

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
DEAN MARTIN
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 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

December 18, 2006

The Chairman called the meeting to order at 10:12 a.m., Monday, December 18, 2006, in Senate Appropriations Room 109. and attendance was as follows:

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

Absent:	Representative Burton Cahill	Senator Bee
	Representative Huffman	Senator Cannell
	Representative Lopez	Senator Garcia

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of November 15, 2006, Chairman Burns stated the minutes would stand approved.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) - Review of Third Party Quality Assurance Report and Percentage of Third Party Transactions Report.

Mr. Richard Stavneak, JLBC Director, indicated that the Arizona Department of Transportation (ADOT) quarterly comes before JLBC on the issue of Third Party Quality Assurance Reviews. They are in the process of removing parties from the waiting list to include them in the program. JLBC has requested that ADOT review whether or not they can reduce the size of their sampling and they are doing that. The JLBC Staff has recommended a favorable review and requests that ADOT report back with progress on their statistical sampling by April 30, 2007.

AHCCCS - Review of Comprehensive Medical and Dental Program Capitation Rate Changes.

Mr. Stavneak stated that this item has to do with the Comprehensive Medical and Dental Program, which is the Title XIX Medicaid program for foster care children. They are reporting their capitation rates for this program and these rates are within the budgeted amounts and the JLBC Staff recommends a favorable review.

ARIZONA STATE SCHOOLS FOR THE DEAF AND THE BLIND (ASDB) - Review of School Bus Replacement Expenditure Plan

Mr. Stavneak stated that ASDB was given \$850,000 in FY 2007 to purchase 10 new school buses. JLBC Staff has reviewed their expenditure plan and believes that it is reasonable and have recommended a favorable review.

DEPARTMENT OF REVENUE (DOR) - Review of Kerr Expenditure Plan.

Mr. Stavneak stated that this item is a review of the Kerr settlement administrative costs expenditure plans. The Kerr lawsuit has to do with federal employee retiree payments. The administrative expenses are about \$975,000 and the JLBC Staff believes that their expenditure plan is reasonable.

Item 1 - ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) - Review of Third Party Quality Assurance Report and Percentage of Third Party Transactions Report.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of the third party quality assurance report and also a favorable review of the third party transactions report, with the stipulation that ADOT provide a progress report on their new statistical sampling method by April 30, 2007. The report should include whether ADOT has reduced the percent of reviewed third party transactions below 10% and still retained statistical validity. The next quarterly report on third party quality assurance, which is due by January 30, 2007, should include the same information as in their latest report. The motion carried.

Item 2 - AHCCCS - Review of Comprehensive Medical and Dental Program Capitation Rate Changes.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review to the capitation rate changes as outlined. The motion carried.

Item 3 - ARIZONA STATE SCHOOLS FOR THE DEAF AND THE BLIND (ASDB) - Review of School Bus Replacement Expenditure Plan.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of ASDB's reported expenditure plan for school bus replacement. The motion carried.

Item 4 - DEPARTMENT OF REVENUE - Review of Kerr Expenditure Plan.

Representative Pearce moved a favorable review of the Kerr administrative costs expenditure plan, as it appears to be reasonable according to information JLBC Staff received from DOR. The motion carried.

DEPARTMENT OF PUBLIC SAFETY (DPS) - Review of Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission (GITEM)

Mr. Martin Lorenzo, JLBC Staff, stated that this item is a review of the Department of Public Safety's expenditure plan related to \$17,000,000 appropriated to GITEM. The \$17,000,000 is comprised of 2 appropriations, including \$10,000,000 to increase local GITEM participation and to fund new border security efforts and \$7,000,000 to fund an additional 100 DPS sworn personnel. DPS is requesting to spend roughly \$1,300,000 of the \$10,000,000 for operating costs associated with 10 border patrol agents that would assist GITEM, as well as to purchase an armored vehicle and other specialty equipment. In addition, they are requesting to expend \$5,000,000 of the \$7,000,000 appropriation to add 37 officers to GITEM. These officers would be transferring from other programs within the department. These monies are in addition to the \$1,400,000 appropriated at the July meeting.

As a follow-up to its July meeting, the Committee requested that the department pursue negotiations with county sheriffs regarding a regional holding facility. In the department's discussions with county sheriffs in the southern region, they have reported that border patrol has been adequate for their needs, and as such, they do not believe a regional holding facility is necessary. However, this was not the case in northern regions as border patrol doesn't have the same presence. They are working on methods to reimburse county sheriffs for transportation costs related to transporting illegal immigrants.

The committee's options are 1) recommend a favorable review of the department's request; or 2) recommend an unfavorable review of the department's request. Under either option, the JLBC recommends that the Committee require DPS to submit revised expenditure plans prior to expending any additional monies beyond the approved expenditures or on items not included in the current plan.

Senator Harper asked for a breakdown of the \$1,300,000 that DPS wants to use for additional equipment. Mr. Lorenzo referred him to Table 1 of the JLBC Staff memo and indicated that the majority of the costs are operating costs associated with the 10 border patrol agents.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review for the use of \$1.3 million (of the \$10 million) to fund the purchase of specialty equipment and the operating costs associated with 10 federal Border Patrol

agents expected to work with GITEM; and, \$5.5 million (of the \$7 million) to fund the costs associated with adding an additional 37 DPS officers to GITEM, with the caveat that DPS is to submit a revised expenditure plan prior to: 1) expending any additional monies beyond the reviewed expenditures, or 2) expending the approved amounts on items not in their current plan. The motion carried.

JOINT LEGISLATIVE BUDGET COMMITTEE - Consider Approval of Year 2007-2008 Strategic Program Area Review (SPAR) Topic Candidates

Mr. Stefan Shepherd, JLBC Staff, indicated that this item is a consideration of the recommended program areas for the Strategic Program Area Review (SPAR). Every 2 years statute requires the JLBC Staff to present to the Committee some proposed SPAR topics. This year the JLBC Staff proposes to look at Substance Abuse and Debt and Third-Party Financing.

Senator Harper asked if the incoming Senate President has assigned which Committee these 2 SPAR topics would be assigned. Mr. Shepherd answered no. Mr. Stavneak added that this would be more of an issue for the Second Regular Session because staff would be performing most of the work in 2007, and then in 2008, the legislative committees would review the reports.

Representative Pearce moved the JLBC Staff recommendation for the 2 program areas for the Year 2007-2008 SPAR cycle. The motion carried.

SUPERIOR COURT - Review of Expenditures of Judicial Collection Enhancement Fund (JCEF) Balance for Probation Officer Salaries.

Kevin Bates, JLBC Staff, stated that pursuant to a footnote in the FY 2007 General Appropriation Act, the Judiciary is seeking an expenditure authority of \$700,000. These are additional Judicial Collection Enhancement Fund monies above the appropriated amount for probation officer salaries. The JCEF receives revenues from a surcharge on criminal offenses, civil traffic violations and other certain civil violations. This additional amount would be funded from the outstanding JCEF balance.

The Committee has at least 2 options: 1) a favorable review, given that the expenditures are in line with the statutory intentions of these monies, or 2) an unfavorable review, given that the Judiciary is planning to fund an ongoing expense with the one-time monies, and given that the fund balance would sustain this level of expenditure for only 2 additional years.

Representative Biggs asked if the surcharges had been raised from \$5 to \$10 proportioned to JCEF and whether this was approved. Mr. Bates stated that was correct and stated that this was part of Chapter 361 from last session.

Representative Biggs asked what the current percent (of surcharges as a percent of fines) was and Mr. Stavneak answered that it was somewhat over 80%.

Representative Biggs asked if the judge or magistrate still have authority to waive the surcharge. Mr. Bates answered that the judge can order that surcharge be waived if he or she wishes.

Representative Biggs asked if they could waive a portion of the surcharge. Mr. Bates believed that was correct.

Representative Biggs asked if they could designate which portion of the surcharge they wanted to waive. Mr. Bates answered that he did not have that information. Senator Martin said that the clean elections part can not be waived; it stays on no matter what.

Representative Biggs asked should this \$700,000 go to salaries and next year this revenue source be less than the salaries, how does the Judiciary intend to make up the salary. Mr. Kevin Kluge, Chief Financial Officer for the Supreme Court, said they understand that the \$700,000 cannot be sustained by the revenues and that they are treating this as one-time funding, just to bridge the gap between salaries that are approved by the board and salaries/monies available from the state funding.

Senator Burns asked how they planned to handle this in the future when the funds are no longer available. Mr. Kluge answered that they let the chief probation officers know that this is one-time monies, that the revenues cannot sustain this expenditure level, and that they would have to come up with their own plans, either using probation fees or county funds to cover the deficits in ongoing years. Mr. Kluge said that hopefully at some point, they would bridge the gap between money available for state positions with state salary increases given by the Legislature.

Representative Biggs asked if Mr. Kluge is saying that they are essentially treating these 2 years as a bonus, but they may not be available in the third year. Mr. Kluge said that the probation surcharge monies were put in place to help supplement the

funding for probation. He said that we are sitting on a fund balance; that the money should be rolled out, and that it does not good sitting in the fund; they want to try to maximize the money that they make available for the probation departments.

Representative Biggs said that he didn't have a problem with that, though this seems to be creating a reliance on this fund that may not likely be available 2 years from now. There doesn't seem to be any concrete plans on how this funding will be continued, and that by terming it anything other than a "one-time bonus," there is the potential to create a reliance that may not be met. Mr. Kluge said the way salaries have worked, is state employee salary raises are given by the Legislature. The county boards set the salaries for probation staff. They fluctuate from year to year. Sometimes the state gives bigger raises than the county gives. Over time it has made up for itself. Right now the state employee salary raises have not been very large over the last several years. A big stride was made last year in giving the raises, and that has helped to fill this gap. Mr. Kluge stated that he is pretty confident that in the next couple of the years, the state monies available to cover these deficits will be there with state employee raises.

Representative Pearce said that Representative Biggs brought up a good point and asked if they are in a position to make a commitment that you would manage, with the ability of vacancy savings, to move forward with dollars that are designed to go for this purpose, and can manage the process, rather than put the Committee in a position that JCEF is back for a supplemental because the costs are not going to be funded. Mr. Kluge said that was the plan and said that the understanding that they have with the chief is that this is one-time money, and it is only to cover this year and possibly next year. They are projecting a \$1.4 million fund balance. They are looking at \$700,000 this fiscal year, possibly \$700,000 next fiscal year. If the funding is not available and revenues cannot sustain increased costs, then they would have to go to probation fees to fund those deficits. Mr. Kluge stated that it is not our policy to come with a budget request for probation salaries above what the state is giving for state employees, so whatever you approve for state employee raises is what goes to the probation staff, regardless if it is enough to cover their deficits or not. That has been our policy. Any county raises above what the state gives, the county is responsible for funding those either out of county general funds or out of probation fees. That is our policy and that way they do not over commit their funds.

Representative Pearce moved a favorable review of the expenditure of \$700,000 above the appropriated amount, which is consistent with statutory purposes. The motion carried.

DEPARTMENT OF CORRECTIONS - Consider Approval of Requested Transfer of Appropriations.

Mr. Martin Lorenzo, JLBC Staff, stated that the Department of Corrections is requesting a transfer of roughly \$18 million from the Employee Related Expenditures (ERE) line to the Overtime Special Line Item to cover the department's estimated overtime costs of roughly \$37.5 million.

Mr. Lorenzo stated that in 2006 the department expended roughly \$41 million in overtime. However the 2007 budget shifted monies from the overtime line to fund a pay raise. This pay raise was intended to help the department fill vacancies and reduce overtime. While vacancies have been filled and staffing has increased, the department's overtime costs have yet to respond to these increases. As a result, the department expended roughly \$15 million of their \$19.7 million overtime appropriation through October. This equates roughly to about \$1.4 million per pay period. As a result, their current budget would fund costs through December.

The committee has at least the following 2 options. The first option is to approve the department's request to transfer \$17.8 million from employee benefits to overtime. However it's unclear if the department's current employee benefits line has sufficient monies to cover these costs. This is due to a variety of factors, one being that there is currently only 3 months of available data to project and analyze their future needs. The second option would be to approve the transfer of \$6.7 million from the employee benefits line to fund overtime costs. The \$6.7 million is due to the department being over funded for correctional officer retirement rates, as a result of actual retirement rates being lower than the funded rates. At the current expenditure rate, the \$6.7 million would last through February. The additional time would allow us to have more information and data to analyze the remaining need for the fiscal year. Under either option the JLBC Staff recommends that the department submit additional information as outlined in our report to allow us to further analyze their overtime and employee benefit needs.

Representative Biggs asked what the vacancy rate was prior to money given for the raises. Mr. Lorenzo answered that in January when budget negotiations began, the department had roughly the same amount of correctional officers they do now, a vacancy rate of about 13%.

Representative Biggs then asked if the vacancy rate is still 13%. Mr. Lorenzo answered yes, it was roughly 13%. However, between January and July that vacancy rate increased. He believes they lost roughly 91 positions between July and the end of the fiscal year. The department has subsequently increased the number of positions by 114 positions through December 4.

Representative Biggs asked how much money was in the ERE line before these raises. Mr. Lorenzo answered that he did not know exactly, but believed the total amount was \$17 million. Mr. Lorenzo further stated that they requested to shift \$17.8 million, but we had previously shifted roughly \$17 million from Overtime to Personal Services and ERE to fund the pay raise. Mr. Stavneak clarified that Mr. Lorenzo was speaking about the shift in the enacted FY 2007 budget. The Committee has not done any shifts so far this fiscal year.

Representative Biggs asked that if a shift was made with either one of these, what would be the anticipated total amount spent on overtime in this fiscal year vs. last year. Mr. Lorenzo answered that in the last fiscal year they spent roughly \$41 million and their current projection is about \$37.5 million.

Representative Biggs said that we are not seeing any appreciable decrease in the vacancy rate, except for the 91 lost and the 114 picked up. He asked if they think that is that is stabilized and are they going be able to close that vacancy rate. Mr. Lorenzo said the \$37.5 million assumes that they'll increase correctional officer staffing by roughly 60 positions a month for the remainder of the fiscal year, which is quite a bit higher than their current number of increases per month.

Representative Biggs asked if that was a net increase. Mr. Lorenzo answered it was and that it would probably take vacancy savings to roughly 7-8%.

Senator Burns asked how the agency is doing on the pay increases and whether we are seeing an impact in turnover and retention in the staffing.

Ms. Dora Schiro, Director, Department of Corrections, said that the department is seeing an appreciable improvement. In January a year ago there were 1,222 vacancies and that continued to rise through the end of June to 1,273 vacancies. She added that there's a correction that is the result of a sweep the 565 vacant positions which went into effect July 1. So immediately the number of empty positions dropped from 1,273 to 708. From the 708 as a baseline on July 1 there is a marked improvement to just 408 vacancies today.

Representative Pearce asked if we've had a net increase of about 708 to 408. Ms. Schiro added that there has been an improvement of 300 officers since July 1.

Representative Pearce asked what Ms. Schiro's projection was, realizing the challenge we have with the competition. He asked if everything looked good for the continuation of this improved status and if we are going to continue to move forward. He stated that he thought we stepped up to the plate with a significant increase for our correctional personnel. He asked if some of this improvement is a direct result of that.

Representative Pearce stated that the sweeps were taken into account in part because of the fact that there was no funding for those positions. He stated that this creates the impression that there are positions that we really don't have. He further asked where we are at with a couple of the high vacancy areas, such as Lewis. He asked if we have made improvement in some of those outlying areas. Ms. Schiro said that Lewis is one of the places where they have seen the most positive changes. They are down to 4% vacancies at Lewis.

Representative Biggs asked about the \$19 million that is in ERE right now and the benefits are being funded at a lower rate in 2007 than in 2006. He asked if that was a correct assumption. Ms. Schiro answered that because of the higher rates of vacancies costs actually dropped, and that is related to what their vacancy rate is. As vacancies reduce and staffing improves those expenditures will adjust proportionately.

Representative Biggs was specifically talking about funding of the benefits. Ms. Schiro explained that the state rate is increased, but the expenditure was reduced because of the lower number of filled positions.

Representative Biggs asked if you transfer \$17 million out of the ERE line into the Overtime line, and you're successful at filling all of these vacancies that you anticipate filling, is there going to be enough money left in the Personal Services and ERE lines to compensate these new hires. Ms. Schiro answered that as we move further into the year they are going to anticipate a shortfall. She testified to that last year prior to the conclusion of the budget. She thinks that the shortfall, which will become far more specific as the fiscal year progresses, is a result of having improved staffing levels. But also one of the unresolved issues that was originally included in the department's pay plan proposal from last year was the elimination of the stipends, which have been funded through vacancy savings. As vacancies go down, the monies available to be reallocated to stipends diminishes. Because they didn't fully adjust the salaries, the Legislature, instead, opted for an across-the-board increase, those stipends continue at those locations, and to discontinue them at this time would result in immediate reverse in the positive numbers she has reported.

Representative Biggs asked what the shortfall is that the department is anticipating. Ms. Schiro stated that she did not have information on the anticipated shortfall and would need to get back to Representative Biggs.

Mr. Stavneak added that the agency's last monthly report, department wide they said that they thought they would experience a shortfall of \$5 million. It may be a different number for just salaries, but department wide, the number was \$5 million.

Ms. Schiro said the total anticipated shortfall at this point is about \$5 million and some for the year.

Representative Pearce moved to approve option 2 to transfer \$6,654,300 from the ERE line to the Overtime Compensatory SLI. Included in the motion is the recommendation from JLBC Staff that the department submit FY 2006 actual and FY 2007 year-to-date and projected number of hours worked by all positions in the Correctional Officer series by January 20. The hours should be categorized by the number of straight time, overtime, and compensatory time worked.

Senator Martin said that he could not support giving the agency additional funds until the Committee knows what happened September 7, relating to someone resigning in the department. As a result of that, he was not sure that they should be given additional funds until all answers have been received concerning that.

The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) - Review of Expenditure Plan for Adoption Services - Family Preservation Projects.

Mr. Eric Jorgensen, JLBC Staff, stated that this item is a review of the DES expenditure plan for \$1,000,000 that was appropriated to the Adoption Services - Family Preservation Projects Special Line Item. A budget footnote requires DES to submit a plan to this Committee. That plan must that consider the recommendation of the Joint Legislative Committee on Adoption Promotion (JLCAP). As far as the expenditure plan, the JLCAP met on November 29 and adopted the initiatives recommended by DES for the use of these funds. The detail of these 2 initiatives can be found on page 2 of the JLBC Staff recommendation memo.

Initiative 1 is for Intake and Recruitment which adds 4 FTE Positions, expands the adoption call center and increases the recruitment efforts. There are also training and technology upgrades. Initiative 2 is for increased support services to adoptive families and includes some crisis intervention services and a hotline, adoption therapy for families that are transitioning into adoption, support groups and some post-adoption support services. These 2 initiatives together would cost just over \$600,000 in FY 2007. Annualizing these initiatives would require \$1.8 million.

For this reason, JLBC Staff included at least 2 options. The first option would be a favorable review, recognizing that the continuation of these initiatives would require an increased appropriation for FY 2008. The second option would be a favorable review with the provision that DES restructure the expenditure plan according to the priorities outlined by the Joint Legislative Committee on Adoption Promotion to keep that within the \$1,000,000 budget for FY 2008. In either case, we do note that DES did not provide performance measures for these programs as required by the budget footnote, and the JLBC Staff recommends that DES provide those measures, along with any historical data that they have by February 1, 2007.

Representative Pearce moved option 2 to give a favorable review with the provision that the expenditure plan be restructured according to the priorities identified by JLCAP in order to remain within the \$1,000,000 appropriation in future years. Also included in the motion is a recommendation by JLBC Staff that DES provide performance measures for the proposed projects, as required by the budget footnote, by February 1, 2007. These performance measures should relate directly to the utilization of new resources and the expected outcomes. The motion carried.

EXECUTIVE SESSION

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

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

At 10:52 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 11:45 a.m. the Committee reconvened into open session.

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Kepler v. State of Arizona, et.al. The motion carried.

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of *Mundell v. State of Arizona, et al.* The motion carried.

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of *Lyftogt v. State of Arizona, et al.* The motion carried.

Arizona Department of Administration - Review of Request for Proposal.

Senator Burns stated that he would support an unfavorable review, but expressed concern with some of the loose ends that still seem to exist in this particular area. The Department of Administration has come a long way, based on some of the recommendations that the Committee made and they appreciate that, but there are still issues and other significant questions that remain.

Representative Pearce moved that the Committee give an unfavorable review of the RFP, recognizing that there appears to be some movement in the right direction, but there are a lot of issues and concerns about past performance. The motion carried.

Consideration of JLBC Staff Director Salary Pursuant to A.R.S. § 38-431.03.

Representative Pearce moved that the salary of the Director of the JLBC be moved to \$123,000. The motion carried.

Senator Harper stated that the Director is a good man and well worth the amount, however he felt that the Committee is offering an amount that is more than was asked for.

The motion carried.

Arizona Commission for the Deaf and the Hard of Hearing - Review of Telecommunication Relay Services Contract.

Representative Pearce moved that the Committee give a favorable review of the Telecommunication Relay Services contract with the stipulation that the favorable review does not constitute an endorsement of an increase in the appropriation in subsequent years. The motion carried.

STATE COMPENSATION FUND (SCF) - Consider Approval of Calendar Year 2007 and 2008 Budgets.

Mr. Lorenzo Martinez, JLBC Staff, presented the submitted calendar year budgets for 2007 and 2008. The Committee has not approved a budget since 2003 after the State Compensation Fund exceeded the budget level that was set by the Committee. The Committee has at least 2 options, one being to approve the budget as submitted or, once again, not taking any action. In addition, the Committee was interested in SCF donations which are shown on Attachment 3 included in the JLBC Staff recommendation memo.

Mr. Dwayne Miller, Chief Operating Officer for SCF Arizona took questions.

Senator Burns asked if approval is given for the budget as opposed to taking no action, will SCF live within that budget.

Mr. Miller stated that they make every effort to live within that budget. As discussed in the past, there is some uncertainty regarding what the statute means. The budget is reviewed and approved by their Board of Directors on an annual basis. He stated that they intend to live within that budget. He said that in the past when they were not within the budget, it was due to contractual issues, premium tax issues, or other things that resulted in a significant demand on SCF to provide more insurance coverage than was anticipated. He said the revenue side went up more than the expense side in those situations.

Senator Burns questioned a fund donation in the handout and stated that he believed that a lot of donations were above and beyond customer outreach. He questioned recipients of State Compensation Fund money that would fall into the political category and he wanted Mr. Miller's comment.

Mr. Miller stated that it is the policy of SCF and their Board of Directors to be non-partisan in their charitable contributions and community outreach. The focus is on programs that stress workplace safety, safety in general, education, community and economic development, human services, arts and culture, and civic leadership. SCF also strives to make their donations consistent with the geographic distribution that is representative of their policy holder base as well.

Senator Martin asked if SCF had a specific budget for donations, or do they contribute to events as they come up, and if they do have a budget, has this increased, decreased or has it been about the same in the last 10 years.

Mr. Miller stated that SCF does have a budget for this line item. In the past 3 years they have been focusing on ramping up community awareness to better represent the interests of policy holders, as well as the interest of their employees in encouraging them to be involved in their communities. A lot of donations are sponsorships of various events that are part of partnerships they have with other association groups which help service the policy holders of SCF and promote a culture of workplace safety.

Senator Martin asked if United Phoenix (UP) Fire Fighters was funded through the SCF, as he thought they were funded through the City of Phoenix.

Mr. Rick DeGraw, Vice President for Communication Public Affairs for SCF of AZ, said that UP Fire Fighters is a State Compensation Fund member. The fire fighters, themselves, are insured through the city, but the employees they hire in their associations, secretaries and others are insured through SCF.

Senator Harper asked what percentage increase SCF had over the last couple of years for the cost of a basic policy. Mr. DeGraw stated that he believed that the cost actually decreased this year. The year before that they increased slightly. He said that he believed that workers' compensation insurance rates today are at a level that is comparable to about 1972.

Senator Harper asked if an employer has a workers' compensation policy and they go a year without any employees, and having zero exposure with no salaries paid, what would the basic price be for the policy. Mr. DeGraw said that there are hundreds of different job class codes so there is no one basic price. The rates for workers' compensation insurance are set by a statistical rating agency called the National Council of Compensation Insurance (NCCI), which is hired by the Arizona Department of Insurance to collect all the workers' compensation insurance premium and loss information from all carriers in the state. Each carrier can file a deviation from those rates. In spite of the fact that SCF provides the majority of the coverage in the State of Arizona, they were able to file rates that were 10% below and, this coming year is 8% below those standard rates.

Senator Harper asked if those risk assessments deal with exposure rates and if they have anything to do with the base policy costs of writing a policy. Mr. DeGraw stated that expense considerations are taken into account for rates. It is called an expense constant that is part of the national council's filing, and is \$120 a year just for the purpose of writing the policy.

Senator Harper asked if Mr. DeGraw thought that he was being consistent with charging businesses upwards of about \$800 a year for a policy even though they have no exposure and no employee salaries.

Mr. DeGraw said that if the business has no exposure and if they have no employees, they are not required to have workers' compensation insurance. It is only if you have a company with one or more employees. The owners themselves can elect to exclude themselves from workers' compensation coverage. There would be no charge unless they either had employees or intended to have employees.

Senator Harper asked how difficult it would be if a company decided that they would not have employees for a year to cancel their policy and then turn around the next year and obtain a policy. It was his understanding that SCF actually have raised the price of a policy even if the insured does not have any exposure.

Mr. DeGraw said the minimum premium is not set by SCF Arizona. There are minimum premium amounts established by NCCI. If someone were to cancel their policy, they would incur costs associated with the amount of coverage or the amount of exposure during which they had that policy. If they had it for 6 months they would be responsible for 6 months' worth of the minimum premium. As far as canceling that policy and getting reinstated, that is one of the things that SCF of Arizona does extremely well. SCF is very responsive to small businesses. SCF's only requirement in writing a policy is that they have paid all prior bills for all insurance coverage that they requested from SCF.

Senator Burns asked if SCF had a tracking mechanism that would indicate turnaround time, i.e. if someone applies for a policy, how long would it take for them to get coverage.

Mr. DeGraw said that SCF's practice is 10 business days from the time someone requests a quote. Then if everything is in order it would probably take another 10 days to get the policy issued. Mr. DeGraw said that information is tracked, and that it is shared with management and the Board of Directors upon request.

Senator Burns asked if this information is made public. Mr. DeGraw said that they have never had requests to make the information public, but that board meetings are subject to open meeting laws, so if anyone wanted that information, they could attend their board meeting and request that information.

Senator Martin expressed concern about SCF's community outreach projects, given that SCF is part of the state and they are funding people who are lobbying the members. In many ways, he prefers SCF restrict themselves to just advertising. There are ways to communicate without getting into some of these types of outreach efforts that put the Legislature into a bind because you are asking for some sort of legislative change by having any type of cultural or community outreach that is really political in nature. He recommended that SCF reshape its cultural and community outreach strategies to advertising in other areas that don't put the Legislature in a position where they have to pick sides. There are ways to reach your members that doesn't present the Legislature with a political problem. Reading through the donation list presents a very big political problem.

Representative Pearce stated that the SCF has a court decision that says their funds are not public funds. He believes it is a state fund. Out of fairness, the board does a fairly good job. He agreed with Senator Martin. Representative Pearce added that there are specific statutes that say no public monies can be used to influence an election, and this is clearly in violation of the law for the contribution for Proposition 203. He expressed serious concerns with these kinds of issues. Representative Pearce said that SCF's list of projects lends itself to partisan politics with public monies, and he would think that SCF has an obligation to return excess dollars to the businesses. He said that if we have excess dollars we should be looking at a rate reduction or a suspension for a period of time, but not a redistribution of these to pet projects that clearly have partisan overtones.

Senator Harper referred to an incident where money was turned around by an organization to use for issues at the Legislature. The SCF made a donation to the Project Arizona's Future, and they, in turn, were advocating for more spending by the Legislature, including sending out an email to their members that was a lie, saying that the Legislature's budget was cutting \$2 million from veterans' services. The Governor had proposed \$2 million in additional dollars, which is a big difference between not funding an additional \$2 million and cutting \$2 million.

Senator Burns asked Mr. Stavneak if information he received from SCF was sufficient to provide a good analysis as to whether or not their request is a legitimate one. Mr. Stavneak answered that it was not in the same level of detail as you find from other state agencies. It is at more of a summary level and it did not raise any concerns on the JLBC Staff's part.

Senator Burns asked if he felt that when he needed additional information, what was the level of cooperation from the SCF. Mr. Stavneak said SCF has been responsive over the last couple months to requests for information.

Senator Burns suggested that maybe the Committee approve their budget since SCF has said that they would do all they can to stay within that budget.

Representative Pearce moved that the Committee approve the calendar year 2007 budget of \$104,480,000 and the calendar year 2008 budget of \$108,905,000 as recommended by JLBC Staff. The motion carried.

Without objection the Committee meeting adjourned at 12:15 p.m.

Respectfully submitted:

Tanya Smith, Secretary

Richard Stavneak, Director

Senator Robert Burns, Chairman