

STATE OF ARIZONA

**Joint Legislative Budget Committee**

STATE  
SENATE

ROBERT L. BURNS  
CHAIRMAN 2008  
PAULA ABOUD  
AMANDA AGUIRRE  
JAKE FLAKE  
JORGE LUIS GARCIA  
JACK W. HARPER  
THAYER VERSCHOOR  
JIM WARING

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

<http://www.azleg.gov/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

RUSSELL K. PEARCE  
CHAIRMAN 2007  
KIRK ADAMS  
ANDY BIGGS  
TOM BOONE  
OLIVIA CAJERO BEDFORD  
LINDA J. LOPEZ  
PETE RIOS  
STEVE YARBROUGH

**MINUTES OF THE MEETING**

**JOINT LEGISLATIVE BUDGET COMMITTEE**

June 19, 2007

---

The Chairman called the meeting to order at 8:07 a.m., Tuesday, June 19, 2007, in House Hearing Room 4. The following were present:

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

**APPROVAL OF MINUTES**

Hearing no objections from the members of the Committee to the minutes of May 10, 2007, Chairman Pearce stated that the minutes would be adopted.

**EXECUTIVE SESSION**

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

At 8:08 a.m. the Joint Legislative Budget Committee went into Executive Session.

*Senator Burns moved that the Committee reconvene into open session.* The motion carried.

At 8:11 a.m. the Committee reconvened into open session.

**AHCCCS – Review of Medicaid Eligibility Privatization Request for Proposal.**

*Senator Burns moved that the Committee give a favorable review to the revised RFP.* The motion carried.

**ATTORNEY GENERAL (AG) – Review of Allocation of Settlement Monies.**

Ms. Leah Ruggieri, JLBC Staff, said that the AG is requesting a favorable review of its recent settlement allocation from a settlement with Purdue Pharma. The consent judgment included 25 other states in its allegations that Purdue Pharma sold OxyContin to doctors for uses not approved by the FDA, which resulted in a settlement of \$19.5 million, of which Arizona's share is \$717,500. The AG is requesting to deposit this amount into the Consumer Fraud Revolving Fund to

finance attorney costs and fees associated with this lawsuit and consumer fraud education. The JLBC Staff recommends a favorable review of the request.

Discussion ensued on this item.

Ms. Jennifer Boucek, Section Chief, Consumer Protection and Advocacy Section, AG, responded to member questions.

Representative Pearce requested that the department provide an estimate of the cost to represent this state in this particular settlement.

There was no action taken by the Committee on this item.

**ARIZONA CRIMINAL JUSTICE COMMISSION – Review of Intended Use of Monies in the Victim Compensation and Assistance Fund.**

Mr. Kevin Bates, JLBC Staff, said that the Attorney General's Office prosecuted a Scottsdale firm which resulted in a settlement of \$29 million to the state. Per statute, 10% of the monies, \$2.9 million, are deposited into the Victim Compensation and Assistance Fund. The Arizona Criminal Justice Commission (ACJC) is requesting to prospectively increase the FY 2008 distribution to the Victim Compensation program by \$300,000. At the rate of \$300,000, it would be a \$2.9 million fund increase for the program. The JLBC Staff recommends a favorable review of the request.

There was no discussion on this item.

*Senator Burns moved that the Committee give a favorable review as recommended by the JLBC Staff to the additional expenditure of \$300,000 above the amount in the approved budget for victim compensation in FY 2008.* The motion carried.

**ARIZONA DEPARTMENT OF EDUCATION – Review of Xanterra Settlement.**

Mr. Steve Schimpp, JLBC Staff, said that the Arizona Department of Education (ADE) is requesting a favorable review of its plan to provide approximately \$1 million in corrected Basic State Aid funding to school districts in Coconino County, most of which would go to the Grand Canyon Unified School District. This pertains to a recent settlement in the Arizona Tax Court where the Xanterra Company, which runs lodges and other concessions at the South Rim of Grand Canyon National Park, was charged property taxes from FY 2001 through FY 2004 on improvements that it made to Park properties. The Court determined that the federal government, rather than Xanterra, owned those improvements and that Xanterra therefore was entitled to a refund of property taxes that it had paid on them. The refund includes around \$1 million in K-12 Qualifying Tax Rate monies that, by law, the state has to replace. The JLBC Staff recommends a favorable review of the request.

There was no discussion on this item.

*Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff to the Department of Education's request to provide school districts in Coconino County with \$1,002,600 in corrected Basic State Aid funding due to a recent settlement in the Arizona Tax Court regarding property taxes paid in prior years by Xanterra Parks and Resorts, LLC.* The motion carried.

**DEPARTMENT OF PUBLIC SAFETY – Quarterly Review of the Arizona Public Safety Communication Advisory Commission.**

Mr. Jay Chilton, JLBC Staff, said that this item is a request from the Department of Public Safety (DPS) that the Committee review its third quarter review progress of the Arizona Public Safety Communication Advisory Commission (PSCC). The contractor creating the conceptual designs for the long-term solution is on schedule to carry out the demonstration project sooner than originally planned. As far as funding for the interoperability program, the PSCC expects that in July the U.S. Departments of Commerce and Homeland Security will announce about \$950 million in grant awards for statewide interoperable communications systems. The PSCC expects to use that funding for the projects, however, at this time, Arizona's share of the grant is unknown. The third quarter expenditures total about \$250,000 for FY 2007. The JLBC Staff recommends a favorable review of the request.

There was no discussion on this item.

*Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff to DPS' FY 2007 third quarter expenditures and progress for the statewide interoperability design project. The motion carried.*

**DEPARTMENT OF ECONOMIC SECURITY – Review of Requested Transfer of Appropriations.**

Mr. Eric Jorgensen, JLBC Staff, said that this item is a review of proposed transfers within the Department of Economic Security (DES) budget, as required by several budget footnotes. The DES proposed transfers are delineated in *Table 1* on page 2 of the JLBC recommendation memo. Included in the transfers is a proposed \$6 million transfer to the Division of Benefits and Medical Eligibility (DBME) Operating Budget to cover a \$6 million shortfall in the program. There are 2 reasons DES attributes to the shortfall. First, contract costs associated with the electronic benefits transfer card, the debit-style card used to distribute welfare benefits. Second, an increased workload that has doubled since 2001 with no increase in the operating budget.

The Children Support Services Special Line Item, which is part of the Division of Children, Youth and Families budget, provides services to families in the Child Protective Services system both to children in their homes and children in out-of-home placements. There is a \$13.6 million shortfall that would be covered by the transfer. Based on data from March, over the past year, there has been a 17% increase in the in-home cases.

The primary source of transferred funds is the Temporary Assistance for Needy Families (TANF) Cash Benefits Special Line Item, which funds payments to individuals receiving welfare. The caseload has declined in the last several years and has resulted in a \$14 million surplus.

All versions of the FY 2008 budgets address most of the transfers and realignments with the exception of the DBME operating transfer. The Committee has previously expressed concern with the DBME operating transfer and has given an unfavorable review because it transfers monies from a decline in benefits population to fund an administrative expansion.

The Committee has at least 2 options available on this item. First, a favorable review of the transfers with the provision that DES use non-appropriated fund sources and other savings first to mitigate the projected shortfalls. Second, an unfavorable review of the proposed DMBE Operating Budget transfer as the Committee has done in the past. These transfers address \$24 million of the \$29 million shortfall. The remaining shortfall would be resolved with items that do not require Committee review. Under either option, the JLBC Staff recommends that the Committee request DES to report back to the Committee by July 15 on how the department ultimately resolved all of the shortfalls including options that do not require Committee review.

Discussion ensued on this item.

Mr. Stephen Pawlowski, Financial Services Administrator, DES, responded to member questions.

*Senator Burns moved that the Committee give an unfavorable review to the proposed Division of Benefits and Medical Eligibility Operating Budget transfer of \$6.0 million due to concerns with using savings from declining entitlement benefits to fund administrative expansion. In addition, DES is to report back to the Committee by July 15, 2007 on how the department ultimately solved the entire shortfall, including any transfers not needing review, one-time monies, or savings from both appropriated and non-appropriated sources.*

*Senator Rios moved a substitute motion that the Committee give a favorable review. The substitute motion failed.*

The Senator Burns motion carried.

**ARIZONA DEPARTMENT OF CORRECTIONS – Consider Approval and Review of Requested Transfer of Appropriations.**

Ms. Kim Cordes-Sween, JLBC Staff, said this item concerns the Arizona Department of Corrections' (ADC) request to consider the transfer of \$4.2 million within the department's operating budget line items and Special Line Items (SLI). *Table 1* on page 2 of the JLBC recommendation memo in the agenda document delineates the ADC transfer request. The largest shifts that the department is seeking include a transfer of \$1.2 million into Correctional Officer Personal Services and \$2.2 million into the Overtime/Compensatory Time SLI. The department is also proposing to reduce the Private Prison Per Diem SLI by \$(1.5) million and the Provisional Beds SLI by \$(2.1) million.

The JLBC Staff recommends that the Committee approve the department's request for the Personal Services and Employee Related Expenses in order to ensure payment of state employee salaries. The Committee has at least 2 options with regard to the remaining transfers. First, a favorable review, as there is sufficient funding available to cover the transfers. Second, an unfavorable review, as the transfers include \$2.1 million in savings as a result of not filling the Indiana provisional beds. The department has indicated that the delay is due to security concerns, however, it is unclear if the department may be generating savings to pay other bills. The department is also proposing to transfer \$2.3 million into overtime. There are some concerns that the department has not lowered its overtime expenses as much as anticipated in light of the FY 2007 salary increases. The JLBC Staff also recommends that the Committee allow the department to shift up to \$250,000 in or out of any Special Line Item or line item for any of the remaining monies for FY 2007.

Discussion ensued on this item.

Ms. Dora Schriro, Director, ADC, responded to member questions.

*Senator Burns moved that the Committee approve the Personal Services and Employee Related Expenditure transfer as recommended by JLBC Staff, shown below:*

<u>Line Item</u>	<u>JLBC Approved Transfers</u>
Correctional Officer Personal Services	\$1,258,500
Health Care Personal Services	127,800
All Other Personal Services	(481,000)
Employee Related Expenditures	392,000

The motion carried.

*Senator Burns moved that the Committee give a favorable review to the following transfer of funds:*

<u>Line Item</u>	<u>JLBC Reviewed Transfers</u>
Overtime/Compensatory Time SLI	2,283,200
Non-Health Other Operating Expenses	107,500
County Jail Beds SLI	(22,100)
Private Prison Per Diem SLI	(1,541,000)
Provisional Beds SLI	(2,124,900)

The motion carried.

*The Committee also agreed to allow the department to shift up to an additional \$250,000 in or out of any line item and Special Line Item.*

Without objection, the meeting adjourned at 9:11 a.m.

Respectfully submitted:

---

Yvette Medina, Secretary

---

Richard Stavneak, Director

---

Representative Russell Pearce, Chairman