REVIEW OF UNANTICIPATED COSTS

Request

The General Appropriation Act appropriated $50,000 or 20% of each 90/10 board's total FY 2001 appropriation, whichever is greater, for unanticipated costs. Each 90/10 board is required to submit the intended use of the monies to the Committee for review. The Board of Nursing is requesting $271,000 and 9 FTE Positions to address a backlog of investigations.

Recommendation

The JLBC Staff recommends a favorable review of this request, but recommends that 7 of the 9 FTE Positions be temporary, to be eliminated in FY 2003. The board has a fund balance of $2.1 million and should have sufficient revenue to cover this increase.

Analysis

A footnote in the General Appropriation Act appropriated an additional $50,000 or 20% of the board's total FY 2001 appropriation, whichever is greater, to provide for unanticipated costs the board might face in FY 2001. This footnote was added to the budgets of all 90/10 boards in the Supplemental Bill to provide funding for unanticipated costs. This contingency appropriation allows the board, if faced with unanticipated costs, to access monies without having to request a FY 2001 supplemental appropriation during the regular session. The legislation required the board to submit the intended use of the monies to the Committee for review. Pursuant to the footnote, the Board of Nursing's contingency amount is $430,800.

(Continued)

The board is requesting $271,700 and 9 FTE Positions to reduce the current backlog of over 2,100 cases. The JLBC Staff recommends the Committee give the request a favorable review and recommends that 7 of the 9 FTE Positions be temporary positions, to be eliminated in FY 2003. The annualized cost of the 9 FTE Positions is $521,000, which will need to be continued in the FY 2002 appropriation. Because the backlog will be eliminated by the end of FY 2002, the JLBC Staff recommends reducing FY 2003 expenditures by ($412,500) and 7 FTE Positions from the FY 2002 amount. This will leave 2 FTE Positions in the board's budget to address growth in the number of licensees and prevent the accumulation of a backlog in the future.

As of July 31, 2000, the board had 2,100 open cases and projected an additional 1,900 cases during the fiscal year, for a total of 4,000 cases in FY 2001. Both nursing consultants and paralegals investigate these cases. Nursing consultants are usually assigned more complex cases such as theft, abuse or neglect, while paralegals investigate less complicated cases. Currently, the board's 9 nursing consultants investigate 50% of total cases and the 3 paralegals are assigned the remainder of the cases.

The board is requesting an additional 6 nursing consultants and 3 paralegals to help reduce its backlog of open cases. This would bring the board's total investigative staff to 15 nursing consultants and 6 paralegals. Based on the average number of cases completed by both nursing consultants and paralegals, and assuming the board is able to fill the new positions by January 1, 2001, the board will reduce its backlog from 2,100 cases to 1,100 cases by the end of FY 2001. By the end of FY 2002, the backlog should be completely eliminated.

Once the backlog has been eliminated, the nursing consultants will have a ratio of 1 consultant to 72 cases per year and the paralegals will have a ratio of 1 paralegal to 180 cases per year. Because the average nursing consultant investigates 132 cases per year and the average paralegal investigates 360 cases per year, the board will have more than adequate staff to complete all investigations. The JLBC recommends reducing the number of nursing consultants to 10 and paralegals to 4 in FY 2003. This staffing level would allow all new cases to be completed in a timely manner and would prevent future backlogs from forming.

The board's letter to the Committee indicates that the Auditor General will likely be supporting the board's request for more staff and FTE Positions. We were contacted by the Office of the Auditor General, who indicated that the office has no official position on the matter at this time. The audit is still in process and auditors have drawn no conclusions about the resource needs of the board.

The JLBC Staff recommends the Committee give the board's request to access the appropriation for unanticipated costs a favorable review. The additional FTE Positions will help reduce the current backlog of open cases and prevent future backlogs. The JLBC Staff also recommends that 7 of the 9 FTE Positions be temporary because once the backlog has been reduced, most of the additional staff will no longer be necessary.

RS/BK:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

HOUSE OF REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Rebecca Hecksel, Assistant Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION - CONSIDER APPROVAL OF LODGING AND MEAL REIMBURSEMENT RATES

Request

In accordance with A.R.S. § 38-624C, the Arizona Department of Administration (ADOA) requests that the Committee approve maximum lodging and meal/incidental expense rates for Travel - In State and Travel - Out of State effective immediately after Committee approval.

Recommendation

The JLBC Staff recommends that the Committee approve the agency's request for lodging and meal/incidental expense rates. The JLBC Staff also recommends that the costs and savings associated with these changes be absorbed in agencies' budgets without a change in the level of appropriations. The new rates would be as follows:

	Current Rate	ADOA Proposed Rate	General Fund Impact	Other Fund Impact
In-State lodging per day	$55-$107	$58-$112	$86,300	$228,000
Out-of-State lodging per day	$55-$215	$58-$226	$4,600	$8,900
In-State meals per day	$29.50	$29.50	-0-	-0-
Out-of-State meals per day	$28-$42	$28-$41	$(3,700)	$(7,800)
TOTAL	NA	NA	$87,200	$229,100

(Continued)

Analysis

The federal government periodically conducts a cost survey based on market conditions across the nation and uses the data to update its travel reimbursement rates on October 1 and April 1 of each year. The federal recommended rates vary by city, with some cities experiencing an increase and some a decrease in price. ADOA compares Arizona's current rates to the federal rates and requests adjustments from the Legislature. Historically, ADOA has requested changes to its travel reimbursement rates in accordance with changes to the national average. In this latest request, however, ADOA has calculated an average rate increase for the 20 cities that are most traveled by Arizona state employees. ADOA has found that the national average is skewed by rates set in "resort" cities such as Lake Tahoe, California and Key West, Florida. Although some employees may travel to these cities, they would typically do so to participate in a conference; a situation in which employees are not held to the established reimbursement rates. The JLBC Staff concurs with this strategy and recommends that future rate changes be calculated in the same fashion.

The net cost of ADOA's request is an increase of $87,200 from the General Fund (GF), and $229,100 from Other Funds (OF). This includes an increase of In-State and Out-of-State lodging rates, and a decrease in Out-of-State meal rates.

Lodging
Lodging rates were last approved by the Committee on March 20, 2000 and took effect May 1, 2000. The nationwide federal lodging rates reported on October 1, 2000 reflect an increase of 1.5%, which is consistent with the general nationwide trend of increased commercial lodging costs. ADOA, however, is requesting an increase of 0.6% for Out-of-State lodging to reflect the rate increases in the top 20 cities. ADOA's calculations show that the increased Out-of-State lodging rates will have an annual GF impact of $4,600 and an annual OF impact of $8,900.

For In-State lodging, ADOA is requesting an increase of 4.9%, which is consistent with the federal rates reported on October 1, 2000. Lodging rates have increased within Arizona by a range of $5 in Casa Grande to $30 in Kayenta. ADOA's calculations show that the increased In-State lodging rates will have an annual GF impact of $86,300 and an annual OF impact of $228,000.

Meals
Meals/incidental expense rates were last approved by the Committee on March 20, 2000 and took effect May 1, 2000. ADOA is requesting a (1.5)% decrease in Out-of-State meal rates to reflect changes in the top 20 cities. ADOA is not requesting a change to In-State meal rates. ADOA's calculations show that the decreased Out-of-State meal reimbursement rates will result in an annual GF savings of $3,700 and an annual OF savings of $7,800.

RS:RH:ss

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

STATE
SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

HOUSE OF
REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION - REVIEW OF RISK MANAGEMENT DEDUCTIBLE

Request

The Arizona Department of Administration (ADOA) requests that the Joint Legislative Budget Committee (JLBC) review its Risk Management $10,000 Deductible Program.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request.

Analysis

Laws 1997, Chapter 85 provided that the Director of ADOA may impose on state agencies deductibles of up to $10,000 per risk management loss. Deductible amounts established by the director shall be subject to annual review by JLBC. ADOA maintains the right to waive any deductible for just cause or in the best interest of the state. To date, ADOA has not assessed any deductibles.

The deductible program has 3 components, as described below:

1) Rule 14 Settlements and Judgments
The deductible program states that ADOA shall charge a $10,000 deductible for each claim of $250,000 or more (i.e., those claims approved by JLBC under Rule 14) unless the agency implements an approved plan to eliminate or limit similar future losses. ADOA helps agencies develop plans and reports universal compliance with the requirement.

(Continued)

2) Workers' Compensation Early Notification
Beginning January 1, 1998, ADOA gave state agencies one year to establish a record of reporting at least half of all workers' compensation claims within 48 hours. Beginning January 1, 1999, if an agency did not achieve this reporting level, ADOA could impose a 20% deductible, up to $10,000, on any claim reported later than 10 days after the incident.

   ADOA has provided agencies with extensive training and informational materials for use in educating their employees of the need for early reporting of workplace injuries. In FY 2000, 76% of all initial workers' compensation reports were received within 48 hours of the incident. To date, no agency has been assessed a deductible charge.

3) Opportunistic Loss Prevention
The deductible plan states that ADOA and each agency shall agree on the agency's most significant opportunity for loss prevention. ADOA will assess a $10,000 deductible for each loss of this type unless the agency implements an approved loss prevention plan. All state agencies have submitted loss prevention plans. ADOA continues to work with agencies to update and improve those plans.

The JLBC Staff believes that the deductible program provides a good incentive for state agencies to avoid risk management losses. This is an important counter-balance to the possible adverse effect of ADOA bearing the cost for another agency's bad decision that results in a loss.

RS/PS:ss

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF
REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE:	November 20, 2000
TO:	Senator Randall Gnant, Chairman Members, Joint Legislative Budget Committee
THRU:	Richard Stavneak, Director
FROM:	Rebecca Hecksel, Assistant Fiscal Analyst
SUBJECT:	ARIZONA DEPARTMENT OF ADMINISTRATION - REPORT ON BENEFITS OF PREVENTATIVE MAINTENANCE PLAN

Request

In accordance with Laws 1999, Chapter 1, 1st Special Session the Arizona Department of Administration (ADOA) submits its report on the benefits of the preventative maintenance services performed on state-owned buildings.

Recommendation

This item is for information only and no Committee action is required. With the appropriated funds, ADOA was able to perform preventative maintenance services on all fire alarm, and heating, ventilation and air conditioning (HVAC) systems in all state-owned buildings in the ADOA system.

Analysis

The Legislature appropriated $500,000 and 7 FTE Positions in both FY 2000 and FY 2001 to ADOA from the Capital Outlay Stabilization Fund to implement a preventative maintenance program for state buildings. The program was created to allow ADOA to take a more proactive stance towards building maintenance. The preventative maintenance program is designed to extend the useful life of building systems, reduce the incidence of breakdowns, and improve equipment efficiency. Examples of systems that benefit from routine maintenance include roofing, plumbing, electrical systems, and parking lots and structures. At its August 1999 meeting, the JLBC approved ADOA's plan on the expenditure of the appropriated funds, which included creating a database to maintain detailed records on services performed and efficiencies gained.

The amount appropriated was sufficient to perform preventative maintenance services on 2 systems: fire alarm and HVAC.

(Continued)

Heating, Ventilation and Air Conditioning Equipment (HVAC)
The state operates 35 buildings that have an HVAC system. Necessary routine maintenance on this equipment includes changing air filters, cleaning coils, checking belts and checking for mold. In FY 2000, ADOA was able to clean and service all 68 large air handlers, some of which had not been serviced for 25 years. The air handlers are just one component of the HVAC systems; however, the work required to service them was very time intensive. In FY 2001, ADOA plans to service the remaining components of all of the HVAC systems. ADOA recorded improvements to the systems that were serviced including utility savings and increased air quality in the buildings.

Fire Protection System
The state is responsible for maintaining the fire protection systems for 32 of its buildings. The other 3 buildings have outside service providers who maintain the fire protection systems. The most important aspect of preventative maintenance on these systems is ensuring that they will work when they are needed. ADOA was able to identify and correct numerous deficiencies with the fire protection system, including inoperable sprinkler heads and rusted piping, that may have been severe enough to compromise the equipment had there been an actual emergency. Necessary routine maintenance on this equipment includes cleaning and inspecting heat detectors, smoke detectors, sprinkler heads and water supply valves. ADOA was able to service nearly 20,000 components of the fire protection system. By servicing these systems, the number of false fire alarms went from 80 in FY 1999 down to 54 in FY 2000.

In FY 2000, ADOA spent $361,500 of the $500,000 appropriation on servicing the HVAC and fire protection systems. ADOA was not able to utilize the full amount appropriated because the program was not fully staffed until January 2001 due to difficulties with hiring qualified staff at state salary levels. ADOA's FY 2001 preventative maintenance plan includes projects that will utilize the full appropriation for that year.

Although it is difficult to determine cost savings and efficiencies gained by the implementation of the preventative maintenance program in the short amount of time it has been applied, ADOA has maintained an extensive database and has provided the following performance measures:

Large Air Handlers Performance Measures

Performance Measure	Projected Result	Actual FY 2000
Decreased resistance of airflow over cooling coils (reduces the amount of electricity needed to circulate the air)	5%	36%
Percent increase in water temperature across coils (increased water temperature indicates cooler air output)	10%	4%
Percent increase overall efficiency	10%	13%
Estimated utilities savings	$25,000	$193,000

Fire Protection Systems Performance Measures

Performance Measure	Projected Result	Actual FY 2000
Percent reduction in number of false alarms	30%	32%
Percent reduction in false alarms causing building evacuations	15%	33%

Starting in FY 2003, ADOA plans to apply preventative maintenance procedures to the roofing systems of all state-owned buildings. ADOA will apply a preventative coating to the roofs in order to prevent or stop leaking which can lead to structural damage and electrical circuit shortage, and reduced air quality.

RS/RH:ss

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL – REVIEW ALLOCATION OF SETTLEMENT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has notified the Committee of the allocation of monies received from 2 settlement agreements.

Recommendation

JLBC Staff recommends a favorable review of the allocation plan for both settlement agreements. Since there is some disagreement as to whether all settlement agreements have to be reviewed, we may want to clarify this issue in next year's budget.

Analysis

The FY 2000 and 2001 General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures.

The Office of the Attorney General recently settled 2 cases that will result in the receipt of settlement monies over $100,000. The first case involved violations of underground storage tank (UST) laws by Union Oil Company of California (Unocal). Unocal agreed to pay the state

(Continued)

$450,000 in civil penalties which, pursuant to statute, will be deposited in the General Fund. The second case involved violations of air pollution laws by the Chemical Line Company (Douglas). The Chemical Line Company (Douglas) agreed to pay $150,000 in civil penalties that, pursuant to statute, will be deposited in the General Fund.

Based upon the language of the footnote, it is not clear whether 1) settlements deposited in the General Fund, pursuant to statute, must also be reviewed by JLBC, and 2) settlements reached where the State of Arizona was not an injured party, but funds were received by the Attorney General on behalf of injured individuals must be reviewed by JLBC. The Attorney General does not believe that it is necessary for JLBC to review both of these types of settlements, but is willing to notify the Committee of such deposits. The JLBC Staff believes that the Legislature intended to review all settlements. This issue may be clarified in the upcoming biennium's General Appropriation Act.

RS/GG:ag

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF CORRECTIONS - REPORT ON PRIVATE PRISON REQUEST FOR PROPOSALS

Request

At its meeting held on August 10, 2000, the Committee gave a favorable review of an Arizona Department of Corrections (ADC) Request for Proposals (RFP) for a 1,000 bed privately-operated facility to house non-U.S. National inmates. Senator Lopez has requested that the Committee revisit the RFP in light of an opinion by Legislative Council on the legality of the RFP.

Background

The 1999 General Appropriation Act appropriated General Fund monies to ADC to contract for a 1,000-bed privately-operated prison facility. The appropriation also contained a footnote requiring that "the State Department of Corrections shall submit its plan for the category of beds to be privatized to the Joint Legislative Budget Committee for review and the beds shall not be segregated by race, ethnicity or nationality." The RFP reviewed by the Committee at the August meeting was entitled "Criminal Aliens Subject to United States Immigration and Naturalization Services Hearings and/or Deportation."

ADC believes that a privately-operated prison to house non-U.S. National inmates complies with the footnote by segregating all types of foreign national inmates instead of foreign nationals from one specific country (Mexico). At its meeting held on August 10, the Committee gave a favorable review of the RFP for a 1,000 bed privately-operated facility to house non-U.S. National inmates.

(Continued)

Subsequent to that review, Senator Rios requested a formal opinion from Legislative Council regarding whether the RFP violated state law by disregarding the footnote. Legislative Council concluded that "DOC's proposed segregation of prison beds according to alienage status violates both the footnote and the Constitution's equal protection guarantee." The entire Legislative Council opinion is attached.

Given Legislative Council's opinion, Senator Lopez has requested that the Committee revisit the issue.

RS/BR:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF CORRECTIONS - REVIEW OF PUBLIC VS. PRIVATE PRISON SERVICE COMPARISON REPORT

Request

Pursuant to A.R.S § 41-1609.01(M), the Arizona Department of Corrections (ADC) requests that the Committee review ADC's most recent service comparison report on state-operated vs. privately-operated prisons.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the ADC report.

Analysis

A.R.S § 41-1609.01(K) requires ADC to biennially compare the services provided at state prisons to services provided at each of the currently contracted privately-operated prisons. The services to be compared are as follows:

- Security
- Inmate management and control
- Inmate programs and services
- Facility safety and sanitation
- Administration
- Food Services
- Personnel practices and training
- Inmate health services
- Inmate discipline
- Other matters relating to services as determined by the ADC Director

(Continued)

The service comparisons are performed to evaluate the statutory requirement that private prisons provide "at least the same quality of services as this state at a lower cost or …superior quality to those provided by this state at essentially the same cost."

ADC currently contracts for 3 private prison facilities that have a total capacity of 1,450 beds and are classified as Level 2 (minimum) security facilities. By contract, private prisons are subject to the same correctional standards as state-operated prisons. ADC has an inspection unit that annually audits the performance of each state-operated and privately-operated prison to ensure that every facility is complying with the professional standards. An inspection team, with experts in each of the 10 above mentioned subject areas, rates each prison's performance as Satisfactory, Fair, or Unsatisfactory. For comparison purposes, the grades are assigned points to differentiate between the general performance classifications. Points are assigned as follows: Satisfactory = 5, Fair = 3, and Unsatisfactory = 0. This system allows for comparison within a particular subject area or an aggregate score for the entire prison.

For example, both public and private prisons are evaluated on inmate health service performance including health care administration, inmate treatment, staff medical training, pharmaceutical services, infection control, and additional measures. Each area is reviewed and graded with unsatisfactory gradings requiring corrective action. ADC has established 39 performance objectives within the inmate health services area. A total score of 195 points (39 areas times 5 points for a Satisfactory score) would equate to perfect compliance with professional standards. For FY 1999, state-operated prisons rated 92% and privately-operated prisons rated 93%.

For this report, ADC compared the services at the 3 privately-operated prisons to 15 state-operated Level 2 prisons. ADC concluded that overall the 3 private prisons provide services that equal or exceed services provided at state-operated prisons at a lower cost. As the report notes, some individual state-operated prisons outperformed the privately-operated prisons and the aggregate state score was higher than privately-operated facilities for some services areas. However, the performance of privately-operated prisons in all service areas is equal to service provided at state-operated prisons.

The report does not contain a comprehensive cost analysis but does include the daily per capita cost at each of the 3 privately-operate prisons and the aggregate statewide cost for state-operated Level 2 prisons. For FY 1999, the average private prison inmate cost was $40.88 per day versus $45.85 per day at state-operated facilities. In addition, the daily per capita cost at each of the 3 private facilities was lower than the aggregate state daily per capita cost. ADC estimates the FY 1999 average daily population at privately-operated prisons was 1,440 inmates resulting in a cost avoidance in FY 1999 of approximately $2,717,100. The cost avoidance is based on savings to the state for each day an inmate is housed at a private prison instead of a state-operated facility.

The Executive Summary and Table of Contents of this service comparison report are attached and the entire report is available for review upon request. Pursuant to statute, a formal cost comparison study of state-operated and privately-operated prisons will be conducted in FY 2002 by ADC and the Governor's Office for Excellence in Government. Once completed that report will be submitted to the Committee for review.

RS/BR:ck
Attachment

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

HOUSE OF REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Pat Mah, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - CONSIDER APPROVAL OF INDEPENDENT LIVING PROGRAM DATA ELEMENTS

Request

Laws 2000, Chapter 285 requires that the Joint Legislative Budget Committee (JLBC) determine data necessary for a report that the Department of Economic Security (DES) has to submit to the Legislature each year beginning January 1, 2001. The report pertains to the distribution of non-appropriated federal funds for foster care kids that are transitioning into living on their own. Specifically, JLBC is required to determine what non-appropriated federal fund expenditure data will be collected for the report.

Recommendation

The JLBC Staff recommends approval of the proposal outlined below. We are recommending a 5-year revenue data summary of the non-appropriated federal funds grant allocation and expenditure data from all funding sources for the prior fiscal year, current fiscal year and 2 budgeted fiscal years. We also recommend the inclusion of background and demographic information in the annual report to make it more useful.

Background

Laws 2000, Chapter 285 implemented changes made to federal law for assistance to individuals in the Child Protective Services (CPS) System who need independent living skills before aging out of the system (Independent Living program). The length of time that individuals are eligible for services was extended from 18 to 21 years of age. In addition, a new Transitional Independent Living Program was established to provide care and services to individuals for achieving self-sufficiency if they were ever placed in the state's care prior to the age of 18 years and are still under 21 years years of age. Both programs provide the same services, such as case management, leadership training for clients, educational

(Continued)

materials, occupational start-up costs, and financial incentives for reaching educational goals. The difference between the 2 programs is the client being served. The existing Independent Living Program is for those currently in the CPS system. The new Transitional Independent Living Program is for clients who are no longer part of the CPS system if they are still under 21-years of age and choose to request the services.

For the new Transitional Independent Living Program, DES is required to submit an annual report on the distribution of non-appropriated federal funds that have been and will be expended for the program. The annual report is to begin January 1, 2001 and is to go to the Governor, legislative leadership of each house, JLBC, and the Joint Legislative Committee on Children and Family Services. Laws 2000, Chapter 285 requires JLBC to determine what non-appropriated federal fund expenditure data will be collected for this annual report.

To comply with the requirement, JLBC Staff put together the following proposal for the Committee's consideration and approval.

Proposal

The federal non-appropriated grant monies for the new Transitional Independent Living Program are the same as those that have been used in the past for the existing Independent Living Program. They are federal Title I Independent Living Program grant monies. The department anticipates that approximately 25% to 30% of the monies will be expended for clients in the new Transition program and the remaining will continue to be expended for those in the existing Independent Living Program. The department reports that the federal government views these 2 programs as 1 single program. Therefore, the department plans to operate these programs as a single program. The department assumes that the annual report will need to include expenditures for both programs rather than just the newly established transitional program as required by law. We agree and believe that it will make the report more useful.

To know the amount of Title I Independent Living grant monies the state receives for these programs, we suggest a 5-year span on past and projected Federal Fiscal Year (FFY) allocations for the grant be included in the report. This should be in the Table 1 format shown below.

Table 1 - Federal Title 1 Independent Living Grant Allocation

	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FY 2002
Account Beginning Balance	$	$	$	$	$
New Grant Allocation					
Total Revenues					
Expenditures by State Fiscal Year					
Ending Balance	$	$	$	$	$

There are other federal non-appropriated funds for these programs. The foster care children in these two Independent Living programs may be eligible for Title IV-E and Title XIX funding. Therefore, these non-appropriated federal funds also will need to be included in the report.

We would recommend an expenditure summary in the format of Table 2 shown on the next page. This table would show, by non-appropriated federal funding source, the total expenditures over 4 state fiscal years, including the prior fiscal year, current fiscal year, and 2 budgeted fiscal years. Expenditures for administration would be split from those for direct services.

(Continued)

Table 2 - Federal Non-Appropriated and State Funds Expenditures				
	FY 2000	FY 2001	FY 2002	FY 2003
FTE Positions				
Administration	$	$	$	$
Direct Services				
Total Non-Appropriated Expenditures	$	$	$	$
Funding Sources:				
Federal Independent Living Grant	$	$	$	$
Federal Title IV-E Grant				
Federal Title XIX Funds				
Total Non-Appropriated Expenditures	$	$	$	$
State Funds				
FTE Positions				
Administration	$	$	$	$
Direct Services				
Total General Fund Expenditures	$	$	$	$
Total General Fund and Non-Appropriated Expenditures	$	$	$	$
Number of Clients Served				

Besides the non-appropriated federal monies, these programs are funded from state General Fund dollars. Although the law does not require it, we suggest that expenditure data on the state funds be included in the report. It could be incorporated into Table 2 as shown in our example.

We further suggest information be included in the report to give the reader background material that is needed to understand the programs and their purpose. Those details should include a description of the programs, federal guidelines for use of Title I Independent Living Program monies, criteria for placement in the programs, description of direct services provided, the number served by fiscal year, percentage of clients who participated in each program for the entire fiscal year, and demographics of those who leave the programs.

RS/PM:ss

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jennifer Vermeer, Assistant Director

SUBJECT: AHCCCS - REPORT ON MEDICALLY NEEDY ACCOUNT

Request

Pursuant to A.R.S. § 36-2921 (E), the Arizona Health Care Cost Containment System (AHCCCS) is required to report to the Director of the Joint Legislative Budget Committee by November 1 on the annual revenues deposited to the Medically Needy Account of the Tobacco Tax and Health Care Fund and on the estimated expenditures for the state share of providing organ transplants in the AHCCCS program.

Recommendation

This item is for information only and no Committee action is required. We would highlight that AHCCCS has transferred $29 million from the Medically Needy Account to the AHCCCS budget in FY 2001.

Analysis

As mentioned above, A.R.S. § 36-2921 (E) requires AHCCCS to report to the director of the JLBC on the annual revenues to the Medically Needy Account and on the estimated expenditures for the AHCCCS transplants program. AHCCCS is further required to report immediately to the director of JLBC if the amount in the Medically Needy Account will not be sufficient to fund all of the allocations in A.R.S. § 36-2921. The allocations funded by A.R.S. § 36-2921 are denoted with "*" in the attached table (Attachment A).

AHCCCS has provided the report and included the FY 2000 revenue collections and estimated expenditures for all FY 2001 allocations, including the transplants program. Revenues will be sufficient to fund all of the programs funded by A.R.S. § 36-2921.

In addition to AHCCCS' report, we have attached a table showing JLBC Staff's estimates for the Medically Needy Account. The JLBC Staff estimate shows the estimated ending balances, in addition to the revenue and expenditure amounts, and estimates for FY 2002 and FY 2003 (Attachment A). Subsequent to AHCCCS's October 30, 2000 report, the Governor's Office of Strategic Planning and Budgeting (OSPB) requested that AHCCCS transfer an additional $29 million from the Medically Needy Account to AHCCCS to cover a projected FY 2001 shortfall in the AHCCCS program (Attachment B). The request is dated November 6, 2000 and we have included this additional expenditure in the JLBC Staff table. As noted in OSPB's letter, the Medically Needy Account is statutorily a non-appropriated fund. Traditionally, however, it has been treated as an appropriated fund.

During the 2000 legislative session, the JLBC Staff estimated that AHCCCS would have a FY 2001 General Fund shortfall of $50 million. A fund source for the shortfall was not determined. Greater than anticipated enrollment and capitation increases have increased the FY 2001 shortfall estimate to $70 million. The $29 million transfer is intended to cover part of this anticipated shortfall. This transfer decreases the Medically Needy Account balance from $82.1 million to $53.1 million.

RS/JV:ck
Attachment

Attachment B

Tobacco Tax and Health Care Fund
Medically Needy Account

		FY 2000 Actual	FY 2001	FY 2002	FY 2003
	Funds Available				
	Balance Forward	$71,581,200	$78,579,200	$53,081,200	$57,465,100
	Revertments [2/]	9,089,700	20,480,200	0	0
	Transfer In - Tobacco Tax and Health Care Fund	78,418,600	76,645,600	75,104,200	73,593,700
	Interest Revenue	4,478,700	3,880,600	3,184,800	3,256,600
	Total Funds Available	**$163,568,200**	**$179,585,600**	**$131,370,200**	**$134,315,400**
	AHCCCS Allocations				
	Offset Loss in Federal Funding	$ 1,020,800	$ 4,542,200	$ 1,072,900	$ 1,172,100
	Phase-Down of Quick Pay Discount	6,794,600	8,206,700	10,398,200	11,630,000
	$10 M Hospital Reimbursement	10,000,000	10,000,000	10,000,000	10,000,000
	Maternity Length of Stay	4,545,900	2,572,800	4,422,600	4,555,300
	HIV/AIDS Treatment	1,205,600	1,349,600	751,800	792,400
	FY 2000 Medical Inflation	8,472,400	5,276,000	8,472,400	8,472,400
*	Transplants	454,300	3,590,000	3,590,000	3,590,000
*	Transfer to Medical Services Stabilization Fund	0	0	0	0
*	Transfer to Premium Sharing Demo Project Fund	400,000	0	0	0
	Transfer to Children's Health Insurance Fund	15,172,000	19,833,700	13,623,800	17,021,600
*	Transfer to DHS Health Crisis Fund	29,000	960,000	0	0
*	Transfer to DES Aging and Adult Administration	500,000	500,000	500,000	500,000
	Transfer to AHCCCS for FY 2001 shortfall	0	29,000,000	0	0
	DHS Allocations				
*	Primary Care Programs	5,215,600	6,240,000	6,240,000	6,240,000
*	Qualifying Community Health Centers	3,874,500	5,200,000	5,200,000	5,200,000
	Community Health Centers	2,167,400	4,000,000	0	0
*	Telemedicine	250,300	0	0	0
*	Mental Health Programs for Non-Title 19	5,150,000	5,200,000	5,200,000	5,200,000
*	Detoxification Services	517,100	0	0	0
*	Renal Disease Management	237,200	260,000	260,000	260,000
*	Evaluations	366,200	854,200	854,200	854,200
	Public Health Education [3/]	0	0	0	0
*	Rural Primary Care Provider Loan Repay Program	111,200	111,200	111,200	111,200
	Primary Care Capital Construction Projects	2,500,000	0	0	0
	Salome Health Services	0	0	0	0
	HIV/AIDS Drug Assistance Program (ADAP)	1,000,000	1,000,000	0	0
*	Nonrenal Disease Management	29,700	208,000	208,000	208,000
	CHIP Direct Services	0	1,000,000	0	0
	Ajo Health Services	95,000	0	0	0
	Psychotropic Medications - SMI Non-Title XIX	8,000,000	16,600,000	3,000,000	3,000,000
	Total Allocation	**$78,108,800**	**$126,504,400**	**$73,905,100**	**$78,807,200**
Balance Forward		**$85,459,400**	**$53,081,200**	**$57,465,100**	**$55,508,200**

* Allocations funded pursuant to A.R.S 36-2921.

1/ Revenue estimates assume a decrease of (2.0)%. Revenues actually declined by (1.18)% in FY 1999 and (2.65)% in FY 2000.
2/ Revertments include monies transferred pursuant to Laws 2000, Chapter 304 and unexpended DHS allocations.
3/ Shown as expended in FY 1998 when appropriated.

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. “RUSTY” BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

HOUSE OF REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – REPORT ON EMERGENCY ALLOCATIONS

Request

The Department of Emergency and Military Affairs (DEMA) has provided a summary of the emergencies declared in FY 2001 to date.

Recommendation

This item is for information only and no Committee action is required. DEMA reports that there have been 4 emergencies declared and a total of $885,000 allocated from the Governor’s Emergency Fund in FY 2001. DEMA is considering obligating additional FY 2001 emergency funds for prior year emergencies. The JLBC has concerns about this approach, as it would limit the state’s flexibility in addressing any new current year emergencies.

Analysis

Pursuant to A.R.S. § 35-192, the Governor may declare an emergency and authorize up to $200,000 from General Fund monies that are available each year for emergency response and recovery. Expenditures of more than $200,000 require approval from the Governor’s Emergency Council, which consists of members representing various state agencies, and the total amount allocated each year may not exceed $4 million.

In FY 2001, the following monies have been allocated for emergencies:

(Continued)

FY 2001 Governor's Emergency Fund Allocations

Date of Allocation		Allocation	Fund Balance
	Beginning Fund Balance		$4,000,000
7/28/2000	PCA 21101 - Gila County Potable Water Shortage	$50,000	$3,950,000
8/25/2000	PCA 21102 - Mohave County Wind Storm Emergency	$30,000	$3,920,000
10/17/2000	PCA 21103 - Tropical Storm Olivia	$200,000	$3,720,000
10/23/2000;11/9/2000	PCA 21104 - Arizona 2000 Flood Emergency[1/]	$605,044	$3,114,956

1/ The Governor allocated $200,000 on October 23, 2000 and the Emergency Council allocated an additional $405,000 on November 9, 2000.

DEMA anticipates that the Arizona 2000 Flood Emergency will require additional monies beyond the $605,000 allocation. At this time, the total estimated cost of the flood damage is $13.4 million, of which $3.35 million is the state's share. However, DEMA officials have emphasized that these estimates are very preliminary and do not include all areas of potential damage. Actual damage assessments could be much greater than $13.4 million and may not be completed until the spring. DEMA does not expect that the FY 2001 costs will exceed the available $4 million but indicates that additional FY 2002 monies may be needed for the flood damage.

The department also has almost $4.1 million in costs from prior year emergencies. DEMA officials indicate that of this $4.1 million, $1.8 million may be paid from federal monies left from 1993 flood emergencies, but these monies must be matched by $1.8 million in state and local funds. The remaining $0.5 million must also be paid by the state unless other federal monies are found. The Governor's Emergency Council intended to commit FY 2001 monies for these emergencies but delayed obligating the monies when it became apparent that the costs of the Arizona 2000 Flood Emergency would be high.

We are looking into whether obligating current fiscal year monies for prior fiscal year emergencies is authorized under the statute governing emergency expenditures. The statute does not specifically address this issue, so it is not clear whether current fiscal year monies may be authorized for emergencies declared in prior fiscal years. In addition, we would raise the concern that there might not be sufficient monies to fund any new emergencies if the remaining FY 2001 monies are obligated for prior year emergencies.

RS/BK:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

HOUSE OF REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Patrick Fearon, Senior Fiscal Analyst

SUBJECT: ARIZONA STATE SCHOOLS FOR THE DEAF AND BLIND - REVIEW INTENDED USE OF EXCESS VOUCHER FUNDS

Request

The Arizona State Schools for the Deaf and the Blind (ASDB) wishes to report its intended use of FY 2001 special education voucher monies that are in excess of $7,302,600, as required by a General Appropriation Act footnote.

Recommendation

This item is for information only and does not require Committee action. The JLBC Staff, however, recommends that the Committee ask ASDB to report back on its plans for approximately $100,000 in additional voucher revenues that have not been included in the spending plan presented in this memo.

Analysis

A footnote in the 1999 General Appropriation Act (Laws 1999, Chapter 1, 1st Special Session) requires ASDB to report its intended use of any special education voucher funds in excess of $7,302,600 in FY 2001. ASDB estimates that it will receive a total of $8,175,500 for FY 2001, or $872,900 above the footnote threshold. The excess funding is attributable to higher than expected enrollment of vouchered students. ASDB expects to have a total enrollment of 587 elementary and high school students and 12 pre-school students this academic year, versus 540 elementary and high school students and 9 pre-school students estimated originally. ASDB's projected enrollment for the end of this fiscal year would be an increase of 2.2% over FY 2000—an increase that we believe is reasonable given recent trends.

We have confirmed ASDB's estimate of voucher revenues given its revised enrollment and per-student voucher revenue projections. After submitting its excess voucher report, however, ASDB discovered that it forgot to add $100,000 in "trigger" funding to its excess voucher fund estimate. These funds are due to a FY 2001 "trigger" increase in the K-12 formula "base level," which also is used in the special education voucher funding formula. Those funds are not addressed in this report.

(Continued)

The $872,900 in new voucher monies included in ASDB's report would increase the agency's FY 2001 budget by 3.0%. (The budget would increase faster than enrollment growth because most of the enrollment growth is occurring in disability categories that generate higher voucher revenues.) The Tucson and Phoenix campuses anticipate revenue increases of approximately $400,000 and $390,000 respectively, with the remaining $82,000 in increases coming from the pre-schools.

ASDB plans to use its excess voucher funds as outlined in Table 1:

Table 1

	Tucson		**Phoenix**		**Pre-Schools**		**Total**	
	FTE Positions	Cost	FTE Positions	Cost	FTE Positions	Cost	FTE Positions	Cost
Teachers	2.0	$ 60,187	4.0	$118,875	0.7	$29,248	6.7	$208,310
Teachers, Phys. Ed.	0.5	13,788	0.0	0	0.0	0	0.5	13,788
Teaching Assistants	10.5	124,430	5.0	66,915	1.5	19,658	17.0	211,003
Communication Specialist	1.5	47,938	1.5	53,088	0.0	0	3.0	101,026
Occupational Therapists	0.4	14,859	0.0	0	0.0	0	0.4	14,859
Interpreter/Tutor	0.0	0	1.0	13,659	0.0	0	1.0	13,659
Diagnostitian	0.0	0	0.5	26,030	0.0	0	0.5	26,030
Nurse	0.0	0	0.3	5,291	0.0	0	0.3	5,291
Intervenors	1.0	16,500	0.0	0	0.0	0	1.0	16,500
Attendants	1.5	13,000	0.0	0	0.0	0	1.5	13,000
Bus Drivers & Chaperones	0.0	0	3.0	49,100	0.0	0	3.0	49,100
Employee Related Expenditures	0.0	55,233	0.0	63,262	0.0	9,293	0.0	127,788
Supplies & Materials	0.0	30,000	0.0	36,500	0.0	0	0.0	66,500
Equipment	0.0	6,000	0.0	0	0.0	0	0.0	6,000
Total	**17.4**	**$381,935**	**15.2**	**$432,720**	**2.2**	**$58,199**	**34.9**	**$872,854**

Proposed Spending Plan. ASDB plans to use the majority of its excess voucher funds to hire new teachers and other personnel. Its envisioned ratio of new teachers and other personnel to extra students is better than its current ratio, but the hiring would generally only bring the agency's ratios to targeted levels that we consider reasonable. Its envisioned salary levels are significantly higher than entry level because of the limited number of qualified personnel available and the need to compete for their services. Its projected non-personnel costs, however, are consistent with current ratios.

- **FTE Positions -** ASDB plans to hire new teachers, teacher assistants, and other academic and support personnel equal to 34.9 FTE Positions for the 50 additional students it expects this year. The new FTE Positions would bring ASDB's student teacher ratios close to its targeted ratios *(see Table 2 attached)*, but the agency would not reach all the target ratios because it generally does not plan to hire in those areas where the teacher shortfall is less than 1 full FTE Position.

- **Salary and ERE Costs -** ASDB's entry-level salary for bachelor-level teachers is about $25,625. However, assumed salaries for the new instructors in ASDB's calculations are about $31,000 and are consistent with new master's-level instructors. ASDB indicates that they have assumed a higher salary range than entry-level because of the limited number of qualified personnel available and the need to compete for their services. Hiring a portion of the new personnel at entry-level rates would free up significant resources.

- **Other Operating Costs -** ASDB is planning to use only $72,500 of its new voucher funds for supplies and equipment. These expenditures represent only about 8% of the total proposed expenditures of excess voucher monies for FY 2001.

RS/PF:jb

Attachment

Table 2: ASDB Student/Teacher and Student/Other Personnel Ratios

	ADM Total	Current FTE	Requested FTE	Current Ratio	Target Ratio	Ending Ratio
Teachers						
Tucson: ASD	184.000	33.000	0.000	5.58	5.55	5.58
Tucson: ASB	112.000	21.000	2.000	5.33	4.67	4.87
Phoenix, PDSD	291.000	43.000	4.000	6.77	5.89	6.19
Pre-Schools	92.000	27.400	0.000	3.36	2.48	3.36
Total	679.000	124.400	6.000	5.46	4.73	5.21
Other Personnel						
Tucson: ASD	184.000	19.700	6.375	9.34	5.20	7.06
Tucson: ASB	112.000	22.350	7.125	5.01	4.16	3.80
Tucson: Dual	296.000	9.500	0.500	31.16	30.30	29.60
Phoenix, PDSD	291.000	35.750	6.450	8.14	4.41	6.90
Pre-Schools	92.000	10.000	1.500	9.20	6.50	8.00
Total		97.300	21.950	6.98	4.46	5.69

NOTE: "Other Personnel" excludes some positions for which there are no formal ratios, such as bus drivers and chaperones

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
JOE EDDIE LOPEZ
JOHN WETTAW

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

BOB BURNS
CHAIRMAN 1999
BARBARA BLEWSTER
LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

DATE: November 20, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tom Mikesell, Fiscal Analyst

SUBJECT: DEPARTMENT OF ENVIRONMENTAL QUALITY — REPORT ON VEI RFP

Request

The department is reporting on its activities surrounding the Request for Proposals (RFP) for the next Vehicle Emissions Inspection (VEI) Program contract. This report includes cost information on contract provisions as requested by the Committee at the September 14, 2000 meeting.

Recommendation

This item is for information only and no Committee action is required. The JLBC Staff recommends, however, that after the contract has been awarded, ADEQ report back to the Committee with specific fee information, including the incremental cost of use of 4-wheel dynamometers, performance bonds, mitigating factors for liquidated damages, and the effect of appropriating payments to the contractor. We recommend that, unless the Committee's December meeting is cancelled, the report be presented prior to the final signing of the contract.

At the September JLBC Meeting, the Committee gave a favorable review to the draft RFP, but requested that ADEQ report back on cost implications associated with some of the new provisions in the contract. As a result of this request, ADEQ solicited input from potential contractors on relative costs related to the provisions identified by the Committee and any other costly provisions. ADEQ has since issued an amendment to the RFP that either eliminates or mitigates those provisions that were thought to be the most costly. The requirements for an "exit lane" and a 4-wheel drive dynamometer at each station were eliminated. In addition, provisions relating to wait times, performance penalties, and On-Board Diagnostics (OBD) tests were modified. Provisions such as fraud detection, a web page, and test result transmission to the Motor Vehicle Division were not identified as costly and therefore were not changed.

(Continued)

The requirement that all test fees be deposited in the VEI Fund and that payments to the contractor be appropriated from the fund, was also identified as having a significant cost implication. The contractor's perceived uncertainty of the appropriations process may lead them to increase fees to allow them to hedge against the uncertainty. The RFP amendment did not address this provision, however, as statute currently requires all fees collected be deposited in the VEI Fund.

On October 26, a public proposal-offering meeting was held. Gordon Darby was the only contractor that attended. To date, they are the only company to offer a bid. ADEQ has put together a selection team to begin evaluating the bid. The team anticipates awarding the contract on December 15.

Analysis

Background

Federal law requires that Arizona operate a vehicle emissions inspection program in Maricopa and Pima Counties. The current VEI program contract is set to expire on December 31, 2001. ADEQ developed an RFP detailing program requirements beginning January 1, 2002. This RFP was given a favorable review by the Committee at its September 14, 2000 meeting. As part of the review, the Committee identified several potentially costly items in the RFP that represented changes from the current contract. As a result, the Committee requested information on test fees, particularly the incremental costs of items not included in the current program.

At an October 2 meeting, ADEQ solicited feedback from interested contractors on several potentially costly provisions in the RFP in addition to those provisions identified by the JLBC. A matrix provided by one contractor displayed its views as to the magnitude of the cost provisions (Attachment 1).

As a result of this feedback, ADEQ issued an amendment to the RFP on October 6, 2000. Some of the changes directly impact the provisions identified by the Committee and some of the changes impact the provisions identified in the contractor meeting. The issues identified at the September JLBC meeting, the action taken to address them, and the anticipated impact on the test fee, are as follows:

- **Fraud detection measures:** Contractor feedback indicated fraud detection measures, including videotaping of testing lane activity, would have a small incremental cost per test. The amendment to the RFP did not address this item.

- **Construction of 'exit lanes' at each testing station:** The amendment removed this requirement from the RFP. This was done to reduce capital construction costs, leading to a lower cost per test.

- **Web page listing real time testing station wait times:** Contractor feedback indicated that incremental cost of this provision would be small, and therefore the amendment did not address this issue. The Web page will provide a source for motorists to get up-to-date wait time data at a small per test cost.

- **Real time transmission of test results to the Motor Vehicle Division:** Contractor feedback indicated that the incremental cost of this provision would be small, and therefore the amendment does not address this provision. Its inclusion will allow better service for motorists who want to get their emissions inspection and registration on the same day.

- **Liquidated damages:** The contractor identified the fines for not meeting performance standards as significant. The RFP amendment allows the contractor to offer mitigating factors in the assessment of liquidated damages for violation of specified performance and reporting standards. For example, the contractor will have the opportunity to specify an expected number of monthly tests with the understanding that in months where this number is exceeded, motorist wait times may exceed the requirements of the contract without penalty.

- **Performance bonds:** The contractors did not indicate that a required performance bond has significant cost implications. ADEQ indicates that a financial guarantee of this type is necessary to protect the state's interests and therefore the amendment does not change the performance bond provisions.

- **Legislative appropriation of contractor payments:** The requirement that all test fees be deposited in the VEI Fund and that payments to the contractor be appropriated from the fund was also identified as having a significant cost implication. The contractors perceive payment through appropriation as less certain than the current method of simply retaining the fee at the time of the test. To account for this uncertainty the contractor may assess a risk premium. At this time it is not known how much this assessment will be. The amendment, however, requires bidders to specify the incremental cost associated with appropriating the payment. ADEQ was not able to change the requirement that fees be appropriated, as statute currently requires all fees collected be deposited in the VEI Fund.

Other issues identified at the October 2 contractor meeting, the action taken to address these issues, and the anticipated impact on the test fee, are as follows:

- **Strict monthly wait time standards:** According to potential bidders, this provision as originally worded in the RFP, would have required bidders to oversize testing networks to accommodate the highest volume times of the month. Typically, highest volumes are during the last week of the month. The amendment addressed this by excluding the last 6 operating days of the month from the calculation of wait times statistics, allowing bidders to design a testing network based on normal vehicle volumes rather than peak volumes. This may mean longer wait times for those who come during the end of the month, but does result in lower fixed costs and lower test fees.

- **4-wheel dynamometers at all testing stations:** The original RFP required each station to have the capability to provide constant 4-wheel drive vehicles an IM 147 test. These vehicles can not be tested on 2-wheel dynamometers and to equip each station with the necessary equipment was viewed by bidders as excessive in light of the small constant 4-wheel drive vehicle population. The amendment removed the requirement that all stations be equipped with 4-wheel dynamometers and replaced it with the requirement that the contractor design a network that allows these tests at a certain station or stations. The design must include a method that directs affected motorists to the proper station. The JLBC Staff feels that in order for this to be effective, the method must inform motorists where they need to go prior to them arriving at the station. The requirement for 4-wheel dynamometers could not be removed completely as it is required under current law.

- **4% random testing for cost-effectiveness study purposes:** Originally, 4% of the vehicles tested were to be randomly re-tested with a full IM 147 test in order to provide data on the program's effectiveness. This was identified in the contractor meeting as an item with a potentially large impact on cost as it would have required an increased number of tests. The amendment reduces this requirement to 2.5% of vehicles that failed the test and 1% of vehicles that passed the test. Reducing the number of vehicles subject to the sample reduces the cost of this provision while still providing enough data for cost-effectiveness studies.

- **On Board Diagnostics (OBD) testing in addition to other forms of testing:** The OBD check is a process by which a vehicle's computer can report emissions problems through plug-in test equipment. It is expected that the federal Environmental Protection Agency will allow OBD in lieu of IM 147 for 1996 and newer vehicles in the near future. The original RFP requested pricing for testing using OBD in addition to the tailpipe tests in Maricopa and Pima Counties. Contractor feedback identified this as an item with a potentially large impact on test cost, since this would result in duplicate testing. The amendment addressed this by removing the OBD requirement from Pima County and by allowing this type of testing in lieu of IM 147 in Maricopa County for 1996 and newer vehicles. Allowing OBD in lieu of IM 147 for these vehicles in Maricopa County will result in lower operating costs as the OBD test is faster that IM 147. The savings associated with increased throughput will grow in the future as the OBD test will be applied to a growing percentage of the vehicle population.

  The savings associated with OBD testing in Maricopa County can not be realized in Pima County as current statute requires the standard idle test. Implementing OBD without changing statute would result in duplication of testing thereby increasing contractor operating costs. The amendment eliminates the OBD requirement in Pima County so as not to inflate the test fee due to increased operating and capital equipment costs.

The contract amendment requires that the bidder report the incremental cost associated with several contract provisions, including use of 4-wheel dynamometers, performance bonds, mitigating factors for liquidated damages, and the effect of appropriating payments to the contractor. This will allow the selection team to better analyze the value of these provisions relative to their costs. The team can then negotiate with the bidder and adjust the contract prior to the final award.

ADEQ anticipates awarding the contract on December 15. At that time, actual cost and fee information will be made public. The JLBC Staff recommends that after the announcement of the contract award but prior to the final signing, ADEQ report back to the Committee on cost and fee information, including incremental costs of the use of 4-wheel dynamometers, performance bonds, mitigating factors for liquidated damages, and the effect of appropriating payments to the contractor. It is recommended that unless the Committee's December meeting is cancelled, that the report be presented prior to the final signing of the contract.

RS/TM:ck
Attachment