STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

MEETING NOTICE

DATE: Wednesday, January 9, 2002

TIME: 1:30 p.m.

PLACE: HOUSE HEARING ROOM 4

TENTATIVE AGENDA

- Call to Order

- Approval of Minutes of October 25, 2001.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Risk Management Deductible.

2. DEPARTMENT OF CORRECTIONS - Review of Private Prison Request for Proposal.

3. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY - Review of Amendment #1 to Vehicle Emissions Inspection Contract.

4. ARIZONA DEPARTMENT OF TRANSPORTATION - Report on Grand Canyon Airport Funding.

5. REPORT ON RECENT AGENCY SUBMISSIONS
   A. Arizona Department of Administration - Report on the Use of Alternative Fuels and Clean Burning Fuels in the State Motor Vehicle Fleet.
   B. Arizona Corporation Commission/Arizona Department of Transportation - Report on Railroad Safety Activities.
   C. Department of Economic Security - Bimonthly Report on Children Services Program.
   D. Department of Economic Security - Bimonthly Report on Arizona Works.
   E. Department of Emergency and Military Affairs - Report on Declared Emergencies.
   F. Department of Health Services - Report on Health Crisis Fund Expenditures.

G. State Mine Inspector - Report on Abandoned Mines Safety Fund Expenditures and Contributions.
H. State Mine Inspector - Report on Mined Land Reclamation Consultant Services.
I. Commission for Postsecondary Education - Report on Fund Deposits and Expenditures.
J. Supreme Court - Report on Adult Probation Services Fund and the Juvenile Probation Fund.
K. Office of Tourism - Report on Tourism Revenues and Expenditure Plan.

6. ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Grand Canyon Airport Lease.

7. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Expenditure Plan for the Replacement of the Human Resources/Payroll System under A.R.S. § 38-431.03. *(Previously was agenda item #B of Executive Session from December 20 agenda.)*

The Chairman reserves the right to set the order of the agenda.
1/4/02

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

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

October 25, 2001

The Chairman called the meeting to order at 1:40 p.m., Thursday, October 25, 2001, in House Hearing Room 4. The following were present:

Members:	Senator Arzberger	Representative Knaperek, Chairman
	Senator Bee	Representative Allen
	Senator Brown	Representative Burton Cahill
	Senator Bundgaard	Representative Gray
	Senator Cirillo	Representative Pickens
	Senator Rios	Representative Weason
Excused:	Senator Solomon	Representative Pearce
Absent:	Senator Bennett	Representative May
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Beth Kohler	Lorenzo Martinez
	Jill Young	
Others:	Debbie Spinner	Office of the Attorney General
	Frank Hinds	Risk Management, ADOA
	Sherri Collins	Arizona Commission for the Deaf and the Hard of Hearing
	Kathryn Babonis	State Procurement Office
	Jane Furr	State Procurement Office
	Dr. David Curry	Arizona Citizen
	Tom Buell	Arizona Citizen
	Michael Ubowski	Arizona Citizen
	Thomas Posedly	Arizona Citizen

APPROVAL OF MINUTES

Representative Knaperek moved that the minutes of October 4, 2001 be approved. The motion carried.

COMMISSION FOR THE DEAF AND THE HARD OF HEARING - Review of Telecommunications Relay Services Contract.

Dr. David Curry, representing himself as a user of the relay service, spoke through an interpreter. He handed out a letter (Attachment 1) expressing his concerns regarding the Telecommunications Relay Services.

Mr. Thomas Posedly, representing himself as a user of the relay service, spoke through an interpreter. He handed out a letter (Attachment 2) expressing his concerns regarding the Telecommunications Relay Services.

Mr. Michael Ubowski, spoke through an interpreter, and expressed support for a multi-vendor environment.

Representative Knaperek agreed that not having choices was frustrating, but the Committee did not have enough information to make a decision at this time regarding the award of the contract. She decided to hold this issue pending further investigation.

Representative Knaperek asked what the difference was between the relay service and the TTY.

Ms. Sherri Collins, Executive Director, Commission for the Deaf and the Hard of Hearing, said that the difference is that TTY is the device used for telephone communication, which is like a typewriter. The relay service facilitates the communication between a hearing person and a deaf caller. Ms. Collins said that MCI is the recipient of the proposed contract award but there are other vendors that provide the same service.

Senator Cirillo asked who handled the procurement process. Ms. Collins said that the State Procurement Office handled the contract. The Commission monitors the contract but the evaluation process is handled by the procurement office.

Representative Knaperek asked if the Commission had anything to do with appointing the people who served on the committee that overviewed the contract. Ms. Collins said that she was personally not on the committee but 2 of her board members were.

Ms. Jane Furr, Procurement Contract Officer , said that she has been doing the relay contract since the beginning, for about 15 years.

Senator Cirillo asked how many vendors were sent the RFP and how many bids were received back. Ms. Furr said that the RFP went out to all vendors registered with the state and 3 bids were returned; Sprint, Hamilton, and MCI. Senator Cirillo asked what the main rationale was for choosing MCI. Ms. Furr said that the committee, which included users of the relay service, went through "best and finals" for a second time. The same criteria used in the last go-around was the same as in the first. Sprint was the low dollar bidder, however, did not meet federal requirements related to typing speed.

Ms. Furr explained that FCC law states that the operators must type 60 words per minute (wpm) for relay systems. In Sprint's proposal they were going to hire operators at 40 wpm and give them 90 days to work up to 60 wpm. The evaluation committee was not comfortable with that and hoped that Sprint would change that proposal. Sprint said no, they would stay with the 90 days. That was the evaluation committee's main rationale for choosing MCI.

Senator Cirillo asked, from a technical standpoint, would it be practical to have 2 vendors. Ms. Furr stated their objective was to contract with 1 provider.

Representative Knaperek asked if there were any laws that precluded them from having more than 1 vendor. Ms. Furr said there were no law that she knew of.

Mr. Stavneak clarified for Senator Rios that the definition of "review" means that you have to take a vote of the Committee.

Representative Knaperek said she understood that ADOA is considering a stay. During the stay, the procurement office will look at Sprint's protest regarding the contract award investigation to see what is going on, which would take 30 days. She indicated that she would like to see competition in the relay service. It would benefit the community and perhaps drive the price down.

Mr. Stavneak asked if the contract will need to be rebid on in that circumstance.

Ms. Katherine Babonis, Operations Administrator, State Procurement Office, said that the solicitation has been worded "pending Committee review" of this. If a decision were made to rewrite the Scope of Work, it would take a cancellation of the current award and solicitation. The Scope of Work would have to be rewritten, resolicited and reawarded.

Representative Knaperek asked if the Committee would be in any position of liability if the contract were cancelled. Ms. Babonis responded that that would have to be considered by the Attorney General's (AG) Office.

Representative Knaperek asked what the timeframe for solicitation was by the AG's office for cancellation of the contract. Ms. Babonis said that the State Procurement Office does not write the Scope of Work, that is done by the agency.

Representative Gray asked what the timeframe would be to go through the whole process again. Ms. Babonis said their office would need at least 10 weeks.

Representative Gray asked if whoever is providing the service now, would they continue. Ms. Babonis said that would have to be negotiated with the provider.

Representative Knaperek said the issue is that the community would like to have choices with providers.

A representative of Sprint said that Sprint was the low bidder and that quality of service was not a concern. He said they welcome the extra 30 days for the Committee to take a look at the issue.

Mr. Ubowski said that the purpose of 711, which is nationwide, means that they do not have to look up a vendor number to access the communication service. In Hawaii the deaf community uses 711, and hearing people use 511 to call in.

The Senior Operations Manager for MCI WORLDCOM, which is the primary provider for the state of California, said currently 711 is routed to the primary vendor. California is a multi-vendor environment but currently in California the costs are higher.

Representative Pickens mentioned the possibility of one of the vendors dropping out, if the state were a multi-vendor environment, because they were not getting enough customers. She felt the Committee needed to look at this issue very closely.

Senator Rios moved that the Committee give an unfavorable review to the Telecommunications Relay Services Contract proposal at this time. The motion carried.

Representative Knaperek suggested that more work be done on this and that JLBC Staff meet with the appropriate people to discuss the issues and how best to serve the community.

Representative Knaperek said there are 2 reports that do not need to be voted on and are in the members' packets and can be read on their own time.

EXECUTIVE SESSION

Senator Bundgaard moved that the Committee go into Executive Session. The motion carried.

At 2:30 p.m. the Joint Legislative Budget Committee went into Executive Session.

Representative Allen moved that the Committee reconvene into open session. The motion carried.

At 3:08 p.m. the Committee reconvened into open session.

Representative Gray moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Bryley v. State of Arizona and that they vote separately on the Parker and Neder v. State of Arizona case.

Representative Gray moved to withdraw her motion. The motion carried.

Representative Gray moved to divide the cases and vote on them separately. The motion carried.

Representative Gray moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Bryley v. State of Arizona. The motion carried.

Representative Weason moved that the Committee not approve the settlement proposal by the Attorney General's Office in the case of Parker and Neder v. State of Arizona. By a show of hands 6 ayes and 5 nays, the motion carried.

ARIZONA BOARD OF REGENTS - follow up report on technology and research initiative fund award program (proposition 301)

There was no discussion on this item and no Committee action required.

REPORT ON RECENT AGENCY SUBMISSIONS

Mr. Stavneak said that these are the recent reports received in the last month and no Committee action was required.

A. Attorney General - Report on Model Court.
B. Department of Economic Security - Bimonthly Report on Children Services Program.
C. Department of Economic Security - Bimonthly Report on Arizona Works.
D. Department of Emergency and Military Affairs - Report on Declared Emergencies.
E. Department of Environmental Quality - Report on Progress of Vehicle Emissions Identification, Testing, and Repair Research Study.
F. Arizona Game and Fish Department - Quarterly Report on the Game and Fish Publications Revolving Fund.

Without objection, the meeting adjourned at 3:15 p.m.

Respectfully submitted:

_____
Cheryl Kestner, Secretary

_____
Richard Stavneak, Director

_____
Representative Laura Knaperek, Chairman

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

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: December 18, 2001

TO: Representative Laura Knaperek, 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

A.R.S. § 41-621(E) requires the Arizona Department of Administration (ADOA) to submit for annual review the deductible amounts charged to agencies for risk management losses. ADOA requests that the Committee approve the current deductible amounts, with no changes from the previous year.

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:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: December 18, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF CORRECTIONS – REVIEW OF PRIVATE PRISON REQUEST FOR PROPOSAL

Request

The Arizona Department of Corrections (ADC) requests Committee review of a Request for Proposal (RFP) issued by the department for 600 privately-operated minimum security beds. Of the 600 beds, 400 are for male DUI inmates and 200 beds are to house male inmates returned to prison (Return to Custody) under an allegation of violating conditions of their release.

Recommendation

The JLBC Staff recommends a favorable review of the ADC private prison RFP. A favorable review is recommended as the RFP meets the intent of statutes related to privatized prison beds and the department's FY 2003 appropriation for 400 private DUI beds and 200 Return to Custody beds.

Analysis

ADC's FY 2002 and FY 2003 appropriations include General Fund monies to enable the department to contract for 400 privately-operated DUI beds and 200 privately-operated Return to Custody beds. The current contract for those beds terminates on September 30, 2002. On October 9, 2001, ADC published a RFP to solicit bids for a private entity to replace the existing 600 beds once the current contract expires. A new RFP was released as statute only allows two renewals per contract. The renewals contained in the current contract for the 600 beds have already been exercised. As a result, the department must solicit new bids and sign a new contract to continue the 600 beds past September 30, 2002. The RFP does not increase the department's current bed capacity rather it continues the privatization of existing beds.

A.R.S. § 41-1609.01 requires that on publication any RFP issued by ADC pertaining to an adult incarceration contract be provided to the Joint Legislative Budget Committee for review. As required by A.R.S. § 41-1609.01, the RFP states that in order for the contract to be awarded the private prison vendor must provide at least the same quality of services as the state at a lower cost or superior quality of service at the same cost. In addition, the RFP requires the provider to meet the staff, treatment, health care, education and security standards established by the department for all Arizona prisons, both state-operated and privately-operated.

The role of the Committee in the process is to review the RFP after publication. The Committee does not review the bids or the final contract. The department is charged with evaluating the potential private prison operators to ensure they comply with statute, including providing comparable services at a reduced cost, and the Office of the Attorney General reviews the contract to confirm the contract follows statute.

Pursuant to statute, the department is required to conduct a biennial comparison of the services provided by the private prison for the purpose of evaluating the delivery of services provided by the private entity versus state-operated facilities. The Committee does have review responsibility for those service and cost comparison studies. The Committee reviewed such a study at the November 2000 meeting.

A favorable review of the ADC RFP is recommended as the RFP meets the intent of statutes related to privatized prison beds and the department's FY 2003 appropriation for 400 private DUI beds and 200 Return to Custody beds.

The Table of Contents of the RFP is attached. The entire RFP is available upon request.

RS/BR:ck
Attachment

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: December 18, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tom Mikesell, Fiscal Analyst

SUBJECT: DEPARTMENT OF ENVIRONMENTAL QUALITY - REVIEW OF AMENDMENT #1 TO VEHICLE EMISSIONS INSPECTION CONTRACT

Request

Pursuant to A.R.S. § 49-545, the Arizona Department of Environmental Quality (ADEQ) requests Committee review of Amendment #1 to the Vehicle Emissions Inspection contract with a private vendor covering program operations from January 2, 2002 to December 31, 2009.

Recommendation

The contract amendment will reduce the vehicle emissions inspection fees in Maricopa County by $0.73 per biennial test and by $0.27 per annual test. The Pima County test fees will be reduced by $0.27 per annual test under the amendment. Most of the fee reduction is due to a contract amendment that will require more prompt payment of the vendor.

The prompt payment provision seems reasonable. In addition, ADEQ indicates that the proposed changes will not have an impact on the fee charged by ADEQ for program administration. Additional program enhancements included in the contract amendment will not lead to a change in the testing fees.

The contract also shifts liability for non-sufficient funds (NSF) checks from the contractor to the state. Under the current contract, the contractor has responsibility for these 'bad checks', and there is an incremental cost built into the fee to compensate the contractor for financial risks associated with this responsibility. With the transfer of responsibility to the state, there is a reduction in the fee. However, there is no guarantee in the current amendment that the contractor will perform the same level of scrutiny of checks when the responsibility for bad checks is transferred.

If the Committee provides a favorable review of the contract amendment, the JLBC Staff recommends a contract provision that ensures that the contractor takes reasonable steps when fees are collected to verify that checks are valid.

Analysis

Pursuant to federal law, ADEQ operates a vehicle emissions inspection program in Pima and Maricopa counties through a contract with a private vendor. The current contract is set to expire on December 31, 2001. The new contract, awarded to Gordon-Darby Arizona Testing on December 15, 2000, will cover program operations for a 7-year period beginning January 2, 2002 and ending December 31, 2009. The Committee reviewed the new contract in December 2000. The contract provides for a variety of tests depending on the vehicle's age and whether the vehicle is operated in Pima or Maricopa County. Vehicles operated in Maricopa County that are 5 years old and newer are required to receive a biennial OBD or IM-147 test. Older vehicles operated in Maricopa County, and all vehicles operated in Pima County, will be required to receive an annual standard test.

Under the new contract, the program will be funded entirely through test fees charged to motorists at the time of inspection. These fees will be collected by the contractor and remitted to ADEQ for deposit in the Emissions Inspection (VEI) Fund. ADEQ will retain a portion of the fee to cover its costs for administering the program, and send the remainder to Gordon-Darby to cover the contractor's operational costs. The approved budget includes appropriations from the VEI Fund in FY 2002 and FY 2003 to provide ADEQ the necessary expenditure authority to administer the program and pay the contractor its portion of the test fee.

The proposed contract amendment changes the timing of contractor payments and shifts responsibility for non-sufficient funds checks to the state, makes changes necessary to conform the contract to legislation passed in the 2001 legislative session, and provides for program enhancements and technical revisions.

Payment Processing Provisions
As mentioned, the amendment changes the timing of contractor payments. Under the current contract, beginning January 2, 2002 ADEQ will make monthly payments to the contractor equal to the contractor's portion of the test fee. With the amendment, ADEQ will pay the contractor on a weekly basis. The amendment also shifts the responsibility for non-sufficient fund checks from the contractor to ADEQ. Currently, the contract includes contractor's test fees of $26.67 for the Maricopa County biennial IM 147/OBD tests and the annual diesel test. The Maricopa County standard fee is fixed at $17.32 per annual test. The standard and diesel test fees for motorists in Pima County are fixed at $11.56 per annual test.

The changes in the payment timing and non-sufficient funds checks responsibility reduce the Maricopa biennial IM 147/OBD and annual diesel test fees by $0.41 per test, and decrease the Maricopa annual standard fee by $0.27 per test. The changes decrease the Pima fees by $0.17 per annual test. ADEQ indicates that neither of these changes will impact its program administrative costs. ADEQ did not provide detail on how much each element of the payment procedure change contributes to the overall test fee decrease.

A portion of the decrease is attributed to ADEQ making payments to the contractor on a weekly basis rather than on a monthly basis. In the current contract there is a provision that the contractor will decrease the fees if the contractor's portion of the test fee was changed to non-appropriated status. The proposed change does not eliminate the requirement to appropriate payments to the contractor, though it does result in shortening the time between which fees are collected and the contractor receives its share. The remainder of this decrease is attributed to ADEQ assuming the responsibility for bad checks, though the exact amount of the decrease due to this change was not provided by ADEQ. Under the prior contract, the contractor charged an incremental amount per test for bad debt

and payment processing provisions. When ADEQ presented the initial version of the new contract to the Committee in September 2000, a base fee of $26.00 per biennial Maricopa test was included. This base fee was the contractor's proposal for operating the program using the same procedures as under the old contract, therefore it is assumed that fees charged for bad debt are included in the current contract's base test fee. However, since this base fee was not broken into individual components it is uncertain how much this provision added to the new base test fees.

ADEQ reports that in calendar year 2000, total checks received with non-sufficient funds totaled approximately $22,000, and that on average NSF checks result in about $5,000 in bad debt each year. Though these amounts are small in comparison to the total annual contract cost, they are based on the old contract where the contractor had the primary responsibility for bad checks. Since the contractor bore the impact of bad debt it was in the contractor's best interest to screen payments as they were received to assure the validity of checks. The JLBC recommends that any action to formally shift the responsibility for NSF checks to the state be accompanied with a formal contract provision that the contractor performs the appropriate steps to guard against receiving checks from accounts with non-sufficient funds.

Legislative Changes

Among the legislative changes incorporated in the amendment is the elimination of constant 4 -wheel drive vehicle testing requirements as provided by Laws 2001, Chapter 371. The current contract allows a $0.32 reduction in the Maricopa IM 147/OBD and diesel testing fees in the event that constant 4-wheel drive testing is repealed. The contract amendment formalizes this fee reduction. The following table shows the original fees, the reductions provided by the contract amendment, and the contractor's final test fees after the changes.

VEHICLE EMISSIONS INSPECTION PROGRAM
CONTRACTOR TEST FEE
(1/02/02 - 12/31/09)

	MARICOPA			PIMA	
	Biennial OBD & IM 147 Fee	**Annual Standard Fee**	**Annual Diesel Fee**	**Annual Standard Fee**	**Annual Diesel Fee**
Original Test Fee:	$26.67	$17.32	$26.67	$11.56	$11.56
Amendment #1 Changes:					
Repeal of Constant 4-WD testing	(0.32)	0.00	(0.32)	N/A	N/A
Change in Timing of Contractor Payments / NSF Checks	(0.41)	(0.27)	(0.41)	(0.17)	(0.17)
Revised Test Fee	**$25.94**	**$17.05**	**$25.94**	**$11.39**	**$11.39**

Other changes necessary to conform the contract to legislation passed in the 2001 legislative session include:

- **Alternative Fuels Vehicles Testing** - Laws 2000, 7th Special Session, Chapter 1 requires that alternative fuels vehicles be tested while operating on both gasoline and an alternative fuel. This is not expected to add to program cost since most vehicles in this category can receive an OBD test which is quicker than standard forms of testing, therefore this change does not impact the test fees.
- **Expansion of Area A** - Laws 2001, Chapter 371 also expanded Area A. According to ADEQ, additional testing stations are not needed to meet this requirement, therefore there is no increase to the test fees.

Program Enhancements and Technical Changes
Program enhancements and technical changes in the amendment include:

- **Vehicle Inspection Report Encryption -** Changes existing inspection report handling practices in favor of an electronically encrypted process.
- **Functional Gas Cap Check on OBD (On-Board Diagnostic) Vehicles -** Clarifies program requirements regarding the gas cap test for vehicles receiving an OBD test.
- **Automates Identification of Diesel Vehicle Tampering -** Automates identification of diesel vehicles 1999 and older needing under-the-hood tampering tests.

These program enhancements and technical changes do not lead to an increase in the contracted testing fee according to ADEQ.

RS/TM:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: December 18, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF TRANSPORTATION – REPORT ON GRAND CANYON AIRPORT FUNDING

Request

The Arizona Department of Transportation (ADOT) requests that the Committee release $161,500 (3 months) of the FY 2002 appropriation to operate the Grand Canyon Airport until it is leased to a non-profit corporation.

Recommendation

The JLBC Staff recommends the release of $161,500 for 3 months of funding in FY 2002 to operate the Grand Canyon Airport through March 31, 2002. This would make $484,600 released for the first 9 months of FY 2002, and would leave another $161,500 of the total appropriation of $646,100 available for the last 3 months of FY 2002, if needed. A General Appropriation Act footnote requires that no more than $53,800 may be made available to ADOT in any month.

The JLBC Staff further recommends that ADOT report back to the Committee by March 1, 2002, regarding the status of the lease, if ADOT has not leased the airport by then.

Analysis

The ownership and management of the Grand Canyon Airport was transferred from ADOT to the then newly established Grand Canyon Airport Authority on October 1, 1999, in accordance with Laws 1999, Chapter 213. The Authority was envisioned as having more local control, more freedom from the state bureaucracy, and with the ability to borrow funds for capital needs. However, ADOT subsequently determined that the Authority was a semi-autonomous state entity, instead of an independent municipal corporation, which still had to use the state accounting system, personnel system, and administrative rule making process. To remedy these shortcomings, Laws 2000, Chapter 99 was enacted. Chapter 99

(Continued)

eliminated the Grand Canyon Airport Authority, reverted any unexpended and unencumbered monies previously appropriated to the Authority to the State Aviation Fund, and returned the operation of the Grand Canyon National Park Airport to ADOT, effective July 18, 2000. ADOT had to lease the airport to a nonprofit corporation, to operate and develop the airport as provided in the lease.

Laws 2000, Chapter 99 requires ADOT to submit the lease to the Joint Legislative Budget Committee for review at least 30 days before they intend to execute the lease. ADOT may not execute the lease until the Joint Legislative Budget Committee reviews the lease and submits a report summarizing the terms of the lease to the Speaker of the House of Representatives and the President of the Senate, which shall be within 30 days after receipt of the lease.

The General Appropriation Act included a $646,100 appropriation, as adjusted for statewide salary and other allocations, to ADOT in FY 2002 for the operation of the Grand Canyon Airport. A General Appropriation Act footnote required that before the expenditure of any of this money for the Grand Canyon Airport, the department had to report to the Joint Legislative Budget Committee on the status and projected date of the privatization of the airport. The footnote further provides that no more than one-twelfth of the $646,100 may be made available to ADOT in any month. At its June 28, 2001 meeting the Committee concurred with ADOT's request to release $323,100 for 6 months of funding in FY 2002 to operate the Grand Canyon Airport. The Committee further recommended that ADOT report back to the Committee by December 1, 2001, regarding the status of the lease, if ADOT had not leased the airport by then.

ADOT now reports that the potential lessee is currently conducting certain due diligence in regard to the airport, and that ADOT expects both the potential lessee and the department to sign the lease in January 2002, with an operational control date of April 1, 2002. However, it is still possible for issues to arise which might delay or prevent the lease signing. ADOT still must submit the lease to the Joint Legislative Budget Committee to review and to summarize for legislative leadership at least 30 days before they intend to execute the lease.

The JLBC Staff recommends the release of $161,500 for 3 months of funding in FY 2002 to operate the Grand Canyon Airport through March 31, 2002. This would make $484,600 released for the first 9 months of FY 2002, and would leave another $161,500 of the total appropriation of $646,100 available for the last 3 months of FY 2002, if needed. A General Appropriation Act footnote requires that no more than $53,800 may be made available to ADOT in any month. The JLBC Staff further recommends that ADOT report back to the Committee by March 1, 2002, regarding the status of the lease, if ADOT has not leased the airport by then.

RS/BH:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: December 19, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

Request

The JLBC has received a number of statutorily required reports during the past month. Each report is briefly described below.

Recommendation

The reports are for information only and no Committee action is required. We do not intend to discuss the reports at the JLBC meeting unless a member has a question. If any member knows in advance that they will have questions, we would appreciate knowing that before the meeting so as to ensure the relevant agency is available.

Reports

A. Arizona Department of Administration - Report on the Use of Alternative Fuels and Clean Burning Fuels in the State Motor Vehicle Fleet.

Pursuant to A.R.S. § 41-803 (R), the Arizona Department of Administration (ADOA) is required to report on the inventory of state vehicles, state vehicles in Maricopa County, state vehicles utilizing alternative fuels, the state's level of compliance with Federal and State alternative fuel mandates and other information presented to the ADOA concerning alternative fuel vehicles. As of June 30, 2001 26% of the state's total vehicle fleet was capable of utilizing alternative fuels. Since large vehicles and some light duty vehicles are exempt from the requirements, the percentage of the "qualifying fleet" capable of utilizing alternative fuels is 31%. Federal mandates require that 40% of the light duty vehicles in the state be capable of utilizing alternative fuels. While technically out-of-compliance, the state is making progress every year in meeting the mandate.

B. Arizona Corporation Commission/Arizona Department of Transportation - Report on Railroad Safety Activities.

A footnote in last year's General Appropriation Act requires the Arizona Corporation Commission and the Arizona Department of Transportation to each submit a report by November 1, 2001 on which agency

is most appropriate to conduct railroad safety activities. Both agencies report that the Arizona Corporation Commission has state constitutional and statutory authority and responsibility to regulate the safety of railroads and railroad crossings. The Arizona Corporation Commission asserts that their current railroad safety activities benefit from the support of their legal, hearing, and administration divisions. Both agencies recommend that railroad safety activities remain at the Arizona Corporation Commission.

C. Department of Economic Security - Bimonthly Report on Children Services Program.

Pursuant to a footnote in the FY 2002 - FY 2003 General Appropriation Act, the Department of Economic Security (DES) has submitted the bimonthly Children Services report for December 1. The report includes actual expenditure and caseload data through October 2001. Year-to-date expenditures totaled $25,335,200, or 2.0% higher than the $24,832,300 projected in DES' last bimonthly report. Although projected total year-end expenditures have increased just 0.1% since the last report, DES has increased its projection of a state funds deficit from $(5,270,400) to $(6,471,000). DES is permitted to spend in FY 2002 $6,471,000 of federal Temporary Assistance for Needy Families Block Grant monies transferred to the Social Services Block Grant and reserved for use in FY 2003. The Committee must review the proposed use of any of the $6,471,000. The number of children receiving services in October was 15,796, an increase of 495 children (3.2%) from August 2001.

D. Department of Economic Security - Bimonthly Report on Arizona Works.

As the vendor for the state's Arizona Works pilot welfare program, MAXIMUS is required to report bimonthly on Arizona Works. It submitted its latest report on November 15. Total caseloads in Arizona Works increased by 5.3% from September 2000 through September 2001. Over the same period of time, welfare caseloads in the rest of Maricopa County increased 22.1%. We would note, however, that any difference in recipient and economic characteristics in both areas may contribute to differences in caseloads. In addition, at its December 19 meeting the Arizona Works Agency Procurement Board will consider selecting Greenlee County as the rural site for the 2nd (rural) phase of the Arizona Works pilot. The Board elected not to choose Mohave County as the 2nd site earlier this fall.

E. Department of Emergency and Military Affairs - Report on Declared Emergencies.

Pursuant to A.R.S. § 26-303, on September 28, 2001 the Governor activated National Guard resources to help protect commercial airports in Arizona. At the time of the activation, state funds were not authorized for expenditure. Pursuant to A.R.S. § 35-192, on October 16, 2001 the Governor directed that $100,000 from the General Fund be made available for expenditure by the Director of the State Division of Emergency Management for security activities at commercial airports. National Guard personnel performing security activities are in "federal Title 32" status, which means that they are under the Governor's control, but the federal government covers their pay and benefits. The funds authorized for expenditure under this proclamation are used for security planning and preparation not covered by Federal Funds. Another $200,000 was already approved earlier in the year for homeland security issues.

Pursuant to A.R.S. § 26-303, the Governor declared a State of Emergency effective October 27, 2001 in Pinal County due to a citrus wood chip fire that was beyond local fire fighting capabilities. Pursuant to A.R.S. § 35-192, the Governor directed that $200,000 from the General Fund be made available for expenditure by the Director of the State Division of Emergency Management. The fire burned over 25 acres of wood chips near the town of Queen Creek. Smoke from the fire caused respiratory irritation to nearby residents and resulted in the Department of Health Services issuing public health advisories for the area.

Under A.R.S. § 35-192, the Governor is authorized to approve the expenditure of $200,000 or less for any single disaster or emergency. Authorization of larger expenditures cannot be made without consent of a majority of the members of the State Emergency Council. The total amount of all expenditures for States

of Emergency cannot exceed $4,000,000 for any fiscal year. There have been five emergency declarations or amendments in FY 2002, so far, with total authorized expenditures of $700,000 from the General Fund.

F. Department of Health Services - Report on Health Crisis Fund Expenditures.

Pursuant to Laws 2001, Chapter 374, the Governor is required to submit a copy of the Executive Order when monies from the Health Crisis Fund are allocated for a health crisis. The Health Crisis Fund receives up to $1,000,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund. The Governor may declare a health crisis or a significant potential for a health crisis and authorize monies from the Health Crisis Fund for the emergency. On October 29, 2001, the Governor authorized $350,000 for the state laboratory in light of the increased demand for laboratory testing due to anthrax findings in other states. On October 30, 2001, the Governor authorized $80,000 for the Border Health Foundation, which addresses health issues along the United States-Mexico border region. The Border Health Foundation relies primarily on federal grants and is facing a shortfall in grant monies from October to December of 2001. The Health Crisis Fund monies will be used to fill in the shortfall.

G. State Mine Inspector - Report on Abandoned Mines Safety Fund Expenditures and Contributions.

The State Mine Inspector has a statutory responsibility to establish a program to locate, inventory, classify, and eliminate public safety hazards at abandoned mines. To this end the Abandoned Mines Safety Fund was created. The Mine Inspector must submit an annual report to JLBC on or before December 1 detailing the contributions to the fund and the expenditures by the fund during the preceding fiscal year.

In FY 2001 the State Mine Inspector spent $81,400 on 6 original top priority sites. This completed work on 11 of the 12 original top priority sites. These projects included the largest project to date, which is the $31,700 Tonopah Belmont Bat-Gating Project. This project included the gating, grating, fencing and filling of the Tonopah Belmont Mine. At this site bat gates, ventilation grates, an iron fence, and a backfill were also added. Additionally, 67 openings were fenced at 5 other sites.

The General Fund contribution to the Abandoned Mines Safety Fund was $30,000 in FY 2001. In addition, the fund had $66,100 in carry-forward balances, for a total of $96,100 in available resources. With the $81,400 in expenditures, the fund had a FY 2001 ending balance of $14,800. The General Fund contributions are meant to match private donations to the fund, however, there were no private donations in FY 2001. In FY 2002 another $30,000 is appropriated to the fund. No private donations have yet been received by the fund, and none are anticipated for the remainder of FY 2002. Over the next two years the Mine Inspector has identified 10 additional projects totaling $189,500.

H. State Mine Inspector - Report on Mined Land Reclamation Consultant Services.

According to A.R.S. § 27-935 the State Mine Inspector may contract with a private consultant in reviewing mined land reclamation plans. The State Mine Inspector must then report to the JLBC any expenditures of money for this purpose, the name and address of each consultant, and the submitted plans of the consultants. There were no contracts with private consultants entered into during FY 2001.

I. Commission for Postsecondary Education - Report on Fund Deposits and Expenditures.

A.R.S. § 15-1853 requires the Commission for Postsecondary Education to report quarterly to the Joint Legislative Budget Committee on fund deposits and expenditures. The 1st quarter FY 2002 report was submitted on November 15. The commission is authorized to review all public and private postsecondary institutions in the state to determine their eligibility for student financial aid monies and to administer federal and state financial aid programs. The commission projects total expenditures for the 1st quarter of

FY 2002 to be $482,060, $272,829 from the General Fund and $209,231 from the Postsecondary Fund. This amounts to 10.7% of the overall appropriation or 15.8% of the General Fund appropriation and 7.5% of the Postsecondary Fund appropriation. The expenditures from the Postsecondary Fund are lower because no General Fund monies for Leveraging Educational Assistance Partnership have been spent to date. They will be spent after federal funds have been expended in the 2nd and 3rd quarters. Expenditures are consistent with previous fiscal year's 1st quarter reports.

J. Supreme Court - Report on Adult Probation Services Fund and the Juvenile Probation Fund.

Pursuant to a footnote in the FY 2002 - FY 2003 General Appropriation Act, the Administrative Office of the Courts (AOC) is required to report annually to the JLBC on the total receipts and expenditures in each account of the Adult Probation Services Fund (A.R.S. § 12-267) and the Juvenile Probation Fund (A.R.S. § 12-268). The report is to present the information by county and include the amount of Personal Services expended from each revenue source of each account.

The AOC reports statewide Adult Probation Services Fund receipts of $95,899,900 and total expenditures of $89,191,500 in FY 2001. Of this expenditure amount, county funds represent 25% of all expenditures, state funds represent approximately 68%, and other sources of revenue such as probation fees represent approximately 7%. Of the statewide expenditure total, $75,671,100 (85%) was spent on Personal Services and Employee Related Expenditures (ERE). These expenditures are distributed as follows: $18,054,700 county funds, $53,804,600 state funds, and $3,811,800 fee revenue.

Total FY 2001 receipts and expenditures for the Juvenile Probation Fund were $113,420,100 and $110,895,000, respectively. Of this expenditure amount, county funds represent 47% of all expenditures, state funds represent approximately 44%, and other sources of revenue such as probation fees represent approximately 9%. Of the statewide expenditure total, $72,441,400 (65%) was spent on Personal Services and ERE. These expenditures are distributed as follows: $43,208,900 county funds, $21,483,700 state funds, $6,599,400 fee revenue, and $1,149,400 federal funds. The report submitted by the AOC contains detailed information by county, by fund, and by budget line item. Copies of the report are available upon request.

K. Office of Tourism - Report on Tourism Revenues and Expenditure Plan.

Pursuant to Laws 2001, Chapter 236, the Office of Tourism shall report to the JLBC on the amount of revenue it will receive in FY 2002 from prior year collections of the hotel tax, the amusement tax, and the restaurant tax. A percentage of revenues from these 3 taxes is dedicated to the Office of Tourism, forming the basis for its FY 2002 General Fund budget. The agency is also required to report on its plans for how it will use any additional revenues in FY 2002 above the amount estimated in the budget bill, or how it will reduce expenditures if revenues fall short of the estimate.

The report submitted by the Office of Tourism states that the amount of FY 2001 tax revenues dedicated to the Office of Tourism in FY 2002 totals $11,043,768. This is $(377,032) below the amount estimated in the budget bill. The agency has provided a revised spending plan consistent with this lower funding level.

RS:lm

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: January 4, 2002

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF TRANSPORTATION – REVIEW OF GRAND CANYON AIRPORT LEASE

Request

The Arizona Department of Transportation (ADOT) requests that the Committee review ADOT's proposed lease of the Grand Canyon National Park Airport to a nonprofit corporation.

Recommendation

The JLBC Staff recommends a favorable review of the request, with the provision that the final lease include ADOT's proposed verbal technical corrections before it is signed.

Analysis

Laws 1999, Chapter 213, established the Grand Canyon Airport Authority effective October 1, 1999. The purpose was to have more local control, more freedom from state government, and the ability to borrow funds for capital needs. However, ADOT subsequently determined that the Authority was a semi-autonomous state entity, instead of an independent municipal corporation, which still had to use the state accounting system, personnel system, and administrative rule making process. To remedy these shortcomings, Laws 2000, Chapter 99 was enacted.

Laws 2000, Chapter 99 eliminated the Grand Canyon Airport Authority, and returned the operation of the Grand Canyon National Park Airport to ADOT, effective July 18, 2000. Laws 2000, Chapter 99 also required ADOT to lease the airport to a nonprofit corporation, to operate and develop the airport as provided in the lease. Chapter 99 required ADOT to submit the lease to the Joint Legislative Budget Committee for review at least 30 days before they intend to execute the lease. ADOT may not execute the lease until the Joint Legislative Budget Committee reviews the lease and submits a report summarizing the terms of the lease to the Speaker of the House of Representatives and the President of the Senate, which shall be within 30 days after receipt of the lease. When ADOT attempted to negotiate a lease for the airport, they found that further statutory changes were needed. In response, Laws 2001, Chapter 99, was enacted.

(Continued)

Laws 2001, Chapter 99 specifically exempts the Grand Canyon Airport lessee from bid requirements, mechanics liens, the personnel system, rule making procedures, and the procurement code. We are still exploring whether airport employees of the nonprofit corporation lessee would be considered state employees.

On April 11, 2001 our office received a preliminary draft of a proposed lease from ADOT. At that time, ADOT reported that the department and the potential lessee were not yet in complete agreement regarding the draft lease as it was then written, and that they still had outstanding issues to resolve. They also had not agreed on an operational control date, and did not have a projected lease signing date. We reviewed this draft lease and responded in a May 1, 2001 letter to ADOT, which noted these shortcomings as well as our belief that their final lease should clearly state that the lessee shall reimburse ADOT for all of ADOT's cost of insurance coverage of the airport.

On December 28, 2001, our office received ADOT's final lease for the airport, which addressed our previous concerns. ADOT's December 20, 2001 cover letter states that the Attorney General's Office, ADOT, and the Arizona Department of Administration Risk Management have carefully reviewed the lease. ADOT expects to sign the lease sometime later in January 2002. The following points summarize certain main provisions of the lease:

1) ADOT would lease the airport to the Grand Canyon Airport Authority, Inc., an Arizona nonprofit corporation, to operate and develop the airport for 40 years. The Grand Canyon Airport Authority, Inc. would have an option to renew the lease under terms mutually agreed to by both parties.

2) The Grand Canyon Airport Authority, Inc. would take operational control of the airport on April 1, 2002.

3) Any fees collected before April 1, 2002 shall belong to ADOT, and ADOT will continue to pay to operate the airport until April 1, 2002.

4) ADOT will pay any expenses associated with operating the airport, that may be incurred by the Grand Canyon Airport Authority, Inc. between the lease signing date and April 1, 2002, from the department's appropriated funds for the airport.

5) ADOT will not transfer prior year monies available to the Grand Canyon Airport Authority, Inc. until April 1, 2002. ADOT reports that $907,000 of prior year monies is available for transfer to the Grand Canyon Airport Authority, Inc.

6) The Grand Canyon Airport Authority, Inc. will pay an annual rent of $100 to ADOT.

7) The Grand Canyon Airport Authority, Inc. will provide certain specified insurance coverage, and shall pay ADOT's cost of insurance coverage of the airport.

8) The Grand Canyon Airport Authority, Inc. accepts the airport in an "as is" condition, and assumes full responsibility for the condition, construction, operation, repair, demolition, replacement, maintenance, and management of the airport.

9) The Grand Canyon Airport Authority, Inc. shall operate and maintain the airport as a self-sustaining enterprise, and shall manage the airport in the most efficient manner consistent with public advantage.

10) The Grand Canyon Airport Authority, Inc. shall provide ADOT with an annual financial statement of the airport. ADOT may audit the books and records of the Grand Canyon Airport Authority, Inc.

(Continued)

ADOT confirms that there are two technical inconsistencies in their final lease, as follows:

1) Page 1, line 3, of the proposed lease states that the lease is executed as of January 1, 2002, when in fact the lease would actually be signed sometime later in January. ADOT verbally reports that they would cure this defect by replacing "January 1, 2002" with "this date" in the final lease before it is signed.

2) Page 8, lines 13 – 15, states that the 40-year term of the lease runs from the date first set forth (i.e., January 1, 2002) through December 31, 2041. ADOT verbally proposes to correct this defect by replacing this sentence with language, which would define the term of the lease as beginning on the date the lease is signed and ending 40 years in the future.

The JLBC Staff recommends a favorable review of the request, with the provision that the final lease include ADOT's proposed verbal technical corrections before it is signed. We are attaching ADOT's transmittal letter and the Table of Contents for the lease to this memo. Anyone who would like a copy of the 56 page lease, can request a copy from our office.

RS/BH:jb
Attachments

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: December 19, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION - REVIEW OF EXPENDITURE PLAN FOR THE REPLACEMENT OF THE HUMAN RESOURCES/PAYROLL SYSTEM

Request

In accordance with Laws 2001, Chapter 236, the Arizona Department of Administration (ADOA) is required to submit a report for review detailing the expenditure plan for the replacement of the Human Resources/Payroll System.

Recommendation

ADOA recommends replacing the current human resources/payroll system, which is based on outdated computer software. ADOA has expressed concerns about their ability to ensure the timely processing of state employee paychecks due to the system's age. The Government Information Technology Agency (GITA) and the Information Technology Authorization Committee (ITAC) have both reviewed the project and believe it is sound.

The project would cost $80.2 million over 12 years. Of this total cost, $44.3 million is a 12-year lease purchase.

The lease purchase debt service payment would be approximately $2.6 million in FY 2002 and $3.8 million in FY 2003. The debt service payment grows to $6.5 million by FY 2012.

The current budget is insufficient to cover the cost of the debt service payment, starting in FY 2003. The debt service would be paid from the Personnel Division Fund, which derives its funding from charges to agency budgets. The current FY 2002 charge is 0.95% of employee salaries. The original FY 2003 budget, which has now been repealed, envisioned raising the charge to 1.04%.

(Continued)

If we retain the current 0.95% charge in FY 2003 due to the overall budget shortfall, we will be able to afford only $2.5 million of the $3.8 million debt service payment. We would need to raise the rate to 1.04% to make the entire debt service payment through FY 2005. Of the additional $1.3 million cost to raise the rate to 1.04%, the General Fund will pay approximately 50% and Other Funds will pay the remaining 50%. Beginning in FY 2006, the 1.04% rate will be insufficient and we would need to increase the budget between $460,000 and $2.5 million each year through FY 2012.

The Committee has the policy choice of asking ADOA to reconfigure the project to remain within current funding or to provide a favorable review of the existing proposal. If the latter course is chosen, we would recommend that the Committee:

- Clarify whether it intends to increase agency budgets to pay for the higher 1.04% charge or whether agency budgets should be expected to absorb this cost increase.

If the Committee provides a favorable review, we recommend 2 other conditions:

- The lease purchase financing is to exclude the cost of any on-going FTE Positions.

- ADOA and GITA would report back to the Committee by February 15, 2002 on agency budget reductions, which can be achieved by the implementation of the new system. As explained below, the new computer system will permit the elimination of duplicate agency payroll information systems.

Analysis

The original General Appropriation Act approved $2,900,000 in FY 2002 and $5,300,000 in FY 2003 from the Personnel Division Fund to replace the Human Resources/Payroll System. This system is known as the Human Resources Management System (HRMS). The recent budget legislation repealed the FY 2003 appropriation.

Background

The core of the payroll system was installed in 1974. In 1989, several human resource applications, formally known as HRMS, were installed to provide human resource management tools. The state has a large and diverse workforce that is subject to multiple statutory requirements at both the state and federal level. The HRMS system has been extensively modified to meet the unique requirements of the state and requires extensive programming support to complete even routine tasks. These modifications have been executed with a variety of different programming languages, adding to the complexity of the system.

Additionally, the core programming language is becoming obsolete. The department warns that modifications to the current system are becoming increasingly difficult and that some modification that should be made, especially concerning some Fair Labor Standards Act requirements, have not been made. Because the core software is becoming obsolete, it will eventually have to be replaced. Over time, obsolete software becomes more expensive as properly skilled programmers retire from the workforce. There is no incentive for young programmers to learn obsolete languages, so eventually there will be no programming support for the current system.

In 1999, ADOA investigated the purchase of an Enterprise Resources Planning (ERP) system that would have addressed the human resources, payroll, purchasing and finance/accounting needs of the state. Eventually, the project plan was scaled-down to replace only the human resources and payroll systems. After another extensive review process, including the services of a consulting group (The Meta Group) mandated by the Information Technology Authorization Committee (ITAC) of the Government Information Technology Agency (GITA), a request for proposal was issued in May 2001. Vendor selection was completed in early October 2001.

(Continued)

System Specifications
The preferred vendor's system represents a commercial, off-the-shelf (COTS) payroll and human resources management system. Because of the state's complex human resources requirements, the chosen system will require some modification, but the design of the system makes such modifications less labor intensive than is required for the current system. By purchasing COTS software, the state avoids the need for costly customizing of other, less compatible software products. There may be features to a COTS system that are not basic needs of the state, but are part of the standard product. A COTS system is designed to meet the needs of a variety of large, institutional users and is designed to provide a level of detailed human resource information that will meet the most common needs of its users. This level of detail surpasses the capabilities of the current HRMS system.

State agencies require more detailed human resource information than can be provided by the current system. To overcome this deficiency, every agency that utilizes HRMS must maintain a secondary payroll information system. These secondary systems can be as simple as a set of spreadsheets or as intricate as the Department of Corrections' APPLE System. Since these secondary systems will no longer be needed, installing the new system should result in operating efficiencies.

The department has created a report, at ITAC's request, detailing the estimated cost savings of the project. Of the savings, $102 million are productivity enhancements over 12 years, but which will not probably translate into actual budget reductions. Another $20.4 million in savings are the costs associated with systems that will be replaced with this project. ADOA will utilize those savings to offset the costs of the new system. Finally, there are $1.5 million in one-time foregone costs of necessary upgrades to the current system that can be avoided with the new system.

The system chosen represents the current state of the technology; the replacement system will be compatible with potential replacements for the purchasing and finance/accounting systems. With the replacement of those systems, the department could eventually create a true statewide Enterprise Resource Planning (ERP) system.

The preferred vendor has recently completed several installations of this product for several large, governmental organizations. The costs of previous installations are comparable. The following table, provided by ADOA, summarizes the costs of recent, comparable installations. Since we do not know the specifications of these systems, we have not been able to verify that these costs represent "apples to apples" comparisons.

Comparable Payroll Installation Cost Comparison

	Total Cost
State of Louisiana	$40,000,000
State of Arkansas	38,774,000
State of Michigan	41,858,100
Riverside County, CA	51,689,300
HRMS Proposal	33,323,500

System Implementation
The first 2 years of the project are the implementation period, at a total cost of $33.3 million, including internal state costs, vendor payments, debt service and consultant costs. In the remaining 7 years, the contract will provide licensing for the software, and pay-as-you-go on-going technical support.

During the initial 2-year implementation period, ADOA will pay the vendor $24.3 million ($14.3 million in FY 2002 and $9.9 million in the second year). In the third year of the project, the vendor provides continuing technical support. In the fifth year of the project, there is a planned upgrade of the system at a cost of $3.6 million. For the remaining 4 years of the contract, the vendor provides continuing technical support for the system at a varying annual cost of between $1.1 million and $3.5 million.

(Continued)

The state will incur costs of $6.1 million (in addition to the vendor and financing charges) during the 2-year implementation period. The agreement requires the State to provide 30,000 hours during the implementation period to provide technical expertise in the specific requirements of state employment law and practice. ADOA has summarized this requirement as 25 FTE Positions, but in practice the monies will be used to "back-fill" agency positions with consultants while the state employee with the required expertise is assigned to the project. These consulting positions are estimated to cost $75 per hour, for a total cost of $1,192,500 in FY 2002 and $2,709,000 in FY 2003. An additional 2 FTE Positions will provide support services to for the project implementation. The exact allocation of employees and salaries has not been finalized, but ADOA has secured letters of support from the major agencies detailing their willingness to provide FTE support for the project. The department's internal costs, including FTE back-fill reimbursement is as follows:

Human Resources Management System
Internal Costs

	FY 2002	FY 2003
Personnel – Programming	$1,912,500	$2,709,000
Rent	128,900	212,100
Other Operating Expenditures	458,300	837,700
Equipment	508,100	443,100
Computer Network Costs	296,700	64,100
Total	**$3,304,500**	**$4,266,000**

The majority of the implementation costs are external costs associated with vendor services. These include the hardware, software, consulting, training and other expenses. Other expenses are primarily travel expenses. The vendor submitted a travel budget amount equal to 15% of the hourly rate, but has agreed to follow the state's travel rules for reimbursement. The vendor will be required to submit travel charges in compliance with state travel rules before reimbursement will be made. The external costs during the implementation period is as follows:

Human Resources Management System
External Costs (to Vendor "W")

	FY 2002	FY 2003
Hardware	$ 1,514,700	$ 129,200
Software	5,260,600	1,756,500
Consulting	5,453,300	6,177,800
Training	624,600	387,600
Consultant expenses	795,500	919,200
Taxes	508,200	141,400
Total	**$14,156,900**	**$9,511,700**

On-Going System Operation

After the initial project implementation, on-going state costs include technology refresh purchases and the daily operation and maintenance of the system. An hourly equivalent 7 FTE Positions at $75 per hour will be needed to maintain the system on an on-going basis. (The current system requires 11 FTE Positions.) Other on-going costs include continued vendor consulting costs, which will be eliminated when the ADOA project team no longer needs the assistance of the vendor to operate the system. The on-going internal state costs are as follows:

(Continued)

On-Going State Costs B y Year

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	TOTAL
Rent	$ 192,000									$ 192,000
Core Expenses										
3 Support FTE Positions, with ERE	146,400									146,400
P&O (If we need technical help Beyond vendor)	75,000									75,000
Supplies (paper, training material, office, misc.)	24,000									24,000
Phones (LD,Rent,Voice-Mail) @ $4000 per mo. for 60 FTE Pos.	24,000									24,000
Local Area Network	63,600	$ 6,500	$ 6,800	$ 7,200	$ 7,500	$ 7,900	$ 7,900	$ 7,900	$ 7,900	123,160
META Group contract (Last payments for implementation)	100,000									100,000
FTE After Implementation (7 FTE x 2080 hours x $75 per Hour)	1,092,000	1,092,000	1,092,000	1,092,000	1,092,000	1,092,000	1,092,000	1,092,000	1,092,000	9,828,00
Refresh hardware @ data center (estimated based on Vendor W)			1,425,000							1,425,000
Total Ongoing	**$1,717,000**	**$1,098,500**	**$2,523,800**	**$1,099,200**	**$1,099,500**	**$1,099,900**	**$1,099,900**	**$1,099,900**	**$1,099,900**	**$11,937,600**

The department will also continue its relationship with the vendor, who will provide continuing support. Those on-going external costs are detailed below:

Human Resources Management System
External Costs (to Vendor "W")

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Hardware	$ 1,514,700	129,200	$ 135,700	$ 142,400	$ 149,600	$ 157,000	$ 164,900	$ 173,100	$ 173,100	$ 173,100	$ 173,100
Software	5,260,600	1,756,500	1,458,200	!,518,800	1,582,900	1,650,700	1,722,600	1,798,700	1,798,700	1,798,700	1,798,700
Consulting	5,453,300	6,177,800	1,796,200	884,000	1,012,000	-	-	-	-	-	-
Training	624,600	387,600	-	-	-	-	-	-	-	-	-
Consultant Expenses	795,500	919,200									
Taxes	508,200	141,400	119,600	24,600	129,900	135,600	141,600	147,900	147,900	147,900	147,900
Total	**$14,156,900**	**$9,511,700**	**$3,509,700**	**$2,669,800**	**$2,874,400**	**$1,943,300**	**$2,029,100**	**$2,119,700**	**$2,119,700**	**$2,119,700**	**$2,119,700**

Financing

The operations of the Human Resources Division of ADOA are funded with monies from the Personnel Division Fund. The Personnel Division Fund receives its monies from an assessment on the personal services base of the majority of state agencies and was established to fund. In FY 2002, the assessment is 0.95% of the personal services base. The assessment was originally scheduled to increase to 1.04% in FY 2003. The HRMS replacement project was appropriated $2,900,000 in FY 2002 and $5,300,000 in FY 2003 from this fund. The recent budget reduction legislation repealed the FY 2003 appropriation. While ADOA still has the authority to charge the higher 1.04% rate, we currently cannot predict whether funding will be added to agency budgets to pay this higher charge.

The project's on-going costs will come from the current HRMS operational budget ($1,702,900 annually), monies appropriated from the Special Employee Heath Insurance Trust Fund ($450,000 annually), and monies resulting from growth in the Personnel Division Fund. The department estimates that Personnel Division Fund revenues will increase by the 3% in FY 2003, which reflects the Governor's proposed pay package. The fund grows by 2.5% in the fiscal years after FY 2003. The expenditure plan does not address the possibility of a reduction the in the personal services base as a result of budget cutting efforts.

(Continued)

The system is funded with a third party, financed lease-purchase arrangement. Negotiations for the financing of the lease-purchase are not complete, but the department estimates that the interest rate would be 5.5%, with the loan being amortized over a 12-year period. These payments begin in the second half of FY 2002. During the installation period, the amounts appropriated for the project ($2.9 million in FY 2002) will be used to make the initial debt service payment. The total financing plan costs are listed in Attachment A.

Alternatives to ADOA Proposal

The alternative to the ADOA proposal is to update the software licenses of the current system. This extends the life of the current system and provides some increased functionality. An update of the system would not alter the fundamental weakness of the system, which is the obsolescence of the software code. The update would address the need for a substitute for the Social Security Number, which by federal law is no longer allowed as an employee identifier. The update also provides expanded capability to add additional retirement systems and employee deductions. The alternative proposal would result in a cost of $1,500,000 over 2 fiscal years.

HRMS Replacement Contingency Plan Costs	
HRMS Programming Staff	$ 200,000
Quality Assurance Staff	64,400
HRMS Processing Expenses	733,300
Quality Assurance Processing Expenses	209,000
Unique Employee Identifier Programming	90,100
Unique Employee Identifier Processing *	-
ITSD Contingency	195,400
Total Contingency Plan Costs	**$1,492,200**

* No cost for this item if both changes implemented

Government Information Technology Agency Approvals

ADOA has secured the conditional approval of the project by ITAC of the Government Information Technology Agency. ITAC reviews information technology proposals to ensure that they are technologically feasible and are in compliance with the state's information technology policies. The ITAC approval requires that ADOA must estimate any additional economic benefits that may result from the HRMS replacement and submit that information as a revision to the Project Investment Justification (PIJ). As mentioned previously, ADOA has added a cost savings report to the PIJ.

Total Project Costs

The total costs of the project are $80,217,500 over the 12-year lease-purchase period. These costs are detailed in Attachment A. Attachment B reflects the project's shortfall or surplus under the 0.95% and 1.04% Personnel Division charge scenarios.

RS/PS/ss
Attachments