

STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

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HOUSE OF  
REPRESENTATIVES

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TOM BOONE  
MEG BURTON CAHILL  
PAMELA GORMAN  
STEVE HUFFMAN  
LINDA J. LOPEZ  
STEPHEN TULLY

### MINUTES OF THE MEETING

#### JOINT LEGISLATIVE BUDGET COMMITTEE

November 15, 2006

The Chairman called the meeting to order at 9:55 a.m., Wednesday, November 15, 2006, in Senate Appropriations Room 109. The following were present:

Members:	Representative Boone, Vice-Chairman Representative Biggs Representative Burton Cahill Representative Lopez Representative Pearce Representative Tully	Senator Burns, Chairman Senator Arzberger Senator Harper Senator Martin
Absent:	Representative Gorman Representative Huffman	Senator Bee Senator Cannell Senator Garcia Senator Waring

#### APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of October 24, 2006, Senator Burns stated the minutes would stand approved.

#### DIRECTOR'S REPORT

Mr. Richard Stavneak, Director, JLBC Staff, explained to the members that all the JLBC statutory duties and responsibilities had been posted to the JLBC Web site. This a 135-page document containing over 200 different statutory responsibilities, which is up by about 40 from last year. All statutory responsibilities are listed and also what reports have been received and what are supposed to be received in the upcoming months.

Mr. Stavneak added that the next JLBC meeting is scheduled for Thursday, December 14, 2006 and will be the last meeting of the year.

#### ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)

##### A. Consider Approval of Maximum Mileage and Travel Reimbursement Rates.

Mr. Tyler Palmer, JLBC Staff, said Item 1A was to consider approval of maximum travel reimbursement rates. There were 3 different rates to be considered. The first was the mileage rate; the second, meals and incidentals, and the third, lodging rates. ADOA proposes increasing the mileage rate from 40.5 cents per mile to 44.5 cents per mile, conforming to the federal government rate. ADOA proposes increasing the meals and incidentals rates from \$29.50 per day to \$34.00 per day. This would be \$5.00 less than the federal rate. The lodging rate has several different areas. In the standard areas, ADOA proposes maintaining the current \$60.00 per night rate, which is consistent with the federal government. The non-standard areas would be adjusted to conform to the federal rates. The average increase in the non-standard areas would be \$21.00.

Mr. Palmer explained that the Committee had at least 2 options. It could approve the ADOA recommendation with the provision that approval does not constitute an endorsement of additional appropriations to cover the increases. The other option would be to maintain current rates, or approve some other rate. With either of these options, the Committee may grant ADOA's request for authorization to decrease the mileage reimbursement rate if the federal government decreases its rate.

Representative Pearce asked what was being done to maximize the use of state vehicles instead of privately owned vehicles. He wondered what ADOA was doing to encourage the use of state vehicles.

Mr. Paul Shannon, ADOA Budget Manager, explained that the ADOA-Fleet Management has been working with the agencies to turn in vehicles that don't meet the 1,100-mile a month threshold. Agencies have the authority to authorize travel in personal vehicles. Mr. Shannon said he would get back to JLBC Staff on ADOA's policies regarding the use state vehicles.

*Representative Pearce moved that the Committee approve the ADOA-recommended reimbursement rates effective immediately with the provision that Committee approval does not constitute an endorsement of additional appropriations to cover higher reimbursement costs. The motion included the caveat that ADOA may also decrease the mileage rate if the federal government reduced its rate.* The motion carried.

#### **ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)**

##### **B. Review of Telecommunications Contractor and Carrier Cost Rate Structure.**

Mr. Tyler Palmer, JLBC Staff, explained this was a review of the telecommunications contractor and carrier cost rate structure, commonly referred to as AZNet. The overall FY 2008 budget is projected to decrease statewide by \$654,600; however, there is a General Fund increase of \$89,600, with decreases in other funds and non-appropriated funds. Mr. Palmer said the JLBC Staff recommends a favorable review of this budget with the provision that it does not constitute an endorsement of higher General Fund appropriations to cover the higher costs, nor does it constitute an endorsement of the ADOA Telecommunications Program Office expenditure plan.

Mr. Palmer said the recommendation also requests the agency submit information regarding the infrastructure investment account expenditure plan by December 31, 2006. He noted that ADOA had submitted the expenditure plan the previous Monday. JLBC Staff will be reviewing the plan specifically regarding the expenditure plan and the appropriated and non-appropriated status of the fund.

*Representative Pearce moved that the Committee give a favorable review to the revised contractor and carrier cost rate structure of the Statewide Telecommunications Management Contract, with the provision that a favorable review does not constitute an endorsement of any FY 2008 General Fund appropriations to cover higher AZNet costs, nor does it constitute an endorsement of the ADOA expenditure plan.* The motion carried.

#### **ARIZONA STATE UNIVERSITY – Review of Downtown Phoenix Campus Operational and Capital Plans.**

Ms. Leah Ruggieri, JLBC Staff, said Arizona State University (ASU) was requesting a favorable review of their operational and capital plans for the ASU Downtown Phoenix Campus (DPC). She referred to a handout distributed to the members (*see Attachment 1*), noting that members would get a sense of what the present academic accommodations are at the campus today. Currently, there are 3 major colleges located or transitioned in part to the downtown campus. They include the College of Nursing and Healthcare Innovation, the College of Public Programs, and the University College.

Ms. Ruggieri noted that the Committee had 2 options regarding ASU's review of DPC operational and capital plans. The first option is a favorable review, with the provision that this does not constitute endorsement of any level of General Fund appropriations for DPC. The Committee also has the option of an unfavorable review. The plans to expand the DPC were not previously submitted for formal legislative approval. The expansion will increase the state's operating costs and building renewal expenses. Ms. Ruggieri added that the JLBC Staff were recommending that ASU report back to the Committee by December 15, 2006 on a number of questions posed by the staff. ASU has responded to each of the items bulleted in the memo, though JLBC Staff is currently working with ASU to get all the necessary information. A requirement in the Higher Education Budget Reconciliation Bill that was approved last legislative session was that ASU develop a 20-year financing plan detailing each funding source, including options to maximize resources and to partner with private entities for the DPC. JLBC Staff is recommending that ASU come to the Committee and clarify whether they can respond to this requirement at this time.

Senator Arzberger asked why there was such a large concern for residential facilities to be located right at the campus when many students only attend 1 class at the downtown campus.

Ms. Ruggieri explained that the 2,800 count for this fall assumes that all students are taking at least 1 course. However, there are students in that count that are full-time students and the housing would accommodate those students.

Senator Arzberger stated that nursing students commonly stay in one location. She wondered if they would be a large part of those residential students. Ms. Ruggieri believed so.

Senator Burns noted that after the bond is retired, ASU will own the buildings. He asked why the Legislature or this Committee won't formally review ahead of time any transaction that results in the acquisition of a state asset.

Mr. Richard Stanley, Senior Vice-President-University Planning, explained that the acquisition of the asset is taking place 20 to 30 years from now and will potentially impose some building renewal for the university and the state. In that intervening period, they have taken into account the need for keeping the buildings in good shape by the creation of an agreement with the city and the creation of a Reserve and Repair Fund. This will be funded by a combination of university and city contributions from revenue derived from the commercial aspects of some of the buildings that have been and will be developed. This will be funded between \$1.4 million and \$1.5 million on the current buildings being created as of FY 2009. As the amount of space on the campus is increased, it will be funded at a higher level. Mr. Stanley added that it was their understanding that the gifting of buildings during this period was not something that necessitated the review of the Committee.

Senator Burns expressed his concern as to where the lines of responsibility lie within the legislative process. This falls into the policy-making category, which it typically the responsibility of the Legislature.

Representative Biggs questioned the building renewal amount of \$2 per square foot per annum. He asked what fund was going to be the source for the building renewal.

Mr. Stanley explained that the Reserve and Replacement Fund creation will begin in FY 2009. There is no obligation prior to that year. At that time, they anticipate that they would use tuition funds for the creation of the fund.

Senator Martin asked if ASU has developed any contingency plans now that the Appeals Court granted standing for the student lawsuit to sue over those tuition increases. If they win, what happens?

Mr. Stanley said he was not familiar with that action and could not comment.

Senator Arzberger commented on the policy review of acquiring buildings. She wanted to make sure if they explore that in the future, that they exclude buildings that are built by a private donor and maintained by a trust. Trusts usually take care of all maintenance, so she wanted to make sure they were excluded.

Senator Burns said that was part of the debate to figure out the different mechanisms that come up. Mr. Stanley said that it also includes the state liability for injuries, etc. That is also maintained by the Trust.

Senator Burns said the lease on the Ramada Inn building would end in 2008. He wondered how it would be handled once the lease was up.

Mr. Stanley explained that they were currently in discussions with a private housing firm that specializes in the development of permanent housing for the downtown campus. Discussions have not been completed at this time but it is an item that will be reviewed by the Arizona Board of Regents at their upcoming meeting. The plan they are looking at is one in which they would provide about 1,300 beds of housing over the course of FY 2008 and FY 2009 as permanent housing on campus. They would be operated by a third party entity, in cooperation with the university, but the university would not be taking on any debt or operating responsibilities for the buildings themselves.

In response to a question from Senator Burns, Mr. Stanley explained that the responsibility for upkeep and maintenance for the building would preside with the third party. The buildings could be transferred to the universities at the end of the period of obligation. It is not a necessity and would be the university's option.

Senator Burns said the student count was 15,000 students by 2014. He wondered if this was a head count or an FTE count.

Mr. Stanley replied that it was a head count.

Representative Biggs asked how soon they were going to have a broader spectrum of classes downtown. Students need to be able to take their core curriculum so that they stay downtown rather going all over the valley to get classes.

Mr. Stanley replied that this was the first year and a transition year moving students and their programs to the campuses. They are offering a beginning range of non-specialized courses through the University College that are available to students in public programs and eventually in journalism and nursing on the campus. That roster of classes will expand next year and will continue to expand over the coarse of the next 3 to 4 years to accommodate the needs of the students in those colleges, as well as the expansion of the University College.

Senator Burns asked how the on-line studies that are continuing to increase affect their planning process.

Mr. Stanley said they think of on-line education in 2 different ways. One is that there are some programs that can be delivered entirely in an on-line format. Those are offered currently through their College of Extended Education. There are other programs that will benefit from a mix of having on-line programs and on-line tutorial support in addition to traditional classroom teaching. If they can mix those 2, they can enhance the education process as well as reduce the cost of the delivery of the education. The University College downtown is the home for extended education. The distance learning programs are based in that college. Each of the other colleges at the university has their own approach to the mixed on-line education and they use a centrally developed support structure to help develop those things.

Representative Tully mentioned that 2 years ago he had met with both ASU and the 4-year colleges and the community colleges regarding their growth projections. Both had extraordinarily high growth projections. It was his understanding that last year's growth at the community colleges stalled and actually decreased in some community colleges. He wondered if ASU was experiencing the same.

Mr. Stanley said he knew only what was written in the papers about community colleges' enrollment. However, ASU has seen continued growth in recent years. The overall enrollment for the university for the fall term was up by 4%, which was almost 3,000 over the number of students the previous year. Similar growth rates had been seen in the fall of 2005. The largest proportion of the increase in the overall 4-year system was seen at ASU. They have been seeing continued growth on all their campuses and all of their programs.

Senator Burns explained they currently didn't have a quorum and would not be able to make a motion at this time.

#### **ARIZONA BOARD OF REGENTS – Review of ABOR's Assessment of Enrollment Accounting Policies.**

Ms. Amy Strauss, JLBC Staff, explained that this item was a review of the Arizona Board of Regents' (ABOR) assessment on enrollment accounting policies. A.R.S. § 15-1661 requires Committee review of ABOR's assessment of these policies and it also requires ABOR to consult with the Auditor General before June 2006. This was necessary as final enrollment auditing of the entire Arizona university system will now be conducted by the Auditor General. Ms. Strauss added that statute requires ABOR to make recommendations concerning the necessity of minimum requirements for students enrolled in classes to qualify as part of the FTE enrollment count. The FTE count is used as the basis to determine the state's contribution to enrollment funding. ABOR determines enrollment through an accounting of payments. The universities count student enrollment based on student payments or registration fees and tuition before the close of business on the 21<sup>st</sup> day each semester.

Ms. Strauss said the Committee has at least the following options: 1) a favorable review – The basis for this option is that ABOR has complied with statute requiring consultation with the Auditor General on their policies and they did offer recommendations for minimum requirements to qualify as a part of the FTE enrollment. 2) An unfavorable review – The basis for this option is that ABOR is not currently pursing any of the possible changes to its FTE-eligible courses or the use of rosters.

Representative Biggs asked if these recommendations were coming from the Auditor General.

Ms. Strauss replied that these 3 requirements were actually written in statute, so ABOR was required to review these specifically. Ms. Strauss explained that ABOR was only required to consider whether or not these would be applicable to their enrollment policy and they have done that. They were not required to adopt the minimum requirements.

Senator Burns asked about the students who are not involved in a degree program. Why should taxpayers be responsible for funding courses when there is no degree involved?

Mr. Michael Hunter, Executive Director for Government Affairs, ABOR, explained that every credit course offered by the universities may or may not be applicable to a degree. If it offered for credit, it may be used as an elective course. Students who are not pursuing a degree are limited to 15 credits. There is also a cap of 15 credits that you can take

without declaring a major. The universities don't offer community college type personal enrichment classes. The question being raised in statute was based on the debate about community college offerings, trying to determine if the universities were doing a parallel kind of practice.

Representative Pearce noted that if they were not part of a degree program, not for credit, why should the taxpayer fund those programs?

Mr. Hunter explained that courses not offered for credit tend to be self-sustaining. The tuition costs usually cover the cost of delivery of that course when it is not offered for credit. They are certain outreach programs that are done through the university. They do not become part of the FTE count. The costs associated with those programs allow them to be self-sustaining. An example is the MBA program that ASU is offering in China. That is conducted through a negotiated amount. There are no Arizona taxpayer dollars associated with it.

Senator Arzberger mentioned that teachers who take continuing education courses would not be taking the course for an additional degree; however, they would be taking it for credit. Would they be included in the FTE count? It is an important piece to our education system. They should not be excluded just because they were not pursuing an advanced degree, but instead they were pursuing advanced training in their own profession.

Mr. Hunter said he would have to get back to the members on the status of that.

Senator Burns explained that due to a lack of a quorum, they were not able to vote on this agenda item. He did ask the members for their thoughts on this item and heard the opinions of Representative Lopez, Representative Pearce, and Senator Arzberger.

#### **ARIZONA DEPARTMENT OF EDUCATION – Report on Information Technology Special Line Item Program.**

Mr. Steve Schimpp, JLBC Staff, said this item pertained to the \$2.5 million that the Arizona Department of Education (ADE) was appropriated last year for Information Technology (IT). ADE plans use the \$2.5 million to implement Phase 1 of an Education Data Warehouse (EDW) that would take data that currently resides in different programs and put them into one spot. The Government Information Technology Agency (GITA) gave the project a favorable review the prior week, with a couple of conditions. One of the conditions was that ADE address some security issues raised by the Auditor General in a review of ADE's IT programs last summer. Second was that ADE establish a steering committee to obtain stakeholder input for the project as it progresses.

The JLBC Staff recommends a favorable review and pointed out that the Project Investment Justification (PIJ), which includes \$2 million in costs, is only for Phase 1. It doesn't include ongoing operational costs and it doesn't include costs for Phase 2 and Phase 3. Phase 1 deals with student data, so it would pull in the student funding data and the student tests scores. Phases 2 and 3 would pull in teacher data and course data. They don't know what Phases 2 and 3 will cost.

Mr. Schimpp noted that ADE is planning on using the first 4 months of next year to pull in the data into the data warehouse and use the remaining 8 months of calendar year 2007 would be used to develop and pilot test programs for accessing data in the EDW, which would include providing some school districts with access to the EDW for pilot testing purposes.

Representative Pearce asked how many years back is ADE going in terms of putting old data into EDW?

Mr. Donald Houde, Acting CTO and CSO, Arizona Department of Education, explained that because there were silos of data, the different data elements that would contribute to the data warehouse are from various periods. For example, SAIS data will go back 3 years. Other pieces of information that they can tie to it may only go back 6 months because they have only been collecting it for 6 months. They have over 21 different data sources that they are going to feed and bring in to the data warehouse. Ultimately, the longest term would be 3 years of data.

Representative Pearce asked what they were going to do to correct any of the data to make sure it was correct.

Mr. Houde said that part of this process is a cleansing process of the information. It is an arduous part of the process because when tying information together in the way it has been designed in the past, there may not be elements that naturally make it able to link things together.

Representative Pearce said getting good data is critical. Won't it take a long time to go back and cleanse the data and do what needs to be done to make sure that its good data?

Mr. Houde said that it would take time, but a lot of time has already been spent on it.

**JOINT LEGISLATIVE BUDGET COMMITTEE – Review of Filing Fee for Administrative Hearings Pursuant to the Condominium and Planned Community Program.**

Mr. Tyler Palmer, JLBC Staff, explained that this item was a review of the Condominium and Planned Community Hearing Program filing fee. Laws 2006, Chapter 324 required the Committee review the filing fee. The Department of Fire, Building and Life Safety (DFBLS) and the Office of Administrative Hearings (OAH) established a \$550 filing fee by looking at the costs of hearing other cases. Mr. Palmer said the JLBC Staff recommends a favorable review with the provision the agencies report back to the staff by January 1, 2008 regarding the number of cases filed, the number of cases resolved, the average cost per case, and the fund balance for the Condominium and Planned Community Hearing Office Fund. This will provide a year's worth of information to understand how it is functioning at that time.

**STATE LAND DEPARTMENT – Review of Expenditure Plan for Radio System Upgrades.**

Mr. Jay Chilton, JLBC Staff, said this was a request from the State Land Department that the Committee review its expenditure plan for a one-time General Fund appropriation of \$96,000 to upgrade the Forestry Division's Statewide Radio Repeater System. The upgrade consists of 7 two-way radio base stations and the Public Safety Communications Commission (PSCC) has determined the upgrade plan is consistent with the PSCC interoperability solutions. The State Land Department plans to spend \$70,000 on equipment and the remaining \$26,000 on IT services. They anticipate \$4,000 in ongoing operating costs beginning in FY 2008, which will be absorbed by the agency's operating budget. The project will go live on May 20, 2007. Mr. Chilton noted that the JLBC Staff recommends a favorable review of this request.

**DEPARTMENT OF COMMERCE – Review of the Memorandum of Understanding for the Arizona 21<sup>st</sup> Century Competitive Initiative Fund.**

Mr. Stavneak explained that this information was not in the member booklet. They had received it separately as part of the overall business packet. It is no longer Executive Session material. Initially, when the information was received from the Department of Commerce, they had not actually awarded the contract. They have now awarded the contract. Now that it has been publicly signed, they don't have a basis to go into Executive Session.

Mr. Grant Nülle, JLBC Staff, stated this was a review of the Department of Commerce's Arizona 21<sup>st</sup> Century Fund Memorandum of Understanding. Referring to his slide presentation (*See Attachment 2*), Mr. Nülle explained that the Arizona 21<sup>st</sup> Century Fund was established to build medical, scientific, and engineering research programs. The Legislature appropriated \$35 million to the fund as part of that overall effort. By statute, the Department of Commerce is required to enter into a Memorandum of Understanding with a non-profit corporation to expend the monies. In the Memorandum of Understanding, an expenditure plan, performance measures, and recommendations on possible repayment provisions are required. For the Arizona 21<sup>st</sup> Century Fund management contract there was 1 bidder, the Science Foundation Arizona (SFAz).

Mr. Nülle said the Committee has at least the following 2 options. They can give a favorable review. The proposal generally meets the statutory provision of investing state monies from the 21<sup>st</sup> Century Fund. The Committee could give an unfavorable review. The plan begins ongoing programs, such as the K-12 Education Programs and the scholarships without assurances of additional funding by the Legislature; no numeric goals for performance measures; and a very limited repayment policy. Regardless of the option chosen, JLBC Staff suggests that the Committee consider adopting the following recommendations:

1. SFAz submit a specific list of performance measures and numeric goals in its next quarterly report.
2. SFAz provide the Committee an update of its specific long term goals and performance measures, with numeric goals, by October 31, 2007.

In response for clarification regarding the submission of quarterly reports, Mr. Nülle said the statute requires the SFAz to submit quarterly reports on how they are spending 21<sup>st</sup> Century Fund monies. Submitting a specific list of performance measures and numeric goals should be included in the first quarterly report of the year.

Representative Biggs noted that when this project was first thought of, there was a commitment by some private deep pocket companies to match the state monies. Did that fail to materialize?

Mr. Nülle said there has been a match to the \$35 million. Mr. Stavneak noted that there is a requirement in statute that says there needs to be a commitment of \$50 million. The Piper Foundation has put up \$50 million which will be spread over 5 years. Those monies will be used to fund endowed chairs to conduct research in various topic areas.

Representative Biggs asked, if statutorily, were the foundations allowed to put strings on donations. Mr. Nülle said that it was unclear in statute.

Representative Biggs said he was looking at the expenditure plan and noticed that some of the expenditures seemed to be ongoing graduate student fellowships. He wondered what would happen if the state doesn't authorize another \$35 million.

Mr. Stavneak thought there were pieces that look more one-time than others. He felt the education pieces just looked more one-time. If you are going to fund 80 graduate students in one year and the expectation is that you will continue to have students in the pipeline. To the extent that you set up K-12 student and teacher programs, again those tend to look and create the expectation that they are ongoing. Regarding the e-grants, you can make an argument that you could give out a grant for one time and this is intended to be your grant for the entire length of the project. You can make that clear up front. Potentially, that looks like it can be one time. It's a mix in terms what the expectation may be.

Representative Biggs pointed out that when you begin talking about graduate student fellowships, some of the monies will be used for a research project. Not all projects will be terminated within a year. He anticipates that they would be ongoing.

Ms. Lisa Danka, Assistant Deputy Director for Strategic Investment and Research, Department of Commerce, explained that she also serves as the Executive Director of the Commerce and Economic Development Commission (CEDC). The CEDC is the agency's strategic, economic initiatives entity and it is within the CEDC that the 21<sup>st</sup> Century Fund was created.

Senator Burns said it was possible to amend on occasion certain contracts that are executed. He wondered how that would work if necessary.

Ms. Danka replied pursuant to the procurement code, there is the ability to amend existing contracts and they were willing to do so, based on the outcome of the discussions today. They will work with the offerer to come up with mutually acceptable amendments.

Mr. Dan Bergland, Science Foundation Arizona, expressed his appreciation for being at the meeting. He wished to thank the JLBC Staff and the Staff of the CEDC and the Commerce Department for months of hard work. They hope their contribution and their support of the work has been helpful. Mr. Bergland introduced Dr. Bill Harris, a former executive with the National Science Foundation in Washington, D.C. Dr. Harris also ran Science Foundation Ireland for the last 5 years.

Dr. Bill Harris said it was their intention to work with the JLBC and respond to their recommendations.

Representative Pearce asked why the foundation decided to significantly limit the repayment provision successful ventures.

Dr. Harris did not think that was the intention. The intention was to not try to create new ways of doing the work. It was his understanding that there was a law passed by the Legislature this past year that requires the universities to repay the state on the basis of inventions and royalties. This plan is to be consistent with that law. They're not going to be doing the research; they will be investing in the research institutions in Arizona that will be compliant with that law. They thought they were being faithful to the legislation and to the public policy that has been established by the Legislature this past year.

Representative Pearce said he found it interesting that they would significantly limit that repayment plan for successful ventures. He also asked if they could hold an equity stake in successful companies that received seed money from the fund.

Dr. Harris explained that the grants they get will be given to the universities and they have the policies in place on how they manage those equities or how they manage the repayment to the state. They were trying to avoid building a bureaucracy that would mimic what the universities already have in place. He said they were trying to be faithful to the Bayh/Dole Act of 1980, because they were trying to create a competitive advantage for Arizona researchers so they can be more successful and have the same types of policies so they create the innovation they have trying to create in the state.

Representative Pearce said that under state law, the state cannot hold equity, but private-non profits can.

Dr. Harris said he would like to have this as part of an ongoing discussion, where they might figure out how to do this better if the Legislature is not satisfied. His experience is based on working for the National Science Foundation and recognizing that a long time ago the federal government wanted to own the intellectual property and get some repayment for it. That didn't happen. There was no driver of the innovation. The Bayh/Dole Act put a driver in place to get the intellectual property used to create companies.

Representative Pearce said if repayment has been made, they are simply creating some venture capital. He was concerned that they would somehow attach an equity principal to someone else's business. Representative Pearce questioned if the initial expenditure plan had been modified in negotiations.

Dr. Harris replied that they did make some adjustments and some clarifications. The thing listed as economic studies will be funded by private money, this will then be used to fund the review. Everything they will be doing will be based upon competition and reviews.

Ms. Margaret Mullen, further explained that a group of SFAz met throughout the state with educators, business leaders, companies that had not chosen to come to Arizona and then their board set this investment policy. In the negotiation, while staff asked a lot of questions about the specific components, there was no change in the investment strategy adopted by their Board of Directors.

Representative Pearce said that one of things that concerned him was the ban on outsourcing to other countries.

Dr. Harris said they are investing in research in Arizona – not outside Arizona. He was glad to share with Senator Burns and Representative Pearce a copy of a report called "The Gathering Storm," which addresses this issue very seriously about the precarious economic situation we find ourselves in now, particularly in the high-tech sector.

Representative Pearce said it was brought up how Arizona does not do well in grants. One of the problems is every university in the country is taking on this approach. There is only a finite amount of money and yet everyone is investing huge dollars as we continue to be more competitive. There is a concern about the return on investment as we continue down this road of putting more and more resources into getting some of what is a limited amount money in the first place.

Dr. Harris agreed and said they had to be opportunistic focused on getting a return. One of the things he did learn in Ireland was how to get results out of these partnerships. His commitment is to try to do that kind of return on investment and create an honest dialog where you get honest numbers.

Representative Pearce said the statute states that investments made by the fund involve institutions, the public, and private sectors with a worldwide reach. How does the K-12 program fit into this worldwide requirement?

Dr. Harris explained that simply, we need talent. One of the things that the article "The Gathering Storm" demonstrates is that we as a nation are not as competitive as we need to be. We are losing world leadership in high-technology industries and high-technology sales. When they put teachers in research labs, they get up to speed quickly and then take things back to the classroom. When they return to the classroom and get the students involved, they begin to think about different kinds of careers.

Representative Pearce ask if the \$35 million was all going to be given to SFAz the first year, or will it be in payments over a period of time.

Dr. Harris replied that it will be the investment the first year and the state and the universities and the hospitals are ready for that type of competition. He does guarantee and assures that they will not spend a single dollar if there are not good ideas. Until there are quality things that pass the market test, they wouldn't spend a penny.

Representative Tully said they had broken out the amounts for each of the different areas and wondered if there was a timeframe on when the Committee will start reviewing the plans. He also wondered if any areas or corporations had been identified that they are going to work with.

Dr. Harris said that they do have a timetable and he would be sure the Committee received a copy. The call for proposals, will start in December and continue through February. The reviews will be done between January and May for the most part.

With a quorum in attendance, the Committee voted on the agenda items previously heard.

**Item 2 – Arizona State University – Review of Downtown Phoenix Campus Operational and Capital Plans.**

Representative Pearce moved that the Committee adopt the favorable review to the DPC operational and capital plans, with the provision that this does not constitute endorsement of any level of General Fund appropriations for the DPC. In addition, ASU is to report back to the Committee by December 15, 2006 on the following:

- 1) A breakout of capital expenditures from the \$188 million in bond proceeds plus the associated square footage.
- 2) A list of the newly acquired properties that have undergone ABOR review.
- 3) A breakout of the estimated \$7.2 million furniture expenditures.
- 4) ASU's contribution to the reserve and replacement fund in FY 2008 through FY 2012.
- 5) Clarification as to whether the enrollment projections are head counts of students taking at least 1 class at the campus or students enrolled full time at the campus.
- 6) Laws 2006, Chapter 352, required ASU to submit a 20-year financing plan to the Committee detailing each funding source, including options to maximize resources and to partner with private entities for the Downtown Phoenix Campus.

The motion carried.

**Item 3 – Arizona Board of Regents - Review of ABOR’s Assessment of Enrollment Accounting**

Representative Pearce moved that the Committee give a favorable review of ABOR’s assessment of Enrollment Accounting Policies and Procedures. The motion carried.

**Item 4 – Arizona Department of Education – Report on Information Technology Special Line Item Program**

Representative Pearce moved that the Committee give a favorable review to ADE Report on Information Technology Special Line Item Program, with the caveat that the department return with an updated report before spending any appropriated monies for the program if the Project Investment Justification for the program is not approved by the Information Technology Authorization Committee at or before its scheduled meeting on November 15, 2006. The motion carried.

**Item 5 – Joint Legislative Budget Committee – Review of Filing Fee for Administrative Hearing Pursuant to the Condominium and Planned Community Program**

Representative Pearce moved that the Committee give a favorable review of the \$550 filing fee with the provision that by January 1, 2008 the Department of Fire, Building and Life Safety and the Office of Administrative Hearings report back to JLBC Staff regarding the number of cases files, the number of cases resolved, the average cost per case, and the fund balance for the Condominium and Planned Community Hearing Office Fund. The motion carried.

**Item 6 – State Land Department – Review of Expenditure Plan for Radio System Upgrades**

Representative Pearce moved that the Committee give a favorable review of the State Land Department’s expenditure plan for a \$96,000 appropriation to upgrade the Forestry Division’s Statewide Radio Repeater System. The motion carried.

**Department of Commerce – Review of Memorandum of Understanding for the Arizona 21<sup>st</sup> Century Competitive Initiative Fund**

Representative Pearce moved that the Committee give a favorable review of the proposed Memorandum of Understanding to use monies in the Arizona 21<sup>st</sup> Century Competitive Initiative Fund. The Committee adopted the following recommendations:

- 1) SFAz submit a specific list of performance measures with numeric goals for the first year in its first quarterly report. Almost all of SFAz’s proposed performance measures will not be measurable for at least 3 years.
- 2) SFAz provide the Committee an update of its specific long-term goals and performance measures, including numeric goals, by October 31, 2007.

The motion carried.

**EXECUTIVE SESSION**

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

At 11:45 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

**Arizona Department of Administration - Review of Request for Proposal.**

Due to a lack of a quorum, no action was taken for the Executive Session items, and the meeting recessed at 1:13 p.m.

The JLBC meeting reconvened at 3:50 p.m. and formally adjourned at 3:50 p.m.

Respectfully submitted:

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Sharon Savage, Secretary

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Richard Stavneak, Director

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Senator Robert Burns, Chairman

# ASU Downtown Phoenix Campus

## JLBC Meeting

November 2006



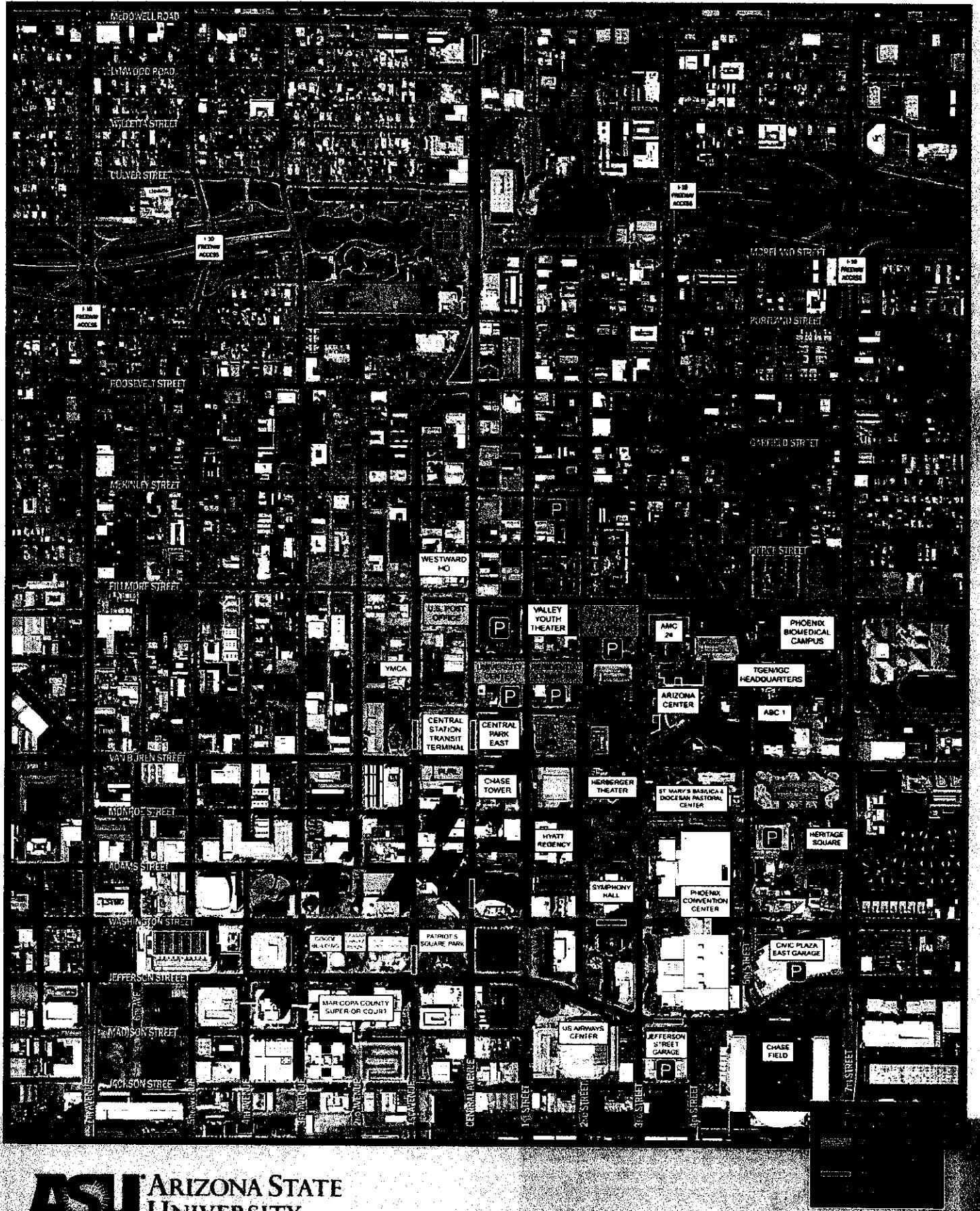
# **Present Academic Accommodations**

## **Academic Departments Located at the Downtown Campus:**

- College of Nursing and Healthcare Innovation
- College of Public Programs
- University College

**FY 2007 Percentage of  
Staff and Courses at DPC**

	<b>Nursing</b>	<b>Public Programs</b>	<b>University College</b>
<b>Course Offerings</b>	56%	51%	26%
<b>Faculty and Staff</b>	62%	100%	31%



**ASU** ARIZONA STATE  
UNIVERSITY

## **Student Housing**

- ASU is temporarily leasing the Ramada Inn for FY 2007 and FY 2008 at an annual cost of \$805,000
- ASU will identify private developers to construct \$135 million worth of student housing to accommodate 4,000 students by FY 2014

## **Enrollment and Graduation Projections**

- In fall 2006, 2,766 students are taking at least one course at the downtown campus
- Headcount would increase to over 7,000 students by FY 2011
- Total degrees awarded by programs located downtown will increase from 1,600 in FY 2007 to 2,300 by FY 2011

# **Partnership with the City of Phoenix**

- In March 2006, the citizens of Phoenix approved \$223 million in bond funds for the downtown campus
  - \$188 million is for campus construction projects
  - \$35 million is for the development of civic space and street improvements
- ASU will not make any lease payments. After FY 2012, they will discuss the option to make payments with the city.
- ASU will contribute \$2/sq-ft for building renewal.
- ASU will cover \$20 million in Furniture, Fixtures and Equipment costs.
- Once the bonds are paid off, the City will transfer ownership of the facilities to ASU.
- Ownership of the Downtown Center/Mercado property (valued between \$16 and \$23 million) will be transferred to the City.

## **Phase I: FY 2005 – FY 2006**

### **Operating**

- \$2.2 million for one-time interest payment and initial admin costs

### **Capital**

- City acquired two office buildings and the Post Office

## **Phase II and beyond: FY 2007 – FY 2014**

### **Operating**

- Enrollment target is 15,000 by FY 2014, but is unclear if this is the number of students enrolled full time or the number of students enrolled in at least one class
- Funding for this level of expansion has not been definitively planned

### **Capital**

- Renovation of the historic Post Office
- Addition of two new buildings that will house the School of Journalism and expansion space for the College of Nursing
- Details and funding sources have not been definitively planned

# **Department of Commerce: Review of Arizona 21<sup>st</sup> Century Fund MOU**

## **JLBC Meeting**

**November 15, 2006**



# **Arizona 21<sup>st</sup> Century Fund**

- Laws 2006, Chapter 334 established the Arizona 21<sup>st</sup> Century Fund to build medical, scientific and engineering research programs
- State appropriated \$35 million to the fund as part of the overall effort
- The Department of Commerce was required by statute to enter into an agreement with a non-profit corporation to expend the funds
- Commerce is also required to submit performance measures and recommendations on possible repayment provisions

# **Science Foundation Arizona Expenditure Plan**

- **Strategic Research Groups** \$18.0 M  
Investments in 10-15 research partnerships between industry and the universities to win major federal research center grants.
  - **Competitive Advantage Awards** \$5.0 M  
Grants of \$100,000 to \$400,000 to assist Arizona researchers in securing major grants for existing research from federal agencies.
  - **Small Business Catalytic (SBC) Funding** \$2.0 M  
Seed capital to develop technologies created at universities into spin-off companies, much like venture capital funding.
  - **80 Graduate Student Fellowships** \$4.0 M
  - **K-12 Student and Teacher Programs** \$3.5 M
  - **Discretionary Initiatives to be Determined** \$2.0 M
  - **Economic Studies** \$0.5 M

## **Performance Measures and Repayment**

- Proposed performance measures include economic development measures, such as federal monies attracted, spin-out companies created, venture capital investment
  - Many measures require 2-5 years to gauge results
  - No numeric goals specified
- Limited repayment recommendation

# **Committee Options**

- Favorable Review. Proposal generally meets the statutory provisions of investing state monies from the fund.
- Unfavorable Review. Plan begins on-going programs without assurances of additional funding, no numeric goals for performance measures, and limited repayment policy.
- JLBC Staff suggests that the Committee consider adopting the following recommendations:
  - SFAz submit a specific list of performance measures and numeric goals in its quarterly report.
  - SFAz provide the Committee an update of its specific long term goals and performance measures, with numeric goals, by Oct. 31, 2007.