STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, May 25, 2004
9:00 a.m.
Senate Appropriations Room 109

- R E V I S E D -
MEETING NOTICE

- Call to Order

- Approval of Minutes of March 19, 2004.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION -
  ~~A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.~~
  ~~B~~ A. Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee Health Plans as required under A.R.S. § 38-658A.

1. DEPARTMENT OF ADMINISTRATION - Review of Self-Insurance for State Employee Health Insurance.

2. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of Expenditure Plan for Workforce Investment Act Monies.
   B. Consider Approval of Requested Transfer of Appropriations for Day Care Subsidy and Transitional Child Care.
   C. Consider Approval of Requested Transfer of Appropriations for TANF Cash Benefits.
   D. JLBC Report on Additional Performance Measures for Child Protective Services.

3. ATTORNEY GENERAL - Review of Allocation of Settlement Monies.

4. ARIZONA COMMUNITY COLLEGES - Report on Dual Enrollment and Appointing Ad Hoc Committee.

5. ARIZONA DEPARTMENT OF EDUCATION - Updated Report on Estimated Fiscal Impact of Changes to Achievement Testing Program.

The Chairman reserves the right to set the order of the agenda.
05/20/04
People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 542-5491.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

March 19, 2004

The Chairman called the meeting to order at 10:35 a.m., Friday, March 19, 2004, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Anderson	Representative Biggs
	Senator Cannell	Representative Burton Cahill
	Senator Harper	Representative Gray
	Senator Rios	Representative Lopez
Absent:	Senator Arzberger	Representative Farnsworth
	Senator Bee	Representative Huffman
	Senator Martin	Representative Huppenthal
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Kim Hohman	Stefan Shepherd
		Steve Schimpp
Others:	Cynthia Odom	Attorney General's Office
	Jim Morrow	Attorney General's Office
	Catherine Eden	Director, Dept. of Health Services
	Charles Bruen	Assessment Division, Arizona Dept. of Education

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of December 18, 2003. The motion carried.

EXECUTIVE SESSION

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

At 10:37 a.m. the Joint Legislative Budget Committee went into Executive Session.

Representative Pearce moved that the Committee reconvene into open session. The motion carried.

At 11:00 a.m. the Committee reconvened into open session.

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

ATTORNEY GENERAL (AG) - Review of Intended Use of Monies in Antitrust Enforcement Revolving Fund.

Ms. Kim Hohman, JLBC Staff, said that this item is a review of the Attorney General's FY 2004 expenditure plan for the Antitrust Enforcement Revolving Fund. A footnote in the General Appropriation Act requires the AG to notify the Committee of its intended uses of the Antitrust Fund monies in excess of $170,500. The AG reports that Antitrust Fund monies available in 2004 will be about $400,000, and there is a breakout in the JLBC memo that shows the expenditures among the various line items. The JLBC Staff recommended that the Committee give a favorable review of the expenditure plan.

Representative Pearce moved that the Committee give a favorable review as recommended by the JLBC Staff to the Attorney General's intended expenditure plan for the Antitrust Enforcement Revolving Fund. The motion carried.

DEPARTMENT OF ECONOMIC SERVICES (DES)

A. Review of Long Term Care Capitation Rate Changes.

Mr. Stefan Shepherd, JLBC Staff, said this item is a review of capitation rates for federal fiscal year 2004 for the Title XIX Long Term Care program for developmentally disabled clients. The proposed capitation rate increase is approximately 7.8% as compared to a 5% increase assumed in the appropriation. Taking into account slightly less than projected caseloads for state FY 2004, the impact of these rates would be about $3 million General Fund above the current FY 2004 appropriation. JLBC Staff has recommended 3 options as described in the JLBC memo.

Representative Pearce moved that the Committee give a favorable review to the request by the Department of Economic Security for a capitation rate adjustment, with the caveat that the approval does not constitute an endorsement of a supplemental request. The motion carried.

B. Determine Arizona Works Caseload Reduction Savings.

Mr. Stefan Shepherd, JLBC Staff, said this item is some clean-up work associated with the Arizona Works pilot welfare program. The program is still continuing but the pilot that involved more placement activities and eligibility determination activities ended in September 2002. There is some clean-up work regarding caseload reduction savings. The JLBC Staff used caseload reduction savings methodologies that the Committee approved nearly 5 years ago and calculated those savings for the final term of the contract at $53,000.

Senator Burns asked about the privatization and future of Arizona Works.

Mr. Shepherd said there is a private vendor contracting with the state to provide job placement activities. However, the scope of those activities is reduced as compared to the original Arizona Works program.

Senator Anderson responded regarding the future of Arizona Works. It was more or less agreed upon 2 years ago where the Arizona Works program would morph into the jobs placement program in exchange for the opportunity to bid on a statewide job placement privatization of the whole JOBS program. That should have happened already, but the fact that Congress has not reauthorized the welfare reform bill has created problems.

Senator Cannell said that any changes that occurred had been with the agreement with MAXIMUS. He said the figures he sees do not show that Arizona Works is working.

Senator Anderson said the most recent information he has shows that they have achieved all of their benchmarks that were agreed to in their contract. He said Arizona is one of the highest states in the nation in terms of caseload expansion.

Representative Pearce moved that the Committee approve the JLBC Staff calculation of cash benefit savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program for calendar year 2002. The motion carried.

DEPARTMENT OF HEALTH SERVICES

A. Review of Developmental Disabilities (DD) Capitation Rates.

Mr. Stefan Shepherd, JLBC Staff, said this is a review of the Behavioral Health portion of the Title XIX capitation rates for the DD clients. The proposed rate is approximately 1% above the rate assumed in the appropriation, but the costs are minimal and as such, the JLBC Staff is recommending a favorable review of the proposed capitation rates.

Representative Pearce moved that the Committee give a favorable review as recommended by the JLBC Staff to the capitation rate increase for the Behavioral Health Title XIX Developmentally Disabled clients. The motion carried.

B. Review of Expenditure from the Vital Records Electronic Systems Fund.

Mr. Richard Stavneak, Director, JLBC Staff, said that several years ago we passed an increase in Vital Records fees for birth and death records. It was to fund an automation process of Vital Records. The Legislature put that on hold a year ago when we had a deficit and, instead, used those monies to fund DHS's operating budget of Vital Records. The Governor vetoed the Omnibus Reconciliation Bill that would have expanded the use of the fund to permit that. DHS has found other monies to fill that hole in the DHS operating budget, indirect cost monies, and therefore has freed up the $1.4 million to be spent on automation again.

The project has gone through the Government Information Technology Agency process and they favorably reviewed it, in terms of the adequacy of the technology plan. The Committee has 2 choices in terms of its favorable review. Either favorable reviewing it to the extent the expenditures are about $1.4 million. There could be further expansions in the future that would require DHS to return to the Committee. The second choice is an unfavorable review based on the fact that the Legislature originally intended these monies to be spent for the operating budget, but the veto has complicated that matter.

Representative Biggs asked where DHS found the $1.4 million and is it likely they will find more money.

Mr. Stavneak said that they found it in indirect cost charges which they receive from the federal government. The department said they were unaware of this a year ago. In cleaning up their books they have found that some of that money is available to be used to fill in the operating budget. Indirect cost charges are a constant source of money to the department, so it is possible that those monies would be available in the future. Mr. Stavneak said the total amount of indirect monies found was approximately $1 million.

Representative Pearce said that he recognized the importance of this project and that it serves the public well.

Representative Pearce moved that the Committee give a favorable review as recommended by the JLBC Staff with the condition that the Department of Health Services return to the Committee for review of expenditures from the Vital Records Electronic Systems Fund exceeding $1,397,300 in FY 2004 and $111,500 in FY 2005 and future years. The motion carried.

ARIZONA DEPARTMENT OF EDUCATION (ADE) – Report on Estimated Fiscal Impact of Changes to Achievement Testing Program.

Mr. Steve Schimpp, JLBC Staff, said there is a footnote in the General Appropriation Act that requires the Department of Education to report to the JLBC if they make changes in the Achievement Testing Program that are expected to affect the cost of the program. There have been a number of changes made that the agency had not yet reported until now.

Mr. Schimpp said there are 2 components to the achievement testing budget. One is the Stanford 9 test which is based on questions that all students in the nation take, and the AIMS test which only Arizona students take. The Stanford 9 is currently paid out of Proposition 301 funds, and is a little over $2 million. The AIMS program has been paid from 2 sources. About $3 million in the budget comes from the state and the rest has been provided through "No Child Left Behind" monies. Currently, the department is working on a proposal to combine the 2 tests into 1 unified test and that particular issue would take effect in 2005. The document handed out to the Committee (Attachment A) shows what the AIMS test would cost under the existing contract for 2005. It does not show how the cost would be affected if you combine the 2 tests. Based on recent numbers, the state would be likely to save money by combining the tests in the long-term. In the short-term, there would be one-time costs required to combine the tests into 1 test, making costs higher for 2005 and 2006.

Dr. Charles Bruen, Assessment Division, Arizona Department of Education, described the modifications on the handout that was provided to the Committee.

Representative Biggs asked when the RFP was put out in 2001 and Harcourt won, did they bid with the idea that they would have to write new items once the California Testing Bureau (CTB) items were taken out.

Dr. Bruen said that this was not the case. The contract with Harcourt required only 10% of the CTB questions to be replaced prior to FY 2006.

Representative Gray asked if a student passes the test are they required to take the test again, and if so, what are the costs for retaking the test.

Dr. Bruen said they are not required to retake the test, however, there has been a state board policy that allows them to take the test again for a better grade. The cost for retesting is approximately $1,444,000.

Without objection the Committee adjourned at 11:20 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Senator Bob Burns, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2004
MARK ANDERSON
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL, M.D.
JACK W. HARPER
DEAN MARTIN
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2003
ANDY BIGGS
MEG BURTON CAHILL
EDDIE FARNSWORTH
LINDA GRAY
STEVE HUFFMAN
JOHN HUPPENTHAL
LINDA J. LOPEZ

DATE: May 19, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION — REVIEW OF SELF-INSURANCE FOR STATE EMPLOYEE HEALTH INSURANCE

Request

Pursuant to A.R.S. § 38-651, the Arizona Department of Administration (ADOA) requests review of its plan to self-insure state employee health benefits. A.R.S. § 38-651 permits ADOA to self-insure health and/or dental plans upon review of the JLBC. In addition to this requirement, A.R.S. § 38-658 (A) also requires ADOA to meet with and review for the Committee in executive session the planned contribution strategy for each health plan prior to entering into contracts. As an executive session matter, the contribution strategy detail will be forwarded in a separate memorandum.

Recommendation

On the subject of the review of self-insurance, the Committee has at least the following options:

1. A favorable review.
2. A favorable review, with the stipulation that ADOA report back to the Committee on whether the actual negotiated integrated rates are lower than the current estimated rates. If the actual rates are lower, ADOA shall report on whether the state contribution strategy can be adjusted to reflect these lower rates.
3. An unfavorable review.

(Continued)

Summary

ADOA has proposed moving from a fully insured system for state employee health insurance benefits to a self-insured system, in which the state assumes the risk associated with providing health coverage to its employees. The following is a summary of the JLBC Staff analysis of this move:

1. The self-insured and fully-insured options have comparable direct costs in FY 2005. These costs will result in state General Fund agencies paying an additional $30.5 million.
2. ADOA's contracted actuaries believe that administrative costs (and therefore total costs) under self-insurance are lower than under the state's current fully insured contract (CIGNA, the company that has the current state employee health insurance contract, disputes this analysis). The lower administrative costs are offset in FY 2005 by the need to establish a $50 million reserve under self insurance.
3. While the FY 2005 costs are comparable between a self-insured and fully insured system, the state General Fund loses approximately $9 million in FY 2005 premium tax payments by moving to self-insurance.
4. In the long run, ADOA's actuaries believe that administrative costs under self-insurance will rise less quickly than administrative costs under a fully insured system (5% growth under self-insured, 14% growth under fully insured). Although future cost increases under self-insurance are lower than under a fully-insured system, these foregone costs are difficult to quantify. Based on the assumptions provided by the ADOA actuaries, the foregone costs could reach $40 million annually by FY 2009. We did not have available to us an independent means of confirming the accuracy of the ADOA assumptions.
5. ADOA is still negotiating the integrated contracts. Therefore, if the actual integrated contract rates are lower than the preliminary estimated rates, the total costs of the system could be lower than currently reported.
6. Self-insurance requires more oversight by ADOA. The FY 2005 estimated costs associated with this additional oversight are $965,300. In future years, additional administrative funding may be required, which would reduce some of the difference in cost discussed above.

Analysis

History

ADOA began the process of implementing self-insurance in the last quarter of FY 2002. Laws 2002, Chapter 328 required ADOA to self-insure by October 1, 2003. ADOA also received an appropriation of $1.5 million from the Special Employee Health Insurance Trust Fund (HITF) for consulting services that assisted in the creation of a Request for Proposal (RFP). The RFP was released in the fall of 2002. There was concern, however, that insufficient time remained to implement self-insurance by October 2003. As a result, Laws 2003, Chapter 2 removed the deadline but established permissive language allowing the department to self-insure upon review of the Committee. In addition, Laws 2003, Chapter 263, Section 89 prohibited the department from self-insuring in FY 2004.

Under self-insurance, the role of ADOA is to manage all vendor activities and to distribute the monies to pay all medical claims that are incurred by state employees. ADOA will continue its current responsibilities but also increase its financial management of the system, especially in the area of reconciliation of benefit claims and the analysis of those claims. ADOA will also be responsible for increased vendor oversight, including more reporting and performance standards associated with the contracts. To address these increased responsibilities, the Governor recommended $965,300 and 12.5 FTE Positions in FY 2005 from HITF for ADOA administrative costs related to self-insurance (a reduction from the $1.5 million appropriation in FY 2004). The Senate Engrossed budget includes this administrative funding.

Non-Integrated vs. Integrated Contracts

ADOA has identified 5 components of a self-insured system. These include medical services, pharmacy benefits management, utilization review/disease management, stop-loss insurance, and a third party administrator (TPA). The original RFP was structured so companies could bid on each of the 5 contracts separately (henceforth referred to as a "non-integrated" contract) and the companies could submit bids for certain geographic regions. ADOA believes that this structure allows the department to choose "best of class" providers that specialize in each of the 5 components of health care service. For example, the medical network contracts will include several options for the employee, based on geographic region and plan type. Because the RFPs also allow for bids to cover only part of the state (as opposed to requiring companies to provide coverage statewide), the contractors may vary based on geographic region.

In discussions with ADOA, members of the Legislature expressed concern about the lack of an integrated option. In response, ADOA issued an additional RFP in April for an integrated plan, in which one company provides the medical network, TPA, and utilization review/disease management functions. The preliminary bids were received April 23, 2004.

Self-Insured vs. Fully-Insured

In FY 2004, ADOA estimates that the total cost of state employee health insurance will be $406.4 million. The ADOA actuaries believe that the FY 2005 costs under a self-insured system would be comparable to a fully insured system in that year, and estimate that these FY 2005 costs would not exceed $465.2 million. However, because a component of the self-insured system includes building the reserve (see discussion of reserve below), the actual self-insurance costs (not including the reserve) could be lower than comparable fully insured costs.

Although the costs of a self-insured system are comparable to the fully-insured system in the first year, the actuaries estimate that future cost increases will be lower under self-insurance than under the current fully-insured system. The actuaries assume that the growth in medical costs under both fully insured and self-insured systems will be comparable. The actuaries estimate, however, that under the current fully insured system, administrative costs would grow at the same rate as medical claim costs (about 12%-14% annually), but under the self-insured system, annual growth in administrative costs would be limited to 5%. This difference in administrative costs accounts for the majority of the estimated forgone state costs associated with moving to a self-insured system. Based on the actuaries' assumptions and ADOA data, these foregone costs could reach roughly $40 million annually by FY 2009. As noted above, we did not have available to us an independent means of confirming the accuracy of the ADOA assumptions. CIGNA, the current health insurance provider for state employees, disputes these actuarial estimates and believes that these foregone costs will not materialize.

ADOA also believes that the self-insured system provides state employees with greater choice in providers and competition within the various geographic regions in the state, which should also help reduce the rate of growth in state employee health care costs. The current contract does not provide for this level of competition and choice because there is only one fully insured contractor.

Self Insurance in Other Jurisdictions

ADOA reports that 11 of Arizona's 15 counties self-insure. These include Graham, Greenlee, Santa Cruz, Apache, Gila, La Paz, Mohave, Pinal, Cochise, Yuma, and Yavapai. In addition, although Maricopa County stopped self insuring several years ago, they are now looking to move back to a self-insured system and have begun offering 1 plan that is self insured. Several cities self-insure all or part of their employee health benefits, including Flagstaff, Mesa, Prescott, and Scottsdale. In addition, some community colleges and school districts also self-insure. ADOA reports that nationwide, 36 states self-insure all or part of their employee health benefits programs.

Reserve

Under a self-insured system the state assumes the financial risk associated with providing health benefits to state employees. As a result, the ADOA actuaries recommend the accumulation of a reserve fund. These reserve monies will remain in HITF and can be used to cover any medical costs in excess of the current estimates. The employee and state contributions include funding to build up the reserve, and the initial delay in payment of claims that will occur upon implementation of the new system will also provide a one-time contribution to the reserve. The employer and employee premiums include funding for approximately $24 million of the reserve and the claims lag will result in an additional $26 million, for a total reserve of about $50 million by the end of FY 2005. The following year, the reserve will increase further by an additional $25 million, for a total of $75 million at the end of FY 2006. The exact amount of this increase in the reserve requirement is a policy decision that will be made after ADOA analyzes the experience in the first year.

Contribution Strategy and Total Costs

Although the integrated bids are still being negotiated, the actuaries have developed preliminary estimates of the costs of the integrated bids and how these costs compare to the non-integrated bids. This comparison is included in the separate contribution strategy memorandum. The actuaries report that they believe any subsequent negotiations between the integrated plans and ADOA that are necessary to finalize the integrated bids will not materially change the total costs of the system. If the negotiations with the integrated bidders do result in final bids that are less than the current actuarial estimates, the state may be paying more than if the contribution strategy had been developed subsequent to the negotiations. If the actual costs of the system after these negotiations are less than the estimates used to develop the contribution strategy, any savings will accumulate in HITF and increase the reserve.

As discussed above, the ADOA actuaries believe that the FY 2005 costs under a self-insured system will not exceed $465.2 million. Based on these estimates, the FY 2005 costs will increase by up to $58.8 million above FY 2004. Of the state contribution, approximately $201.1 million will be funded from the General Fund, with the remainder of the contribution funded from other and non-appropriated funds. The Governor is proposing a General Fund increase of $31.8 million to cover these costs and to fill-in $10 million in HITF monies that were used to offset FY 2004 General Fund costs (due to the move to self-insurance and the reserve build-up, these monies are no longer available to offset General Fund costs).

Health insurance companies with fully-insured plans must pay the state's insurance premium tax. The General Fund impact estimated above does not include the loss of General Fund revenue associated with state premium tax payments by CIGNA, which CIGNA estimates to be approximately $9 million. Under a self-insured option, the state would not pay premium taxes on state employee health insurance.

As discussed above, the Governor recommended and the Senate Engrossed budget includes $965,300 and 12.5 FTE Positions in FY 2005 for increased ADOA oversight of state employee health benefits. In future years, if this amount is insufficient, additional administrative funding may be required, which would increase the total costs of the self-insured system.

RS/BK:ck

JANET NAPOLITANO
Governor

BETSEY BAYLESS
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • ROOM 401
PHOENIX, ARIZONA 85007

(602) 542-1500

December 9, 2003

The Honorable Russell K. Pearce
Chair, Joint Legislative Budget Committee
House of Representatives
1700 West Washington
Phoenix, AZ 85007

Dear Representative Pearce:

Pursuant to ARS §38-658(A), the Arizona Department of Administration (ADOA) requests to meet with the Joint Legislative Budget Committee (JLBC) in Executive Session to review the contribution strategy for PY 2005 under the new self-insured program.

Very truly yours,

Betsey Bayless

Betsey Bayless
Director

cc: David Jankofsky, OSPB
Richard Stavneak, JLBC

NOTE: ADOA material is part of Executive Session material.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF
REPRESENTATIVES

DATE: May 18, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – REVIEW OF EXPENDITURE PLAN FOR WORKFORCE INVESTMENT ACT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security in September submitted an expenditure plan for federal Workforce Investment Act (WIA) funds received by the state in excess of $48,004,700. The total increase in WIA appropriation authority requested by the agency in FY 2004 was $12.3 million.

At its September meeting, the JLBC favorably reviewed $10.5 million of the increase but recommended that $1.8 million that was to be spent on discretionary program expansions not be spent in order to determine if those monies are needed to solve FY 2004 budget problems within the agency.

Recommendation

The Committee has at least the following choices:

1. A favorable review of DES' plan for the $1.8 million of additional WIA monies

2. A favorable review of the expenditure plan, with the recommendation that $400,000 of the $1.8 million available for discretionary purposes be held in reserve in order to solve potential FY 2004 budget problems within the agency.

Analysis

The DES Workforce Development Administration (WDA) is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. The WIA legislation established block grants to states for workforce development. Funds are delivered to the local level to those in need of services, including job seekers, dislocated workers, youth, veterans, disabled individuals and employers. Services are provided through partnerships between various public and private sector employment and training agencies.

Federal provisions require that 85% of the monies received by WDA must be allocated to local areas, with the state receiving the other 15%.

Expenditure Plan for Discretionary Monies

The department's plan for discretionary spending (15%) included funding for programs established by the Governor's Council on Workforce Development. The Governor's Council recommended the establishment of new programs in FY 2004, designed to address workforce development issues related to women and youth and the support of the nursing profession, totaling $1.8 million. It was the expenditure of these monies that the Committee did not review at its September meeting. The $1.8 million would be allocated between the following three programs:

- Women's Issues Program - $500,000, $435,000 of which would be utilized to fund programs that focus on improving job skills for women on welfare and women exiting the corrections system. Grant monies would assist this group in entering and remaining in the workforce and to assist displaced homemakers and provide training for women in non-traditional employment. The additional $65,000 would be utilized to fund a staff person to oversee the grant process.

- Youth Programs - $800,00, which includes elimination of a $200,000 program and the establishment of 3 new programs totaling $1 million. The Council recommends eliminating the High Concentration of Youth Activities Program and establishing two new initiatives – the formation of a Youth Council and the establishment of Youth Programs. The Council would utilize $170,000 to establish and staff a State Youth Council on Youth Workforce Development. Staff would provide technical assistance to local boards in addition to establishing a statewide conference on youth workforce development activities. An additional $330,000 would be granted to organizations involved in youth-related workforce development activities. An additional $500,000 would be used for various youth programs at the local level.

- Nursing Program - $510,000 to expand registered nurse education in Arizona's public postsecondary education institutions, including Arizona State University, Northern Arizona University, the University of Arizona, Mesa Community College and Northland Pioneer Community College.

Of the $1.8 million in proposed discretionary funding mentioned above, JLBC Staff believes that $400,000 could be used to address potential shortfalls within the agency. In FY 2003, the Legislature appropriated $2 million of WIA monies to the JOBS Program in order to help address a General Fund shortfall within the agency. In order to adhere to federal requirements on how WIA monies are expended, DES established a demonstration project that targets WIA eligible women currently receiving TANF cash benefits.

DES established the demonstration project in January 2003. Through the last six months of FY 2003, the agency spent approximately $1.2 million on WIA eligible JOBS expenditures, for an annualized cost of $2.4 million. Because WIA funding in FY 2004 totals $2 million, an additional $400,000 could be utilized in FY 2004. A corresponding amount of TANF funding could be reduced from the program, freeing up that money to be spent elsewhere in the agency where there are shortfalls at the end of the fiscal year.

RS/JM:ck

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson • P.O. Box 6123 • Phoenix, AZ 85005

Janet Napolitano
Governor

David A. Berns
Director

SEP 11 2003

RECEIVED
SEP 11 2003
JOINT BUDGET COMMITTEE

The Honorable Robert Burns, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

Dear Senator Burns:

The General Appropriation Act includes the following footnote: "All federal Workforce Investment Act funds that are received by the State in excess of $47,960,700 are appropriated to the Workforce Investment Act Programs Special Line Item. Excess monies may not be spent until a proposed expenditure plan for the excess monies has been reviewed by the Joint Legislative Budget Committee."

Pursuant to this requirement, the Arizona Department of Economic Security requests to be placed on the agenda for the September Joint Legislative Budget Committee (JLBC) meeting. The purpose of the request is to review the proposed expenditure plan for the additional Workforce Investment Act (WIA) funds currently being received by the Department above the appropriated level. The WIA federal allocation is $53,501,086; therefore, the additional appropriation authority requested is $5,540,386.

In addition, the Department is requesting increased appropriation authority for unspent WIA allocations received in prior years. The Department has three years to spend WIA annual allocations. There is $6,250,800 of prior-year funding unexpended that must be spent in FY 2004. Of this amount, $1,952,513 is for funding of the Virtual One-Stop (VOS) automation enhancement project that will be spent in FY 2004. An additional $524,000 of prior-year funding originally budgeted in FY 2003 requires appropriation authority for VOS in FY 2004. Therefore, the total increase in WIA appropriation authority being requested for FY 2004 is $12,315,186. On August 29, JLBC staff requested responses to several questions related to this request. Those responses are attached.

Please contact Lynne Smith, Assistant Director, Division of Business and Finance, at (602) 542-7166 if you have any questions.

Sincerely,

David A. Berns
Director

DAB:JS:sl

Attachment

c.
The Honorable Russell K. Pearce, Vice-Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Clark Partridge, State Comptroller, Arizona Department of Administration
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting

Attachment A

Workforce Investment Administration Funding/Expenditure Plan
Joint Legislative Budget Committee Follow-up Questions
August 29, 2003

Question 1: We had asked for further detail on how additional ongoing discretionary WIA monies totaling $825K will be spent on the state side (i.e., 10% Gov Council, 5% Admin) and how that fits into the existing expenditure plan for these funds. For both the existing funds (totaling $7.2 M) and the additional funds ($825K), please provide a specific expenditure plan. This would include budget schedule detail including amounts expended on FTEs, Personal Services, ERE etc. Grants to outside organizations should be separately detailed. These grant allocations could be allocated by project/component/grant recipient.

Response: See Attachment B.

Question 2: Please provide the same level of detail referenced above on how the $6.8 million in prior year appropriations will be expended. Additionally, please indicate which projects/components are one-time and which are ongoing.

Response: These monies were previously allocated by DES to the Local Workforce Investment Administration (LWIA) entities, but have not yet been expended by the local entities. Please refer to Attachment C for a breakout by LWIA and expenditure category.

Question 3: Please provide an updated list of expenditures approved by the Governor's Council on Workforce Development for FY 2003 and FY 2004. Please clarify which numbers would change as a result of the proposed additional funding.

Response: Listed on Attachment B are the recommendations from the Governor's Council on Workforce Policy for the 15% Set-Aside distributions for FY 2003 (July 1, 2002 - June 30, 2003) and FY 2004 (July 1, 2003 - June 30, 2004).

The Governor's Council on Workforce Policy made the recommended distributions based on the federal DOL allocations published in the Federal Registers dated March 8, 2002 and April 1, 2003. Therefore, the numbers will not change based on the additional funding.

Question 4: Please provide the same level of detail on the costs associated with the Virtual One Stop (VOS) Program. Are the costs associated with this program for software or for staff? DES staff or local staff? Does VOS attempt to link to other online job databases (i.e. Monster.com)? What are the costs estimated to be for ongoing operations? Can future operating costs of VOS be absorbed with the current $48 million WIA appropriation?

Question 4a: Please provide the same level of detail on the costs associated with the Virtual One Stop (VOS) Program.

Response 4a: See Attachment C.

Question 4b: Are the costs associated with this program for software or for staff?

Response 4b: Costs associated with this program are for both software and staff, as listed in Attachment C.

Question 4c: DES staff or local staff?

Response 4c: DES staff.

Question 4d: Does VOS attempt to link to other online job databases (i.e., Monster.com)?

Response 4d: Yes, VOS will link to America's Job Bank, Monster.com, Hot Jobs and the State Job Bank. In addition, VOS provides features including an advanced resume and letter builder, information regarding current workforce trends and labor market information.

Question 4e: What are the costs estimated to be for ongoing operations?

Response 4e: The ongoing operational cost for VOS is $606,000 per year, starting in FY 2005.

Question 4f: Can future operating costs of VOS be absorbed with the current $48 million WIA appropriation?

Response 4f: Yes, future operating costs for VOS will be paid from the existing DES WIA operating budget.

Question 5: What is the difference between WIA and Job Service?

Response: The Job Service is funded under the federal Wagner-Peyser Act. The primary focus of the Job Service is to operate as the state labor exchange, obtaining employer job orders for job applicants with specific skill sets. Job Service staff members match applicants with the skills required in job orders and refer qualified job seekers to the employment opportunities. Federal Wagner-Peyser program funds are sent from the Department of Labor to the DES; labor exchange services are delivered by DES staff.

WIA is federal legislation authorizing the establishment and implementation of federal workforce development programs. The primary focus of the WIA programs is to provide training for Dislocated Workers, Adults and Youth. WIA program funds are provided from the Department of Labor to DES and passed through to local government entities and their Local Workforce Investment Boards. Local staff deliver training programs through One-Stop Employment Centers.

Question 6: The Appropriations chairmen are interested in finding unit cost data currently being collected in state programs. Please provide any unit cost data (e.g., cost per trainee) currently being collected for WIA programs, either by DES or by local boards.

Response: As an average, the overall cost per participant is approximately $1,940. WDA is comprised of three programs:

	Average
Adult Programs	$1,864
Dislocated Worker Programs	$1,405
Youth Programs	$2,548
Overall Average	$1,940

Workforce Investment Act

Governor's Council Recommendation of 15% Set-Aside Distribution 1/			
Required Activities		**FY 2003**	**FY 2004**
Eligible Training Provider List	ADOE	223,000	214,325
Incentive Funds for LWIAs	LWIA	689,000	500,000
Technical Assistance / Capacity Building	LWIA	521,726	125,000
System Building	LWIA	-	152,000
High Concentration of Youth Activities	LWIA	200,000	-
High Concentration of Youth Activities / Formation of Youth Council	GOV	-	500,000
Subtotal		1,633,726	1,491,325
Program Set-Asides			
Apprenticeship	ADOC	125,000	130,000
Women Issues	GOV	-	500,000
Business Research and Statistics	ADOC	250,000	-
Arizona Workforce Connection / Marketing	ADOC	225,000	-
Virtual One Stop	DES/WDA	524,000	325,000
Youth Programs	LWIA	-	500,000
Miscellaneous	LWIA	-	510,395
Subtotal		1,124,000	1,965,395
State Administration			
DES Administration WDA	DES/WDA	1,976,362	1,900,000
DES JOBS Administration	DES/JOBS	2,000,000	2,000,000
ADOC / State Council	ADOC	402,500	600,000
Subtotal		4,378,862	4,500,000
Total 15% Set-Aside		7,136,588	7,956,720

DES Budget Detail 2/		
DES Set-Aside	**FY 2003**	**Estimated FY 2004**
Personal Services	1,079,400	1,088,200
Employee-Related Expenditures	255,300	313,400
Professional & Outside Services	120,200	40,300
In-State Travel	52,800	70,300
Out of State Travel	6,200	-
Client Services (JOBS special line item)	1,190,900	2,000,000
Other Operating Expenditures	259,600	421,900
Capital Equipment	131,700	-
Non-Capital Equipment	8,400	-
Total DES Set-Aside	3,104,500	3,934,100

1/ The Governor's Council recommendation of the distribution of the 15% set-aside was based upon the USDOL allocation of WIA Title I funds to Arizona as presented in the Federal Register dated March 8, 2002 and April 1, 2003.

2/ The DES Budget Detail amounts represent actuals through the 13th month for FY 2003 and the approved appropriation amounts for FY 2004.

Attachment C

Workforce Investment Act

Distribution of Carryover

ON-GOING COSTS

Local WIA	Adult	Youth	Dislocated Worker	Totals
Apache	3,211	4,610	886	8,707
Cochise	36,073	40,149	13,138	89,360
Coconino	20,198	28,707	29,819	78,724
Gila/Pinal	43,580	45,265	71,742	160,587
Graham	10,229	10,668	2,952	23,849
Greenlee	3,830	4,341	4,281	12,452
Maricopa	162,830	173,690	404,616	741,136
Mohave/LaPaz	29,920	28,976	30,557	89,453
Navajo	13,060	16,995	3,690	33,745
Navajo Nation	112,881	127,920	40,890	281,691
Phoenix	281,342	304,809	464,254	1,050,405
Pima	136,617	144,748	218,473	499,838
Santa Cruz	40,380	36,649	13,285	90,314
Yavapai	12,322	14,572	28,490	55,384
Yuma	249,714	284,616	83,846	618,176
Tribal	74,464	79,467	65,247	219,178
Local WIA Distribution	1,230,651	1,346,182	1,476,166	4,052,999

ONE-TIME COSTS

DES Distribution (VOS)	Estimated FY 2004
Personal Services	142,000
Employee-Related Expenditures	41,500
In-State Travel	7,100
Other Operating Expenditures	1,370,200
Capital Equipment	631,000
Non-Capital Equipment	530,000
Total DES Distribution	2,721,800
Total Carryover Distribution	6,774,799

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2004
MARK ANDERSON
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL, M.D.
JACK W. HARPER
DEAN MARTIN
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2003
ANDY BIGGS
MEG BURTON CAHILL
EDDIE FARNSWORTH
LINDA GRAY
STEVE HUFFMAN
JOHN HUPPENTHAL
LINDA J. LOPEZ

DATE: May 20, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – CONSIDER APPROVAL OF REQUESTED TRANSFER OF APPROPRIATIONS FOR DAY CARE SUBSIDY AND TRANSITIONAL CHILD CARE

Request

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) requests Committee approval of a FY 2004 transfer of $400,000 of federal Child Care and Development Fund (CCDF) Block Grant monies from the Day Care Subsidy Special Line Item (SLI) to the Transitional Child Care Special Line Item.

Recommendation

The Committee has at least the following two options:

1. Approve the request to transfer $400,000 CCDF from the Day Care Subsidy Special Line Item to the Transitional Child Care Special Line Item.

2. Utilize $400,000 in federal Temporary Assistance for Needy Families (TANF) Block Grant monies that would be freed up by the agency spending new Workforce Investment Act (WIA) monies in the department's JOBS Program.

Analysis

DES' budget contains approximately $149 million in funding for child care subsidies and quality-related expenditures in FY 2004. This funding is split between 2 special line items: Day Care Subsidy and Transitional Child Care. The Day Care Subsidy SLI provides $118.3 million in child care subsidies and quality-related expenditures to TANF clients engaged in job activities, those providing foster care services, low-income persons, and other persons meeting financial and other eligibility criteria. The Transitional Child Care SLI funds $30.5 million in subsidies and quality-related expenditures to clients no longer receiving TANF Cash Benefits due to finding employment. The program provides subsidies for up to 24 months after the client stops receiving TANF Cash Benefits.

Based on current projections, DES has forecasted a shortfall in the Transitional Child Care SLI of $400,000 by the end of FY 2004. In order to address this shortfall, and to continue to provide child care subsidies to this mandatory population, the agency has requested that monies be transferred from the Child Care Subsidy SLI to the Transitional Child Care SLI.

A FY 2004 shortfall of $(400,000) for Transitional Child Care seems reasonable based on recent trends in expenditures in the program. The Day Care Subsidy line item has enough monies for this transfer if DES does not use these monies to further reduce the waiting list.

A second option to address the shortfall in Transitional Child Care would be to utilize $400,000 in TANF dollars freed up by the agency spending new federal Workforce Investment Act (WIA) monies in the department's JOBS Program. Another memo on the Committee's agenda is the review of DES' expenditure plan of $1.8 million in discretionary WIA monies. One option in the other memo is to recommend that DES use $400,000 of WIA funding in the agency's JOBS Program, which would allow the agency to free up a like amount of TANF dollars to be spent elsewhere in the agency. These TANF dollars that would be made available could, in turn, be utilized in the Transitional Child Care SLI to address the projected shortfall. Further, the agency would be able to retain $400,000 in the Day Care Subsidy SLI to potentially further reduce the size of the waiting list for individuals seeking subsidies for day care.

RS/JM:ck

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano
Governor

David A. Berns
Director

MAY 18 2004

RECEIVED
MAY 18 2004
JOINT BUDGET COMMITTEE

The Honorable Robert Burns, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Burns:

The Arizona Department of Economic Security (DES) requests to be placed on the agenda for the next Joint Legislative Budget Committee (JLBC) meeting for the review and approval of two appropriation transfers between special line items and the usage of appropriation authority for tribal expenditures.

Cash Benefits

Currently, the Cash Benefits Special Line Item (SLI) has inadequate appropriation authority to pay all anticipated expenditures in FY 2004. DES will be unable to process cash benefit payments for June 2004, without an approved transfer or the passage of SB 1404 (fiscal year 2003-2004; supplemental appropriations) by May 31, 2004(the Senate Engrossed version of SB 1402, page 2, line 33 remedies this problem). The transfer or supplemental expenditure authority is required to be in place by June 1, 2004, because approximately 80% of the Cash Benefits SLI monthly obligations are paid in the first 3 days of each month. Without the transfer or supplemental funding, approximately 50,800 families/120,000 individuals would not receive the average monthly cash benefit payment of approximately $275 in June 2004.

The General Appropriation Act (Laws 2003 1st Special Session, Chapter 1) includes the following footnotes:

> Notwithstanding A.R.S.35-173C, any transfer to or from the $164,540,100 appropriated for Temporary Assistance for Needy Families Cash Benefits requires approval of the Joint Legislative Budget Committee.
>
> Of the amounts appropriated for Temporary Assistance for Needy Families (TANF) Cash Benefits, $1,500,000 reflects appropriation authority only to ensure sufficient cashflow to administer cash benefits for tribes operating their own welfare programs. The department shall notify the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB) staff before the use of any of the $1,500,000 appropriation authority.

DES is requesting approval to use $8,000,000 of TANF funding to meet the June 2004 cash benefits payment obligation. Of this amount, DES is requesting approval of a temporary transfer of $6,500,000 of TANF authority from the JOBS Special Line Item within the Division of Employment and Rehabilitation Services to the Cash Benefits Special Line Item of the Division of Benefits and Medical Eligibility. This funding is currently available as the JOBS Special Line Item historically has a high volume of expenditures that are paid during the administrative adjustment period. In addition, DES intends to use the $1,500,000 appropriated in FY 2004 for the tribal authority temporarily to meet the June 2004 beginning of the month cash benefit obligation.

Assuming passage of SB 1404, DES requests approval from the JLBC to reverse: 1) the temporary transfer of $6,500,000 of TANF back to the JOBS Special Line Item and 2) the temporary use of the $1,500,000 expenditure authority in cash benefits, allowing FY 2004 to close with the $1,500,000 of expenditure authority for the tribal authority in place.

Child Care Subsidy

The General Appropriation Act (Laws 2003 1st Special Session, Chapter 1) includes the following footnote:

> The amounts appropriated for Day Care Subsidy and Transitional Child Care shall be used exclusively for child care costs unless a transfer of monies is approved by the Joint Legislative Budget Committee. Monies shall not be used from these appropriated amounts for any other expenses of the Department of Economic Security unless a transfer of monies is approved by the Joint Legislative Budget Committee.

DES is requesting a transfer of $400,000 from the Day Care Subsidy SLI to the Transitional Child Care SLI, both of which are within the Division of Employment and Rehabilitation Services. This amount is necessary, based on current projections, to cover anticipated expenditures for the applicable caseloads.

If you have any questions, please contact me at (602) 542-5678.

Sincerely,

David A. Berns

David A. Berns
Director

DB:WH

C:
The Honorable Russell K. Pearce, Vice-Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Clark Partridge, State Comptroller, Arizona Department of Administration
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting

Department of Economic Security
Division of Business and Finance
Financial Services Administration(FSA)
Revised: May 13, 2004

Division of Employment and Rehabilitation Services
State Fiscal Year 2004
Day Care Subsidy/Transitional Child Care

	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	Total	Projection	APPR	Surplus/ (Shortfall)
Day Care Subsidy	-	9,667.0	9,462.0	9,474.2	10,377.6	8,911.5	9,528.3	8,973.6	8,526.2	9,750.8	84,671.2	117,856.5	118,256.5	400.0
TCC Extension Pilot	-	2,533.1	2,414.8	2,400.1	2,652.2	2,291.1	2,601.7	2,500.1	2,477.5	2,844.7	22,715.3	30,900.0	30,500.0	(400.0)

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2004
MARK ANDERSON
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL, M.D.
JACK W. HARPER
DEAN MARTIN
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2003
ANDY BIGGS
MEG BURTON CAHILL
EDDIE FARNSWORTH
LINDA GRAY
STEVE HUFFMAN
JOHN HUPPENTHAL
LINDA J. LOPEZ

DATE: May 19, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – CONSIDER APPROVAL OF REQUESTED TRANSFER OF APPROPRIATIONS FOR TANF CASH BENEFITS AND REVIEW OF PROPOSED USE OF APPROPRIATION AUTHORITY

Request

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) is requesting Committee approval to transfer $6,500,000 of federal Temporary Assistance for Needy Families (TANF) Block Grant monies from the JOBS Special Line Item (SLI) into the TANF Cash Benefits SLI. Pursuant to another footnote, DES is also notifying the Committee of its intent to use $1,500,000 of appropriation authority for administration of tribal benefits to pay TANF cash benefits. DES is requesting that both the transfer and the use of the appropriation authority be temporary, contingent on FY 2004 supplemental funding for the TANF Cash Benefits line in the Senate Engrossed version of the budget.

Recommendation

The Committee has at least the following options:

1. The Committee could approve the $6.5 million transfer request and favorably review the use of $1.5 million appropriation authority. This option is consistent with the Senate budget proposal. As requested by DES, these transfers would be reversed upon passage of a TANF supplemental.
2. The Committee could not approve the $6.5 million transfer request and unfavorably review the use of $1.5 million appropriation authority. This would require DES to reduce payments to clients in June. It is uncertain whether DES has the authority or ability to reduce June 1 payments with less than one week notice. We are following up with DES on this issue and will have a response by the meeting date. The House Appropriations Committee budget does not include a FY 2004 TANF supplemental.

(Continued)

Analysis

The General Appropriation Act (Laws 2003, Chapter 262), includes the following 2 footnotes:

> "Notwithstanding A.R.S. § 35-173C, any transfer to or from the $164,540,100 appropriated for Temporary Assistance for Needy Families Cash Benefits requires approval of the Joint Legislative Budget Committee."
>
> "Of the amount appropriated for Temporary Assistance for Needy Families Cash Benefits, $1,500,000 reflects appropriation authority only to ensure sufficient cashflow to administer cash benefits for tribes operating their own welfare programs. The department shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting staff before the use of any of the $1,500,000 appropriation authority."

The FY 2004 appropriation for TANF Cash Benefits is $164,540,100. This amount includes about $163.0 million for TANF cash benefits plus $1.5 million in appropriation authority associated with paying tribal benefits. (Five tribes subsequently pay the state back for benefits paid through the state's payment system.) DES has paid a total of $141.6 million through April 2004 and expects to pay $29.4 million in May and June. The amounts projected for May and June, roughly $14.7 million each month, are not unrealistic given the $14.2 million paid out monthly in FY 2004 year-to-date.

DES' projected FY 2004 total for TANF cash benefits is $171.0 million, or $8.0 million above the appropriation for cash benefits, excluding the tribal appropriation authority. Because about 80% of TANF cash benefit payments are made in the first 3 days of each month, if DES does not get additional funds by June 1, either through a transfer or supplemental funding, DES will have insufficient monies to pay benefits in June. It is uncertain whether DES has the authority or ability to reduce June 1 payments with less than one week notice. It is unclear whether the department is required by statute or by rule to notify recipients prior to a system-wide change in benefits. Additionally, according to DES, the authorization for the benefits will be "run" on May 25. We do not know how long it will take to program reduced benefit levels and whether that programming and reauthorization could be completed by June 1. We are following up with DES on these issues and will have a response by the meeting date.

To temporarily resolve the projected $8 million deficit, DES has requested that the Committee approve a transfer of $6,500,000 from the JOBS line item in DERS and is notifying the Committee that it plans to expend the $1,500,000 of expenditure authority for cash benefits. It is also requesting that the Committee approve a reversal of the $6,500,000 transfer and notifying the Committee that it plans to "undo" the use of $1,500,000 of expenditure authority.

The "30th-of-the-month" report for DES covering March expenditures reports that through March, DES had spent $10.7 million of the $22.6 million appropriated, or $1.3 million per month (excluding the first month, which has very few expenditures). This would mean that DES would spend a total of $14.6 million through June 30, leaving $8 million available to transfer (of which DES wishes to use $6.5 million temporarily). As of March 31, DES had spent $9.5 million of its $17.3 million TANF Block Grant appropriation, leaving at least $7.8 million TANF Block Grant available.

RS/SSH:jb

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano
Governor

David A. Berns
Director

MAY 18 2004

RECEIVED
MAY 18 2004
JOINT BUDGET COMMITTEE

The Honorable Robert Burns, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Burns:

The Arizona Department of Economic Security (DES) requests to be placed on the agenda for the next Joint Legislative Budget Committee (JLBC) meeting for the review and approval of two appropriation transfers between special line items and the usage of appropriation authority for tribal expenditures.

Cash Benefits

Currently, the Cash Benefits Special Line Item (SLI) has inadequate appropriation authority to pay all anticipated expenditures in FY 2004. DES will be unable to process cash benefit payments for June 2004, without an approved transfer or the passage of SB 1404 (fiscal year 2003-2004; supplemental appropriations) by May 31, 2004(the Senate Engrossed version of SB 1402, page 2, line 33 remedies this problem). The transfer or supplemental expenditure authority is required to be in place by June 1, 2004, because approximately 80% of the Cash Benefits SLI monthly obligations are paid in the first 3 days of each month. Without the transfer or supplemental funding, approximately 50,800 families/120,000 individuals would not receive the average monthly cash benefit payment of approximately $275 in June 2004.

The General Appropriation Act (Laws 2003 1st Special Session, Chapter 1) includes the following footnotes:

> Notwithstanding A.R.S.35-173C, any transfer to or from the $164,540,100 appropriated for Temporary Assistance for Needy Families Cash Benefits requires approval of the Joint Legislative Budget Committee.
>
> Of the amounts appropriated for Temporary Assistance for Needy Families (TANF) Cash Benefits, $1,500,000 reflects appropriation authority only to ensure sufficient cashflow to administer cash benefits for tribes operating their own welfare programs. The department shall notify the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB) staff before the use of any of the $1,500,000 appropriation authority.

DES is requesting approval to use $8,000,000 of TANF funding to meet the June 2004 cash benefits payment obligation. Of this amount, DES is requesting approval of a temporary transfer of $6,500,000 of TANF authority from the JOBS Special Line Item within the Division of Employment and Rehabilitation Services to the Cash Benefits Special Line Item of the Division of Benefits and Medical Eligibility. This funding is currently available as the JOBS Special Line Item historically has a high volume of expenditures that are paid during the administrative adjustment period. In addition, DES intends to use the $1,500,000 appropriated in FY 2004 for the tribal authority temporarily to meet the June 2004 beginning of the month cash benefit obligation.

Assuming passage of SB 1404, DES requests approval from the JLBC to reverse: 1) the temporary transfer of $6,500,000 of TANF back to the JOBS Special Line Item and 2) the temporary use of the $1,500,000 expenditure authority in cash benefits, allowing FY 2004 to close with the $1,500,000 of expenditure authority for the tribal authority in place.

Child Care Subsidy

The General Appropriation Act (Laws 2003 1st Special Session, Chapter 1) includes the following footnote:

> The amounts appropriated for Day Care Subsidy and Transitional Child Care shall be used exclusively for child care costs unless a transfer of monies is approved by the Joint Legislative Budget Committee. Monies shall not be used from these appropriated amounts for any other expenses of the Department of Economic Security unless a transfer of monies is approved by the Joint Legislative Budget Committee.

DES is requesting a transfer of $400,000 from the Day Care Subsidy SLI to the Transitional Child Care SLI, both of which are within the Division of Employment and Rehabilitation Services. This amount is necessary, based on current projections, to cover anticipated expenditures for the applicable caseloads.

If you have any questions, please contact me at (602) 542-5678.

Sincerely,

David A. Berns

David A. Berns
Director

DB:WH

C:
The Honorable Russell K. Pearce, Vice-Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Clark Partridge, State Comptroller, Arizona Department of Administration
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

DATE: May 18, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – JLBC REPORT ON ADDITIONAL PERFORMANCE MEASURES FOR CHILD PROTECTIVE SERVICES

Request

Pursuant to Laws 2003, Chapter 6, 2nd Special Session, the Department of Economic Security (DES), the Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC) are required to develop a financial and program accountability reporting system for Child Protective Services (CPS). The report is to include specific performance measures intended to evaluate the CPS system. The legislation allows DES, OSPB, and JLBC to add performance measures to the report if deemed necessary.

Recommendation

This information is for information only and no Committee action is required. The JLBC Staff has already recommended adding 5 performance measures to the financial and program accountability report (see Attachment A). These measures would be in addition to the 7 measures specifically identified in the 2nd Special Session legislation.

The additional measures are intended to evaluate employee satisfaction within the Division of Children, Youth and Families (DCYF), as well as the decision-making within Child Protective Services.

While no Committee action is required, the Committee could also add other measures as well.

Analysis

Pursuant to Laws 2003, Chapter 6, 2nd Special Session, the financial and program accountability report is due on a semi-annual basis, beginning August 1, 2004. The legislation identifies 7 performance measures to be included in the report and specifies that additional measures may be added by DES, OSPB, and JLBC if deemed necessary. The measures are intended to evaluate the performance of the CPS system. The following 7 measures are identified in the legislation:

- Success in meeting training requirements
- Caseloads for CPS caseworkers
- The number of new cases, cases that remain open and cases that have been closed
- The ratio of CPS caseworkers to immediate supervisors
- Employee turnover, including a breakdown of employees who remain with the department and employees who leave the department
- The source and use of federal monies in CPS
- The source and use of state monies in CPS

In addition to the measures listed in the special session legislation, the JLBC Staff has recommended that the following performance measures be added to the financial and program accountability report for CPS:

Employee Satisfaction
- Employee satisfaction rating for employees completing the CPS Training Academy (Scale 1-5)
- Employee satisfaction rating for employees in DCYF (Scale 1-5)

CPS Decision-Making
- Percent of CPS original dependency cases where court denied or dismissed petition for removal
- Percent of Office of Administrative Hearings decisions where CPS case findings are affirmed
- Percent of CPS complaints reviewed by the Office of the Ombudsman where allegations are reported as valid by the Ombudsman

DES is required to report these measures by July 1, 2004 to the Governor, the chairmen of the House and Senate Appropriations Committees, and the chairmen of the House Human Services and Senate Family Services Committees. The report is to include the definition of each performance measure, as well as the methodology in determining each measure.

RS/KH:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

May 7, 2004

Mr. David Berns, Director
Department of Economic Security
1717 W. Jefferson Street
Phoenix, Arizona 85007

Dear Mr. Berns:

Laws 2003, 2nd Special Session, Chapter 6 requires the Department of Economic Security (DES), the Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC) to develop a financial and program accountability reporting system for Child Protective Services (CPS). The report will be due on a semi-annual basis, beginning August 1, 2004. The legislation identifies 7 performance measures to be included in the report and specifies that additional measures may be added by DES, OSPB, and JLBC if deemed necessary. The measures are intended to evaluate the performance of the CPS system.

In addition to the measures listed in the special session legislation, we suggest that the following performance measures be added to the financial and program accountability report for CPS:

- Employee satisfaction rating for employees completing the CPS Training Academy (Scale 1-5)
- Employee satisfaction rating for employees in the Division of Children, Youth and Families (Scale 1-5)
- Percent of CPS original dependency cases where court denied or dismissed
- Percent of Office of Administrative Hearings hearings where CPS case findings are affirmed
- Percent of CPS complaints reviewed by the Office of the Ombudsman where allegations are reported as valid by the Ombudsman

Pursuant to the special session legislation, DES is required to report these measures by July 1, 2004 to the Governor, the chairmen of the House and Senate Appropriations Committees, and the chairmen of the House Human Services and Senate Family Services Committees. The report is to include the definition of each performance measure, as well as the methodology in determining each measure.

We will also be sharing these measures with the Joint Legislative Budget Committee at their next meeting to gain their perspective as well.

Please let us know if you have any questions.

Sincerely,

Richard Stavneak

Richard Stavneak
Director

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2004
MARK ANDERSON
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL, M.D.
JACK W. HARPER
DEAN MARTIN
PETE RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2003
ANDY BIGGS
MEG BURTON CAHILL
EDDIE FARNSWORTH
LINDA GRAY
STEVE HUFFMAN
JOHN HUPPENTHAL
LINDA J. LOPEZ

DATE: May 19, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brian Schmitz, Senior Fiscal Analyst

SUBJECT: ATTORNEY GENERAL – REVIEW OF ALLOCATION OF SETTLEMENT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has notified the Committee of the allocation of monies to be received from the Medco and Warner-Lambert settlement agreements.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for both settlements. The allocation plans are consistent with A.R.S. § 44-1531.01, which states that monies recovered by the Attorney General as a result of enforcing consumer protection or consumer fraud statutes shall be deposited in the Consumer Fraud Revolving Fund. The JLBC Staff also recommends that the Attorney General's Office report back to the Committee when it has developed a specific plan for expending another $600,000 in funds associated with the Medco settlement.

Analysis

The General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and it specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review. The Office of the Attorney General recently settled 2 cases that will result in the receipt of settlement monies over $100,000.

In the first case, Medco Health Solutions, Inc. allegedly did not provide complete and accurate information about its prescription drug interchange program, which resulted in the switching of prescription drugs to the less expensive drug. Under the settlement, the State of Arizona will receive approximately $200,000, which will be deposited in the Consumer Fraud Revolving Fund pursuant to

(Continued)

statute. Also, the state is expected to receive at least $600,000 in other funds, which will be passed on by the Attorney General to benefit low income, disabled, or elderly consumers of prescription drugs or to fund other programs targeted to benefit persons affected by this case. The Attorney General does not yet have a distribution plan for this $600,000.

In the second case, Warner-Lambert allegedly encouraged doctors to prescribe Neurontin for the treatment of bipolar disorder, although there is no evidence that Neurontin is effective in treating this condition. The settlement involves all 50 states. Under the settlement, Arizona will receive $278,000 to be deposited in the Consumer Fraud Revolving Fund pursuant to statute. There is a possibility that the state will also receive an additional payment, which would probably be $5,000 or less.

RS/BS:jb

Terry Goddard
Attorney General

Rene Rebillot
Chief Counsel
Consumer Protection &
Advocacy Section
Telephone: 602.542.7701
Fax: 602.542.4377

Office of the Attorney General
State of Arizona

April 26, 2004

RECEIVED
APR 2 8 2004
JOINT BUDGET
COMMITTEE

The Honorable Ken Bennett
President of the Senate
State Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Jake Flake
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable Russell Pearce
Chair, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Re: Settlement Medco Health Solutions, Inc.

Dear Gentlemen:

This Office has entered into a Consent Judgment between Medco Health Solutions, Inc., Merck-Medco Managed Care, L.L.C., ("Medco") and the State of Arizona. Nineteen other state attorneys general have entered into substantially the same consent judgment. A copy of the Consent Judgment is attached. The Consent Judgment settles claims by the State that Medco violated the Arizona Consumer Fraud Act with respect to representations it made to doctors and patients as a pharmacy benefit manager concerning Medco's prescription drug interchange program.

In addition to extensive injunctive relief, the Consent Judgment provides for reimbursement to affected consumers of up to $25 for out-of –pocket expenses incurred in Medco's Statin Drug Interchange program. The total amount of reimbursement will be up to $25 million.

The Consent Judgment also provides for a *cy pres* distribution of up to $20.2 million to benefit low income, disabled, or elderly consumers of prescription drugs or to fund other programs targeted to benefit a substantial number of persons affected by the conduct described in the Consent Judgment. It is expected that Arizona's share of the *cy pres* funds will be at least $600,000. Medco will also pay $6.6 million to the states for costs and fees. Arizona's share will be approximately $200,000, which will be deposited into the Consumer Fraud Revolving Fund pursuant to A.R.S. § 44-1531.01.

Our notification to you of this settlement is made without prejudice to our Office's longstanding position that it is not under any legal obligation to provide notices of settlements to the Joint Legislative Budget Committee. We are providing this notification to you as a courtesy so that you will be aware of this important settlement.

Please call me at (602) 542-7701 if you have any questions regarding this matter.

Sincerely,

Rene J. Rebillot

Rene J. Rebillot
Chief Counsel
Consumer Protection & Advocacy Section
Telephone: (602) 542-7701
Fax: (602) 542-4377

Enclosure

cc: The Honorable Jack Brown
The Honorable John Loredo
The Honorable Robert Burns
Mr. Richard Stavneak
Ms. Kim Hohman
Mr. Richard Travis
Mr. John Stevens

841222

Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Rene J. Rebillot
Chief Counsel
Consumer Protection &
Advocacy Section
Telephone: 602.542.7701
Fax: 602.542.4377

RECEIVED
MAY 17 2004
JOINT BUDGET COMMITTEE

May 13, 2004

The Honorable Ken Bennett
President of the Senate
State Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Jake Flake
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable Russell Pearce
Chair, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Re: Settlement with Warner-Lambert, LLC regarding Neurontin

Dear Gentlemen:

This Office has entered into an Assurance of Discontinuance (AOD) and Memorandum of Understanding (MOU) between Warner-Lambert, LLC , a subsidiary of Pfizer, Inc. and the State of Arizona. The Assurance of Discontinuance is part of a global settlement including fifty states, DOJ, NAMFCU (National Association of Medicaid Fraud Control Units), and a private qui tam plaintiff. Fifty other state attorneys general have entered into substantially the same MOU. Copies of the MOU and the Order Governing the Administration of the Multistate Grant and Advertising Program which implements the MOU among the Attorneys General, are attached. The AOD and MOU settles claims by the State that Warner-Lambert violated the Arizona Consumer Fraud Act with respect to representations it made to doctors and patients concerning the beneficial off-label use of Neurontin for the treatment of bipolar disorder.

In addition to extensive injunctive relief, the MOU provides for $28 million for a remediation program. The state of Oregon will set up the settlement account. Up to $6 million of this amount will go toward a National Advertising Program to provide physicians with fair and balanced information about Neurontin. Up to $1 million will be used to evaluate the effectiveness of the remediation program. $21 million will be used to fund a Prescriber and Consumer Education Program (PCEP) that will make grants to governmental agencies, academia, and not-for-profits chosen by participating Attorneys General to provide prescribers and/or consumers with fair and balanced information about drugs. Each of the participating Attorneys General has the opportunity to share equally in the fund. Any money not spent from the Advertising and Evaluation accounts will pour over into the PCEP.

In addition to the amounts described above for the remediation program, $10 million will go to the Attorneys General offices. Arizona will receive $278,000.00 for costs, fees and for other purposes set out in the Consumer Fraud Act. Arizona's share will be deposited into the Consumer Fraud Revolving Fund pursuant to A.R.S. § 44-1531.01. If there is money left over from state's expenses, Arizona may receive an additional payment. Our best estimate is that any additional payment would be $5,000 or less.

Our notification to you of this settlement is made without prejudice to our Office's Longstanding position that it is not under any legal obligation to provide notices of settlements to the Joint Legislative Budget Committee. We are providing this notification to you as a courtesy so that you will be aware of this important settlement.

Please call me at (602) 542-7701 if you have any questions regarding this matter.

Sincerely,

Rene J. Rebillot

Rene J. Rebillot
Chief Counsel
Consumer Protection & Advocacy Section

Encls.

cc: The Honorable Jack Brown
The Honorable John Loredo
The Honorable Robert Burns
Mr. Richard Stavneak
Mr. Brian Schmitz
Mr. Richard Travis
Mr. John Stevens

#844100

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

HOUSE OF
REPRESENTATIVES

DATE: May 19, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: ARIZONA COMMUNITY COLLEGES – REPORT ON DUAL ENROLLMENT AND APPOINTING AD HOC COMMITTEE

Request

Pursuant to A.R.S. § 15-1821.01 the Arizona Community Colleges are reporting on dual enrollment courses offered in FY 2003 and the subsequent achievements of students dual enrolled in FY 2002.

On receipt of this report, statute requires the Committee to convene an ad hoc committee that includes community college academic officers, faculty, and other experts. The ad hoc committee shall review the manner in which dual enrollment courses are provided and may make recommendations to the full Committee regarding desirable changes to these courses.

Recommendation

Other than the appointment of the ad hoc committee, this item is for information only and no Committee action is required. The report indicates that, in FY 2003, 32,582 students were dual enrolled. Of the total, 29,504 students earned a C or better, qualifying those students for both high school and community college credit.

Analysis

<u>Dual Enrollment Courses – FY 2003</u>

A.R.S. § 15-1821.01 requires community college districts to report annually on dual enrollment courses. The report shall include the following:

1) Total enrollments listed by location, by high school grade level, by course and by whether the program was academic or occupational

(Continued)

2) Summary data on the performance of students enrolled for college credit, including completion rates and grade distribution
3) The number of freshman and sophomore students enrolled
4) Documentation of compliance with statutory guidelines for the course, course materials, and faculty qualifications

The *Attachment* provides summary data from the FY 2003 report. The full report is available upon request. Highlights include:

- 32,582 students were dual enrolled
- 836 courses were offered, of which 320 courses were classified as Academic and 516 were Occupational
- Courses were offered at 190 locations in 8 districts
- 31,379 students, or 96% of those enrolled, completed the course
- 29,504 students earned a C or better, qualifying those students for both high school and community college credit
- 2,936 freshman and sophomore students were dual enrolled (included under "Students not meeting course requirements" column)

<u>Subsequent Achievement Tracking</u>

A.R.S. § 15-1821.01 also requires the community colleges to report, every other year, on the subsequent achievement of students enrolled in dual enrollment courses. That portion of the report shall include the following:

1) High school graduation rate
2) Number of students continuing their studies after graduation at an Arizona community college or university
3) Performance of students in subsequent college courses in the same field as dual enrollment courses
4) Student GPA after one year at a community college or university as compared to high school GPA

Districts currently cannot track high school students after graduation if they continue their studies at a university or a different community college district. Therefore, the districts have attempted to report on the above measurements as they apply to dual enrolled high school students that continued their studies at a community college within the district. The districts may be able to track high school seniors that attend a university or a community in another district in the future with the implementation of the Student Accountability Information System (SAIS).

Within the limitations discussed above, Table 1 provides district by district information on the high school graduation rate and the number of students continuing their studies after graduation at a community college within the district. As indicated in the table, the high school graduation rate at schools where dual enrollment courses were offered ranged from approximately 70% to 80%. The percentage of high school seniors continuing their studies after graduation at a community college within the district range from 10% in Pinal to 97% in Graham.

(Continued)

Table 1

Dual Enrolled Students

District	High School Grad Rate [1/]	Number/Percentage of Students Continuing Studies [2/]
Cochise	80.7%	51 / 38%
Coconino	70.3%	4 / 15%
Graham	N/A	338 / 97%
Maricopa	79.8%	1,623 / 35%
Mohave	- -	No Dual Enrollment
Navajo	79.3%	106 / 31%
Pima	N/A	95 / 46%
Pinal	N/A	26 / 10%
Yavapai	79.2%	18 / 33%
Yuma/La Paz	- -	No Dual Enrollment

1/ Measures graduation rate of all students at a high school offering dual enrollment.

2/ Indicates the number and percentage of dual enrolled seniors that continued at a college within the district.

Table 2 provides a summary of dual enrollment student GPA after one year at a community college within the district as compared to the same student's high school GPA. As before, the data is limited to dual enrolled high school seniors that continued their studies after graduation at a community college within the district. Of the 2,214 dual enrolled seniors that attended a community college within the district, 68% had a high school GPA of 3.0 or better. A year later 54% of dual enrolled seniors that continued at a community college within the district had a GPA of 3.0 or better.

Table 2

	High School GPA	Community College GPA
3.5 – 4.0	818 / 37%	624 / 28%
3.0 – 3.49	682 / 31%	571 / 26%
2.5 – 2.99	186 / 8%	391 / 18%
2.0 – 2.49	411 / 19%	341 / 15%
1.5 – 1.99	37 / 2%	119 / 5%
1.0 – 1.49	55 / 2%	85 / 4%
< 1.0	25 / 1%	83 / 4%
TOTAL	2,214 / 100%	2,214 / 100%

JC:ss
Attachment

ARIZONA'S COMMUNITY COLLEGE SYSTEM *Aggregate Community College Courses Offered in Conjunction with High Schools by District* FY 2002-03													
District	Number of locations offering courses	Student Enrollment *(headcount)*	**Categories of Courses Offered**			**Grade Distribution**						Com-pleters	Students not meeting course requirements
						Earned CC Credit			**HS credit only**	**Failing**	**Other**[1]		
			Academic	Occupational	Total	A	B	C	D	F	O		
Cochise	6	708	13	5	18	283	265	120	24	9	7	99% *(n=701)*	3% *(n=19)*
Coconino	1	321	9	24	33	173	77	45	10	2	14	96% *(n=307)*	18% *(n=58)*
Graham	3	883	11	16	27	384	234	159	62	27	17	98% *(n=866)*	19% *(n=171)*
Maricopa	140	24,256	177	195	372	10,797	8,006	3,293	562	167	981[2]	96% *(n=23,275)*[3]	9% *(n=2,104)*
Mohave	District does not offer dual enrollment courses.												
Navajo	15	3,766	53	230	283	1,744	1,068	572	229	104	47	99% *(n=3,719)*[4]	14% *(n=509)*
Pima	17	1,936	35	19	54	834	613	294	87	45	63[5]	97% *(n=1,873)*	1% *(n=29)*
Pinal	5	633	19	27	46	257	151	88	30	24	48	92% *(n=585)*[6]	6% *(n=37)*
Yavapai	3	79	3	0	3	25	15	7	5	1	26	67% *(n=53)*	11% *(n=9)*
Yuma/LaPaz	District does not offer dual enrollment courses.												
Aggregate	190	32,582	320	516	836	14,497	10,429	4,578	1,009	379	1,203	96% *(N=31,379)*	9% *(N=2,936)*

[1]Other = withdraw, incomplete, withdraw failing, or no credit
[2]Includes 124 students for whom no grade was given
[3]Includes 450 students who earned a "pass" grade in a course offered only on a pass/fail basis for any student
[4]Includes two students who earned a "pass" grade
[5]Includes one student to whom no grade was given
[6] Includes 34 students who withdrew, but were passing as of the 45th day and one student who withdrew but was failing as of the 45th day

ACCA

Arizona Community College Association

2411 West 14th Street
Tempe, AZ 85281
480/731-8115

RECEIVED
FEB - 6 2004
JOINT BUDGET COMMITTEE

February 6, 2004

Honorable Robert Burns, Chair
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Chairman Burns:

On behalf of the Arizona community college system, it is my pleasure to present you with the *Report on Community College Classes Offered in Conjunction with High Schools for FY 2002-03* in accordance with A.R.S. § 15-1821.01.

The Arizona community college system and I appreciate your continued support of our mission and the mutual constituents we serve.

Sincerely,

Jan Guy

Jan Guy, Chair
Arizona Community College Association

NOTE: This 146-page report is on file at the JLBC Office.

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

http://www.azleg.state.az.us/jlbc.htm

DATE: May 17, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: ARIZONA DEPARTMENT OF EDUCATION – UPDATED REPORT ON ESTIMATED FISCAL IMPACT OF CHANGES TO ACHIEVEMENT TESTING PROGRAM

Request

The Chairman has requested that the Arizona Department of Education (ADE) appear to provide updated information regarding increases in achievement testing costs.

Recommendation

This item is for information only and no Committee action is required.

In March 2004, ADE estimated that a General Fund increase of about $4.2 million above FY 2004 would be required in order to fully fund the existing AIMS test in FY 2005. Since then, ADE has awarded the contract for the new "AIMS-Dual Purpose Assessment" (AIMS-DPA) and has determined, based on the new contract, that a General Fund increase of about $7.0 million instead would be required for AIMS testing for FY 2005. Both the original $4.2 million increase and the revised $7.0 million increase are relative to the current General Fund budget for AIMS for FY 2004, which equals about $3.2 million.

Analysis

A footnote in the General Appropriation Act each year states that "Before making any changes to the achievement testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the Joint Legislative Budget Committee." During the March 2004 JLBC meeting, ADE reported information regarding anticipated increases in achievement testing costs for FY 2005. As noted above, ADE has since developed updated estimates based on a newly awarded contract for the AIMS-DPA tests. ADE's revised estimates are attached ("Attachment 1").

The Senate adopted budget for FY 2005 includes a $4.2 million General Fund increase for AIMS. This amount would be $2.8 million less than the updated $7.0 million cost increase now estimated by ADE.

RS/SSc:jb
Attachment

ATTACHMENT 1

Arizona's Instrument to Measure Standards (AIMS)

		Actual Costs Incurred		Projected Costs		DPA	
		FY 2002	**FY 2003**	**FY 2004**		**FY 2005**	
1	**AIMS Contract Base**	$4,750,200	$6,818,797	$5,614,759	1	11,041,499	10
2	**Mod 1**		$0				
3	**Mod 2**		$309,313				
4	**Mod 3**		$7,381				
5	**Mod 4**		$75,010				
6	**Mod 5**		$4,576				
7	**Mod 6**		$22,514				
8	**Mod 7**		$44,365				
9	**Mod 8**		$75,889				
10	**Mod 9**		$17,143				
11	**Mod 10**			$4,181,165	2		
12	**Mod 11**		$55,986				
13	**Cost Overrun Mod 10 and 11**			$10,175	4		
14	**Mod 12**			$0			
15	**Mod 13**					$92,535	6
16	**Mod 14**					$3,412,393	3
17	**Test Subtotal**	$4,750,200	$7,430,974	$9,806,099		$14,546,427	
18	**State Admin - Salary etc.**	$184,700	$114,781	$188,000		$188,000	
19	**Federal Admin - Salary etc.**	$0	$753,879	$805,000		$950,000	
20	**Standard Setting**					$500,000	5
21	**Standards Articulation - Science**			$300,000	7		
22	**Standards Articulation - Writing**			$150,000	8		
23	**Naional Organizational Commitees**			$30,000	9	$30,000	9
24	**Lost-Reverted back to the state**		$73,119				
25	**Program Subtotal**	$4,934,900	$8,372,753	$11,279,099		$16,214,427	
26	**Funding Summary**						
27	**GF (Admin)**	$183,300	$187,900	$188,000		$188,000	
28	**GF (AIMS)**	$3,389,800	$3,208,600	$3,208,600		$3,208,600	
29	**Prop 301**	$1,100,000	$0	$0		$2,255,500	11
30	**Prop 301 Solution Team**		$1,491,045	$0		$0	
31	**Federal (NCLB for assessment)**	$0	$3,238,918	$5,614,685		$3,543,377	
32	**Subtotal**	$4,673,100	$8,126,463	$9,011,285		$9,195,477	
33							
34	**Total Deficit**	-$261,800	-$246,290	-$2,267,814		-$7,018,950	
35	-------------- -------------- -------------- --------------	--------------------	--------------------	--------------------	----	--------------------	
36	**State Test Base Contract 3-5-8-10**	$4,750,200	$6,818,797	$5,614,759		11,041,499	
37	**State Appropriation for State Test**	$3,389,800	$3,208,600	$3,208,600		$5,464,100	
38	**Difference (shortfall)**	$1,360,400	$3,610,197	$2,406,159		$5,577,399	

1 **Original Contract Base from 2001. Contract life 6 years.**
Modification 1 No money just wording.
Modification 2 Curriculum standards articulation ,meetings July 21, 2002-July 26,2002 to articulate by grade level standards to be measurable. This is needed both for **NCLB** and for **AZLearns**
Modification 3 Addition of two state test cordinators to NAAAC meeting. **NCLB** discussed also **AZLearns**
Modification 4 Standards articulation meeting 22-24 September 2002. Needed both for **NCLB** and **AZLearns**.
Modification 5 Standards articulation meeting October 4 2002 with measurement experts. **NCLB** and **AZLearns**
Modification 6 Standards meeting for Science, cancellation fee. Credit to be given. **NCLB** expense.
Modification 7 Standards articulation meeting October 26, 2002. **NCLB** and **AZLearns** expense
Modification 8 National Consulting firm StandardsWorks. They helped create the original AZ standards and now are needed to address modifications needed for NCLB. **NCLB** expense and update to state standards for **AZLearns**
Modification 9 Consultants from standards articulation committee members to assemble final draft of standards This is an **NCLB** and **AZLearns** expense.

2 **Modification 10** Write items for NCLB mandated grades and replacement items for state mandated grades. **NCLB** and **AZLearns**
Modification 11 initial meeting of Science articulation. **NCLB** expense
Modification 12 FERPA modification no cost to ADE.
Modification 13 Commissioning of reading passages for item writing June 2004. Long lead time necessary. **NCLB** and **AZLearns**
Modification 14 Item writing and fall testing and scoring. Subsumes Mod 13. **NCLB** and **AZLearns**

3 $4,327,916 The AIMS contract needs to be modified to include item writing for the Summer of 04. This must include writing items for the new Science Standards as required by NCLB. Also, writing AIMS items to match the new blueprint modified to match the articulated standards in reading, mathematics and writing, and in the number of grades assessed in 2005 (grades 4,6,7 to be added).

4 Cost overrun for Science Facilitator and extra NAAAC expenses

5 $500,000 This is necessitated by both changes in the test at 3,5,8, and 10, and the addition of grades 4,6, and 7 for which there are no performance standards. This is usually a one time expense except in high stakes .

6 Long lead item writing passages for reading test.

7 Articulation of Science Standard (covered under NCLB)

8 Articulation of Writing Standard (projected expenditure)

9 National Organizational Committees CCSSO sub-committees

10 **New AIMS DPA contract with CTB**

11 **Assumption of NRT appropriation for AIMS DPA** As of 4/5/04