FINAL REPORT

JOINT PROGRAM AUTHORIZATION REVIEW (PAR) COMMITTEE ON ECONOMIC DEVELOPMENT

January 1998

Arizona State Legislature

FINAL REPORT

Joint Program Authorization Review (PAR) Committee on Economic Development

Background

Laws 1993, Chapter 252, as amended by Laws 1995, Chapter 283 established the Program Authorization Review (PAR) process. That legislation outlined the following procedures for the PAR process:

- The budget unit responsible for the relevant PAR program shall submit a self-assessment of the program to the Directors of the Joint Legislative Budget Committee (JLBC) and the Office of Strategic Planning and Budgeting (OSPB).

- The Directors of the JLBC and OSPB shall jointly evaluate the agency self-assessment and jointly produce a report of their findings.

- As part of their ensuing respective budget recommendations, JLBC and OSPB may independently recommend to retain, eliminate or modify funding and related statutory references for the PAR programs.

Laws 1996, Chapter 339 amended Laws 1995, Chapter 283 by correcting and completing the listing of the 76 programs to undergo the PAR process from FY 1996 through FY 1999. Chapter 339 specified 36 programs and subprograms in 18 agencies to undergo review in 1998.

Laws 1997, Chapter 210 (Appendix A) further modified the PAR process. Laws 1995, Chapter 283 had originally envisioned 20 PARS being conducted in 1999. However, Laws 1997, Chapter 210 converts the 11 major budget units currently subject to an annual budget cycle to a biennial cycle, beginning in 1999 for the FY 1999-2000 and FY 2000-2001 biennium. The major emphasis of the First Regular Session of each Legislature will be budgetary review and approval, while program evaluations and PARs would be conducted in the Second Regular Session. In order to make the PAR process consistent with the new budget procedures, Laws 1997, Chapter 210 also eliminated the 20 programs listed in law that were to be subjected to the PAR process in 1999. They will likely be replaced by a yet-to-be-determined number of PARs in 2000 and every succeeding even-numbered year.

Laws 1997, Chapter 210 also required the Speaker of the House of Representatives and the President of the Senate to appoint sufficient Joint Program Authorization Review (PAR) Committees to evaluate the PAR findings and recommendations of the OSPB and JLBC Staff. In addition to the legislative members, for each committee, the Governor shall appoint a private citizen with experience in cost-benefit analysis, the President of the Senate shall appoint a private citizen with a general business background, and the Speaker of the House shall appoint a private citizen. Each Joint Program Authorization Review (PAR) Committee must hold at least one public hearing for the purpose of recommending to retain, eliminate, or modify funding and related statutory references for the programs subject to review. Each PAR committee must also oversee the preparation of any proposed legislation to implement its recommendations and is responsible for the introduction of this legislation.

Committee Membership

The Committee was comprised of the following members:

Senator Randall Gnant, Co-Chairman
Senator Tom Freestone
Senator James Henderson

Representative Barry Wong, Co-Chairman
Representative David Armstead
Representative Jean McGrath

Mr. Bill Hickman, Hickman's Egg Ranch (Senate President's private citizen appointee)
Mr. George Kirk, Kirk Development Company (House Speaker's private citizen appointee)
Samuel Cowley, Snell & Wilmer (Governor's private citizen appointee)

Committee Action

The Joint Program Authorization Review (PAR) Committee on Economic Development met twice, reviewing PAR reports on various economic development and Department of Administration programs. The programs reviewed were:

1. Business Administration and Welcome Center Operation, *Office of Tourism*
2. Sports Development, *Department of Commerce*
3. Arizona Business Assistance Center, *Department of Commerce*
4. Financial Services, *Department of Commerce*
5. Surplus Property Management, *Department of Administration*
6. Fleet Management, *Department of Administration*

At the first Committee meeting, the Joint Legislative Budget Committee (JLBC) and Governor's Office of Strategic Planning and Budgeting (OSPB) presented the PAR reports and made their respective recommendations to the Committee. Executive summaries of the reports (Appendix B) and the JLBC and OSPB recommendations are attached (see Appendix C). At these meetings, the Committee also took testimony from agency personnel and other interested parties. The Committee voted on recommendations at the second meeting. Minutes from these meetings are attached (Appendix D).

Committee Recommendations

Business Administration and Welcome Center Operation, *Office of Tourism*

- Voted to retain the Business Administration and Welcome Center as is.

Sports Development, *Department of Commerce*

- Voted to eliminate the Sports Development Program by recommending that funding in the FY 1998-1999 General Appropriations bill be removed.

Arizona Business Assistance Center, *Department of Commerce*

- Required the Department to report back to the PAR Committee by January 15, 1998 on the JLBC/OSPB-suggested performance measures for these subprograms.

Financial Services, *Department of Commerce*

- Voted to eliminate the Financial Services program.

Surplus Property Management, *Department of Administration*

- Voted to appropriate the State Surplus Property Fund and Federal Surplus Property Fund, beginning in FY 2000.
- Required the Department to submit to the PAR Committee by January 15, 1998 an action plan for developing new performance measures, based on improved data collection, which will be possible with an automated tracking system.
- Required the Department to collect revenue and payment data by donor fund source, beginning in FY 1999.
- Required the Department to report FY 1999 data to JLBC staff by September 1, 1999.

Fleet Management, *Department of Administration*

- Moved to pursue privatization of the Department of Administration motor pool, if recommended by the consultant hired jointly by ADOA and the Office for Excellence in Government.
- Voted to repeal the Department of Economic Security's exemption from the ADOA motor pool, thus consolidating the state fleet.
- Voted to require non-exempt agencies to transfer ownership of their vehicles to ADOA.
- Voted to delay the statutory requirement for converting 40% of the state fleet to alternative fuel use and to require ADOA to report to the PAR Committee by January 15, 1998 on a plan for complying with the 40% requirement.

APPENDIX A

Laws 1997, Chapter 210

(Relevant Sections)

Sec. 32. Title 41, chapter 7, article 10, Arizona Revised Statutes, is amended by adding section 41-1275, to read:

41-1275. <u>Program authorization review; procedures</u>

A. IN CONSULTATION WITH THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING, THE STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE SHALL MEET WITH THE JOINT LEGISLATIVE BUDGET COMMITTEE BEFORE DECEMBER 31 OF EACH ODD-NUMBERED YEAR TO DEVELOP AND PREPARE LEGISLATION FOR INTRODUCTION IN EVEN-NUMBERED YEARS TO SUBJECT PROGRAMS DEVELOPED UNDER SECTION 35-122 TO A PROGRAM AUTHORIZATION REVIEW. CONSISTENT WITH INSTRUCTIONS ISSUED BY THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING AND THE STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE, EACH BUDGET UNIT MAY SUBMIT SUGGESTIONS FOR WHICH OF ITS PROGRAMS SHOULD BE SUBJECT TO PROGRAM AUTHORIZATION REVIEWS. THESE SUGGESTIONS SHALL BE SUBMITTED BY OCTOBER 1 OF EACH ODD-NUMBERED YEAR. IN DEVELOPING LEGISLATION, THE JOINT LEGISLATIVE BUDGET COMMITTEE MAY DESIGNATE PORTIONS OF PARTICULAR PROGRAMS TO BE SUBJECT TO A PROGRAM AUTHORIZATION REVIEW. IT IS THE INTENT OF THE LEGISLATURE NOT TO CONDUCT A PROGRAM AUTHORIZATION REVIEW ON A PROGRAM FOR WHICH FUNDING IS ALREADY ELIMINATED.

B. THE BUDGET UNIT RESPONSIBLE FOR A PROGRAM THAT IS SUBJECT TO PROGRAM AUTHORIZATION REVIEW SHALL PREPARE A SELF-ASSESSMENT OF ITS PROGRAM BY APRIL 1 OF THE ODD-NUMBERED YEAR FOLLOWING THE ENACTMENT OF LEGISLATION DESCRIBED IN SUBSECTION A OF THIS SECTION. THE SELF-ASSESSMENT SHALL ADDRESS THE EFFICIENCY AND EFFECTIVENESS OF EACH PROGRAM OPERATION AND WHETHER ITS CURRENT OPERATION IS CONSISTENT WITH THE ORIGINAL LEGISLATIVE INTENT. THE SELF-ASSESSMENT SHALL BE CONSISTENT WITH INSTRUCTIONS ISSUED BY THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING AND JOINT LEGISLATIVE BUDGET COMMITTEE STAFF AND SHALL BE SUBMITTED TO THE TWO OFFICES. BUDGET UNITS MAY BE REQUIRED TO DEVELOP JOINT SELF-ASSESSMENTS IF THEIR PROGRAMS ARE OF A SIMILAR NATURE.

C. THE STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE AND THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING SHALL REVIEW THE PROGRAM AUTHORIZATION SELF-ASSESSMENT SUBMITTED BY EACH BUDGET UNIT. THE TWO OFFICES SHALL EVALUATE THE PROGRAM ACCORDING TO AGREED UPON FACTORS AND SHALL JOINTLY PRODUCE A REPORT OF THEIR FINDINGS NO LATER THAN OCTOBER 15 OF EACH ODD-NUMBERED YEAR. THE FINDINGS SHALL ADDRESS THE VIEWS OF THE TWO OFFICES ON THE PROGRAM'S EFFICIENCY AND EFFECTIVENESS. BEFORE THE PUBLIC HEARING REQUIRED IN SUBSECTION D OF THIS SECTION IS HELD, EACH OFFICE MAY INDEPENDENTLY RECOMMEND WHETHER TO RETAIN, ELIMINATE OR MODIFY FUNDING AND RELATED STATUTORY REFERENCES FOR THE PROGRAMS THAT ARE SUBJECT TO PROGRAM AUTHORIZATION REVIEW.

D. THE SPEAKER OF THE HOUSE OF REPRESENTATIVES AND THE PRESIDENT OF THE SENATE SHALL APPOINT SUFFICIENT JOINT PROGRAM AUTHORIZATION REVIEW COMMITTEES TO EVALUATE THE PROGRAM AUTHORIZATION REVIEW FINDINGS AND ANY RECOMMENDATIONS MADE PURSUANT TO SUBSECTION C OF THIS SECTION. EACH JOINT

PROGRAM AUTHORIZATION REVIEW COMMITTEE SHALL HAVE REPRESENTATION FROM MEMBERS OF BOTH PARTIES IN A PROPORTION EQUAL TO THAT OF THE POLITICAL MAKE-UP OF EACH HOUSE. IN ADDITION TO THE LEGISLATIVE MEMBERS, FOR EACH COMMITTEE, THE GOVERNOR SHALL APPOINT A PRIVATE CITIZEN WITH EXPERIENCE IN COST BENEFIT ANALYSIS, THE PRESIDENT OF THE SENATE SHALL APPOINT A PRIVATE CITIZEN WITH A GENERAL BUSINESS BACKGROUND AND THE SPEAKER OF THE HOUSE OF REPRESENTATIVES SHALL APPOINT A PRIVATE CITIZEN. EACH JOINT PROGRAM AUTHORIZATION REVIEW COMMITTEE MAY BE RESPONSIBLE FOR MORE THAN ONE PROGRAM AUTHORIZATION REVIEW. AFTER RECEIPT OF THE PROGRAM AUTHORIZATION REVIEW FINDINGS, THE JOINT PROGRAM AUTHORIZATION REVIEW COMMITTEE SHALL HOLD AT LEAST ONE PUBLIC HEARING FOR THE PURPOSE OF RECOMMENDING WHETHER TO RETAIN, ELIMINATE OR MODIFY FUNDING AND RELATED STATUTORY REFERENCES FOR THE PROGRAMS SUBJECT TO REVIEW. THE JOINT PROGRAM AUTHORIZATION REVIEW COMMITTEE SHALL MAKE ITS RECOMMENDATIONS TO THE GOVERNOR, THE PRESIDENT OF THE SENATE AND THE SPEAKER OF THE HOUSE OF REPRESENTATIVES BY DECEMBER 15 OF EACH ODD-NUMBERED YEAR. THE PROGRAM AUTHORIZATION REVIEW COMMITTEE SHALL OVERSEE THE PREPARATION OF ANY PROPOSED LEGISLATION TO IMPLEMENT ITS RECOMMENDATIONS AND IS RESPONSIBLE FOR THE INTRODUCTION OF THIS LEGISLATION. EACH JOINT PROGRAM AUTHORIZATION REVIEW COMMITTEE HAS THE POWER OF LEGISLATIVE SUBPOENA PURSUANT TO ARTICLE 4 OF THIS CHAPTER.

E. FOR PURPOSES OF THIS SECTION, A PROGRAM MAY INCLUDE A SUBPROGRAM AS DETERMINED BY THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING OR THE JOINT LEGISLATIVE BUDGET COMMITTEE STAFF.

Sec. 33. Section 41-2401, Arizona Revised Statutes, as amended by Laws 1996, chapter 87, section 3 and chapter 172, section 4, is amended to read:

41-2401. Criminal justice enhancement fund

A. A criminal justice enhancement fund is established in the state treasury consisting of monies collected pursuant to section 12-116.01 and monies available from any other source. The state treasurer shall administer the fund.

B. On or before November 1 of each year, each department, agency or office that receives monies pursuant to this section shall provide to the Arizona criminal justice commission a report for the preceding fiscal year. The report shall be in a form prescribed by the Arizona criminal justice commission and SHALL BE reviewed by the director of the joint legislative budget committee. The report shall set forth the sources of all monies and all expenditures. The report shall not include any identifying information about specific investigations.

C. On or before December 1 of each year, the Arizona criminal justice commission shall compile all reports into a single comprehensive report and SHALL submit a copy of the comprehensive report to the governor, the president of the senate, the speaker of the house of representatives and the director of the joint legislative budget committee.

implementation of programs designed to accomplish the purposes of this section.

Sec. 37. Section 49-818, Arizona Revised Statutes, is amended to read:

49-818. Used oil fund

A. A used oil fund is established. The director shall administer the fund. The fund consists of monies appropriated by the legislature and used oil penalties collected pursuant to section 49-814. On notice from the director, the state treasurer shall invest and divest monies in the fund as provided by section 35-313, and monies earned from investment shall be credited to the fund. Monies deposited in the fund are exempt from the provisions of section 35-190 relating to lapsing of appropriations.

B. SUBJECT TO LEGISLATIVE APPROPRIATION, monies in the fund shall be used for a quality control and quality assurance program which shall include:

1. Sample collection and analysis of used oil fuel to assure the fuel meets on-specification criteria pursuant to section 49-801, subsection A, paragraph 6.

2. Program oversight including sample collection, analysis review, data entry, contractor coordination, inspections, equipment, enforcement and rule development for the used oil program.

~~C. No later than December 1 of each year, the director shall prepare a detailed accounting of how the penalties collected pursuant to section 49-814 for the previous fiscal year were spent and shall provide that accounting to the governor, the president of the senate and the speaker of the house of representatives.~~

Sec. 38. Repeal

A. Laws 1993, chapter 252, section 11, as amended by Laws 1995, chapter 283, section 3 is repealed.

B. Laws 1993, chapter 252, section 13, as amended by Laws 1995, chapter 283, section 4 is repealed.

Sec. 39. Laws 1995, chapter 283, section 5, as amended by Laws 1996, chapter 339, section 3, is amended to read:

Sec. 5. Initial program authorization review; programs; process

A. To implement the initial program authorization review process established by Laws 1993, chapter 252, section 11, the appropriate legislative committees shall consider at least a total of ~~seventy six~~ EIGHTY-EIGHT programs AND SUBPROGRAMS recommended for review over the following ~~four year~~ THREE YEAR period:

1. The following ~~ten~~ EIGHTEEN programs AND SUBPROGRAMS IN TEN AGENCIES during the 1996 legislative session:

(a) Underground storage tank, department of environmental quality.

(b) State agricultural laboratory~~,~~ AND ITS FOUR SUBPROGRAMS WITHIN THE Arizona department of agriculture.

(c) Enterprise network services~~,~~ AND ITS TWO SUBPROGRAMS WITHIN THE department of administration.

(d) Drop-out prevention, department of education.

(e) Complex administration, state department of corrections.

(f) Diagnostic services, department of juvenile corrections.

(g) Judicial collection enhancement, judicial system.

(h) Medical malpractice, primary health care and loan repayment, department of health services.

(i) Pass-through program - Arizona health education centers, Arizona board of regents.

(j) Medical student loan board.

The programs specified in subdivisions (h), (i) and (j) of this paragraph shall be considered together in the state's role in rural health.

2. The following ~~fourteen~~ THIRTY-FOUR programs AND SUBPROGRAMS IN FOURTEEN AGENCIES during the 1997 legislative session:

(a) Sportsfish management, game and fish department.

(b) Cooperative programs, Arizona state schools for the deaf and the blind.

(c) Facilities management~~,~~ AND ITS FOUR SUBPROGRAMS WITHIN THE department of administration.

(d) Law, university of Arizona.

(e) College of law, Arizona state university.

(f) Corporations, corporation commission.

(g) Juvenile community corrections~~,~~ AND ITS FIVE SUBPROGRAMS WITHIN THE judicial system.

(h) International trade and investment, department of commerce.

(i) Anti-gang enforcement, department of public safety.

(j) Inmate programs, state department of corrections.

(k) Comprehensive medical and dental program, department of economic security.

(l) Highway maintenance, department of transportation.

(m) Arizona state hospital~~,~~ AND ITS SEVEN SUBPROGRAMS WITHIN THE department of health services.

(n) Compliance~~,~~ AND ITS FOUR SUBPROGRAMS WITHIN THE department of revenue.

The program specified in subdivision (n) OF THIS PARAGRAPH shall focus on the program for increased enforcement revenues.

3. The following ~~thirty-two~~ THIRTY-SIX programs AND SUBPROGRAMS IN EIGHTEEN AGENCIES during the 1998 legislative session:

(a) Fleet management, department of administration.

(b) Surplus property management, department of administration.

(c) ~~The two subprograms within the~~ Department administration~~,~~ AND ITS TWO SUBPROGRAMS WITHIN THE Arizona department of agriculture.

(d) Financial services, department of commerce.

(e) Arizona business assistance center, department of commerce.

(f) Sports development, department of commerce.

(g) ~~The four subprograms within the~~ School to work program~~,~~ AND ITS THREE SUBPROGRAMS WITHIN THE department of education.

(h) Statewide planning, department of water resources.

(i) Adoption services, department of economic security.

(j) Vocational rehabilitation services, department of economic security.

(k) Domestic violence, department of economic security.

(l) Domestic violence, judicial system.

(m) Substance abuse services~~,~~ TITLE XIX AND SUBSTANCE ABUSE SERVICES NON-TITLE XIX, department of health services.

(n) Chemical abuse prevention, department of education.

(o) Oral health, department of health services.

(p) Justice of the peace salaries, state treasurer.

(q) Special services, department of public safety.

(r) Business administration and welcome center operations~~,~~ PROGRAMS WITHIN THE office of tourism.

(s) Medical services, state department of corrections.

(t) Dental services, state department of corrections.

(u) Health services, department of juvenile corrections.

(v) Adult intensive probation services, judicial system.

(w) Victim rights and witness assistance, attorney general - department of law.

(x) ~~The two subprograms within the~~ Crimes victims programs~~,~~ AND THEIR TWO SUBPROGRAMS WITHIN THE Arizona criminal justice commission.

(y) Extended university, University of Arizona.

(z) College of extended education, Arizona State University.

(aa) Statewide academic programs, northern Arizona university. The program specified in this subdivision shall focus on extended education offerings.

~~4. Twenty programs during the 1999 legislative session.~~

B. The procedure for program authorization review shall be conducted in the following three phases:

1. The budget unit responsible for a program or subprogram that is subject to authorization review shall submit to the director of the joint legislative budget committee and the director of the GOVERNOR'S office of strategic planning and budgeting by the previous April 1 for the 1997~~,~~ AND 1998 ~~and 1999~~ reviews~~,~~ an evaluation of the program according to factors required and agreed on by the joint legislative budget committee and the office of strategic planning and budgeting.

2. The director of the joint legislative budget committee and the director of the office of strategic planning and budgeting shall evaluate the program or subprogram according to agreed upon factors and shall first jointly review the program authorization evaluation submitted by the department or departments responsible for the program or subprogram. After

the joint review, the two staffs shall jointly produce by the previous October 1 for the 1997~~,~~ AND 1998 ~~and 1999~~ reviews~~,~~ a report of their findings as they relate to the agreed upon factors. At a minimum, these findings should address background information and program funding, and assess the strategic plan, performance measures and performance results of each program or subprogram reviewed.

3. As part of their ensuing respective budget recommendations, the joint legislative budget committee and the office of strategic planning and budgeting may independently determine whether to retain, eliminate or modify funding and related statutory references for the programs or subprograms that are subject to the program authorization review. It is the intent of the legislature not to conduct a program authorization review on a program for which funding is already eliminated.

4. For any program that is undergoing program authorization review, that is being audited by the auditor general or reviewed by the office of excellence in government, the auditor general and the office of excellence in government shall share ~~its~~ THEIR draft findings with the joint legislative budget committee staff and the office of strategic planning and ~~budget~~ BUDGETING staff. The joint legislative budget committee staff and the office of strategic planning AND BUDGETING shall abide by the confidentiality requirements that are placed upon the office of the auditor general regarding these draft findings.

Sec. 40. Delayed effective dates

A. Sections 3, 6 through 12, 14, 23 through 27, 29 through 31 of this act are effective from and after February 28, 1998.

B. Sections 4, 5, 19 through 22, 28 and 33 of this act are effective from and after June 30, 1998.

C. Sections 1, 2, 13, 15 and 34 through 37 of this act are effective from and after June 30, 1999.

Sec. 41. Delayed repeal

Section 39 of this act is repealed from and after June 30, 1998.

APPROVED BY THE GOVERNOR APRIL 28, 1997.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 28, 1997.

APPENDIX B

Executive Summaries

SPORTS DEVELOPMENT
Department of Commerce
JLBC/OSPB Joint PAR Report

Overview - The mission of the office of Sports Development as described in the program Self-Assessment is "to recruit and maintain major league franchises and other sports programs." After reviewing the program Self-Assessment, JLBC and OSPB Staff reached the following conclusions:

- The Arizona sports industry has increased dramatically in recent years; however, there is no conclusive evidence that the office of Sports Development is directly responsible for the past growth, or that this office's involvement is indispensable to the industry's future expansion.

- The program's operations may be enhanced by either redefining the mission to accommodate a more focused and updated set of goals, or by housing sports development operations within Commerce's National Marketing Division.

The program Self-Assessment was well-written and contained a thorough analysis of the Arizona sports industry. The Director of this office was very helpful in providing timely, accurate information to the staffs of the JLBC and OSPB. The program's revised strategic plan with performance measures was not available at the time of this publication.

Program Description - The office of Sports Development was created in response to the potential demise of the Cactus League in the late 1980s. In 1988, the Cleveland Indians defected to the Florida Grapefruit League and other Cactus League teams threatened to follow. A task force commissioned by the state sought ways to preserve the league. Based on the task force's findings, the Legislature enacted Laws 1989, Chapter 203, which provided a one-time appropriation of $100,000 for the creation of this office.

The preservation of the Cactus League is still the program's priority; however, the office is now also involved in other areas of sports development. The program Self-Assessment lists planned involvement with all four Arizona major league franchises. In addition, the program dedicates time and resources to assist local sports development organizations in maintaining or attracting various events.

To achieve these goals, the office employs a single full-time employee who serves as program director and as a member of the Department of Commerce's executive management. The office has at its disposal resources within other areas of the Department of Commerce, such as marketing monies and personnel, and also uses resources derived from the director being involved in the Arizona sports community.

Program Funding - The office of Sports Development operates as a separate program within the Department of Commerce. Beginning in FY 1998, this office will be funded by General Fund dollars. Prior to FY 1998, the office was funded entirely by Commerce and Economic Development Commission (CEDC) monies. Table 1 provides funding information from FY 1996 to FY 1999.

Table #1: Office of Sports Development Funding

Source:	FY 1996	FY 1997	FY 1998	FY 1999
General Fund	$ 0	$ 0	$107,400	$107,400
CEDC (operations)	95,700	100,200	0	0
CEDC (advertising & promotion)[1]	26,200	29,400	31,200	31,200
Total Resources	**$121,900**	**$129,600**	**$138,600**	**$138,600**

[1] The office of Sports Development utilizes CEDC monies for advertising and promotion that are not specifically designated to be part of the program's appropriation, therefore, the office's resources may exceed the General Fund allowance for basic operations.

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- ***How does the program mission fit within the agency's overall mission and the program's enabling authority?***

The program mission "to recruit and maintain major league franchises and other sports programs" fits within the mission of the Department of Commerce "to lead and promote economic development which creates quality jobs and supports a globally-competitive Arizona." However, due to its narrow focus, the program's mission does not specifically address the creation of quality jobs. It is worth noting that Arizona Revised Statutes neither require nor encourage the separation of a sports promotion office within the Department of Commerce. Currently, economic development operations concerning other Arizona industries are not provided by separate programs.

- ***Does the program meet its mission and goals efficiently and effectively, including comparisons with other jurisdictions? Do the historical performance measurements and the future performance targets adequately measure goals?***

The Arizona sports industry has increased dramatically in recent years; however, there is no conclusive evidence that the office of Sports Development is directly responsible for the past growth, or that this office's involvement is indispensable to the industry's future expansion. Due to the office's involvement in projects along with many other sports advocates, it is impossible to extrapolate performance measures that indicate the level of influence that this office alone has achieved. In addition, the fact that the program's director serves on or is planning to serve on other commissions and committees (including the Arizona Baseball Commission) creates further confusion as to where the role of the office of Sports Development ends and the director's other responsibilities begin.

The previously submitted performance measures state that the only goal of the office of Sports Development is to "facilitate the growth of the Arizona sports industry." This goal was vague and difficult to measure. Although the current director recently submitted a revised mission statement and set of performance measures, the new evaluating criteria will still be difficult to measure. Therefore, few conclusions can be formed concerning the program's past success, and few conclusions will be formed concerning the program's ability to achieve the revised set of goals.

The lack of measurable goals and objectives also makes a comparison with other jurisdictions difficult. In addition, to further complicate the issue, other organizations that provide a similar service are too distinct to provide for a performance comparison. The office of Sports Development is funded by the General Fund, includes the employment of a single full-time position, and is concerned with issues across the state. At the local level, civic organizations are privately funded and their primary responsibilities are to only sponsor particular local events. County organizations are publicly funded and have similar goals; however, their main role is to bid to attract sporting events as opposed to just encourage their presence. Structural differences also exist in similar offices in other states. A comparison with Florida would seem logical because Florida competes with Arizona in attracting spring training baseball. This competition was the reason the office was created in the first place. However, the fact that the Florida sports office is privately funded, staffs more full-time positions, and bids for projects similar to county organizations makes for a weak comparison.

The greatest difficulty lies in trying to evaluate the impact that the office of Sports Development has had on the preservation of the Cactus League. As previously stated, this evaluation is complicated by the fact that other sports advocates also work on Cactus League issues, and it is impossible to separate each organization's level of influence. However, it appears that the recent success of the Cactus League may be primarily due to the fact that the Legislature empowered counties that host spring training baseball to levy a rental car surcharge to assist with stadium maintenance and expansion expenses. Maricopa County currently imposes a $2.50 surcharge on rental cars and Pima County charges $3.50. The surcharge revenues are deposited into a county stadium district fund and are expended under the authority of the County Board of Supervisors.

The counties have collected nearly $31 million (figure includes 1997 estimated collections) in car rental tax revenues. A small portion of the revenues has filtered through the cities and has been used to directly fund facility improvements. However, the surcharge revenues are primarily used to assist cities with issuing bonds to pay for large scale stadium improvements or new construction. This method has allowed for $77.2 million to be distributed to the stadiums. Future tax collections will be needed for debt service. The following table provides facility receipts through 1997:

Table# 2: Stadium Improvement Funding

City	Year	Facility	$(Millions)
Tempe	1992	Tempe Stadium	$ 3.7
Chandler	1993	Compadre Stadium	4.3
Peoria	1993	Peoria Sports Complex	21.5
Phoenix	1993	Municipal Stadium/ Papago Training Facility	6.7
Scottsdale	1994	Scottsdale Stadium	0.6
Tucson	1994	Hi-Corbit Field	4.7
Mesa	1996	HoHoKam Stadium	17.0
Phoenix	1997	Maryvale Baseball Park	17.0
Tucson	1997	Kino Veterans Memorial Stadium	1.7
		Total	**$77.2**

♦ ***Are there other cost-effective methods of accomplishing the program's mission?***

The program's operations may be enhanced by either redefining the mission to accommodate a more focused and updated set of goals, or by housing sports development operations within Commerce's National Marketing Division. As previously stated, the program was created to respond to the threatened demise of the Cactus League. While the extent to which the office of Sports Development benefitted Cactus League issues remains unclear, the Cactus League nevertheless greatly benefitted from the use of rental car surcharges for stadium improvements. Since the original mission of preserving the Cactus League has been accomplished, it may be an appropriate time to modify the program's primary focus, or to reconsider if the services that are being provided are beneficial to the state.

One possible alternative is for the office of Sports Development to redefine its mission to accommodate a more achievable and updated set of goals and objectives. The current goals and objectives list expanding the baseball industry while preserving the Cactus League. In addition, other planned duties include bringing a Superbowl and major league All-Star games to the state. While the program director does have some involvement with these major league caliber events, it may be inappropriate to declare that it is the office's responsibility to attract these events. Undoubtedly, the owners and managers of the major national professional sports leagues and teams will have far more impact than does this office.

A more reasonable set of performance measures would include items such as distributing information and answering questions concerning the sports related major events. It would also be reasonable for the program director to continue to focus resources on the minor sporting events such as amateur athletics and international baseball. Another potentially important issue could be to assist with attracting sponsors for local events such as the Copper Bowl in Tucson. Cactus League preservation may be more appropriately labeled as a secondary objective. The program Self-Assessment includes an analysis concerning possible future threats to Arizona spring training baseball. Texas has recently passed legislation to allow counties to levy taxes to pay for baseball facilities. In addition, Nevada is considering privately funding spring training expenses that are usually paid for by the teams. At this time, it is difficult to determine if either is a serious threat. The office may still monitor the Cactus League through its association with the Arizona Baseball Commission, and be prepared to take some form of action if a real threat develops.

Currently, the Department of Commerce maintains a separate program for sports development operations. As discussed above, the Department of Commerce receives from the General Fund $107,400 for the sports development program's operations and uses $31,200 of its advertising and promotion monies to supplement the General Fund expenditures. While the product of the General Fund investment remains unclear, the advertising and promotion monies have resulted in identifiable products. The advertising and promotion monies provide for the production of Cactus League promotional materials, economic impact studies concerning various sporting events, and the promotion of Arizona as an international baseball destination.

Another alternative is to eliminate the General Fund allowance for sports development and allow the Department of Commerce to utilize the advertising and promotion monies to continue to fund the production of Cactus League promotional materials, economic impact studies, and promotional materials concerning international baseball. The duties of acting as legislative and public liaison, promoting the Cactus League, and commissioning economic impact studies would be the responsibility of the National Marketing Division which is already responsible for the other Arizona industries. The Department of Commerce's resources related to international trade would then support the promotion of international baseball.

The Arizona Baseball Commission, which was established by Executive Order in 1990 to monitor Cactus League economic and facility-related needs, would continue to monitor the important stadium funding issues. The remaining less measurable duties such as attracting Super Bowls, Major League Baseball All-Star games, National Hockey League All-Star games, National Basketball Association All-Star games, etc. would continue to be maintained by the private sports community.

ARIZONA BUSINESS ASSISTANCE CENTER
Department of Commerce
JLBC/OSPB Joint PAR Report

Overview – The Arizona Business Assistance Center serves as a liaison between the small business community and public and private organizations and provides information and assistance to individuals and companies establishing, expanding, or relocating businesses in Arizona. The program has three separate subprograms: *The Arizona Business Connection, Minority and Women-Owned Business Enterprise Services*, and the *Small Business Advocate*. After reviewing the agency Self-Assessment, JLBC and OSPB Staff reached the following conclusions:

- Surveys conducted by the Department of Commerce indicate that customers are very satisfied with the services provided by one of the Arizona Business Assistance Center's subprograms, the Arizona Business Connection.

- The Self-Assessment did not include goals and performance measures for the Small Business Advocate and Minority/Women-Owned Business Enterprise Services subprograms, which makes it difficult to know whether these subprograms are achieving their intended results. The lack of measures also undermines the Minority/Women-Owned Business Enterprise Services' statutory mandate to "provide data relating to minority and women-owned businesses and promote utilization and development of the state's minority and women entrepreneurs" (A.R.S. § 41-1504A.16).

The Self-Assessment submitted by the Department of Commerce Business Assistance Center provided complete information on the Arizona Business Connection, but lacked required information about Minority and Women-Owned Business Enterprise Services and the Small Business Advocate. The department did provide some follow-up information upon request, but would not provide performance measures for these two programs. The program's current strategic plan with performance measures for the Business Connection immediately follows this joint report.

Program Description – The Arizona Business Assistance Center functions as a separate division within the Department of Commerce. The center is comprised of three subprograms: The Arizona Business Connection, Minority and Women-Owned Business Enterprise Services, and the Small Business Advocate.

- *The Arizona Business Connection* helps small business entrepreneurs establish and operate their businesses in Arizona through a "one-stop shop" which answers technical questions, provides a customized information packet to each telephone or walk-in customer, and makes referrals to other providers of services to small businesses. In conjunction with the Arizona Business Gazette, the Business Connection also co-sponsors the <u>Small Business Book</u>, a handbook for Arizona entrepreneurs.

- *Minority and Women-Owned Business Enterprise Services* promotes and coordinates programs and services that support minority and women-owned businesses throughout the state. In particular, Minority/Women Business Services assists with certification of minority and women entrepreneurs, supplier opportunities with government and large businesses, and the promotion of the State of Arizona procurement program to all small businesses.

- The *Small Business Advocate* facilitates two-way communication between small businesses and state government. The advocate provides a direct link between the Governor and small business owners, monitors legislative issues and lobbies for small business interests, handles complaints from small business owners about state agencies, and directs a 22-member Governor's Small Business Executive Council.

Program Funding – The majority of funding for the Arizona Business Assistance Center is provided through an appropriation from the State General Fund and the Commerce and Economic Development Commission (CEDC) Fund. In addition, the center receives approximately $100,000 in non-appropriated monies each year from the Department of Commerce Donations Fund through a targeted donation from the Arizona Business Gazette (Phoenix Newspapers, Inc.). The center's appropriation remained level from FY 1996 to FY 1998. Table 1 details the full-time positions and monies allocated to each subprogram in FY 1997:

Table 1: Arizona Business Assistance Center Funding
FY 1997

	Business Connection	Minority/Women Owned	Small Business Advocate	Program Total
Full-Time Staff	5.0	2.0	2.0	9.0
General Fund	$252,300	$ 0	$ 0	$252,300
CEDC Fund	0	103,700	103,700	207,400
Donations Fund	100,000	0	0	100,000
Subprogram Total	**$352,300**	**$103,700**	**$103,700**	**$559,700**

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- ***How does the program mission fit within the agency's overall mission and the program's enabling authority?***

The Arizona Business Assistance Center's mission to "serve as a liaison between the small business community of Arizona and public and private organizations by providing timely and accurate information and assistance to individuals and companies establishing, expanding or relocating businesses in Arizona" fits well within the Department of Commerce's mission and goals. The center's mission reflects the enabling authority for the Small Business Advocate and the Arizona Business Connection. It does not, however, explicitly reflect the statutory requirements found in A.R.S § 41-1504A.16 stating that the Department of Commerce shall establish a minority and women-owned business development program, provide data relating to minority and women-owned businesses, and promote utilization and development of the state's minority and women entrepreneurs.

◆ ***Does the program meet its mission and goals efficiently and effectively, including comparisons with other jurisdictions? Do the program's performance measures and performance targets adequately capture these results?***

The Self-Assessment provided detailed data on the performance of the Arizona Business Connection, but lacked performance data on the division's other two subprograms - Minority/Women-Owned Business Enterprise Services and the Small Business Advocate. The performance measures in the Self-Assessment were geared toward evaluating volume of activities and customer satisfaction of the Arizona Business Connection. For instance, performance data shows that the Business Connection responded to over 33,000 initial client contacts in FY 1996. The goals and performance measures of the Business Connection are adequate and consistent with the subprogram mission. Furthermore, the Business Connection has performance monitoring software that provides daily, weekly, monthly, and annual reports of client initial contacts, visits, and counts of subsequent customer communications. Although the performance measures for the Business Connection do not provide comparisons with other jurisdictions, such detailed monitoring encourages efficiency and the Self-Assessment states that the Business Connection's customized software "is nationally recognized as the best system available."

Surveys conducted by the Department of Commerce reveal that customers are very satisfied with the services provided by one of the Arizona Business Assistance Center's subprograms, the Arizona Business Connection. Anecdotal information from clients and local business organizations also supports the surveys' conclusions. The Arizona Business Connection regularly surveys its customers. Written survey questionnaires are sent to approximately 25% of the clients that receive information packages from the Business Connection. Since 1995, approximately 7,100 questionnaires have been issued to solicit customer feedback. While the total response rate is only 5% (343 of those surveyed responded), 99% of the respondents felt that the Business Connection's services were either good or excellent. This clearly demonstrates that the Business Connection's customers believe the subprogram has been effective. Additionally, the program's management holds meetings and maintains contact with various stakeholders to discuss the services provided by the Business Connection and adjust operations when appropriate.

The Self-Assessment did not include goals and performance measures for the Small Business Advocate and Minority/Women-Owned Business Enterprise Services subprograms, which makes it difficult to know whether these subprograms are achieving their intended results. The lack of measures also undermines the Minority/Women-Owned Business Enterprise Services' statutory mandate to "provide data relating to minority and women-owned businesses and promote utilization and development of the state's minority and women entrepreneurs" (A.R.S. § 41-1504A.16). Although the department provided some additional information on Minority/Women Business Services, it would not provide performance measures for the two subprograms.

The mission of Minority and Women-Owned Enterprise Services is "to assist minority and women entrepreneurs by helping develop, promote and produce programs which specifically benefit those businesses." Although the mission is consistent with the mandate found in A.R.S. 41-1504, the department has failed to develop goals and objectives that provide measurable targets necessary to support and carry out this mission. Additionally, the enabling statute for Minority/Women Business Services requires the department to provide data relating to minority and women-owned businesses and promote the utilization and development of such businesses. Based upon the information provided in the Self-Assessment, there is no indication as to how well the department is carrying out these statutory duties.

The question of utilization of small businesses as suppliers by state government and large private companies remains a very important issue to small businesses in general and to minority and women-owned entrepreneurs in particular. Several studies have shown that certain groups of qualified businesses have been under-represented and under-utilized as suppliers and contractors. Since Minority/Women Business Services has a statutory mandate to provide data on minority and women-owned businesses in Arizona, a useful performance measure would compare the representation of qualified minority and women-owned businesses in the state procurement process to the percentage of minority and women-owned businesses in the state. Also, Minority/Women Business Services could provide data on the supplier opportunities it facilitates in the private sector.

The mission of the Small Business Advocate is to "promote the creation, growth and vitality of small business in Arizona and to act as the voice for small business interests before the Governor, the Legislature, state agencies and the community at large." While the mission is consistent with the enabling authority, the Self-Assessment indicates that this office is "primarily an advocacy function" and provides no goals, no objectives, and no unit costs to enable any objective evaluation of this subprogram's activities.

Although anecdotal information from some local business organizations is generally favorable about the Small Business Advocate, some of its functions appear to be duplicative. For instance, the office director lobbies the state Legislature on behalf of small business. However, the Department of Commerce already has a full-time legislative liaison and most business organizations (including those representing small businesses) have their own lobbyists.

- ***Are there other cost-effective alternative methods of accomplishing the program's mission?***

Based on available information, including the Self-Assessment, the only component of the Arizona Business Assistance Center that could be privatized is the Arizona Business Connection. The Business Connection's Small Business Handbook is already "semi-privatized" as it is a co-venture with the Arizona Business Gazette which generates revenue through advertising. However, there appear to be proprietary issues in privatizing the other services of the Business Connection as most clients insist that all of their business communications with Commerce remain private.

Since the Arizona Business Assistance Center already has a presence on the Department of Commerce's web page, another alternative method of accomplishing the Arizona Business Connection's mission would be to make some of the subprogram's customized software available on the Internet. This would allow clients to request information and related forms without increasing the workload of the Business Connection's current staff. There are specific questions which would still have to be answered one-on-one, but other general information, such as where to go for licensing or names of small business organizations in different areas of the state, could be made available on the Internet.

FINANCIAL SERVICES
Department of Commerce
JLBC/OSPB Joint PAR Report

Overview - The mission of the Department of Commerce's Financial Services Division is to create quality jobs and stimulate economic development statewide through the strategic provision of financial resources. The division has 7 programs that provide financial assistance in the form of loans, grants, regional development incentives, and Private Activity Bonds. After reviewing the agency Self-Assessment, JLBC and OSPB staff reached the following conclusions:

- Arizona has experienced strong economic growth and job creation during the past several years, but the extent to which the Financial Services Division contributed to this growth is unclear.

- Although statute requires that special consideration be given to economically disadvantaged areas of the state in the Commerce and Economic Development Commission (CEDC) award process, the majority of CEDC funding goes to recipients in urban, nondisadvantaged areas. The percentage of funding going to recipients in economically disadvantaged areas was significantly lower from FY 1994 to FY 1997 than during earlier years of the program.

- The Work Force Recruitment and Job Training approval process is not very competitive. As a result, between FY 1995 and FY 1997, at least 80% of all Work Force Recruitment and Job Training applicants received funding, including companies training workers for low hourly wages.

- The CEDC's failure to adopt rules undermines the credibility of CEDC funding decisions.

- The activities of the Border Infrastructure Finance Office overlap with the activities of the Department of Commerce's recently established Greater Arizona Development Authority.

The agency Self-Assessment was satisfactory and contained all of the required information. In addition, the Financial Services director and staff met with OSPB and JLBC Staff and provided follow up written information to the Self-Assessment upon request. The program's current strategic plan with performance measures immediately follows this joint report.

Program Description - The Department of Commerce's Financial Services Division (now called the Strategic Finance Division) includes 7 financial assistance activities, 4 of which are loan and grant programs that provide the majority of Financial Services' assistance. The loan and grant programs are the Commerce and Economic Development Commission (CEDC), Work Force Recruitment and Job Training (Job Training), Revolving Energy Loans for Arizona, and Economic Strength Projects. Also within the division are 2 regional development programs, Enterprise Zones and the Border Infrastructure Finance Office, as well as Private Activity Bonds. Table 1 provides an overview of each program's statutory authority, type of financial assistance, and project funding process.

Table 1: Overview of Financial Services Activities

Program & Date Established	Statutory Reference	Type of Assistance	Review, Approval, and Monitoring Process
Commerce and Economic Development Commission (1989)	Provides financial assistance to help locate and expand businesses and other qualified projects in Arizona, with special attention to businesses in economically disadvantaged areas of the state. (A.R.S. § 41-1505.05 to 1505.07 and 41-1505.10)	Loans and grants in 3 categories: Direct Assistance to Arizona Businesses for expansion capital (top priority); Technology Sector Capital; and the Intermediary Participation Program. Also funds Small Business Innovation Research and Capital Market loans to establish a stock exchange in the state.	Staff reviews application and completes Economic Impact Analysis, 6-member CEDC Commission approves/denies funding, staff monitors and audits recipients annually.
Work Force Recruitment and Job Training (1993)	Provides training and retraining for specific employment opportunities with new and expanding businesses and businesses undergoing economic conversion. Small businesses and businesses in rural areas are each designated a minimum of 15% of the annual appropriation for Job Training through April 1 of each FY. (41-1541 to 1544)	Grants to businesses that are creating net new jobs in the state. Priority is given to businesses identified with GSPED clusters, involved in manufacturing and warehouse distribution, and establishing a corporate headquarters in Arizona. Training is conducted by a community college, a licensed private postsecondary institute, or another qualified training provider.	Staff reviews application, Director of Commerce approves/denies, Council oversees decisions, staff reviews annually.
Revolving Energy Loans for Arizona (1989)	The director may grant loans from the Oil Overcharge Fund to assist political subdivisions and nonprofit organizations to fund energy projects. Monies in the Oil Overcharge Fund may be expended for grants and other allowable purposes upon approval of the JLBC. (41-1509)	Loans to 1) entities to buy energy-conserving products for use in their facilities and 2) manufacturers of energy-conserving products.	Staff of the Energy Division and Financial Services review application, 3-member RELA Committee approves/denies, staff tracks.
Economic Strength Projects (1989)	Funds highway projects which retain or create jobs, lead to capital investment, or make a contribution to the economy of the state or a local jurisdiction. (28-1895, 28-7281, 41-1513)	Grants to local governments	Staff reviews applications and conducts Economic Impact Analysis, CEDC Commission recommends funding, ADOT project priority committee reviews, State Transportation Board approves projects, ADOT audits.
Enterprise Zones (1989)	An area may be designated an enterprise zone if its average annual unemployment rate is at least 150% of the statewide unemployment rate or if its poverty rate is at least 150% of the statewide poverty rate. (41-1521 to 1528)	Income tax credits for job creation and property tax incentives for small and minority/women-owned manufacturing businesses.	Staff designates areas as EZs and certifies businesses as meeting the requirements for income tax credits or property tax incentives, AZ Dept of Revenue audits taxpayers.
Border Infrastructure Finance Office (1995)	In 1995, session law authorized funding for the Border Infrastructure Finance Office to coordinate funding requests for infrastructure needs along the AZ-Mexico border. (Laws 1995, Ch 209)	Coordination among border communities, state agencies, and financing partners. BIFO also compiles a Resource Directory.	N/A
Private Activity Bonds (1968)	The Dept. of Commerce is the state's registry for Private Activity Bonds, which are to be allocated as follows: housing - 35%; student loans - 20%; manufacturing - 15%; other - 15%; and Director's discretion - 15%. (35-901- 912 & others)	Tax-exempt bond authority to city and county industrial development boards. The state's annual volume cap is established in statute and the IRS code.	Staff conducts 2 lotteries to select among qualified applicants each year - 1 at the beginning of the year and 1 to repool remaining funds during the middle of the year.

Program Funding - The Financial Services Division receives funding from the General Fund and four other fund sources. The division's appropriation remained level between FY 1996 and FY 1998, although financial assistance amounts vary by year depending on available funding and the number of qualified applicants. Table 2 details the full-time positions and monies allocated to each program in FY 1997. The italicized numbers represent financial assistance amounts that were expended for Revolving Energy Loans for Arizona and Economic Strength Projects from a division/agency other than Financial Services.

Table 2: Financial Services Funding in FY 1997

Program Name & Fund Source	Full-Time Staff	Administrative Funding	Financial Assistance
Commerce & Economic Development Commission (Lottery)	3.5	$197,200	$2,850,000
Work Force Recruitment and Job Training (General Fund)	2.0	84,000	4,500,000
Private Activity Bonds (Bond Fund)	1.5	93,000	0 [1]
Revolving Energy Loans (Oil Overcharge Fund)	1.5	88,400 [2]	*356,600* [2]
Economic Strength Projects (Highway User Revenue Fund)	0.0	0	*1,100,000* [3]
Enterprise Zones	0.0	0	0 [4]
Border Infrastructure Finance Office (CEDC Fund)	1.0	100,200	0
Totals	9.5	$562,800	$8,806,600

1/ In FY 1997, the state's volume cap for tax-exempt Private Activity Bonds was $221,400,000.

2/ Revolving Energy Loans for Arizona are expended through Commerce's Energy Division, which receives an additional $35,100 in administrative funding.

3/ Economic Strength Projects' financial assistance is transferred from the Arizona Department of Transportation's (ADOT's) Highway User Revenue Fund and expended from ADOT's non-appropriated Economic Strength Project Fund.

4 Enterprise Zones generated an estimated $2,149,700 in tax credits in FY 1997.

As Table 2 shows, the Financial Services Division does not receive administrative funding for Economic Strength Projects and Enterprise Zones. Rather, administrative monies from Revolving Energy Loans for Arizona, Private Activity Bonds, and CEDC are used to staff these two programs.

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- ***How does the program mission fit within the agency's overall mission and the program's enabling authority?***

The Department of Commerce's overall mission is to "lead and promote economic development which creates quality jobs and supports a globally-competitive Arizona." The Financial Services Division's mission "to create quality jobs and stimulate economic development statewide through the strategic provision of financial resources" fits well within the overall mission of the Department of Commerce. Each of the programs within the Financial Services Division has separate enabling authority, as shown in Table 1. While most of the activities conform with their enabling authority, the CEDC has not carried out all of its statutory powers and duties.

The CEDC's failure to adopt rules undermines the credibility of CEDC funding decisions. In spite of statutory authorization to do so (A.R.S. § 41-1505.06A.12), the Commission has not yet adopted rules, but rather bases grant and loan decisions upon guidelines to which exceptions may be made. The Commission was created in 1989 and language authorizing the Commission to adopt rules was added to statute by Laws 1993, Chapter 248. In an April 1993 performance audit, the Auditor General noted that "Operating with broad guidelines leads to inconsistencies in CEDC loan decisions that at a minimum, give the appearance that some award recipients receive special consideration." (Report 93-3, p. 8) Four years after the audit, this perception still exists. The director of the Financial Services Division reports, however, that the division has recently made CEDC rule establishment a top priority with a target completion date of May 1998.

- ***Does the program meet its mission and goals efficiently and effectively, including comparisons with other jurisdictions? Do the historical performance measurements and the future performance targets adequately measure goals?***

Arizona has experienced strong economic growth and job creation during the past several years, but the extent to which the Financial Services Division contributed to this growth is unclear. Many factors contribute to state economic growth, including work force availability, infrastructure, costs of property and construction, and quality of life. It is difficult to measure how much of Arizona's economic growth is attributable to state business incentive programs and how much of it is attributable to other factors. What is known is that the combination of these factors has made Arizona very competitive at recruiting and retaining businesses.

The Financial Services Division's performance measures provide information on the division's workload, but they do not provide any comparisons with other jurisdictions (public or private), and they do not include customer feedback. Rather, performance targets are based on the Financial Services Division's own past performance. The Self-Assessment provided performance outcome data for loan/grant programs and Enterprise Zones that include the number of jobs created, number of tax dollars generated, and capital investment leveraged. According to the division, in FY 1996 loan and grant programs contributed to over 11,000 new jobs, almost $85,000,000 in tax revenue, and over $800,000,000 in leveraged capital investment. The JLBC/OSPB review team did not verify the accuracy of this information. Assuming the figures are accurate, the Department of Commerce still cannot take full credit for these figures because it is impossible to know how much of this growth would have occurred in the absence of the Financial Services Division's programs.

The Self-Assessment also provided efficiency measures such as the number of problem loans/grants and application turnaround time. Performance data show that between FY 1995 and FY 1996, the division became more efficient at processing applications and had fewer problem loans/grants. In the case of the problem loans and grants, a better measure would compare the division with private entities or other states that offer similar loans and grants. Finally, the performance measures in the Self-Assessment do not include any customer feedback. However, the Self-Assessment indicates that program customers have expressed concerns with the amount of work required to apply for funding along with lengthy processing time by the Department of Commerce. Anecdotal evidence also suggests that some of Financial Service's programs are not well suited for small businesses. Since the Financial Services Division surveys its CEDC and Work Force Recruitment and Job Training recipients annually, it would be useful to incorporate their feedback into the performance measures. It would also be useful to survey those who contact the division, but do not receive funding, for their input into the process.

Along with the performance measures, OSPB/JLBC staff reviewed Work Force Recruitment and Job Training and CEDC portfolios to see how the Financial Services Division's two largest loan/grant programs distribute their funds. A summary of both program's portfolios divided by large/small recipients (a small recipient is any company with under 100 employees) and urban/rural recipients is shown in Table 3. Complete CEDC and Job Training portfolios are included as Appendix 1 and Appendix 2.

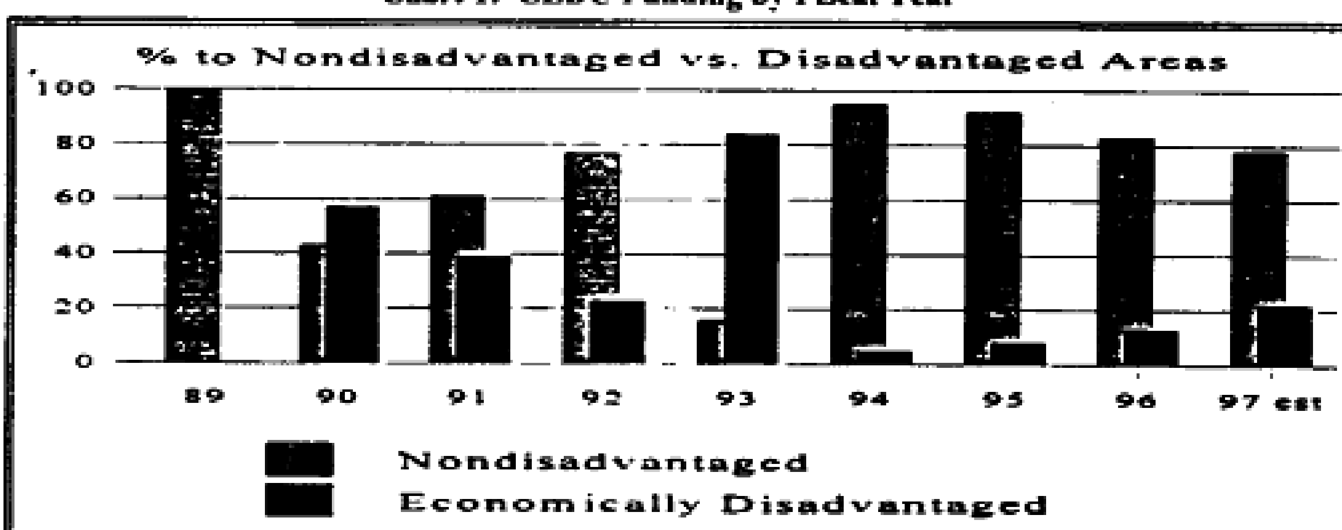
Table 3: CEDC and Job Training Loan/Grant Profile

Portfolio Distribution	CEDC Loans/Grants 1/ FY 1989 - FY 1997	Job Training Grants FY 1994 - FY 1997
% to Large Urban Recipients 2/	52.0%	77.6%
% to Small Urban Recipients 2/	14.3%	11.6%
% to Large Rural Recipients	8.0%	6.9%
% to Small Rural Recipients	21.7%	3.9%
% to Other Recipients	4.1%	0.0%
Total Funding through FY 1997	**$13,606,811**	**$17,431,381**

1/ CEDC figures exclude monies for legislative mandates ($1,250,000), Small Business Innovation and Research Grants ($1,000,000), and Capital Markets loans ($2,950,000).
2/ Urban recipients include those in Urban Enterprise Zones.

Although statute requires that special consideration be given to economically disadvantaged areas of the state in the CEDC award process, the majority of CEDC funding goes to recipients in urban, nondisadvantaged areas. The percentage of funding going to recipients in economically disadvantaged areas was significantly lower from FY 1994 to FY 1997 than during earlier years of the program. There is a perception that not enough CEDC funding goes to economically disadvantaged communities. However, CEDC statutes do not say that a certain amount or percentage of funding must

Chart 1: CEDC Funding by Fiscal Year 1/



1/ Figures exclude monies for legislative mandates, Small Business Innovation and Research Grants, and Capital Markets Loans.

go to economically disadvantaged areas (or small businesses or rural areas), but rather that "In awarding assistance, consideration shall be given to the economically disadvantaged areas of the state" (§ 41-1505.07I). Because CEDC and Job Training statutes are broadly written, it is difficult to determine legislative intent.

CEDC considers applications on a first-come, first-served basis each fiscal year, and at each monthly Commission meeting any funding requests from economically disadvantaged areas are considered before those from nondisadvantaged areas of the state. The director of the Financial Services Division points out that all qualified applicants from economically disadvantaged areas have received CEDC funding and that the division does not have enough staff or resources to aggressively market the program in rural and economically disadvantaged communities. Nonetheless, Chart 1 shows that the percentage of CEDC funding going to disadvantaged areas was much higher during the early years of the program than it was from FY 1994 to FY 1997. If the Legislature wanted to guarantee more funding to disadvantaged areas (or any other group), statute would have to be changed to clarify this intent.

Like CEDC statutes, Job Training statutes are broad in stating that the program is to provide "training and retraining for specific employment opportunities" for new businesses, expanding businesses, and businesses undergoing economic conversion (§ 41-1541A). The statute also specifies that 15% of funding go to small businesses (100 or fewer employees) and 15% go to rural businesses (A.R.S. § 41-1544D & E).

The Work Force Recruitment and Job Training application process is not very competitive. As a result, between FY 1995 and FY 1997, at least 80% of all Work Force Recruitment and Job Training applicants received funding, including companies paying low hourly wages. Job Training's written guidelines require that recipients have a profitable operating history of at least two years, and the eligibility point scale takes into account whether the company is in a rural/economically disadvantaged area, industry type, average wage level of new jobs, number of jobs created, and benefits. However, the approval process is still fairly generous. While the majority of Job Training funds go to companies creating average to above-average paying jobs, approximately 20% of Job Training funding from FY 1994 to FY 1997 went to companies training workers for below-average wages for the county in which the company was located. This is inconsistent with the state's economic development strategy to boost income. In FY 1997, a Tucson company training workers for $11,440/year jobs ($5.33/hour if full time) received a grant of almost $100,000 and past recipients include large Phoenix and Tucson "business service" companies with wages well below county averages. However, statute does not specify that funding should only go toward high paying jobs or jobs for which there are labor shortages in the state. Statute would need to be more clear if this is the intent. Regardless, as the number of Job Training applications increases, the Financial Services Division might consider tightening its sliding point scale and award criteria in order to award grants that will stimulate the most economic development in the state.

- ***Are there other cost-effective methods of accomplishing the program's mission?***

The Financial Services Division has made some administrative changes to best accomplish its mission with limited resources. First, it has streamlined its application intake and credit analysis process so that all loan and grant applications are processed in a uniform way. The division is also in the process of privatizing a portion of the CEDC loan portfolio to save administrative time and money.

The activities of the Border Infrastructure Finance Office overlap with the activities of the recently-established Greater Arizona Development Authority. Laws 1997, Chapter 208 established the Greater Arizona Development Authority to help rural communities meet their infrastructure needs by issuing bonds, guaranteeing debt obligations, and providing technical and financial assistance. The Border Infrastructure Finance Office was established in Laws 1995, Chapter 209 to help Arizona-Mexico border communities meet their infrastructure needs through coordination and technical assistance. Because their roles are so similar, it would seem logical to consolidate the two programs.

- ***Are there other special issues of interest?***

This PAR has raised or reinforced a number of issues related to the Financial Services subprogram. A.R.S. § 41-1509D requires an annual report from the Department of Commerce on the status of the Oil Overcharge Fund. It is difficult to evaluate the Revolving Energy Loans for Arizona program because the Arizona Department of Commerce's Energy Division has not completed an annual Oil Overcharge Fund report since FY 1994. Although not related to this PAR, this lack of reporting also makes it difficult to assess the effectiveness of the Energy Division's other Oil Overcharge programs. The Oil Overcharge Fund has a declining fund balance, with approximately $10 million remaining at the beginning of FY 1998.

Two other timely issues warrant mention in this report. According to current statute, the Financial Services Division may not certify any new Enterprise Zone businesses after June 30, 1998. During the 1998 Legislative Session, legislation may be introduced to extend the Enterprise Zone program. Finally, the recently passed federal and state welfare reform laws create opportunities for increased coordination between the state's various job training programs. Financial Services is already providing the names and descriptions of Job Training grant recipients to the Department of Economic Security (DES). At the same time, Financial Services gives each grant recipient a contact name at DES to facilitate job training and the placement of welfare recipients. In addition, Financial Services is revising Job Training eligibility guidelines to give applicants points if they provide transportation and/or child care for employees, or if they train and hire welfare recipients. The recent transfer of two Governor's Office employment programs (School to Work and Workforce Development) to the Department of Commerce should also lead to increased coordination.

Appendix 1

CEDC Portfolio

FY 1989 - May 30, 1997 (including pending commitments)

ID #	Recipient	Loan/Grant/ Guaranty	Amount	Location	Size	Rural or Urban	Disadvantaged Area? (Y/N)
89-01	Muscular Dystrophy Assoc	G	1,000,000	Tucson	L	U	N
91-06	Coronado Venture	L	200,000	Tucson	L	U	N
92-07	McDonnell Douglas Travel Co	L	700,000	Phoenix	L	U	N
92-09	Atlas Headwear	L	100,000	Phoenix	L	U	N
92-12	America West Airlines	L	1,000,000	Tempe	L	U	N
95-01	Tucson Urban League	Gu	50,000	Tucson	L	U	N
95-02	Fox Animation Studios	L	650,000	Phoenix	L	U	N
96-03	Campus Research Corp	G	500,000	Tucson	L	U	N
96-09(a)	Dial Corp	G	1,000,000	Scottsdale	L	U	N
96-09(b)	Dial Corp	L	1,000,000	Scottsdale	L	U	N
97-03(a)	AlliedSignal Aerospace Equip Sys.	G	400,000	Tucson	L	U	N
97-03(b)	AlliedSignal Aerospace Equip Sys.	L	350,000	Tucson	L	U	N
96-04	AZ Council for Econ Conversion	G	125,000	Tucson	L	U	N/A
91-07	Urban Coalition West	L	40,000	Maricopa Cty	S	U	N
92-05	Signature Industries	L	76,000	Phoenix	S	U	N
93-12	Jack of All Trades	Gu	25,000	Phoenix	S	U	N
93-20	Dorado Design, Inc	L	20,000	Tucson	S	U	N
93-21	Universal Industries	L	200,000	Phoenix	S	U	N
94-01(a)	AZ Technology Incubator	L	250,000	Scottsdale	S	U	N
94-01(b)	AZ Technology Incubator	L	50,000	Scottsdale	S	U	N
95-01	Childhelp, Inc	L	300,000	Phoenix	S	U	N
95-04	Medicis Pharmaceutical Co	L	131,345	Phoenix	S	U	N
95-05(e)	Photometrics, Ltd	Gu	270,000	Tucson	S	U	N
95-06	J.M. Wells Co	L	200,000	Phoenix	S	U	N
97-01	Saguaro Steel, Inc	L	100,000	Phoenix	S	U	N
93-13	Foster Electric Motor Svc, Inc	L	168,740	Chandler	S	U	Y
93-19	Riotech Inc	L	100,000	Lakeside	S	U	Y
95-02	Self-Employment Loan Fund	L	9,375	Phoenix	S	U	Y
92-08	Evergreen Air Center	L	230,000	Marana	L	R	N
90-01	PPEP Microbusiness	L	117,500	Tucson	L	R	Y
92-10	Factory 2 U	L	250,000	Nogales	L	R	Y
93-18	Sierra Vista Econ Dev Fund	L	476,000	Sierra Vista	L	R	Y
94-02(a)	Navajo Nation Health Foundation	L	16,000	Ganado	L	R	Y
92-03	Yavapai Block Co	L	300,000	Prescott	S	R	N
92-06	Monsey Products Co	L	250,000	Kingman	S	R	N
92-11	Barrnyo, Inc	L	50,000	Casa Grande	S	R	N
90-01	PPEP Microbusiness	G	40,000	Tucson	S	R	Y
90-03	Ferrell Secakuku	L	42,000	Second Mesa	S	R	Y
91-04	Smith and Bell Construction	L	85,000	Safford	S	R	Y
91-05	K-Tronics	L	70,000	Bisbee	S	R	Y
92-01	Eurofresh, Inc	L	400,000	Bonita	S	R	Y
92-02	Nava-Hopi Tours, Inc	L	25,530	Flagstaff	S	R	Y
92-04	AACCO Cast Products	L	140,000	Benson	S	R	Y
93-14	Lakeside Entertainment Grp	L	150,000	Pinetop/Lakeside	S	R	Y
93-15	Crossroads Auto Mart	L	105,000	Safford	S	R	Y
93-16	Joe R. Mora, Inc	L	145,000	Ganado	S	R	Y

ID #	Recipient	Loan/Grant/ Guaranty	Amount	Location	Size	Rural or Urban	Disadvantaged Area? (Y/N)
93-17	Maxwell Development Co	L	350,000	Show Low	S	R	Y
95-03	Rodrigues dba The Learning Tree	L	128,000	Sierra Vista	S	R	Y
96-01	Maxwell Dev & TDM Venture Corp	L	321,121	Show Low	S	R	Y
96-05	Marley Cooling Towers	G	64,000	Eloy	S	R	Y
96-11	Warrior Enterprises & Dineh Aircraft	G	35,000	Kinlichee	S	R	Y
97-02(a)	Unique Molding Products	G	79,000	Douglas	S	R	Y
97-02(b)	Unique Molding Products	L	167,200	Douglas	S	R	Y
90-02	First Commerce & Loan	L	150,000	Statewide	L	U & R	N
93-FY	AZ Economic Council	L	60,000	Statewide	S	U & R	N
96-02	Center for Low Power Electronics	G	225,000	Tucson	S	U & R	N
93-FY	Hispanic "Revive" Loan Pgm	L	120,000	Phoenix	S	U & R	Y
	Subtotal		$13,606,811				
	Capital Markets Loans	L	2,950,000	Statewide	S	U	N
	4 Legislatively Mandated Projects	N/A	1,250,000	Various	N/A	U & R	Both
	Small Business Innovation & Research	L	1,000,000	Various	S	U	N/A
	TOTAL CEDC FUNDING TO DATE		$18,806,811				

Appendix 2

Work Force Recruitment and Job Training Grant Portfolio
FY 1994 - FY 1997

FY approved*	Recipient	Grant Amt	Avg. Salary	Location	Size	Rural/Urban
1994	Bank One AZ BankCard Svc Ctr	281,869	25,603	Tempe	L	U
1994	Carlson Travel Network	52,040	19,374	Phoenix	L	U
1994	Catalina In-Home Svcs, Inc	24,000	14,596	Tucson	L	U
1994	Chipsoft	99,084	12,800	Tucson	L	U
1994 (3)	Discover Card Svcs	450,000	13,245	Phoenix	L	U
1994	Express Scripts	104,604	24,736	Tempe	L	U
1994	F & B Manuf. Co	49,500	19,468	Phoenix	L	U
1994	Hughes Missile Systems Co	500,000	32,256	Tucson	L	U
1994	Intuit	184,840	17,642	Tucson	L	U
1994	Matrixx Marketing	180,107	19,394	Tucson	L	U
1994	Microchip	242,725	30,119	Tempe	L	U
1994	National Computer Systems	40,000	39,171	Mesa	L	U
1994	Orbital Sciences Corp	170,000	27,922	Chandler	L	U
1994	Schreiber Foods, Inc	30,000	23,728	Tempe	L	U
1994	TRW Vehicle Safety Systems	254,100	17,621	Mesa	L	U
1994	The Cross Country Grp	300,000	13,951	Tucson	L	U
1994	Walgreens Healthcare Plus	200,000	24,192	Tempe	L	U
1995	Acme Electric Corp	14,700	25,200	Tempe	L	U
1995	Advanced Services, Inc	199,500	18,608	Phoenix	L	U
1995 (3)	Avnet, Inc	975,000	28,587	Phoenix	L	U
1995	Conair Corp	10,000	16,128	Glendale	L	U
1995	Eco Grp	20,000	38,304	Tempe	L	U
1995 (2)	Fox Animation Studios, Inc	300,000	46,727	Phoenix	L	U
1995	Loral Aeronutronic	60,000	25,160	Goodyear	L	U
1995	Microage Computer Ctrs, Inc	257,500	17,540	Tempe	L	U
1995	Olin Electronic Materials	79,500	18,960	Chandler	L	U
1995	Pillsbury Bakeries and Foodservice, Inc	52,095	20,724	Tempe	L	U
1995	PowerPackaging, Inc	88,000	15,180	Tolleson	L	U
1995	Promark One Mkting Svcs	93,600	17,237	Phoenix	L	U
1995	Roadway Package Svcs	191,927	24,031	Phoenix	L	U
1995	Sears Natl Bank	102,850	15,926	Phoenix	L	U
1995	Super Radiator Coils	10,000	25,019	Phoenix	L	U
1995 (3)	Supershuttle AZ, Inc	150,000	16,249	Phoenix	L	U
1995	The Vanguard Grp	136,125	19,253	Phoenix	L	U
1995	Waste Corp	160,000	14,455	Goodyear	L	U
1995	Wells Fargo	50,000	21,491	Phoenix	L	U
1995	Wyle Electronics	99,200	22,196	Phoenix	L	U
1996	Advanced Materials	33,600	22,683	Tempe	L	U
1996	Aetna Retirement Svcs	227,500	28,000	Phoenix	L	U
1996	Air Products and Chemicals	40,500	29,120	Tempe	L	U
1996 (2)	Cigna Healthcare	221,000	30,522	Phoenix	L	U
1996	Continental Circuits	102,000	13,932	Phoenix	L	U
1996	Distribution Architects	63,000	37,152	Tempe	L	U
1996	Electronic Data Systems	140,500	20,800	Tucson	L	U
1996	IPEC/Westech	113,400	27,720	Phoenix	L	U
1996	ITW Angleboard, Inc	13,300	22,216	Phoenix	L	U
1996	JDA Software, Inc	40,000	52,584	Phoenix	L	U
1996	Matson Navigation	54,000	26,148	Tempe	L	U
1996	Medtronic Micro-Rel, Inc	198,000	38,168	Tempe	L	U
1996	Mesa Sprinkler	18,000	28,268	Mesa	L	U
1996	Pacesetter, Inc	146,000	31,624	Scottsdale	L	U
1996	Safeway, Inc	190,000	20,970	Phoenix	L	U

FY approved*	Recipient	Grant Amt	Avg. Salary	Location	Size	Rural/Urban
1996	Silix of Phoenix	435,000	34,044	Phoenix	L	U
1996	Teletech	254,450	17,977	Tucson	L	U
1996	The Vanguard Group 2	136,126	21,216	Phoenix	L	U
1996	White Microelectronics	10,000	31,249	Phoenix	L	U
1997	Acme Electric	10,500	26,416	Tempe	L	U
1997	Aftermarket Co	263,900	28,746	Phoenix	L	U
1997	Bank One Svcs	612,936	24,939	Statewide	L	U
1997	Borden Italian Food Svcs	35,000	23,129	Tolleson	L	U
1997	Bulova Industries	60,000	24,438	Phoenix	L	U
1997	Charles Schwab	800,000	22,547	Phoenix	L	U
1997	Chase Cardmember Svcs	280,000	16,640	Tempe	L	U
1997	Conair Corp	18,700	17,472	Glendale	L	U
1997	Cross Country Grp 2	178,200	14,019	Tucson	L	U
1997	D&Z Microelectronics	48,000	57,733	Phoenix	L	U
1997	Dimension Aviation	150,000	34,798	Goodyear	L	U
1997	FA CS West	225,000	16,390	Tempe	L	U
1997	Fed. Comm. Contractors, Inc	67,000	26,605	Tempe	L	U
1997	Heil Environmental	10,000	16,886	Phoenix	L	U
1997 (2)	Hughes Missile Systems Co	200,000	39,520	Tucson	L	U
1997	Jerrik	56,000	16,348	Tempe	L	U
1997	Lincoln Laser	40,500	17,722	Phoenix	L	U
1997	MCDonnell Douglas Technical	193,000	34,320	Goodyear	L	U
1997 (2)	MCI Telecommunications	112,999	25,252	Chandler	L	U
1997	Old Tucson Studios	97,700	11,086	Tucson	L	U
1997	Opto Power 2	67,800	26,086	Tucson	L	U
1997	Sears National Bank 2	230,000	15,288	Tempe	L	U
1997	Smart	129,000	34,320	Goodyear	L	U
1997	Southwall Industries	25,000	23,379	Tempe	L	U
1997	Southwest Airlines	174,918	22,963	Phoenix	L	U
1997	Tucson Heart Hospital (Medcath)	243,900	31,429	Tucson	L	U
1997	Vanguard 3	406,000	24,093	Phoenix	L	U
1994	Concept Inc of Delaware, Eloy Detention	192,406	17,358	Eloy	L	R
1994	Hexcel Corporation	140,000	18,567	Casa Grande	L	R
1994	TRW Avionics and Surveillance Grp	114,000	36,288	Sierra Vista	L	R
1995	Abbott Labs - Ross Products Division	113,000	37,255	Casa Grande	L	R
1996	Stone Container Corp	175,000	39,104	Snowflake	L	R
1996	Wisconsin Tissue	59,250	20,404	Bellemont	L	R
1997	Corrections Corp of America	211,400	21,756	Eloy, Florence	L	R
1997	E.cil	108,425	21,487	Prescott	L	R
1997	Mitsui Components USA	85,000	16,404	Casa Grande	L	R
1994	Dial Manuf	16,500	11,440	Phoenix	S	U
1994	Ilek, Midak	18,000	38,100	Phoenix	S	U
1994	Upper Crust Bakery	79,224	15,906	Phoenix	S	U
1995	Controls West, Inc	7,000	36,288	Tempe	S	U
1995	Dynco Manufacturing	6,000	22,176	Phoenix	S	U
1995	Harris Precision Mold	31,500	31,046	Tempe	S	U
1995	Interface Data Systems	155,268	24,494	Phoenix	S	U
1996	Lane Award Manufacturing	47,430	19,616	Phoenix	S	U
1995	Lansdale Semiconductor	90,000	22,579	Tempe	S	U
1995	Medicis Pharmaceutical	44,000	27,539	Phoenix	S	U
1995	Rankin Technology Grp	12,000	34,716	Phoenix	S	U
1995	Service & Sales, Inc	14,000	30,905	Tempe	S	U
1995	Tech Mold, Inc	24,000	23,124	Tempe	S	U
1996	A-Tron Corp	20,769	28,516	Tucson	S	U
1996	AZ Rotocraft	93,000	32,052	Mesa	S	U
1996	Action-Net Group, Inc	130,000	26,349	Mesa	S	U
1996	Catalina Coatings, Inc.	37,500	24,716	Tucson	S	U
1996	Chez de Prez Cheesecake	29,232	19,374	Phoenix	S	U
1996	Competitive Engineering	73,830	34,320	Tucson	S	U

FY approved*	Recipient	Grant Amt	Avg. Salary	Location	Size	Rural/Urban
1996	First American Coop Engineering	18,000	31,200	Phoenix	S	U
1996	First Systech Internet	15,000	34,400	Phoenix	S	U
1996	GTX Corp	3,000	66,976	Phoenix	S	U
1996	Gum Tech, Inc	35,700	15,475	Phoenix	S	U
1996	Hy-Tech Forming Systems, Inc	14,443	18,023	Phoenix	S	U
1996	IPRO Inc	80,400	21,070	Phoenix	S	U
1996	Infoimage, Inc	105,000	43,530	Phoenix	S	U
1996	Learning Edge, Inc	44,610	37,000	Chandler	S	U
1996	MGI Electronics	22,000	30,333	Tempe	S	U
1996	Netpro Computing Inc	78,000	38,762	Scottsdale	S	U
1996	Opto Power Corp	51,000	24,624	Tucson	S	U
1996	Piper Plastics, Inc	30,000	27,206	Chandler	S	U
1996	Shamrock Towing & Accent Equip. Co	9,150	23,184	Phoenix	S	U
1997	ATL, Inc	50,000	29,120	Phoenix	S	U
1997	Accord Seg	40,600	34,108	Phoenix	S	U
1997	Breault Research	32,500	56,751	Tucson	S	U
1997	Compuware, MC2	80,000	52,000	Phoenix	S	U
1997	Cyma	48,290	24,500	Tempe	S	U
1997	Electronic Visions	16,900	28,640	Phoenix	S	U
1997	Flexpak	40,500	19,966	Phoenix	S	U
1997	La Patisserie Bakery	33,150	14,414	Phoenix	S	U
1997	Medicis Pharmaceutical	40,000	31,242	Phoenix	S	U
1997	Mega Systems and Chemicals	42,000	30,763	Chandler	S	U
1997	Miles Burke Associates	30,000	41,516	Phoenix	S	U
1997	Mss Technologies	24,000	43,875	Phoenix	S	U
1997	Network Infrastructure Corp	46,000	25,418	Tempe	S	U
1997	PFT, Inc	30,000	23,637	Phoenix	S	U
1997	PKS Systems	75,000	45,769	Phoenix	S	U
1997	Photometrics Inc	17,500	60,000	Tucson	S	U
1997	Spectrac Suspension	15,000	13,520	Gilbert	S	U
1997	Sun Systems, Inc	42,000	33,676	Scottsdale	S	U
1997	Walter's Precision Svc. Inc	40,000	32,656	Tempe	S	U
1994	Riotech, Inc	17,362	13,900	Pinetop/Lakesid	S	R
1995	Fort Apache Timber Co.	16,770	16,410	White River	S	R
1995	Sun State Truss of N. AZ	40,000	16,874	Kingman	S	R
1995	Whiting Bros-Holiday Inn Express	13,500	20,220	Show Low	S	R
1996	Marley Cooling Tower	54,400	17,742	Eloy	S	R
1996	Northstar Steel	155,000	23,506	Kingman	S	R
1996	PFFJ, Inc	27,600	17,544	Snowflake	S	R
1997	Dineh Aircraft Accessories	39,375	10,400	Ganado	S	R
1997 (2)	Granite Mtn Design	100,000	16,26[illegible]	Dewey	S	R
1997	Imperial Components	40,000	16,286	Eagar	S	R
1997	Precision Marble	9,000	15,433	Prescott	S	R
1997	PrintPack	7,000	32,573	Prescott Valley	S	R
1997	Thatcher Bldg Supply	30,800	11,440	Thatcher	S	R
1997	Tooh Dineh Industries	129,000	13,478	Leupp	S	R
	Total Grants	**$17,431,381**				

*A number in parentheses indicates the award was granted over a multiple-year period.

SURPLUS PROPERTY MANAGEMENT
Arizona Department of Administration
JLBC/OSPB Joint PAR Report

Overview - The mission of the Surplus Property Management program within the Arizona Department of Administration (ADOA) is to reutilize surplus state and federal personal property through an effective and efficient distribution system to eligible governmental and non-profit organizations and to maximize the dollar return to the state on the property sold to the general public. After reviewing the agency Self-Assessment, JLBC and OSPB Staff reached the following conclusions:

- The state program reimburses agencies differently for General Fund property than for Other Fund property.
- The program emphasizes redistributing useful property, not maximizing proceeds to the state.
- The program serves local governments and non-profit agencies in addition to state agencies.
- The federal General Services Administration commended ADOA for the performance of its federal surplus property program.
- The program tracks insufficient management information, but is working to improve data collection.
- According to the Competitive Government analysis conducted by ADOA, privatization is a viable option for the program's property transportation and auction functions.

The agency Self-Assessment was well written and contained most of the required information. The JLBC and OSPB Staffs acquired further information about the program through follow-up meetings, a tour, and information requests. The department regularly conducts customer satisfaction surveys and, as part of the Self-Assessment, conducted a benchmarking survey of 11 states (including Arizona). The program's current strategic plan with performance measures immediately follows this joint report.

Program Description - The Surplus Property Management program collects property, which it either sells, recycles, disposes of, or redistributes to governmental and non-profit entities. The program accepts property from schools, local government, and federal, state and non-profit agencies ("donors"); then redistributes it to other such agencies ("donees"). Entities using the program include, for example, state agencies, small city governments, fire districts, school districts, charter schools, half-way houses, county jails, non-profit hospitals, and food banks. For disposal of unusable items, the program accepts (and picks up) only state agency items. The recycling program primarily handles state agency scrap metal and office paper. The program provides state agencies with paper recycling bins, which are picked up on a regular basis by private sector contractors. ADOA only accepts federal items either requested by, or likely to be chosen by, a donee. The program is responsible for selecting and picking up federal items; it uses both in-house staff and contracted transportation services.

The program tracks "state" and "federal" surplus separately. All non-federal items (from state agencies, schools, et cetera) are considered "state" surplus. For state property in FY 1996, the department received 1,800 disposal forms containing 22,402 line items. (A line item may contain one or several items of a given type, such as "10 chairs.") It processed 866 transfer documents to redistribute state property to donees. (Transfer documents may contain multiple line items.) For federal property, the department visited federal sites and selected approximately $1,825,200 worth of items for the program to receive in FY 1996. It processed 548 transfer documents to redistribute federal property to donees. The program maintained active files on 675 donee agencies and logged 3,608 visits from donees at the surplus property warehouse.

The program typically holds three public auctions a year, where it sells items not purchased (or likely to be chosen) by donee agencies. Low value items are grouped with like items for sale as one "lot." The auctions are attended by dealers and members of the public. In FY 1996, the program registered a total of 1,625 bidders and sold 1,217 lots of items, collecting $1,419,100 for state property and $21,000 for federal property.

Program Funding - The program has two non-appropriated funds, established by A.R.S. § 41-2606: the State Surplus Materials Revolving Fund (State SMRF) and the Federal Surplus Materials Revolving Fund (Federal SMRF). The statute requires that all uncommitted monies in excess of $100,000 in the State SMRF at the close of a fiscal year revert to the General Fund. For the Federal SMRF, the statute requires that all uncommitted monies in excess of $50,000 at the close of a fiscal year be returned to agencies and institutions through discounted service and handling charges in the following fiscal year. This is in keeping with federal regulations which prohibit the state from profiting from the redistribution of federal surplus items. The table below shows the revenues and expenditures associated with the federal program.

Table 1: Federal Surplus Materials Revolving Fund - Cash Flows in and out of Fund [1/]

	FY 1996 Actual	FY 1997 As of 7/17/97	FY 1998 Estimate
Beginning Cash Balance	$79,600	$120,200	$62,600
Revenues:			
Property Sales	285,500	247,600	266,600
Public Auction	21,000	0	10,500
Total Revenues	$306,500	$247,600	$277,100
Expenditures:			
Operating Costs	265,900	305,200	278,400
Ending Cash Balance	$120,200	$62,600	$61,300
Committed Cash at Year End:			
Accrued Personnel Costs	14,800	15,200	15,000
Accrued Special Services Overhead	40,300	46,100	43,200
Claims Payable	4,900	1,300	3,100
Total Committed Cash at Year End	$60,000	$62,600	$61,300
Uncommitted Cash at Year End	$60,200	$0	$0

1/ FY 1996 and FY 1997 amounts were reported by ADOA. FY 1998 Estimates are based on the average prior years' expenditures.

For federal surplus items transferred to a donee, ADOA charges an average of 4% of the original acquisition price of an item. The percentage is set by formula in a State Plan of Operation between the state and the federal General Services Administration. The federal government is not reimbursed for transferred items. Federal law prohibits states from choosing items specifically for sale, but allows the sale of unclaimed items. If the items are sold at auction within two years of receipt, ADOA and the General Services Administration each receive 50% of the sale price. State proceeds are deposited into the Federal SMRF. If an item is sold after the two-year period, all proceeds go to the General Services Administration. Federal law requires the federal program to operate as a break-even, rather than profit-making operation.

The state program reimburses differently for General Fund property than for Other Fund property. The program also charges donees for state surplus property. ADOA has established prices for most items, which the property manager may vary depending on an individual item's condition. (See Appendix A for a copy of the price guide.) Donor agencies do not receive payment for property originally purchased with General Fund monies or transferred/sold for less than $50. For state surplus items originally purchased with Other Funds, donor agencies receive 70% of the proceeds for items which are transferred to another entity and 90% of the proceeds for items which ADOA sells at public auction. The program's reimbursement policy (which is set by rule) may create a disincentive for state agencies to donate property purchased with General Fund monies, since the agencies receive no payment for these items. ADOA believes that this is not the case, because items are generally passed down through several owners within an agency before being donated as surplus property. The program reports that items are donated not for the reimbursement an agency expects to receive, but because the item is no longer of use to that organization.

Other Funds are reimbursed for donated property, as previously described. In theory, the General Fund should be reimbursed each year via the year-end reversion of uncommitted monies in excess of $100,000. In practice, the State SMRF reverted no monies to the General Fund from FY 1992 (when it transferred $57,700) until FY 1997 (when it transferred $18,800 for the FY 1996 year end). The program expects to revert approximately $122,900 in FY 1998 for the FY 1997 year end. In contrast, the fund has regularly reimbursed over a million dollars a year to Other Funds, as shown in Table 2.

Some of the disparity in the distribution of proceeds could be explained by differing donations from General Fund and Other Fund agencies. ADOA reports that General Fund agencies tend to donate lower value items (such as office furniture) and more unusable (disposal) items, while Other Fund agencies donate higher value items (such as vehicles). This is based on anecdotal observation because, as with most of the program's data, the fund source is noted on the individual written donation forms, but not compiled or entered into a computer data base. Due to the lack of data, the JLBC and OSPB Staffs were unable to determine whether proceeds from the General Fund subsidize the handling costs for Other Funds, or whether the General Fund receives higher revertments than it would if it were treated as an Other Fund.

Table 2: State Surplus Materials Revolving Fund - Cash Flows in and out of Fund [1]

	FY 1994 Actual	FY 1995 Actual	FY 1996 Actual	FY 1997 As of 7/17/97	FY 1998 Estimate
Beginning Cash Balance	$491,100	$489,300	$523,700	$560,300	$385,800
Revenues:					
Property Sales	$1,138,600	$1,091,800	$1,003,800	$944,500	$1,044,700
Public Auction	944,100	939,900	1,419,100	982,600	1,071,400
Recycling	58,400	89,700	82,100	59,700	72,500
Total Revenues	$2,141,100	$2,121,400	$2,505,000	$1,986,800	$2,188,600
Expenditures:					
Operating Costs	$468,300	$783,600	$680,100	$878,200	$702,600
Reimbursements to Other Fund Agencies:					
Paid	1,674,600	1,303,400	1,769,500	1,160,200	1,476,900
Due [2]	150,300	442,400	190,400	162,400	236,400
Total Reimbursements to Other Fund Agencies	1,824,900	1,745,800	1,959,900	1,322,600	1,713,300
Ending Cash Balance [2]	489,300	523,700	579,100	508,700	394,900
Committed Cash at Year End:					
Accrued Personnel Costs	7,200	0	23,800	19,600	12,700
Reserved For Projects [3]	233,000	0	224,700	100,000	100,000
Accrued Special Services Overhead	30,400	27,300	400	0	14,500
Claims Payable	3,300	6,800	21,000	3,800	8,700
Total Committed Cash at Year End [2]	273,900	34,100	269,900	123,400	135,900
Uncommitted Cash at Year End	$65,100	$47,200	$118,800	$222,900	$22,600
Revert to General Fund [4]	$0	$0	$18,800	$122,900	$0
Ending Cash Balance After Reversion	$489,300	$523,700	$560,300	$385,800	$394,900

1. FY 1994 through FY 1997 Actuals are based on amounts reported by ADOA. FY 1998 Estimates are based on the average of prior years' expenditures, except for Reserved For Projects, which is based on ADOA's estimate.
2. The Ending Cash Balance does not reflect expenditures for Reimbursements Due to Other Fund Agencies or Committed Cash at Year End.
3. Of the amounts reserved for projects, $233,000 in FY 1994 was for office renovation and $124,700 in FY 1996 was for a truck, asphalt repavement, and a new roof. In FY 1996, $100,000 for an information technology system was unspent and reserved again in FY 1997 and FY 1998.
4. The reversion amount is calculated by the ADOA General Accounting Office and transferred at the beginning of the next fiscal year. For example, the $18,800 for FY 1996 was transferred in FY 1997. The FY 1997 amount reflects an anticipated year end reversion.

The program emphasizes redistributing useful property, not maximizing proceeds to the state. The Surplus Property Management Program views its primary mission as facilitating continued use of property which has already been purchased with taxpayer dollars. Since items will be redistributed to governmental or non-profit entities, ADOA tries to minimize the amounts these entities pay, to avoid additional taxpayer expense. Although not limited like the federal program, the state program attempts to break even on its overall costs. To do this, ADOA sets the fee for an item at the lowest price which will recoup its handling costs. The 70%-of-transfer and 90%-of-auction amounts reimbursed to Other Fund entities are based on ADOA's estimate of the costs it incurs in handling items, plus approximately 3%. The remaining proceeds (30%-of-transfer and 10%-of-auction) go to the state SMRF. These monies, along with recycling proceeds, pay for transfers, auctions, pick up and disposal of unusable items, and recycling costs.

ADOA works to ensure that items are placed where the program believes they are most needed, rather than where they will bring the highest sale price. However, if an item is not purchased (or likely to be selected) by a donee, it is sold at public auction and ADOA tries to maximize these proceeds. The program reserves the right to withdraw an item from an auction if it doesn't bring a minimum sale price.

Recycling revenues have varied with the market, as reflected in Table 2, but continue to show a small profit. The department does not separately track disposal costs for items it cannot place or sell. ADOA reports that it encourages state agencies to turn over all items, rather than making their own determination of whether an item is still usable. ADOA's premise is that this avoids both waste and any appearance that state agencies throw away useful items.

The program serves local governments and non-profit agencies in addition to state agencies. The department does not give preference to state agencies, but, again, tries to steer items toward what it sees as their best use. A profile of donations from (and to) state agencies versus other entities is not available. While ADOA records this information on individual written forms, it is not compiled or entered into a database.

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- ***How does the program mission fit within the agency's overall mission and the program's enabling authority?***

The mission of the Surplus Property Management program is "To reutilize surplus state and federal personal property through an effective and efficient distribution system to eligible governmental and non-profit organizations and to maximize the dollar return to the state on the property sold to the general public." This support role fits within the department's overall mission "To provide high quality support services to government agencies, the public, and state employees to enhance our customers' ability to achieve their goals."

The mission also fits within ADOA's statutory requirements. A.R.S. § 41-2601 through A.R.S. § 41-2607 establish the two surplus property funds and provide that the department may acquire United States surplus materials; make charges and fees for surplus materials; and sell (by public auction or other method), lease, transfer, or dispose of surplus materials to a state governmental unit or a political subdivision. The statutes also authorize ADOA to adopt rules for the allocation of proceeds from surplus materials and authorize a governing board or executive head of any state governmental unit, political subdivision, or non-profit institution determined by ADOA rules to be eligible to receive surplus property to make payment for such property. In addition, Laws 1982, S.J. Resolution No. 1002 provides that the Legislature adopted ADOA's federal surplus property plan as the permanent plan of operation.

- ***Does the program meet its mission and goals efficiently and effectively, including comparisons with other jurisdictions? Do the historical performance measurements and the future performance targets adequately measure goals?***

The federal General Services Administration commended ADOA for the performance of its federal surplus property program. The General Services Administration conducts biennial performance reviews of each state's federal surplus program. It evaluates 15 major categories, including organization and operations, property and inventory control, equitable distribution, compliance and utilization review, and audits. In the last review (February 1995), the federal auditors concluded that:

> "The overall finding of this review is that the donation program as carried out by the Arizona State Agency for Surplus Property is a professionally staffed operation which brings great benefit to the residents of the state. The staff is enthusiastic about and committed to the program particularly because of its close interactions with the donees. Staff members demonstrate an excellent understanding of the Federal surplus property program and for that reason, the program they operate is very well managed."

Based on its past compliance, the General Services Administration exempted Arizona from its scheduled 1997 review.

The program tracks insufficient management information, but is working to improve data collection. As information is inaccessible, it is difficult for the JLBC and OSPB Staffs to determine whether the state program meets its mission and goals efficiently and effectively. The department records most required data on individual transfer documents, but does not compile the information or enter it into a database to allow analysis and management reports. For example, for state surplus property, ADOA can report the number of *line items* processed, but not the number or value of items handled. For the federal program, ADOA can report the value of items received, but not the number of items handled. Similarly, the program could provide only anecdotal data on the type of equipment received from (or transferred to) state agencies versus other entities because this information is not compiled.

It appears that other states may similarly lack data on their surplus property programs. To compare its operation with other jurisdictions, ADOA surveyed 11 states, including Arizona. In response to "How many line items did you process last calendar/fiscal year?" only one other state responded, answering "2,000 documents" (ADOA reported 22,402 line items on 1,800 documents). In response to "How many vehicles did you process last calendar/fiscal year?" only 2 states responded, answering "1,000 plus" and "100" (ADOA reported 514 vehicles).

For each FY 1996, FY 1997, and FY 1998, the program has reserved $100,000 for development of an automated information system. As of the beginning of FY 1998, ADOA has spent approximately $3,000 to work with a consultant on developing a new inventory system and designing the associated Request for Proposal. ADOA reports that it is working with the new Government Information Technology Agency for approval of the project. ADOA expects to issue the Request for Proposal in FY 1998, to implement by July 1, 1998.

In departmentwide customer satisfaction surveys distributed to 100 state agencies by ADOA, other agencies rated surplus property an average of 4.83 in 1994 and 6.04 in 1996 (on a scale of 1 to 8). In quarterly customer satisfaction surveys conducted by the Surplus Property Management Program over the last 3 years, customers rated the program "Excellent" from 44% to 63% of the time, "Good" 34% to 49%, "Fair" 3% to 7% and "Poor" 0% to 0.4%.

The program's performance measurements need to be improved. The "overall customer satisfaction measured by biennial survey (scale 1-8)" measure is useful and reflects ADOA's strong commitment to customer satisfaction surveys over the last several years. Additional useful measures should be possible after implementation of the computerized inventory system.

- ***Are there other cost-effective methods of accomplishing the program's mission?***

According to the Competitive Government analysis conducted by ADOA, privatization is a viable option for the program's property transportation and auction functions. ADOA is responsible for picking up any property donated by an agency and bringing it to the surplus property warehouse, usually by truck. This is currently performed by both ADOA staff and contract services. ADOA states that it already has achieved a good mix of contract versus in-house transportation, using private sector services when it is cost efficient, but ADOA staff for multiple-site pick ups or where inspection of property is required. For federal property, ADOA generally sends a program employee to inspect and load the property, and to scout for any "new" property that has become available. This prevents acceptance of damaged property and eliminates the need for a separate scouting trip. Either a state truck or private sector shipping is used, depending on the distance, amount of property to be transported, and corresponding shipping rates.

ADOA has not seriously explored turning surplus property auctions over to the private sector. The department states that it would be impractical to privatize the entire function because of federal government requirements and the high percentage of low value and disposal items donated by state agencies. The federal government requires a break-even, rather than profit-making, operation on federal property. In addition, while the federal government allows the sale of unwanted items, it precludes states from accepting federal property with the intention of selling it and limits the sale price to a nominal handing fee. The federal program is intended only to prolong the useful life of federal surplus items, not to bring a profit to the states.

For state surplus, ADOA reports that a large part of its job is disposal of unusable and low value items donated by state agencies. As noted above, ADOA encourages state agencies to turn over all items in order to prevent waste and avoid any appearance that state agencies throw away useful items. In addition, the "best" items are placed with donees, rather than sold at auction. This leaves only a limited number of items available for auction. For items which ADOA has designated for public auction (such as low value property grouped into "lots" and other items not selected by donees), the department should compare its auction costs and proceeds to a private sector auction contract.

SPMO Miscellaneous Items Pricing Guide - January 1997 edition

NOTE: Use this as a guide, the prices are for items in good condition, that appear to work. If parts and pieces are missing or the items are rusty and dirty, you can adjust the price accordingly. Also if the equipment is in really nice condition you can bring up the price, however please tell the warehouse manager when you have upgraded pricing

Office Machines	
Typewriters	
electric	45.00
manual	5.00
Calculators	5.00
Dictaphones	5.00
Recorders	5.00
Microfiche readers	10.00
Microfiche printers	50.00
Record players	5.00
Film projectors	5.00
Filmstrip projectors	5.00
Screens	5.00
Copy Machines	
Desktop	75.00
Large multifunction	175.00
Small multifunction	125.00
all other old machines	25 00
Office Furniture	
Chairs	20 00
Filing Cabinets	10 00 per drawer
Desks	
single ped metal	15 00
double ped metal	25 00
single ped wood	25 00
double ped wood	35 00
executive wood or metal	see warehouse manager for pricing
Partitions and dividers	5.00 ea.
Double door storage cabinets	30.00
Tables	
folding	10 00
library small	10 00
library large	20 00
conference	see warehouse manager
Bookcase metal two shelf	15.00
Bookcase wood two shelf	30 00
Bookcase large metal	25 00
Bookcase large wood	45 00
Blackboards/ dry erase	10.00 large 5.00 small

Radios / PS equipment

Hand held	**5.00**
Mobile	**25.00**
Pagers	5.00
Light bars	100.00
Binoculars	

Telephone systems

Phone systems	see warehouse manager
Phone instruments	5.00 ea.

Commercial Kitchen Equipment

Stoves	125.00
Ovens	150.00
Choppers	75.00
Serving lines	100.00
Mixers	
60 qt	150.00
< 60 qt	50.00
Freezers	125.00
Refrigerators	150.00
Steam kettles	150.00
Vending machines	100.00

Shop Equipment - see warehouse manager

Computers

CPU's (boxes)	
8088's like IBM PC's or Zeniths	15.00
286's like Compaq deskpros or IBM AT's	25.00
386's	50.00
486's	see warehouse manager
Monitors	
PC monitors	25.00
mainframe terminals	25.00
Printers	
dot matrix line printers	25.00
laser printers	75.00
Keyboards	N/C
Modems	5.00
Mainframe equipment	see warehouse manager

FLEET MANAGEMENT PROGRAM
Arizona Department of Administration
JLBC/OSPB Joint PAR Report

Overview – The Fleet Management Program operates a fleet of vehicles that is available to State agencies for short or long-term lease. The Arizona Department of Administration (ADOA) is charged with managing all aspects of the fleet, from procurement to disposal of the vehicles. After reviewing the agency Self-Assessment, JLBC and OSPB Staff reached the following conclusions:

- Control and ownership of the State Motor Vehicle Fleet is not centralized. Almost 1,000 vehicles are owned by agencies not specifically excluded from the ADOA fleet by A.R.S.§ 41-803E.

- The agreement for the Arizona Department of Transportation to perform vehicle maintenance for ADOA vehicles has not yet demonstrated cost savings.

- The impact on vehicle resale value is not considered in policies affecting Fleet Management.

- ADOA plans to partially meet the statutorily required timetable for conversion of the fleet to alternative fuels. These vehicles, which can use gasoline and alternative fuels interchangeably, currently use gasoline 87% of the time. Policymakers may want to reassess the state's alternative fuel requirements.

The agency Self-Assessment was fairly well written. However, information such as the size of the fleet, vehicle count and mileage of the taxi and extended dispatch fleets, vehicle make and manufacturer profiles, and maintenance and repair data has been provided to OSPB and JLBC in prior years but was not included in the PAR Self-Assessment. Six recent studies of the State of Arizona motor pools were included in the Self-Assessment. The OSPB and JLBC Staffs acquired further information about the program through follow-up meetings, tours, and information requests. The program's current strategic plan with performance measures immediately follows this joint report.

Program Description – The ADOA Fleet Management Program manages 1,978 vehicles, which is less than 14% of the total State motor vehicle fleet and 21% of the State light duty vehicle fleet. The ADOA vehicles were driven 24,269,617 miles in FY 1997. The 21.5 ADOA Motor Pool employees are charged with managing the procurement, assignment, and utilization of the state motor vehicle fleet. Maintenance and repair of ADOA vehicles is accomplished through an Intergovernmental Agreement with the Arizona Department of Transportation. ADOA's standard for vehicle replacement is five years of age or 80,000 miles.

The enabling statute, A.R.S. §41-803, excludes the Department of Public Safety, the Department of Transportation, the Department of Economic Security, the Department of Corrections, the Universities, the Community Colleges, and the Arizona State Schools for the Deaf and Blind from participation in the state motor vehicle fleet. Therefore, 69% of all state vehicles are owned by agencies statutorily excluded from the ADOA fleet.

The ADOA fleet has two primary components: the taxi fleet and the extended dispatch fleet. The taxi fleet is available for short-term rental, which is generally 14 days or less, although written requests for longer rentals are usually accepted. Vehicles in the Extended Dispatch fleet are in the long-term custody of agencies, but vehicle titles are held by ADOA. The ADOA Motor Pool is responsible for procurement and disposal of these vehicles, and ultimately is responsible for preventative maintenance. However, because ADOA does not have the Extended Dispatch vehicles in its possession, it must rely on the custodial agencies to bring vehicles in for preventative maintenance. ADOA may repossess vehicles that are not receiving preventative maintenance.

Table 1: Profile of ADOA Taxi and Extended Dispatch Fleets

	Taxi	Extended Dispatch
Number of Vehicles-FY 1997	605	1,373
Number of Vehicles-FY 1994	410	1,123
Percentage Increase	48%	22%
Miles Driven-FY 1997	5.2 million	19.0 million
Miles Driven-FY 1994	5.0 million	16.3 million
Percentage Increase	5%	16.6%
Average Miles per Day per Vehicle	33.0	54.5
Percent of Vehicles Older than 5 years or 80,000 miles	47%	18%

In order to buy into the Extended Dispatch motor pool, agencies must pay the cost for new vehicles. During the life of the vehicles, agencies pay ADOA Motor Pool fees, which include all operating costs and an amount to replace vehicles. At the end of five years, ADOA purchases a new vehicle of the same type from the procurement contract and usually either sends the old vehicle to Surplus Property for disposal (if it is no longer serviceable) or to the Taxi Fleet (if it is in good condition).

ADOA offers two options for leasing older vehicles which have been held from surplus. These, typically, are used by customers who need a vehicle on a long-term basis but lack the appropriation for a new vehicle. One option is to lease these vehicles for $4.50 per day plus the appropriate mileage charge. Currently 101 vehicles (or 7.4% of the Extended Dispatch fleet) are included in this program. Various sections of ADOA, such as groundskeeping and construction services, have custody of 85% of these reduced rate Extended Dispatch vehicles. These reduced rate vehicles account for the majority of the vehicles used by internal divisions of ADOA. The Fleet Management Program is piloting a second option, which offers agencies long-term leases of older vehicles. While these leases are typically more expensive than paying the daily rates for new vehicles, the long-term leases avoid the necessity for an up-front vehicle purchase and avoid the inconvenience of an agency periodically turning in and requesting a new taxi vehicle.

Program Funding – The Fleet Management Office has a dedicated revolving fund, the Motor Pool Fund. Sources of revenues include Extended Dispatch fees, Taxi Vehicle fees, and the sale of surplus vehicles. The Motor Pool Fund was first appropriated in FY 1997.

Table 2: Motor Pool Fund Cash Balance
(In Thousands)

	FY 1996 Actuals	FY 1997 Estimate[1]	FY 1998 Appropriation[2]	FY 1999 Estimate
Beginning Balance	$3,171.3	$4,422.8	$4,127.8	$4,408.6
Revenues	11,025.0	9,367.9	8,641.5	8,918.4
Expenditures	9,773.5	9,662.9	8,360.7	8,628.6
Ending Balance	$4,422.8	$4,127.8	$4,408.6	$4,698.4

[1] FY 1997 Revenues are from AFIS actuals. Prior to FY 1997, ADOA recorded agency new vehicle purchases as revenues, with resulting expenditures. FY 1997 Expenditures are the appropriated amount and include $1,400,000 of non-reverting funding appropriated in the 42nd Leg., 7th Special Session, Chapter 6 for alternative fuel vehicle conversions. Only $90,100 of this money was spent during FY 1997.
[2] The Federal Government recently has objected to the large Motor Pool Fund ending balances, compared to its expenditures. The Motor Pool Fund is expected to reimburse the federal government approximately $640,000 for FY 1996. The administrative adjustment period for FY 1996 has passed, so a supplemental appropriation during FY 1998 will be necessary. This amount is not reflected in expenditures.

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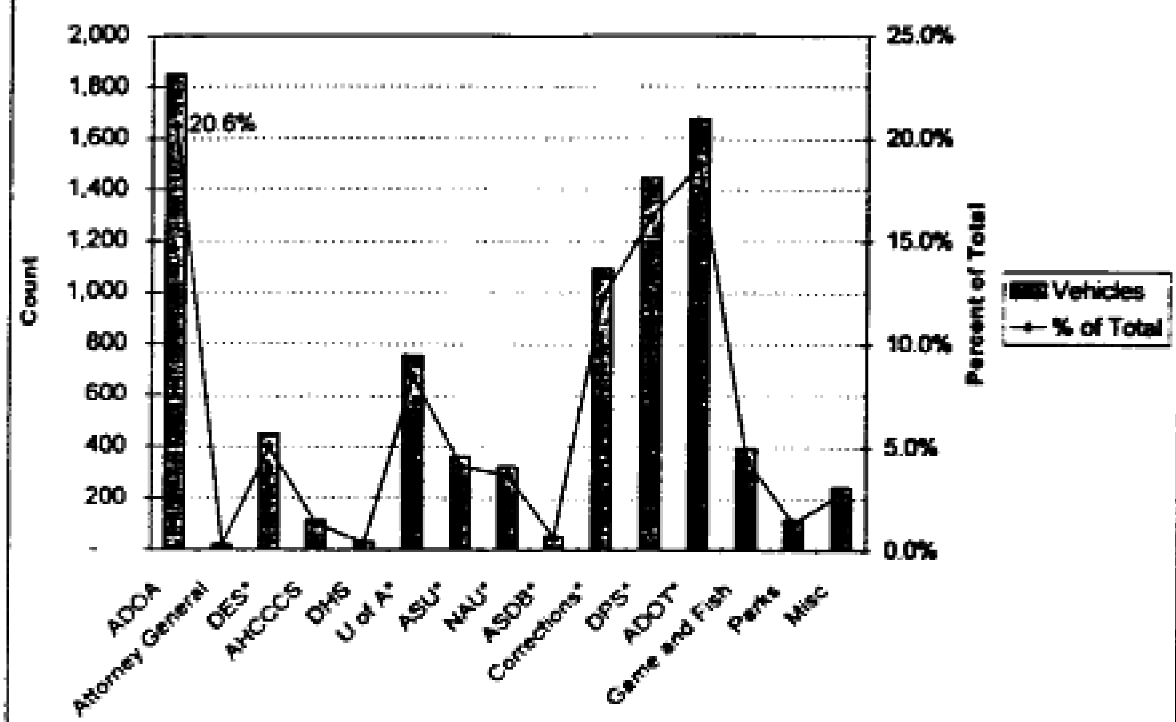
- ***How does the program mission fit within the agency's overall mission and the program's enabling authority?***

The ADOA Motor Pool's enabling authority derives from A.R.S. §41-803A, which states that: "The director shall operate a motor vehicle fleet for all state owned motor vehicles which shall be made available at convenient locations in the state for the purpose of providing transportation for state officers and employees, except those officers and employees of any agency or department excluded by subsection E of this section." The Motor Pool's mission statement "to efficiently and effectively manage a fleet of vehicles designated for use by employees and officials of the State of Arizona on official state business" falls within the authority provided by this statute. It also meets the ADOA agency-wide mission statement: "to provide high-quality support services to government agencies, the public, and state employees to enhance our customers' ability to achieve their goals."

- ***Does the program meet its mission and goals efficiently and effectively, including comparisons with other jurisdictions? Do the program's performance measures and performance targets adequately capture these results?***

Control and ownership of the State Motor Vehicle Fleet is not centralized. Almost 1,000 vehicles are owned by agencies not specifically excluded from the ADOA fleet by A.R.S. §41-803E. ADOA's Motor Pool Fleet only represents approximately 20.6% of the State light duty vehicle fleet, according to the Risk Management Exposure Survey for FY 1996. Chart 1 outlines the profile of vehicle ownership in the Risk Management data:

Chart 1: FY 1996 Vehicle Count
(* Indicates Exempt from ARS 41-803)



Source: FY 1996 Risk Management Exposure Survey; Excludes Medium Trucks, Heavy Trucks, Ambulances, Motorcycles, Heavy Equipment, Buses, and "Other" vehicles

Despite the fact that some agencies may have a legitimate need to manage their own vehicles and some other agencies object to ADOA control of their vehicles, statute appears to allow only the agencies designated with an asterisk in Chart 1 to have vehicles separate from the ADOA fleet. In an apparent violation of statute, approximately 950 light-duty vehicles (or 10.4% of the total) are owned by agencies not specifically excluded from the State Motor Vehicle Fleet in A.R.S.§ 41-803E. Of the 30 non-excluded agencies reportedly owning vehicles, only Game and Fish and the Mine Inspector have Interagency Service Agreements with ADOA permitting agency ownership of these vehicles.

ADOA has not interpreted A.R.S. §41-803 as giving it authority over fleet administration for all agencies. Reasons for this interpretation include ambiguity in the language excluding some agencies and the ADOA view of itself as a service-provider. This statute appears to give ADOA the control necessary to centralize fleet management, as recommended by Project S.L.I.M. in 1992, the Auditor General in 1994 and the Office for Excellence in Government in 1996.

The dispersion of vehicle ownership throughout State agencies causes difficulties in assuring adherence to a rigid schedule of preventative maintenance for all State vehicles. Many agencies, such as the Departments of Game and Fish and Public Safety, frequently take their vehicles to private garages and pay retail prices for service and repair despite the fact that ADOT maintenance facilities have capacity available, including 14 facilities outside Maricopa County. Some benefits, such as economies of scale, could be gained by having all state vehicles owned by ADOA and repaired under the ADOA/ADOT maintenance agreement.

Another benefit of central control could be savings from modifying vehicle usage. ADOA conducts an initial evaluation of vehicle purchase requests, but does not confirm how the vehicle is actually being used. As an example of how ADOA could save the State money, the 1992 Project S.L.I.M. Report on the Department of Administration mentioned that "many" ADOA four-wheel drive vehicles (4x4's) are "never driven off the pavement." According to State of Washington data, the per mile cost of a four-wheel-drive truck is $.37, while a two-wheel-drive truck (4x2) costs $.25 to operate per mile. State 4x4 vehicles were driven 4.5 million miles during FY 1997, which is more than 18% of all miles driven in ADOA vehicles. Significant cost savings may therefore be obtainable by encouraging agencies to review vehicle usage and shift to 4x2's. Assuming, as an example, that 20% of those miles could be driven with two-wheel drive vehicles, ADOA could save the State over $100,000 per year. However, ADOA has not investigated this area and there is currently insufficient data available to confirm this conclusion.

ADOA Fleet Management has not taken on the responsibility of maintaining centralized fleet information. A.R.S. §41-803C states that "The director shall provide for detailed cost, operation, maintenance, mileage and custody records for each state owned vehicle." Again, it is unclear whether excluded agencies are also excluded from this subsection. ADOA does not believe it has a mandate to require data from other agencies. Although ADOA Motor Pool does not collect this information, both ADOA Risk Management and ADOT collect limited data on statewide motor vehicles. ADOT only collects data on vehicles it services. While the Risk Management data is more complete, it is collected from an overall Risk Exposure survey that is filled out and returned by agencies. Risk Management reports that it does not have sufficient staff or expertise to audit any of these surveys, and does not provide guidance on vehicle type definitions.

ADOA plans to partially meet the statutorily required timetable for conversion of the fleet to alternative fuels. These vehicles, which can use gasoline and alternative fuels interchangeably, currently use gasoline 87% of the time. Policymakers may want to reassess the state's alternative fuel requirements. The timetable set out in A.R.S. §41-803K.2(a) requires that 40% of the entire ADOA motor vehicle fleet convert to alternative fuels by December 31, 1995. The Omnibus Reconciliation bills in 1995 and 1996 narrowed this requirement to 40% of vehicles in Maricopa County for FY 1996 and FY 1997. This language expired at the beginning of FY 1998, which was July 1, 1997. As of this writing, 386 ADOA vehicles, or 19.5% of the fleet, are Alternative Fuel-capable.

The timetable outlined in A.R.S. §41-803K.2(b) requires that 90% of the ADOA Maricopa County fleet convert to alternative fuels by December 31, 1997. Because many of the ADOA vehicles housed in Maricopa County are driven to other counties, ADOA calculates its Maricopa County fleet as including 650 vehicles. Using this definition, the Department reports that 59% of the Maricopa County vehicles have been converted to use alternative fuels. ADOA expects to purchase or convert an additional 199 vehicles, for a total of 585 vehicles by December 31, 1997. The 42nd Legislature, 7th Special Session, Chapter 6 appropriated $1,400,000 for these conversions.

The three fuel types that ADOA has chosen are Compressed Natural Gas (CNG), Liquid Propane Gas (LPG), or a methanol-gasoline mixture of up to 85% methanol (M85). To meet alternative fuel mandates, it is possible to purchase new CNG, LPG or M85 vehicles, or convert unleaded fuel vehicles to CNG or LPG by purchasing conversion kits. Any of these "alternative fuel" vehicles can use gasoline or an alternative fuel. As derived from Table 3, approximately 4,238,100 miles out of 4,884,200, or 87%, of miles driven in alternative fuel vehicles were powered by unleaded gasoline in FY 1997.

Table 3: Alternative Fuel Vehicle Profile
(FY 1997 data)

	Liquid Propane Gas	Compressed Natural Gas	Methanol-Gasoline Mix
Number of Vehicles	118	62	206
Total Miles Driven in Alternatively Fueled Vehicles	1,410,639	668,656	2,804,891
Estimated Number of Miles Driven on Alternative Fuels	515,612	130,458	0
Percent Driven on Alternative Fuels	36.5%	19.5%	0
Problems/Shortcomings	• Customer concern about odor • Technical difficulties installing aftermarket conversion kits • Emissions tests of conversion kits have had mixed results	• Low range • Pressurized tanks causes customer concern • Technical difficulties installing conversion kits • Emissions tests of conversion kits have had mixed results	• Fuel is corrosive-hazardous to spill on hands • Difficult to obtain fuel supplies

LPG vehicles are bi-fueled, which means they have an additional and completely separate fuel tank and fueling system for unleaded gasoline. The additional liquid propane gas tanks extend the range of the vehicles. Given that LPG vehicles have a manual fuel switch and limited fuel sources, drivers frequently opt for gasoline travel.

CNG vehicles can travel an estimated 50-60 miles on the three gallons of compressed natural gas that can be carried (due to the pressure that the fuel is under, bulky reinforced tanks are required). Given that the average taxi trip is 339 miles and nine days long, the vehicle would have to come back to refuel every one to two days on average. Currently this is impractical for trips outside of Maricopa County, since the CNG vehicles are only fueled at the ADOT tank in central Phoenix. Therefore, the state CNG vehicles are also bi-fueled, with separate fueling systems for compressed natural gas and unleaded gasoline. ADOA plans to pursue refueling agreements with other entities (such as school districts and cities) as their CNG fueling sites become available.

ADOA reports that Federal Test Procedure emissions test comparisons between newly purchased unleaded gasoline vehicles and LPG and CNG-converted vehicles failed to show broad-based improvement in emissions performance after conversion. ADOA believes that the reason for this lack of improvement is that the aftermarket converters cannot adequately modify the vehicle's computer to set the gasoline mixture properly. Factory-built LPG and CNG vehicles reportedly do not face this problem, since factories are able to set vehicle computers correctly.

Table 4-Cost Comparison for Different Alternative Fuel Options
(Comparisons are based on an 85¢ per gallon bulk gasoline price)

	Liquid Propane Gas	Compressed Natural Gas		Methanol-Gasoline Mix
Fuel Price (per gallon)	60¢	81¢		87¢
Increase (Reduction) in Fuel Economy from gasoline[1]	5.3%	(5.1)%		(2-5)%
Cost Increase (Reduction) per year per Vehicle over gasoline[2]	$(190)	$(2)		$44
Per Vehicle Annual Cost Comparison	Conversion Only	Factory-Installed	Conversion	Factory-Installed Only
Purchase Price Increase (Reduction) per vehicle over gasoline[3]	$2,889	$4,791	$4,444	$277
Annualized Purchase Price[4]	963	958	1,481	55
Fuel Costs	(190)	(2)	(2)	44
Annual Cost Increase (Reduction) per Vehicle	$773	$956	$1,479	$99

[1] The CNG and LPG figures are from Federal Test Procedure testing in 1995 and 1997; M85 is the manufacturer estimate.
[2] The State purchased unleaded gasoline for approximately 85¢ per gallon in bulk during FY 1997; annual mileage is estimated at 12,000 miles/vehicle; this calculation includes adjustment for ADOA Estimated Approximate Reduction in Fuel Economy from gasoline.
[3] These numbers are the lowest Model Year 1998 contract prices for medium-sized sedans. The only factory-built LPG vehicles bid were vans and pickups.
[4] These figures are straight-line depreciation over 5 years for factory-installed alternative fuel systems and 3 years for aftermarket conversions.

As noted in Table 4, it appears that the least expensive option currently available is to purchase new, factory-built M85 vehicles. Ford has been offering a promotion recently where the State of Arizona has purchased the factory-built, gasoline-methanol (M85) Ford Taurus for approximately $300 less than the gasoline-only Taurus. In Model Year 1998, the M85 Taurus is $300 more expensive than the gasoline-only Taurus (according to ADOT, GM and Chrysler will also be offering M85 vehicles within the next year). Because the M85 vehicles have modified the existing gasoline delivery system and do not require a second fueling system, they are reportedly cheaper to produce.

However, at the time of writing, ADOA has yet to obtain access to a reliable source of M85 fuel and has therefore been using 100% unleaded gasoline in these vehicles. ADOA is in the process of formalizing an agreement with Maricopa County to gain access to its M85 supplies. Furthermore, the Department of Transportation is attempting to make arrangements with a company in California that provides M85 to State of California Flex Fuel Vehicles. The price for M85 in Table 4 is from ADOA discussion with the California vendor. Despite the difficulties obtaining fuel, given the money savings and some negative experiences with conversion kits, ADOA has purchased 206 M85 vehicles in the last two years.

In order to come into compliance with the requirement that 40% of the entire fleet be alternatively fueled, 405 more ADOA vehicles will have to be either converted or purchased new as alternative fuel vehicles. Given that ADOA is only appropriated for 246 replacement vehicles in FY 1998, to make this requirement the Department will have to purchase conversion kits for a large number of vehicles. However, given the low percentage of miles actually driven on alternative fuels, the expense and the poor performance of the alternative fuel conversion kits, ADOA has delayed converting their vehicles to alternative fuels in spite of the statutory requirements. Given these problems, policymakers may want to reassess the alternative fuel conversion policy in A.R.S. 41-803K.2.

The agreement for the Arizona Department of Transportation to perform vehicle maintenance for ADOA vehicles has not yet demonstrated cost savings. On July 1, 1995, ADOA transferred all of its vehicle maintenance functions to ADOT. The ADOA maintenance facility, equipment, and parts inventory came under ADOT's control in exchange for a payment of $.041/mile, which represented ADOA's vehicle maintenance cost prior to consolidation. When the ADOA maintenance functions were transferred to ADOT, the intent was to create cost savings through closing the ADOA shop. This has not happened, however, and both shops have added a second shift since the beginning of the contract. ADOA and ADOT believe that it is in the customers' best interest to have a source of vehicles close to the Capitol Mall. To perform light maintenance and service on these vehicles, ADOT believes a shop is necessary at the taxi dispatch center. The report to be produced by a consultant jointly hired by ADOA and the Office of Excellence in Government, David M. Griffith and Associates will examine maintenance cost issues in more detail.

ADOA and ADOT have not been able to exchange data because of incompatibilities between their computer systems. One impact of this problem is that ADOA has lost the ability to measure total fleet downtime, and has lost the ensuing understanding of the effectiveness of the preventative maintenance program. The performance measures report that ADOA fleet downtime in FY 1995 was 4.6%, but with the shift to ADOT management in FY 1996, the figure increased to 10.9%. However, because of this computer system incompatibility, downtime data for these two years are not comparable. The FY 1995 figure is for the entire ADOA fleet, including Extended Dispatch vehicles. The FY 1996 figure excludes the Extended Dispatch fleet due to this reported lack of information available from ADOT. Because ADOA replaces these vehicles at least every 5 years, Extended Dispatch vehicles are expected to be newer on average than taxi vehicles. In comparing the fleets, this turns out to be the case, with 47% of Taxi vehicles exceeding the ADOA 5-year/80,000 mile standard for replacement and only 17.5% of Extended Dispatch vehicles exceeding the standard. It is reasonable to expect that the newer Extended Dispatch Fleet would have less downtime. Therefore, not including these vehicles in the FY 1996 Fleet Downtime Performance Measure would cause the fleet's downtime percentage to increase and make comparisons between the two years invalid.

ADOA's Performance Measures also denote the average age of the Taxi and Extended Dispatch Fleets.

Analysis of the ADOA fleet database shows that the taxi fleet has aged significantly in the year since ADOA last reported the average age of its fleet. In its Master List submittal in 1996, ADOA reported that the average ages of the taxi and extended dispatch fleets are expected to be identical, at 2.7 years in FY 1996 and 2.6 years in FY 1997. However, in response to issues raised in preparation of this report, ADOA has updated these figures with the actual FY 1997 average ages of 2.7 years for the extended dispatch fleet and 3.7 years for the taxi fleet. While the previous figures were compiled more than a year ago, given that ADOA has purchased and retired vehicles, it seems unlikely that the taxi fleet could have grown an average of 1.1 years older in that time.

ADOA notes that they used vehicle model years in calculating these figures. This approach understates the age of the fleets. For example, a Model Year 1997 vehicle purchased in October 1996 would register as brand new (0 years old) in a query done in August 1997. Basing age on vehicle delivery dates, the average ages are 2.9 years for the extended dispatch fleet and 4.1 years for the taxi fleet.

ADOA began developing performance measures before it was required by statute. However, a program as large and as data-intensive as the Fleet Management Program should have a more extensive list of performance measures. Items such as average miles driven per day, percent of vehicles exceeding the age standard, percent of Extended Dispatch vehicles meeting the preventative maintenance schedule, profitability per vehicle and other appropriate measures could be included in the ADOA list of performance measures. The consultant's report will discuss performance measures in more detail. The consultant is also expected to work with ADOA to develop both the measures and the methodology to collect the data on an ongoing basis.

The impact on vehicle resale value is not considered in policies affecting Fleet Management. Three practices carried out by the state reduce, or potentially reduce, the resale value of State vehicles. One is mandated in statute, one is a practice of the State Purchasing Office and the other is a practice of the Motor Pool.

A.R.S. §28-1441 requires the words "state of Arizona- (name of department or agency)" and "for official use only" in letters one inch in height to be placed on the side of the body of state vehicles. This policy was initiated to prevent misuse of state vehicles. After five years of service, when these stickers are carefully removed, a silhouette of the sticker remains as fresh paint on a faded vehicle. When Surplus Property attempts to sell the vehicles to dealers, they report that dealers automatically reduce the price by the $300-400 it costs to repaint the doors. Surplus Property reports that the price that private citizens are willing to pay drops even more dramatically when door stickers were applied. Using the more conservative dealer number, and a low estimate of 200 vehicles surplused, this policy costs the state $60,000 per year for ADOA alone. When other fleets are taken into consideration, the cost of this policy can jump to as much as $300,000 annually in lost resale value. It is important that vehicles are marked, and an alternative approach could be to place large decals on windows. These could be placed in locations where they would not significantly impair the driver's vision, such as the back windows of sedans.

The second practice is that only initial price and Environmental Protection Agency fuel economy estimates are taken into consideration in deciding which model to procure. The Statewide Vehicle Selection Committee puts a set of vehicle specifications out to bid, and the vendor bidding the lowest initial price wins the bid. Aside from EPA-estimated fuel economy, consideration is not given to life cycle costing, which means that neither expected vehicle resale value nor expected vehicle reliability are considered in this decision. It is not possible to evaluate the effect of this policy, as ADOA does not have data on the selling price of its vehicles or the maintenance cost for each of its vehicles. Larry Snyder of Runzheimer International, a company that analyzes motor vehicle costs, reports that "When you examine which car to buy, it is not enough to compare only retail prices or even best negotiated deal. To gain a true understanding of how much that car will cost over the life of the vehicle, all the expenses you incur once you drive off the lot such as finance payments, insurance, fuel efficiency, annual depreciation, and the cost of repairs and maintenance, should be part of your equation."

ADOA's practice of keeping vehicles beyond 80,000 miles also affects resale value. Older vehicles suffer higher maintenance costs, and Surplus Property reports that vehicle resale price drops dramatically if vehicles are not sold until reaching 100,000 miles. On the other hand, a vehicle's value decreases most dramatically in its first two years. Unfortunately, due to ADOA's lack of maintenance and resale data, it is currently not possible to determine whether the high costs of keeping older vehicles outweigh the savings from delaying the purchase of new vehicles.

- ***Are there other cost-effective alternative methods of accomplishing the program's mission?***

In FY 1996, the ADOA fleet reported that 24.0 million miles were driven and, after adjusting for the cost of fleet expansion, the Motor Pool Fund's actual FY 1996 expenditures were $7.9 million. This amounts to 33¢ per mile. The consultant, David M. Griffith and Associates, will examine the Motor Pool's data gathering, cost allocation and operating costs in further detail. Privatization is a viable option for the Motor Pool, and a number of companies have, in the past, expressed interest in privatizing portions of the Motor Pool. The consultant will also be exploring privatization of the fleet.

WELCOME CENTER OPERATIONS AND ADMINISTRATION
Arizona Office of Tourism
JLBC/OSPB Joint PAR Report

Overview – The program consists of two separate components: the *Welcome Center Operations* and the *Business Administration*. The Arizona Office of Tourism's Painted Cliffs Welcome Center, located off of Interstate Highway 40 (I-40) in Northeastern Arizona, provides travel-related information to visitors entering the state to encourage them to spend more time and money in Arizona. The Business Administration component of the program handles agency- wide support activities including human resources, financial management, strategic planning and budgeting. After reviewing the agency Self-Assessment, JLBC and OSPB staff reached the following conclusions:

- Results of a survey conducted by the Arizona State University reveal that customers of the Painted Cliffs Welcome Center are very satisfied with the services provided at the center.

- Data from Tourism indicate that the Welcome Center contributes to Arizona's economic development.

- While the Self-Assessment suggests that the Tourism Advertising and Direct Mail Program provides greater economic benefits than the Welcome Center, the JLBC/OSPB review finds that current available data do not allow objective comparisons of the relative economic benefits of the two programs.

- A national survey of welcome centers found that the Painted Cliffs Welcome Center serves fewer visitors at a higher cost per visitor than the average welcome center. This could be attributed to several factors, including the poor visibility of the Welcome Center from the interstate highway.

- Tourism has substantially improved the controls and effectiveness of the its financial management, human resources, and strategic planning systems since the 1994 Auditor's General's performance audit.

Tourism's Self-Assessment was thorough and well researched, particularly in providing data with which to evaluate the program's performance and outlining service alternatives. The program's current strategic plan with performance measures immediately follows this joint report.

Program Description – The Painted Cliffs Welcome Center is located off of I-40 near the town of Lupton in the northeastern corner of the state. The Welcome Center provides the traveling public with up-to-date travel information, and personalized travel planning assistance in an effort to market the whole state and influence tourist activities, length of stay, and expenditures. Along with personal visitor assistance and brochures, the Center provides video presentations about Arizona communities and related attractions and a direct-dial reservation board for lodging and camping establishments. The Welcome Center is open 9 hours a day, 7 days a week. The Center recorded 57,000 visitors in FY 1995, 97,600 in FY 1996, and approximately 103,000 in FY 1997, an increase of 80.7% over FY 95.

The Welcome Center opened in FY 1994 after a number of years of legislative debate and planning. During the 1988 session, the Legislature enacted Laws 1988, Chapter 10 to authorize the planning and construction (through lease-purchase financing) of a welcome center. The Arizona Department of Administration (ADOA) leased the land from the Arizona Department of Transportation, and issued certificates of participation to finance the $450,000 construction costs of the building. To repay the certificates, ADOA leases the Center to Tourism. The lease-purchase repayment schedule will end in July 2002.

The Administration component consists of all support functions that are not marketing-related duties and that are essential to the day-to-day operations of the agency. Included in these responsibilities are fiscal services, personnel, budget, strategic planning, management information systems, purchasing, contracts, mail delivery, and motor pool.

Program Funding – The program is funded through annual legislative appropriations from the State General Fund. Funding for the Welcome Center is appropriated in a special-line item and pays for 4.0 full-time staff, printed promotional materials, the operations and maintenance of the facility, and the annual lease-purchase payment. Monies appropriated to the Business Administration component support 3.5 full-time positions and associated salaries and employee benefits. Table 1 shows monies allocated to each component of the program from FY 1997 through FY 1999:

Table 1: Welcome Center Operations and Administration Funding

	FY 1997	FY 1998	FY 1999
Welcome Center	$316,300	$321,200	$327,400
Administration	132,800	140,400	144,600
Program Total	**$449,100**	**$461,600**	**$472,000**

****

- ***How does the program mission fit within the agency's overall mission and the program's enabling authority?***

The Welcome Center Program's mission is "To manage the Arizona Office of Tourism welcome center operations at Lupton, AZ to stimulate visitors to the center to extend their visit in the state and generate additional tourism expenditures throughout Arizona." This program mission is consistent with Tourism's overall mission to "increase the level of tourism-related activities and expenditures in the state in order to enhance the economy, the stability of the work force and the standard of living for all Arizonans."

The specific authority to operate the Welcome Center is found in A.R.S. §41-2305B.8, which states that Tourism may "designate, establish and operate state visitor or tourist information centers in the state which furnish tourist information and literature, subject to legislative appropriation." The Welcome Center's enabling statutes do not explicitly state why Tourism should operate a tourist information center. Rather, Tourism's management has interpreted the enabling language to mean that the role of the Welcome Center is to generate additional tourism expenditures in Arizona. Other possible motives for operating state visitor centers might be to extend state hospitality or serve as part of the national highway rest area/information center system. However, Tourism's interpretation is based on the fact that all of Tourism's marketing activities are geared toward generating increased tourism revenue in Arizona. In a more general sense, the Welcome Center's mission fits within Tourism's charge of "promoting and developing tourism business and planning, and developing a campaign of information, advertising, promotion, exhibition and publicity relating to tourism business..." (A.R.S. §41-2302A).

- ***Does the program meet its mission and goals efficiently and effectively, including comparisons with other jurisdictions? Do the program's performance measures and performance targets adequately capture these results?***

Results of a survey conducted by Arizona State University reveal that customers of the Painted Cliffs Welcome Center are very satisfied with the services provided at the center. In an effort to assess the Welcome Center's performance, Tourism contracted with Drs. Christine Vogt, Kathleen Andereck, and Richard Gitelson of Arizona State University (ASU) to conduct a year-long study of travel parties who stopped at the Painted Cliffs Welcome Center. The study was designed to evaluate: 1) the effectiveness of the Center in encouraging visitors to stay longer and spend more money as a result of information and hospitality received at the Center; 2) customer satisfaction with the services provided; 3) the socio-demographic and travel characteristics of travel parties stopping at the Welcome Center; and 4) primary reasons why travel parties stop at the Welcome Center.

This year-long study was based upon a survey of a random sample of travel parties that stopped at the Painted Cliffs Welcome Center. Between May 1995 and May 1996, 1,059 travel parties (average size of 2 people) that visited the Welcome Center (out of a total of 81,000 travel parties) were asked to complete a one-page survey about their use of the Welcome Center facility. All participants were also provided a 16-page diary to record travel activities and amounts spent while vacationing in Arizona. The diary response rate for Welcome Center visitors was 80 percent.

In order to gauge travelers' satisfaction with the Welcome Center's services, the survey asked them four questions related to their experience while visiting the facility. The majority of the respondents rated the level of services they received as superior, and felt they were welcomed to the state. The questionnaire, which allowed responses on a seven-point scale where point "1" represents "strongly disagree" and "7" "strongly agree", captured customers' ratings on the following four qualitative statements: 1) "The Welcome Center made me feel welcome in Arizona;" 2) "Arizona is concerned with providing good experiences for visitors;" 3) "I was treated well at the Arizona Welcome Center;" and 4) "The Arizona Welcome Center provided excellent travel services." The program received an average rating of 6.7, which translates into a 95% approval rating of the Welcome Center's services.

Data from Tourism indicate that the Welcome Center contributes to Arizona's economic development. Tourism's Self-Assessment considered 2 issues in assessing the economic development impact of the Welcome Center: 1) whether the information disseminated at the Welcome Center influenced travelers to stay longer and spend more money in Arizona, and 2) how the Welcome Center's economic benefits compare to the economic benefits of other Tourism marketing programs.

The June 1996 ASU *Arizona Welcome Center Study* found that 95% of the Welcome Center visitors surveyed indicated using the information provided at the facility. However, a large majority (91%) of the respondents said they would use the information obtained at the Welcome Center to plan future trips, while only 17% indicated that Welcome Center information influenced them to increase travel expenditures in Arizona during their current trip. Expressed as a weighted average for all travelers stopping at the welcome center, the study found that an average incremental spending of $20.45 per visitor would be attributed to the Center's information.

To determine the total economic impact of the Welcome Center in FY 1996, Tourism projected the average incremental expenditure of $20.45 per person derived from the Study's sample onto the total population of welcome center users during the same fiscal year. Specifically, it multiplied the average additional spending ($20.45) times the total number of Welcome Center visitors in FY 1996 (97,685). Based on these figures, in FY 1996 the Welcome Center generated $1,997,600 in additional tourism-related spending in the state and $87,896 in tax revenue (based on a weighted average tax rate of 4.4% across all tourism-related expenditures). Measured against the amount invested by the state in this program, this additional tourism-related spending translates into a 543% rate of return to the tourism industry in Arizona, while the $87,896 generated in tax revenue reflects only a 28% return on the $310,100 general fund appropriation. However, the long-term economic impact would likely be higher since 91% of the survey's respondents indicated they would use Welcome Center information to plan future trips.

While the Self-Assessment suggests that the Tourism Advertising and Direct Mail Program provides greater economic benefits than the Welcome Center, the JLBC/OSPB review finds that current available data do not allow objective comparisons of the relative economic benefits of the two programs. Tourism compared the Welcome Center's economic impact against that of its Advertising and Direct Mail Program using data compiled from the *Arizona Welcome Center Study* (1996) and a *Marketing Conversion Study* (1995) both conducted by Dr. Christine Vogt of ASU. By doing its own calculations with data from the ASU study, Tourism concluded that its Advertising and Direct Mail Program resulted in a 9,300% rate of return to the tourism industry and a 300% rate of return in state funds in FY 1996. The *Marketing Conversion Study* was based upon a random survey of individuals who requested travel information from Tourism between January through August 1994 by calling the toll-free or local telephone number, completing a business-response card or magazine-reader service, or writing a personal letter. Approximately 388,000 individuals requested tourism information from the state of Arizona during the study period. Based on these population figures, a weighted sampling design was developed and 1,000 names were randomly selected and surveyed. The study found that 43% of the respondents indicated that they traveled to Arizona within a year and that 9% decided to visit after they saw Arizona ads and received Tourism information. The study also found that a travel party that requesting information from an ad campaign spent approximately $1,831 compared to $800 spending for those who did not use Tourism information services. Tourism reports that in FY 1996 it received 705,000 consumer requests for Arizona travel planning and materials.

While Tourism's management has aimed to develop and rely on the best empirical evidence, the JLBC/OSPB review team believes that the figures provided in the Self-Assessment may significantly overstate the economic impact of the Advertising and Direct Mail Program. Also, differences in the research methodologies used in each of the referenced studies do not provide for objective comparisons of the relative merits of the Welcome Center and the Advertising and Direct Mail Program.

In the Self-Assessment, Tourism credits the Advertising and Direct Mail Program for the difference in individual expenditures between the targeted group who received the travel packet and the "average tourist to Arizona" who did not receive the packet. While the ASU *Marketing Conversion Study* did find that those who received the packet spent more on average, the study does not say how much they would have spent in the absence of the packet. Tourism should only take credit for the increased marginal expenditures of this population, which are not available from the study.

More importantly, the methodologies of the two studies are not comparable. For instance, the *Arizona Welcome Center Study* excluded from the survey anyone staying more than 28 days in Arizona, while the *Marketing Conversion Study* included visitors who remained in Arizona for up to 365 days. Those staying significantly longer periods of time are highly likely to spend more money, thus skewing the results to favor the Advertising and Direct Mail Program.

A survey of welcome centers nationwide found that the Painted Cliffs Welcome Center serves fewer visitors at a higher cost per visitor than the average welcome center. This situation could be attributed to several factors, including the poor visibility of the Welcome Center from the interstate highway. The Self-Assessment indicates that in FY 1996 the Arizona Welcome Center had 97,685 visitors, while the national average number of visitors to state travel information centers is 406,000 according to the *1996 Survey of State Travel Information Centers* conducted by the State Travel Information Center Directors' Alliance.

As reported in the Self-Assessment, the Alliance survey also reveals that the average operating budget per welcome center facility nationwide is about $103,000 while the "comparable budget" for the Arizona Welcome Center is $147,300. (In order to benchmark the program's expenditures with those reported in the Alliance survey, the total budget of the Welcome Center was adjusted by excluding $168,200 related to facility costs and travel planning materials.) The translation of such data indicates that the average cost per visitor at other states' welcome centers is approximately $0.70, while the average cost per customer of the Arizona Welcome Center is about $1.51.

Visitation to the Painted Cliffs Welcome Center could be lower than the national average for a number of reasons. The Self-Assessment reports that the center's visitation has been hampered by problems related to inadequate signage and poor access from I-40. A 1995 research article by Richard Perdue of the University of Colorado at Boulder reports that the most important visitor center attributes to motorists are restrooms, ease of access into the center and back onto the interstate, lighted parking, telephones, shade and grassy areas. ("Travel Preferences for Information Center Attributes and Services," *Journal of Travel Research*, Spring 1995) The ASU *Arizona Welcome Center Study* reported that many of those who did not stop at the Welcome Center were not aware of its existence. While the Painted Cliffs Welcome Center's location is not ideal for visibility and access, improved highway signage might increase visitation.

Tourism has substantially improved the controls and effectiveness of its financial management, human resources, and strategic planning systems since the 1994 Auditor's General's performance

audit. The performance audit completed by the Auditor General in September of 1994 identified several weaknesses in the administrative functions of the Office including purchasing, budgeting, and other human resources. The Audit reported that Tourism has done a poor job monitoring and controlling its budget, and contract and grant monitoring.

Since then, several business improvement initiatives have successfully been implemented. Currently, Tourism maintains a complete system of internal controls in the areas of financial management, human resources, and strategic planning. Tourism has developed budget tracking reports that are reconciled regularly to the Arizona Financial Information System. Additionally, Tourism has complied with most strategic planning and budget reform requirements.

- ***Are there other cost-effective alternative methods of accomplishing the program's mission?***

Although a travel information office could be privately operated, the privatization of the Painted Cliffs Welcome Center is not feasible in the current environment due to federal regulations. The Welcome Center and its immediate vicinity are located on land within the federal right-of-way of I-40 and therefore are subject to regulations of the United States Department of Transportation. The federal regulations stipulate that "no charge to the public may be made for goods or services at safety rest areas except for telephone and articles dispensed by vending machines" (48 Federal Reg. Sec. 752.5.g). This limitation eliminates most types of revenue-generating activities necessary to sustain a for-profit organization.

The Welcome Center could also cut costs by using volunteers, which is done in many other states. However, the Self-Assessment indicates that attempts to recruit volunteers from the area were unsuccessful due to the remoteness of the current facility and the absence of a large volunteer base around Lupton.

In the Self-Assessment, Tourism noted that the role of state visitor centers cuts across the missions of Tourism and ADOT. An alternative to streamline management lines would be to transfer the management of the Welcome Center to ADOT. Policy objectives under federal and state highway regulations encourage the development and management of information centers located at rest areas as a necessary amenity within the highway system for the "safety, comfort, and information needs" of motorists (48 Federal Register). Currently, ADOT operates about 28 rest areas throughout the state, many of them located along interstate highways, including one adjacent to the Lupton Welcome Center. ADOT already has a presence at Lupton for the oversight, maintenance and security of the current rest area. Furthermore, ADOT already promotes the State through the well-known *Arizona Highways* magazine. Although federal law prohibits the sale of most items at the Welcome Center, ADOT could publicize *Arizona Highways* through the Center.

The *1996 Survey of State Travel Information Centers* conducted by the State Travel Information Center Directors' Alliance reports that in 30 states the tourism office operates visitor centers, in 8 states the Departments of Transportation operate them, and in 8 states they are operated either locally or by a combination of agencies.

Another alternative to enhance services, reduce personnel and printing costs is to add self-service kiosks at the Welcome Center. These kiosks would be connected to the Arizona Internet Travel Application, and would be part human interface and part using emerging interactive computers and telecommunications technologies. Such technologies enable product development and promotional efforts to be very creative and offer effective marketing channels for local products including accommodations, exhibitions, or special events. These services require limited personnel costs and printing, and offer opportunities for partnerships and cost-sharing alternatives with other organizations. Arizona has already taken steps in this direction as the Arizona Motel Hotel Association has installed a self-service, direct dial reservation board in the Welcome Center. Tourism provides the space to house the board while the Association pays for its maintenance and telecommunication charges.

APPENDIX C

JLBC and OSPB Recommendations

ECONOMIC DEVELOPMENT PAR COMMITTEE

SURPLUS PROPERTY MANAGEMENT, Arizona Department of Administration

JLBC RECOMMENDATION	OSPB RECOMMENDATION
MODIFY	MODIFY
• Appropriate the State Surplus Property Fund and Federal Surplus Property Fund, starting in FY 2000.	• *Do not Appropriate the State Surplus Property Fund or the Federal Surplus Property Fund.*
• Does not address.	• Require the department to submit a report on the fund sourcing of their FTE in the previous fiscal year as part of their budget request.
• Require the department to submit to the PAR Committee by January 15, 1998 an action plan on its developing new performance measures, based on improved data collection, which will be possible with an automated tracking system.	• Same as JLBC Staff.
• Require the department to collect revenue and payment data, by donor fund source (General Fund, all other state funds, and non-state funds), starting in FY 1999.	• Same as JLBC Staff.
• Require the department to report the FY 1999 data to the JLBC Staff by September 1, 1999.	• Does not address.
• Does not address.	• Require the agency to reimburse the General Fund in the same manner as Other Funds in FY 2000.

FLEET MANAGEMENT, Arizona Department of Administration

JLBC RECOMMENDATION	OSPB RECOMMENDATION
MODIFY	MODIFY
• Pursue privatization of the Arizona Department of Administration (ADOA) motor pool, if indicated by the consultant's upcoming report.	• Require the agency to implement recommendations of the OEG/ADOA Consultant.
• Consolidate the state fleet by removing the Department of Economic Security's (DES) statutory exemption from the ADOA motor pool.	• Examine eliminating DES's exemption from the ADOA fleet, transferring the title of DES vehicles to ADOA, and transferring ADOA taxi vehicles rented by DES to the ADOA extended dispatch fleet.
• Require non-exempt agencies to transfer ownership of their vehicles to ADOA.	• Give ADOA the statutory authority to require agencies to provide information to ADOA on vehicle ownership and use.
• Delay the statutory requirement for 40% of the state fleet to use alternative fuels and require the department to report back to the PAR Committee by January 15, 1998 on its action plan for compliance with the 40% requirement.	• Change ARS § 41-803K.2 to eliminate the requirement that 40% of the entire fleet be powered by alternative fuels.
• Does not address.	• Examine statute to determine if there are barriers to using life-cycle costing in procuring new vehicles.
• Does not address.	• Change ARS § 28-1441 to allow "Property of" stickers to be placed on windows instead of doors.

BUSINESS ADMINISTRATION AND WELCOME CENTER OPERATION, Office of Tourism

JLBC RECOMMENDATION	OSPB RECOMMENDATION
RETAIN	RETAIN

SPORTS DEVELOPMENT, Department of Commerce

JLBC RECOMMENDATION	OSPB RECOMMENDATION
ELIMINATE • Remove funding in the FY 1998-1999 General Appropriations Supplemental bill.	RETAIN

ARIZONA BUSINESS ASSISTANCE CENTER, Department of Commerce

JLBC RECOMMENDATION	OSPB RECOMMENDATION
MODIFY • Require the department to report back to the PAR Committee by January 15, 1998 on the JLBC/OSPB- suggested performance measures (and any department-suggested performance measures) for these two subprograms.	MODIFY • Same as JLBC Staff.

FINANCIAL SERVICES, Department of Commerce

JLBC RECOMMENDATION	OSPB RECOMMENDATION
MODIFY	MODIFY
• Require the department to report back to the PAR Committee by January 15, 1998 on its action plan and timeline for establishing Commerce Economic Development Commission (CEDC) rules.	• Same as JLBC Staff.
• Make the criteria for the Work Force Recruitment and Job Training program more competitive to target the program's funding to applicants who will contribute most to the state's economic development and help increase average personal income.	• Same as JLBC Staff.
• The Legislature should consider removing the statutory language stating that special consideration be given to economically disadvantaged areas of the state in the CEDC award process or set in statute a percentage of CEDC funding that must go to economically disadvantaged areas.	• Require the Department of Commerce to report to the Governor and the Legislature comparing CEDC funding recipients in "economically disadvantaged areas" of the state vs. those in "nondisadvantaged" areas.
ELIMINATE	ELIMINATE
• Eliminate the **Border Infrastructure Finance Office** and its funding since the new Greater Arizona Development Authority now provides technical and financial assistance for rural infrastructure projects throughout the state.	• Same as JLBC Staff.

APPENDIX D

Meeting Minutes

ARIZONA STATE LEGISLATURE
Forty-third Legislature - First Regular Session

JOINT PROGRAM AUTHORIZATION (PAR) COMMITTEE ON ECONOMIC DEVELOPMENT

Minutes of Meeting
Monday, November 17, 1997
House Hearing Room 1 - 9:00 a.m.

(All tapes were inaudible)
(Minutes typed from shorthand notes)

Chairman Wong called the meeting to order at 9:00 a.m. and at the secretary called attendance.

Members Present

Senator Henderson	Representative Armstead
George Kirk	Representative McGrath
Bill Hickman	Representative Wong, Chairman
Senator Gnant, Co Chair	

Members Absent

Senator Freestone

Speakers Present

Chris Baier, Director, Office of Sports Development (OSD)
Marcel Benberou, Budget Analyst, Governor's Office
Mark Kirk, Dept of Commerce
Jackie Vieh, Chairman, Dept of Commerce

Guests Present

Sam Cowley, Governor's Office
Brett Clominger, Governor's Office
George Weisz, Executive Assistant, Governor's Office
Judi Hamilton, Consultant, Phoenix International Raceway (PIR)
Richard Bordin, Ph.D., Director, High Altitude Sports Training Complex
Joseph Dean, Dept of Commerce
Diana McKemy, Dept of Commerce
Mark McDermott, Director, Arizona Office of Tourism
Randy Frost, ADOA Surplus Property
Bill Hernandez, ADOA Fleet Management Office

Mark McDermott, Director, Arizona Office of Tourism.
Allan Boone, ADOA Fleet Management Office

Lynn Smith, JLBC Staff, gave an overview of the PAR process and the recommendations of JLBC (Attachments 1 and 2).

Chris Baier, Director, Office of Sports Development, presented OSD's views (Attachment 3).

Marcel Benberou, Budget Analyst, Governor's Office, advised the committee of the financial impact sports has on the state of Arizona.

Jackie Vieh, Chairman, Department of Commerce, advised the committee of the importance of the Office of Sports Development and recommends OSD be continued.

George Weisz, Executive Assistant, Governor's Office, reviewed OSD's accomplishments (Attachment 3) and testified that the Governor's office supports OSD and recommends its continuation.

Judi Hamilton, Consultant, Phoenix International Raceway (PIR), related the positive assistance OSD has been to her organization, and concurs that OSD should continue.

Richard Bordin, Ph.D., Director, High Altitude Sports Training Complex testified of the positive assistance OSD has been to his organization in obtaining private sector donations; he concurs OSD should be continued.

Marcel Benberou, Budget Analyst, Governor's Office, provided an overview of the Arizona Business Assistance Center (Attachment 4) and testified that it serves as a liaison between the small business community and the Department of Commerce; that customers are very satisfied with the services provided; but that performance measures be developed for the Small Business Advocate and Minority/Women-Owned Business Enterprise Services subprograms.

Joseph Dean, Department of Commerce, testified and elaborated on Attachments 4 and 5 and the joint JLBC/OSPB recommendation that the Arizona Business Assistance Center report back to the PAR Committee by January 15, 1998, on the suggested performance measures for the Small Business Advocate and Minority/Women-Owned Business Enterprise Services subprograms.

Lisa Cotter, Budget Analyst, Joint Legislative Budget Committee (JLBC), reviewed Attachment 6, and elaborated on the JLBC recommendations.

Diana McKemy, Director of Strategic Finance, Department of Commerce, testified and responded on behalf of her department.

Representative McGrath questioned loans to America West Airlines, Dial Corporation, Bank One, Sears National Bank, and Old Tucson Studios as shown on Pages 8-9 (Attachment 6), and stated she was opposed to State money being given to out-of-state companies.

Lynn Smith, JLBC Staff, gave an overview of the Surplus Property Management program and the recommendations of JLBC (Attachment 7).

Brett Clominger, Governor's Office, testified that he did not recommend appropriation of the State Surplus Property Fund or the Federal Surplus Property Fund, and he recommends tracking in FY 1999.

Randy Frost, Manager, ADOA Surplus Property, testified and elaborated on Attachment 7.

Lynn Smith, JLBC Staff, presented the JLBC recommendations on the Fleet Management Program (Attachment 8).

Bill Hernandez, ADOA Fleet Management Office, testified and presented his recommendations and conclusions (Attachment 9).

Marcel Benberou, Budget Analyst, Governor's Office, reviewed Business Administration and Welcome Center Operation, Office of Tourism (Attachment 10).

Mark McDermott, Director, Arizona Office of Tourism, responded to Attachment 10.

Without objection, the meeting adjourned at 5:00 p.m.

Neal A. Kohler, Committee Secretary

(Original minutes and attachments are on file in the Office of the Chief Clerk.)

ARIZONA STATE LEGISLATURE
Forty-third Legislature - First Regular Session

JOINT PROGRAM AUTHORIZATION (PAR) COMMITTEE ON ECONOMIC DEVELOPMENT

Minutes of Meeting
Monday, December 1, 1997
Senate Hearing Room 1 - 9:00 a.m.

The meeting was called to order at 9:00 a.m. by Cochairman Gnant. The secretary noted attendance.

Members Present

Senator Tom Freestone
Mr. Bill Hickman
Mr. Sam Cowley
Senator Randall Gnant, Cochairman
Representative Jean McGrath
Mr. George Kirk
Representative Barry Wong, Cochairman
Representative David Armstead

Members Absent

Senator James Henderson, Excused

Guests Present

(See Attachment 1)

Tape 1, Side A

Cochairman Gnant explained the purpose of this meeting, and on the issue of Surplus Property Management, Arizona Department of Administration, asked if members wished a presentation of a staff summary or testimony. There being none, he requested a motion from the floor.

> **Representative Wong moved adoption of the Joint Legislative Budget Committee (JLBC) recommendations. The motion carried by a roll call vote of 7-0-0-2. (Attachment 1)**

Cochairman Gnant, on the issue of Fleet Management, asked if members wished a presentation from staff or testimony. There being none, he requested a motion from the floor.

> **Representative Wong moved adoption of the JLBC recommendations. The motion carried by a roll call vote of 7-0-0-2. (Attachment 2)**

Cochairman Gnant, on the issue of Business Administration and Welcome Center Operation, Office of Tourism, asked if members wished a presentation from staff or testimony. There being none, he requested a motion from the floor.

Representative Wong moved adoption of the JLBC recommendations. The motion carried by a roll call vote of 6-1-0-2. (Attachment 3)

Cochairman Gnant, on the issue of Sports Development, Department of Commerce, asked if members wished a presentation from staff or testimony. There being none, he requested a motion from the floor.

Representative Wong moved for a modification of this program as follows: that this agency establish a clear strategic plan of its mission along with a clear action plan and clear goals and present it to the Department Head and this Committee by January 1, 1998. Also as part of this motion, the Department of Commerce reallocate resources to add back the one Full Time Equivalent (FTE) it took from this program so there will be a total of two FTEs. And further this program and the Department of Commerce shall not engage in advocacy, support, or taking a position, express or implied, on any sports issues which would require a special tax on the citizens of our state to construct a sporting or sport-related venue or facility.

Representative McGrath made a substitute motion that the Committee adopt the JLBC recommendation. The motion carried by a roll call vote of 5-2-0-2. (Attachment 4)

Cochairman Gnant, on the issue of the Arizona Business Assistance Center, Department of Commerce, asked if members wished a presentation from staff or testimony. There being none, he requested a motion from the floor.

Representative Wong stated that at the first hearing he suggested that the JLBC, OSPB, and the Director of the Arizona Business Assistance Center meet to agree to a measurement tool that would be feasible for the agency, and concluded by saying he supports the JLBC recommendation.

Representative Wong moved adoption of the JLBC recommendation. The motion carried by a roll call vote of 6-1-0-2. (Attachment 5)

Cochairman Gnant, on the issue of Financial Services, Department of Commerce, asked if members wished a presentation from staff or testimony. There being none, he requested a motion from the floor.

Representative Wong moved adoption of the JLBC recommendations with the following modifications: (1) With regard to the Work Force Recruitment and Job Training Program that there be statutory changes so that there will be monies earmarked for small businesses desiring to expand their workforce in this state; (2) with regard to economically disadvantaged areas on the Commerce Economic

Development Rules (CEDC) awarding process, that statute be modified so a percentage of CEDC funding must go to economically disadvantaged areas; and (3) the Border Infrastructure Finance Office should be retained but funding should be from the funding that goes to the Greater Arizona Development Authority and that necessary statutory changes be made to affect that end.

Cochairman Gnant asked if the motion is in writing. Representative Wong stated he would reduce it to writing. Mr. Kirk asked if Representative Wong's motion placed more emphasis on small business rather than large-business job training. Representative Wong iterated that the intent of this motion is that the statute be changed so some of the job training funds would be earmarked for small business job training. Mr. Kirk asked what amount, size, or percentage of funds were allocated because prior testimony was that the bulk of the funds were going to large corporations, and small business does not have the manpower, resources or structure to take advantage of job training. He concluded saying he feels that the State should put the bulk of its emphasis on small business and not subsidize large business.

Mr. Wong reiterated the intent of his motion is that this Committee recommend to the full Legislature that legislation be prepared to amend the existing program so that a specific percentage or some sum of money be earmarked for small business and job training.

Mr. Cowley agreed with Representative McGrath's comments in the last session that she couldn't justify most of these programs overall. This Committee ought to be concerned about current employers already in Arizona, Mr. Cowley continued, and if we are inviting other people and giving them credit to do certain things, we are discriminating against people who are already here and being productive. Mr. Cowley added he is not sure with the growth of our economy it makes sense to have that type of discrimination. The rules need to be very clear about what it is this Committee is trying to encourage, Mr. Cowley added, because we want to attract high-paying jobs if we want to do this kind of thing at all. When we contribute hundreds of thousands of dollars for low-paying jobs, Mr. Cowley concluded, this Committee is not really advancing the appropriate purpose of this type of incentive.

Senator Freestone agreed and added that already established small businesses of less than 1000 employees and under are having a difficult time competitively and are being put at a great disadvantage. We really have done nothing, Senator Freestone continued; we have drained the job market, we have hiked costs for hiring competent people for small businesses, and that is where our emphasis ought to be. Big corporations are gong to do fine as long as consumerism remains strong, Senator Freestone concluded; but small business needs to be stabilized, and we need more effort into that area of Arizona's economy.

Rep McGrath stated she is a small businessman and the best way for government to help her is to quit taxing her so much and spending the money on these programs. She suggested that everyone vote "no" on the entire recommendation and motion. This Committee needs to start over from scratch, she emphasized, and enact new legislation this session. To designate part of the monies to small business is admirable, she concluded, but we should not be in the business of forcibly taking tax money from taxpayers and spend it on programs we neither benefit from nor approve of.

Senator Freestone added that property taxes, regulations, and unfair competitive advantage is killing small business. The backbone of the nation is small business, and it is getting broken, Senator Freestone continued, and rather than saying we will reinvent the wheel, I would rather have something we can replace it with. This Committee needs to put the Department on notice where our desires are and have the Department create a different and better atmosphere of service, Senator Freestone added; and this Department needs to become very aggressive and start identifying and solving these problems, money is not always going to solve problems, and this Committee needs to come up with a good plan and permit small business to function more freely.

Representative McGrath made a substitute motion to eliminate the Financial Services program and direct that new legislation be written that would be more in line with the remarks of Senator Freestone and Mr. Cowley.

Cochairman Gnant explained the second part of the motion to make it in line with the remarks of Senator Freestone and Mr. Cowley is going to be difficult to write into a motion and that if the first part of the motion is successful, the remarks of Senator Freestone and Mr. Cowley would become part and parcel of an attempt by the Department of Commerce to revise the program so it would gain acceptability to you and the other members.

After discussion, Representative McGrath withdrew the second part of her motion.

Mr. Kirk indicated he supports the motion, and stated he hires and trains his own people without help from the state and other sources. It is not fair that this money goes to large banks and companies like Dial and Intel, Mr. Kirk concluded.

Representative Armstead suggested that this Committee needs to focus on how these programs initially came about and what was the need. We have all had problems and struggles with how they have been administered, Representative Armstead continued, but several sessions ago we pared down the paperwork process that was too cumbersome for small business. We all have problems with large companies gaining dollars from CEDC and different funds, he went on, but we must realize we have a new Governor, and the past Governor aided greatly in those dollars going in those directions. We need to look at legislation that was passed for the Department and set up a monitoring scheme with the Auditor General and whoever else, he said, so we see to it the Department is functioning according to Legislation. What this Committee can do within legislation is to ensure that they function as the Legislature has directed them, Representative Armstead explained, and we will be reinventing the wheel if this Committee rewrites the legislation on these programs. There is now an application process for small business to gain training dollars when they are expanding, he added; and this Committee has worked very hard to get that dimension into law, but basically no one is comfortable with how it has been administered. During the early years of that legislation, he continued; this Committee did not feel Commerce was getting out to small business, and there are some of us that still feel that way. What this Committee needs to do is take a look at what we have done and reassess it before we reinvent the wheel, Representative Armstead concluded, because we have done that in the

Legislature before and this Committee came out behind a broken wheel. .

Cochairman Gnant suggested that Representative's McGrath's substitute motion will send a signal that at least members of this Committee have some fairly severe concerns with regard to how monies are being distributed under this program and that pretty significant changes need to take place.

Some of the things he outlined in his recommendation goes to the essence of what Representative McGrath said, Representative Armstead added, and he asked Representative McGrath for her comments.

Representative McGrath added that with regard to concerns about the Governor's approval, she noted Mr. Weisz was here representing the Governor and nodded his head in complete agreement with her remarks, and Mr. Cowley is here appointed by the Governor and seems to be in agreement. This is a program that needs a fresh start, if it merits a fresh start, she concluded, and it needs to have the slate wiped clean and start over.

Representative Wong added that Representative McGrath raises a very good point on the way the CEDC dollars are allocated. There has been a lot suspicion or hard feelings by existing small business in Arizona, he continued, and in the JLBC recommendation we need to force CEDC to come up with specific rules and guidelines on how these monies are to be allocated and granted. I am not at a point where this Committee should eliminate all these programs, Representative Wong emphasized, and maybe it just needs fine tuning to force rules to be adopted by a date certain in January. This Committee needs to keep in mind the CEDC grant program is funded by $2.85 million of lottery proceeds as of the last fiscal year, Representative Wong concluded, and Representative McGrath's motion is not going to fix the problem because there are other issues to be addressed. Representative Wong suggested this Committee vote down the motion and fine tune the existing programs.

Mr. Cowley clarified that he was appointed by the Governor's office, but he has not had conversations with that office. Rather than specifically representing the Governor's position, Mr. Cowley continued, he is presenting a regular citizen's viewpoint. Regarding the effect of the motion to eliminate, he asked, does that mean that "we" would not have any rules imposed on what would be allocated in this program. If what we are going to do then means no rules imposed at all and money would continue to be funded as it has been, would be a bad result; Mr. Cowley added, although the intention is probably right.

Mr. Hickman agreed with Senator Freestone, and shared that it takes one of six family members full time to address government rules, regulations, and laws in his business. He concluded he is against throwing money at economic development.
Cochairman Gnant asked if there was further discussion on Representative McGrath's substitute motion; there being none, the roll call was called.

Representative McGrath's substitute motion that the Financial Services program be eliminated was carried by a roll call vote of 6-2-0-1. (Attachment 6)

Without objection, the meeting adjourned at 9:40 a.m.

Neal A. Kohler, Committee Secretary

(Original minutes, attachments, and tape are on file in the Office of the Chief Clerk.)