JLBC STAFF PRESENTATIONS TO THE APPROPRIATIONS COMMITTEES

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Capital Budget

Corporation Commission

Arizona Corporation Commission
3 Divisions

Corporations Division **$8.5M/ 156.5 FTEs**

•Funded from General Fund and Public Access Fund (Corporate Filing Fees)

•Provides public access to corporate annual reports, articles of incorporation for businesses, and corporate status change documents

Utilities Division **$12.2M/ 72 FTEs**

•Funded from the Utility Regulation Revolving Fund (Utility Assessments)

•Assists commissioners in establishing public utility rates, inspects gas pipelines for safety, and operates a railroad safety program.

Securities Division **$4.4 M/ 85.3 FTEs**

•Funded from the Securities and Investment Management Funds, which receive revenues from registration fees from securities dealers/investment advisers.

•Regulates the securities marketplace, the registration of securities, securities dealers and brokers, investment advisers and their representatives.

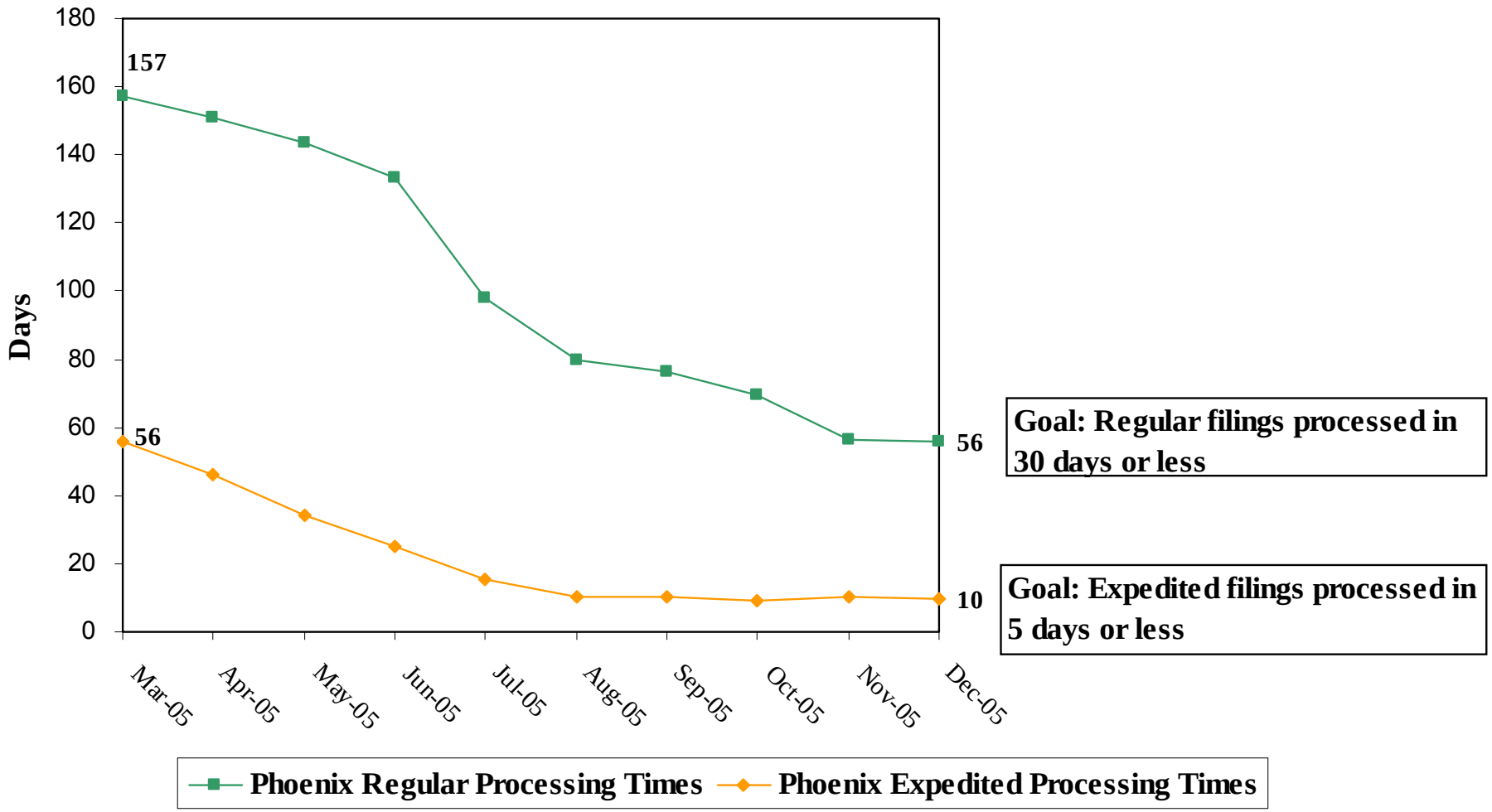
Arizona Corporation Commission Processing Times

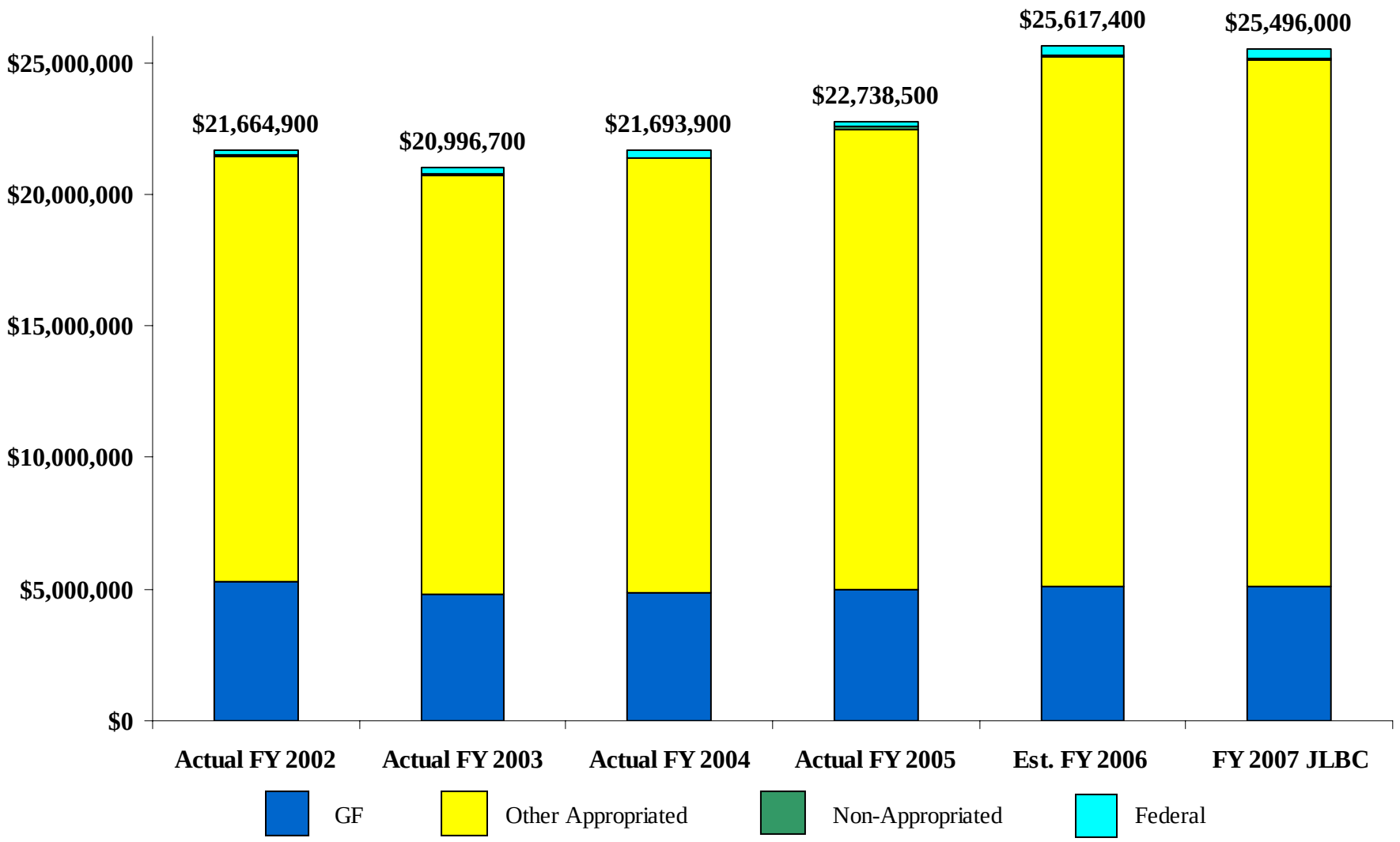
March 2005 to December 2005

-Of the $629,700 appropriated in FY 2006 for processing delays, $547,300 was designated as one-time to allow the legislature to evaluate the agency's success in reducing the backlog.

- The JLBC recommendation continues this funding into FY 2007

- Current processing times are 10 days for expedited filings and 56 days for regular filings.



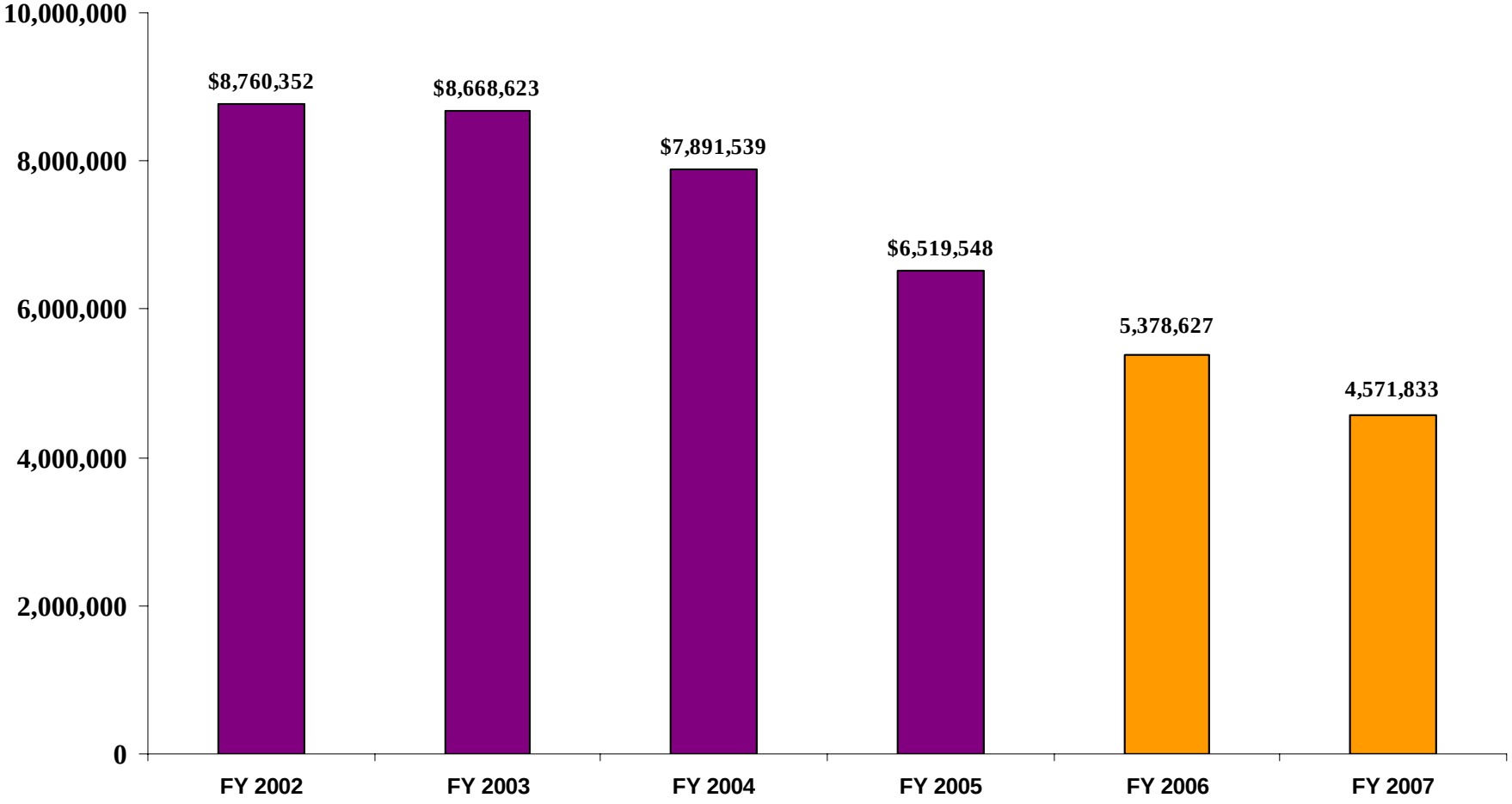

Corporation Commission
Total Funds FY 2002 - FY 2007
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
$21,664,900
$20,996,700
$21,693,900
$22,738,500
$25,617,400
$25,496,000
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Arizona Schools for the Deaf and the Blind

Telecommunications Services Excise Tax (TET)

- 1.1% tax on the gross revenues from land line telephones
- Currently revenues are appropriated to 4 agencies
  - Commission for the Deaf and the Hard of Hearing
  - Arizona State Schools for the Deaf and the Blind
  - Department of Health Services - Poison Control Program
  - University of Arizona Health Center - Teratogen Information Program

Telecommunications Services Excise Tax Revenues
FY 2002 - FY 2007 [1\]



1\ In FY 2006 revenues are expected to decline 17.5% and in FY 2007 revenues are expected to decline 15%.

Capital Issues

- **ASDB Operates 2 Campuses**
  - Phoenix Day School
  - Tucson Campus (residential)
- **FY 2006 Building Renewal**
  - ASDB received $2 million from the General Fund for Building Renewal
  - The following table displays the expenditure plan approved by JCCR

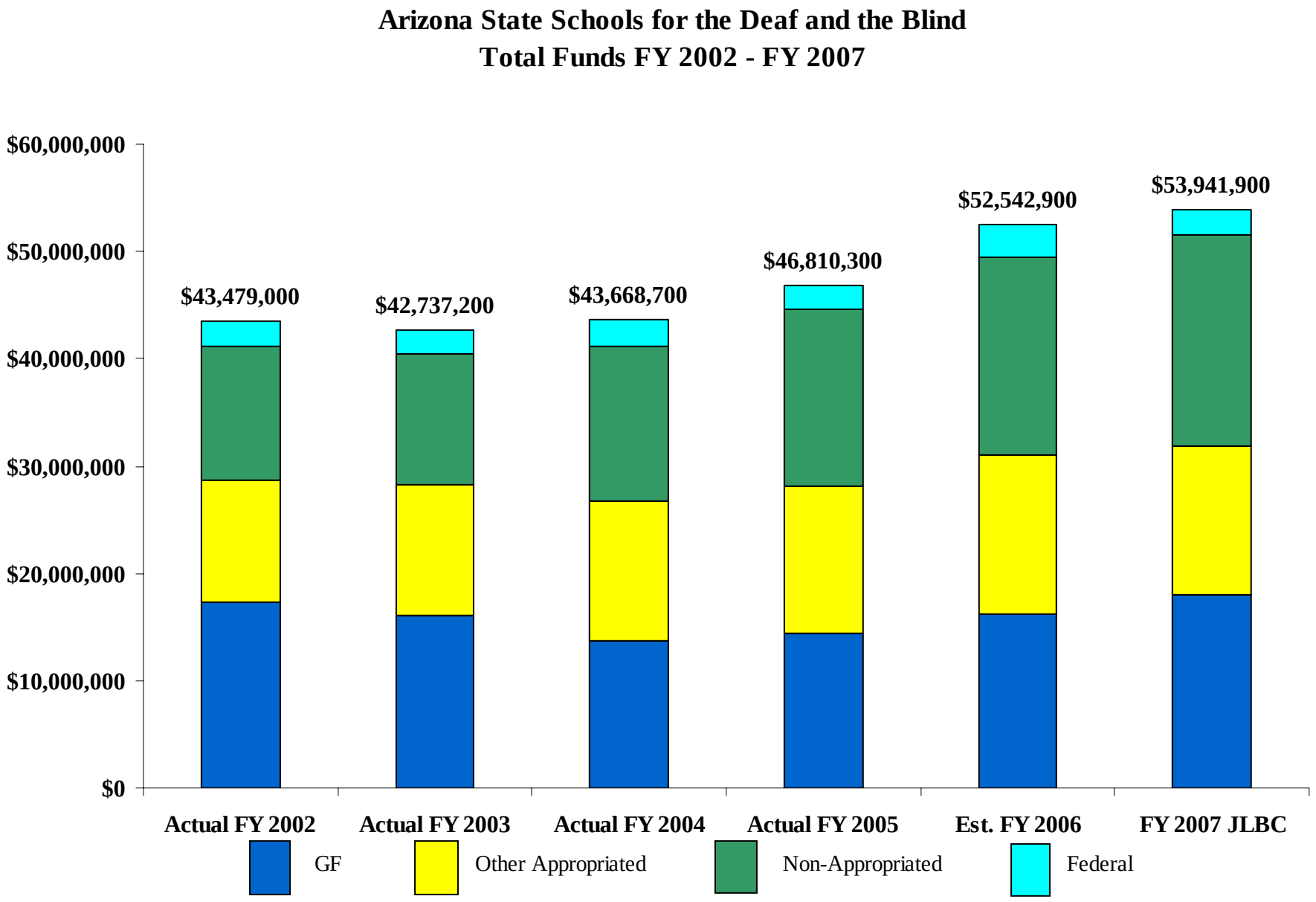
Project	Campus	Allocation
Modular Classrooms	Phoenix	$ 967,300
Cafeteria Renovations	Phoenix	756,100
Cafeteria Foundation Repair	Tucson	115,800
Carpet Replacement	Phoenix and Tucson	72,200
Library Lighting	Phoenix	62,300
School Bell System Replacement	Tucson	27,500
Fire Alarm Installation	Phoenix	6,800
Total		**$2,008,000**

Phoenix Day School for the Deaf

- In a report presented to the Joint Committee on Capital Review on December 2, 2004, the Schools Facilities Board (SFB) estimated that ASDB would require an additional 198,906 square feet at the Phoenix Campus
- Cost of the expansion estimated at $22.2 million
- In FY 2006, ASDB installed an additional 8,400 square feet at the Phoenix Day School

Phoenix Day School (continued)

- Expand or Relocate?
  - There has been discussion about expanding and renovating the Phoenix Day School at its current location by purchasing surrounding land and upgrading existing buildings
  - There has also been discussion of purchasing or entering in to a long-term lease to use an existing vacant school building for the Phoenix Day School


Arizona State Schools for the Deaf and the Blind
Total Funds FY 2002 - FY 2007
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
$43,479,000
$42,737,200
$43,668,700
$46,810,300
$52,542,900
$53,941,900
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Arizona State Retirement System

How ASRS Works

- ASRS is a defined benefit pension system.
- The employer promises the amount of the ultimate benefit to be paid.
- The employer and the employee must contribute an amount sufficient to deliver that promise.
- The employer’s ultimate cost is equal to the total benefits paid out minus plan earnings on investments minus employee contributions.

How Rates are Calculated:

Making Sure Assets Cover Liabilities

- Because the employer is ultimately responsible for providing the benefit in a defined benefit plan, the contribution rate must be set high enough to collect the required assets to cover liabilities.
- When assets are sufficient to cover the liabilities (benefit payment obligations), the system is considered to be 100% funded.
- As of July 1, 2005, the ASRS was estimated to be funded at 87.5% of its actuarial liabilities.

Rising contribution rates reflect decreased funding ratios in the retirement systems

- The funded status of all the retirement systems declined from year-end FY 2004 to year-end FY 2005.

	FY 2004	FY 2005
ASRS	91.2%	87.5%*
PSPRS	92.4%	82.1%
CORP	104.8%	96.4%
EORP	104.4%	95.5%

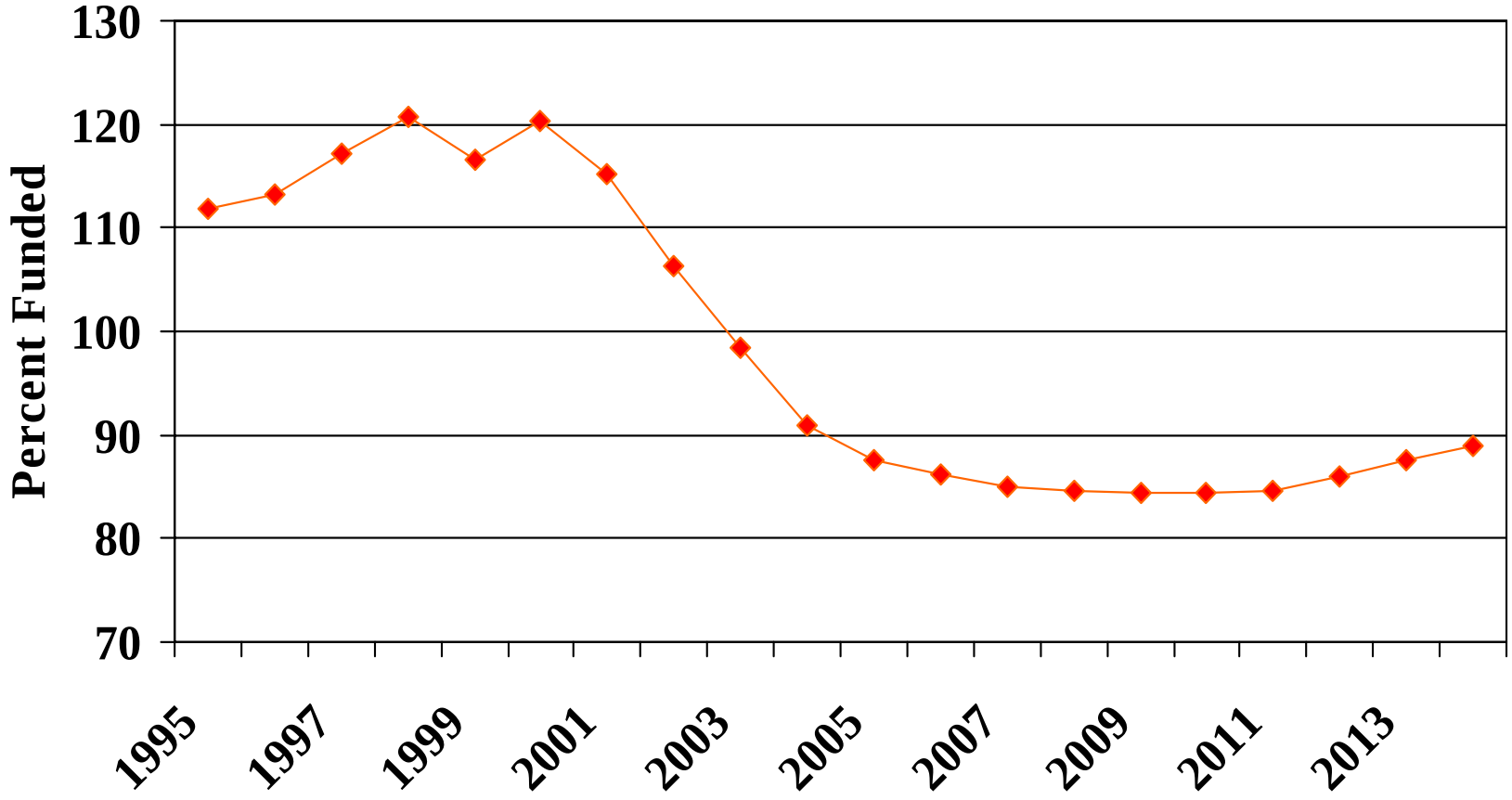
* Estimated

A new Government accounting rule may affect funded status

- GASB Rule 45 requires that retiree health benefit liability be reported in the same way that pension liability is reported.
- This included the sharing of risk between populations, which will cause unfunded liability for ADOA, as current employees subsidize retirees.
- ASRS funds its retirement benefit through the retirement contributions as a 401(h) plan.
- It is unclear how this rule may affect ASRS.

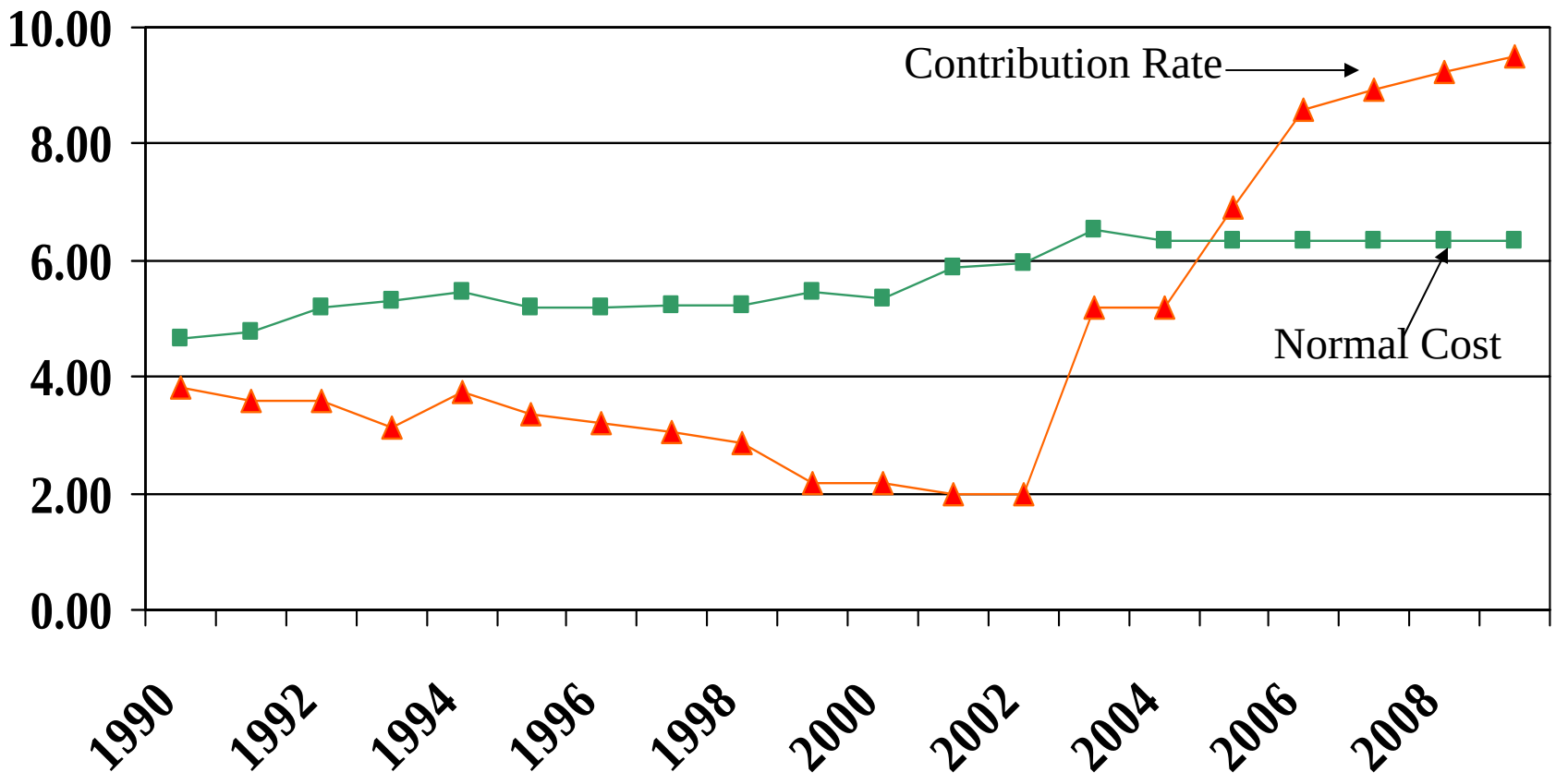
ASRS Funded Status

-- Assumes 8% investment return
-- Full funding of the contribution rate
-- No benefit expansions



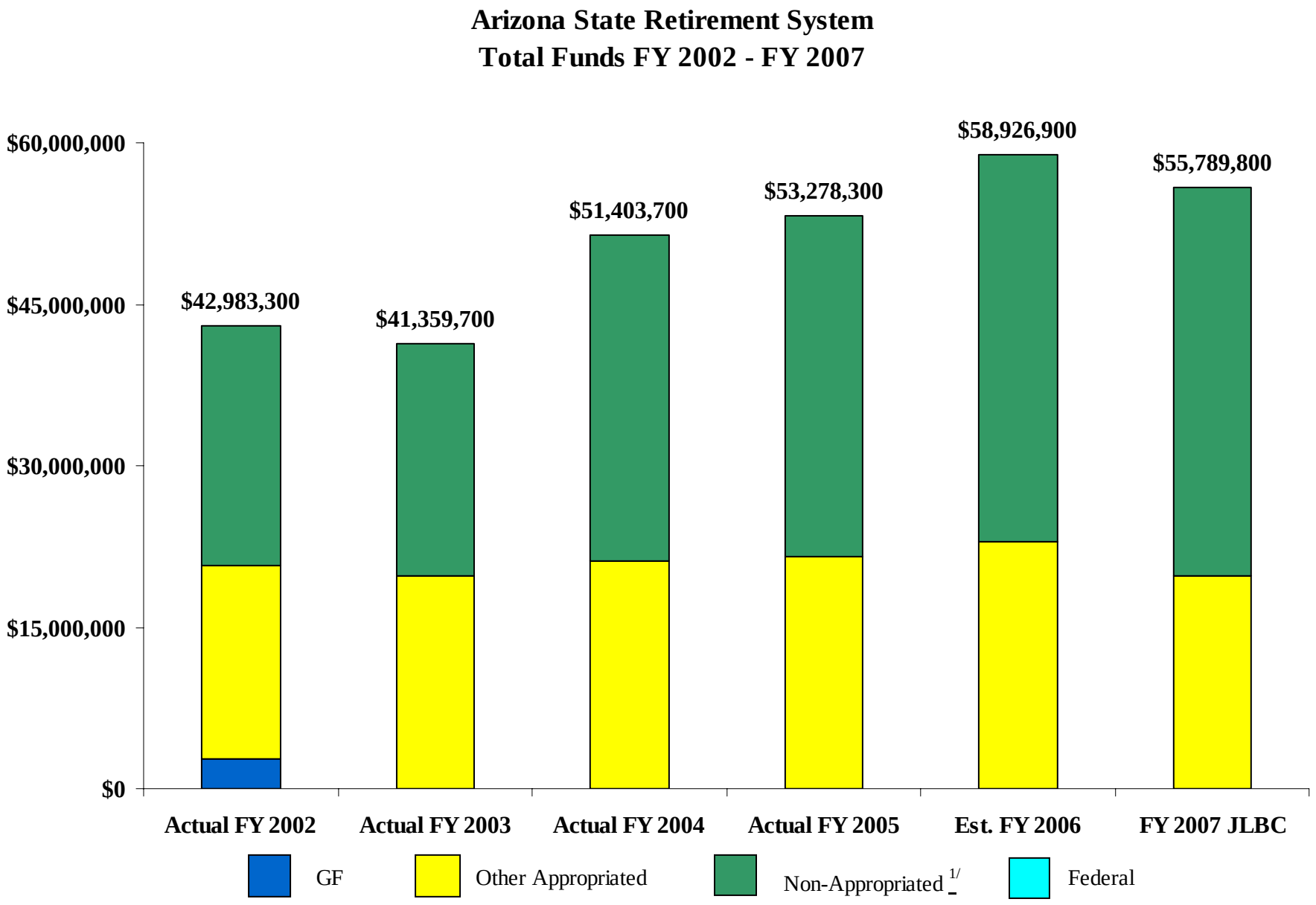
ASRS Normal Cost vs. Contribution Rate

- Actual rate is higher than the normal cost to pay the unfunded liability
  - The FY 2007 rate increase will cost the State General Fund $24 M



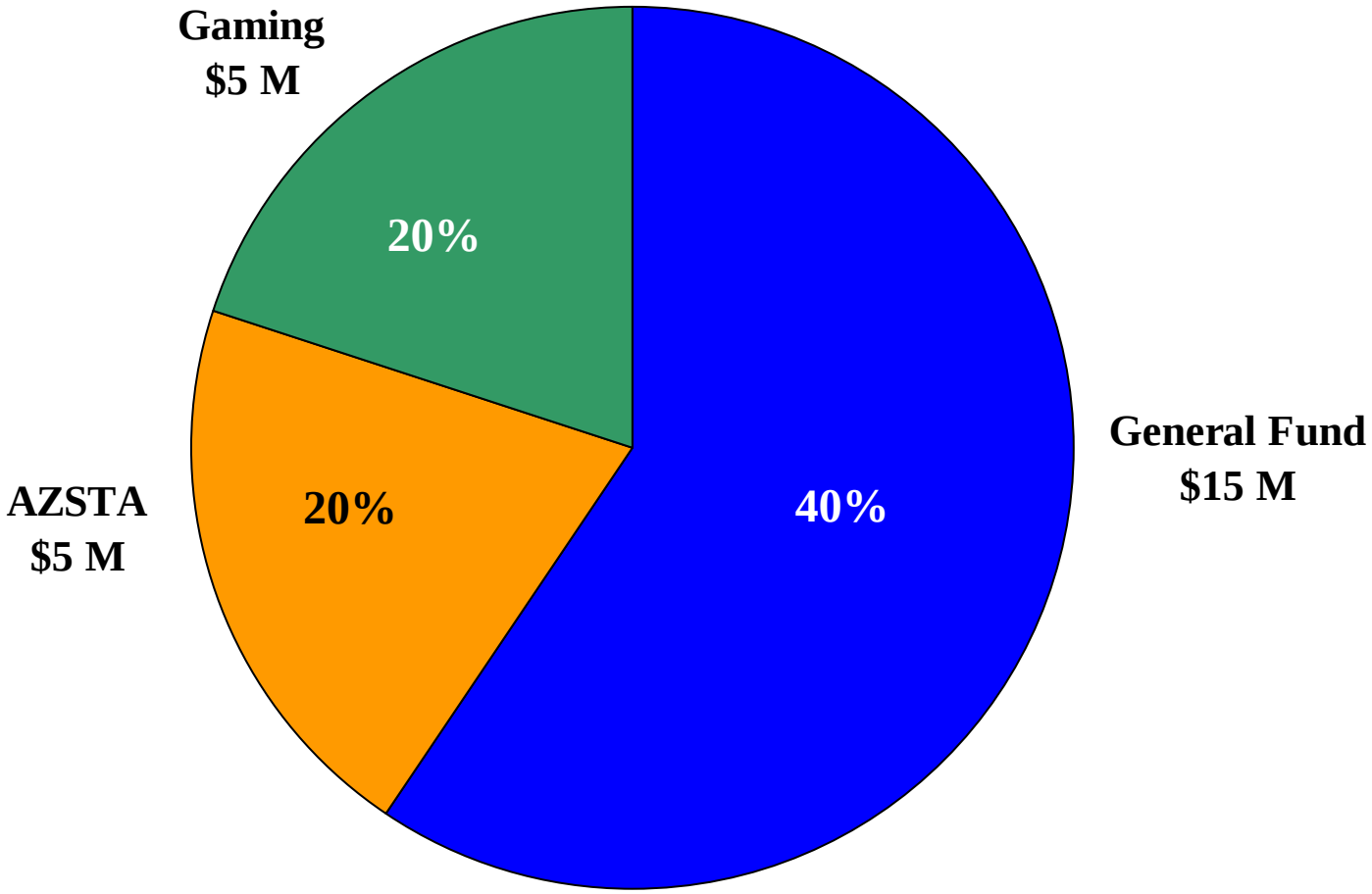
Despite recent investment gains, past losses continue to affect the funding status.

- ASRS underperformed the assumed 8% from FY 2001 to FY 2003.
- Recent gains are not enough to eliminate the unfunded liability created by the fund's underperformance.
- Gains and losses in the fund are recognized over a 10 year period. As a result, currently more of the losses are recognized than gains.
- This smoothes out the peaks and troughs in the investment returns.


Arizona State Retirement System
Total Funds FY 2002 - FY 2007
$60,000,000
$45,000,000
$30,000,000
$15,000,000
$0
$42,983,300
$41,359,700
$51,403,700
$53,278,300
$58,926,900
$55,789,800
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated 1/
Federal

Office of Tourism

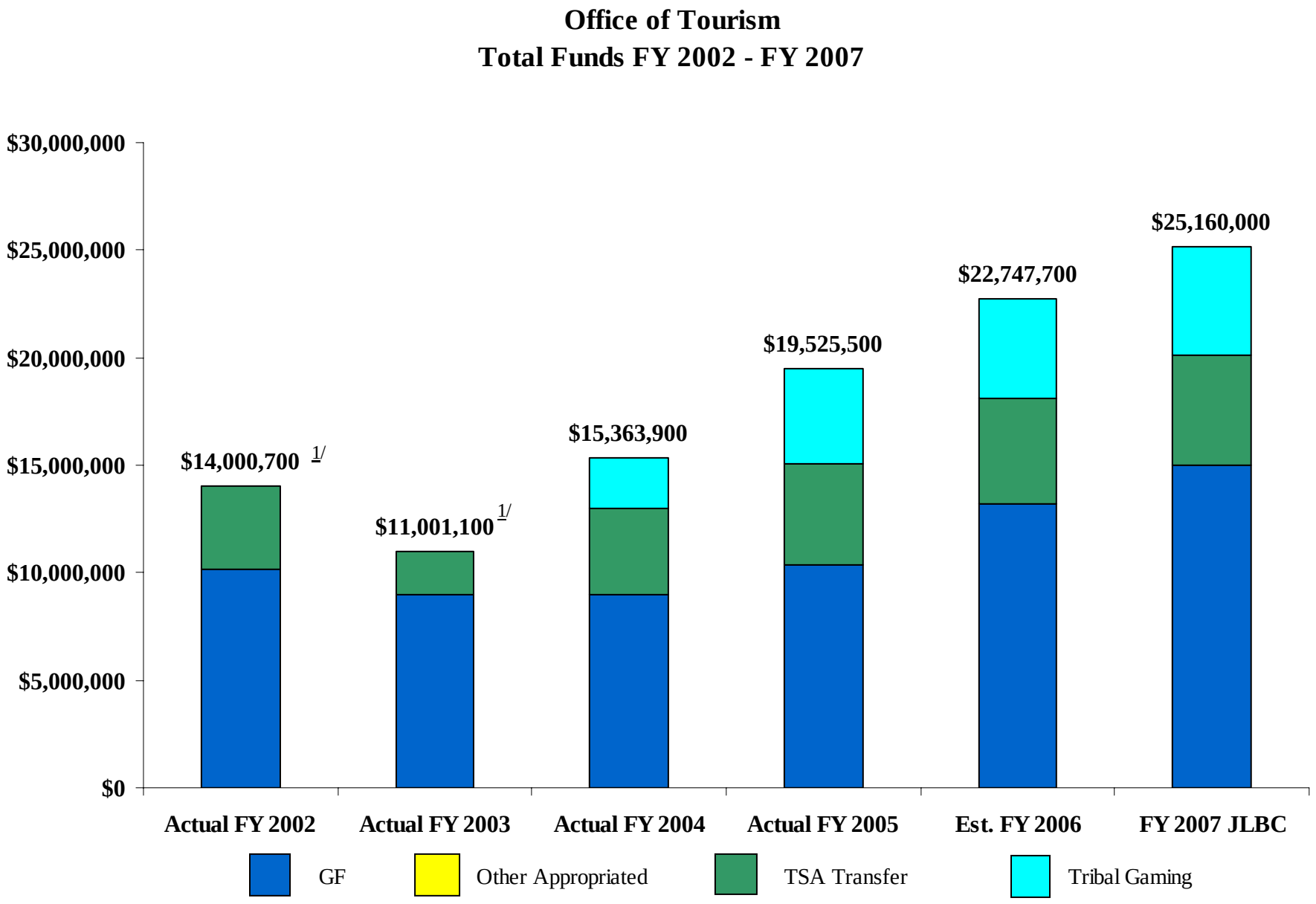
Office of Tourism
Funding Sources in FY 2007



Tourism Total Budget = $25 M

Funding Sources for the Office of Tourism

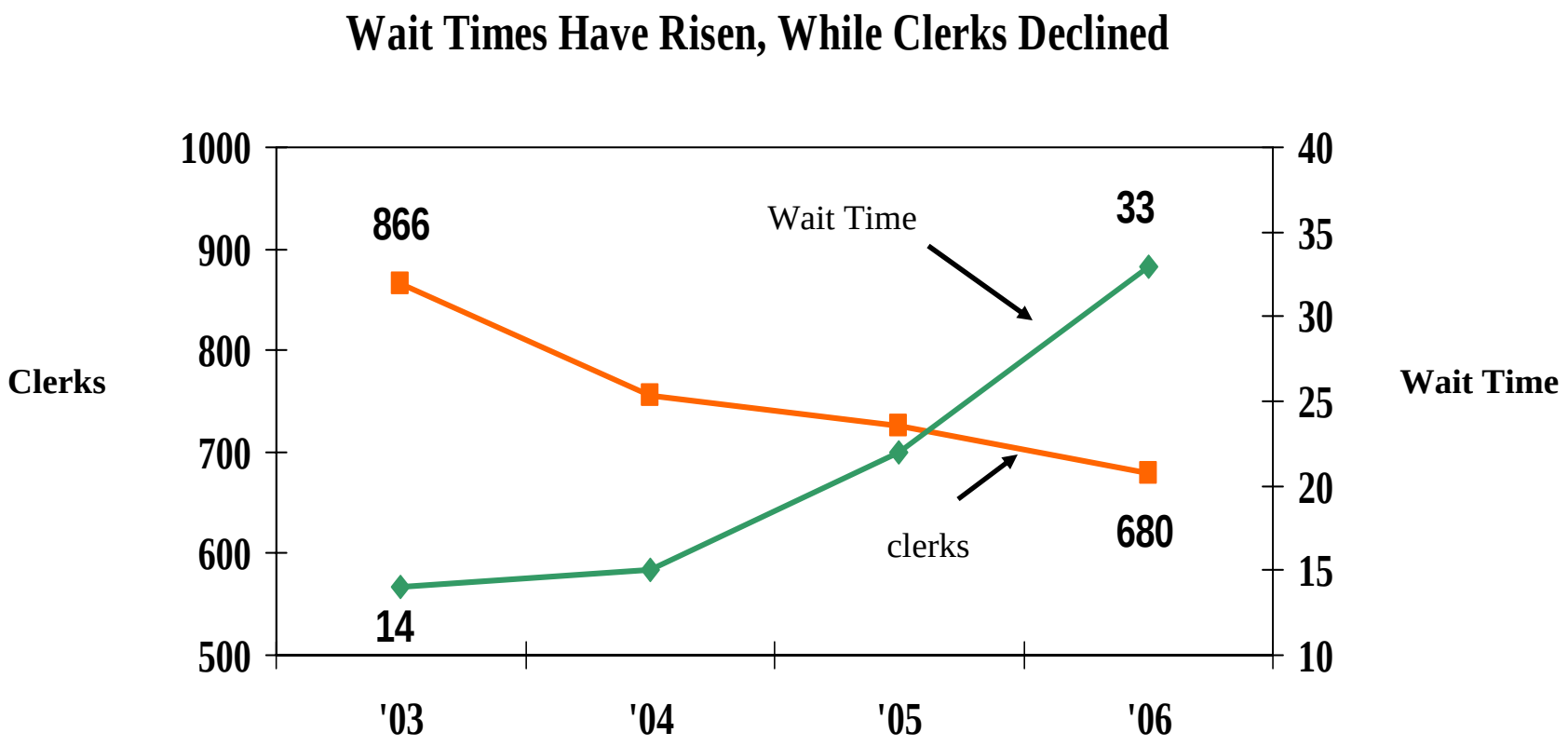
Sources of Funding	Fund	FY 2005	FY 2006	FY 2007
Tourism Formula				
• 3.5% of bed tax	General Fund	$3,525,000	$3,968,000	$4,503,700
• 3% of amusement tax		1,220,300	1,306,900	1,483,300
• 2% of restaurant tax		7,202,000	7,928,600	8,999,000
Subtotal from Tourism Formula		11,947,300	13,203,500	14,986,000
Tourism & Sports Authority				
• Partial allocation of 1% of bed tax and 3.25% car rental tax (Prop. 302)	Tourism Fund	4,650,000	4,882,300	5,126,400
Tribal Gaming				
• 8% of state's share of gaming proceeds, after distribution to Department of Gaming (Prop. 202)	Tourism Fund	4,486,200	4,661,900	5,047,600
Total		**$21,083,300**	**$22,747,700**	**$25,160,000**



1/ In FY 2002 and FY 2003 the Tourism Fund was appropriated, and became non-appropriated in FY 2004.

Department of Transportation

MVD Wait Times Have Grown Significantly



- Wait time understated – does not include total visit
- Wait time increased despite a 10% decline in-person customers over last several years

JLBC Recommendations to Enhance Oversight

- Require report on where funding for MVD counter clerks was shifted by July 31, 2006
- Require annual MVD wait time report to include total wait time, number of customers who leave without completing transactions, and vehicle registration renew by mail turnaround time
- Require JLBC approval before allowing fund transfers into or out of MVD
- JLBC does not recommend Executive's $1.1 M and 25 FTE MVD Expansion

  -- Need report on prior shift of clerks

Motor Vehicle Division

JLBC Recommended Changes
Above FY 2006

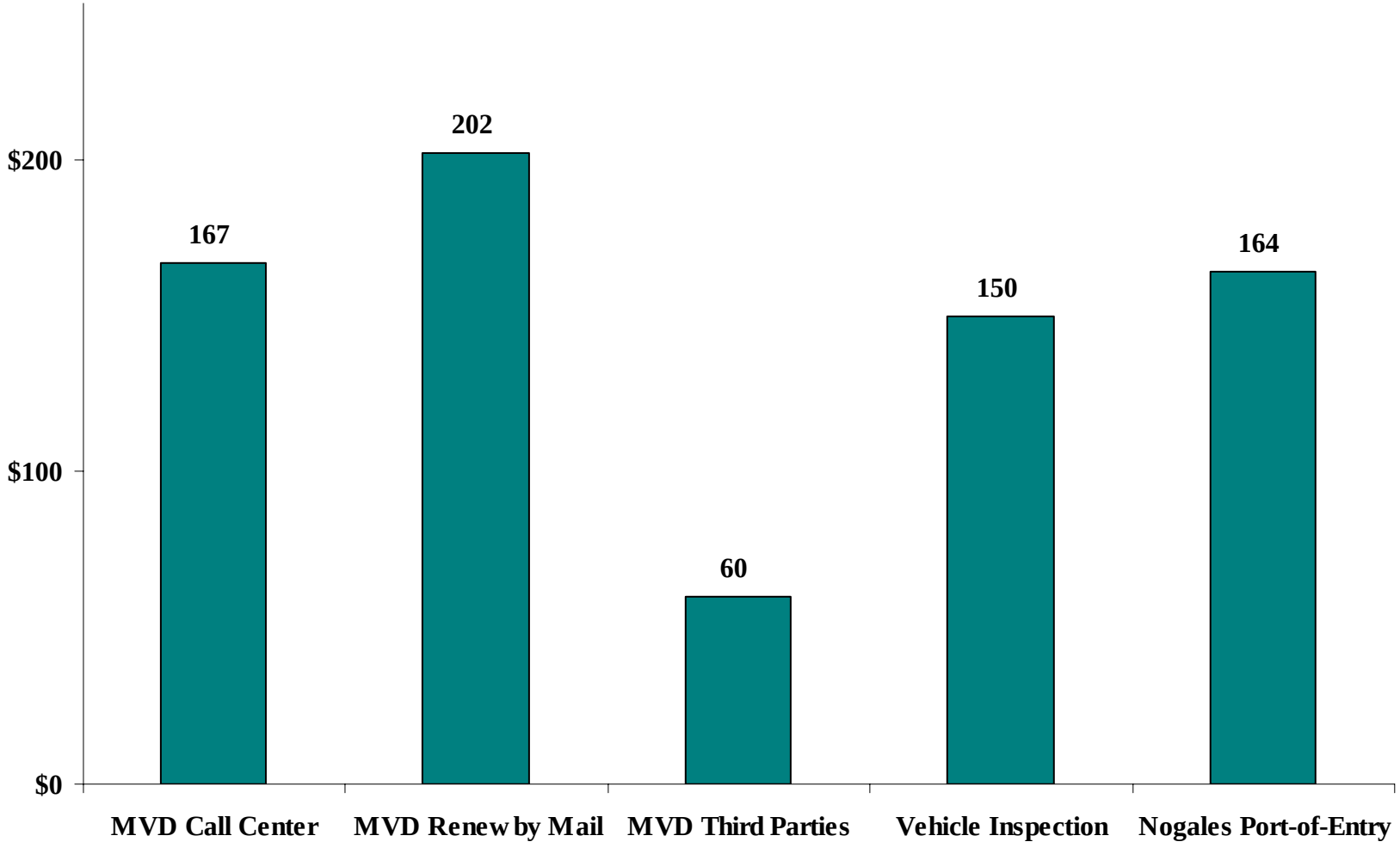
$500 K New MVD Computer System Planning

-- Current system is old and federal REAL ID Act of 2005 requires states share certain data

-- Requires ITAC and JLBC review of assessments

-- Executive concurs but without reviews

Besides $1.1 M Customer Service Expansion, Executive Recommends Other MVD Issues



($ in Thousands)

Highway Operating

JLBC Recommended Changes
Above FY 2006

$1.8 M Highway Maintenance Workload

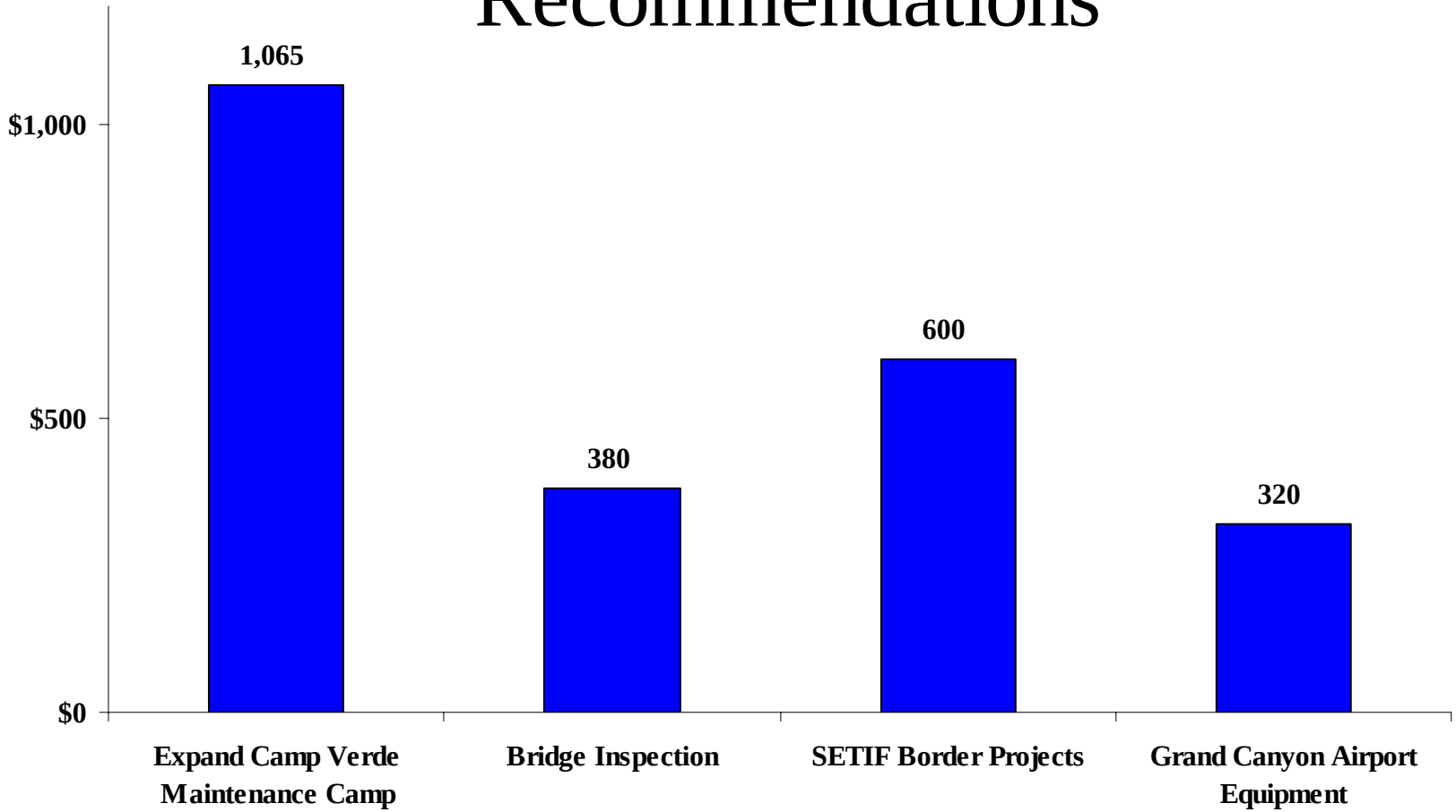
-- For 232 additional maintenance lane miles in FY 2007

-- Prop. 400 will add $9 M in Maricopa County

-- Executive recommends $4.7 M for workload

-- Executive recommends $1.1 M to expand Camp Verde maintenance camp

Non-MVD Executive Recommendations



($ in Thousands)

ADOT Capital

FY 2007 HURF Collections
Projected to be $1.4 B

-- HURF collections generated from fuel tax, vehicle license tax, vehicle registration, driver's license, etc.

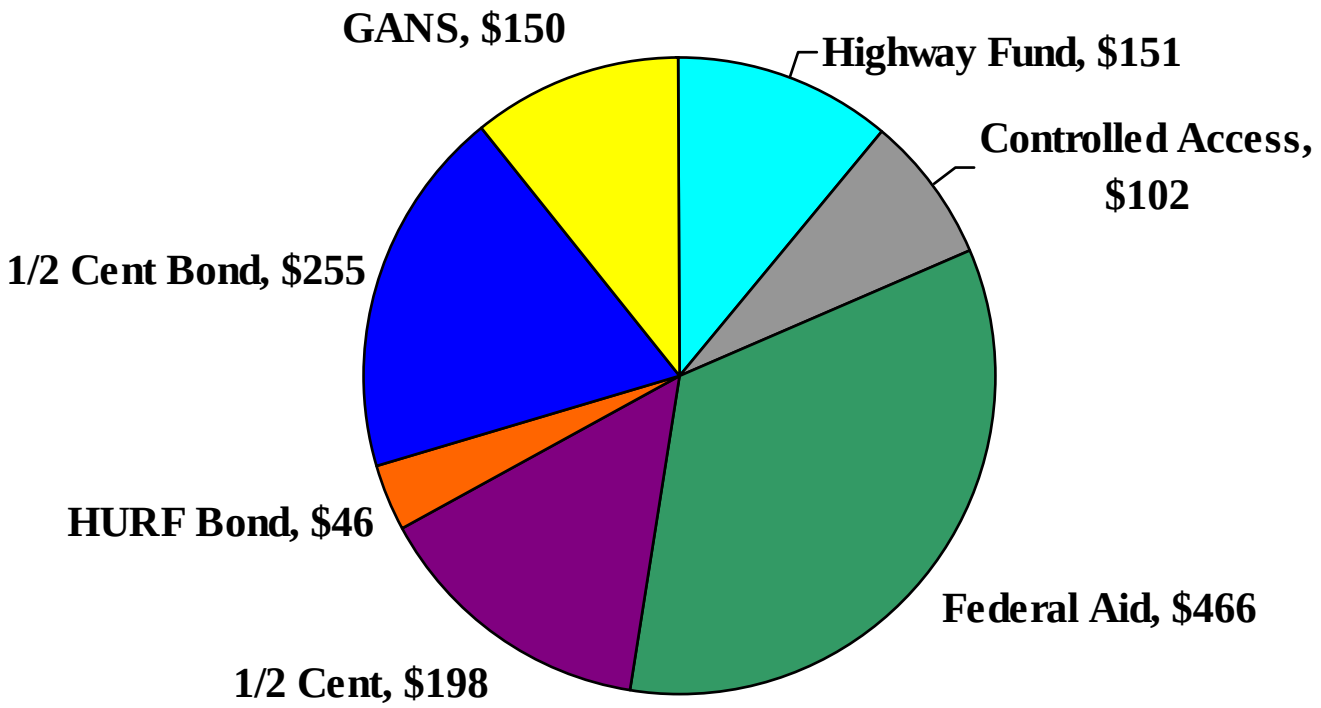
	$ in M
Total HURF	$1,397
Less DPS Operating	66
Less DPS Parity Compensation	3
Less Locals	658
Less Controlled Access	102
Less Economic Strength	1
State Highway Fund	$567

FY 2007 State Highway Fund
-- Funds both operating and construction costs

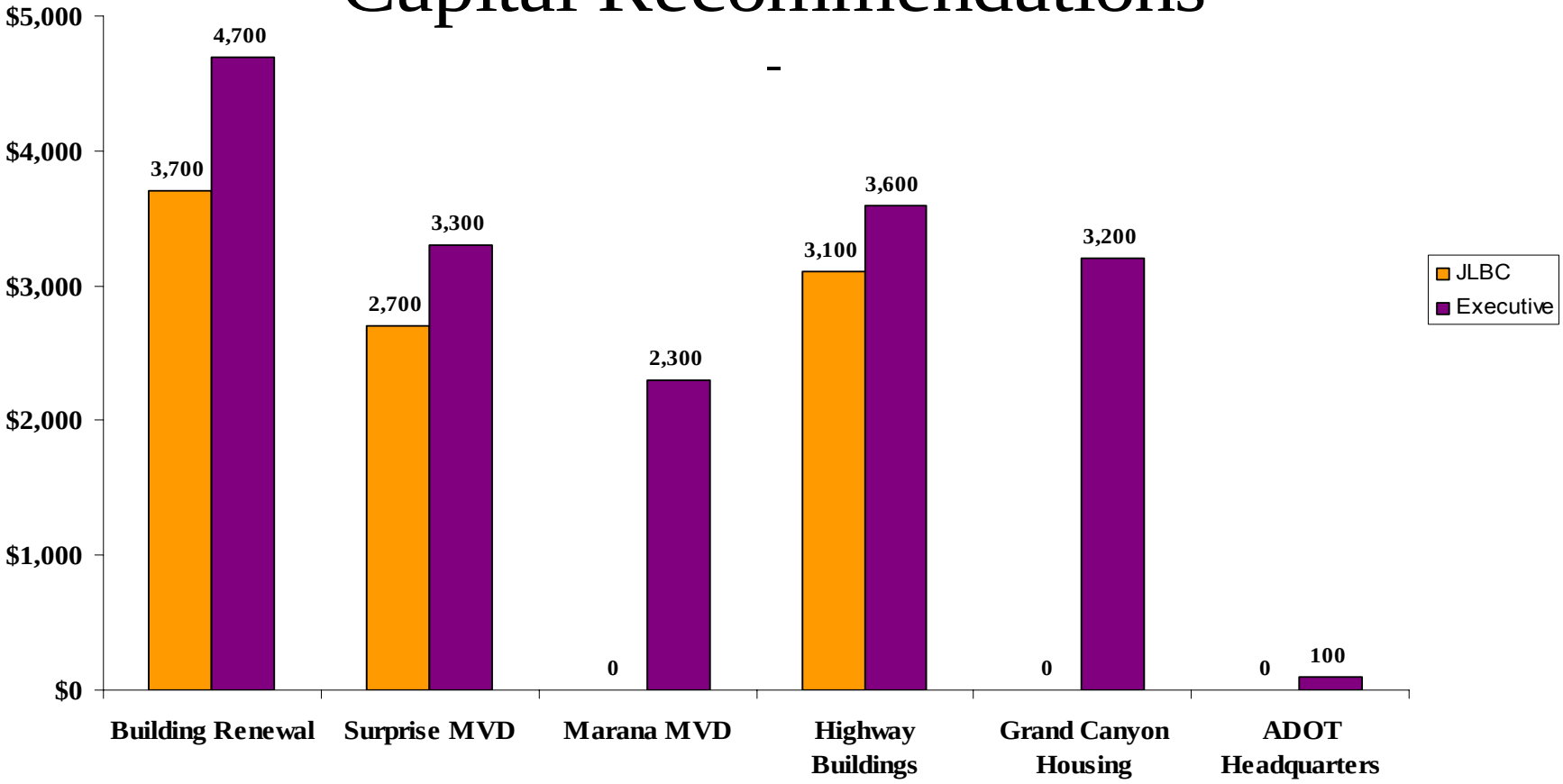
	$ in M
State Highway Fund	$567
Plus Other Income	15
Less ADOT Operating	366
Less DPS Operating	42
Less Capital Outlay & Misc.	23
Subtotal	$151
Statewide Highway Construction	85
Debt Service	66

FY 2007 Highway Construction Program Revenue Totals $1.37 Billion

($ in Millions)



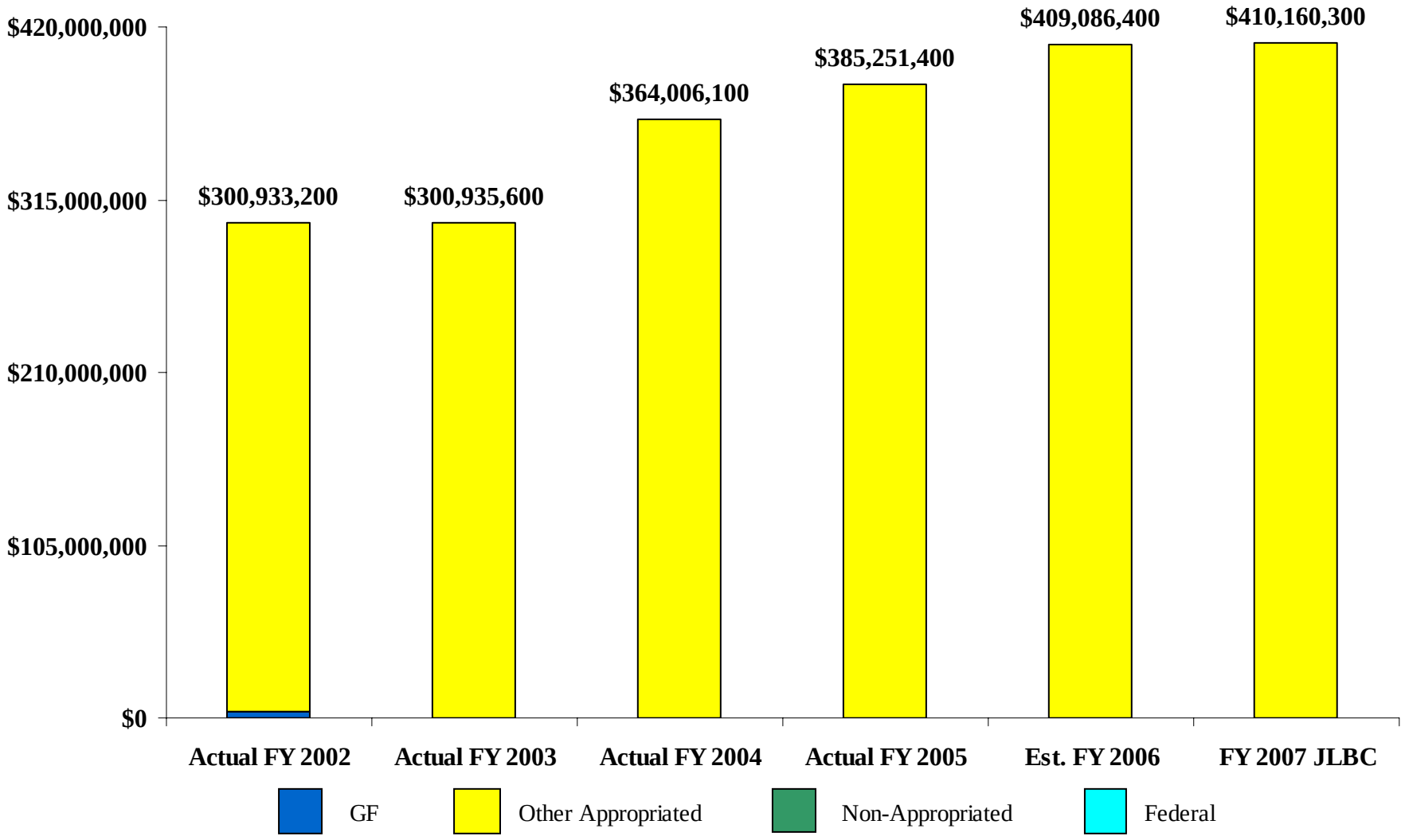
Comparison of JLBC - Executive Capital Recommendations



($ in Thousands)

-- Executive also recommends $118 M repayment of ’05 VLT shift

Department of Transportation - Operating Budget
Total Funds FY 2002 - FY 2007 1/



1/ FY 2004 and beyond reflects transfer of $50.7 million in ADOT employee expenditures from capital budget to operating budget.

School Facilities Board

School Facilities Board Programs

Deficiencies Correction

- Correct existing facility deficiencies

Building Renewal

- Maintain facilities at the minimum guidelines

New School Construction

- Provide land and facilities to districts for student growth

FY 2007 Funding

	$ in millions	
	JLBC	OSPB
New Construction:	$250.0	$263.3
Debt Service:	75.7	75.7
Building Renewal:	86.3	79.0
Deficiencies Correction:	0.0	0.0
Operating Budget:	1.6	1.6
TOTAL FUNDING:	$412.0	$419.7

New School Construction Funding

JLBC

Continues to provide $250 M to cash finance new construction.

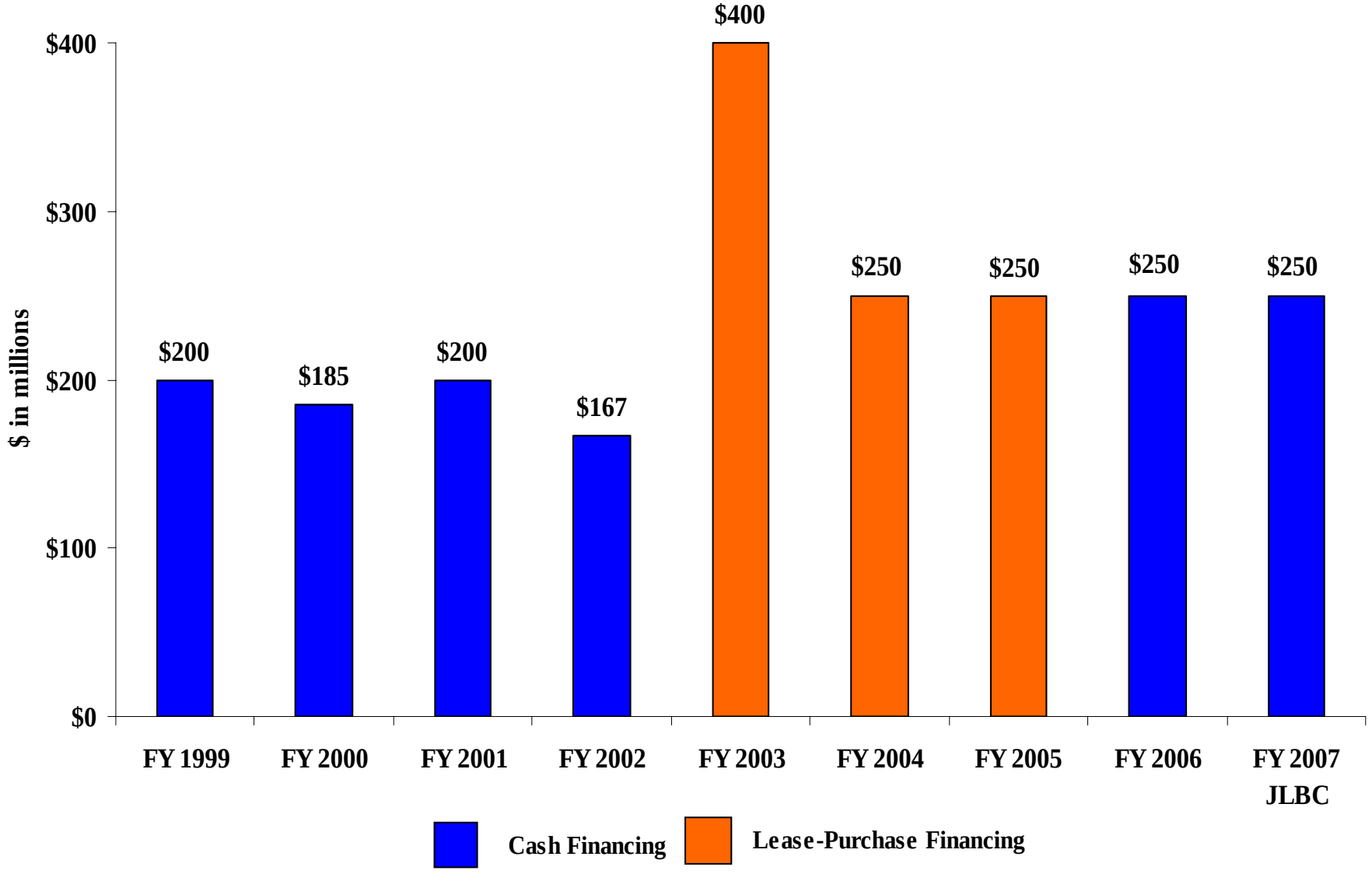
- 22 new projects for 22,000 students
- 37 projects that will be completed for 33,500 students

OSPB

Provides $263.3 M cash for new construction.

- $4.3 M increase for inflation
- $9.1 M increase to count FDK students as 1 ADM -- Total cost to implement over 5 years of $180 M.

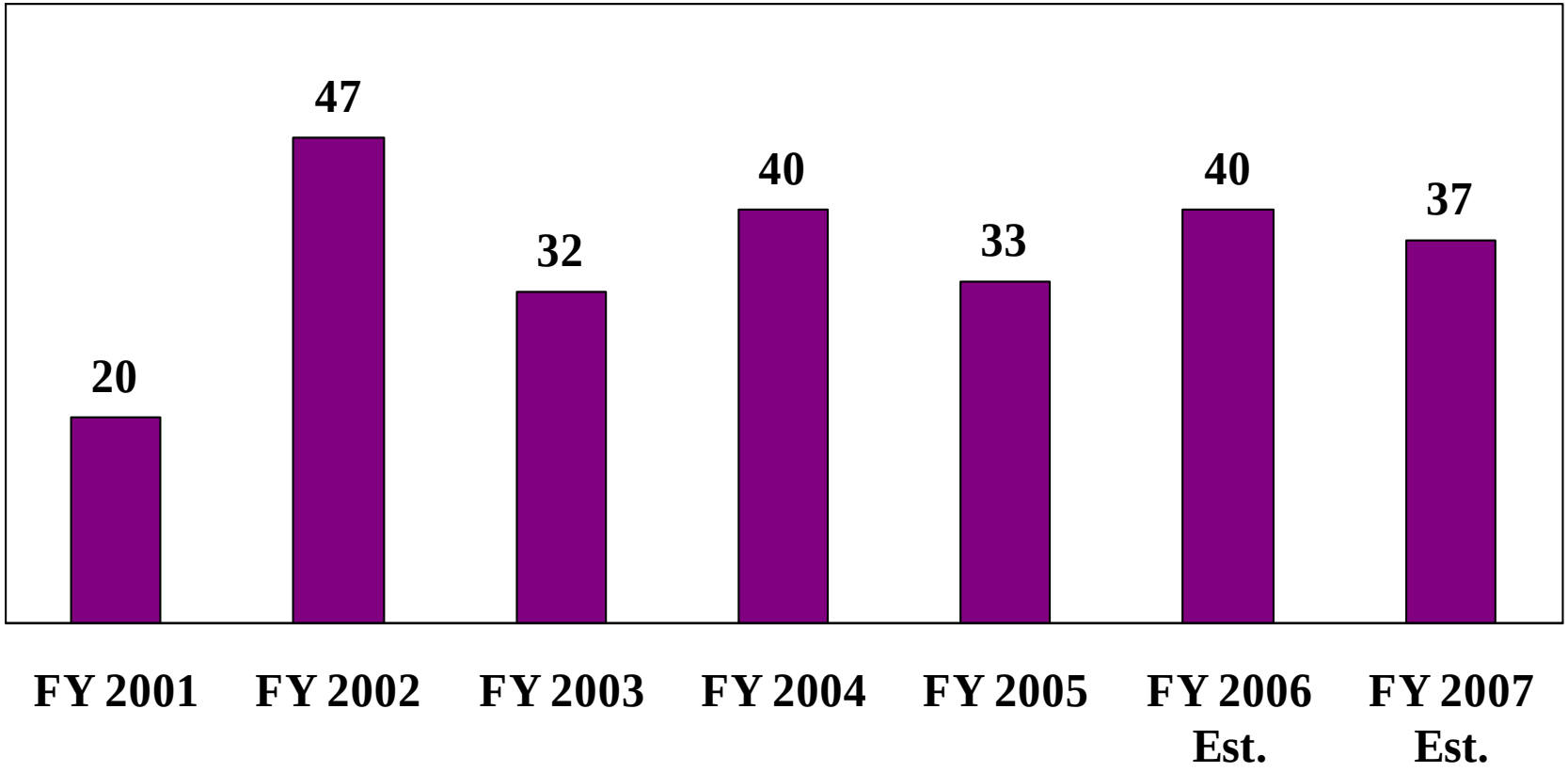
New School Facilities Funding History
FY 2007 Continues Cash Financing Enacted in FY 2006
(Represents General Fund contribution -- not actual spending)



FY 2007 New School Facilities Balance Sheet

	$ in millions
Beginning Balance:	$ 54.3
General Fund:	250.0
Lease Revenue:	10.0
TOTAL AVAILABLE:	314.3
Land:	35.0
Schools:	278.1
Emergency Deficiencies:	1.0
TOTAL SPENDING:	$314.1
Fund Balance	*$181,400*

New School Construction Projects Completed



Total Students Housed at Projects

FY 2001 = 12,047
FY 2002 = 25,544
FY 2003 = 29,247
FY 2004 = 26,258
FY 2005 = 21,806
FY 2006 = 23,709
FY 2007 = 33,494

Building Renewal Funding

JLBC

- Adds $16.3 M to fully fund revised formula. Includes:

JLBC adopted inflation (12.85%)	$9.1 M
Building age increases	$6.0 M
New space	$1.2 M

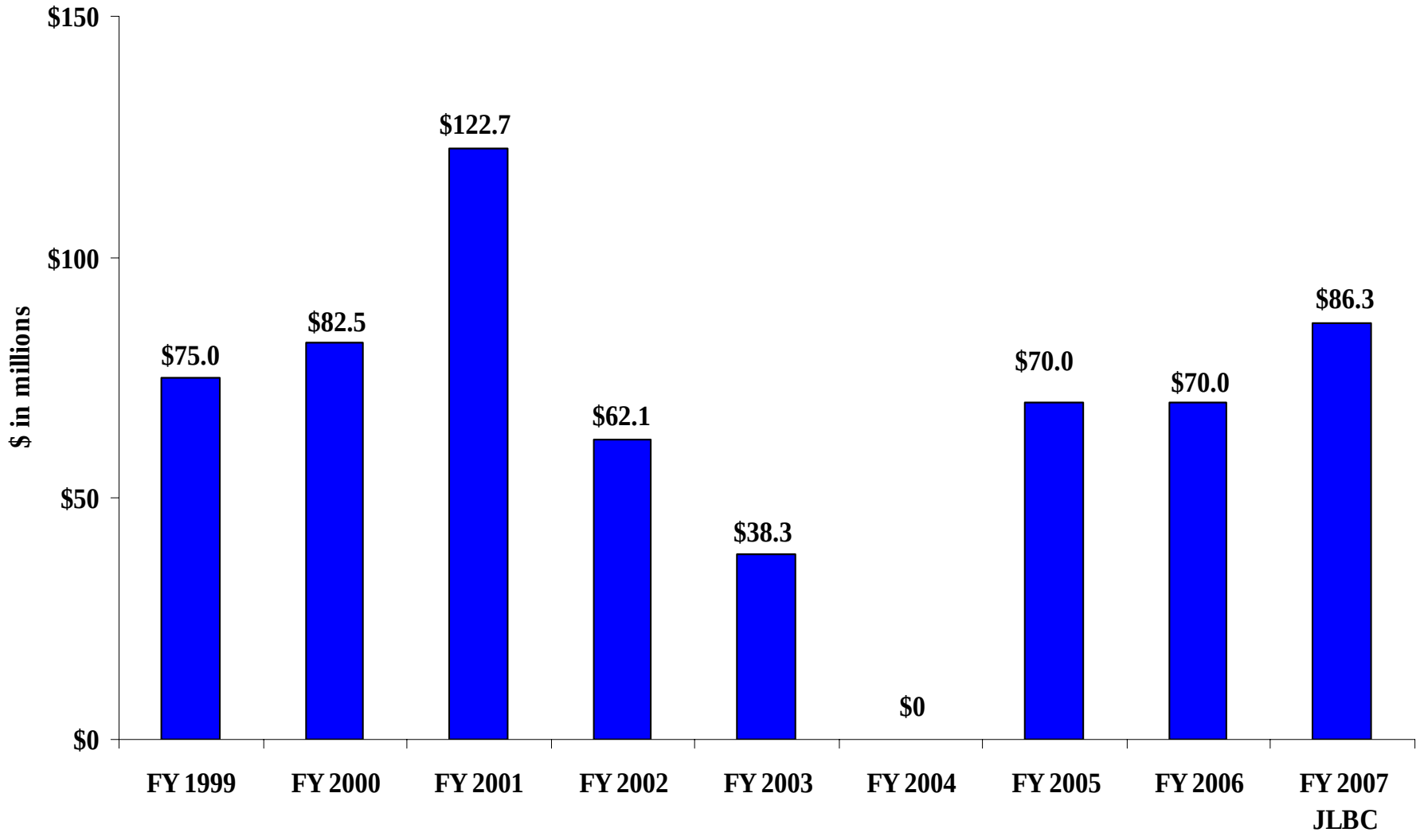
OSPB

- Adds $9.0 M for JLBC adopted inflation.
- Does not amend existing formula.
  - Under current formula, obligation would be $161.5 M.
  - Executive underfunds by $82.4 M.

Building Renewal Formula Changes

- Cap building age at 30 years
- Equalize funding for portable buildings
- Use replacement cost per square foot
- Use square footage per student designated by minimum adequacy guidelines

Building Renewal Funding History
Total Funding Provided = $606.8 M GF



Deficiencies Correction

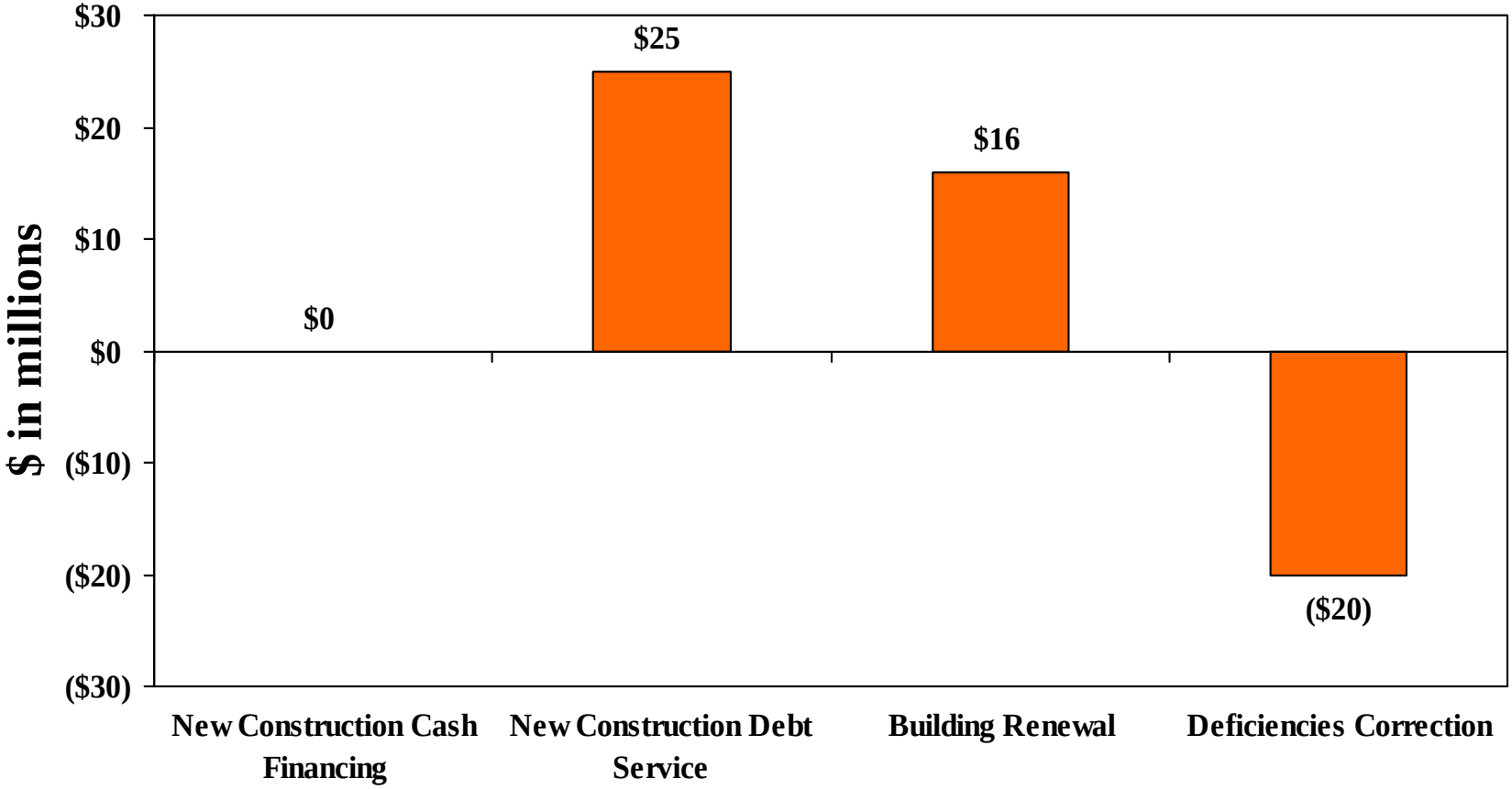
JLBC/OSPB

- Decrease of $20.0 M GF to eliminate funding for the Deficiencies Correction program.
- Program to be completed at the end of FY 2006.
  - Annual debt service costs of $90 M continue to FY 2018.

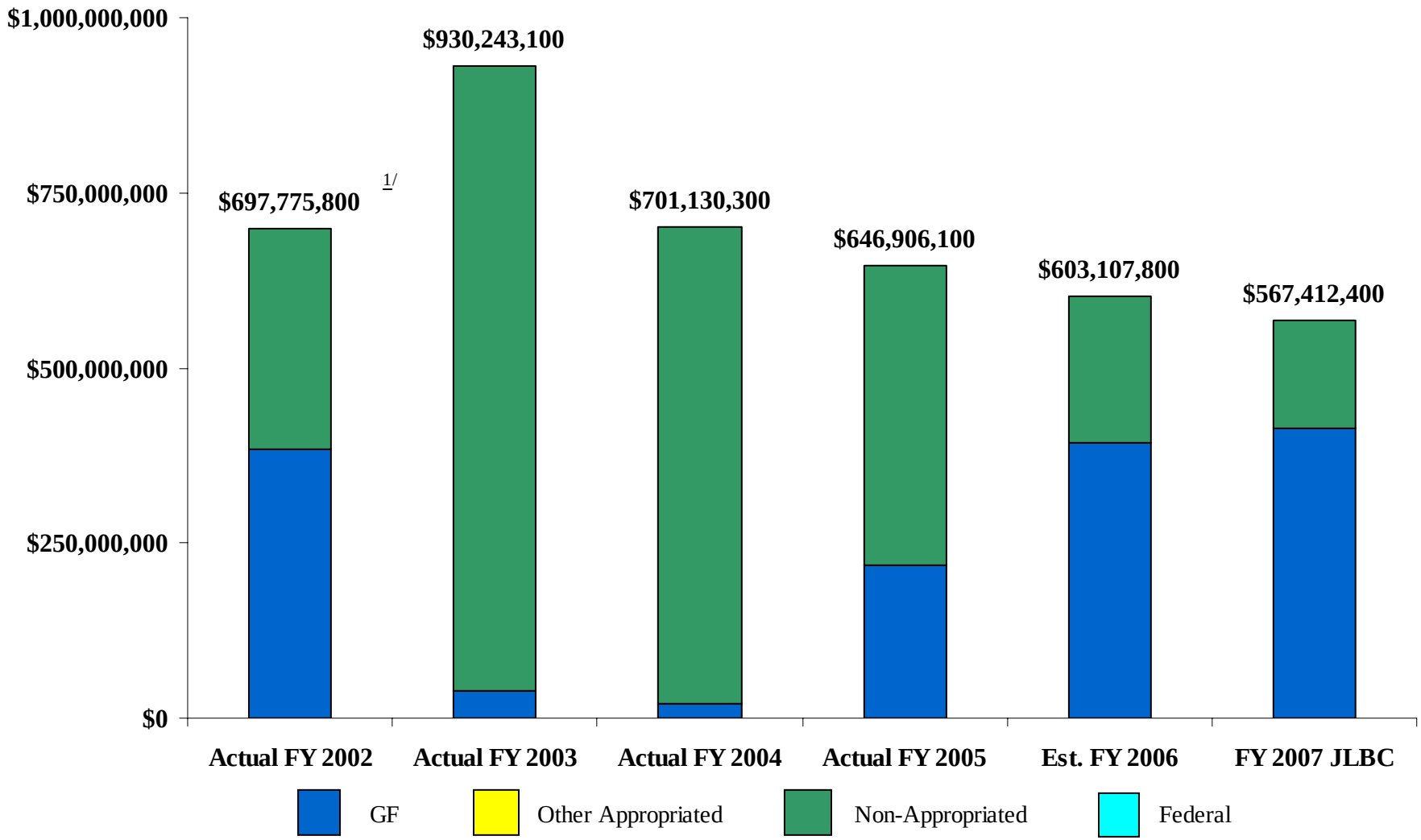
Emergency Deficiencies Correction

- FY 2007 = $1.0 M
- SFB plans to transfer amount from the New School Facilities Fund.

FY 2007 School Facilities Board Net Spending Increase: $21 M



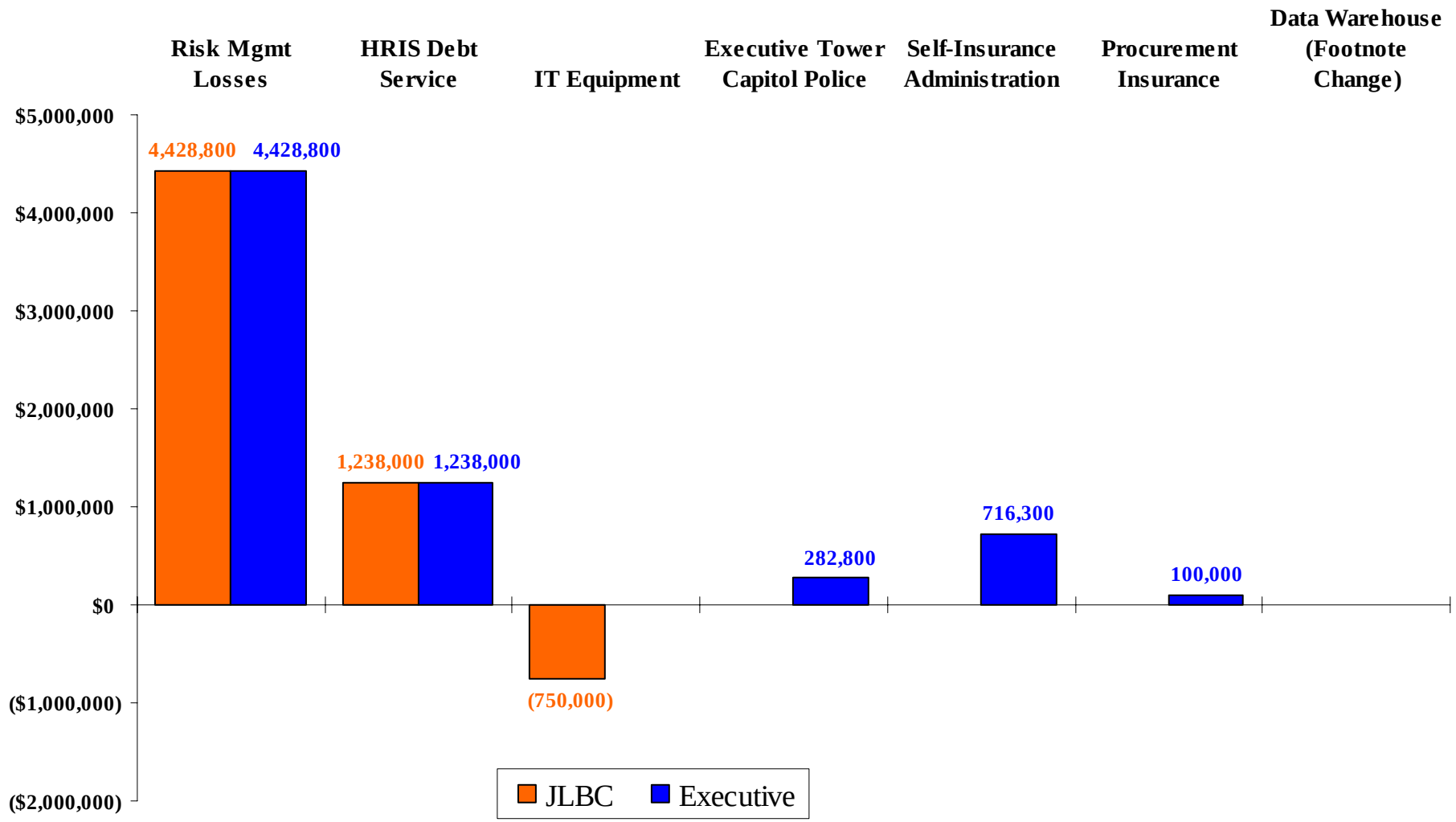
School Facilities Board
Total Funds FY 2002 - FY 2007



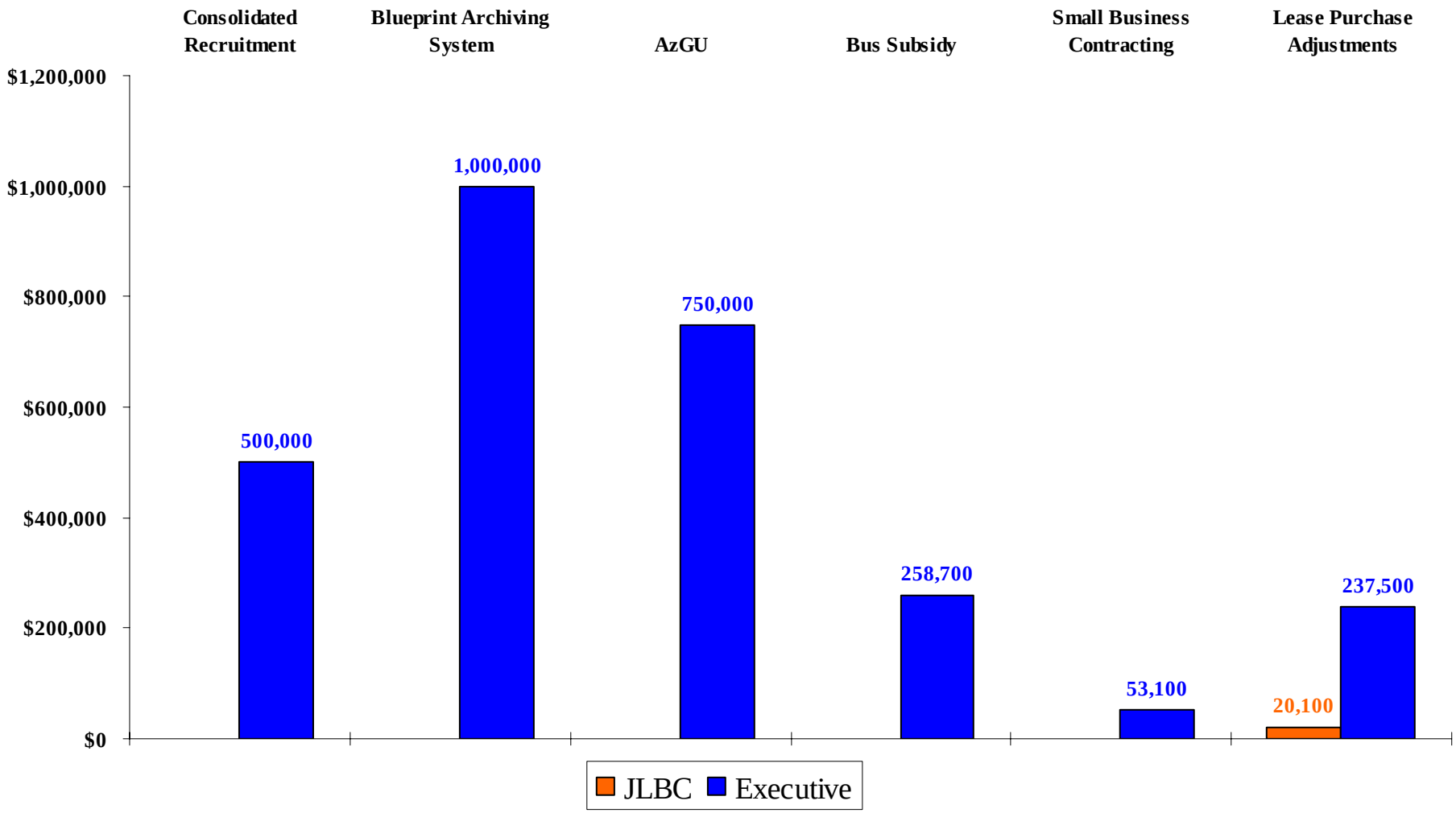
1/ Does not include transfers made during FY 2002 totaling $150 M from the Building Renewal and New School Facilities Funds to the General Fund.

Department of Administration

Arizona Department of Administration
FY 2007 Key JLBC - Executive Differences
Other Appropriated Funds

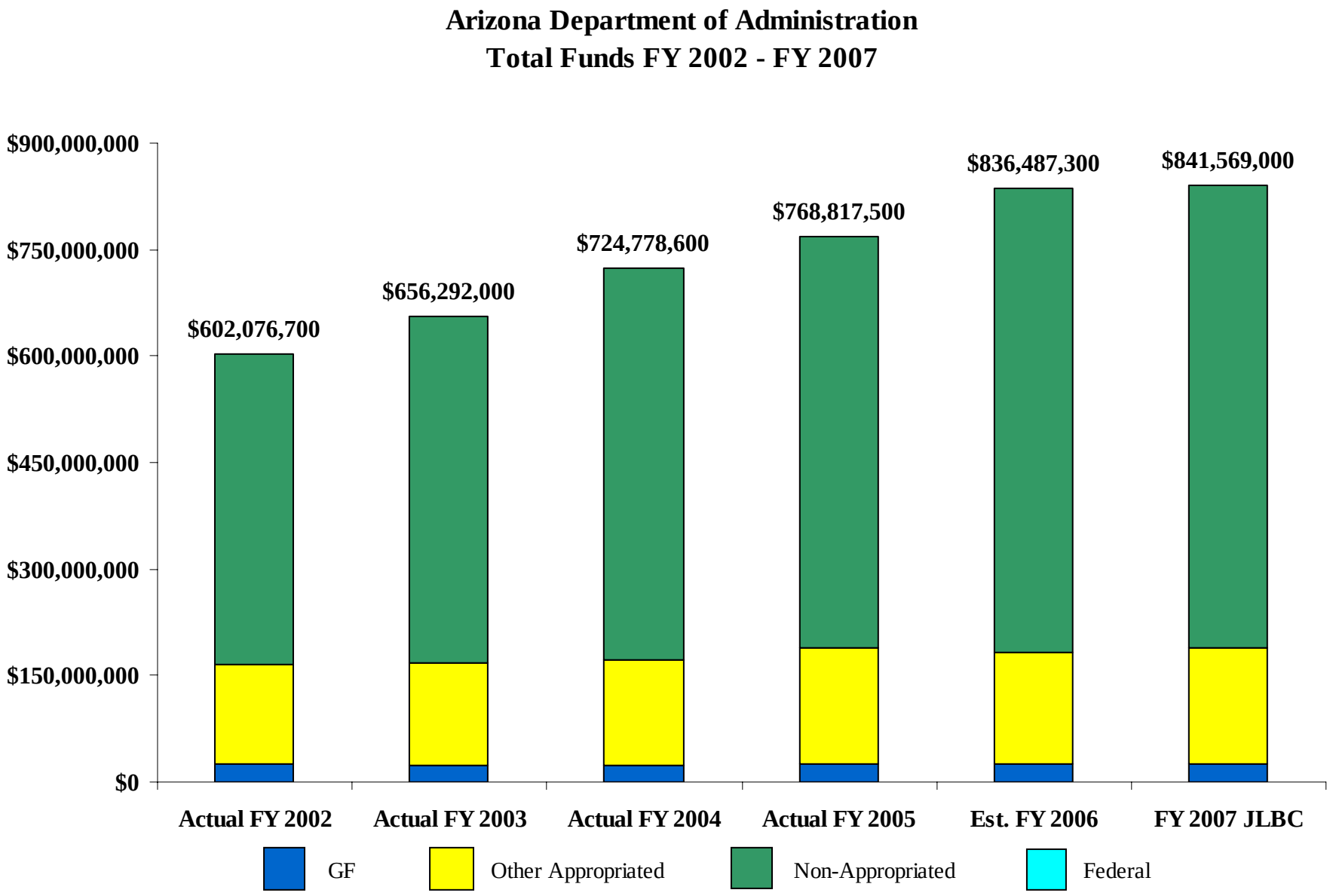


Arizona Department of Administration
FY 2007 Key JLBC - Executive Differences
General Fund



Arizona Department of Administration
Arizona Network (AZNet) Charges

- Statewide Telecommunications Management Contract in January 2005 created AZNet, a new statewide telecommunications program.
- Executive balance sheets include $15 M increase for higher AZNet charges.
  - $10 M GF
  - $4.1 M OF
  - $0.9 M NF
- Governor's moratorium on telecomm spending implemented in FY 2005 resulted in agencies using those dollars for non-telecomm budget items.
- $15 M increase includes $3.5 M to repay a lease the Telecommunications Program Office (TPO) used to finance the transition to the management contractor. Detail on this repayment not yet available.
- Laws 2005, Chapter 301 requires TPO initial contract and carrier cost rate structure by agency and fund type. JLBC Staff requested submission for JLBC review by February 15, 2006.


Arizona Department of Administration
Total Funds FY 2002 - FY 2007
$900,000,000
$750,000,000
$600,000,000
$450,000,000
$300,000,000
$150,000,000
$0
$602,076,700
$656,292,000
$724,778,600
$768,817,500
$836,487,300
$841,569,000
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Department of Revenue

Business Re-engineering/Integrated Tax System (BRITS)

- Contract was awarded August 2002 to integrate separate tax systems, improve enforcement, and increase revenues to the state
- Supposed to pay for itself through the diversion of revenue – did not require an appropriation
- Had problems with transaction privilege tax conversion in January 2004
- Corporate income tax conversion is scheduled for July 2006

Cost of BRITS

- Contract originally cost $133.7 M, including $122.7 M principal and $11 M interest
- Prior to November ’05, project behind schedule in paying contractor
- Due to collections accumulated but previously unallocated, from May through September ’05, project payments now ahead of schedule $34 M
- DOR signed a $6.4 M extension to continue operating the BRITS data center for 4 years – permits further diversion of General Fund without appropriation

JLBC Recommendation

- Require legislative authorization prior to any future BRITS contract extension that would increase the cost of the contract

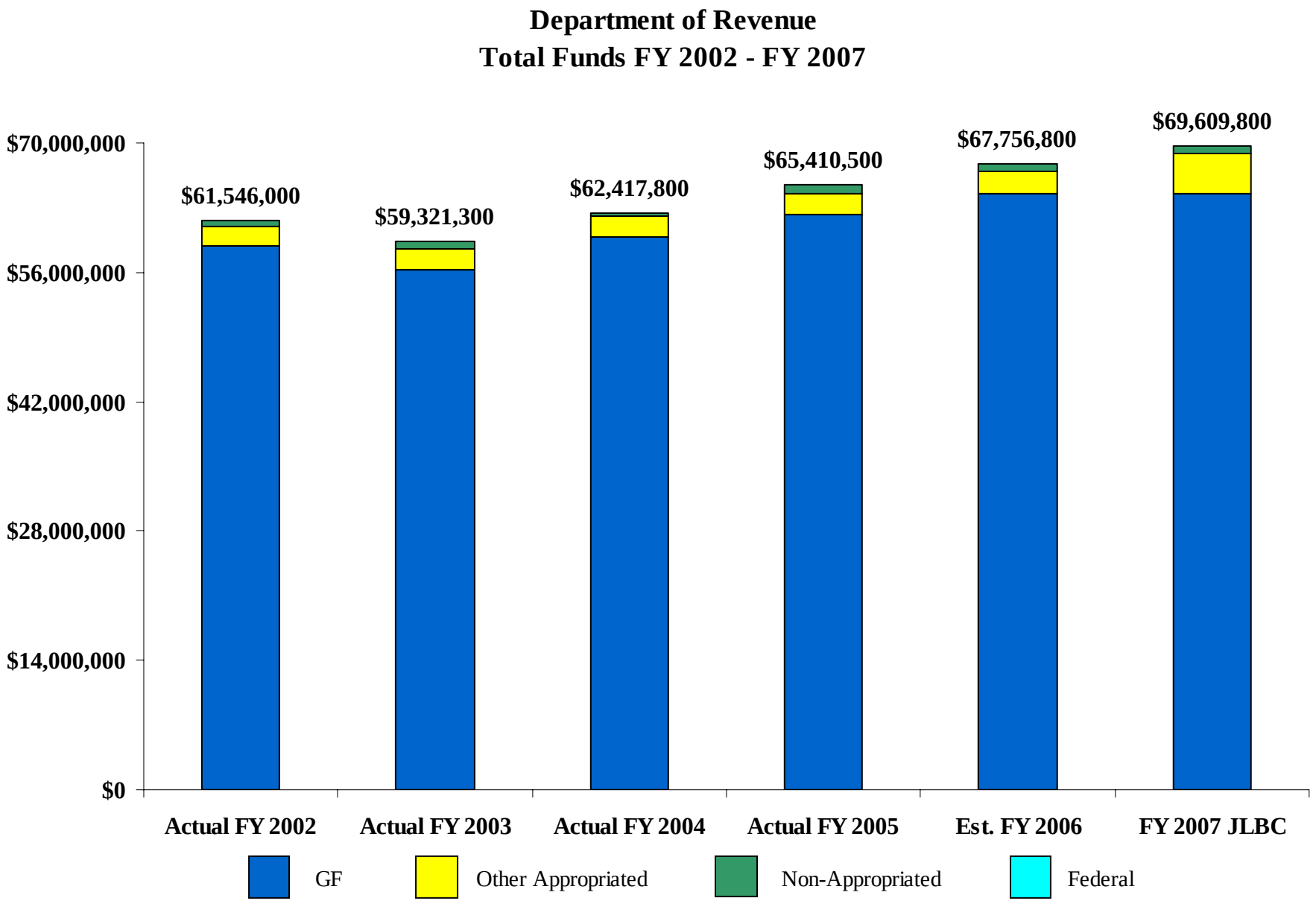
Further BRITS Funding

- JLBC does not recommend Executive's $3.4 M for BRITS and property tax system hardware and software maintenance
- GITA has approved $1.2 M in FY 2007 to refresh computer equipment 4 years old or older
- Need further research

Kerr Lawsuit

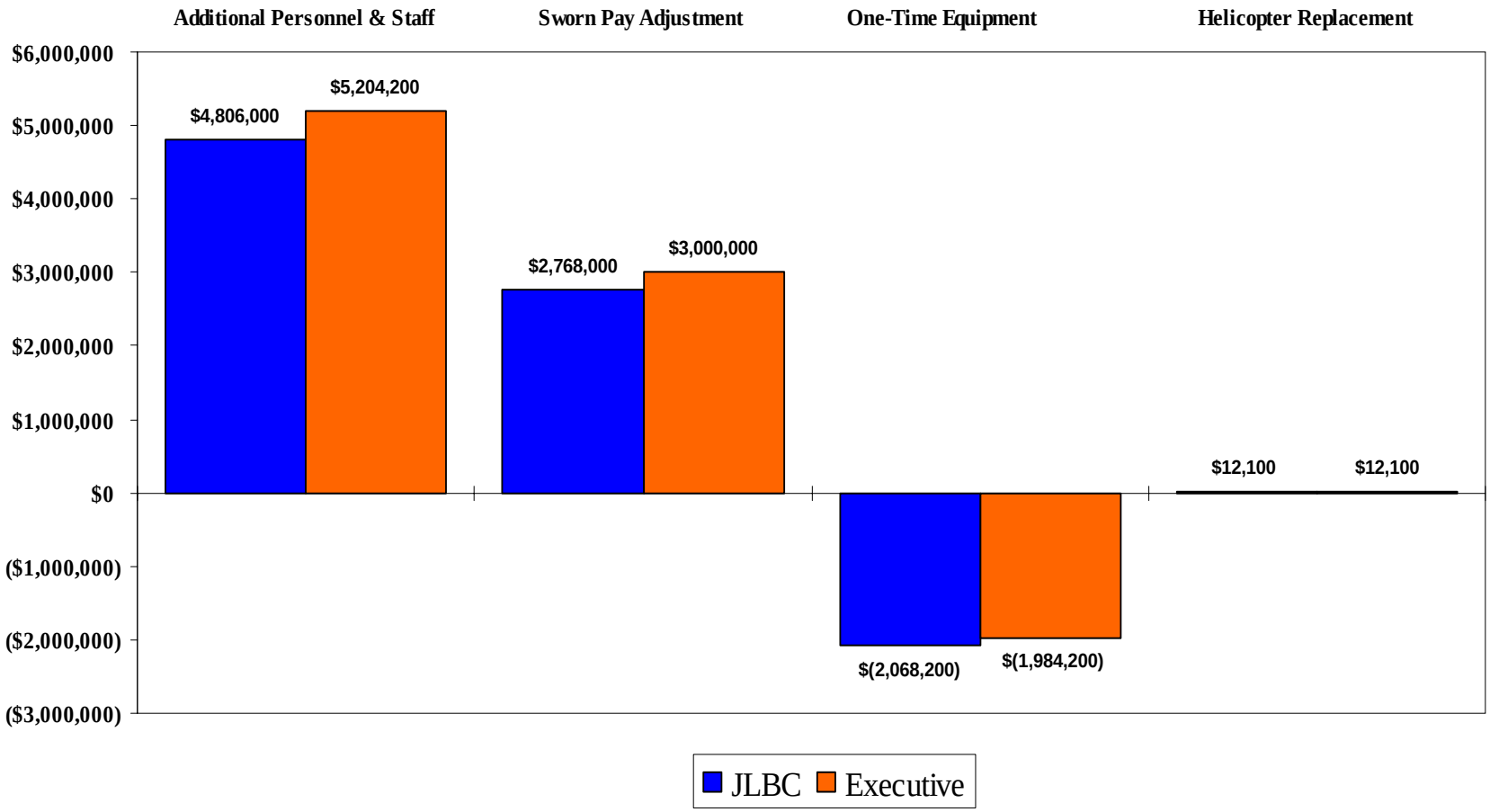
- The 1989 case of Kerr v. ADOR, challenged the state taxing federal employees' retirement contributions but not those of state employees
- DOR paid $13.7 M in 1997-1998, including $10.7 M in refunds to qualified taxpayers and $3 M to plaintiff's lawyers, after State Board of Tax Appeals ruled in favor of taxpayer
- Subsequent court rulings extended the deadline for filing timely refund claims
- DOR is negotiating to settle the resulting extension of the lawsuit, and has requested $1.3 M non-lapsing General Fund supplemental in FY 2006 for administration costs
- Executive allocates $15 M in ’07 for taxpayer payments

  -- Needs further research


Department of Revenue
Total Funds FY 2002 - FY 2007
$70,000,000
$56,000,000
$42,000,000
$28,000,000
$14,000,000
$0
$61,546,000
$59,321,300
$62,417,800
$65,410,500
$67,756,800
$69,609,800
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Department of Public Safety

Highway Patrol Funding Issues
FY 2007 Key JLBC - Executive Differences



FY 2007 Highway Patrol Staff

	JLBC	Executive
Sworn Officers & Staff	$4.8 M	$5.2 M
	HURF	GF

- Includes an additional 37 Officers, 4 Sergeants, and 5 staff positions
- In FY 2006, received funding for 28 Sworn Positions
- Subsequently, DPS held 25 Sworn Officer Positions vacant to provide an additional pay raise ($1,816) to Officer II and Officer III classifications.

As a result, JLBC recommends enhanced oversight including:

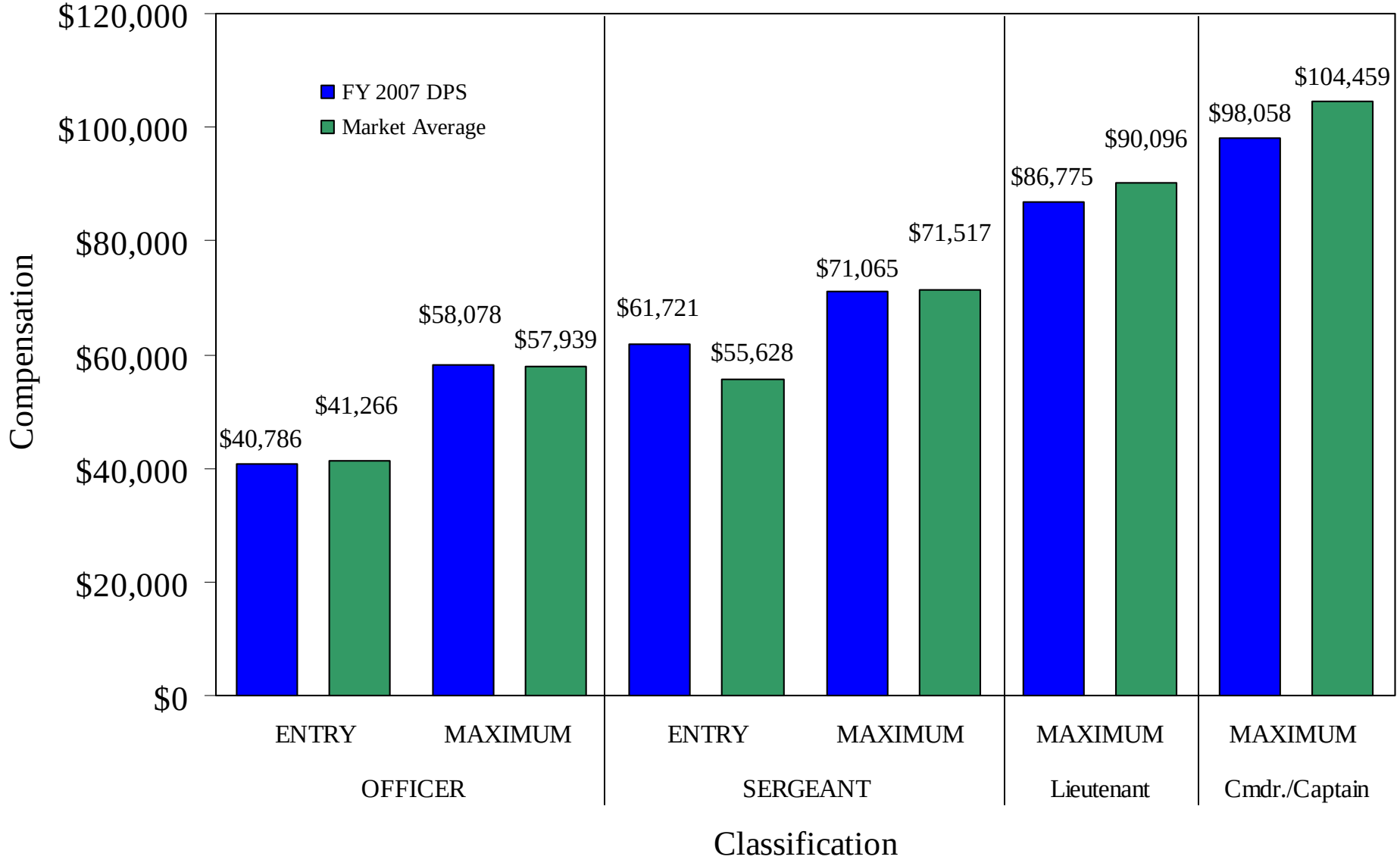
- Full staffing of the 25 FTE Positions intentionally held vacant by DPS
- JLBC review of the DPS expenditure plan for the 46 new positions prior to implementation
- Report to the JLBC on DPS' Sworn Officer staffing levels
- JLBC approval prior to shifting monies appropriated for sworn personnel

Sworn Salary Adjustments

	JLBC	Executive
Sworn Salary Adjustment	$2.8 M PCF	$3.0 M PCF

- Parity Compensation Fund receives 1.51% of Vehicle License Tax (VLT) revenues that would otherwise be deposited into the State Highway Fund
- $2.8 M is available for pay raises. DPS can determine the allocation, unless otherwise directed by the Legislature.
- Provides on average a $1,669 (or 3.1%) salary increase per sworn employee.
- With adjustment, DPS pay is comparable to ’05 market (14 Law Enforcement agencies in Arizona who employ in excess of 100 Sworn employees).
- DPS may fall behind again after latest round of local pay increases. However, DPS also pays 5% of employee’s retirement contribution.
- With the Executive’s proposal to alter VLT collections, it is unclear at this time if the fund can support the $3.0 M Executive recommendation.

DPS Sworn Personnel Salaries Relative to Market [1/]



[1/]Salary figures were provided by DPS and are as of August 2005. Assumes the market's distribution among employee classifications are the same as DPS. FY 2007 DPS salary figures assume all classifications receive $1,669, actual allocation is to be determined by DPS upon JLBC review.

Criminal Investigations / Scientific Analysis / AZAFIS
- Changes above FY 2006

	JLBC	Executive
Sex Offender Compliance and Enforcement (3 FTE's)	$700 K GF	$688 K GF

- Provides 2 detectives and 1 criminal intelligence analyst to Identify and track down absconders (currently, 728) who have failed to register.
- Includes a decrease of $(355) K and (5) FTE Positions in the Sex Offender Monitoring Fund.

New Crime Lab Personnel (11 FTE's)	$881 K OF	$873 K OF

- Since FY 2000, total submissions to the crime lab have increased 56.0%, while the number of appropriated positions have increased 30.7%.

Fingerprint Identification System Upgrade	$808 K OF	$808 K OF

- Upgrade would include improved tenprint speed and accuracy, palm print matching capabilities, and 2-finger rapid identification, among other features.

FY 2007
Executive Recommendations
HURF Shift

- Executive is recommending a shift of $38.2 M in Highway Patrol funding from HURF to the General Fund.
- Of the $38.2 M in newly available HURF monies, approximately 50% will go to local governments and 50 % will go to state road construction.
- These shifts would increase the local government share by an additional $19.1 M.
- Under the JLBC baseline, local government HURF funding is already projected to increase by $43.0 M, or 7.0%, under the existing formula.
- In addition, the Executive is recommending $158.0 M in one-time General Fund transfers to HURF, including:
  - $40.0 M to pay back prior use of HURF monies for DPS
  - $118.0 M to pay back a transfer of VLT revenue to HURF

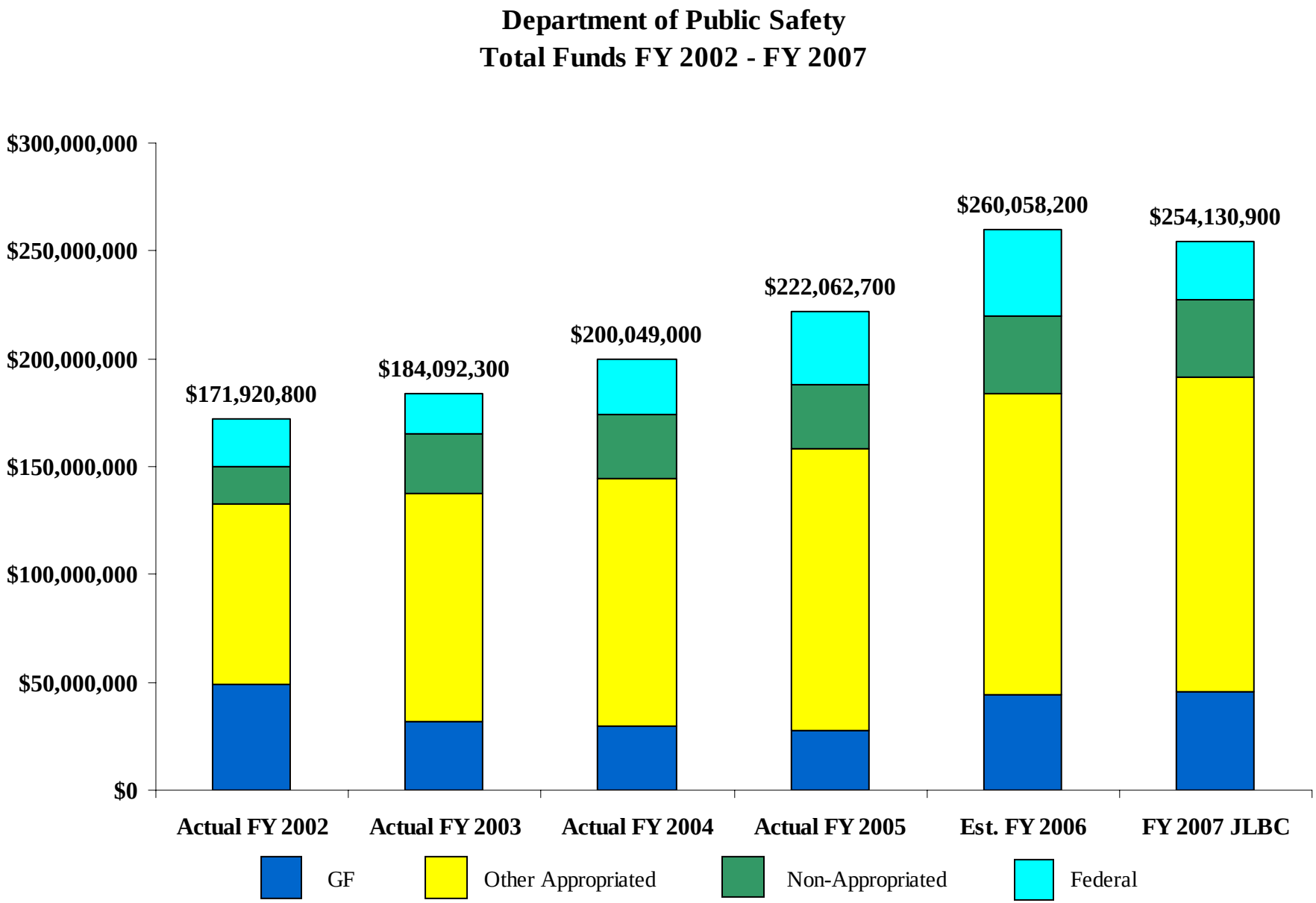
Executive's FY 2007 Recommendations

-10 non-border enforcement issues would add $5.7 M

Policy Issue	GF Cost
1. Fuel Budget	$1.5 M
2. Identity Theft Squad (8 FTE's)	$973 K
3. Sexual Violence Victims Treatment Grants (1 FTE)	$500 K
4. Methamphetamine Distribution and Use Efforts	$750 K
5. 911 Call Takers (4 FTE's)	$152 K
6. Support Staff (5 FTE's)	$408 K
7. New Highway Patrol Vehicles above $6.8 M Base	$424 K
8. Mainframe Computer and Aviation Costs	$765 K
9. Contact Tracking System	$79 K
10. Governor's Office of Highway Safety (Highway Fund)	$198 K
Non-Border Enforcement Issue Total	$5.7 M

Executive Propose $72.7 M DPS Border Security Package

Policy Issue	GF Cost
1. 16 FTE's for 2 GITEM Squads	$2.1 M
2. 16 FTE's for Human Trafficking/Smuggling Squads	$1.8 M
3. 12 FTE's for a Domestic Terrorism Squad	$2.0 M
4. 2 Border Security Block Grants	$13.1 M
5. Microwave Communication System Upgrade	$1.9 M
6. Establishment of a Missing Persons Database	$596 K
7. Southern Region Auto Theft Details	$1.4 M
8. Border Security Reserve Fund (one-time)	$50.0 M
DPS Border Security Package Total	$72.7 M


Department of Public Safety
Total Funds FY 2002 - FY 2007
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
$171,920,800
$184,092,300
$200,049,000
$222,062,700
$260,058,200
$254,130,900
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

State Land Department

FY 2007 JLBC Budget

- **Dam Repair - $230,600 Risk Management Fund**
  - Will provide funding to repair 3 dams in the Maricopa County Flood Control District that are labeled “High Hazard Potential”
- **Radio System - $96,000 GF**
  - Upgrade radio system used to by aircraft to fight wildfires
  - Included in the executive budget
- **One-time Issues - $(1.4) million GF & $(319,600) OF**
  - Removes one-time funding

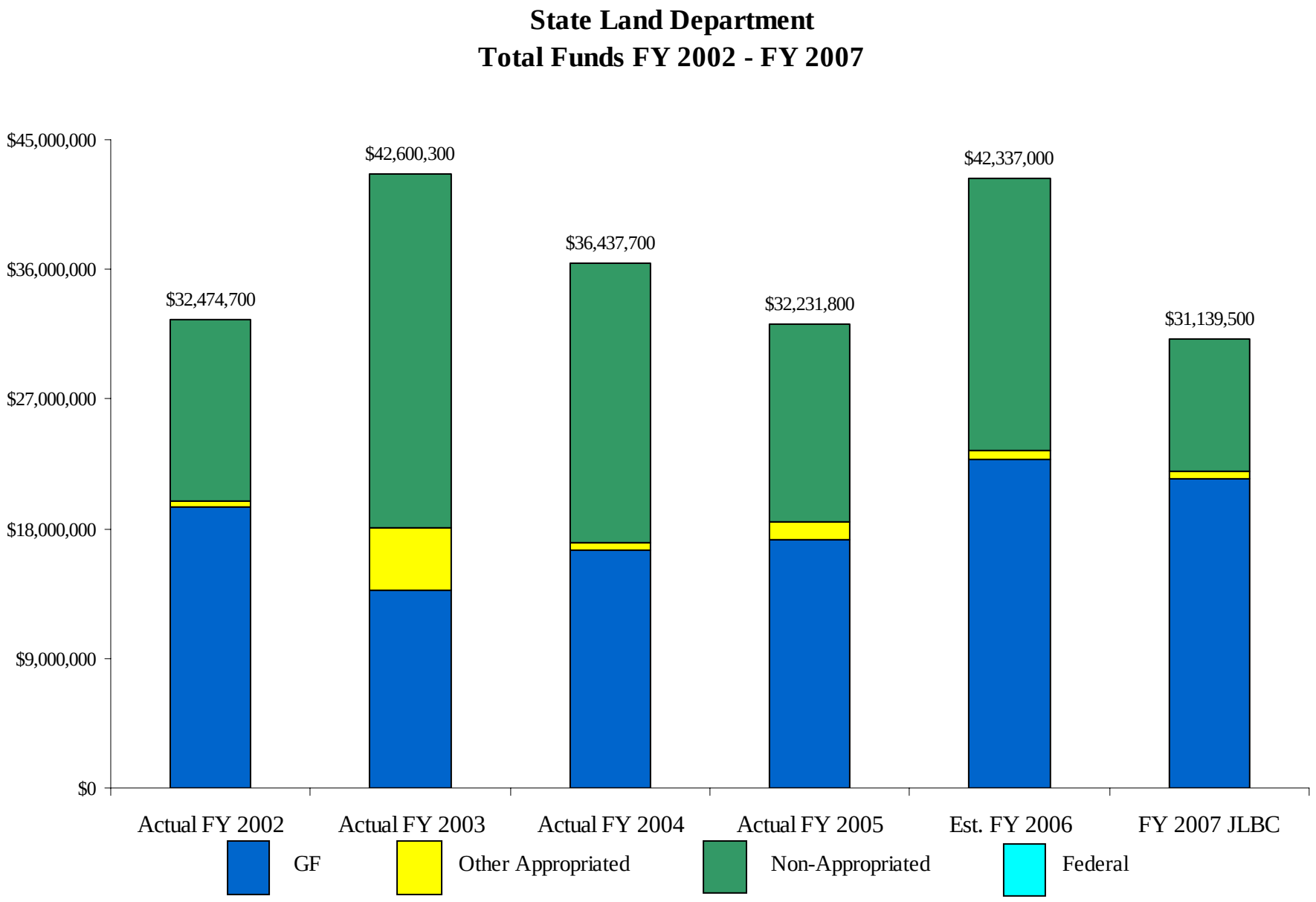
Executive Budget Issues

Fire Suppression

- $7.3 million GF supplemental for bills incurred fighting fires during FY 2005 and the first part of FY 2006:
  - We need a better understanding of outstanding claims
    - Partial list of bills – Not all outstanding bills have been submitted to the department
    - $600,000 for bills payable to other state agencies
    - $250,000 spent on hurricane assistance
- Executive also provides $1.9 million GF for additional fire suppression funding in FY 2007.

Trust Land Management

- The Executive recommends $1.8 million GF for increased trust land management funding
  - Executive amount is over and above the $2.5 million FY 2006 appropriation to generate added trust land sales.
  - Need further clarification on expected incremental revenue gains from new FY 2007 resources.
  - The JLBC recommends better defining performance measures relative to trust land issues in order to better understand the performance of trust land activities.


State Land Department
Total Funds FY 2002 - FY 2007
$45,000,000
$36,000,000
$27,000,000
$18,000,000
$9,000,000
$0
$32,474,700
$42,600,300
$36,437,700
$32,231,800
$42,337,000
$31,139,500
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Department of Commerce

Executive Policy Issues for FY 2007 for Commerce
Total GF = $28,178,300 above FY 2006

Innovation Arizona **$25M GF**

- Investment and job creation in science-based research fields
- Need further details on evaluating success

Jobs for Arizona Graduates **$500,000 GF**

- Program currently in DES budget with federal monies.
- Program has not submitted Committee-requested performance measures
- If funded, more appropriate in DES or ADE

Rural and Tribal Economic Development **$266,800 GF**

- 4 FTEs to promote rural and tribal economic development
- Legislature approved 4 Rural Development FTEs in FY 2005. Unclear how these new FTEs would interact with existing FTE positions

Small Business Support Center **$211,500 GF**

- Auditor General indicated in 2003 that other agencies, including the federal Small Business Administration and Community Colleges offer small business support.

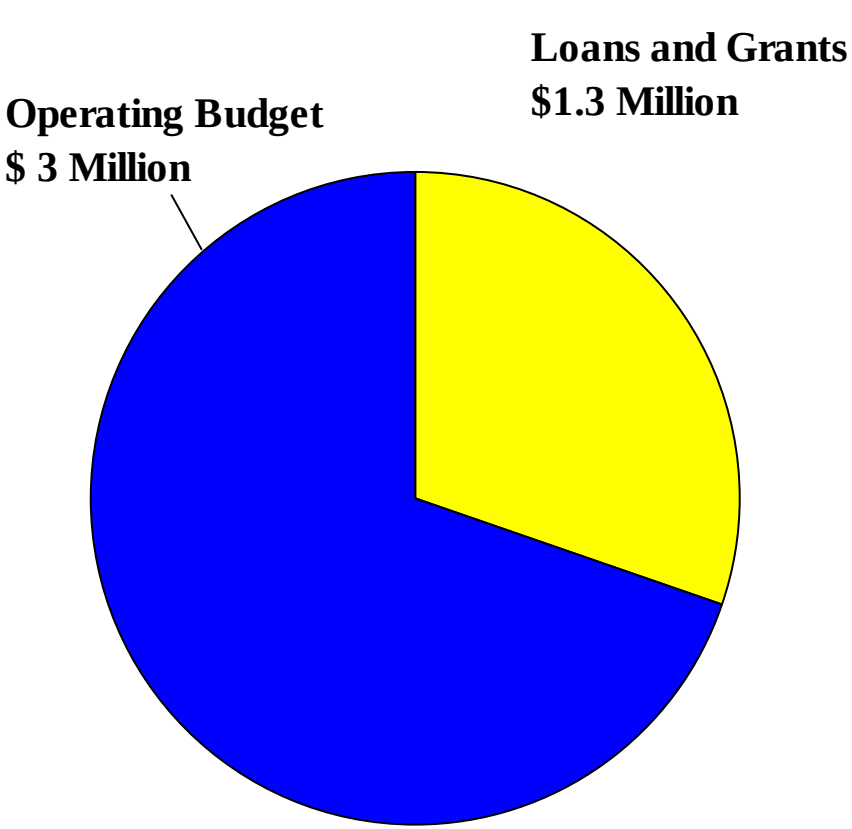
CEDC Fund – Funding Shift and Restoration **$2.2 M GF**

- Executive would shift $2.2M onto GF from CEDC Fund appropriation in order to free up monies for loans and grants

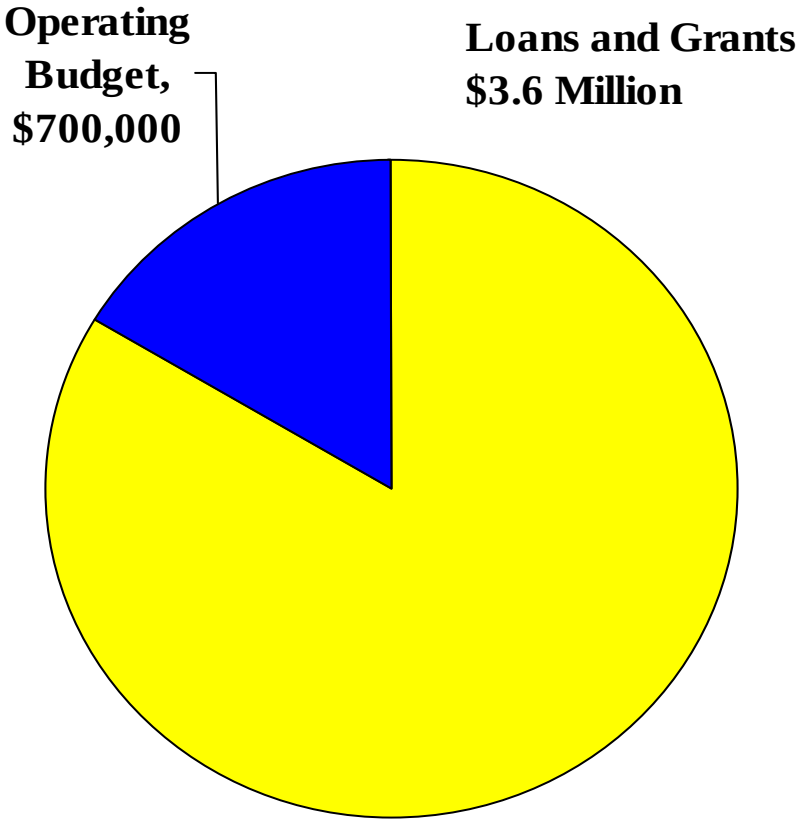
CEDC FUNDS

- Executive proposes to shift $2.2 M of Operating Budget to GF
- Frees Up Non-Appropriated Loans and Grants

Current



Executive Recommendation



Department of Health Services

JLBC-Funded Issues Above FY 2006

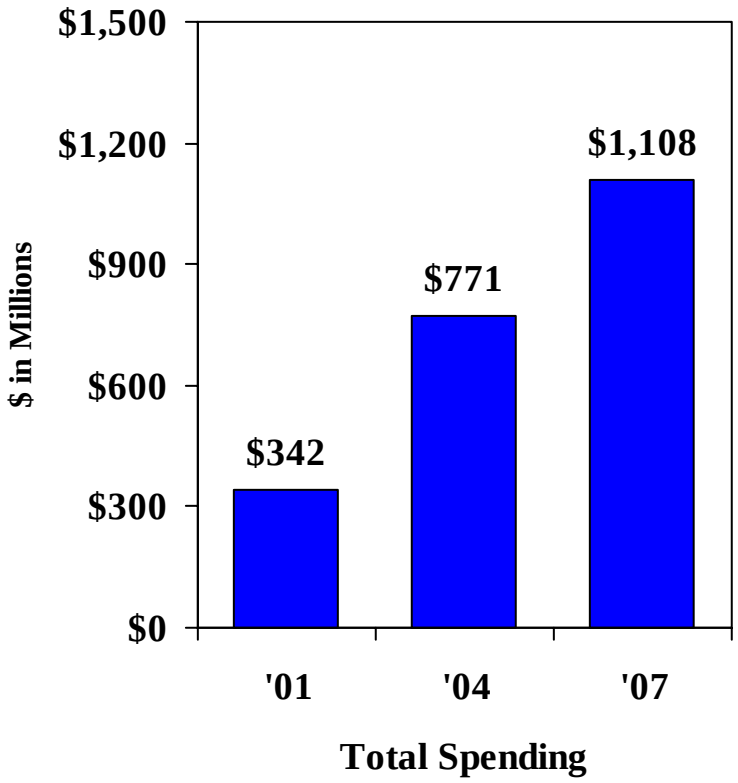
– Recommendation adds $50.5 M GF in FY 2007

	$ in millions
General Fund	
• Title XIX Growth	$46.7
• GF Backfills	3.9
Other Funds	
• Newborn Screening	2.2
• Vital Records	0.5
• Nursing Care Incentive Grants	0.1

DHS Behavioral Health Total Funds Would Increase by $108 M in FY 2007

-- Despite 224% Increase in Funding Since FY 2001, Quality of Service Remains Unclear

- Population accounts for approximately ½ of increase
- General Fund accounts for approximately one-third of total funding
- Expected that approximately 135K individuals will utilize services in FY 2007



Update on Arnold v. Sarn Litigation

- Lawsuit filed in 1981 claiming inadequate treatment of Seriously Mentally Ill in Maricopa County
- Case upheld by AZ Supreme Court in 1989
- In 1998, a Court Monitor was appointed to conduct independent reviews of the behavioral health system in Maricopa County
- DHS and Plaintiffs agreed to Exit Stipulations a year ago
- Most recent report indicated that the Maricopa RBHA fell short in 6 of 8 performance measures related to the agency's Corrective Action Plan
- Court Monitor found progress in fulfilling "paperwork" requirements (e.g., each patient has an individual service plan) but found that progress needed to be made in the "quality" of service delivery

Behavioral Health Oversight

In order to increase legislative oversight, JLBC recommends:

Implementing New Performance Measures:

- % of Priority Clients that have Case Managers
- % of Priority Clients that have Clinical Teams
- % of Priority Class Clients that have 6 month reviews
- % of Priority Clients that have ISPs

Reporting Requirements

- Require that DHS report quarterly to the JLBC on progress made towards settling the Arnold v. Sarn lawsuit

Auditor General Review due November 2006

What are Capitation Rates?

- Specific Rate Paid to Health Plans
  - Per Enrolled Member, Per Month
- Based on Average Cost Per Person
  - Paid Regardless of Services Used
  - Adjusted for utilization rate and inflation

- Agency used capitation adjustment process to implement policy changes in FY 2006 after Legislature had rejected the agency's requested increase
- JLBC recommendation would statutorily restrict capitation rate changes to utilization and inflation
- Policy issues or programmatic changes that would affect capitation rates would be approved by the full Legislature

Title XIX Caseload and Capitation Rate Differences

	JLBC Baseline	Executive
Caseload Growth (weighted average)	3.6%	(1.2)%
Capitation Rate Growth (weighted average)	7.0%	9.7%
Dollar Growth	$46.7 M	$36.3 M

- JLBC is a consensus estimate based on JLBC Staff forecast, AHCCCS model and U of A econometric model
  - Behavioral Health caseloads based on eligibility for AHCCCS
  - None of consensus models predicted a decline in caseloads in FY 2007
- Executive adds $10 M FY 2006 supplemental due to higher Arnold funding
  - JLBC does not include since Legislature had previously rejected

General Fund Backfills

JLBC Recommendation includes $3.9 M in GF backfills

	JLBC	Executive
Arizona State Hospital Fund Declining county contributions to RTC Program	$1.6 M	$1.6 M
Poison Control Center Fund Declining telecommunication tax revenue	$2.2 M	$1.1 M [1/]
Arizona Medical Board Fund Eliminate backfill done during shortfall	$0.1M	$0

1/ Executive includes $350K backfill for Poison Control Fund in FY 2006

Other Fund Issues

Newborn Screening Program

- JLBC Recommendation adds $2.2 M from fees in FY 2007
- Legislation last session increased # of disorders tested for and fee
- Executive concurs with JLBC recommendation

Vital Records Program

- JLBC recommendation includes $500K for operating costs
- Recommendation would also reduce portion of the fee that goes into Vital Records Fund by approximately 35%
- Executive retains fund as non-appropriated and does not reduce fees

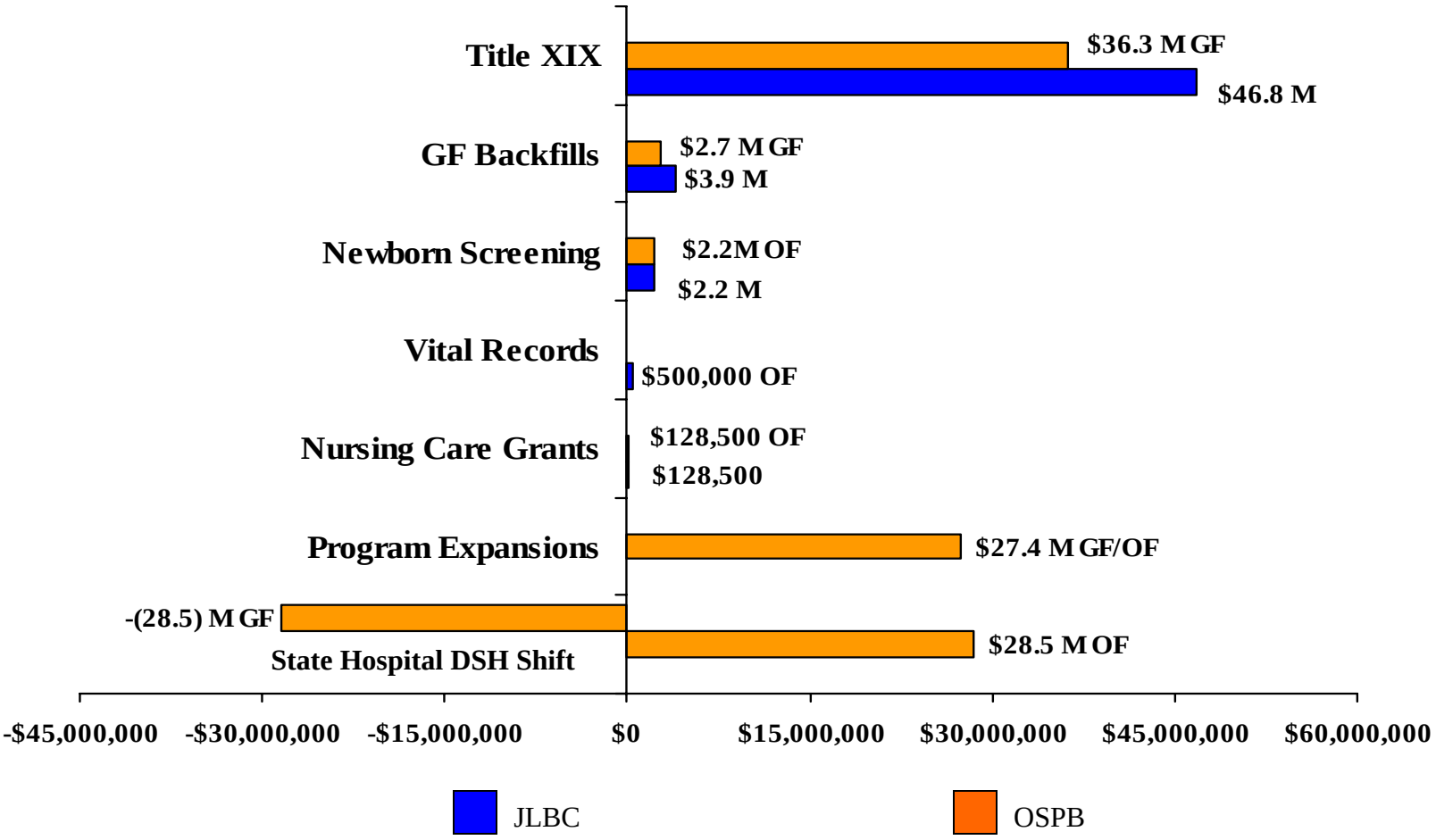
Licensing Backlogs

- JLBC recommendation makes $200K appropriated in FY 2006 non-lapsing
- Executive adds $1.3 M in FY 2007 for backlogs and salaries

Flu Pandemic Planning

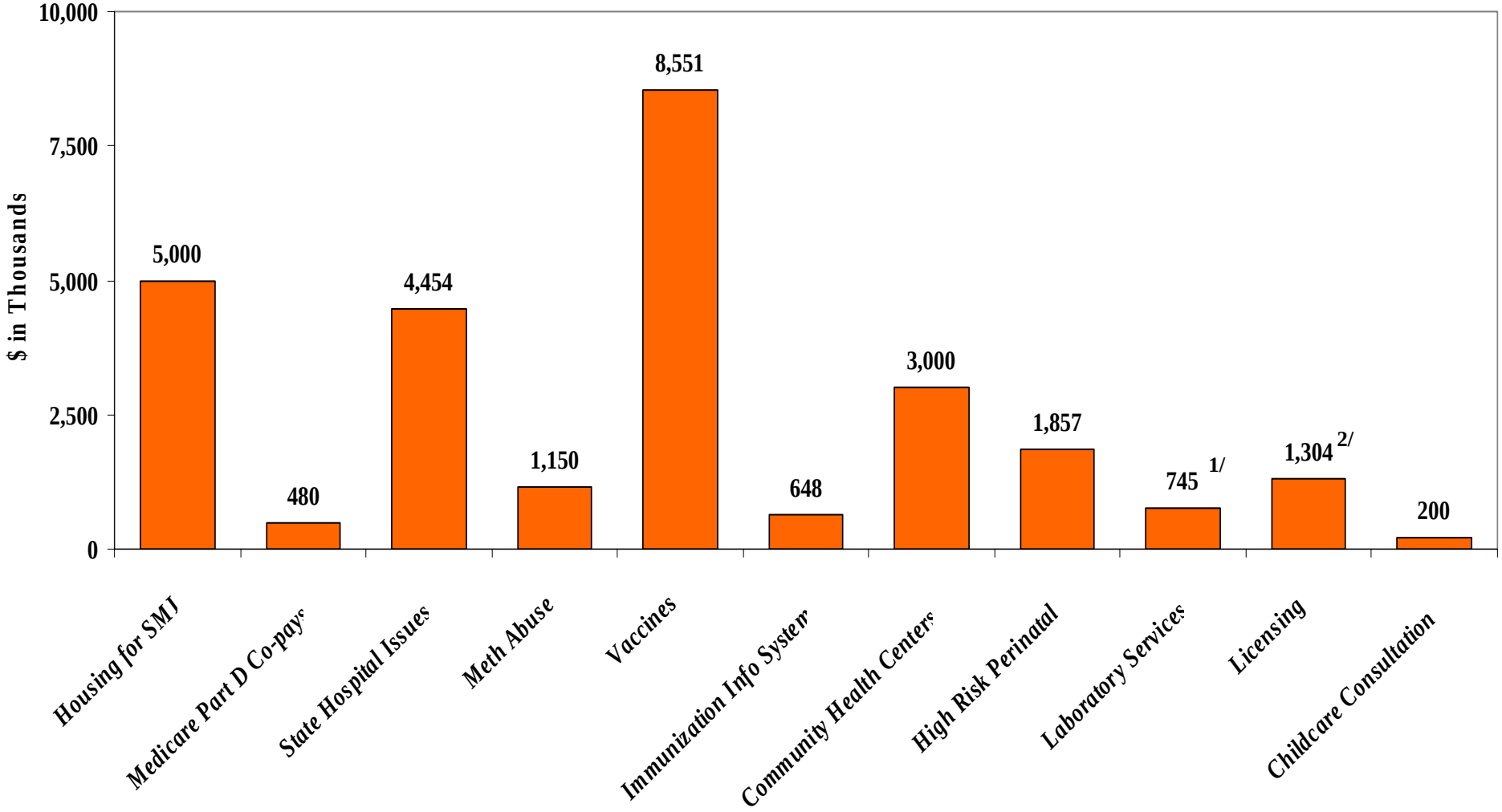
- JLBC recommends DHS report on their progress in planning for flu pandemic

FY 2007 Changes Above FY 2006
JLBC vs. Executive



Executive-Only Initiatives

Executive Spends $27.4 M on New or Expanded Programs in FY 2007

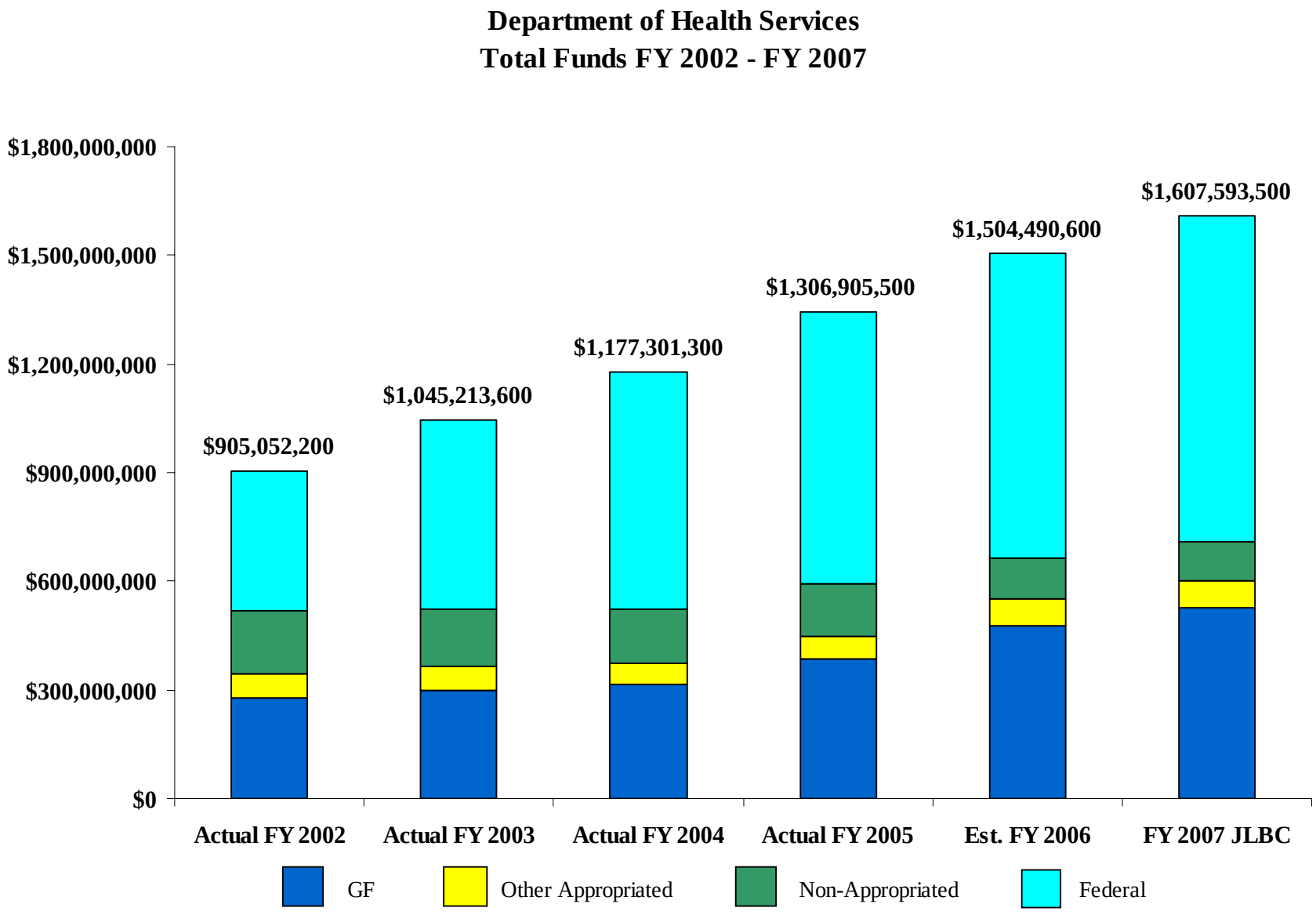


1/ Executive recommends $354,100 in supplemental funding for lab issues in FY 2006

2/ Contains $101,400 in Other Funds

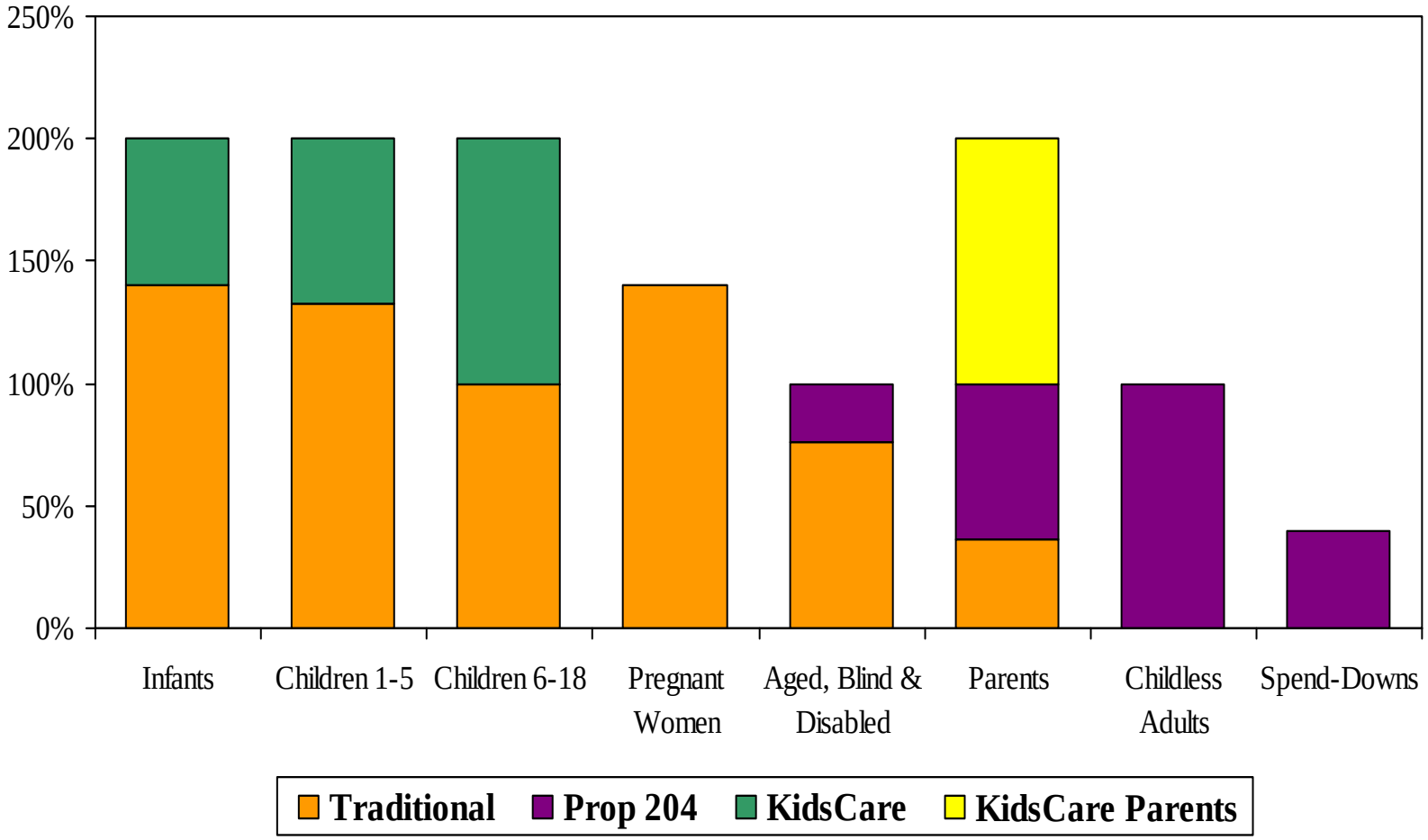
Executive's Disproportionate Share Hospital (DSH) Proposal Generates No Net Savings

- State receives $28.5 M in federal DSH Payments for the Arizona State Hospital – deposited to General Fund to reimburse GF's current $55 M cost
- Executive Recommendation would appropriate DSH monies directly to the Hospital, and reduce GF spending by $28.5 M
- While the State Hospital would see General Fund savings, there would be no net impact to the state as GF revenues would decline
- JLBC recommendation does not include this fund shift

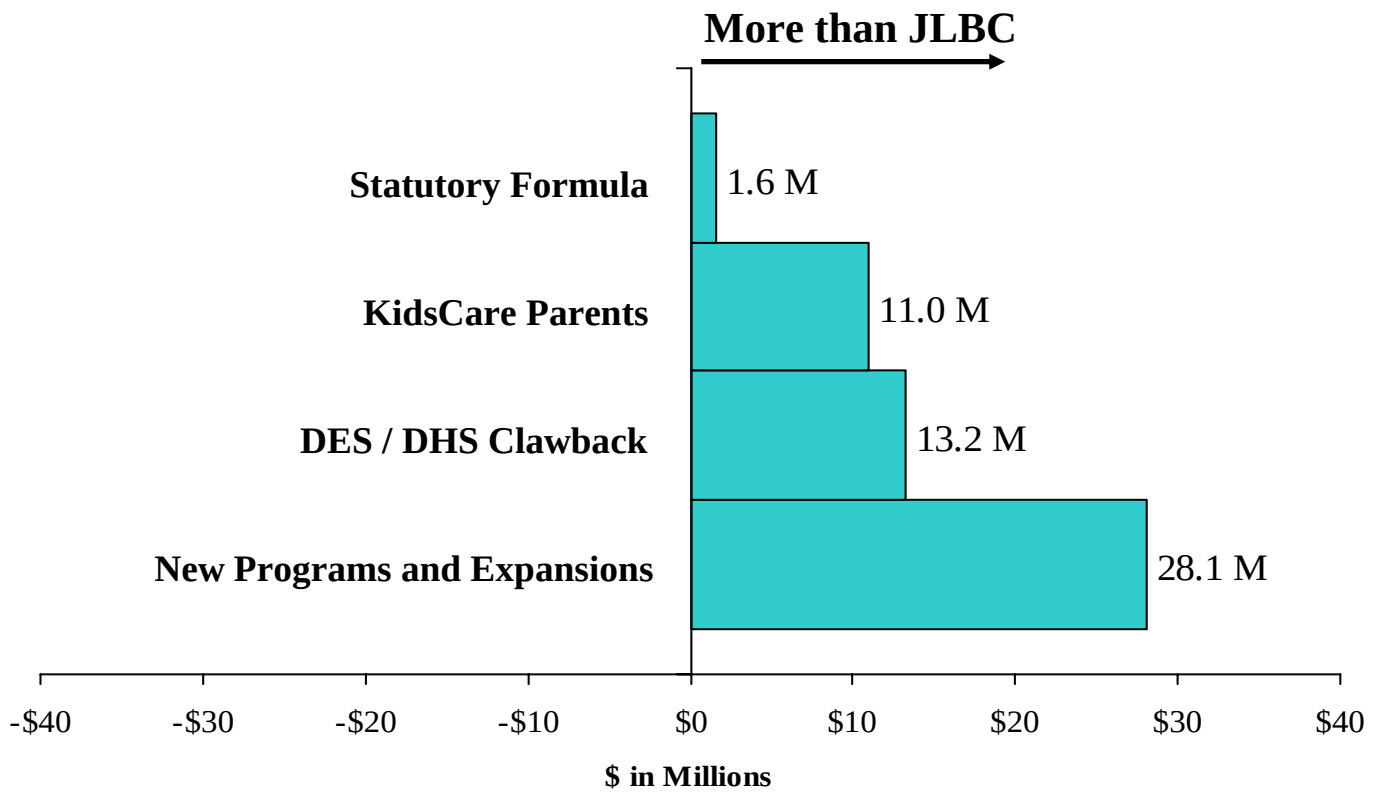

Department of Health Services
Total Funds FY 2002 - FY 2007
$1,800,000,000
$1,500,000,000
$1,200,000,000
$900,000,000
$600,000,000
$300,000,000
$0
$905,052,200
$1,045,213,600
$1,177,301,300
$1,306,905,500
$1,504,490,600
$1,607,593,500
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

AHCCCS

AHCCCS Eligibility



JLBC Recommends $172.2 M above FY 2006
The Executive Recommends $226.1 M above FY 2006



*In addition, the Executive recommends $15.2 M for FY 2006 Supplemental

JLBC Funds $172 M in Formula Growth

- Acute Caseload Projected to Grow 3.6% (Executive: 1.2%)
  - JLBC Baseline uses a consensus model of JLBC Staff forecast, U of A econometric model, and AHCCCS estimates
  - Total caseload projected to reach 1.16 M by June ‘07
- Capitation Rates are Projected to Grow 6.0% (Executive: 5.8%)
  - JLBC recommends limiting to utilization and inflation; policy requires legislative approval
- Non-capitated Costs of Fee-For-Service, Reinsurance, and Premiums Forecasted to Grow 14.0% (Executive: 23.2%)

KidsCare Parents

- Covers parents up to 200% of Federal Poverty Level
- HIFA Waiver allows Arizona to use excess federal funds to reduce Prop 204 Costs
  - Previously made KidsCare Parents cost neutral
- Statutory authority eliminated after FY 2006
  - JLBC Baseline does not fund in FY ’07
- Executive Continues KidsCare Parents in FY ’07
  - Costs $11.0 M more than JLBC Baseline

Medicare Modernization Act (MMA) Budget Implications

- MMA shifts drug coverage for “dual-eligibles” from Medicaid to Medicare. Savings due to cost shift to Federal Government.
- “Clawback” provision requires states to reimburse federal government for 90% of estimated costs.
- Net savings built into JLBC Baseline in all 3 Title XIX agencies is $6.1 M.
- Executive proposes paying dual eligible co-pays not covered by Medicare at a cost of $4.5 M.
- Executive funds $13 M of DHS / DES Clawback payments in AHCCCS budget. JLBC funds Clawback payments in individual agency budgets.

Executive Adds $20.2 GF M on New and Expanded Programs

--Includes Medicare Part D Co-Pays

Small Business Premium Subsidy — $6.1 M

- $150/month subsidy for each employee under 200% FPL
- Estimated 20K individuals in FY 2007
- Possible full cost of $36 M – needs further review
- Subsidy in addition to $35 M in tax credits ($1K per employer) to small businesses

Recruiting Arizona Physicians — $5.0 M

- $4 M in Hospital Residency subsidy
- $1 M for Recruiting Office

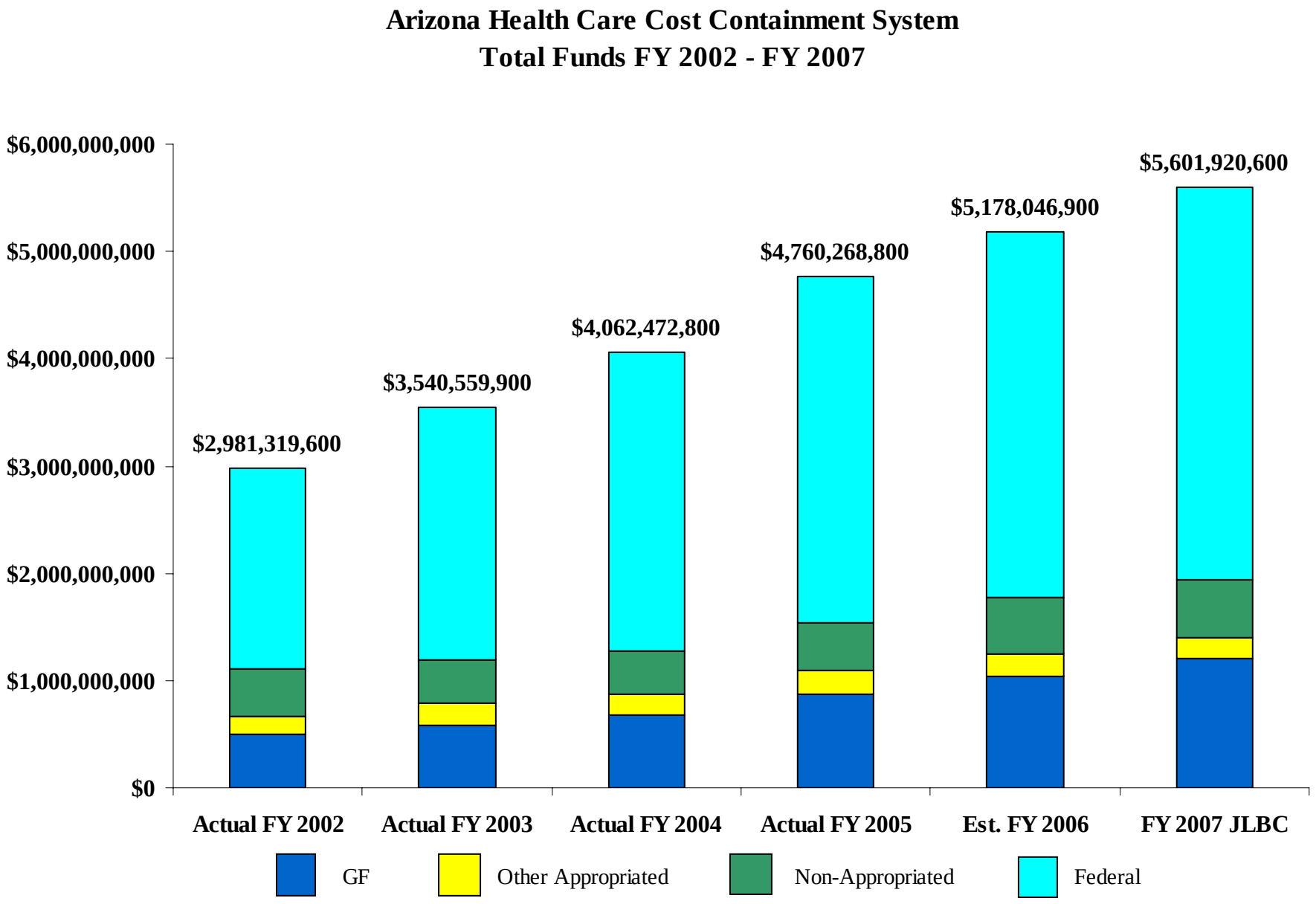
KidsCare Outreach — $4.6 M

- Return KidsCare premiums to pre-October 2003 rates
- $1.5 M in total funds for outreach program
- Adds 15,000 new recipients

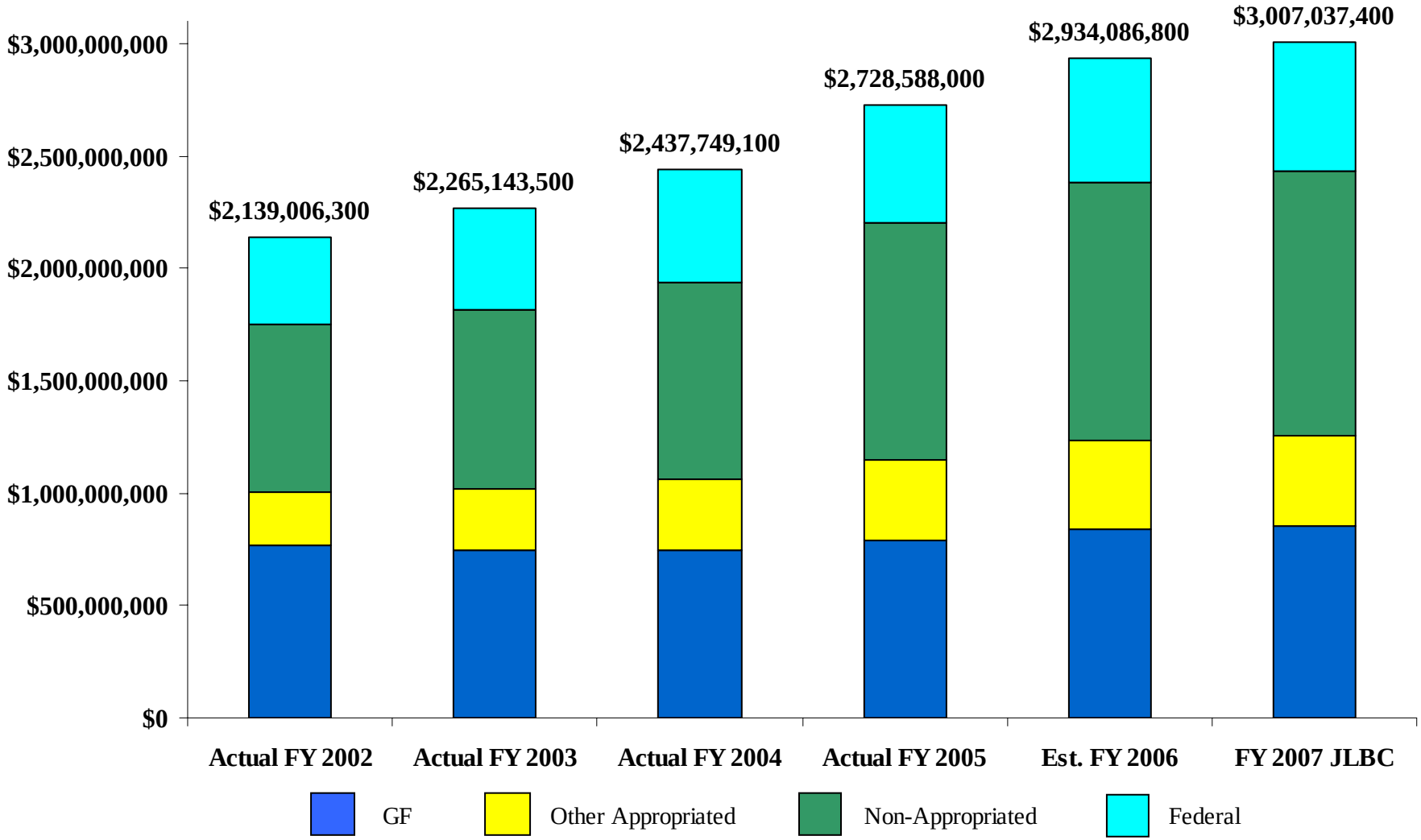
Executive Adds $7.9 M GF for Administrative Proposals

General Fund	GF Cost
1. Eligibility Staff (101 total FTE's)	$1.8 M
2. Information Technology	$2.1 M
3. ADOA Data Center Charges	$903 K
4. "211" Information and Referral Call Centers	$1.9 M
5. Agency Infrastructure (18 total FTE's)	$653 K
6. HIPAA Compliance	$566 K
GF Issues Total	$7.9 M

Other Fund	OF Cost
7. Healthcare Group Administration Increase (14 FTE's)	$1.1 M


Arizona Health Care Cost Containment System
Total Funds FY 2002 - FY 2007
$6,000,000,000
$5,000,000,000
$4,000,000,000
$3,000,000,000
$2,000,000,000
$1,000,000,000
$0
$2,981,319,600
$3,540,559,900
$4,062,472,800
$4,760,268,800
$5,178,046,900
$5,601,920,600
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Arizona University System


Arizona University System
(including Arizona Board of Regents)
Total Funds FY 2002 - FY 2007
$3,000,000,000
$2,500,000,000
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$0
$2,139,006,300
$2,265,143,500
$2,437,749,100
$2,728,588,000
$2,934,086,800
$3,007,037,400
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Arizona University System
FY 2007 Enrollment Growth Estimates

Campus	Formula Enrollment	Growth Percentage
ASU-M	47,583	4.3%
ASU-E	2,975	14.7%
ASU-W	6,299	3.4%
NAU	16,707	0.0%
UA-M	32,490	0.2%
UA-HSC	1,745	8.5%
TOTAL	**107,799**	**2.6%**

Arizona University System
FY 2007 Proposed Enrollment Growth Funding ($)

Campus	Executive Enrollment	JLBC Enrollment	Over 155 Credit Hours	JLBC Net
ASU-M	11.3 M	10.4 M	(3.7) M	6.7 M
ASU-E	2.2 M	2.0 M	(0.2) M	1.8 M
ASU-W	1.3 M	1.1 M	(0.2) M	0.9 M
NAU	0.0 M	0.0 M	(0.7) M	(0.7) M
UA-M	0.4 M	0.3 M	(2.6) M	(2.3) M
UA-HSC	0.8 M	0.7 M	(0.5) M	0.2 M
TOTAL	**15.9 M**	**14.5 M**	**(8.0) M**	**6.6 M**

Arizona University System
Over 155 Credit Hour Reduction

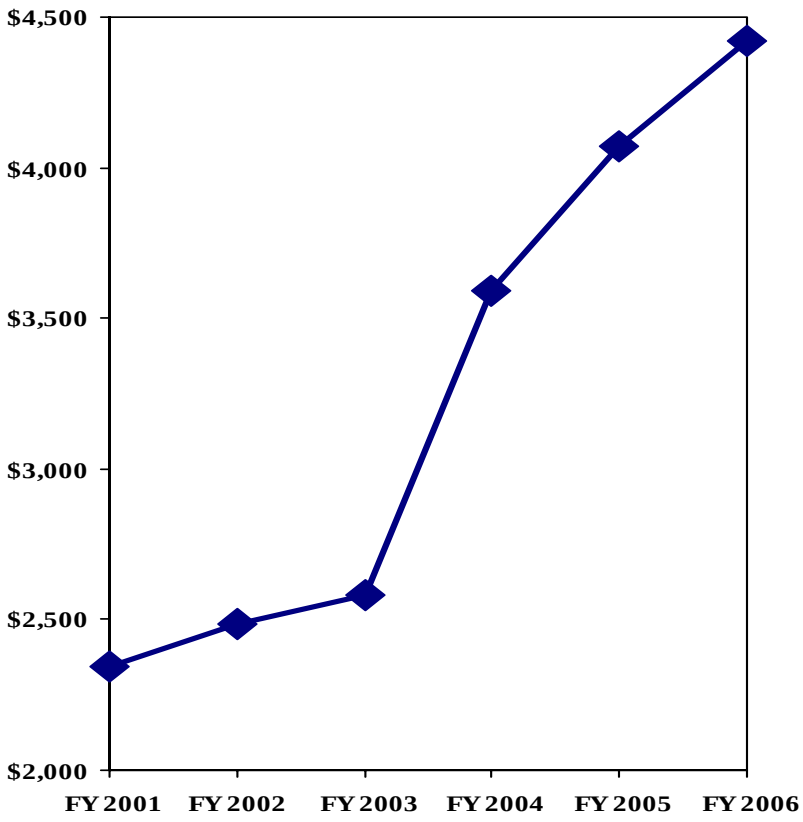
- Laws 2005, Chapter 330 prohibits appropriations for students with earned credit hours in excess of a credit hour threshold
- Chapter 330 also allows ABOR to raise tuition rates for those students
- Credit Hour Threshold is:
  - 155 hours in FY 2007
  - 150 hours in FY 2008
  - 145 hours after FY 2008
- Statute provides exception for students whose degree programs require additional credit hours for a degree
- JLBC counted all credits, including transferred credits, earned by undergraduate and post-baccalaureate students
- Approximately 1,500 students are over FY 2007 threshold

Arizona University System
JLBC Recommended Oversight Enhancements

- ASU Downtown Phoenix Campus (new Special Line Item)
  - Transfers $18.9 M GF from operating budget for 4 relocating departments
  - Requires operational and capital plans for JLBC review by October 1, 2006
  - ASU envisions 2 M square feet for 6 departments and 15,000 students by 2020
- UA Phoenix Medical Campus (continuing as Special Line Item)
  - Continues $6.0 M GF from Laws 2005, Chapter 330
  - Requires ongoing reports to JLBC on doctor shortage prevention strategies
  - Permanently restricts medical schools from limiting hospital clinical rotations
- New Professor Performance Measure
  - Measures undergraduate student contact with professors of any rank
  - Existing measure includes all instructors except volunteers and grad students
  - Less than 50% of classes currently taught by professors
- Indirect Debt Financing
  - Requires JCCR review and inclusion in capital improvement plans (CIP)
  - Financing through non-profit organizations or private developers
  - Current statute subjects direct financing to JCCR review and CIP

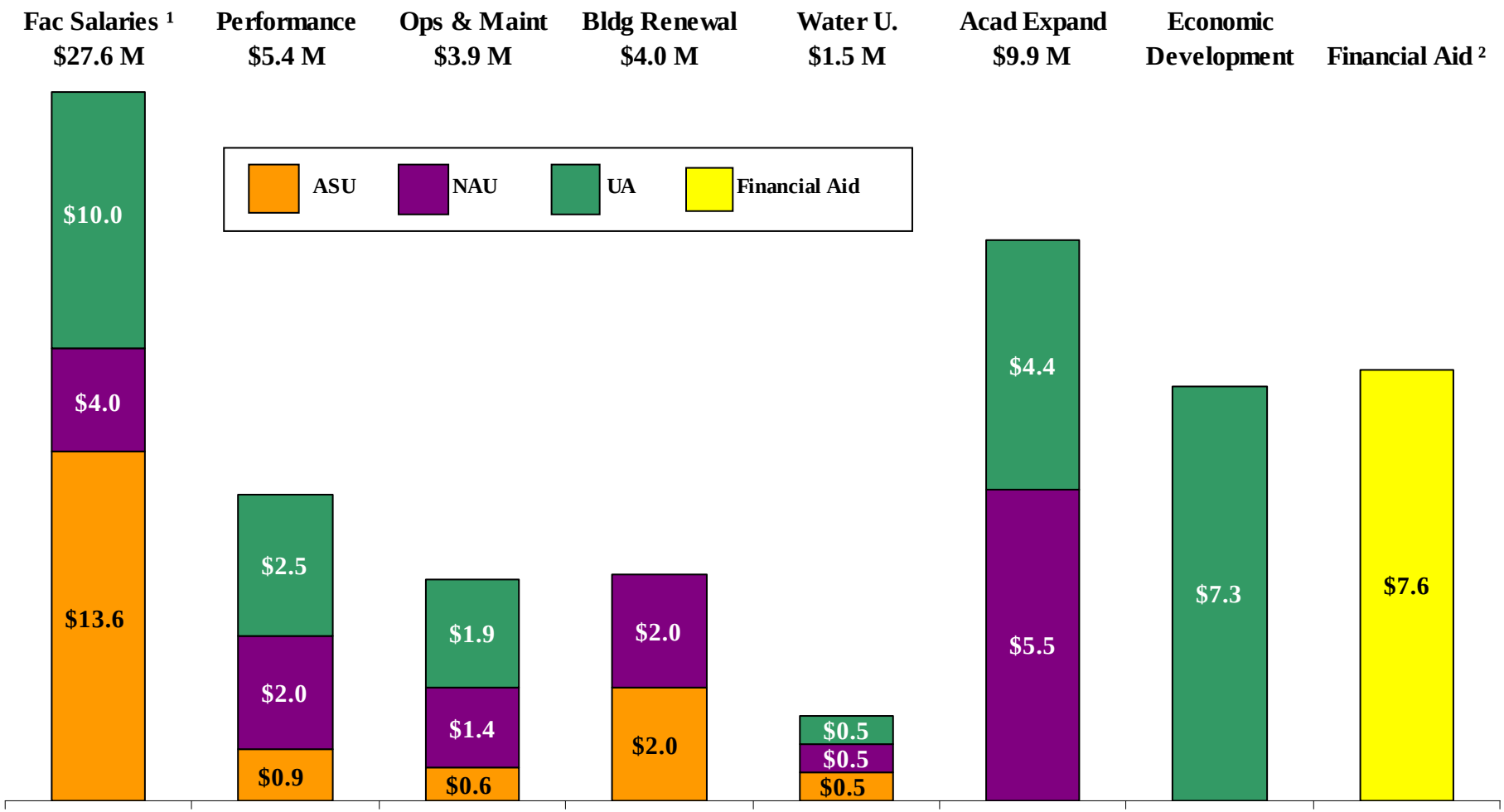
Arizona State University
Resident Undergraduate Tuition and Mandatory Fees

- Rates averaged 11.1% annual increases since FY 2001
- AZ tuition ranks 40th in nation
- Of $701 M anticipated tuition collections for FY 2007, $299 M is non-appropriated
  - $31 M for operations
  - $183 M for financial aid
  - $13 M for capital projects
  - $72 M for debt service
- Recommended oversight enhancements include JLBC review of future non-appropriated tuition plans



- All Us charged same resident undergrad tuition until FY 05
- FY 05 & FY 06 amounts represent weighted averages of distinct university tuitions

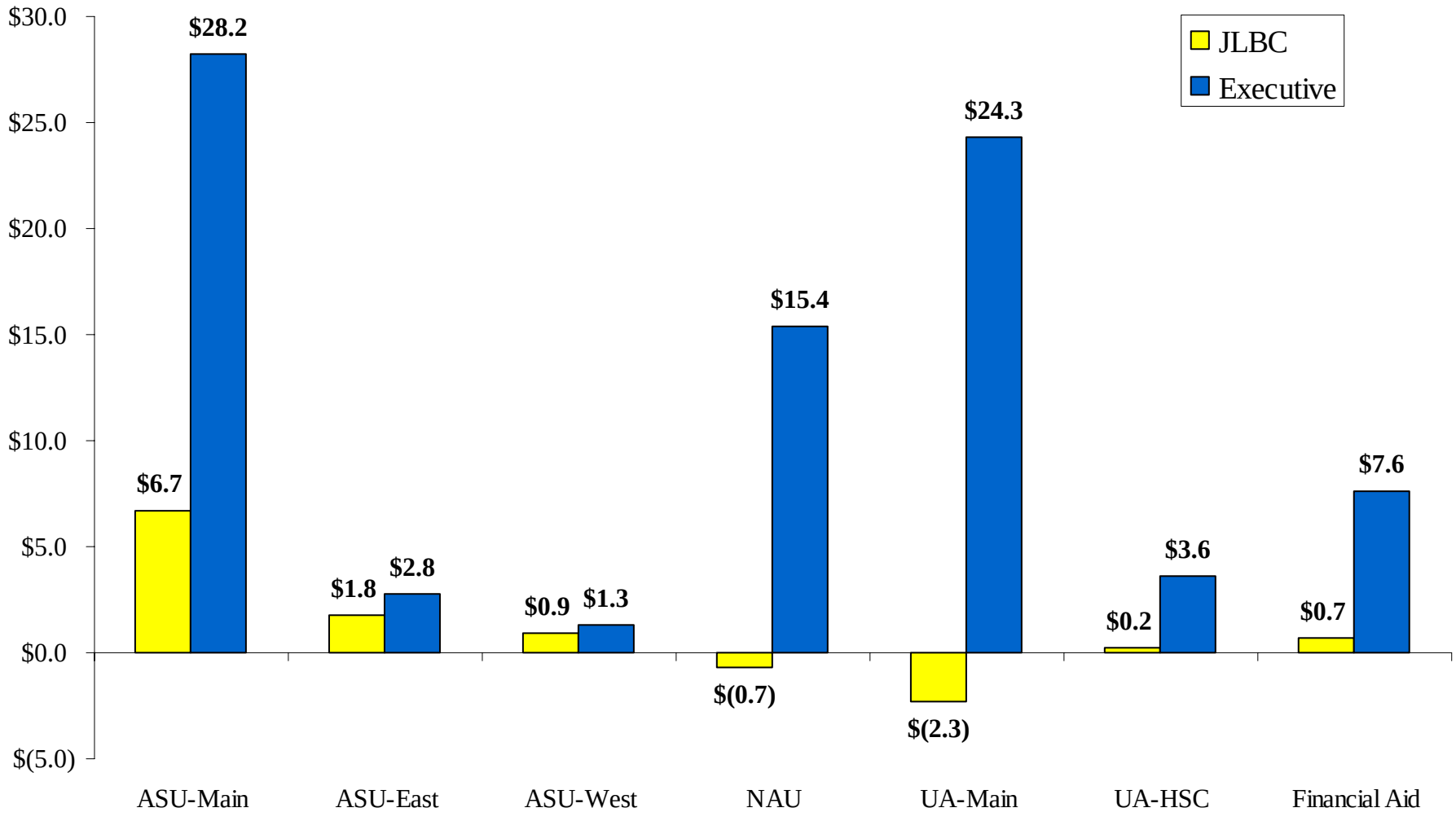
Arizona University System
FY 2007 Key Executive Recommendations
General Fund *(in Millions)*

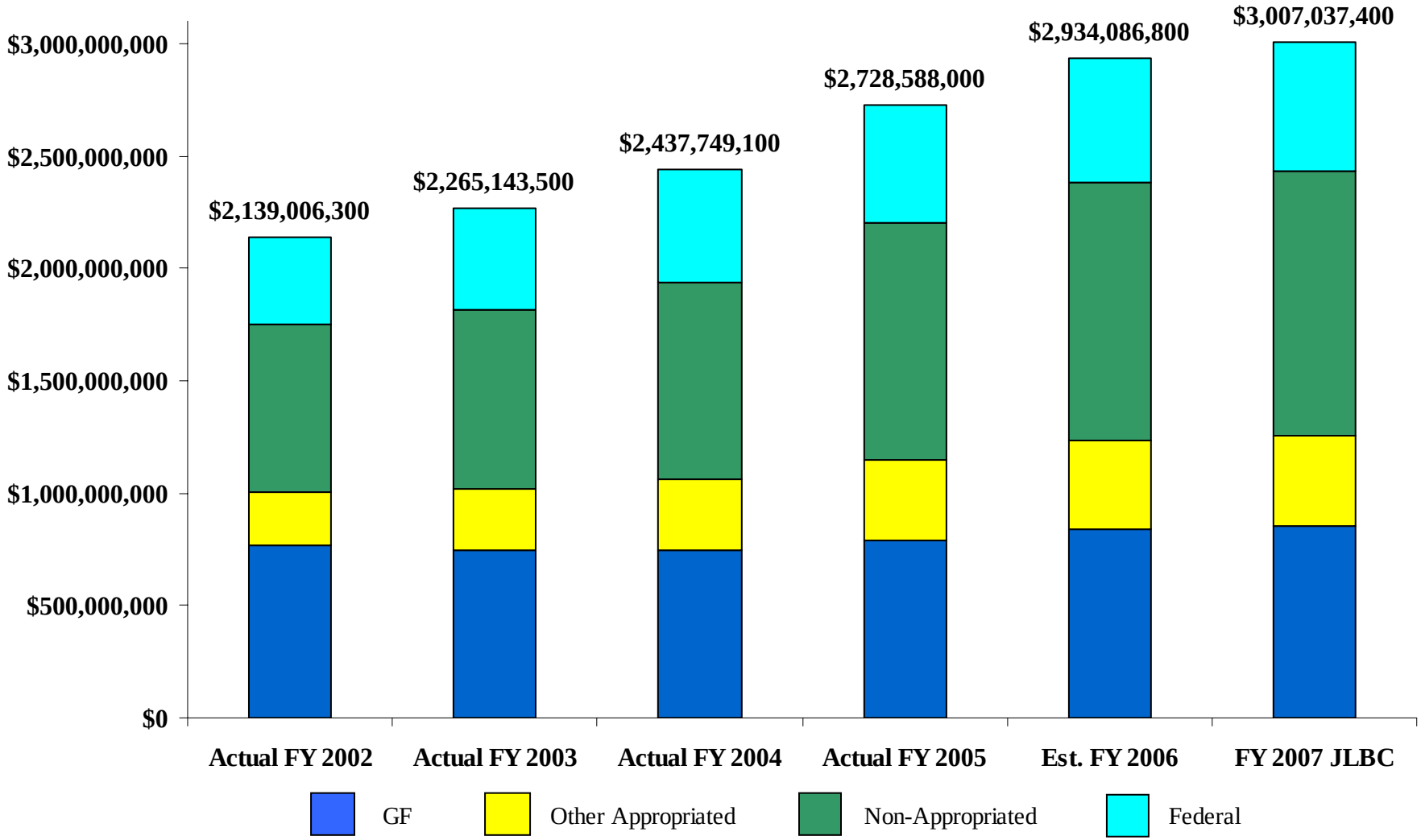


1/ Column not to scale.

2/ The JLBC also recommends a $0.7 M GF increase for 32 new WICHE subsidies to students of associated medical programs not offered by the state universities.

Arizona University System
FY 2007 Overall JLBC - Executive Comparison
General Fund *(in Millions)*




Arizona University System
(including Arizona Board of Regents)
Total Funds FY 2002 - FY 2007
$3,000,000,000
$2,500,000,000
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$0
$2,139,006,300
$2,265,143,500
$2,437,749,100
$2,728,588,000
$2,934,086,800
$3,007,037,400
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Community Colleges

FY 2007 State Funding
Changes from FY 2006

Operating State Aid — $4.2 M

- Formula reflects only FTSE growth of 4% (Declining districts held harmless)
- Formula FTSE total 120,064 (total FTSE used in FY 2007 formula)

Capital Outlay State Aid — $0.7 M

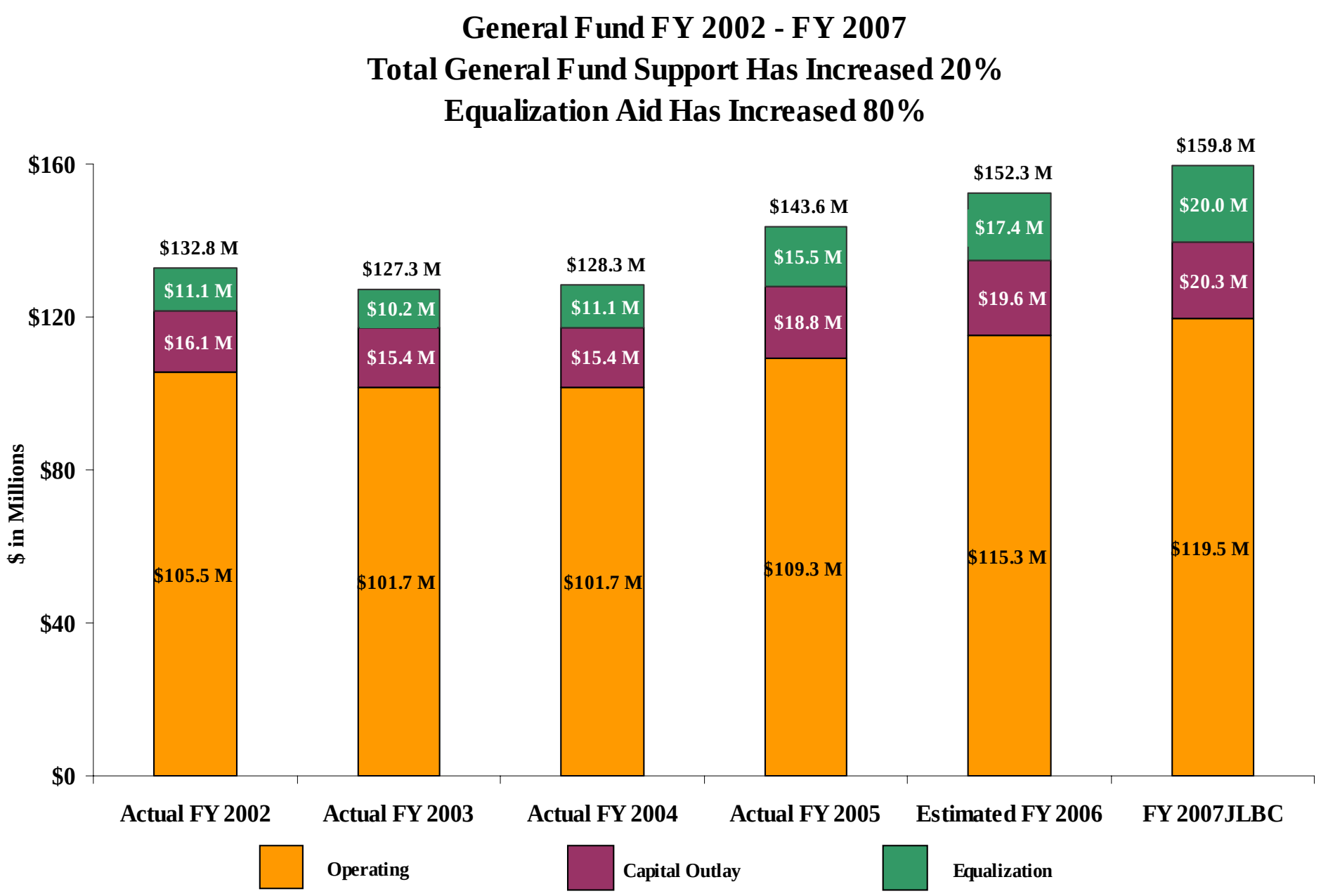
- Less than 5,000 FTSE = $210/FTSE
- More than 5,000 FTSE = $160/FTSE

Equalization Aid — $2.6 M

- Funding for districts with low property tax valuation

Tribal Colleges — $0

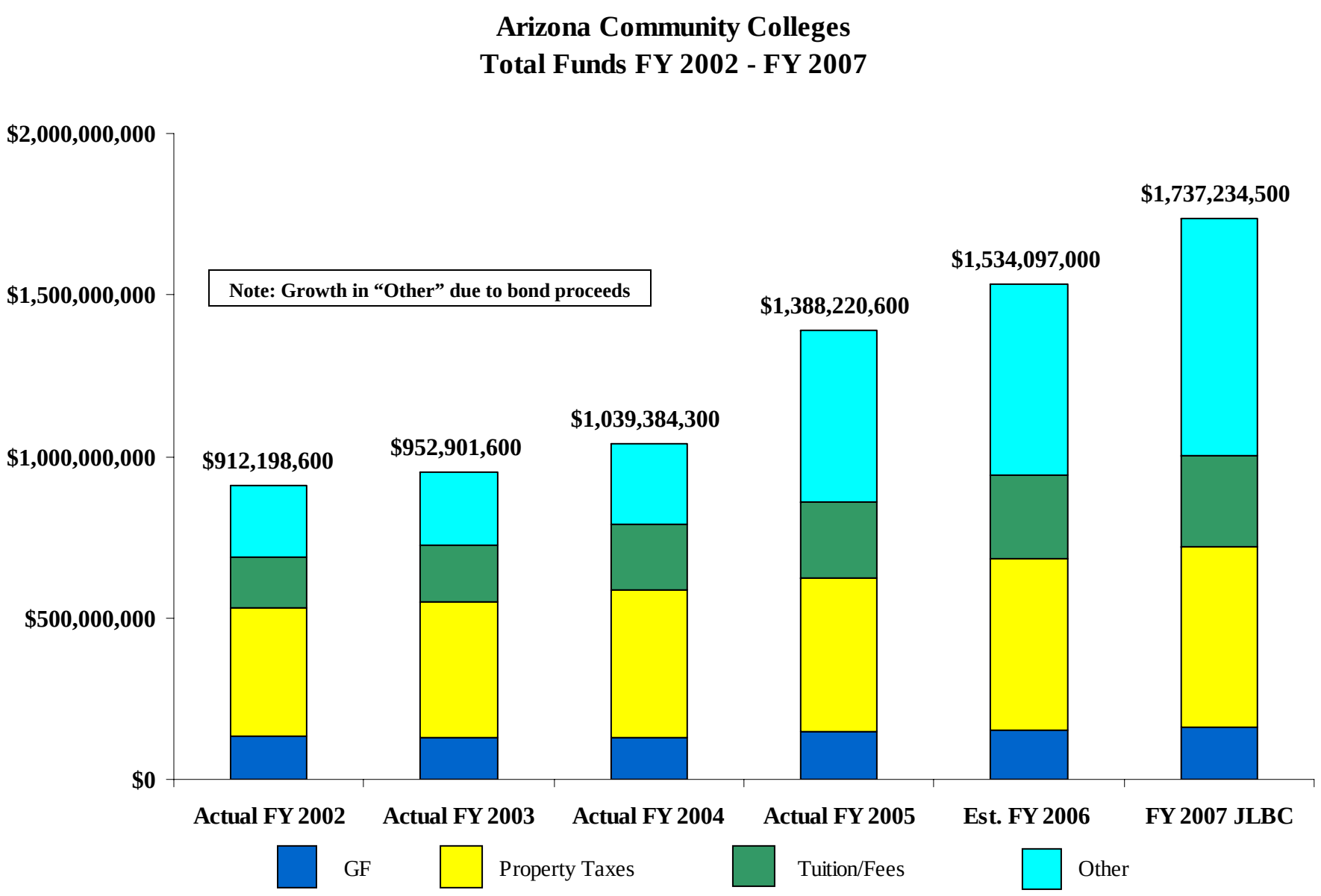
- Funding for capital and maintenance expenses
- Generated from sales tax revenues
- $1.75 M annual appropriation


General Fund FY 2002 - FY 2007
Total General Fund Support Has Increased 20%
Equalization Aid Has Increased 80%
$ in Millions
$160
$120
$80
$40
$0
$132.8 M
$11.1 M
$16.1 M
$105.5 M
$127.3 M
$10.2 M
$15.4 M
$101.7 M
$128.3 M
$11.1 M
$15.4 M
$101.7 M
$143.6 M
$15.5 M
$18.8 M
$109.3 M
$152.3 M
$17.4 M
$19.6 M
$115.3 M
$159.8 M
$20.0 M
$20.3 M
$119.5 M
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Estimated FY 2006
FY 2007JLBC
Operating
Capital Outlay
Equalization

Total Operating Funds FY 2007

(Excludes Bond Proceeds and Fund Balance)

Cochise	$	46,631,400
Coconino		20,973,900
Gila		3,520,300
Graham		33,195,100
Maricopa		844,944,500
Mohave		35,017,400
Navajo		29,329,400
Pima		181,356,400
Pinal		53,560,800
Yavapai		58,283,700
Yuma/La Paz		46,297,500
Total	$	1,353,110,400


Arizona Community Colleges
Total Funds FY 2002 - FY 2007
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$0
Note: Growth in "Other" due to bond proceeds
$912,198,600
$952,901,600
$1,039,384,300
$1,388,220,600
$1,534,097,000
$1,737,234,500
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Property Taxes
Tuition/Fees
Other

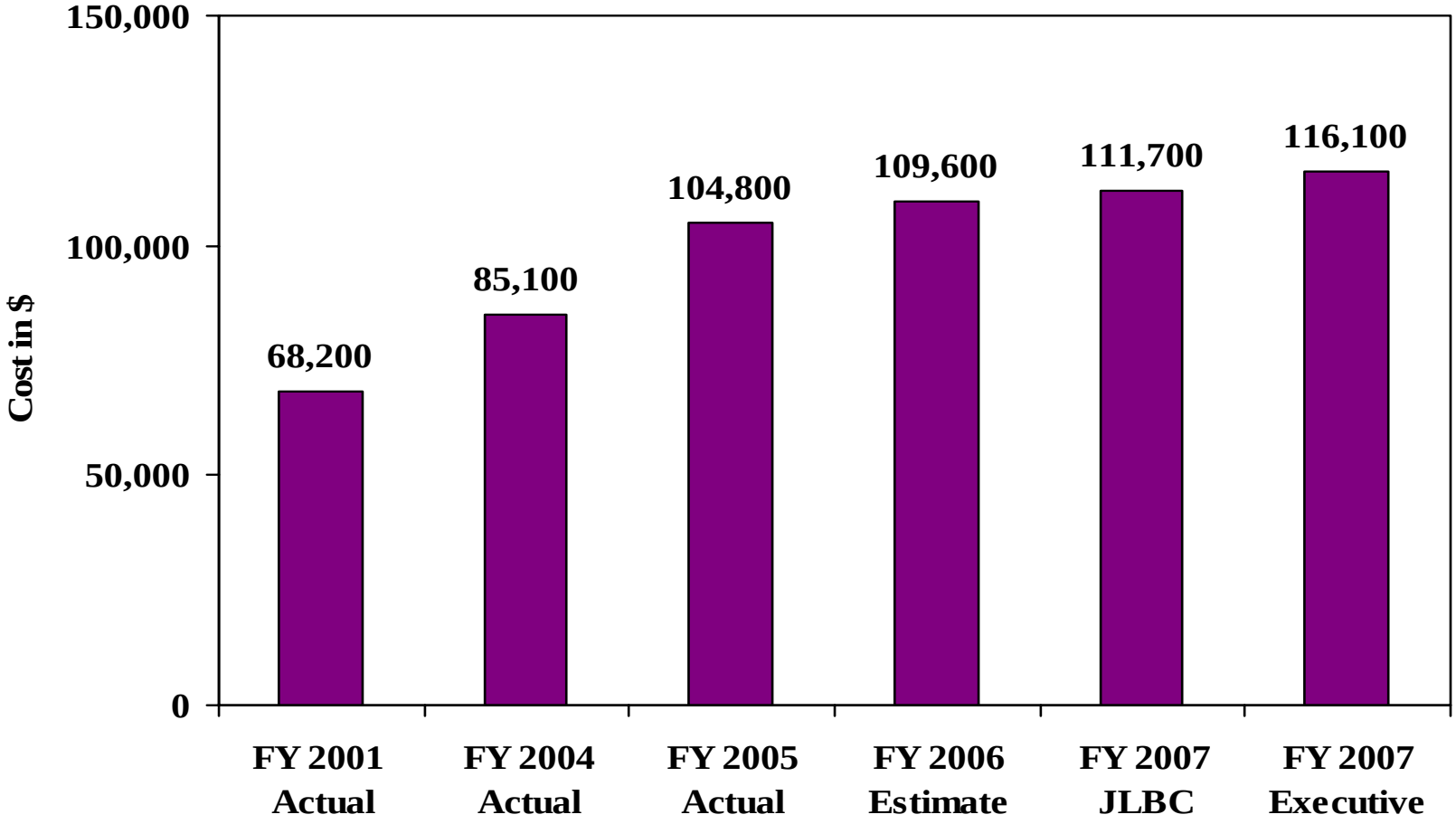
Department of Juvenile Corrections

JLBC baseline adds $1.3 M for Population Growth, while Executive adds $1.1 M

- Current Funded Beds: 623
- Current 6-month average: 641
  - Population ranged between 611 and 665
- FY 2007 JLBC: 671
- FY 2007 Executive: 655

DJC Cost Per Bed 1/

(Includes appropriated, non-appropriated and federal monies)



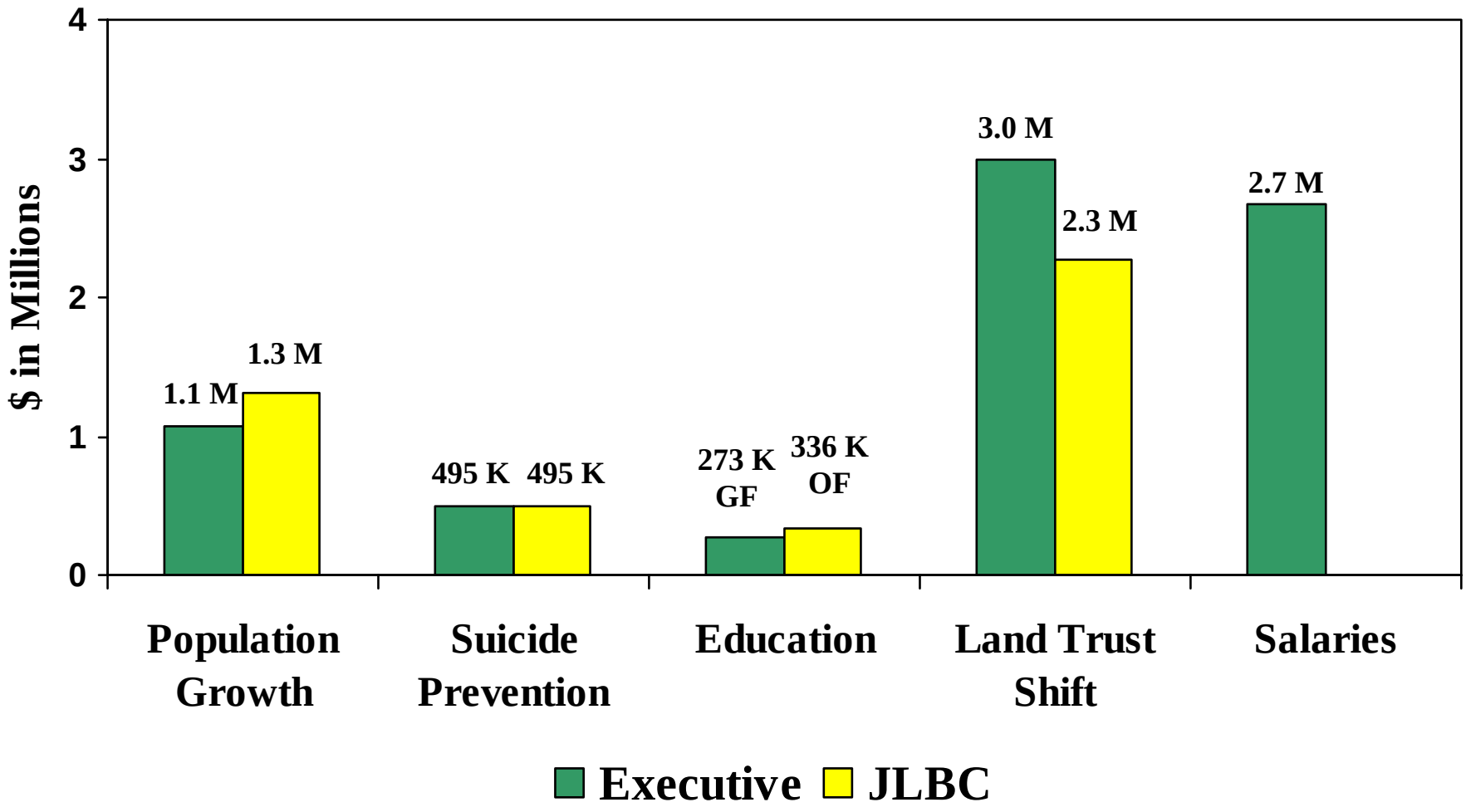
1/ Average length of stay is 9 months, therefore graph represents actual cost per bed not per juvenile.

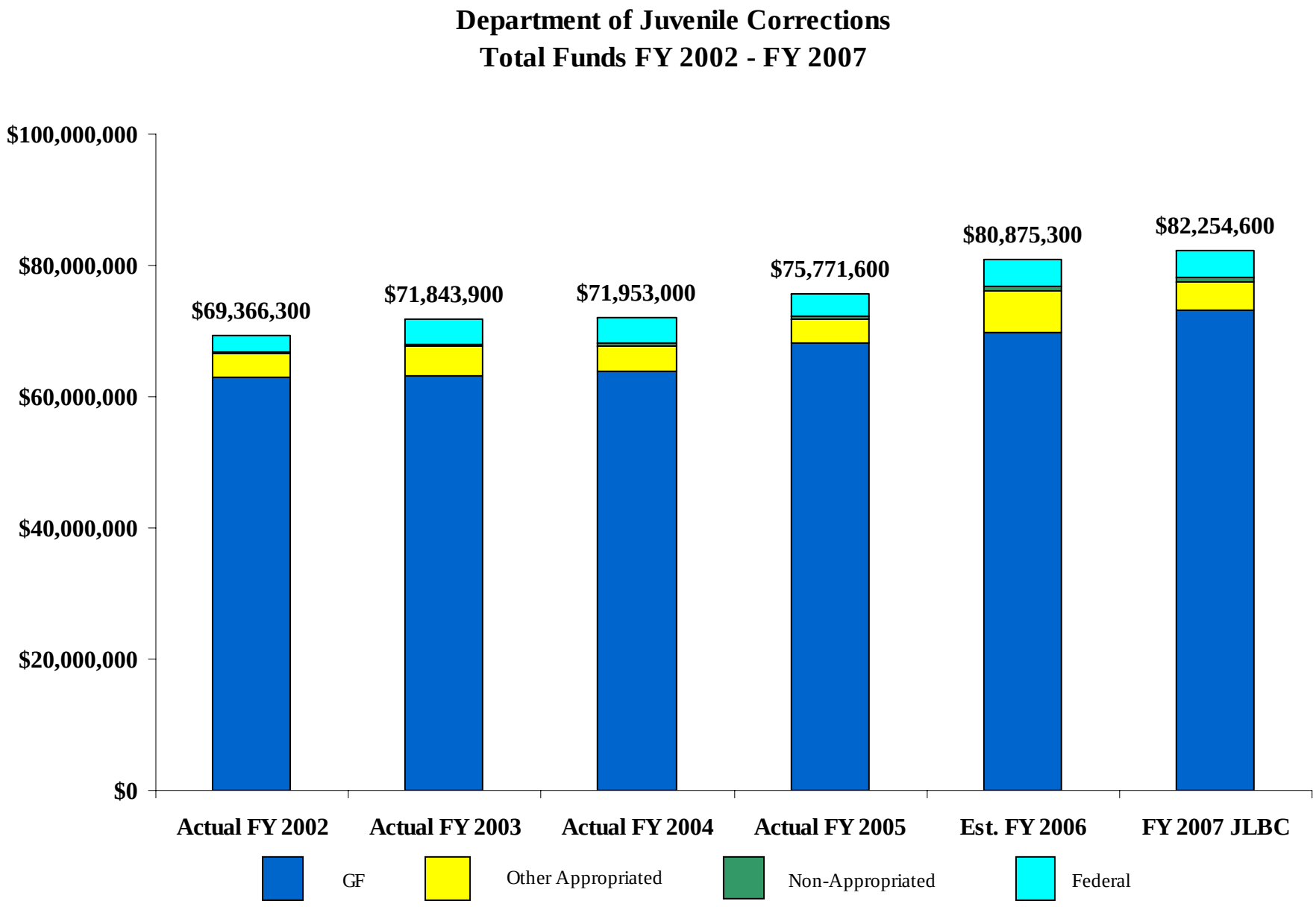
CRIPA

(Civil Rights of Institutionalized Persons Act)

- In 2003, a federal audit and civil rights lawsuit was initiated due to 3 youth suicides and reports of physical and sexual abuse.
- On September 15, 2004, the Governor signed an agreement with the Department of Justice, which is valid for 3 years. This agreement did not specify staff or funding requirements.
- In FY 2007, JLBC baseline retains $10.6 million in ongoing CRIPA monies.
- The latest Consultant's Report recommends additional suicide prevention measure and education staff.
- JLBC Recommendation provides $495,000 GF to complete suicide renovations and $336,800 OF for education staff.

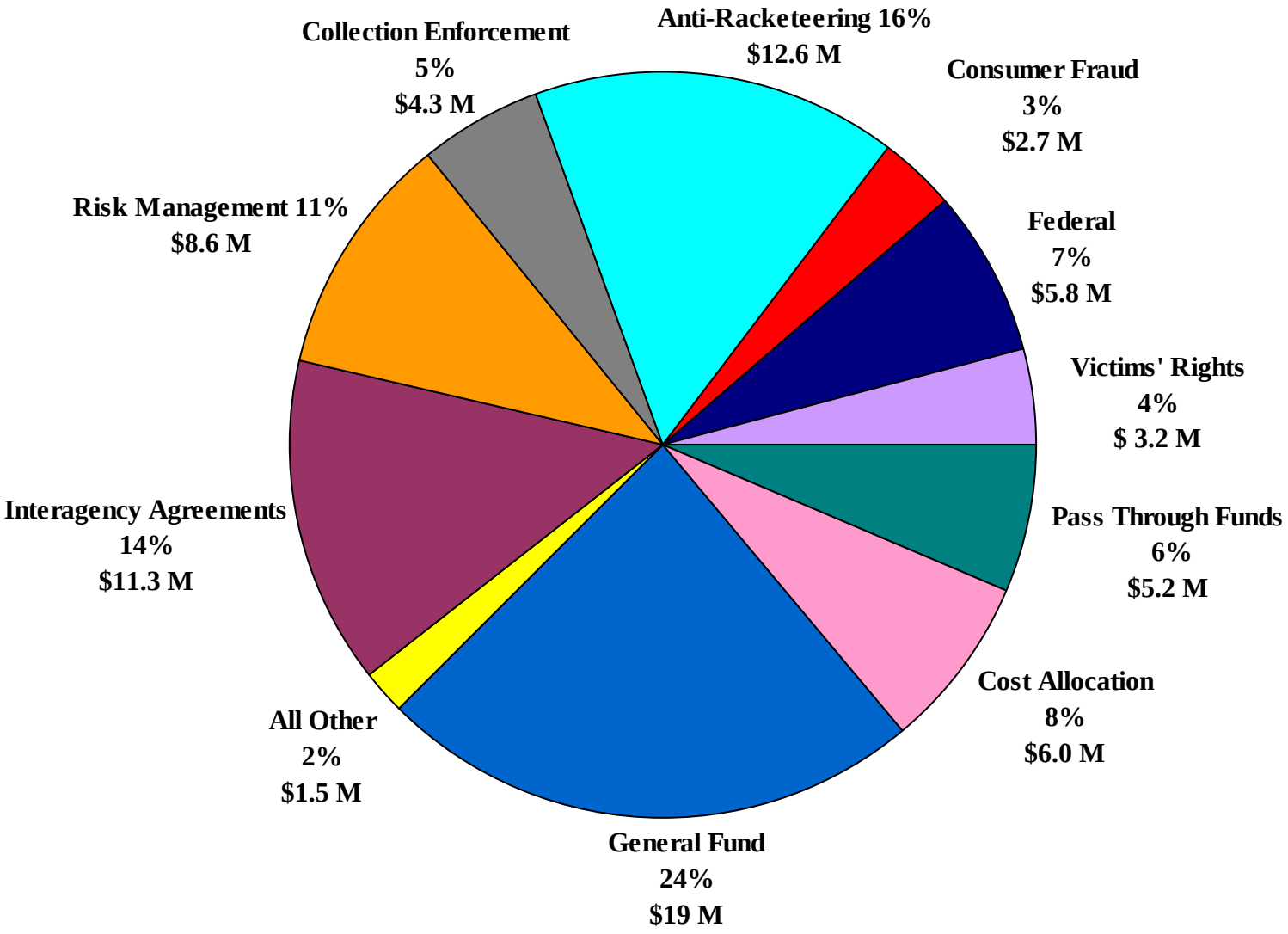
JLBC/Executive
General Fund Comparison



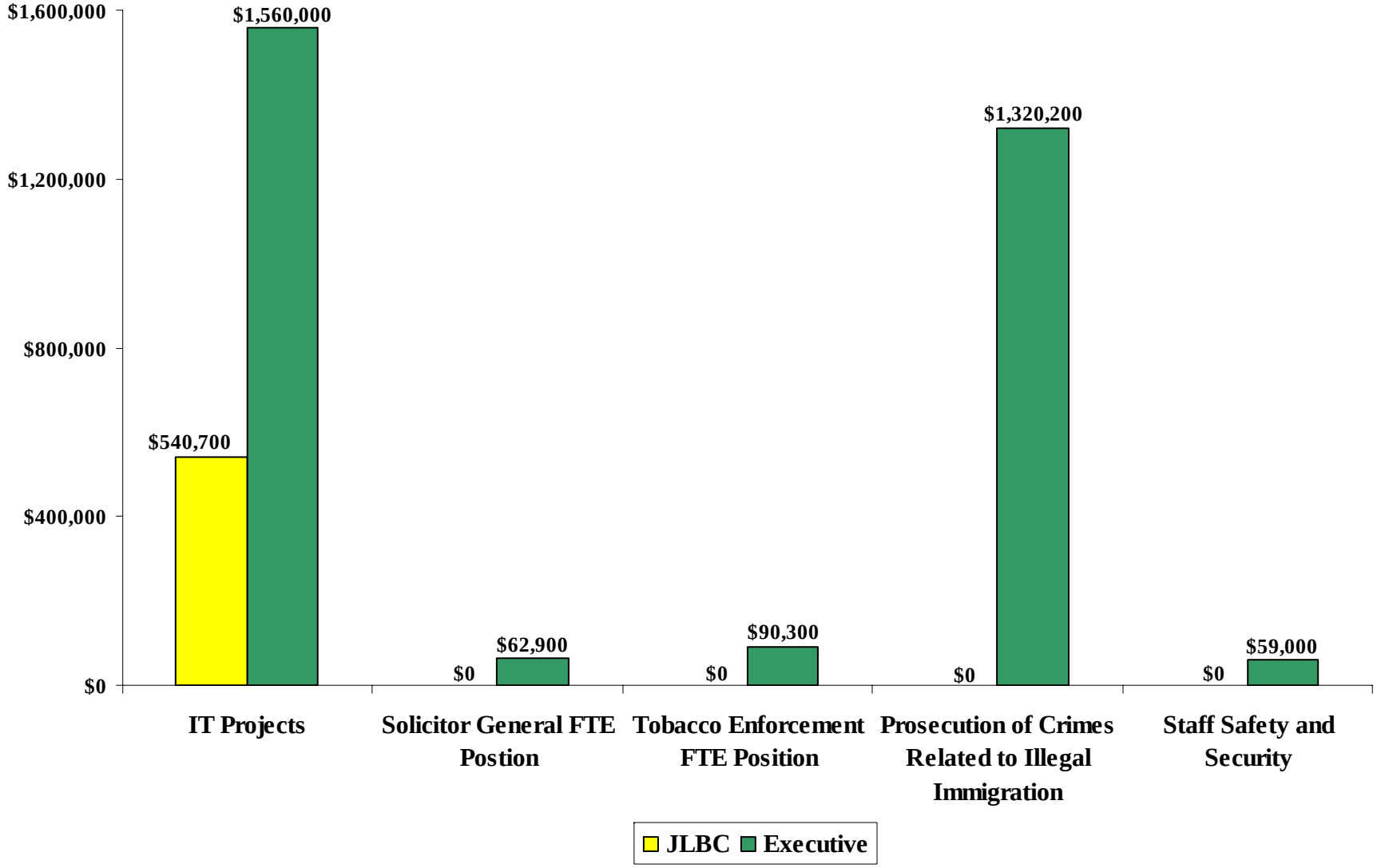

Department of Juvenile Corrections
Total Funds FY 2002 - FY 2007
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$0
$69,366,300
$71,843,900
$71,953,000
$75,771,600
$80,875,300
$82,254,600
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Attorney General

Attorney General
Sources of Funding in FY 2007



Attorney General - Department of Law
FY 2007 Comparison of GF Recommendations



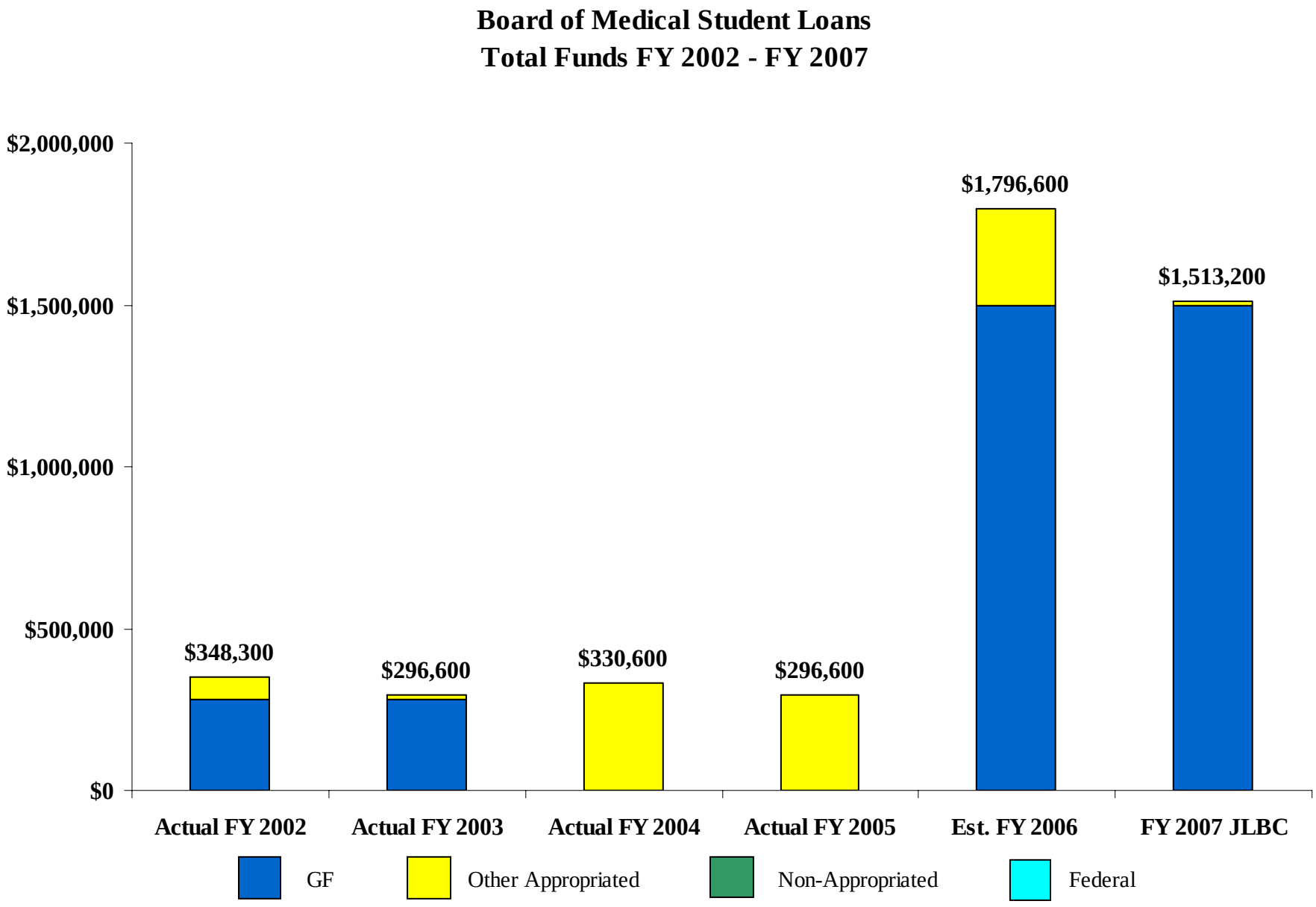
Pro Rata Charge

- Shifts the cost of non-contracted AG legal services to client agencies
- Applies a pro rata charge of 0.62% to each client agency's Personal Services for both General and Other Funds
- The AG's appropriation is reduced by $(6) M GF and increased by $6 M OF
- Holds client agencies harmless by increasing their appropriations by the amount of their charge. For example, General Fund agencies will receive $3.9 M to pay their charges
- Net General Fund statewide savings equal $2.1 M

Board of Medical Student Loans

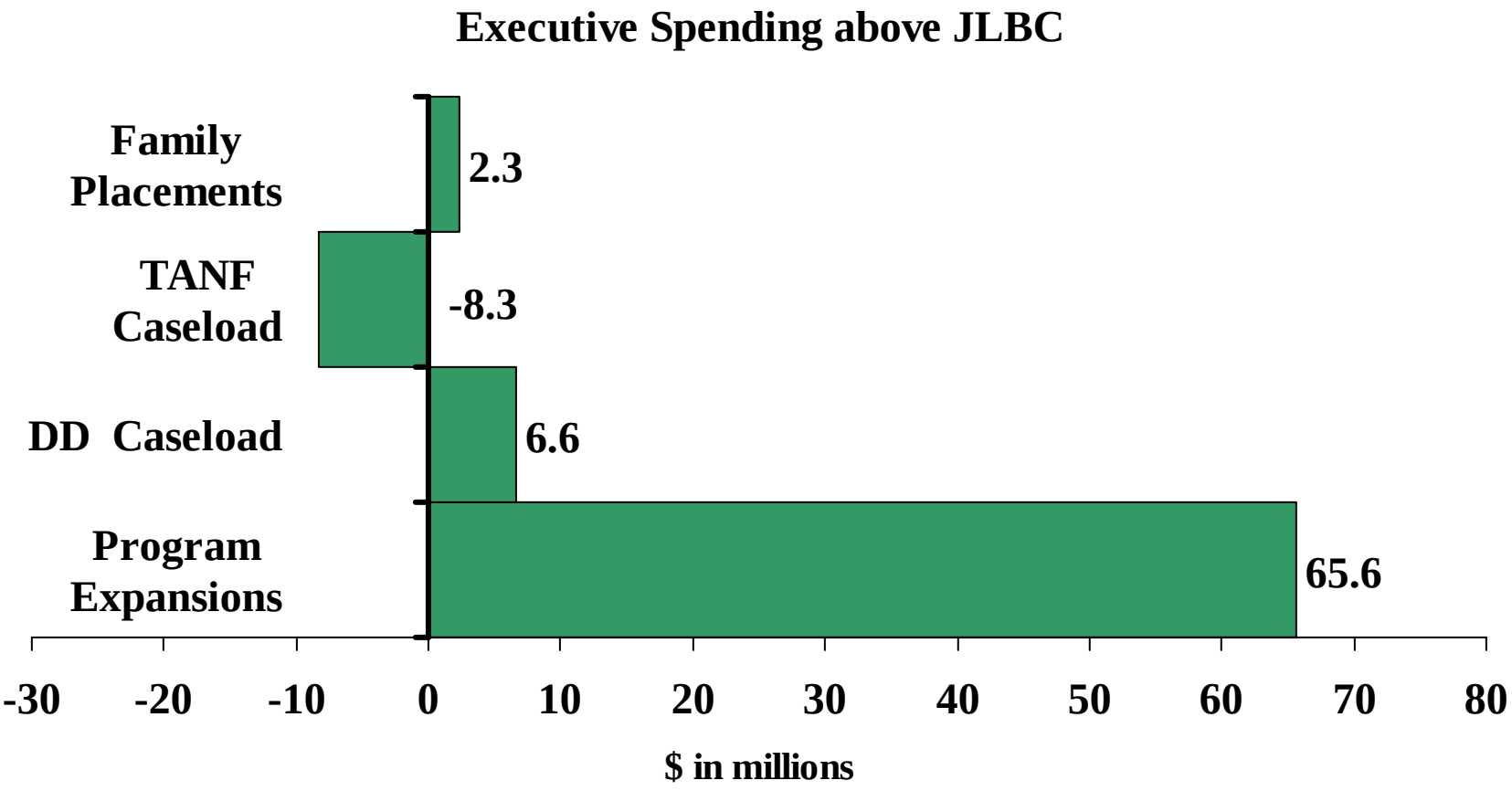
Differences Between the Loan and Scholarship Program

Criteria	Medical Student Loan Program	Medical Student Scholarship Program
Selection Process	• Arizona Resident • All students attending state public and private medical institutions	• Arizona Resident • All students attending state public and private medical institutions • 1st Year Requirement
Student Preference	• Financially Needy	• Extracurricular/academic Merit • Preference given to those seeking an Arizona residency
Award Amount	• UA $32,717 • Midwestern $56,063	• UA $32,057 • Midwestern $55,403
Awardees in FY 2007	• 8	• 22
Tax Implications	• Loan not taxable as income	• Living allowance taxable as income

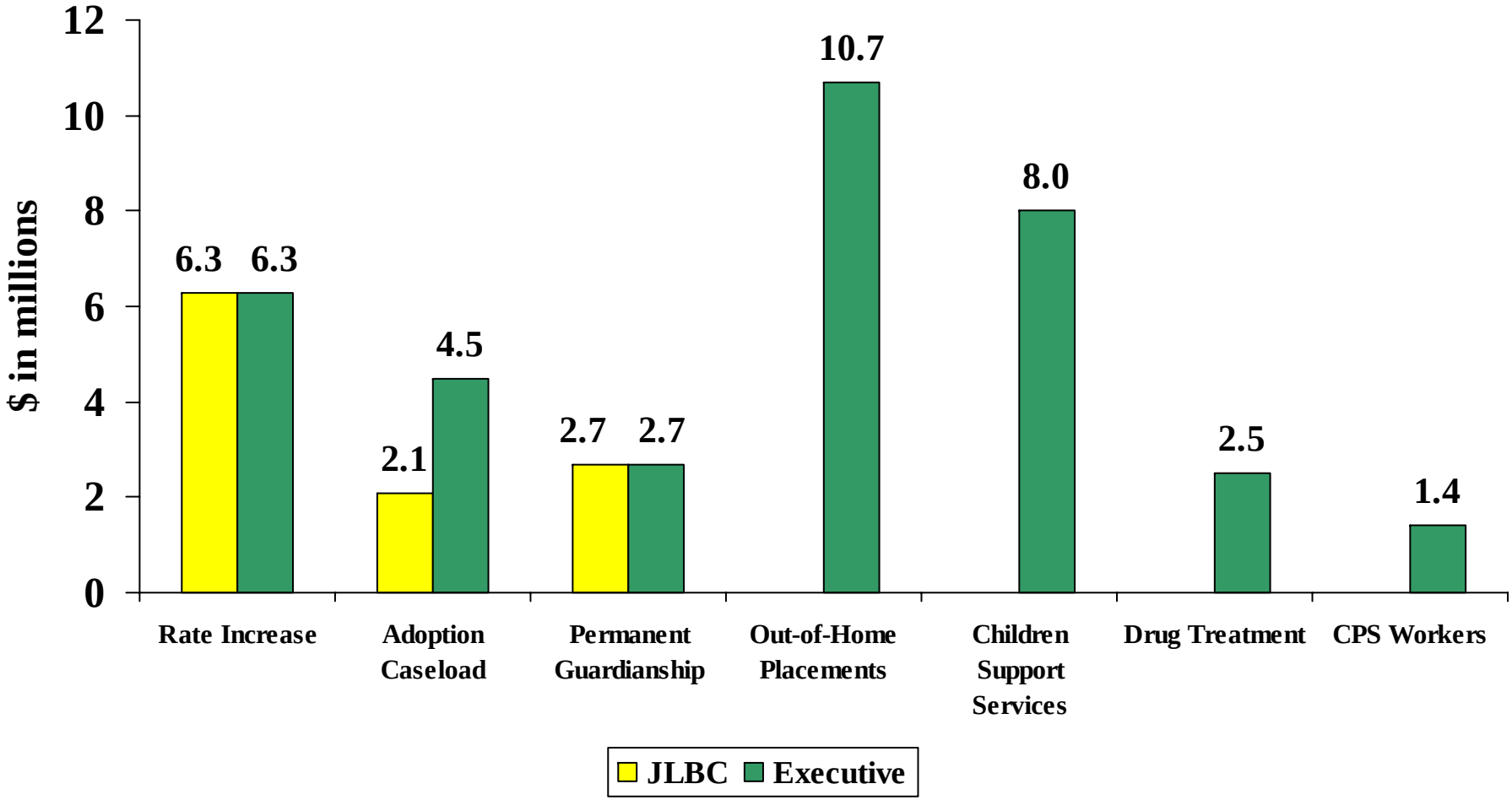

Board of Medical Student Loans
Total Funds FY 2002 - FY 2007
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
$348,300
$296,600
$330,600
$296,600
$1,796,600
$1,513,200
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Department of Economic Security

The JLBC Baseline adds $32 M GF for caseloads while the Executive adds $98 M GF for growth and program expansions



JLBC Baseline adds $11 M GF for growth in CPS permanent placements. The Executive recommends $37 M GF for growth and program expansions



DES plans to reduce expensive congregate care placements

-But Executive adds $7 M for additional congregate placements

- DES presented a plan which would reduce the following measures to 0 by FY 2007:

	As of March '05
Children in shelter care beyond 21 days	1,127
Children under 3 in shelter care	108
Children under 6 in group homes	154

- JLBC and Executive recommendations include incentives to increase family placements.
- Executive also includes $7.3 M for higher cost congregate placements, despite the planned reduction in these placements.

The JLBC budget provides increased Legislative oversight of the DCYF Budget

- Adds goals from “Blueprint” as performance measures to track CPS progress in meeting goals of reducing high-cost congregate care placements
- Requires JLBC approval for transfers into or out of the following line items:
  - Children Support Services
  - CPS Emergency Placements
  - CPS Residential Placements
  - Foster Care Placements
- Monitor potential loss of federal foster care monies due to new federal restrictions and time limits.

Federal TANF Block Grant has $(11)M shortfall in FY 2007

-- On-going expenditures exceed revenues by $13.2 M

--Declines in the TANF cash caseload may lessen shortfall

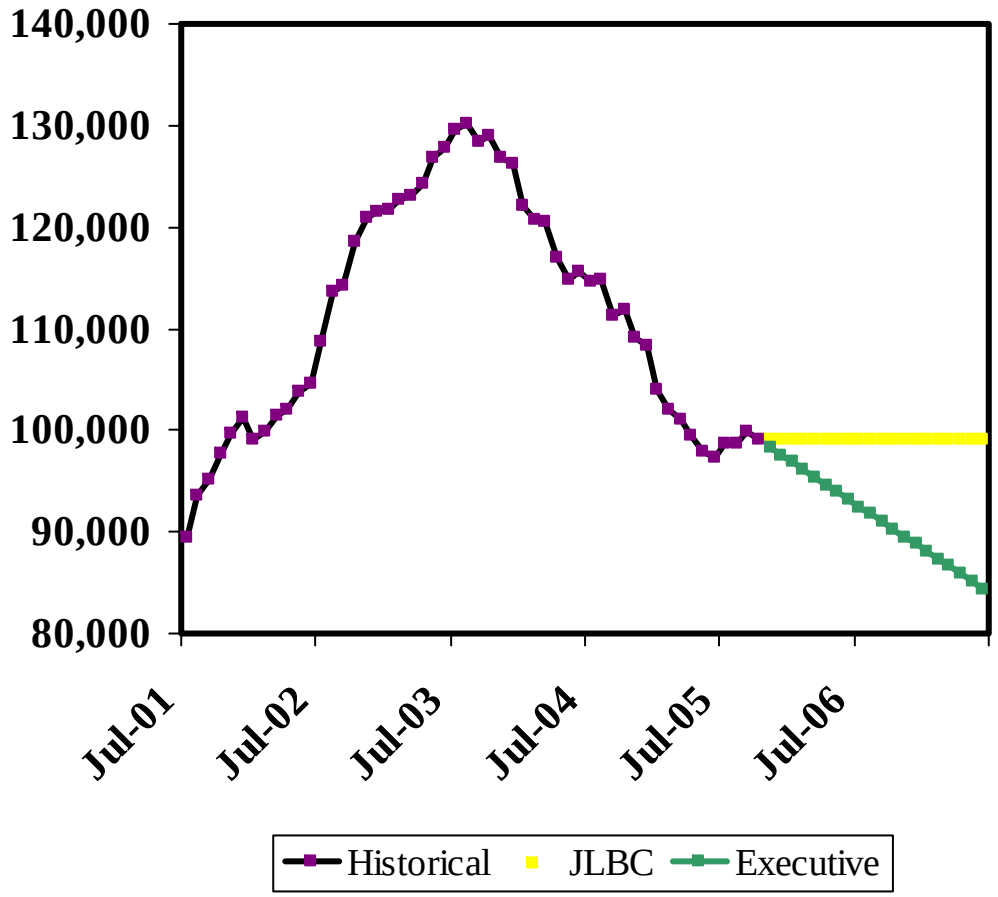
-- Executive solves FY 2007 shortfall with a "roll-forward," but structural imbalance remains

($ in millions)

	JLBC	Executive
Beginning Balance	2.1	2.1
Base Revenues	226.6	226.6
FY 07 "Roll-Forward"	0.0	11.3
Total Revenues	228.7	240.0
FY 07 Expenditures	239.8	237.8
Ending Balance	(11.1)	2.3

TANF caseload declined 14% in FY 2005, then stabilized in the beginning of FY 2006.

- JLBC assumes 100K recipients while the Executive funds 93K.
- Executive takes $8 M in GF savings.
- If GF savings are taken, then TANF program cuts or a “roll-forward” are needed.
- New Federal TANF work requirements may lead to penalties.



Executive adds $17.3 M in Child Care Funding

- The Executive adds $6.3 M to fund caseload at an average of 52,200 children per month, or an estimated 12% increase.
  - The JLBC has level funding and would cover 46,700 clients, while forecasting an average demand of 49,800 children in FY 07, or caseload growth of 4.6%.
  - YTD FY 06 average caseload growth is 4%.
  - The Federal CCDF Block Grant allocation to the state is expected to increase, pursuant to federal legislation.
- The Executive also recommends increasing the provider reimbursement rate, at a cost of $7.9 M.
- The Executive adds $1.9 M for 30 new caseworkers in the child care program, and $1.3 M to backfill a CCDF shortfall.

The JLBC budget includes $19.1 M GF in Long Term Care formula growth

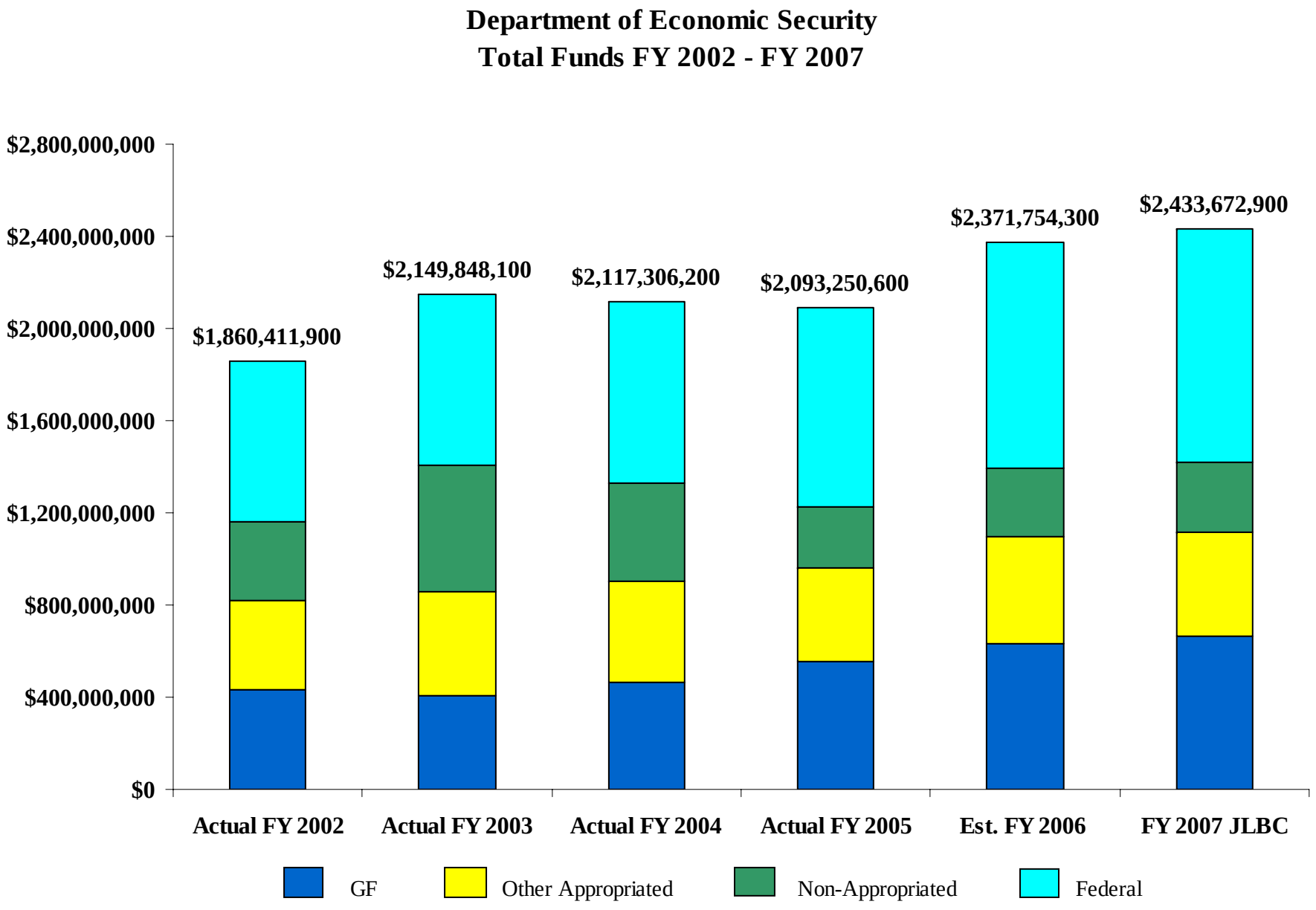
- DD Long Term Care Caseload Projected to Grow 6.5%
  - Due to a technical error, JLBC recommendation understates growth by $1.4 M
  - Total caseload projected to reach 19,100 by June ’07
  - The Executive projects caseload at 18,900, or 5.3% growth
- Capitation Rates are Projected to Grow 3.0%
  - The Executive projects 3.4% growth
  - JLBC holds total administrative dollars constant at FY 2005 levels
- JLBC provides $1.5 M for provider rate increases, based on the reallocation of savings
  - The Executive budget includes $7.8 M for rate increases

The Executive adds $14.9 M GF in Aging and Community Services Programs

	$ in M
Senior Services	8.6
Adult Protective Services (30 FTE's)	1.5
Domestic Violence Funding	2.8
Homeless Services	1.5
Emergency Services	0.5
Total	14.9

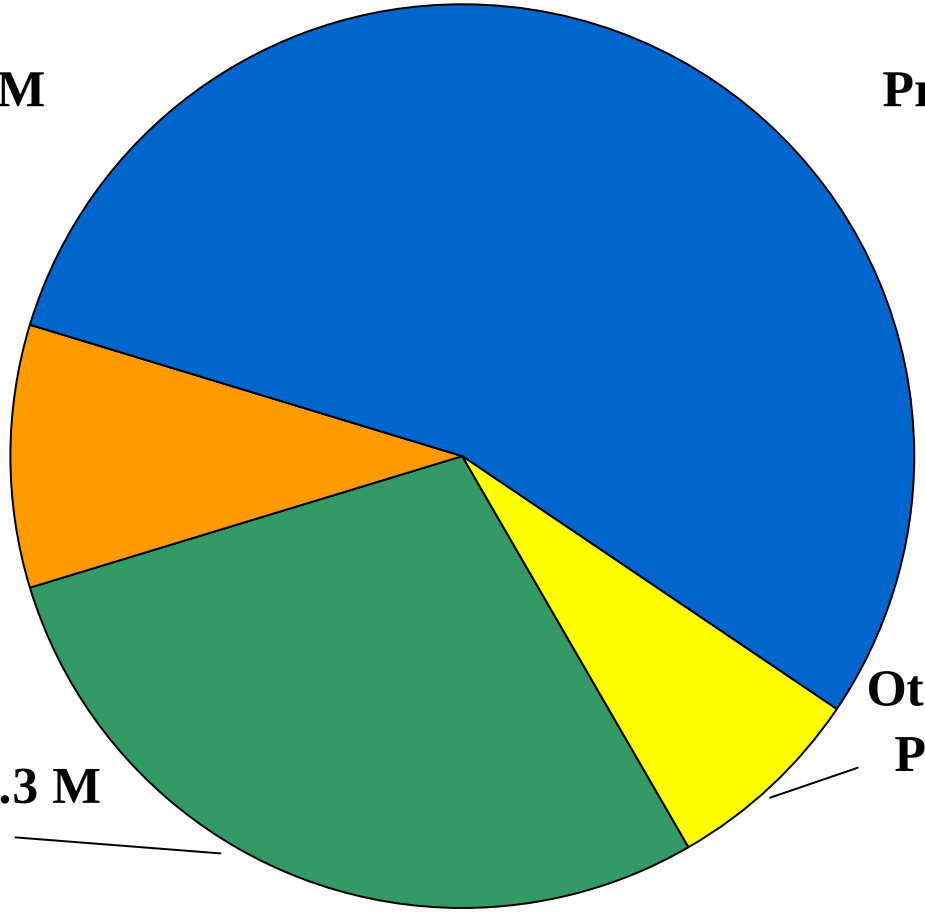
Other Issues

- Federal changes in the match requirements for Child Support Enforcement could require an additional $3.6 M in state funds, which is in neither the JLBC baseline nor the Executive proposal.
- The Executive recommendation also includes:
  - $2.3 M for IT related issues, including a replacement schedule for desktop computers and servers.
  - $2.9 M to maximize the federal match for Vocational Rehabilitation
  - $1.0 M to reinstate funding for the Summer Youth Employment and Training program, which was eliminated in FY 2006.


Department of Economic Security
Total Funds FY 2002 - FY 2007
$2,800,000,000
$2,400,000,000
$2,000,000,000
$1,600,000,000
$1,200,000,000
$800,000,000
$400,000,000
$0
$1,860,411,900
$2,149,848,100
$2,117,306,200
$2,093,250,600
$2,371,754,300
$2,433,672,900
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Judiciary

FY 2007 Judiciary Appropriated Funding = $157.8 M



Automation: $14.8 M
- JCEF $10.0 M
- Def Driving $4.8 M

Probation: $84.5 M
- Adult $25.6 M
- Juv $58.9 M

Other Court Programs: $14.2 M
- State Aid $6.0 M
- CASA $2.9 M
- FCRB $2.3 M
- Drug Court $1.0 M
- Other $2.0 M

Judges/Admin.: $44.3 M
- Supreme $15.1 M
- COA $12.4 M
- Superior $16.8 M

FY 2007 Judiciary Policy Issues

Changes Above/Below '06 Base

	GF	OF
• Judicial Salary Increase (Enacted)	$942 K	--
• General Fund Backfill (CASA)	$102 K	$(102) K
• Annualize Court of Appeals Staff	$117 K	--
• Rent Reallocation	$291 K	(392) K
• Drug Court (Enacted)	$1.0 M	--
• 3 Superior Court Judgeships	$266 K	--
	$2.7 M	$(494) K

Judicial Salary Increase

- FY 2007 Total Cost: $941,600
- ‘07 salary adjustment of 12.5% enacted last session
- Increase will begin January 1, 2007
- Will require another $941,600 to annualize in FY 2008

	Current Salary	New Salary
Chief Justice (1)	$129,150	$145,294
Associate Justices (4)	126,525	142,341
Appellate Judges (22)	123,900	139,388
Superior Court Judges (161)	120,750	135,844

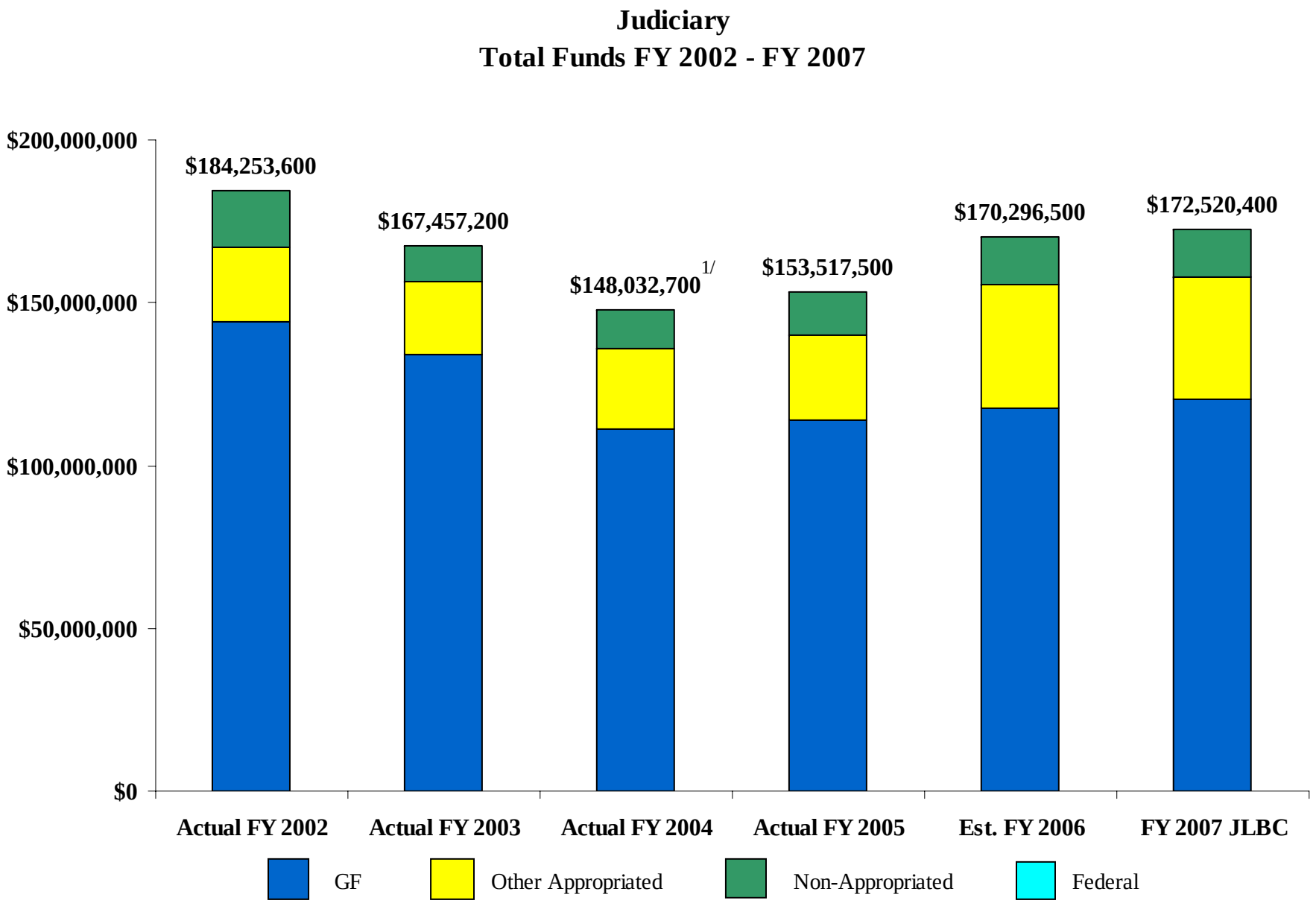
Enhanced Legislative Oversight

- Foster Care Review Board Federal Reimbursements – JLBC review of intended use prior to expenditure
- Drug Courts – JLBC review of $1 M provided for juvenile and adult drug courts
- $5 Probation Surcharge – Distribute back to counties for probation funding

JLBC Baseline Retains Current Probation Funding

– Funding Sufficient to Meet or Exceed All Statutory Ratios

Category	Ave. FY07 Caseload	Adjusted Statutory Ratio	Actual Ratio
Adult Standard	12,996	59:1	58:1
Adult Intensive	1,650	24:2	24:2
Juvenile Standard	7,198	33:1	27:1
Juvenile Intensive	1,335	24:2	17:2



1/ The FY 2004 decrease reflects the shift of Adult Probation programs to Maricopa County.

Department of Environmental Quality

Executive FY 2007 Air Quality Recommended Increases

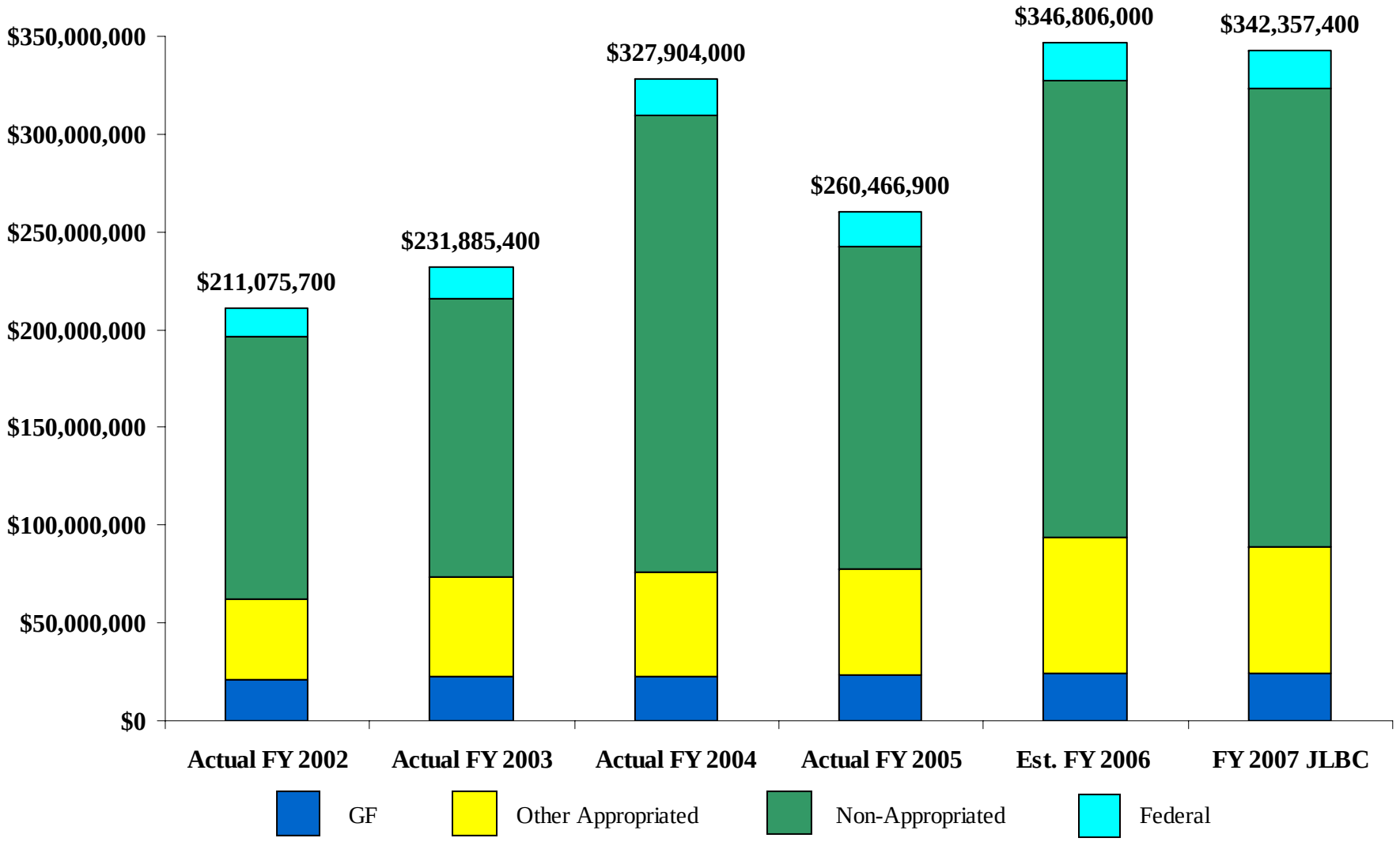
- Hazardous Air Emergency Response
  - $161,000 from the Air Quality Fund and 2 FTE's
- Children's Respiratory Disease Database
  - $220,000 from the Air Quality Fund and 1 FTE
- Air Quality Permit Staffing
  - $123,000 from the Air Quality Fund and 2 FTE's
- DEQ has requested restoration of funding to the Air Quality Fund. JLBC staff is working with the department to resolve this issue.

Executive FY 2007 Waste Division Recommended Increases

- Hazardous Waste Program
  - $500,000 increase from the General Fund.
  - The JLBC recommends a $500,000 GF transfer from the department's administrative budget, which would be backfilled by unused Indirect Cost Recovery Funds.
- Hazardous Waste Border Inspections
  - $275,000 from the General Fund and 3 FTE's
- Water Quality Assurance Revolving Fund
  - $4.0 M from the General Fund
- Solid Waste Inspectors
  - $127,000 from the General Fund and 2 FTE's
- The JLBC recommends a new footnote to revert funds allocated to the Arizona Pollution Discharge Elimination System if the authority to administer this program is returned to the EPA.

Executive FY 2007 Water Division Recommended Increases

- Rural Water Supply Development
  - $15.0 M from the General Fund
- Water Permitting Program
  - $200,000 from the Water Quality Fee Fund and $200,000 from the General Fund.
  - The Water Quality Fee Fund does not have sufficient funding to support the Executive recommendation.
- Safe Drinking Water Compliance Assistance
  - $216,000 from the General Fund
- Clean Colorado River Alliance
  - $120,000 from the General Fund


Department of Environmental Quality
Total Funds FY 2002 - FY 2007
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
$211,075,700
$231,885,400
$327,904,000
$260,466,900
$346,806,000
$342,357,400
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Est. FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal

Department of Water Resources

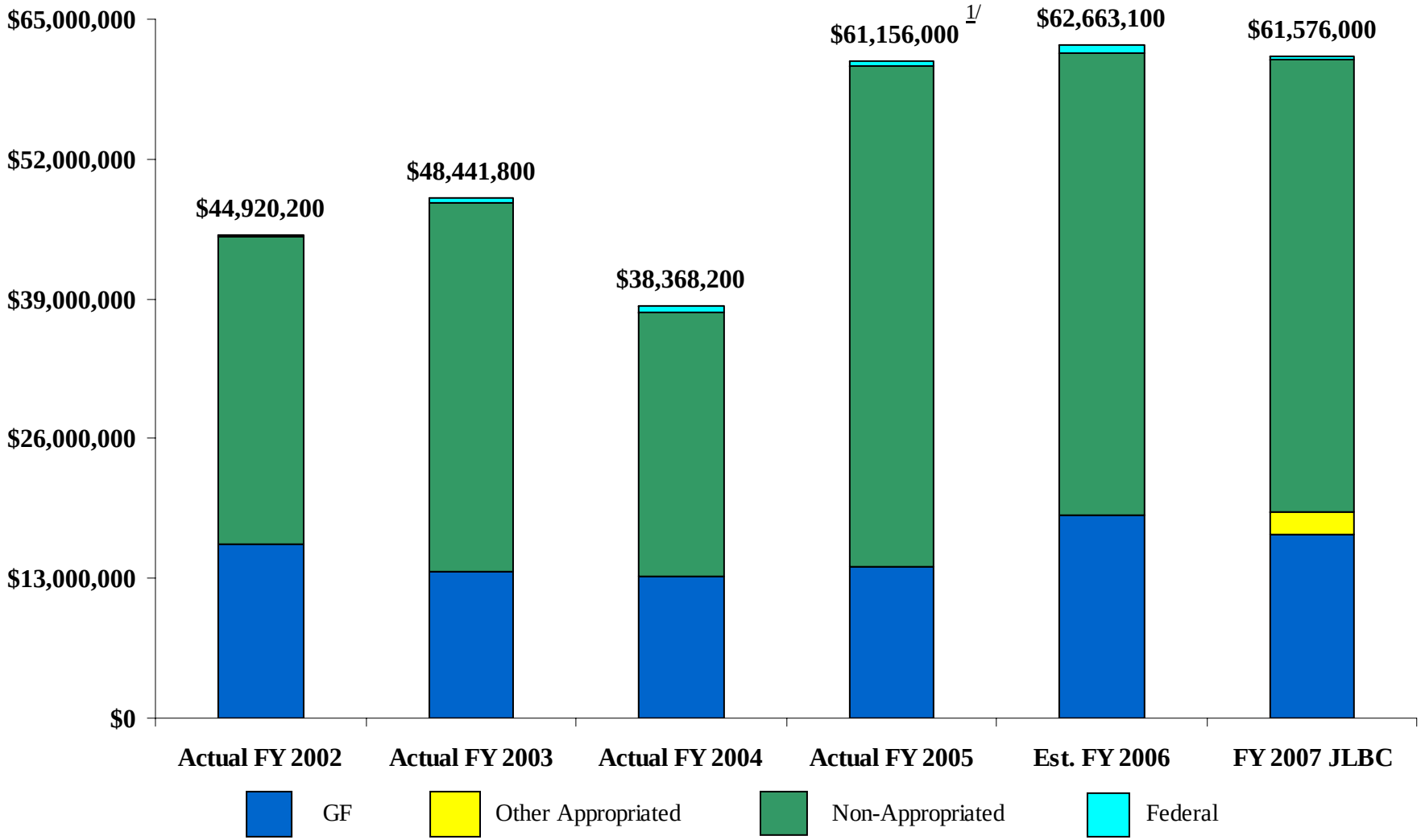
With DWR's Higher Water Supply Fees, Permitting Program Can Be Shifted to New Fund

- All developers must receive a permit.
- '05 legislation allows department to retain fees.
- New fee structure will generate $2 M. JLBC would reduce existing GF by $1.7 M.
- While Executive proposed this shift last year, recommendation was not included this year.
  - Will free up monies for other department activities.

Executive Proposes to Add General Fund to the Water Protection Fund for the First Time Since ‘99

- Appropriation was established in statute in 1994.
- Monies are used for the protection and restoration of rivers, streams, and associated riparian habitats.
- Fund sources also include Central Arizona Project fees which totaled $1.6 M in ’05.
- If funded, JLBC recommends DWR report on how WPF projects differ from other state riparian efforts (like the Heritage Fund).

Department of Water Resources
Total Funds FY 2002 - FY 2007



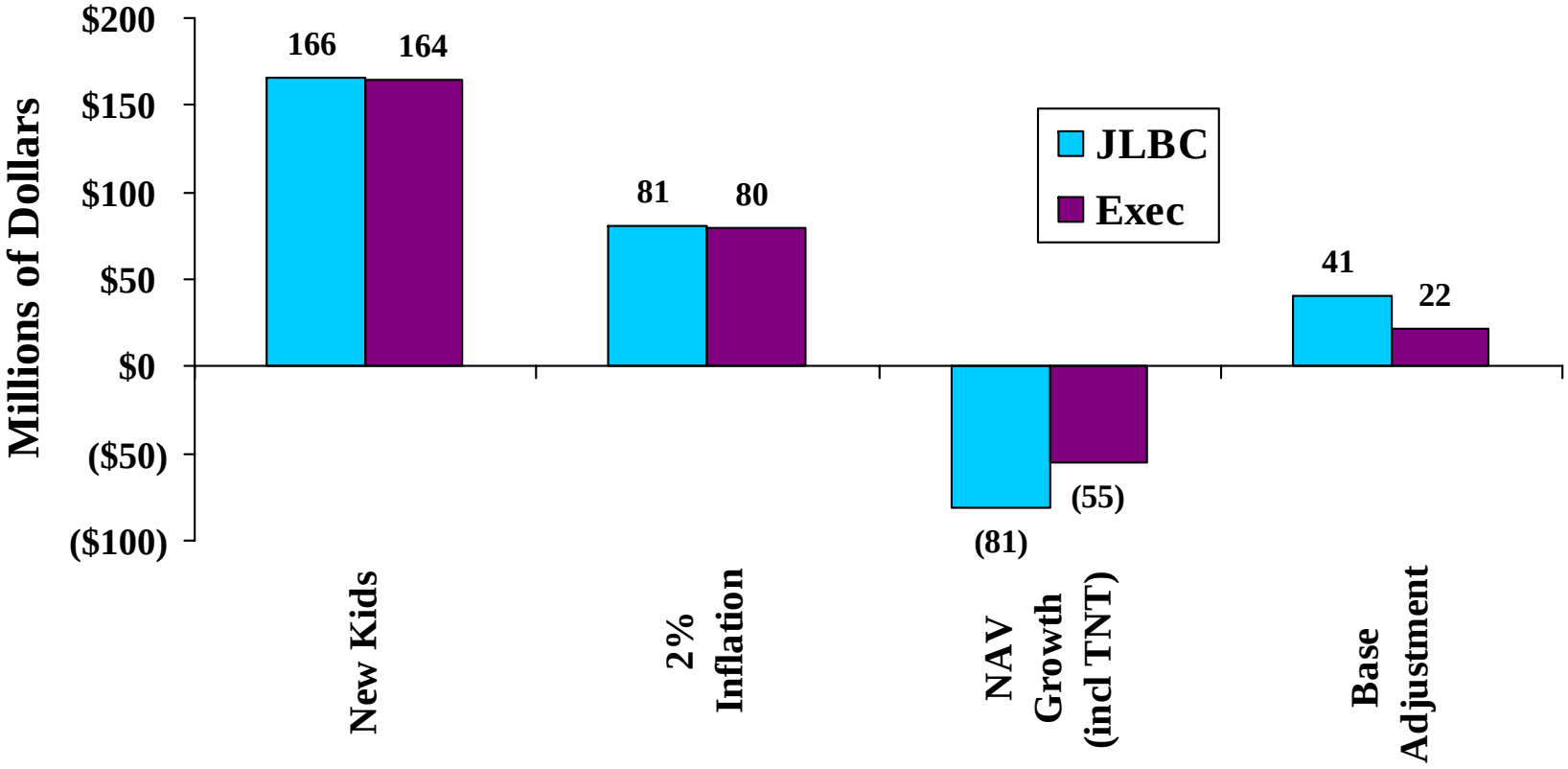
1/ The increase between FY 2004 and FY 2005 is due primarily to non-operating budget expenditures, particularly expenditures pursuant to the Nevada interstate water banking agreement.

Department of Education

FY 2007 Budget

Comparison of JLBC Baseline - Executive Budget
K-12 Formula Estimates

--JLBC Baseline Adds $225 M GF in ’07 for Statutory Formulas
--Excludes Program Expansions or Reductions

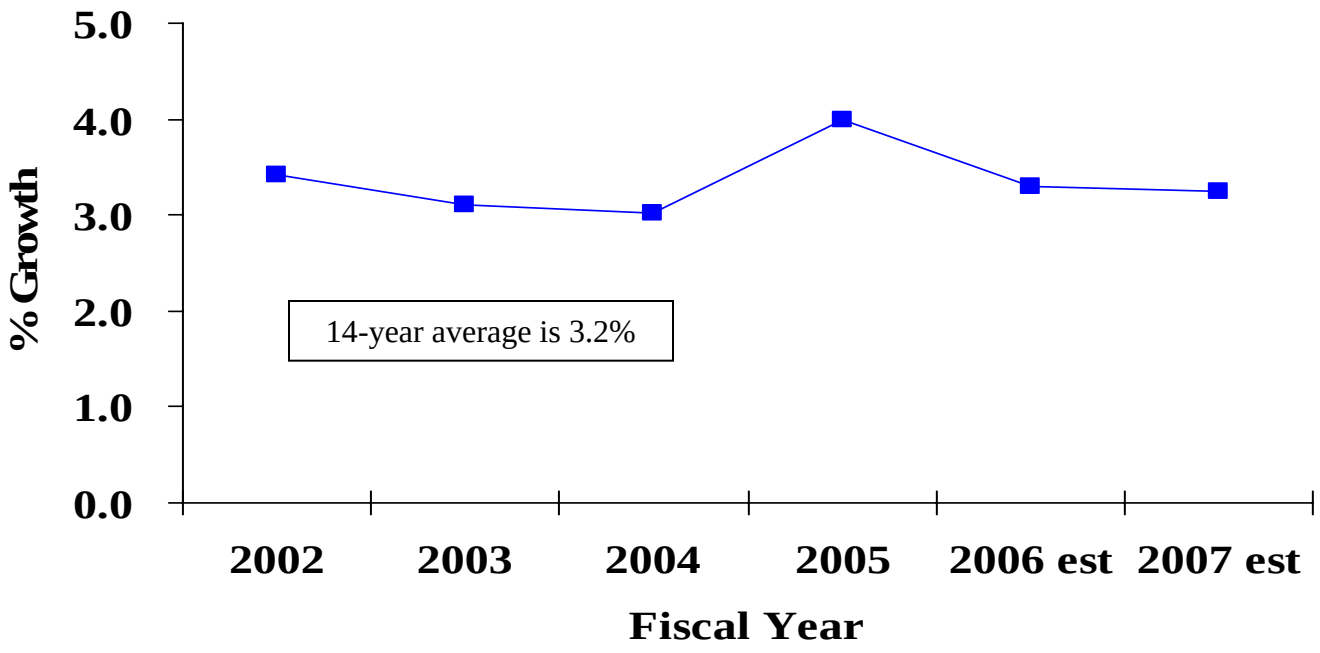


JLBC Baseline Has 3.25% Enrollment Growth in ’07 Under New Consensus Approach

-- Newly-acquired UA Econometric Model Projects 3.2% Growth

-- JLBC Staff Projects 3.3% Growth

-- Consensus Averages Two Forecasts



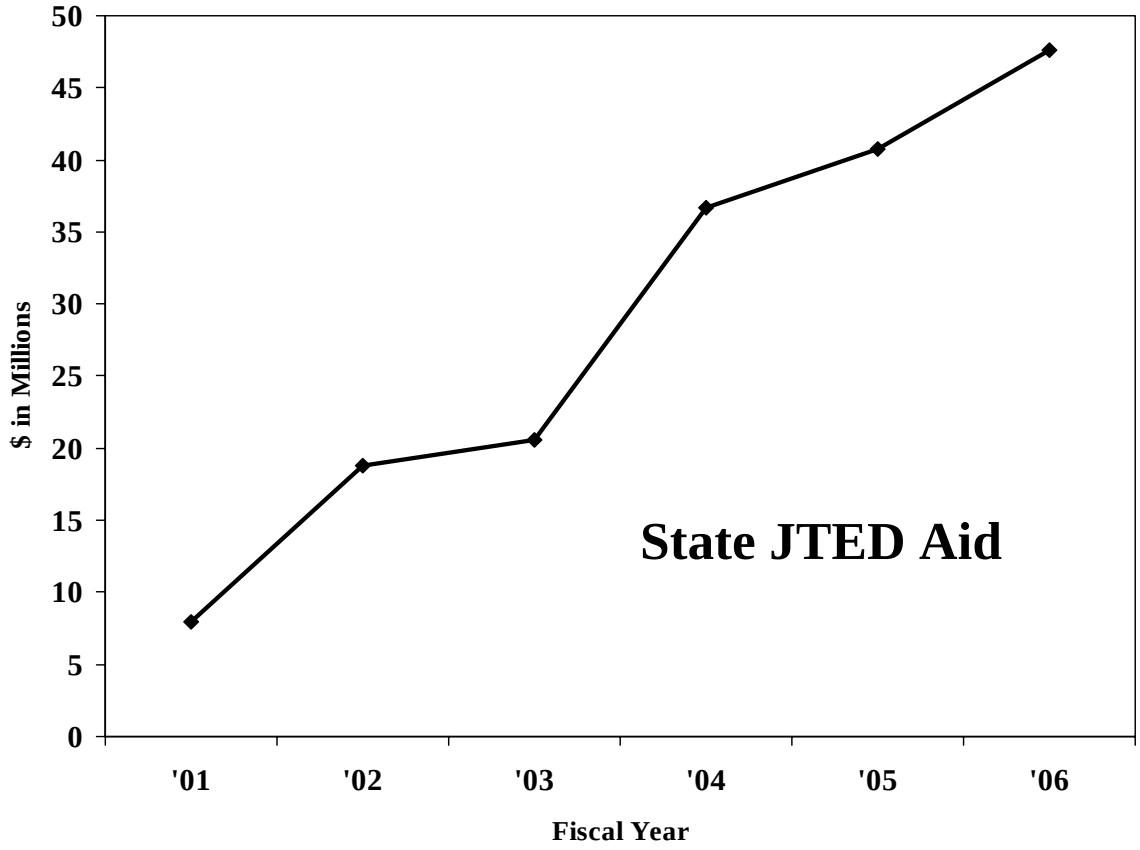
Small Percentage Changes in Enrollment Growth Greatly Affect Costs

- Basic State Aid formula now costs about $5 billion
- State share is about $3.6 billion
- State pays all cost “at the margin”
- Over 1 million students now in public schools (FY 2007)
- 0.5% forecast error would cost about $25 million
- Enrollment based on 100 day count – but districts have 3 years to finalize number

JTED's Funding Has Grown Significantly

-- '07 Has Minimal Increases Based on Continuing '06 Provisions
-- '08 Impact Could Be Much Higher

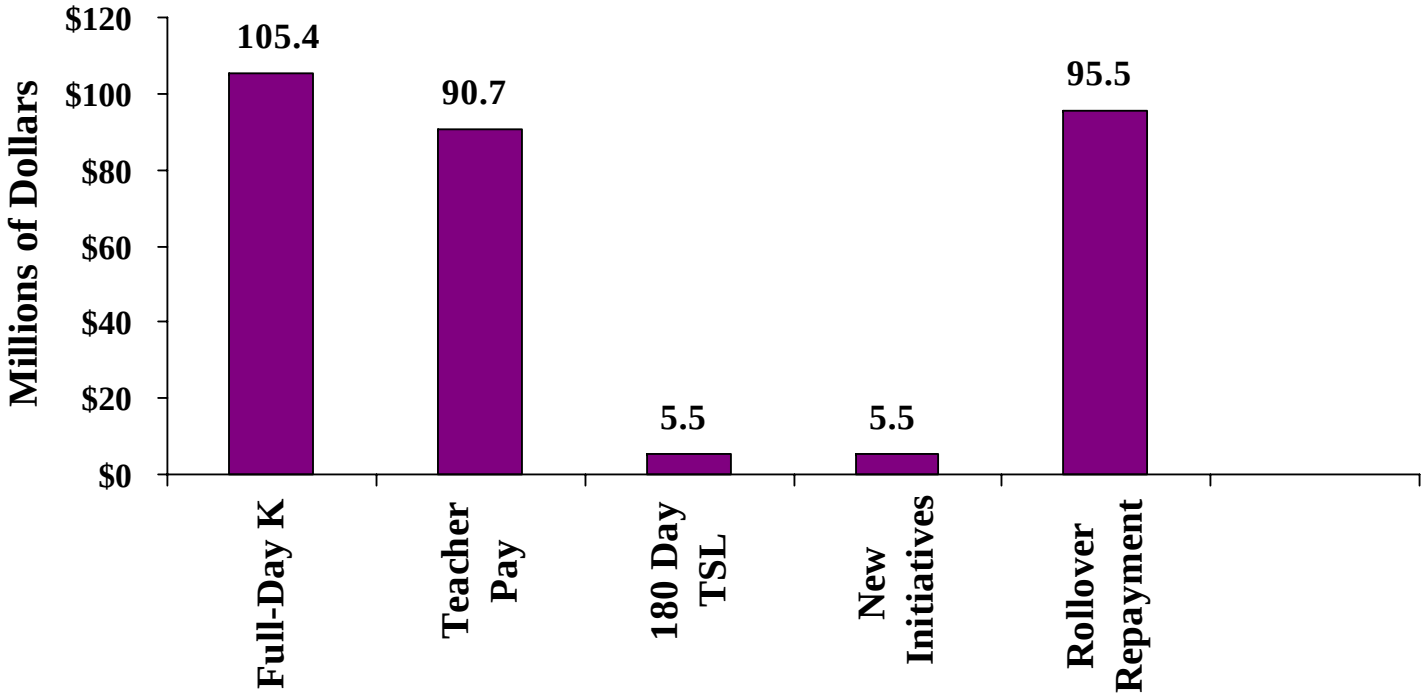
- JLBC would continue '05 session law caps.
- '05 law allows Pima County to create JTED - probably will wait until '08.
- Without permanent changes, Auditor General estimates added costs of $85 M.



Achievement Testing Costs Are Affected by AIMS Retests

- New policy on university tuition waivers is linked to AIMS test scores
- More students are taking voluntary AIMS retests as a result, which increases program costs
- ADE requested $3.1 M for caseload growth and contract modifications
- JLBC baseline includes $290,000 for caseload increases only

Other Executive Budget Changes



Executive Expands Full Day Kindergarten

- Kindergarten pupils currently count as 1/2 ADM
- For FY 2006, pupils in “80%+ free lunch” schools receive additional $38 M to fund FDK costs
- Governor expands FDK to all schools and adds $105 M for M&O ($143 M total)
- Assumes $4,300 total per pupil
- Basic State Aid cost would be $5,000 per pupil
- FDK would cost $60 M more under BSA formula

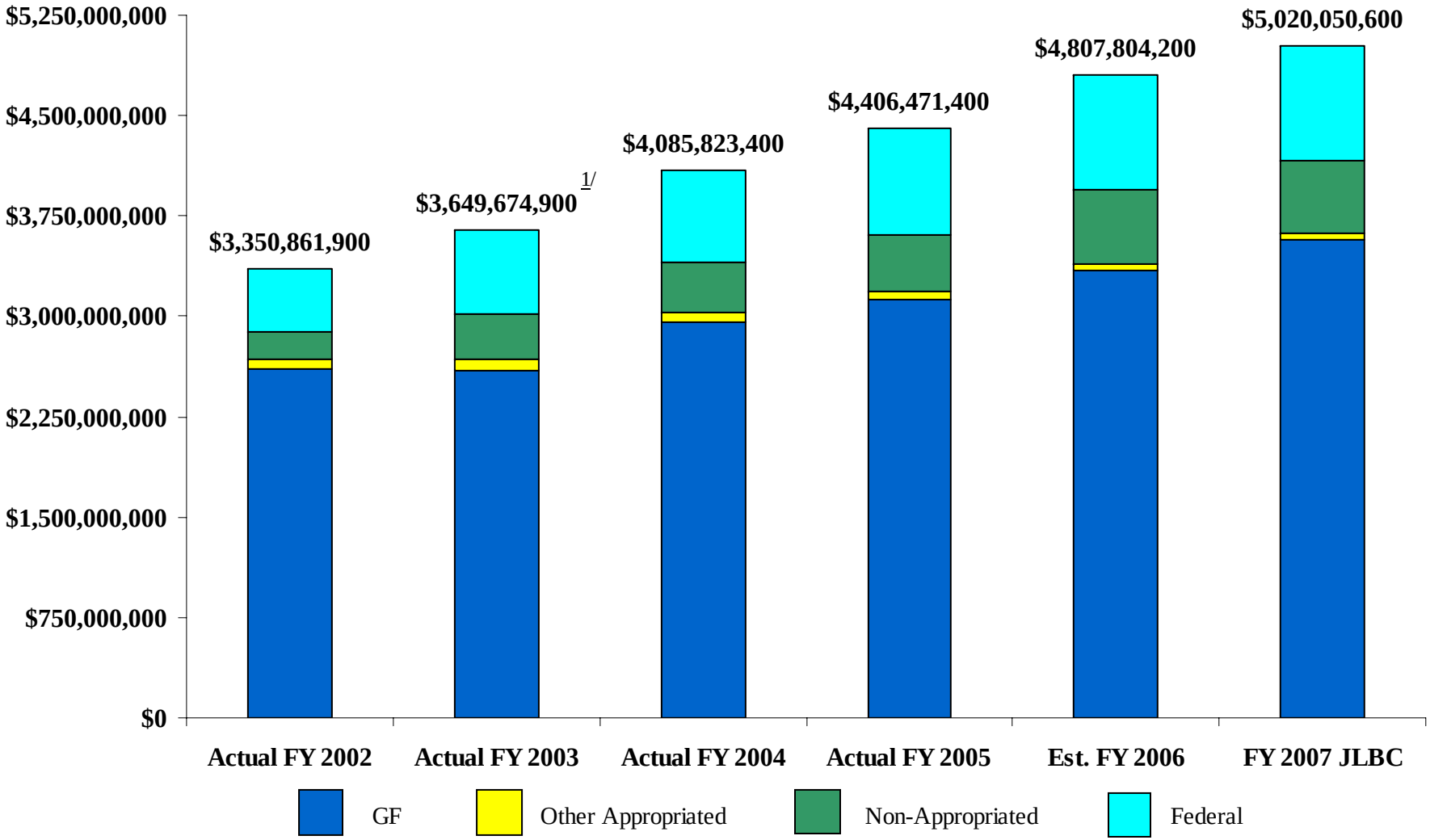
Executive Includes $91 M to Increase Teacher Salaries

- $5.7 M to bring 1,750 teachers up to $30K
- $40 M to increase base salary for all teachers
- Unclear how $30K minimum salary policy would be maintained in subsequent years
- $45 M for teacher salary increases to offset 1.7% retirement increase
- Executive also includes $1 M to plan expansion of Career Ladder to include all districts in FY08
- Career Ladder expansion would cost roughly $87 M in FY08

Executive Includes Planning Monies for Other New Programs

• Small schools best practices	• $1 million
• Parent outreach and communication	• $1 million
• Math and science literacy	• $1 million
• Integrated technology	• $1 million

Department of Education
Total Funds FY 2002 - FY 2007



1/ FY 2003 total includes $(191,293,800) GF reduction for the "K-12 Rollover."

Department of Corrections

Department of Corrections

JLBC Baseline Growth is $35 M in FY 2007

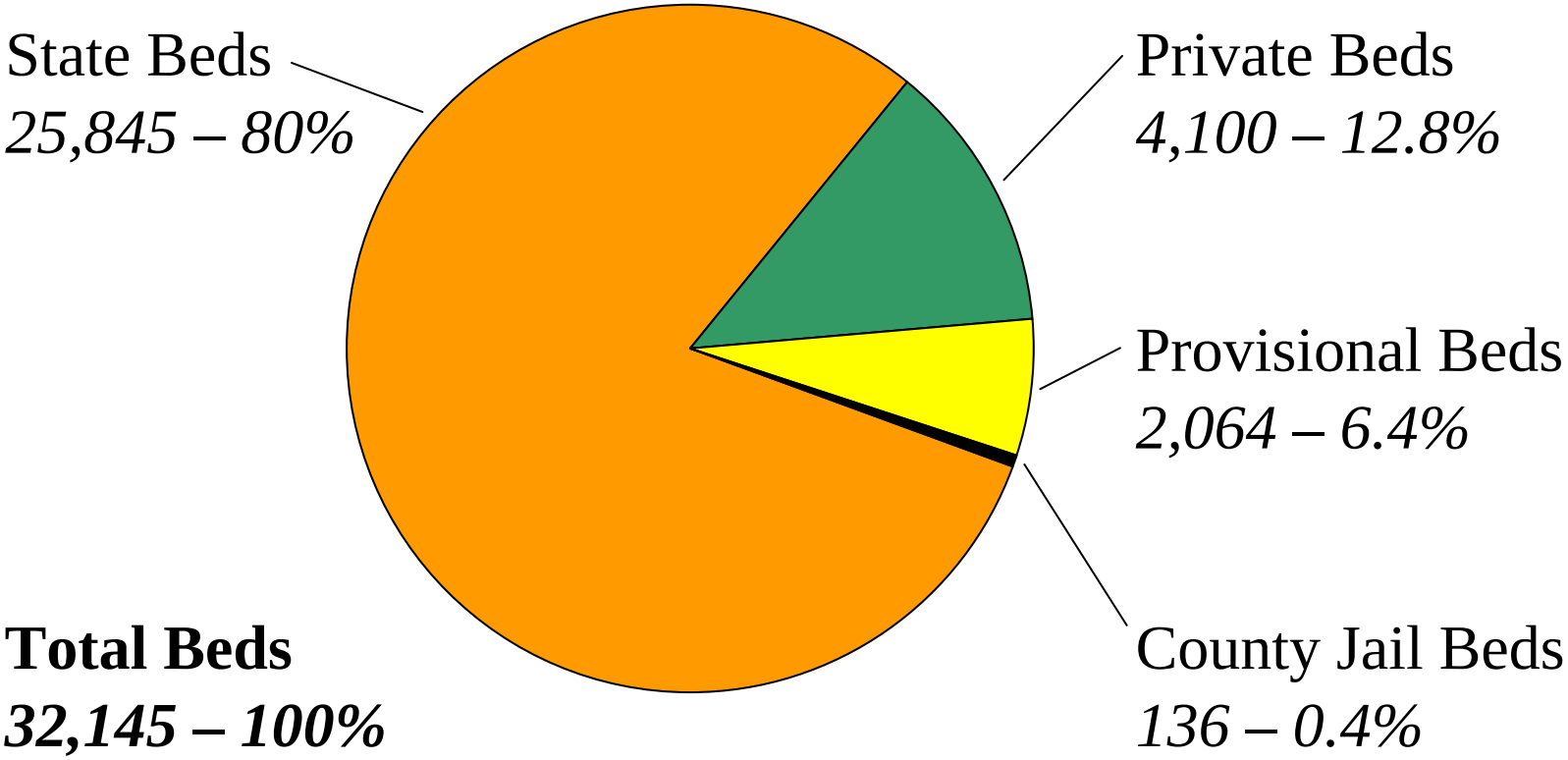
- JLBC baseline includes FY ‘07 increases of:
  - $15 M to open 1,000 private beds.
  - $4 M for population growth.
  - $16 M to replace expiring federal $
- Open 3,000 private beds in ’08 to address shortfall
- Executive adds pay and health care proposals
- Enhanced legislative oversight
  - JLBC review of RFP to privatize Perryville
  - More detailed budget structure

JLBC Bed Proposal

- In FY ’07, JLBC and Executive both open 1,000 previously-authorized private beds.
  - JLBC opens October ’06 at $15.3 M
  - Executive opens December ’06 at $11.7 M
- Executive adds 900 provisional beds
  - Opens July ’06 at $18.3 M
  - Temporary beds intended for state overflow
- JLBC recommends 3,000 private beds in FY ’08
  - $11.2 M appropriation in FY ’08
  - Executive does not provide ’08 bed plan

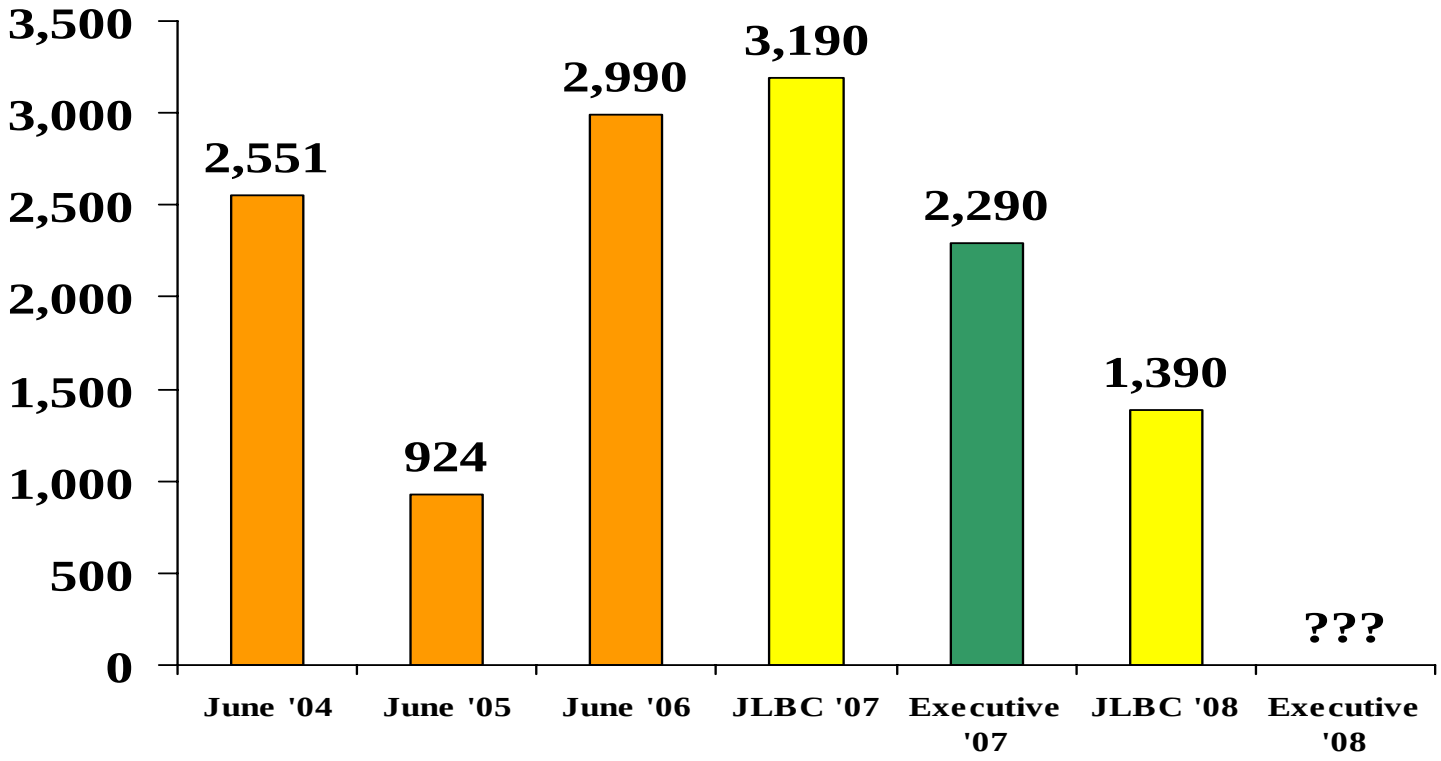
JLBC & Executive Both Add 1,000 Private Beds for Total of 4,100

Executive adds another 900 provisional beds in ’07
JLBC adds another 3,000 private beds in ’08



Bed Shortfall

- Projected bed deficit at end of FY 2007:
  - JLBC reduces shortfall to (1,390) in ’08
  - Executive reduces shortfall to (2,290) in ’07



Enhanced Oversight of Bed Issues

3,000 Private Beds and Perryville Privatization

- Since FY ‘03, footnote required privatization of female inmate population
  - Department has not complied
- JLBC converts footnote to session law
  - Require privatization of operation of Perryville
- Require JLBC review of RFP and contracts
- $4 M for population growth to revert if contract not executed by March 31, 2007

Officer Pay

Executive Recommends $39 M for total of $278 M

- With newly enacted Chapter 1 pay raise, CO II salary increases from $27,400 to $29,700 ($1,650 and 2.5%)
- Executive proposal increases salary to $33,000
- Includes step increases of 4% each year
  - Department says no added cost in future
- Eliminates geographical and retention stipends
  - Estimated $16.5 M in FY 2007 converted to base pay
  - Means higher raises for those not receiving stipends
- Results in 10% funded vacancy rate
- Awaiting salary calculations to verify cost of plan

Health Care

Executive Recommends $30.4 M in FY ’07 and $26.6 M Supplemental in FY ’06

- Health care costs in FY 2005 were $101.5 M, budgeted for $86.3 M
  - Department covered $15.2 M difference with vacancy savings and other available funding sources
- Department projects 13% increase in FY 2006
  - Awaiting more specifics on cost estimate
  - Only 3% increase projected in ’07 ($114.8 M to $118.5 M)
- If supplemental approved, $15.2 M freed-up within budget to expend elsewhere
  - Current department response lacks details for FY ’07

Maricopa Health Care Contract

- More intensive inmate medical cases served through private contracts
- Maricopa Health Care District currently holds contract for services in Maricopa County
  - Based on discount, varies each year
- New contract went out to bid in April, 2005
  - Not yet awarded
  - District was only responder on first RFP issued
  - Another RFP released after ADC deemed district submission unresponsive
  - 2 bidders on 2nd RFP

JLBC Recommended Enhanced Budgetary Oversight

- Difficult to track department expenses with current structure
- Current structure obscures major areas of expenditure
- As a result, JLBC recommends new line item budget structure
  - Add more budget line items, including lines for each facility
- Would facilitate identifying department shortfalls
- Would facilitate complex-by-complex comparisons
- Provides flexibility for clarifying legislative intent with regard to funding

Budget Structure Comparison

Current	Proposed
Salaries	10 prison complex line items
Employee Benefits	Administration
Other Operating Expenses	Community Corrections
	Health Care
	Provisional Beds
	County Jail Beds
Overtime	Overtime
Private Prisons	Private Prisons

JLBC Proposed Budget Structure

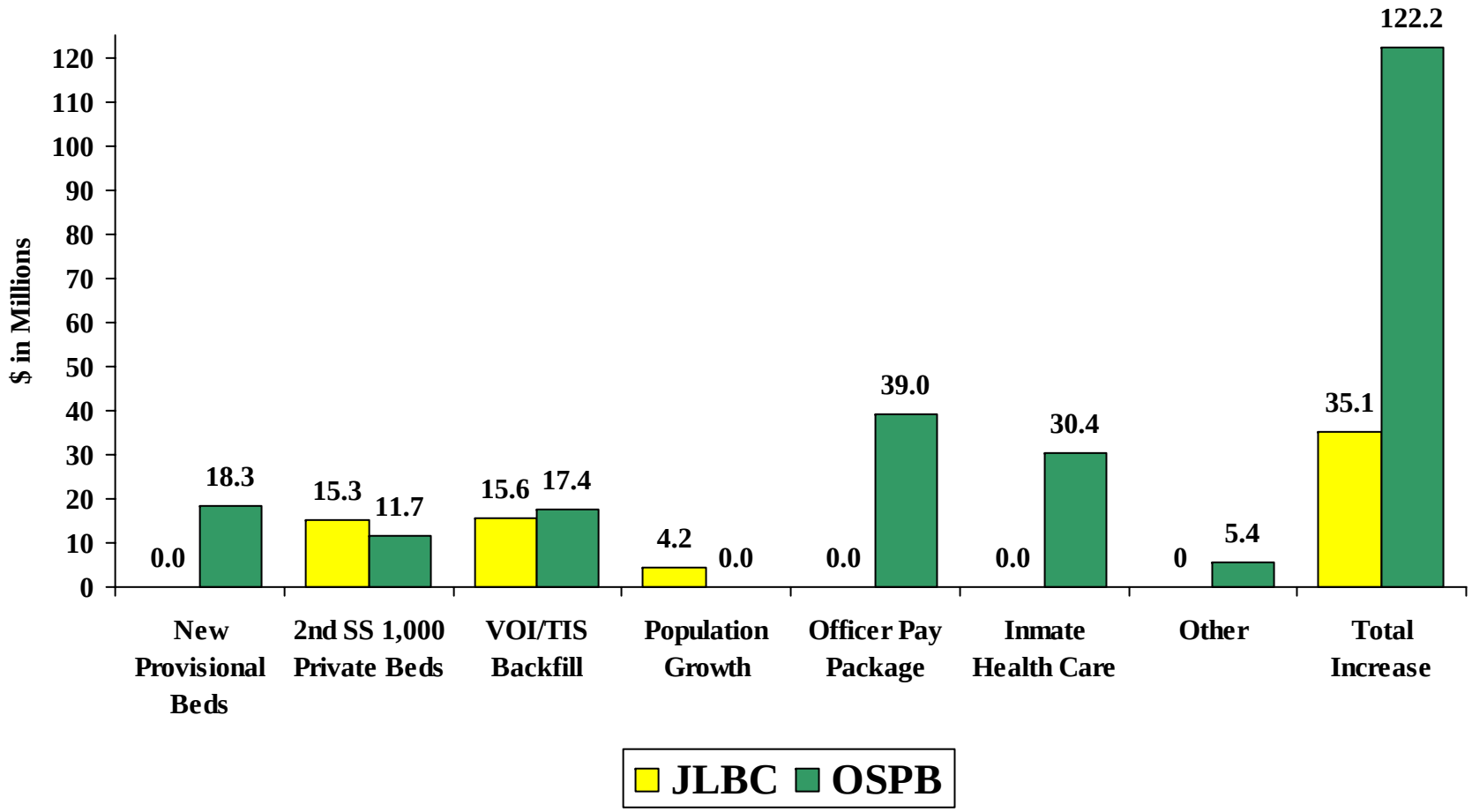
FY 2007

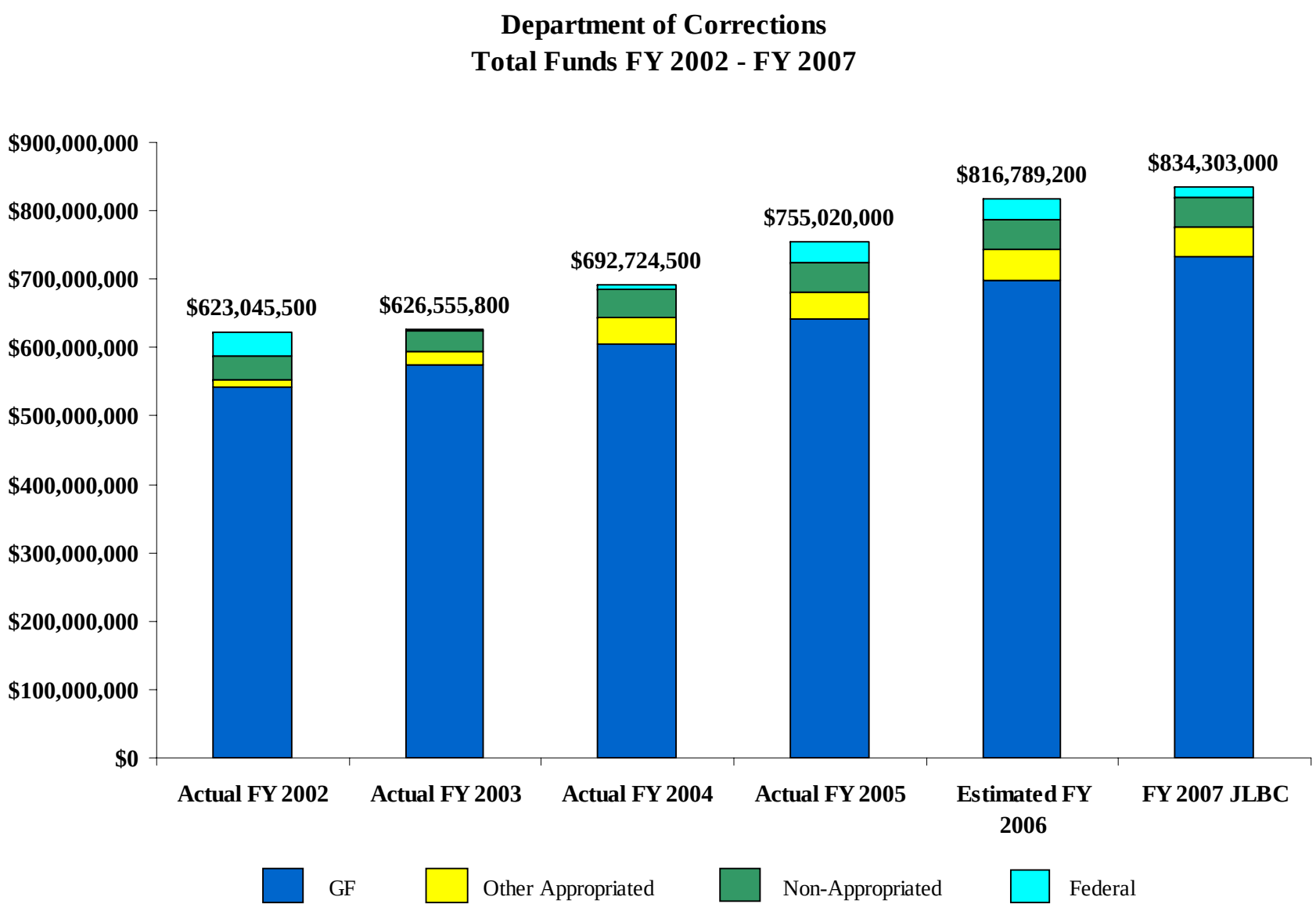
Administration	$58,717,300
Community Corrections	10,188,400
State Prisons	572,951,500
Douglas	*38,397,800*
Eyman	*95,850,300*
Florence	*85,026,200*
Lewis	*86,965,000*
Perryville	*49,794,600*
Phoenix	*31,492,800*
Safford	*26,957,400*
Tucson	*82,944,300*
Winslow	*35,493,700*
Yuma	*40,029,400*
County Jail Beds	2,518,500
Compensatory/Overtime	24,688,100
Private Prisons	77,702,800
Provisional Beds	29,108,200
Health Care [1]	
Total	**775,874,800**

1. Cost is $88 M, which is contained within other line items. JLBC is awaiting information to make adjustments to other lines.

JLBC – Executive Comparison

General Fund Increases for Prison Beds and Other Issues




Department of Corrections
Total Funds FY 2002 - FY 2007
$900,000,000
$800,000,000
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
$623,045,500
$626,555,800
$692,724,500
$755,020,000
$816,789,200
$834,303,000
Actual FY 2002
Actual FY 2003
Actual FY 2004
Actual FY 2005
Estimated FY 2006
FY 2007 JLBC
GF
Other Appropriated
Non-Appropriated
Federal