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ARIZONA CORPORATION COMMISSION

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Executive Director

DAVID RABER
Director, Corporations Division

October 18, 2005

The Honorable Robert Burns
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

The Honorable Russell Pearce
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

The Honorable Tom Boone
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

Dear Senator Burns, Representative Pearce and Representative Boone:

Attached, please find the FY2006 First Quarterly Report required pursuant to Laws 2005, Chapter 286.

Should you have any questions or concerns, please feel free to contact me at 602-542-3521.

Sincerely,

David Raber
Director
Corporations Division

DR: cmc

Attachment

cc: Chairman Hatch-Miller and Commissioner Mundell, Spitzer, Gleason and Mayes
Members of the Joint Legislative Budget Committee
Members of the Arizona House of Representatives Appropriations Committee
Members of the Arizona State Senate Appropriations Committee
Richard Stavneak, JLBC Director
Gary Yaquinto, OSPB Director
Jodi Jerich, House Majority Chief of Staff
Eileen Klein, House Majority Staff
Mark Bogart, House Minority Staff
Mark Swenson, Senate Majority Staff
Nikki Amberg, Senate Minority Staff
Mike Huckins, House Research Staff
Carolyn Atwater, Senate Research Staff
Brian McNeil, Executive Secretary
Mike Kearns, Deputy Executive Secretary
Jamie Hogue, Legislative Liaison

Arizona Corporation Commission (ACC)
Corporations Division
FY 2006 First Quarterly Report Required Pursuant to Laws 2005, Chapter 286

Background and Current Situation:

The Corporations Division continues to face unprecedented growth in the number of business filings in Arizona. FY 2005 ended as a record-breaking year for the Division. During FY 2005 the Division processed nearly 74,000 filings (new corporations and LLCs, amendments, changes, mergers and voluntary dissolutions) which represents a 20% increase over the previous year (61,238 filings). The increase in the number of LLC filings continues to be a primary driver. FY 2005 LLC filings were up 33% over FY 2004. This represents the second-highest annual growth in these entity filings in the past eleven years. LLC filings have accelerated significantly in the past several years. For example, FY 2005 LLC filings (43,300) were more than 210% higher than total LLC filings received just five years earlier in FY 2000 (13,969).

This growth also impacted revenue, which has increased substantially. FY 2005 revenues totaled more than $13.9 million ($9.7 General Fund and $4.2 Public Access Fund), up from $11.9 million in FY 2004. Even with the additional supplemental appropriation provided late in FY 2005, the Division still reverted over $1.7 million in Public Access Funds to the General Fund at the end of the year. This was nearly double the amount of reversions in FY 2004 ($852,138).

Backlogs of corporate filings increased during FY 2005 to an all-time high of sixty days on April 1, 2005. Due to the critical nature of the filings function, the Division took a number of short-term steps to reduce the significant backlog. Supplemental funding that was provided in Laws 2005, Chapter 4 (HB 2113) allowed the Division to hire temporary staff members. In addition, existing Division staff members have been required to work significant overtime. Personnel from other ACC Divisions have also been assisting by working additional overtime hours. These measures have resulted in declining filing backlogs and reduced waiting times for our customers over the past six months.

Statistics regarding expedited and regular filings received, processed and corresponding wait times since March 25, 2005 (date of provision of FY 2005 supplemental budget) are as follows:

EXPEDITED FILINGS

Processing Time (calendar days) for Expedited Filings:	Phoenix	Tucson
September 30, 2005	**9 days**	**4 days**
August 31, 2005	11 days	4 days
July 31, 2005	14 days	10 days
June 30, 2005	19 days	18 days
May 31, 2005	31 days	32 days
April 30, 2005	40 days	46 days
March 31, 2005	60 days	66 days
Baseline: Week ending March 25th	58 days	67 days
September 2005 Processing Totals for Expedited Filings		
Number of Expedited Filings Received:	6,738	1,166
Number of Expedited Filings Processed:	7,644	1,101
August 2005 Processing Totals for Expedited Filings		
Number of Expedited Filings Received:	7,670	1,326
Number of Expedited Filings Processed:	7,705	1,512
July 2005 Processing Totals for Expedited Filings		
Number of Expedited Filings Received:	5,989	962
Number of Expedited Filings Processed:	7,498	1,331
June 2005 Processing Totals for Expedited Filings		
Number of Expedited Filings Received:	7,377	1,127
Number of Expedited Filings Processed:	8,839	1,866
May 2005 Processing Totals for Expedited Filings		
Number of Expedited Filings Received:	5,925	1,076
Number of Expedited Filings Processed:	7,393	1,701
April 2005 Processing Totals for Expedited Filings		
Number of Expedited Filings Received:	5,016	859
Number of Expedited Filings Processed:	8,123	1,169
Week of 3/25/05 Processing Totals for Expedited Filings		
Number of Expedited Filings Received:	1,406	235
Number of Expedited Filings Processed:	1,504	227

REGULAR FILINGS

Processing Times (calendar days) for Regular Filings:	Phoenix	Tucson
September 30, 2005	**85 days**	**38 days**
August 31, 2005	91 days	30 days
July 31, 2005	104 days	69 days
June 30, 2005	148 days	66 days
May 31, 2005	145 days	138 days
April 30, 2005	148 days	164 days
March 31, 2005	153 days	177 days
Baseline: Week ending March 25th	146 days	182 days
September 2005 Processing Totals for Regular Filings		
Number of Regular Filings Received:	1,735	165
Number of Regular Filings Processed:	1,664	263
August 2005 Processing Totals for Regular Filings		
Number of Regular Filings Received:	2,146	183
Number of Regular Filings Processed:	2,148	611
July 2005 Processing Totals for Regular Filings		
Number of Regular Filings Received:	1,636	158
Number of Regular Filings Processed:	1683	162
June 2005 Processing Totals for Regular Filings		
Number of Regular Filings Received:	1,845	232
Number of Regular Filings Processed:	211	623
May 2005 Processing Totals for Regular Filings		
Number of Regular Filings Received:	1,901	77
Number of Regular Filings Processed:	785	761
April 2005 Processing Totals for Regular Filings		
Number of Regular Filings Received:	1,460	185
Number of Regular Filings Processed:	648	301
Week of 3/25/05 Processing Totals for Regular Filings		
Number of Regular Filings Received:	376	31
Number of Regular Filings Processed:	211	30

Other Division Efficiencies:

During the supplemental period and into the first quarter of FY 2006, the Division continues to explore efficiencies that may help reduce the backlogs. Some efficiencies that have been identified and implemented during this time are listed below.

- The Division continued implementation of the Initial Processing System (IPS). This involves bar coding and scanning corporate filings as they come in the door (whether over-the-counter or through the mail). Once the document is scanned, the paper copy is

archived. The electronic copy goes into a queue and is examined by our Corporate Filings staff on their computer monitors.

- The IPS project gives us several key advantages:

  1) We eliminate the "paper chase" thereby increasing the level of responsiveness to our customers.
  2) The IPS process makes it easier for the Division to respond to status calls on documents.
  3) Filings are available for download on our website www.cc.state.az.us/corp as soon as they are approved.
  4) Over time, the project will result in greater efficiencies in processing filings.
  5) The process sets the stage for future e-filing capabilities.

- The IPS system allows the Division to better track workload and workflow progress. Detection of reoccurring errors, process bottlenecks and other critical information provides a necessary tool for management and staff that will enable us to serve customers more effectively.

- As of September 30th, the Division is utilizing the IPS process for the following filings: Articles of Incorporation, Articles of Organization, Applications for Authority to Transact Business in Arizona (Foreign Corporation) and Applications for Registration of a Foreign Limited Liability Company. Other filings will be added incrementally during the next year.

- Laws 2005, Chapter 253 created a new corporate naming standard that has been implemented by the Division. The new standard has greatly improved the clarity of instructions regarding names that would be considered distinguishable from other names and ultimately approved for newly formed entities. During September 2005, the IT Division of the ACC programmed a name-checking/approval module in Starpas which is now being tested. If all goes as planned, the Starpas Database will begin checking names against existing names in the database and make the determination of approval or rejection some time in October. The second phase of the project will allow the public to reserve names on-line with a credit card payment. We anticipate this availability by the end of calendar year 2005. These efficiencies will allow the Division to reassign personnel who are currently tasked with reviewing name requests to examining corporate filings (ranging from 1 – 3 FTE based on filing volume).

- The FY 2006 Budget for the Division contains 9 new FTEs. These new positions are meant to address the continued growth in filings and relieve the Division's dependence on overtime and temporary employees. Before adding these new positions, the Division must develop additional work space. Fortunately, in July the Division acquired 1,800 square feet of office space in the 1400 West Washington Building, adjacent to the IPS Section's current location. Two other State Board offices are required to move before we can begin preparing the space for our use (these moves are scheduled to be completed by October 24th). Since the beginning of the fiscal year, the Division has been working with

ADOA to plan renovations and prepare the space for the new staff. This includes structural renovation, modular office furnishings, new PCs and other office equipment. At the same time, the Division submitted the necessary paper work to ADOA's Human Resources Division in order to create the new positions. The latest projections provided by the Facilities and Human Resources Divisions at ADOA indicate that the space will be ready for our use by mid-November and the FTE positions created and filled shortly thereafter.

- In addition to the on-line name reservation system being available to the public by December 31st, the IT Division is also nearing the completion of an on-line option for obtaining a certificate of good standing. Thousands of businesses request such a certificate each year in order to obtain loans or renew professional licenses with other regulatory agencies. Currently, the only ways to obtain a certificate are by coming into our offices or ordering through the mail. Providing an on-line option will reduce the amount of staff time required to process these requests and should result in additional efficiencies that have yet to be quantified. This is an exciting new addition to our on-line services and we are certain that the public will be very pleased with this new option.

Plans for Second Quarter FY 2006:

The Division is pleased with the progress that has been made in reducing backlogs and improving waiting times for customers over the past six months. As mentioned previously, this was accomplished with overtime and temporary staffing made available by the supplemental budget and utilization of vacancy savings created by the funding for the 9 new FTE positions which have not yet been formally established through ADOA. This strategy was intended to be a temporary measure and will be phased out once space is obtained and readied for the new positions. The Division is in the midst of the transition period that will bridge the short term strategy with the new, permanent strategy. The new permanent strategy includes more staff, equitable and fair salaries to acquire and keep talented staff and significantly reduced overtime.

The Division anticipates that the rapid reductions of backlogs and wait times experienced over the past months will begin to stabilize in the second quarter. The reasons for this assumption are as follows:

- The Division is entering into what is typically the highest volume filing quarter of the year. Many LLCs and Corporations are formed near the end of a calendar year for tax purposes.
- Overtime is gradually being reduced in the Division in anticipation of hiring new staff. Division staff have worked an average of 425 hours of overtime per week on a consistent basis for the last six months. Since April 1, 2005 staff have worked 21 of the past 26 Saturdays. Burnout has been and continues to be a concern resulting in the need to begin easing back on overtime.
- Space is being readied for new staff and will not be available for use until late in the quarter. The complexity of the examining positions results in a rather sharp training curve. The Division finds that it takes a minimum of three months of intensive classroom training, on-the-job training and performing the functions of the job for a new staff member to become fully functional.

- The IT Division will be performing an upgrade in critical hardware infrastructure. The new infrastructure will set the stage for future enhancements to the Starpas database. The hardware upgrade could last more than five months and will require significant IT resources. We anticipate that the project will limit the Division's ability to implement additional operational efficiencies through programming changes until the third quarter of the fiscal year.

By the third quarter of FY 2006, we anticipate that space will be prepared, new staff will have been hired and fully functioning in their job duties. Once the Division meets the ultimate goals of 3-5 day processing of expedited filings and 30 day processing of regular filings, temporary staff remaining will be phased out and the Division will attempt to maintain these goals with the staffing levels provide by the Legislature. However, continued growth in the state's population and newly formed businesses will continue to challenge the Division to maintain the 3-5 day/30 day goals into the future. For example, total corporate filings submitted as of September 30, 2005 (26,158) are already well ahead of the same time last year (16,868). We fully expect the amazing growth to continue, if not accelerate. The challenge of growth will require the Division to continually look at process improvements and ways to further utilize e-filing capabilities into the future. The Division cannot emphasize enough the vital importance of securing the necessary IT resources to ensure that E-Government capabilities will be enhanced in attempt to keep up with the tremendous filing growth.

Goals for the coming three months are as follows:

Expedited Filings	**Goal for wait times (calendar days)**	
Date	**Phoenix**	**Tucson**
10/31/2005	8 days	4 days
11/30/2005	7 days	4 days
12/31/2005	6 days	4 days
Regular Filings	**Goal for wait times (calendar days)**	
Date	**Phoenix**	**Tucson**
10/31/2005	80 days	30 days
11/30/2005	75 days	30 days
12/31/2005	70 days	30 days
Wait times as of 3/28/05 baseline date:	Phoenix	Tucson
Expedited filings	60 days	65 days
Regular Filings	147 days	183 days