

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2006
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL
JORGE LUIS GARCIA
JACK W. HARPER
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HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2005
ANDY BIGGS
TOM BOONE
MEG BURTON CAHILL
PAMELA GORMAN
STEVE HUFFMAN
LINDA J. LOPEZ
STEPHEN TULLY

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

August 24, 2006

The Chairman called the meeting to order at 10:19 a.m., Thursday, August 24, 2006, in Senate Appropriations Room 109. The following were present:

Members:	Representative Boone, Vice-Chairman	Senator Burns, Chairman
	Representative Biggs	Senator Bee
	Representative Gorman	Senator Cannell
	Representative Pearce	Senator Harper
	Representative Tully	Senator Waring

Absent:	Representative Burton Cahill	Senator Arzberger
	Representative Huffman	Senator Garcia
	Representative Lopez	Senator Martin

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of July 27, 2006, Senator Burns stated the minutes would stand approved.

ARIZONA DEPARTMENT OF TRANSPORTATION – Review of Third Party Quality Assurance Report.

Mr. Bob Hull, JLBC Staff, stated that this is a review of the Arizona Department of Transportation (ADOT) third party quality assurance fourth quarter report for FY 2006. There has been a reduction in the backlog due mainly to a pilot project where they reduced the percentage of transactions that the quality assurance section clerks. There is a footnote in the feed bill which states that the department needs to report whether the 10% of transactions which they currently check can be reduced to a statistically valid percent. They are still working on the statistical method to answer the footnote. ADOT is working on the list now that they have lifted the moratorium. Effective August 15, 2006, one of the 118 entities on the waiting list has opened a branch office. JLBC Staff recommends a favorable review of the quarterly report, given the progress they have made, and recommends that the next quarterly report include the status of the 118 entities that had previously been on the waiting list.

Senator Burns asked if there is a target date for the elimination of the waiting list.

Mr. Terry Trost, Budget Director, ADOT, said that the department is working towards the goal of December 31, 2006 but does not have a set date.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of the third party quality assurance report. The Committee further requests that the next quarterly report include the status of the 118 third parties that had previously been listed on the waiting list. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY

A. Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase.

Mr. Russell Frandsen, JLBC Staff, stated this item is Department of Economic Security (DES) developmental disabilities (DD) provider rate increase plan. They were appropriated \$8.2 million General Fund in order to raise provider rates from a 100% of the FY 2006 benchmark rates. With their plan the action rate is to 100% of the FY 2007 benchmark rates because DES lowered the inflationary increase for the FY 2006 benchmark rates. JLBC Staff recommends a favorable review of the request with 2 provisions:

1. DES is to notify the Committee of all future statewide provider rate adjustments in advance of their implementation, along with information on their budgetary impact. This would include any provider rate categories still under review by the department. In January 2006, the department implemented an unbudgeted 4% provider rate increase. While the department was not under any legislative obligation to tell the Committee about this increase, any increase in provider rates represents an increase in the state's financial obligations.
2. By October 31, 2006, DES is to report back to the Committee its recommendations for an inflationary index to be used when adjusting the benchmarks. In September 2005, DES suggested a 3.2% inflationary increase for FY 2006 based on a federal market basket and in this provider rate plan, DES used a 2% inflationary increase for FY 2006 based on another index.

Senator Burns asked since DES implemented the 4% increase, will the department have the funds to cover that without an additional appropriation in the future.

Mr. Steven Pawloski, Financial Services, DES, said that the capitation rate is sufficient to pay for the 4% rate increase without a supplemental.

Representative Biggs said one of the recommendations is that there be a report by October 31, 2006 on the inflationary index and how that is developed and used.

Richard Stavneak, Director, JLBC, stated that the benchmark is used to budget provider rate adjustments.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review to the proposed implementation of DD provider rate increases. The Committee recommends that DES 1) notify the Committee of all future statewide provider rate adjustments in advance of their implementation, along with information on their budgetary impact, including any provider rate categories that are still under review by the department and 2) report to the Committee by October 31, 2006 on its recommendations for an inflationary index to be used when adjusting the benchmarks. The motion carried.

B. Review of Long Term Care Capitation Rate Changes

Mr. Frandsen said this item is the DES Capitation Rate increase for Title XIX members with DD. There is an ongoing discussion with DES if the capitation increase will require a supplemental. The caseloads, as budgeted, would generate a \$3 to \$4 million General Fund supplemental need in FY 2007. The supplemental is potentially needed for 2 reasons, 1) there is a 0.7% higher inflation rate index used for FY 2007 rates and 2) they have a 1.1% increase for incontinence briefs associated with the *Ekloff v. Rodgers* lawsuit. However, in FY 2006 and FY 2007 caseloads have been lower than budgeted so this may offset the need for a supplemental in FY 2007. The Committee has 3 recommendations: 1) A favorable review, 2) a favorable review with the stipulation that it does not endorse a supplemental request, and 3) an unfavorable review and DES would likely implement these rates even with the unfavorable review.

Representative Biggs asked about the *Ekloff v. Rodgers* lawsuit in reference to incontinence briefs.

Mr. Frandsen said there was an update in May 2006 where the litigation was still pending. As of July 1, 2006 the state has agreed to cover incontinence briefs for individuals with disabilities from ages 3 to 21. The estimated cost in DES for FY 2007 is \$7 million for that provision.

Senator Cannell stated that having the incontinence briefs will help the state save money in the long run.

Representative Pearce moved that the Committee give a favorable review with the stipulation that a favorable review does not constitute an endorsement of a supplemental request. The motion carried.

ARIZONA DEPARTMENT OF PUBLIC SAFETY – Quarterly Review of the Arizona Public Safety Communications Advisory Commission.

Mr. Jay Chilton, JLBC Staff, said this is a review of the Public Safety Communications Advisory Commission fourth quarter expenditures and progress. Activities for the fourth quarter address both short-term and long-term solutions for the statewide interoperable communication system. First, the Arizona Emergency Radio System (AERS) is a short-term solution that integrates existing equipment and technologies. AERS has been installed at 8 remote locations with 10 additional installations planned for the remainder of the calendar year. Second, with regards to the long-term solution, Public Safety Communication Advisory Commission (PSCC) issued a Request for Proposal (RFP) for design and engineering services. The RFP was recently awarded to Federal Engineering, a private company, for just under \$1 million to expend over 2 phases:

1. \$647,000 is for the development of a conceptual design for the land mobile radio system and microwave communications system, to be completed by FY 2007.
2. \$338,000 is for the preparation of final design and construction documents to be completed by FY 2008.

The fourth quarter FY 2006 expenditures were just under \$200,000 of total fiscal year expenditures of \$620,000, with \$4.3 million available to the PSCC. JLBC Staff recommends that the Committee to give a favorable review of the PSCC quarterly report.

There was discussion about the Homeland Security dollars.

Senator Burns stated in the letter from the Office of Homeland Security (Attachment 1) the federal government determined that the state could not use these Federal Funds to finance the project through lease-purchase, and asked if there is a document that can be reviewed and confirmed.

Mr. Stavneak stated he will need to ask about a specific document. There has been some research done that confirmed the finding.

He further stated that that particular money was committed a year ago in the original FY 2006 budget. This is the original \$1.6 million. The federal letter states that it could not be used as a lease-purchase. Most of the money was used for the Arizona Counter-Terrorism Information Center, to pay rent charges. There was a new agreement in the FY 2007 budget to pay cash for the \$1.6 million. In the last meeting, the Director of Homeland Security stated that the money had already been allocated. The members asked where the money was spent. The handout states that the information is not public yet but will be public after August 29, 2006, when the people receiving awards will be notified. After the 29th, there will be a list that shows where the money is going in lieu of it having gone to the interoperability project.

Senator Burns asked about the difference of monies.

Mr. Stavneak stated that the federal 2006 funds did not arrive until May 2006. The agency could have used federal fiscal 2005 money for the lease-purchase project. The agency decided to spend the money in a different way and there was an option to use the federal 2006 money for the cash portion of the project. That is the money that was allocated to different things but we are unsure of what it was used for.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of the fourth quarter expenditures and progress of the interoperability design project. The motion carried.

EXECUTIVE SESSION

ARIZONA DEPARTMENT OF ADMINISTRATION – Risk Management Annual Report.

ARIZONA DEPARTMENT OF ADMINISTRATION - Review for Committee the Planned Contribution Strategy for State Retiree Health Plans as required under A.R.S. § 38-658A.

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

At 10:45 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 12:15 p.m. the Committee reconvened into open session. No Committee action was required on these items.

ARIZONA DEPARTMENT OF ADMINISTRATION – Review of Risk Management Deductible.

Mr. Tyler Palmer, JLBC Staff, said this item is a review of the Arizona Department of Administration (ADOA) risk management deductible. ADOA is recommending no changes to the \$10,000 deductible amount, which has not been assessed on any agency during the past year. In addition, ADOA is requesting that the annual review only occur in situations where they are recommending a change to the \$10,000 deductible. JLBC Staff recommends a favorable review of the \$10,000 deductible amount. The Committee has the option of including in its review to move that future reviews only occur when the deductible amount is changing, or the Committee can continue reviewing the deductible annually. In the past, the Committee has used the annual review to comment on having not assessed a deductible during the past year.

Representative Pearce said the deductible is never assessed. There should be some discretion, that depending on an agency, the deductible is higher than \$10,000. ADOA should have the tools to assess the penalties appropriate with discretion.

Senator Burns asked if the item requires statutory change if the deductible amount is changed.

Mr. Stavneak said that the statute is a \$10,000 maximum.

Representative Pearce stated that during the budget process, the Committee should assess those penalties.

Senator Burns stated that the Committee should look to see about a deductible being assessed to a department.

Representative Pearce moved a favorable review of the \$10,000 deductible amount with the provision that there be further study of the proper deductible amount and process. The motion carried.

The meeting adjourned at 12:20 p.m.

Respectfully submitted:

Amanda Ruiz, Secretary

Richard Stavneak, Director

Senator Robert Burns, Chairman



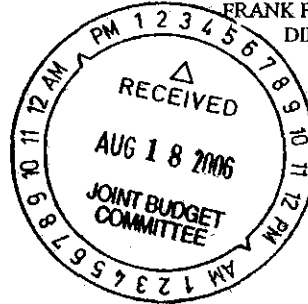
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JANET NAPOLITANO
 GOVERNOR

FRANK F. NAVARRETE
 DIRECTOR

August 18, 2006



Richard Stavneak
 Director
 Joint Legislative Budget Committee
 1716 W. Adams
 Phoenix, AZ 85007

Dear Mr. Stavneak,

Thank you for your letter dated July 27 in regards to the Department of Public Safety's (DPS) expenditure plan and project timeline for the microwave communications system. In the letter you indicated that the Committee discussed an agreement between the Governor, President of the Senate, and Speaker of the House during the FY2006 budget to finance the project thru lease-purchase and provide \$1.6 million in federal homeland security funds for the first year payment.

As you stated in your letter, the federal government determined that the state could not use these federal funds to finance the project thru lease-purchase. Once the federal government rejected the proposal based on federal grant guidelines, our office reallocated these funds to support the Arizona Counter-Terrorism Information Center (\$1,412,442) and Operation Stonegarden (\$200,000) to secure the border, to prevent the funds reverting back to the federal government. The Arizona Counter Terrorism Information Center used these funds to pay for rent (\$950,212), software (\$27,000) and the balance for the expansion of the Terrorism Liaison Officer Program increasing the number of officers trained. Operation Stonegarden serves to pay for backfill and overtime of law enforcement agencies assisting Border Patrol to secure the border.

My testimony stating that OHS has allocated all federal Homeland Security funding received to date is correct. Our grant process is complex and requires that all stakeholders apply for federal Homeland Security grants by the submission deadline of May 31, 2006. This process ensures that all projects align with the goals, priorities and objectives of the State Homeland Security Strategy and allocations are awarded within federal grant guideline timelines. Consistent with the HSGP award process, stakeholders will receive award notifications by August 29, 2006. Once stakeholders receive award notifications my office will submit FFY2006 an award allocations summary to you.

Please feel free to contact me.

Respectfully,

Frank F. Navarrete, Director
 Office of Homeland Security

cc: Senate President Ken Bennett
 House Speaker Jim Weiers
 Senator Bob Burns, Chairman
 Representative Tom Boone, Vice-Chairman
 Gary Yaquinto, Director, OSPB
 D. Clark Partridge, State Comptroller, GAO, ADOA
 Colonel Roger Vanderpool, Director, DPS