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

MEETING NOTICE

DATE: Thursday, May 31, 2001

TIME: 1:30 p.m.

PLACE: HOUSE HEARING ROOM 4

TENTATIVE AGENDA

- Call to Order

- Approval of Minutes of May 10, 2001

- EXECUTIVE SESSION
  A. Arizona Department of Administration, Risk Management Services - Report on Schofield v. State of Arizona (On Call Duty Pay).
  B. Arizona Department of Administration - Risk Management Annual Report.

- DIRECTOR'S REPORT (if necessary).

1. AHCCCS/DEPARTMENT OF ECONOMIC SECURITY/DEPARTMENT OF HEALTH SERVICES - Transfer of Monies from Medical Services Stabilization Fund.

2. AHCCCS -
   A. Review Transfer of Tobacco Tax Medically Needy Account Allocations.
   B. Review of AHCCCS Customer Eligibility (ACE) System.

3. PROPOSITION 204 PUBLIC HEALTH PROGRAMS - Consider Approval of Inflation Adjustments.

4. DEPARTMENT OF HEALTH SERVICES - Consider Approval of Transfer of Appropriations.

5. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of Plan to Provide Matching Monies to Hopi Tribe to Operate a Tribal Cash Assistance Program.
   B. Report on Additional FY 2001 Child Support Expenditures.

6. OFFICE OF ADMINISTRATIVE HEARINGS - Review of FY 2001 Supplemental Adjustments for New Cost Allocation Plan.

7. ARIZONA STATE RETIREMENT SYSTEM - Review of Information Technology Plan.

8. ARIZONA COMMISSION ON THE ARTS - Review of the Arizona Arts Endowment Fund and Private Contributions.

9. REPORT ON RECENT AGENCY SUBMISSIONS
   - Blue Ribbon Task Force on Effluent Reuse- Initial Report.
   - Department of Health Services - Report on AIDS Drug Assistance Program.

10. SCHOOL FACILITIES BOARD - Report on Energy Efficiency Requirements for School Construction and Repair.

The Chairman reserves the right to set the order of the agenda.
05/24/01

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.

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

May 10, 2001

The Chairman called the meeting to order at 1:05 p.m., Thursday, May 10, 2001, in House Hearing Room 4. The following were present:

Members:	Senator Solomon, Vice-Chairman	Representative Knaperek, Chairman
	Senator Arzberger	Representative Allen
	Senator Bee	Representative Burton Cahill
	Senator Brown	Representative Pearce
	Senator Bundgaard	Representative Pickens
	Senator Cirillo	Representative Weason
	Senator Rios	
Absent:	Senator Bowers	Representative Gray (Excused)
		Representative May
Staff:	Richard Stavneak, Director	
	Cheryl Kestner, Secretary	
	Patrick Fearon	
Others:	James Grogan	Chairman, Tourism and Sports Authority
	Kurt Freund	Dain Rauscher
	Mayor Joan Shafer	City of Surprise
	Steve Betts	Attorney, Arizona Cardinals
	John Arnold	Deputy Director, School Facilities Board
	F. Rockne Arnett	Board Member, Tourism and Sports Authority.

APPROVAL OF MINUTES

Senator Solomon moved *that the minutes of February 16, 2001 and April 6, 2001 be approved*. The motion carried.

SCHOOL FACILITIES BOARD (SFB) - Review of Sufficiency of Deficiencies Correction Monies with regard to Tourism and Sports Authority.

Mr. Patrick Fearon, JLBC Staff, said this issue is an item that was considered at the April 6 JLBC meeting and was held. To provide background information, Proposition 302 establishes a Tourism and Sports Authority (TSA), which, among other things, would also provide for a new stadium. In order for the State Treasurer to release the new hotel tax and car rental surcharges to finance the Authority the SFB needs to certify that sufficient funding has been set aside for the deficiencies correction program. Before the SFB could make that certification to the State Treasurer, however, this item requires review by JLBC. A letter from the SFB saying the funding for the deficiencies correction program currently estimated is in place, has been included in the JLBC agenda packet.

Senator Cirillo said what he recalls from the last meeting is that there is a technical problem, not that there is not enough money available. There was concern that ORB language said that the SFB could not go directly to the Treasurer to get money.

Mr. Fearon responded that the ORB language essentially limited how much is available to the SFB for the deficiencies correction program. However, when you look at the current estimate the funding is essentially in place for the current estimate. If the program required more funding then that would be an issue which would have to be dealt with.

Senator Cirillo asked that to the best of everyone's knowledge, whether there is enough money right now. Mr. Fearon said that was correct. Mr. Fearon said that there was a memo, from the April 6 JLBC meeting, with a funding breakdown of the deficiencies correction program in the JLBC agenda packet.

Mr. James Grogan, Chairman, Tourism and Sports Authority, said that it was a pleasure to be representing the TSA board, which is made up of 9 volunteer members from the community (biographies were handed out). The TSA was very interested in being able to fund the Surprise project, which is going to be a new cactus league baseball facility. The groundbreaking in Surprise is May 21, 2001, and will be a wonderful event for the entire community and the west valley. This is a very complex issue, and particularly some of the items in the press have shown that there is a lot of misunderstanding about this issue. Mr. Grogan expressed his appreciation to the Committee for carrying out their statutory responsibilities. He also said that every member of the TSA board agrees that education funding is the highest priority of the community. He said this item is not just about a convention center/football stadium, it is about funds to promote tourism and funds to build youth and amateur sports facilities.

Representative Knaperek said she appreciated the biography packet from the TSA with the information on the board members. She said she has had constituents calling that were very supportive of Proposition 302, primarily because of the soccer fields and different youth programs. She asked when these are going to take place and how the process will work.

Mr. Grogan said yesterday the TSA subcommittee met and reviewed 17 proposals. Approximately 4 months ago they promulgated a very detailed Request for Proposal (RFP) and sent it to community leaders, boys and girls clubs, and City Halls throughout the county. That RFP explained the statute, the funding of the statute, how their matching funds worked, and set out criteria on how they would be distributing those matching funds. He said they anticipate having money flowing into the youth sports facilities before the end of the year.

Mr. Grogan added that the TSA needs to do a better job with communication, with the public as well as the Legislature. The president of the TSA is going to start doing bimonthly newsletters and every quarter, present a report to the Governor, the House and the Senate. The first report will be coming out within the next few weeks.

Mr. Rockne Arnett, TSA Board Member, said they take very seriously the responsibility that they have been given by the Legislature to execute the funds that are coming to them. He said it is a complex process and they have some of the very best people to help interpret and execute the laws to give the taxpayers the value they voted for.

Mayor Joan Shafer, City of Surprise, thanked the Committee for their work and support of this issue. She expressed how important this is to the City of Surprise and the youth who will now have a place to participate in sports.

Senator Rios asked Representative Knaperek why the letter written to her on May 7 by Dr. Geiger, SFB, states that the SFB will find it virtually impossible to provide the JLBC and the Treasurer with an affirmative statement certifying sufficient monies are dedicated, yet the letter written to her on May 9 is completely different.

Representative Knaperek said that Mr. Arnold, SFB, could answer that, however, she also would tell the Committee her view on the letters. She said that Mr. Geiger was on the east coast and unable to attend the meeting.

Mr. John Arnold, Deputy Director of Finance, SFB, said in response to the question by Senator Rios, the two letters dated May 7 and May 9 express the same sentiment but use different terminology. The May 7 letter assumed that the certification that they would have to make needed to say that there are 100% monies dedicated to complete the deficiencies corrections project. With their ability to go directly to the Treasurer suspended, it was virtually impossible for them to say that there is 100% dollars available to complete the project, regardless of the cost of the project. In the May 9 letter, Dr. Geiger uses very careful language, saying they assume the federal construction funds are available and with that assumption there are now enough monies to meet the estimate that they are at, at that moment.

Representative Knaperek said that in talking with a lot of people who have done research on this, basically the issue was that Dr. Geiger was trying to guarantee that all these monies would be here from now until the projects are complete. Her understanding from legal staff is that that is not needed. She said that the guarantee is not needed. She said the Committee can move forward with their review whether or not it is certified. It was her understanding that if it has to be certified, it would come from the School Facilities Board directly to the State Treasurer. However, the Committee is required to review. She feels very comfortable with that and believes that the monies are there. She said the reason she believes that is because they were told when Proposition 301 was being put together, that these are the dollar amounts that will be needed. They were told that $800 million would make up the difference. That is why they were very specific in the language in Proposition 301, to go out in bonds for $800 million, no more and no less. Some money may be reverted and some money may be needed as a supplement in the future and they will act on that when it is appropriate. It would not be appropriate to demand that that money has to be guaranteed at this point, it is not legal and steps over the bounds of the Committee.

Senator Bundgaard moved the JLBC review of this agenda item be adopted. The motion carried.

Without objection, the meeting adjourned at 1:30 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Laura Knaperek, 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

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JACK A. BROWN
SCOTT BUNDGAARD
EDWARD J. CIRILLO
PETE RIOS

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HOUSE OF REPRESENTATIVES

LAURA KNAPEREK
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MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: May 24, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM Gina Guarascio, Senior Fiscal Analyst
Stefan Shepherd, Senior Fiscal Analyst
Gretchen Logan, Fiscal Analyst

SUBJECT: AHCCCS/DES/DHS – TRANSFER OF MONIES FROM THE MEDICAL SERVICES STABILIZATION FUND

Request

Pursuant to A.R.S. § 36-2922, the Arizona Health Care Cost Containment System (AHCCCS) requests that the Committee recommend the use of the Medical Services Stabilization Fund (MSF) for FY 2001 state match deficiencies for Title XIX programs. In addition, AHCCCS requests that the Committee recommend a 5% contingency amount in addition to the amount requested for projected deficiencies to cover any increases in caseloads beyond current projections.

The statute requires that AHCCCS notify the Chairman of the Committee, as well as the Director of the Governor's Office of Strategic Planning and Budgeting (OSPB) that an appropriation is insufficient to provide services to all those eligible for Title XIX services. The statute further specifies that after review of any projected Title XIX state match deficiencies, the Committee recommend to AHCCCS that an amount equal to any deficiency be used to pay the increases in the cost of providing Title XIX services.

Recommendation

The JLBC Staff recommends that the Committee give a favorable recommendation to withdraw $52,339,900 from the MSF for projected deficiencies in the following Title XIX programs:

AHCCCS	$20,527,000
Department of Economic Security (DES) – Developmentally Disabled	$17,012,900
Department of Health Services (DHS) –Behavioral Health Services	$14,800,000
Total	**$52,339,900**

(Continued)

These amounts are generally consistent with FY 2001 supplemental appropriation amounts discussed for each agency during the 2001 legislative session. JLBC Staff also recommends that any MSF funds not expended for FY 2001 be returned to the MSF.

JLBC Staff does not recommend the 5% contingency amount AHCCCS has requested in addition to the amounts discussed above. The recommended amounts should be sufficient to cover the shortfall. If caseloads increase dramatically during the month of June, AHCCCS could ask the Committee to reexamine the issue at its June 28, 2001 meeting. In addition, we are concerned about allocating additional funds from the MSF that will very likely not be needed in light of the low balance in the Medically Needy Account.

Analysis

The Medical Services Stabilization Fund was established to provide a funding source for Title XIX programs if an appropriation in a given fiscal year is insufficient to cover the cost of services. From August 1995 through July 1998, the MSF received $1,250,000 monthly, or $15,000,000 annually, from the Medically Needy Account of the Tobacco Tax and Health Care Fund. In addition, the MSF received a one-time transfer of $30,000,000 in October of 1996 from the Medically Needy Account. The fund currently has no ongoing source of funding other than interest earnings, which are retained in the fund.

Without a transfer from the MSF to address Title XIX funding deficiencies, the balance of the MSF at the end of FY 2001 would be approximately $76,519,800. The following table summarizes the balance of the MSF after the recommended transfers for Title XIX .

$**76,519,800**	**Projected MSF Balance**
$52,339,900	Deficiency Funding
$24,179,900	REVISED FY 2001 MSF Balance

The MSF is also scheduled to be repaid $13,405,600 from the General Fund in FY 2002. Once this repayment is made, the MSF will have a balance of approximately $37,600,000. Laws 2001, Chapter 385 requires the remaining MSF balance to be deposited into the Medically Needy Account in FY 2004.

AHCCCS originally requested an MSF transfer of approximately $56,000,000 (see attached letter). We understand the Executive now supports the recommended transfer of $52,339,900 due to a revision in the projected DHS deficiency.

JLBC Staff believes the requested transfers to avert state match deficiencies for AHCCCS, DES and DHS are reasonable, and mirrors closely the amounts recommended for supplemental appropriation during the 2001 legislative session. As a result, we recommend that the Committee view the proposed transfer favorably. While the total state fund supplemental need has not changed, the amount required for AHCCCS from the MSF is reduced from the amount presented in the original JLBC budget recommendation. This is due to additional offsets being available within the agency's budget related to the implementation of Proposition 204.

RS/GG:ag

AHCCCS

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Committed to excellence in health care

Jane Dee Hull
Governor

Phyllis Biedess
Director

May 16, 2001

RECEIVED
MAY 17 2001
JOINT BUDGET COMMITTEE

The Honorable Laura Knaperek, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Representative Knaperek:

The Arizona Health Care Cost Containment System (AHCCCS), the Department of Economic Security, and the Department of Health Services respectfully request to be placed on the agenda for the May 31, 2001 Joint Legislative Budget Committee meeting for the purpose of obtaining authority for use of the Medical Services Stabilization Fund for FY 2001 state match deficiencies for Title XIX programs. Under the provisions of Federal law, AHCCCS, as the state's Medicaid agency, is the payor of last resort for any unpaid Medicaid claims.

Arizona Revised Statutes §36-2922, Subsection A authorizes the AHCCCS administration to administer the Medical Services Stabilization Fund as directed by the Joint Legislative Budget Committee. Subsection D requires AHCCCS to submit written notice of an appropriation deficiency to the chair of the Joint Legislative Budget Committee, including supporting documentation (see attached).

This letter serves as notice of the state match deficiencies for the following Title XIX programs:

Agency	Amount
• Arizona Health Care Cost Containment System	$20,527,000
• Department of Economic Security - DDD	17,012,900
• Department of Health Services - BHS	18,600,000
	$56,139,900

AHCCCS requests that the Joint Legislative Budget Committee authorize the transfer of $56,139,900 from the Medical Services Stabilization Fund to AHCCCS for state match in FY 2001.

In addition, Title XIX caseloads and expenditures may fluctuate over the next month beyond the amounts assumed above. Therefore, we are requesting the flexibility to draw down up to an additional 5% of the amount above to address caseload or expenditure growth beyond the anticipated amount. As a condition of drawing down the 5% contingency amount, AHCCCS will submit a report to the Joint Legislative Budget Committee explaining how the contingency funds were applied to expenditures.

Please feel free to contact Jim Cockerham, Assistant Director, Division of Business and Finance, at (602) 417-4059 if you have any questions.

Sincerely,

Phyllis Biedess

Phyllis Biedess
Director

Attachments

c. Tom Betlach, Director, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee Staff
Jim Cockerham, Assistant Director, Division of Business and Finance, AHCCCS

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
FY 2001 General Fund Supplemental Requirement
Acute Care Estimated Deficit

	AHCCCS
FY 2001 Supplemental Estimate[1]:	32,613,700
Less Prop 204 Savings	
Prop 204 MNMI Conversion	(25,344,200)
Prop 204 SES Conversion	(810,100)
Prop 204 IHS State-only Conversion	(870,500)
GME Conversion	(1,503,700)
Total Prop 204 Savings:	(28,528,500)
Prop 204 New Costs	
QMB Conversion[2]	-
Quickpay Accelerated Phase Down	1,470,500
State Share of MNMI Rate Increase	104,900
State Share Extended Elig. for MNMI	1,460,800
Total Prop 204 New Costs:	3,036,200
Net Prop 204 Savings	(25,492,300)
Laws 2001, Chapter 344, Section 96, Ex-appropriation	13,405,600
Medical Services Stabilization Fund Requirement	20,527,000

[1] The AHCCCS March 31, 2001 ASR estimated deficit before Prop 204 related adjustments.

[2] Capitation payments state match for the QMB expansion population will be paid from the ATLS Fund.

DEPARTMENT OF ECONOMIC SECURITY - DDD
SFY 2001 AHCCCS TITLE XIX REVENUES EXPENDITURE PLAN

[9.74% INCREASE OVER CURRENT ENRL RATE]

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
MBR MO (OSPB)	11,287	11,458	11,453	11,605	11,675	11,777	11,875	11,981	12,076	12,181	12,283	12,394	142,049
VENT MO	48	53	55	54	49	57	58	59	60	59	56	52	660

7.04% RATE INCREASE EFFECTIVE 10/01/00

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
ENRL RATE	2,397	2,397	2,397	2,567	2,567	2,567	2,567	2,567	2,567	2,567	2,567	2,567	
VENT RATE	8,388	8,388	8,388	8,703	8,703	8,703	8,703	8,703	8,703	8,703	8,703	8,703	
ENROLLED	27,052,425	27,462,012	27,450,939	29,786,267	29,966,392	30,228,187	30,479,716	30,751,778	30,995,607	31,265,102	31,526,897	31,811,792	358,777,114
VENT DEP	402,614	444,553	461,329	469,973	429,207	496,082	504,786	513,489	522,192	513,489	487,379	452,566	5,697,660
SUB-TOTAL	27,455,039	27,906,566	27,912,268	30,256,240	30,395,599	30,724,270	30,984,502	31,265,267	31,517,799	31,778,591	32,014,276	32,264,358	364,474,774
ADD: FFS													1,450,000
LESS: IND HEALTH SERVICES													(2,119,200)
TOTAL AVAILABLE FUNDING													363,805,574
GF MATCH REQUIRED													124,530,648
LESS: APPROPRIATION INCLUDING SET-ASIDE													104,955,500
ADMIN GF MATCH													2,562,150
ADDITIONAL GF NEED													**17,012,998**

ACTUALS

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Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: May 22, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gretchen Logan, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM — REVIEW TRANSFER OF TOBACCO TAX MEDICALLY NEEDY ACCOUNT ALLOCATIONS

Request

The Arizona Health Care Cost Containment System (AHCCCS) requests the Committee review its transfer of monies in the Medically Needy Account of the Tobacco Tax and Health Care Fund between the allocations specified in Laws 1999, Chapter 176.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the requested transfer.

Analysis

Laws 1999, Chapter 176 allocates monies from the Medically Needy Account of the Tobacco Tax and Health Care Fund for specific purposes (*see line items in table below*). In addition, the legislation allows for AHCCCS to transfer monies between allocations following a review by the Committee.

AHCCCS has determined that they will have a FY 2001 surplus of $4,192,200 in the Federal Matching Assistance Percentage (FMAP) line item due to the FMAP increasing in Federal FY 2001. In addition, there is an anticipated FY 2001 surplus of $965,000 in the HIV/AIDS Treatment line item. AHCCCS has also identified 3 line items (i.e., Quick Pay Discount,

(Continued)

Maternity Length of Stay, and 50% Medical Inflation) where expenditures exceed the allocation; therefore, transferring monies into these line items would allow the entire FY 2001 tobacco tax allocation to be used.

The table below summarizes the transfers proposed by AHCCCS:

Line Item	Original Allocation	Proposed Transfer	Revised Allocation
FMAP	$ 4,542,200	$(4,192,200)	$ 350,000
Quick Pay Discount	8,206,700	300,000	8,506,700
Hospital Reimbursement	10,000,000	0	10,000,000
HIV/AIDS Treatment	1,349,600	(965,000)	384,600
Maternity Length of Stay	2,572,800	2,742,700	5,315,500
50% Medical Inflation	5,276,000	2,114,500	7,390,500
TOTAL	**$31,947,300**	**$ 0**	**$31,947,300**

These transfers appear consistent with legislative intent; therefore, the JLBC Staff recommends a favorable review of the proposal.

RS/GL:ck

AHCCCS

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Committed to excellence in health care

Jane Dee Hull
Governor

John H. Kelly
Director

April 19, 2001

The Honorable Laura Knaperek, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Representative Knaperek:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda for the May 2001 Joint Legislative Budget Committee (JLBC) meeting for the purpose of obtaining a review of certain proposed transfers of monies within the Medically Needy Account of the Tobacco Tax and Health Care Fund.

Laws 1999, Chapter 176, Section 16, Subsection B, authorizes AHCCCS to withdraw during State Fiscal Year 2001 monies from the Medically Needy Account for certain purposes as defined in paragraphs 1 through 7. In addition, Subsection C authorizes AHCCCS to transfer monies between the amounts listed in Subsection B, paragraphs 1 through 7 after review by the JLBC.

AHCCCS has determined that it will not be able to draw down all of the original allocation provided in paragraphs 3 and 5 of Subsection B. However, it does have additional expenditure capacity in paragraphs 1, 4 and 7. Therefore, upon receiving a favorable review, AHCCCS will make the following transfers:

AHCCCS SFY 2001 Proposed Tobacco Tax Transfer Summary

Program	Original Allocation	Proposed Transfer	Revised Allocation
Phase-Down of Quick Pay Discount	$ 8,206,700	$ 300,000	$ 8,506,700
$10M Hospital Reimbursement	10,000,000	-	10,000,000
Offset Loss in Federal Funding	4,542,200	(4,192,200)	350,000
Maternity Length of Stay	2,572,800	2,742,720	5,315,520
HIV/AIDS Treatment	1,349,600	(965,018)	384,582
FY 2000 Medical Inflation	5,276,000	2,114,498	7,390,498
Total Allocation	**$ 31,947,300**	**$ -**	**$ 31,947,300**

801 East Jefferson • Phoenix, AZ 85034 • P.O. Box 25520 • Phoenix, AZ 85002 • (602) 417-4000

Enclosed for your staff's review are a Summary of Tobacco Allocations and Transfer Amounts for State Fiscal Year 2001 and other supporting information for these transfers.

Please feel free to contact Jim Cockerham, Assistant Director, Division of Business and Finance, at (602) 417-4059 or John Moorman, Finance Administrator, at (602) 417-4779 if you have any question.

Sincerely,

Phyllis Biedess

Phyllis Biedess
Director

PB:JAC s:\fin\reportin\tobacco\sfy01\JLBC Allocation Trnsf Request.doc

Enclosure

c: JLBC Committee Members
Richard Stavneak, Director, Joint Legislative Budget Committee
Tom Betlach, Director, Office of Strategic Planning and Budgeting

AHCCCS FUND TOBACCO TAX ALLOCATION
PROPOSED ALLOTMENT TRANSFER
For State Fiscal Year 2001

	TOTAL ALLOTMENT	ANNUAL PROJECTED EXPENDITURES	PROJECTED EXPENDITURE (OVER)UNDER ALLOTMENT	**PROPOSED ALLOTMENT TRANSFER**	ADJUSTED ALLOTMENT	PROJECTED EXPENDITURE (OVER)UNDER ADJUSTED ALLOTMENT
QUICK PAY DISCOUNT	$ 8,206,700	$ 9,196,964	$ (990,264)	$ 300,000	$ 8,506,700	$ (690,264)
HOSPITAL REIMBURSEMENT	10,000,000	10,000,000	-	-	10,000,000	-
LOSS OF FEDERAL FUNDING	4,542,200	606,028	3,936,172	(4,192,200)	350,000	(256,028)
MATERNITY LENGTH OF STAY	2,572,800	5,718,803	(3,146,003)	2,742,720	5,315,520	(403,283)
HIV/AIDS TREATMENT	1,349,600	534,583	815,017	(965,018)	384,582	(150,001)
FY 2000 MEDICAL INFLATION	5,276,000	7,390,498	(2,114,498)	2,114,498	7,390,498	-
	$ 31,947,300	$ 33,446,876	$ (1,499,576)	$ -	$ 31,947,300	$ (1,499,576)

Note: The Annual Projected Expenditures for Hospital Reimbursement and Medical Inflation have been limited to the amounts that are allowed by law.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

ESTIMATE OF COSTS INCURRED FOR AHCCCS TOBACCO TAX ALLOCATIONS
SFY 2001

ESTIMATE

		CAPITATION	FEE FOR SVS		CAPITATION	FEE FOR SVS		CAPITATION	FEE FOR SVS		CAPITATION	FEE FOR SVS
1) HOSPITAL REIMBURSEMENT												
(DEEP DISCOUNT)												
	JULY '00	N/A	$ 1,680,477	OCT '00	N/A	$ 3,050,355	JAN '01	N/A	$ 3,166,113	APR '01	N/A	$ -
	AUGUST '00	N/A	2,715,646	NOV '00	N/A	1,918,750	FEB '01	N/A	1,853,080	MAY '01	N/A	-
	SEPT '00	N/A	2,180,946	DEC '00	N/A	1,496,152	MAR '01	N/A	-	JUN '01	N/A	-
	TOTAL		$ 6,577,068	TOTAL		$ 6,465,257	TOTAL		$ 5,019,193	TOTAL		$ -
Allotment	10,000,000											
Amount available for transfer	10,000,000											
YTD cost	18,061,519		$ 6,577,068									
YTD actual cost over allotment	8,061,519											
2) PHASE-DOWN OF QUICK PAY DISCOUNT												
A) CATEGORICAL	JULY '00	$ 991,612	$ 245,004	OCT '00	$ 1,068,947	$ 367,493	JAN '01	$ 1,097,610	$ 343,699	APR '01	$ 1,200,000	$ 250,000
Decrease from:	AUGUST '00	1,018,586	370,885	NOV '00	1,074,074	288,042	FEB '01	1,071,154	249,798	MAY '01	1,200,000	250,000
6% to 3% 10/01/96 to 09/30/97	SEPT '00	1,022,026	269,438	DEC '00	1,086,544	275,587	MAR '01	1,000,000	250,000	JUN '01	1,200,000	250,000
6% to 1% on 10/1/97	Total	$ 3,032,224	$ 885,328	Total	$ 3,229,565	$ 931,122	Total	$ 3,168,764	$ 843,497	Total	$ 3,600,000	$ 750,000
	FMAP Rate	65.92%	65.92%	FMAP Rate	65.77%	65.77%	FMAP Rate	65.77%	65.77%	FMAP Rate	65.77%	65.77%
	STATE SHARE	$ 1,033,382	$ 301,720	STATE SHARE	$ 1,105,480	$ 318,723	STATE SHARE	$ 1,084,668	$ 288,729	STATE SHARE	$ 1,232,280	$ 256,725
B) NON-CATEGORICAL	JULY '00	$ 259,825	$ 52,047	OCT '00	$ 316,038	$ 84,616	JAN '01	$ 332,136	$ 97,588	APR '01	$ 40,000	$ 55,000
Decrease from:	AUGUST '00	275,172	91,386	NOV '00	325,268	77,780	FEB '01	332,550	55,046	MAY '01	17,000	50,000
10% to 9% 03/01/97 to 02/28/98	SEPT '00	262,017	64,163	DEC '00	319,225	53,400	MAR '01	300,000	60,000	JUN '01	10,000	45,000
10% to 8% 03/01/98 to 02/28/99	TOTAL	$ 797,014	$ 207,597	TOTAL	$ 960,531	$ 215,795	TOTAL	$ 964,686	$ 212,634	TOTAL	$ 67,000	$ 150,000
10% to 7% 03/01/99 to 02/29/00												
10% to 6% 03/01/00 to 02/28/01												
10% to 5% 03/01/01 to 02/28/02												
10% to 4% 03/01/02 to 02/28/03												
10% to 3% 03/01/03 to 02/29/04												
Allotment	8,206,700											
Amount available for transfer	8,206,700											
Estimated YTD cost	9,196,964	$ 1,830,396	$ 509,316		$ 3,896,407	$ 1,043,835		$ 5,945,761	$ 1,545,198		$ 7,245,041	$ 1,951,923
YTD actual cost over allotment	990,264											
3) LOSS OF FEDERAL FUNDING												
From 65.85% in FFY 96 to 65.77% in FFY01	1ST QUARTER	$ -		2ND QUARTER	$ 206,028.00		3RD QUARTER	$ 200,000.00		4TH QUARTER	$ 200,000.00	
Allotment	4,542,200											
Amount available for transfer	606,028											
Estimated YTD cost	606,028											
YTD actual cost over allotment	0											
4) MATERNITY LENGTH OF STAY	JULY '00	$ 244,282	$ 606,182	OCT '00	$ 251,620	$ 714,465	JAN '01	$ 263,960	$ 663,582	APR '01	$ 240,000	$ 600,000
	AUGUST '00	254,426	712,074	NOV '00	252,552	885,493	FEB '01	240,358	617,380	MAY '01	240,000	600,000
	SEPT '00	252,465	677,574	DEC '00	251,436	759,177	MAR '01	240,000	600,000	JUN '01	240,000	600,000
	TOTAL	$ 751,173	$ 1,995,830	TOTAL	$ 755,608	$ 2,359,135	TOTAL	$ 744,318	$ 1,880,962	TOTAL	$ 720,000	$ 1,800,000
	FMAP Rate		65.92%	FMAP Rate		65.77%	FMAP Rate		65.77%	FMAP Rate		65.77%
	STATE SHARE		$ 680,179	STATE SHARE		$ 807,532	STATE SHARE		$ 643,853	STATE SHARE		$ 616,140
Allotment	2,572,800											
Amount available for transfer	2,572,800											
Estimated YTD cost	5,718,803	$ 751,173	$ 680,179		$ 1,506,781	$ 1,487,711		$ 2,251,099	$ 2,131,564		$ 2,971,099	$ 2,747,704
YTD actual cost over allotment	3,146,003											
5) HIV/AIDS TREATMENT	1ST QUARTER	$ 199,379.38		2ND QUARTER	$ 169,804.51		3RD QUARTER	$ 15,398.68		4TH QUARTER	$ 150,000.00	
Allotment	1,349,600											
Amount available for transfer	534,583											
Estimated YTD cost	534,583											
YTD actual cost over allotment	0											
6) FY 2000 MEDICAL INFLATION	JULY '00	$ 703,793	$ 88,041	OCT '00	$ 1,255,093	$ 109,537	JAN '00	$ 1,721,866	$ 98,947	APR '00	$ 1,700,000	$ 95,000
	AUGUST '00	806,532	56,739	NOV '00	1,559,622	75,401	FEB '00	1,660,878	98,366	MAY '00	1,700,000	95,000
	SEPT '00	549,591	84,891	DEC '00	1,624,570	88,523	MAR '00	1,700,000	95,000	JUN '00	1,700,000	95,000
	TOTAL	$ 2,059,916	$ 229,671	TOTAL	$ 4,439,285	$ 273,460	TOTAL	$ 5,082,744	$ 292,313	TOTAL	$ 5,100,000	$ 285,000
Allotment	5,276,000											
Amount available for transfer	5,276,000											
Estimated YTD cost	17,762,389	$ 2,059,916	$ 229,671		$ 6,499,201	$ 503,131		$ 11,581,945	$ 795,444		$ 16,681,945	$ 1,080,444
YTD actual cost over allotment	12,486,389											
AVAILABLE ALLOTMENT	$31,947,300											
YTD TRANSFERRED	$ 23,237,382											

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

HOUSE OF REPRESENTATIVES

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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

DATE: May 24, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gretchen Logan, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS) — REVIEW OF AHCCCS CUSTOMER ELIGIBILITY (ACE) SYSTEM

Request

The Arizona Health Care Cost Containment System (AHCCCS) requests Committee review of the AHCCCS Customer Eligibility (ACE) system pursuant to Laws 2001, Chapter 236 (General Appropriation Act), which requires a report on the compatibility of the ACE system with the "No Wrong Door" initiative prior to the expenditure of monies allocated for the ACE system.

Recommendation

The JLBC Staff is deferring its recommendation on the ACE system until AHCCCS and the Government Information Technology Agency (GITA) have had the opportunity to address the implications of the revised Information Technology Authorization Committee (ITAC) conditions for approval. The revised conditions of approval remove the compatibility requirements between the ACE system and the "No Wrong Door" initiative.

Analysis

Laws 2001, Chapter 236 requires AHCCCS to submit a report on the compatibility of the ACE system with the "No Wrong Door" initiative. The ACE system is an eligibility program that will be used for long-term care, Social Security Income – Medical Assistance Only (SSI-MAO), and Children's Health Insurance Program (CHIP) clients, while the "No Wrong Door" initiative is intended to address citizen access to approximately 50 independently-operated state government programs that serve children and families. While funding was provided for the ACE system in the AHCCCS budget, FY 2002 funding for "No Wrong Door" is a triggered expenditure. Therefore, ITAC revised their original recommendation for the ACE system at their May 2001 meeting and removed the compatibility requirements. While ACE development does not have to await "No Wrong Door" funding, it is unclear why the compatibility conditions have been eliminated.

ITAC's original approval of the ACE system was granted in November 2000, with the following 2 conditions: 1) the ACE system must accommodate the "No Wrong Door" beneficiary data along with being able to forward information to the "No Wrong Door" statewide database; and, 2) AHCCCS is responsible for coordinating ACE and "No Wrong Door" development to ensure compatibility. Due to the delay in the funding for the "No Wrong Door" initiative, ITAC revised the conditions of their approval at the May 2001 meeting. The revised ITAC approval of the ACE system now only has 1 condition specifying that the ACE system shall be developed using an open architecture, which facilitates the sharing of information with other systems and government agencies.

In order to address the budget footnote requiring a report on the compatibility of the "No Wrong Door" initiative, AHCCCS has provided detailed information to JLBC Staff outlining pertinent issues related to the compatibility of the ACE system versus the compatibility of their current system, which are detailed in the bullets below:

- The ACE system will be much more adaptable to the "No Wrong Door" initiative than the character based mainframe system currently in use, because the ACE system is a data driven non-mainframe system, whereas the current system is process driven. Thus, when a new policy or program (e.g., "No Wrong Door") is added to the current system that does not conform to the original design, the addition essentially becomes an appendage to the design and creates "dead ends" in the flow of the screens, and sometimes, creates the need to manually work around pieces of the system. In contrast, the ACE system is data driven, which means that data is stored in one place and then the criteria for eligibility for different programs is programmed as a set of rules that enables the system to retrieve the required pieces of data from the database. Thus, changes in policies or programs can be easily accomplished in the ACE system by writing a new set of rules.

- The ACE system can change more easily in comparison to the current mainframe system. The current mainframe programming language is IDEAL, which is obsolete. Therefore, according to the agency, "it is nearly impossible to find programmers experienced in IDEAL, at any salary level". In comparison, ACE will be developed using an Oracle database, which is a widely used database that is dominant in the marketplace and is a product that AHCCCS has experience with.

- The "No Wrong Door" design will employ a web-based solution. Under the current system, eligibility interviewers must launch a separate application and dial into the Internet. However, with the ACE system, eligibility interviewers will be able to seamlessly launch the web directly from the ACE system.

In addition to the fact that the ACE system will be more compatible with the "No Wrong Door" initiative than the current mainframe system, the implementation of the ACE system will also: 1) improve the customer service provided to clients by eliminating the manual completion of paperwork; 2) improve staff's ability to determine the status of applications; and, 3) enable determinations to be completed in a shorter period of time. In general, implementation of the ACE system will streamline and automate the application and redetermination process. This will allow eligibility staff to handle more cases than they are currently able to in the existing mainframe computing and paperwork intensive system.

While the agency has provided evidence that they plan to implement the ACE system in a manner that is compatible with the "No Wrong Door" initiative, it may be useful to maintain the prior ITAC compatibility requirements. As a result, the JLBC Staff has deferred its recommendation to give AHCCCS and GITA an opportunity to address this issue.

RS/GL:jb

AHCCCS

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Committed to excellence in health care

RECEIVED
MAY 17 2001
JOINT BUDGET COMMITTEE

Jane Dee Hull
Governor

Phyllis Biedess
Director

May 17, 2001

The Honorable Laura Knaperek
Arizona State House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Knaperek:

The Arizona Health Care Cost Containment System (AHCCCS), respectfully requests to be placed on the agenda for the May 31, 2001 Joint Legislative Budget Committee meeting for the purpose of obtaining authority for use of the AHCCCS Customer Eligibility System (ACE) funds for FY 2002.

On November 15, 2000, the Information Technology Authorization Committee (ITAC) voted for conditional approval of the ACE project, requiring AHCCCS to develop an interface between ACE and No Wrong Door (letter from GITA, attachment 1). Since the No Wrong Door initiative has been delayed due to funding and other considerations, the Government Information Technology Agency (GITA) has recommended the removal of the conditions listed in the attached letter, and has recommended approval of the ACE project.

Senate Bill 1577, Section 7, administrative budget footnote, requires AHCCCS to submit a written report of compliance with the ITAC conditions to the Chair of the Joint Legislative Budget Committee, including supporting documentation (attachment 2). Although AHCCCS anticipates that ITAC will remove the conditions at their next meeting on May 18, 2001, we are prepared to discuss ACE interaction with the proposed No Wrong Door concept.

Please feel free to contact Jim Wang, Assistant Director, Information Services Division, at (602) 417-4776 if you have any questions.

Sincerely,

Phyllis Biedess

Phyllis Biedess
Director

Attachments

c. Tom Betlach, Director, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee Staff
Jim Cockerham, Assistant Director, Division of Business and Finance, AHCCCS
Jim Wang, Assistant Director, Information Services Division, AHCCCS
Diane Ross, Assistant Director, Division of Member Services, AHCCCS

801 East Jefferson • Phoenix, AZ 85034 • P.O. Box 25520 • Phoenix, AZ 85002 • (602) 417-4000
Internet: www.ahcccs.state.az.us

ATTACHMENT 1

JANE DEE HULL
GOVERNOR

GITA

RICHARD C. ZELZNAK
DIRECTOR

STATE OF ARIZONA
GOVERNMENT INFORMATION TECHNOLOGY AGENCY
411 North Central Avenue, Suite 770
Phoenix, AZ 85004

May 8, 2001

Ms. Phyllis Biedess, Director
AHCCCS
801 East Jefferson
Phoenix AZ 85034

Dear Ms. Biedess:

On November 15, 2000 the Information Technology Authorization Committee (ITAC) voted for **Conditional Approval** of the ***"AHCCCS Customer Eligibility (ACE)"*** project as follows:

1. The ACE project must be developed to accommodate acceptance of No Wrong Door Phase I Screening and Referral beneficiary data, as well as the formatting and forwarding of information to the No Wrong Door statewide database once a beneficiary has been accepted into an AHCCCS program.

2. AHCCCS management and IT staff must coordinate ACE development, testing and implementation efforts with the No Wrong Door development team to assure system compatibility.

Since the No Wrong Door initiative has been delayed due to funding and other considerations, the above conditions no longer apply. Therefore this is Government Information Technology Agency's recommendation to ITAC for **Approval** of the technology project, thereby removing the above conditions.

You may proceed to secure other approvals as necessary from the Office of Strategic Planning and Budgeting, the Joint Legislative Budget Committee and the State Procurement Office.

Sincerely,

Richard C. Zelznak
Director

RCZ:mc

xc: Phyllis/Branch
J. Wang

Phone: (602) 340-8538 ❖ Fax: (602) 340-9044
Web: http://www.gita.state.az.us

cc: James Wang, AHCCCS
Joanne Obenour, AHCCCS
Tom Betlach, OSPB
Lorenzo Martinez, JLBC
Gecola Ward, SPO

GITA Project HC01001

ACE Project and No Wrong Door Interface
Discussion Paper For JLBC
May 16, 2001

ATTACHMENT 2

Status of No Wrong Door:

Currently on hold for funding.

Status of ACE Project:

Design was completed in February, and coding has been underway since January 2001. As of May 14, 20% of coding for the ACE project has been completed.

Integration of No Wrong Door Into ACE:

AHCCCS can easily integrate the No Wrong Door interface into ACE in the future. One of the primary objectives of ACE is to be easily adaptable to new programs and new concepts, like No Wrong Door. The Project and Investment Justification submitted to GITA in July 2000 clearly states this objective.

The structure of the ACE database lends itself much more readily for export to other systems, than the current eligibility systems. Export of data is a significant factor in phase II of No Wrong Door.

ACE Is Important To AHCCCS Right Now:

ACE replaces a very old, outdated system, that is extremely expensive and time consuming to maintain and enhance.

AHCCCS has not received adequate staff to support the growth in the ALTCS, Medicare Cost Sharing and SSI-MAO programs. From 7/99 to 5/01 the active ALTCS population increased 21.6%. From 7/99 to 3/01 the active Medicare Cost Sharing population increased 33.8%.

AHCCCS received no new staff for CY00 and CY01. AHCCCS received 25% of the staff originally requested for FY02 and FY03.

AHCCCS cannot maintain/improve on its eligibility performance measures without ACE.

AHCCCS is reengineering the eligibility process to work efficiently and respond to consumer needs

Any delay in the project will move back the "go live" date, jeopardize AHCCCS' eligibility performance, put the state at risk for federal penalties and sanctions, and open the door for lawsuits due to untimely eligibility determinations.

AHCCCS will begin testing ACE by October 2001. System and user testing is a significant effort for this project and will require a full year of testing prior to piloting of the project in October 2002. Statewide implementation is scheduled for March 2004.

Recommendation:

Eliminate the link/restriction in the ACE budget to interface with No Wrong Door.

JANE DEE HULL
GOVERNOR

RICHARD C. ZELZNAK
DIRECTOR

STATE OF ARIZONA
GOVERNMENT INFORMATION TECHNOLOGY AGENCY
411 North Central Avenue, Suite 770
Phoenix, AZ 85004

May 18, 2001

RECEIVED
MAY 23 2001
JOINT BUDGET COMMITTEE

Ms. Phyllis Biedess, Director
AHCCCS
801 East Jefferson
Phoenix AZ 85034

Dear ~~Ms. Biedess~~: Phyllis

The Information Technology Authorization Committee (ITAC) met this date to consider a technical correction to their prior approval of the ***"AHCCCS Customer Eligibility Project."***

The ITAC voted in the affirmative for **Approval with Conditions** of the technology project as follows:

> The system should be developed with an open architecture so that it may easily and readily share information with other systems and government agencies.

You will note that references to the "No Wrong Door" initiative have been eliminated. However, it was the sense of the ITAC that ACE system development should proceed with the knowledge and intent that other agencies may use the ACE system as a basis for their own development and data sharing activities.

You may proceed to secure additional approvals as required from the Joint Legislative Budget Committee and the Office of Strategic Planning and Budgeting and the State Procurement Office.

Sincerely,

Richard C. Zelznak
Director

RCZ:mc

cc: Jim Wang, AHCCCS
Joanne Obenour, AHCCCS
Tom Betlach, OSPB
Lorenzo Martinez, JLBC
Robert Pierson, SPO

(GITA Project HC01001)

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: May 24, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: PROPOSITION 204 PUBLIC HEALTH PROGRAMS — CONSIDER APPROVAL OF INFLATION ADJUSTMENTS

Request

Proposition 204 requires the Joint Legislative Budget Committee to calculate annual inflation adjustments for the public health programs that are funded in the proposition from the Tobacco Litigation Master Settlement and to provide this information to the director of the Arizona Health Care Cost Containment System (AHCCCS).

Recommendation

The JLBC Staff has calculated the FY 2001 allocations for the programs and requests Committee approval of the calculations. We calculated the adjustments since FY 1996 using the GDP price deflator. Based on these calculations, we recommend the following allocations:

Program	**FY 2001**
Healthy Families	$5,427,260
Arizona Health Education System	4,341,808
Teenage Pregnancy Prevention	3,256,356
Disease Control Research	2,170,904
Health Start	2,170,904
Women, Infants, and Children Food Program	1,085,452

The actual funding of each of these programs will depend on the availability of tobacco settlement monies after accounting for AHCCCS coverage of the 100% of the federal poverty level (FPL) population. Pursuant to A.R.S. § 5-522, these allocations are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations and do not revert to the General Fund at the end of each fiscal year.

(Continued)

Analysis

Proposition 204, approved by voters on November 7, 2000, specifies that the public health programs listed in A.R.S. § 5-522(E), as enacted in 1996 by Proposition 203, shall be funded from the monies the state receives from the Tobacco Litigation Master Settlement. The following table displays the programs funded in A.R.S. § 5-522, the 1996 allocation for each program, and the agency that administers each program.

Program	1996 Allocation	Agency
Healthy Families	$5,000,000	Department of Economic Security
Arizona Health Education System	$4,000,000	Arizona Board of Regents
Teenage Pregnancy Prevention	$3,000,000	Department of Health Services
Disease Control Research	$2,000,000	Disease Control Research Commission
Health Start	$2,000,000	Department of Health Services
Women, Infants, and Children Food Program	$1,000,000	Department of Health Services

The programs listed in A.R.S. § 5-522 were originally funded from the State Lottery Fund but received monies only after numerous other programs were funded. Because the lottery has not generated sufficient revenue to fund all the statutory programs, the public health programs have not received any monies from the State Lottery Fund since their inception in 1996. The proposition changes the funding source to the Arizona Tobacco Litigation Settlement Fund, which receives monies from the Tobacco Litigation Master Settlement.

Proposition 204 also includes an AHCCCS expansion, which shall be funded from the tobacco settlement monies before the public health programs receive monies. If all of the tobacco settlement monies are expended for the AHCCCS expansion, the public health programs would not receive funding. The JLBC Staff estimates there will be sufficient monies from the tobacco settlement to fund the programs in FY 2001. However, A.R.S. § 5-522 specifies that if there are not sufficient monies to fully fund all the public health programs, the funding shall be adjusted on a prorated basis in line with the monies available.

Proposition 204 also requires the Joint Legislative Budget Committee to calculate annual inflation and provide the adjustment amount to the director of AHCCCS, who will then transfer the monies to the agencies that administer the programs. AHCCCS reports it will transfer the monies upon approval of allocations by the Committee.

Representative Knaperek and Senator Solomon requested an Attorney General opinion on whether the amounts should be adjusted for inflation since FY 2000 or since 1996, when the allocations were originally established. The Attorney General opined that the allocations should be adjusted for inflation since 1996. In accordance with this opinion, we have adjusted our calculations to reflect inflation since 1996. We have used the Gross Domestic Product (GDP) price deflator to calculate the inflation adjustment as specified by A.R.S. § 5-522. The GDP deflator growth since 1996 is shown below:

	GDP Price Deflator
FY 1997	1.76%
FY 1998	1.40%
FY 1999	1.50%
FY 2000	1.57%
FY 2001 (estimate)	2.05%

Representative Knaperek and Senator Solomon also requested an opinion on whether the full allocation should be transferred in FY 2001, or whether the amount should be prorated, since the proposition was enacted in November 2000. The Attorney General opined that the entire FY 2001 allocation should be transferred.

RS:BK:ck

DATE: May 22, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – CONSIDER APPROVAL OF TRANSFER OF APPROPRIATIONS

Request

Pursuant to A.R.S. § 35-173(E), the Department of Health Services (DHS) requests Committee approval to transfer appropriations in FY 2001 to increase the Employee Related Expenditures (ERE) line item in the Public Health Program. Specifically, the department requests to transfer $83,500 as shown below:

TRANSFER FROM:		TRANSFER TO:	
Public Health Personal Services	$ 33,500	Public Health ERE	$83,500
Family Health Personal Services	45,000		
Family Health ERE	5,000		
TOTAL	$83,500	TOTAL	$83,500

Recommendation

The JLBC Staff recommends that the Committee approve the agency request.

Analysis

A.R.S. § 35-173(E) requires Committee approval of any transfer to or from Personal Services or ERE if those line items are separately delineated for an agency in the General Appropriation Act. DHS's FY 2001 appropriation includes Personal Services and ERE as separate line items. Thus, DHS is requesting Committee approval of a transfer from the Public Health Personal Services line item and the Family Health Personal Services and ERE line items to the Public Health ERE line item.

(Continued)

DHS is expecting a shortfall of $83,500 its FY 2001 Public Health ERE line item. The current Public Health budget includes $808,800 for ERE. However, DHS estimates it will need a total of $892,300 for ERE in FY 2001. The department requests to transfer monies from the Public Health Personal Services line item, as well as from the Personal Services and ERE line items in the Family Health operating budget to fill in the shortfall.

The JLBC Staff originally recommended supplemental funding to address this issue. However, because the majority of the DHS supplemental request related to Title XIX cost increases, the supplemental was ultimately funded from the Medical Services Stabilization Fund (MSF). Spending from the MSF is restricted to offsetting cost increases for services to medically needy or medically indigent individuals, or for low-income children. Therefore, the remainder of the request (the ERE shortfall), which was not related to Title XIX, could not be funded from the MSF. This amount was also not included in the Supplemental Appropriation Act. The JLBC Staff now recommends the Committee <u>approve</u> the requested transfer.

RS:BK:jb

Arizona Department of Health Services

Office of the Director

1740 W. Adams Street
Phoenix, Arizona 85007-2670
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(602) 542-1062 FAX

JANE DEE HULL, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

RECEIVED
MAY 09 2001
JOINT BUDGET COMMITTEE

MAY 09 2001

The Honorable Laura Knaperek
Chair
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Representative Knaperek:

The Arizona Department of Health Services (ADHS) is requesting that the Joint Legislative Budget Committee consider the following two requests for FY2001 operations at its May 2001 meeting. The first item addresses a projected Public Health Services Division (PHS) Employee Related Expenses (ERE) shortfall for FY2001. The second item addresses a FY 2001 AHCCCS - Children's Rehabilitative Services (CRS) Title XIX Federal spending authority increase to cover 7% Administrative Costs.

The ADHS requests are as follows:

		FY 2001
ITEM 1:		
Transfer from:	PHS Appropriation - 50001 Personal Services (P/S)	$33,500
	Comm & Fam Hlth (CFHS) Appropriation - 40001 P/S	$45,000
	CFHS Appropriation - 40001 ERE	$ 5,000
Transfer to:	PHS Appropriation - 50001 ERE	$83,500

ITEM 2:
Increase AHCCCS - CRS Title XIX Federal spending authority by $975,000 for TF of $20,610,500. The Department has sufficient State funds to match the increased authority.

Thank you for your assistance and consideration with this issue. If you have any questions, please contact Danny Valenzuela, Deputy Director, at 542-1025.

Sincerely,

Catherine R. Eden

Catherine R. Eden
Director

CRE:bb

c: Richard Stavneak, Director, Joint Legislative Budget Committee
Gina Guarascio, Staff, Joint Legislative Budget Committee
Tom Betlach, Director, Governor's Office of Strategic Planning & Budget
Bob Chapko, Staff, Governor's Office of Strategic Planning & Budget
Christine Sato, Staff, Governor's Office of Strategic Planning & Budget
Debi Wells, Policy Advisor, Governor's Office
Danny Valenzuela, Deputy Director, ADHS
Rose Conner, Assistant Director, Division of Public Health Services, ADHS
Peter Vazquez, Acting Administrator, Central Budget Office, ADHS

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

DATE: May 24, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF PLAN TO PROVIDE MATCHING MONIES TO HOPI TRIBE TO OPERATE A TRIBAL CASH ASSISTANCE PROGRAM

Request

Pursuant to a provision in A.R.S. § 46-134, the Department of Economic Security (DES) requests Committee review of a plan to provide matching monies to the Hopi Tribe to operate a tribal cash assistance program.

Recommendation

The JLBC Staff recommends that the Committee give a <u>favorable review</u> of the request. The proposed General Fund amount is consistent with DES' budget. In addition, the proposal would exclude the Hopi clients from calculation of Arizona's work participation rate. Given the potential difficulties of moving clients into jobs on the Hopi reservation, this exclusion will help ensure the state is not subject to financial penalties for failing to meet these federally mandated work participation rates.

Analysis

The 1996 Federal welfare reform legislation (P.L. 104-193) allows Native American tribes to petition the Federal government to operate their own tribal family assistance program. Those tribes with an approved plan may directly receive and administer Temporary Assistance for Needy Families (TANF) Block Grant monies; a state's TANF Block Grant distribution is reduced by the amount of money passed on directly to the tribe. A.R.S. § 46-134(A) 16 states that if a tribal government elects to operate a cash assistance program, the state shall provide matching monies "at a rate that is consistent with the applicable fiscal year budget and that is not more than the state matching rate for the Aid to Families with Dependent Children (AFDC) program as it existed on July 1, 1994." The statute also requires the Joint Legislative Budget Committee to review any plan to provide matching monies.

(Continued)

The Hopi Tribe, DES, and the federal government have been in discussions regarding the Hopi Tribe operating their own program in Arizona since last fall. The Hopi Tribe has already received federal government approval to administer their own program and started administering the program on May 1, 2001. The Tribe is contracting back with DES to determine eligibility, but will have different work and eligibility rules for its members.

DES is proposing to give the tribe 80% of the state GF expenditures for administrative functions and cash benefits in FFY 1994, or approximately $75,900 GF annually. This amount is consistent with DES' budget and is close to what DES is currently expending on services to the tribe. In addition to this GF amount, the Hopi Tribe has requested that approximately $628,700 of TANF Block Grant monies be redirected to them yearly from Arizona's TANF grant. This amount is based on calculations of federal expenditures related to the Hopi Tribe in FFY 1994. We would note that in the old AFDC program, Arizona only had to pay approximately 6.8% of the cash benefit costs (excluding administration) for the Navajo and Hopi Tribes. As a result, the federal government paid a higher share of the cost of the total cash assistance program for the Hopi Tribe. This results in a higher share of TANF Block Grant monies to be passed through to the tribe, and a lower share of General Fund monies.

The combination of the TANF Block Grant and GF monies proposed to be passed through to the tribe on an annual basis, approximately $704,600, reflects a decrease of approximately 2.6% from the amount spent on the tribe in FFY 1994, the year upon which the tribe's TANF Block Grant amount is based, pursuant to federal law. DES estimates that it provided Aid to Families with Dependent Children cash assistance to an average of 206 Hopi cases in FFY 1994. The caseload of Hopi tribal members in June 1999 was 140, or a decrease of 32.0%. (The June 1999 data is the latest data certified by the federal government.) Given this caseload decrease from FFY 1994, we believe a 2.6% total funding decrease from FFY 1994 levels will not adversely affect the tribe. Because the Hopi Tribe began operation of their own program on May 1, 2001, the tribe will receive 1/6 of the $75,900 yearly pass-through in FY 2001, or $12,700, reflecting the 2 months of operation in FY 2001.

We would also note that in addition to the $75,900 GF the plan proposes to pass through to the tribe, the tribe also receives approximately $50,600 TANF yearly from a $1 million TANF appropriation to Native American tribes to assist in their welfare reform efforts. As part of H.B. 2208 from the recently concluded session, the Hopi Tribe will also receive $398,000 TANF in FY 2002 for one-time start-up costs associated with its welfare program.

JLBC Staff recommends the Committee give the proposal a favorable review. The proposed amount of General Fund match is consistent with DES' budget and is identical to the percentage match given to the 4 other Arizona tribes currently operating their own welfare programs. We would note that the amount of TANF Block Grant to be passed through is higher than assumed in DES' budget because current TANF cash benefit expenditures on behalf of the Hopi Tribe is approximately $200,000 less than in FFY 1994, the year in which the TANF pass-through was calculated.

In addition, although the reduction in funding from FFY 1994 is less than the reduction in caseload over the same amount of time, the high unemployment on the reservation, along with the large, rural nature of the reservation may make it more difficult to move clients into jobs. We would also note that if the Hopi Tribe operates their own welfare program, their clients are not calculated in Arizona's work participation rate. This is important because Arizona's TANF Block Grant is subject to financial penalties if the state does not meet these federally-mandated work participation rates. Given the potential difficulties of moving clients into jobs on the Hopi reservation, it may be advantageous to the state to have the Hopi Tribe operate their own program.

RS:SSH:jb

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

Jane Dee Hull
Governor

1717 West Jefferson - P.O. Box 6123
Phoenix, Arizona 85005

John L. Clayton
Director

MAY 17 2001

The Honorable Laura Knaperek
Chairman, Joint Legislative Budget Committee
Arizona House of Representatives
1700 W. Washington
Phoenix, Arizona 85007

Dear Representative Knaperek:

The Department of Economic Security respectfully requests to be placed on the May JLBC meeting agenda to: (a) review the bi-monthly Arizona Works status report pursuant to a provision in Arizona Revised Statute 46-344, (b) review caseload reduction savings for Arizona Works pilot program (c) review of a plan to provide matching monies to the Hopi Tribe to operate a tribal cash assistance program pursuant to a provision in Laws 1997, Chapter 300.

In addition, the Department, in accordance with Laws 2000, Chapter 3 (HB2564), 2nd regular session, is requesting review of its plan to spend approximately $800,000 state share of retained earnings (SSRE) and federal incentives in excess of the appropriated amount in FY 2001. The increase will fund additional costs in the central payments processing special line item associated with misapplied payments and resulting from greater transactions volume.

Karen McLaughlin, Financial Services Administrator, is prepared to discuss these issues in greater detail with Pat Mah and Stefan Shepherd prior to the committee meeting.

Please contact me at 542-5678 if you have any questions.

Sincerely,

John L. Clayton

John L. Clayton

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

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MARION L. PICKENS
CHRISTINE WEASON

DATE: May 24, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON ADDITIONAL FY 2001 CHILD SUPPORT EXPENDITURES

Request

Pursuant to a footnote in the General Appropriation Act, as modified by the supplemental bill (Laws 2001, Chapter 232), the Department of Economic Security (DES) is reporting to the Committee its intent to spend an estimated $900,000 of State Share of Retained Earnings (SSRE) and federal incentives in excess of the appropriated amount in FY 2001 in the Division of Child Support Enforcement (DCSE).

Recommendation

This item is for information only and no Committee action is required. DCSE intends to spend the additional $900,000 to address shortfalls in the Central Payment Processing and County Participation Special Line Items, along with caseload-driven shortfalls in the operating budget. JLBC Staff believes that the proposed use of the monies is an appropriate use of the excess revenues.

Analysis

The General Appropriation Act, as modified by the supplemental bill (Laws 2001, Chapter 232), includes the following footnote:

> "All State Share of Retained Earnings and federal incentives above $8,508,900 in FY 2000 and $8,556,400 in FY 2001 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New Full-Time Equivalent Positions may be authorized with the increased funding. The Division of Child Support Enforcement shall report the intended use of the monies to the Speaker of the House of Representatives, the President of the Senate, the Chairmen of the Senate and House Appropriations Committees and the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting."

(Continued)

SSRE comes from child support owed to the state while the custodial parent received Temporary Assistance for Needy Families (TANF) cash benefits. Federal incentives are currently earned by states based on the level of child support collections, but that is being transitioned to a system in which states earn incentives based on their performance relative to other states on key performance measures such as paternity establishment, current support collection, and cost effectiveness.

DES has notified the parties specified in the footnote that it intends to spend approximately $900,000 of SSRE and federal incentives in excess of the appropriated amount in FY 2001. The excess monies will be used to target three areas:

- Central Payment Processing: $180,000
- County Participation: $280,000
- DCSE operating lump sum appropriation: $440,000.

The first issue is a deficit within the Central Payment Processing (CPP) Special Line Item. Monies in this line item primarily fund payments to the vendor processing child support payments in non-Title-IV-D cases. This line item also funds “misapplied” expenditures. There are three types of “misapplied” expenditures: Non-Sufficient Funds (NSF) losses, custodial parent overpayments, and forgery and fraud. A total of $30,000 was added for the first time to the FY 2001 budget for NSF losses, but the actual losses due to all three types of “misapplied” expenditures was expected to be $450,000 to $500,000. The Federal Government does not allow Federal Funds to be used on these expenditures. Prior to FY 2000, DCSE funded these “misapplied” expenditures using the same SSRE and federal incentive revenue they propose to use this year to help solve this issue. To address this issue, DCSE has already transferred $200,000 from the operating budget to this line item. The additional $180,000, along with some surplus monies for vendor payments, will be used to offset the remaining deficit. The issue of insufficient funding for “misapplied” expenditures has been addressed in the FY 2002 and FY 2003 budget.

The deficit in the County Participation line results from the 6 counties that operate their own child support programs generating more SSRE and incentives than appropriated in FY 2001. The state appropriated $1,200,000 of SSRE and incentives to this line in FY 2001; the department, however, estimates that the 6 counties may earn up to $1,480,000, an increase of $280,000. This issue has been addressed in the FY 2002 and FY 2003 budget by increasing the appropriated amount for SSRE and incentives in this line item, subject to county performance.

Finally, the recommended increase of $440,000 in the operating budget will address two issues. First, a portion of the shortfall in the operating lump sum budget is a result of the transfer of $200,000 to the Central Payment Processing line discussed previously. The other portion of the shortfall results from higher-than-expected caseloads; these higher caseloads have led to increased reimbursements for certain Professional and Outside Services contracts based on caseload or payment volume. The 3 areas with the largest impact are collection agency services, privatized county operations, and costs for service of process.

JLBC Staff believes that the proposed use of the monies is an appropriate use of the excess revenues. The excess revenues will address issues in the Central Payment Processing and County Participation line items in the DCSE cost center that are essentially one-time in nature, since the issues are addressed in the FY 2002 and FY 2003 budget. In addition, the shortfall in the operating budget is the result of contracts tied to caseload or payment volume, factors that are out of the agency’s control.

RS:SSh:jb

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

Jane Dee Hull
Governor

1717 West Jefferson - P.O. Box 6123
Phoenix, Arizona 85005

John L. Clayton
Director

MAY 17 2001

The Honorable Laura Knaperek
Chairman, Joint Legislative Budget Committee
Arizona House of Representatives
1700 W. Washington
Phoenix, Arizona 85007

Dear Representative Knaperek:

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In addition, the Department, in accordance with Laws 2000, Chapter 3 (HB2564), 2nd regular session, is requesting review of its plan to spend approximately $800,000 state share of retained earnings (SSRE) and federal incentives in excess of the appropriated amount in FY 2001. The increase will fund additional costs in the central payments processing special line item associated with misapplied payments and resulting from greater transactions volume.

Karen McLaughlin, Financial Services Administrator, is prepared to discuss these issues in greater detail with Pat Mah and Stefan Shepherd prior to the committee meeting.

Please contact me at 542-5678 if you have any questions.

Sincerely,

John L. Clayton

John L. Clayton

Division of Child Support Enforcement
FY 2001 Expenditure Authority Justification

ISSUE

The Division of Child Support Enforcement (DCSE) requests to invoke the provision footnoted in the General Appropriations Act, which stipulates,

> "All state share of retained earnings and federal incentives above $8,508,900 in FY 2000 and $8,556,400 in FY 2001 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New full-time equivalent positions may be authorized with the increased funding. The Division of Child Support Enforcement shall report the intended use of the monies to the Speaker of the House of Representatives, the President of the Senate, the Chairmen of the Senate and House Appropriations Committees and the directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting."

The Division anticipates exceeding its state share of retained earnings and federal incentive expenditure authority appropriated for Fiscal Year 2001. It is expected that the Division will surpass its state share of retained earnings and federal incentive authority by an anticipated $900,000 by the close of Fiscal Year 2001. Revenue forecasts in DCSE have traditionally been based on historical revenue trends. The projected FY 2001 program revenues will be sufficient in covering these anticipated normal operating expenditures for the year and the Division expects to meet or exceed that projection.

The Division requests additional state share of retained earnings and federal incentive funding authority to be applied to three areas in the DCSE budget for FY 2001: $180,000 in the central payment processing special line, $280,000 in the county participation special line, and $440,000 in DCSE's operating lump sum appropriation. The following conditions occurred in the fiscal year to cause the state share of retained earnings and federal incentive expenditure authority to be exceeded.

CPP SPECIAL LINE AUTHORITY

Expenditures over the appropriated central payment processing (CPP) special line item caused the Division to initiate an appropriation transfer from the operating budget to cover the authority shortfalls. The amount of state share of retained earnings and federal incentive funds that were transferred from the operating budget was $200,000.

The intent of the Joint Legislative Budget Committee (JLBC) in its FY 2000/2001 budget recommendations was to appropriate all funds expended by DCSE. In previous years, three types of expenditures were paid through non-appropriated means and the approach taken by the JLBC eliminated the non-appropriated expenditures.

One of the non-appropriated expenditure categories was called "misapplied" expenditures and the adding of this category of expenditure to the special line item was a key factor in causing the program to exceed its CPP expenditure authority. The amount of authority appropriated to the CPP line included funding for anticipated privatized payment processing costs and an amount of $30,000 for first-time net Non-Sufficient Fund (NSF) losses. The intent of funding and authorizing NSFs in the special line appropriated "misapplieds" for the first time in program history.

However, these NSF losses were just a small portion of the previously non-appropriated monies that the Division expended on "misapplieds" annually. A majority of losses are due to vendor, employer and Division errors and omissions, and occur for many reasons. Misapplied losses (expenditures) were at approximately $490,000 in FY 1998, increased to $603,000 in FY 1999 and $592,000 in FY 2000 due to the centralization of all non-Title IV-D child support collections. Losses for FY 2001 due to NSFs and customer overpayments were expected to only be between $450,000 and $500,000. Misapplied losses are a very small percentage of the total child support collections processed (0.31% in FY 1998, 0.18% in FY 1999, 0.13% in FY 2000, and an estimated 0.10% in FY 2001).

A second expenditure authority concern within the CPP line was the program's underestimate of IV-D payments processed by the private vendor. The number of payments processed for Title IV-D cases is projected to increase by a combined 30% for the 2 year period from FY 1999 to FY 2001. This increase was originally estimated by DCSE to increase at 5% annually in the FY2000/2001 budget request. This increase in IV-D payments combined with a full year of non IV-D processing, caused the private vendor costs (based on a flat rate per payment) to project out to just under $2.2 million in FY 2001. As a result of these two factors, the amount of expenditures in the special line was expected to be at nearly $2.7 million. The total funds appropriated in the special line was $1,946,900 (all but $30,000 was for payment processing), creating a total fund expenditure authority shortfall of over $700,000. Fee revenues in the amount of $757,100 were appropriated in this line and the amount of state share of retained earnings and federal incentives expended will be approximately $180,000 in excess of this appropriated fee amount.

This issue was identified and addressed during the FY 2002/2003 budget session.

COUNTY PARTICIPATION AUTHORITY

Due to changes in the federal and state incentive distribution policies, the amount of federal incentives passed through to participating counties (Clerks of Court, Family Law Commissioners, and County Attorney Offices) was higher than anticipated and more than was appropriated for FY 2000 and FY 2001. The amount of county state share of retained earnings and federal incentives appropriated for FY 2001 was $1,200,000. The amount of county revenues that we expect to be passed through is at $1,480,000 (incentives expected to be $870,000 of that amount), exceeding the expenditure authority by $280,000. This issue was addressed during the FY 2002/2003 budget session.

OPERATING LUMP SUM AUTHORITY

As mentioned previously, the Division was compelled to transfer $200,000 of authority to the central payment processing to cover immediate funding issues for misapplied payments. In addition, volume-driven professional and outside expenditures have caused an appropriation shortfall in the operating lump sum appropriation. The contracts that had the biggest impact on the Division's expenditure authority were those for collection agency services (projected at $250,000 more than FY 2000), privatized county operations (projected $250,000 over FY 2000), and costs for service of process (a projected $90,000 increase). These contracts have a large impact on the Division's performance and also greatly impacted the program's revenue success.

SUMMARY

In summary, the following depicts the estimated state share of retained earnings and federal incentive authority variance for FY 2001:

FY 2001 Appropriations:	
State share of retained earnings and federal incentives:	$8,556,400
Fees:	$ 757,100
Total Expenditure Authority (other funds):	$9,313,500
Forecasted FY 2001 other fund expenditures:	($10,213,500)
Expenditure Authority Variance:	($ 900,000)

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

DATE: May 30, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Rebecca Hecksel, Assistant Fiscal Analyst

SUBJECT: OFFICE OF ADMINISTRATIVE HEARINGS - REVIEW OF FY 2001 SUPPLEMENTAL ADJUSTMENTS FOR NEW COST ALLOCATION PLAN - **REVISED**

Request

This memo updates our May 22, 2001 memo to the committee. The data on which the original cost allocation plan was based has been updated since our previous memo to include FY 2001 actual data. As a result, the JLBC Staff recommends revising the contingency amounts.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to expending $53,900 from the 90/10 boards' contingency amounts based on updated data. This results in changes to each agency's contingency allocation (See Table 1).

(Continued)

Table 1

Agency Contributions to OAH Operating Budget

Agency	Revised FY 2001 Contingency Appropriation	JLBC Original Memo FY 2001 Allocation
Board of Acupuncture Examiners	$ 2,000	$ 0
Board of Appraisal	6,400	2,000
Board of Accountancy	10,800	10,700
Board of Behavioral Health Examiners	3,000	600
Board of Chiropractic Examiners	1,400	600
Board of Cosmetology	1,700	6,700
Board of Dental Examiners	3,000	3,600
Board of Medical Examiners	8,500	17,400
Board of Nursing	6,900	14,400
Board of Nursing Care Examiners	200	0
Board of Podiatry Examiners	2,000	0
Board of Psychologist Examiners	2,600	800
Board of Technical Registration	1,900	1,300
Structural Pest Control Commission	3,500	4,800
Subtotal 90/10 Boards	**$53,900**	**$63,600**
Citizens Clean Elections Commission [1/]	$ 1,800	$ 0
Department of Gaming [1/]	4,300	1,300
Peace Officers Standards and Training [1/2/]	5,400	1,800
State Lottery [1/]	4,400	900
TOTAL	**$69,800**	**$73,900**

1/ The increase will be funded from the agency's base budget.
2/ This contribution comes from a non-appropriated funding source.

Analysis

The original JLBC Staff memo on the OAH cost allocation plan recommended contingency amounts based on FY 2000 caseload data. This was consistent with the estimates in the JLBC budget recommendation. Since that time, however, the Executive has raised a concern regarding several statutory provisions, that when combined, would require OAH charges to be based on the fiscal year in which they are incurred. As a result, the plan would need to be based on FY 2001 data. If FY 2001 data is used, the original cost allocation plan results in some 90/10 boards paying too much and some paying too little.

In order to resolve this issue in FY 2001, the JLBC Staff recommends that the contingency allocations be revised to reflect the updated FY 2001 data. Table 1 above shows the amount each agency would have paid in the original JLBC Staff memo and the revised recommended amount. The total amount to be paid by the 90/10 boards is slightly lower than the original cost allocation plan due to differences between FY 2000 and FY 2001 caseloads.

(Continued)

In addition, the original JLBC Staff memo recommended that the increased 90/10 charges be transferred to the General Fund and the Registrar of Contractors' Fund. The amounts should actually be transferred to the OAH since the equivalent amounts have already been ex-appropriated from the OAH budget by the FY 2001 Supplemental bill.

A statutory change may be needed to permanently correct this issue and the agency plans to seek a change in the next legislative session. As a further solution in FY 2002, the agency plans to sign Interagency Service Agreements with the affected 90/10 boards specifying the original cost allocation plan amounts. The Executive has agreed to this course of action.

RS:RH:ss

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

DATE: May 22, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gretchen Logan, Fiscal Analyst

SUBJECT: ARIZONA STATE RETIREMENT SYSTEM – REVIEW OF INFORMATION TECHNOLOGY PLAN

Request

A footnote in the General Appropriation Act requires the Arizona State Retirement System (ASRS) to report to the Joint Legislative Budget Committee (JLBC) for review prior to the expenditure of the biennial appropriation of $18,000,000 and the hiring of FTE Positions authorized for the agency's Information Technology (IT) Plan. The footnote further requires the agency to provide semi-annual reports to the JLBC regarding the expenditures that have been made and the project tasks that have been completed to date.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the FY 2002 expenditure plan submitted for the agency's IT Plan. The FY 2003 expenditure plan will be submitted for review prior to the beginning of FY 2003.

Analysis

The JLBC Staff included this footnote in the General Appropriation Act, because of the magnitude and importance of the IT Plan for the agency and due to the fact that the IT Plan did not receive approval from the Information Technology Authorization Committee (ITAC) until after the budget development process. At the January 2001 ITAC meeting, the project was approved; however, the agency is required to resubmit their Project Investment Justification (PIJ) to ITAC for further approval if the technology, scope of work, or implementation schedule varies from that outlined in the original PIJ document.

The ASRS IT Plan is meant to address IT inefficiencies that currently exist and to position the agency for the anticipated increase in the longevity of retirees and a substantial increase in the actual number of retirees as the "baby boomer" generation reaches retirement. An additional component of the IT Plan is designed to improve the ASRS Web site. Instead of being only an information resource, the agency plans to create a Web site that provides services to members. For example, the enhanced ASRS Web site will enable members to complete tasks such as viewing their pension payment history, scheduling appointments with retirement advisors, and use an on-line benefit estimate calculator. Finally, the IT Plan includes upgrades for the agency's telecommunications system, which is the primary point of contact for ASRS members.

The IT Plan will address inefficiencies due to approximately 1/3 of ASRS's IT systems having been converted to an Oracle environment with the remaining systems operating in an older COBOL environment. An Oracle environment is considered more flexible than a COBOL environment and allows the agency to make modifications and updates to the system in a more timely manner than is possible in a COBOL environment. In addition, conversion of all IT systems to Oracle will eliminate data redundancy, increase data integrity, streamline operational processing, and allow the agency to collect additional information that will enhance the service provided to ASRS members. The functions that have already been converted to Oracle are: 1) contact tracking; 2) member demographics; 3) employer demographics; 4) contribution reporting; 5) accounts receivable ledger; and, 6) health insurance. The functions that will be converted with the funding provided are: 1) member statements; 2) service purchase cost letters; 3) fiscal year-end processing; 4) calendar year-end processing; 5) forfeitures; 6) 13th month check distributing investment earnings; 7) contribution posting; 8) pension payroll; 9) benefit estimates; 10) new retiree processing; 11) survivor benefits for retired and non-retired members; and, 12) determination of payment of excess benefits.

The real impetus for the changes proposed in the IT Plan is the projected increase in the longevity of retirees and the anticipated increase in the actual number of retirees as the "baby boomer" generation reaches retirement. For example, ASRS currently has approximately 56,000 retirees; however, the agency anticipates the number of retirees to increase to approximately 98,000, or 75%, by 2010. The agency estimates that if the IT Plan were not implemented the agency would need, at a minimum, 110 FTEs to achieve efficiencies somewhat similar to what will be achieved from completing the IT Plan. Though, without the IT Plan, many processes will remain manual, and therefore, inefficient. For example, with the current manual process an estimate of retirement benefits takes staff approximately 40 minutes to complete. However, with the automation efficiencies introduced by the IT Plan, the same retirement benefit estimate would take staff approximately 10 minutes.

ASRS has submitted an expenditure plan for the $9,000,000 allocated in FY 2002 for the IT Plan, which includes 12 FTE Positions. These expenditures are in line with the cost estimates included in the PIJ, which were determined reasonable by GITA and ITAC as part of their approval process. The table below details the components of the $9,000,000 allocated in FY 2002.

ASRS IT PLAN

FY 2002 Expenditure Plan

FTE Positions	12
Personal Services & ERE	$ 798,600
Professional & Outside Services	4,253,000
Travel	10,400
Other Operating Expenditures	407,900
Equipment	3,530,100
TOTAL	**$9,000,000**

Current senior ASRS staff from each service area will be assigned to the IT Plan to ensure that the programming in the new Oracle environment fully meets the agency's operational and customer needs. Because consultants will be performing much of the business application development in Oracle, in-house IT staff assigned to the IT Plan will enhance the knowledge transfer process from the consultants, which will reduce the risks associated with maintaining the Oracle system. The ASRS IT Plan includes approximately 27 consultants that will provide expertise in building business applications using Oracle, and therefore, will help ensure that the Oracle applications are completed in a timely manner. In addition to hiring additional in-house and consulting staff, in FY 2002 the agency plans to purchase and upgrade the hardware, software, and telecommunications equipment required to implement the IT Plan. Finally, there are a number of internal planning tasks that will need to be completed in FY 2002, such as issuing and awarding the required Requests For Proposals (RFPs), continued application development planning, reengineering and automated workflow analysis, and orientation and training functions.

The FY 2002 expenditure plan for the ASRS IT Plan is consistent with the expenditures outlined in the PIJ document approved by ITAC, and therefore, the JLBC recommends a favorable review.

RS/GL:ck

ARIZONA STATE RETIREMENT SYSTEM

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LeRoy Gilbertson
Director

April 20, 2001

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JOINT BUDGET
COMMITTEE

The Honorable Laura Knaperek
Chair, Joint Legislative Budget Committee
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

Dear Chairman Knaperek:

RE: JLBC Review of Arizona State Retirement System IT Expenditure Plan

Pursuant to the JLBC footnote in the General Appropriations Bill, for the FY02/03 Arizona State Retirement System (ASRS) budget, I am requesting review at the May 2000 Joint Legislative Budget Committee meeting to present the ASRS Information Technology (IT) Expenditure Plan for FY02. The footnote specified that the JLBC staff review and approve the ASRS IT appropriation subsequent to ITAC approval. The language of the footnote is as follows:

> **Before the expenditure of the $18,000.000 biennial appropriation and the hiring of FTE positions appropriated for the agency's information technology plan, the retirement system shall present an expenditure plan to the Joint Legislative Budget Committee Staff for review. The retirement system shall include the approval of the Project Investment Justification document by the Information Technology Authorization Committee as part of its submission to the Joint Legislative Budget Committee staff. On review, the agency shall provide semi-annual reports to the Joint Legislative Budget Committee staff regarding the expenditures and project tasks completed to date.**

The Information Technology Authorization committee approved the ASRS Information Technology Plan on January 19, 2001. Attached please find a copy of the ITAC approval.

I have also attached the ASRS IT Expenditure Plan for FY02. I will submit the expenditure plan for FY03 next spring. The FY02 Plan provides expenditures from the Project Investment Justification document in the areas of IT/User FTE and Employee Related Expenditures, Professional and Outside Services, Travel, Other Operating and Equipment.

Your approval of the FY02 Expenditure Plan is very much appreciated.

Sincerely,

LeRoy Gilbertson

LeRoy Gilbertson
Director

LG:gkn
Enclosures

S:\CAD\LEROYG\Correspondence\2001\IT Expenditure PlanJLBC.doc

JANE DEE HULL
GOVERNOR

GITA

ARTHUR D. RANNEY
DIRECTOR

STATE OF ARIZONA
GOVERNMENT INFORMATION TECHNOLOGY AGENCY
411 North Central Avenue, Suite 770
Phoenix, AZ 85004

January 19, 2001

Mr. LeRoy Gilbertson
Executive Director
Arizona State Retirement System
3300 North Central Avenue
Phoenix AZ 85067

Dear Mr. Gilbertson:

The Information Technology Authorization Committee (ITAC) met today to consider the ***"Public Employees Retirement Information System (PERIS),"*** project. ITAC voted in the affirmative for **Approval with Conditions** as follows:

> As a result of the Request For Proposal process, should the technology, scope of work or implementation schedule vary from the PIJ, ASRS must amend the PIJ and resubmit it to GITA for review and ITAC for approval prior to the expenditure of additional State funds.

You may proceed to secure additional approvals, as required, from the Joint Legislative Budget Committee, the Office of Strategic Planning and Budgeting, and the State Procurement Office.

Sincerely,

Arthur D Ranney

Arthur D. Ranney
Director

ADR:mc

cc: Kent Smith, RT
Tom Betlach, OSPB
Lorenzo Martinez, JLBC
Robert Pierson, SPO

GITA Project RT01001

Phone: (602) 340-8538 ❖ Fax: (602) 340-9044
Web: http://www.gita.state.az.us

ASRS IT PLAN
FY2002

FY2002:	**Completed**		
Expenditures	Y or N		
FTEs			12
Personal Services		$	798,600
P&O		$	4,253,044
Travel		$	10,374
EEO		$	407,945
Equipment		$	3,530,037
Total		$	9,000,000

Objectives:

Staffing	Appoint Project Team (3 FTE) Hire new FTEs: (9) Appoint Internal Advisor Consultant Appoint Project Director Hire contractors
Equipment	Purchase/update required software and hardware Purchase equipment for new FTEs and consultants Purchase and install telecommunications equipment enhancements

Internal Planning	Issue and Award RFPs:
	   Internet Applications Development Tool
	   Independent Advisory Consultant
	   Applications Development
	Continue Applications Development
	   Review of CA electronic record formats
	   Convert non-retired account maintenance
	   Long Term Disablitiy
	Continue Joint Application Development (JAD) work processes to include:
	   Current Ledger
	   Benefits Payable
	   General Ledger
	   Fiscal Year End Processing
	   Benefits Estimates
	Orientation and Training
	Continue Reengineering and Automated Workflow
	Continue Internet projects
	Continue network/phone projects

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: May 31, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Fiscal Analyst

SUBJECT: ARIZONA COMMISSION ON THE ARTS – REVIEW OF THE ARIZONA ARTS ENDOWMENT FUND AND PRIVATE CONTRIBUTIONS

Request

Pursuant to A.R.S. § 41-986(F), the Committee shall annually review the Arizona Commission on the Arts' records regarding private monies that are donated for use in conjunction with public monies from the Arizona Arts Endowment Fund.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the agency's report.

Analysis

The Arizona Arts Endowment Fund was created by Laws 1996, Chapter 186. The legislation was intended to encourage the establishment of arts endowments supported by public and private funds. The public component of the legislation began in FY 1998 and consists of an annual appropriation of up to $2 million from FY 1998 through FY 2007 to the Arizona Arts Endowment Fund. These monies are then invested by the State Treasurer, who distributes the interest income to the Arts Commission to fund arts programs across the state. To date the fund has earned approximately $654,500 in interest, $192,900 of which has been expended in the form of grants.

(Continued)

The private component of the legislation allows the Arts Commission to partner with non-profits such that the non-profit may receive, invest and manage private donations 1) to its own endowment, 2) to the endowment of other arts organizations or 3) to the non-designated portion of the Arizona Arts Endowment Fund. Donors who wish to support endowments of a specific arts organization, such as the Phoenix Symphony, may do so. Such donations are administered by the individual arts organization, but must conform to the rules adopted by the Arts Commission to qualify as a contribution to the Arizona Arts Endowment Fund. Several smaller arts organizations have arranged for the Arizona Community Foundation to administer endowments on their behalf. For example, donors who wish to endow the Orpheum Theatre may do so via a designated fund administered by the Arizona Community Foundation. Donors who wish to endow the arts generally, without designating a particular arts organization, may do so by giving to the private non-designated portion of the Arizona Arts Endowment Fund. Such donations are invested and managed by the Arizona Community Foundation and not commingled with the public monies. The Arts Commission receives the interest income from these donations and distributes the earnings according to its rules.

The table below summarizes private contributions that have been collected since the establishment of the Arizona Arts Endowment Fund. As of December 2000, private pledged contributions total approximately $22 million. The public monies appropriated to the Arizona Arts Endowment Fund total $6 million for FY 1998, FY 1999, and FY 2000 with another $2 million in July 2001 for FY 2001. There is no statutory requirement that private donations match public appropriations for the Arizona Arts Endowment Fund.

Private Donations to the Arizona Arts Endowment Fund, by Calendar Year

	1996*	1997	1998	1999	2000	Total
Designated Donations	$ 1,682,685	$2,973,245	$5,799,633	$3,887,349	$6,559,045	$20,901,957
Non-Designated Donations	0	76,481	545,336	475,921	58,731	1,156,469
Total Private Donations	$ 1,682,685	$ 3,049,726	$6,344,969	$4,363,270	$6,617,776	$22,058,426

*The 1996 reporting period begins on April 15 when the legislation was passed.

Although private donors have pledged approximately $22 million to arts endowments since 1996, the agency estimates that only about 40% of that total has actually been transferred from the donor to the recipient. Federal accounting laws require non-profit organizations to count all money in the year it was pledged, even if the pledged amount is to be transferred in several allotments over future years. This law allows donors to count their pledge as a tax deduction all in one year.

The impact of the Arizona Arts Endowment Fund may also be measured by the increase in the number of arts endowments. Prior to the legislation only 2 of the participating arts organizations had endowments, now 17 of them do. While it is clear that private support of arts endowments has grown significantly, it is difficult to determine how much of the growth is attributable to this legislation. Nevertheless, the records indicate that the Arizona Arts Endowment Fund is technically operating as the Legislature intended.

RS/KH:ck

Arizona Commission on the Arts
the state arts agency

417 West Roosevelt Street
Phoenix, Arizona 85003-1326

phone: 602/255-5882
fax: 602/256-0282
e-mail: general@ArizonaArts.org
website: http://az.arts.asu.edu/artscomm

an equal opportunity agency

March 27, 2001

PM 1 2 3 4 5 6 7 8 9 10 11 12 AM
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MAR 30 2001
JOINT BUDGET COMMITTEE
AM 1 2 3 4 5 6 7 8 9 10 11 12 PM

Representative Laura Knaperek
House of Representatives
1700 West Washington
Phoenix, AZ 85007

Dear Representative Knaperek:

This letter is to report to the Joint Legislative Budget Committee regarding funds raised for arts endowments in Arizona in compliance with the requirements that established the Arizona arts endowment fund in April 1996, A.R.S. Number 41-986(F).

We have just completed a thorough verification of all contributions to endowments by arts organizations. There are some variances between these figures and the ones reported last year. Those variances are primarily in the reports of one organization. The revised accurate deposits are reflected in this report.

We request that this report be included on the agenda of the JLBC when it is convenient.

Sincerely,

Shelley M. Cohn
Executive Director

Cc: Senate President Randall Gnant
Senator Ruth Solomon
Speaker of the House Jim Weiers
Richard Stavneak
Indya Kincannon, Budget Analyst, JLBC
Tom Betlach, Director, OSPB
Christine Sato, Budget Analyst, OSPB

ARIZONA ARTSHARE

Summary of Endowment Contributions by Calendar Year

Arts Organization	1996*	1997	1998	1999	2000	Total
Arizona Opera	11,642	7,207	25,350	5,070	69,376	118,645
Ballet Arizona	50,000	50,000	--	--	--	100,000
Flagstaff Symphony	--	--	16,085	--	--	16,085
Heard Museum	329,591	1,880	817	2,742	35,845	370,875
Museum of Northern Arizona	--	15,000	--	--	1,165,645	1,180,645
Phippen Museum	--	--	--	--	420,000	420,000
Phoenix Art Museum	549,000	1,116,635	718,230	559,912	122,244	3,066,021
Phoenix Boys Choir	--	--	818,673	--	143,057	961,730
Phoenix Symphony	30,000	--	3,125,000	1,311,680	3,363,968	7,830,648
Scottsdale Cultural Council	275,651	375,390	1,008,277	1,661,490	1,111,585	4,432,393
Tucson Museum of Art	5,500	33,131	42,109	27,910	32,298	140,948
Tucson Symphony	23,455	316,380	41,500	223,500	95,027	699,862
Subtotal:	**1,274,839**	**1,915,623**	**5,796,041**	**3,792,304**	**6,559,045**	**19,337,852**
Community Foundations	**1996***	**1997**	**1998**	**1999**	**2000**	**Total**
Arizona Community Foundation (Orpheum Theatre, Cross Cultural Dance Resources, Bead Museum, Pickard Arts and Culture Fund)	407,846	957,622	3,592	95,045	--	1,464,105
Community Foundation for Southern Arizona	--	100,000	--	--	--	100,000
Subtotal:	**407,846**	**1,057,622**	**3,592**	**95,045**	**0**	**1,564,105**
Arizona ArtShare (non-designated)		**76,481**	**545,336**	**475,921**	**58,731 ****	**1,156,469**
TOTALS:	**1,682,685**	**3,049,726**	**6,344,969**	**4,363,270**	**6,617,776**	**22,058,426**

*1996 reporting period is from April 15 to December 31

** through December 1, 2000

03/26/01

STATE OF ARIZONA

Joint Legislative Budget Committee

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PHOENIX, ARIZONA 85007

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

DATE: May 24, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

Request

The JLBC has received a number of statutorily required reports during the past month. Each report is briefly described below.

Recommendation

The reports are for information only and no Committee action is required. We do not intend to discuss the reports at the JLBC meeting unless a member has a question. If any member knows in advance that they will have questions, we would appreciate knowing that before the meeting so as to ensure the relevant agency is available.

Reports

1) <u>Blue Ribbon Task Force on Effluent Reuse - Initial Report</u>

The Blue Ribbon Task Force on Effluent Reuse was required to report by December 1, 2000 on its initial recommendations for additional areas for study of effluent reuse, including cost estimates and time frames for these studies. The Blue Ribbon Task Force on Effluent Reuse was created by Laws 2000, Chapter 192 to address several issues regarding treated effluent. Effluent is water that is treated after use in order to be reused for another purpose. The Task Force is comprised of representatives from the Arizona Department of Environmental Quality and the Arizona Department of Water Resources, water resource experts from private industry, and 6 members of the Legislature. There was not a quorum at the December Task Force meeting. Therefore, the items included in the report represent only the recommendations of the members present and not a formal recommendation of the task force. In general, the additional areas for study identified in the report include the state's role in increasing effluent reuse, enhancement of effluent use in rural settings, potential costs of effluent reuse, and other related issues.

(Continued)

The report does not address the costs or time requirements for addressing these issues. Based on conversations with Senate Research Staff, the Task Force does not believe that additional work is needed for any of the items. However, if at a later date additional time or cost is associated with studying one of the items, the JLBC Staff recommends that these factors be submitted to the Committee in a supplementary report.

2) Department of Health Services - Report on AIDS Drug Assistance Program

Executive Orders 97-10 and 98-3 require the Department of Health Services to report on its monthly expenditures for the AIDS Drug Assistance Program (ADAP). We received the report for January, February, and March 2001 on May 8. ADAP is a program that provides AIDS medications for individuals with incomes at 300% or less of the federal poverty level who are not eligible for medication programs through other insurance. The program receives federal monies in addition to $1 million annually from the Medically Needy Account of the Tobacco Tax and Health Care Fund. The ADAP program served 794 clients in January, 715 clients in February, and 797 clients in March. The average amount spent per person was $740 in January, $718 in February, and $733 in March. In the three months for which data was reported, on average, 68-70% of the clients served lived in Maricopa and Pinal Counties and 20-22% of the clients served lived in Pima County.

RS:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

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MARION L. PICKENS
CHRISTINE WEASON

DATE: May 30, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Patrick Fearon, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REPORT ON ENERGY EFFICIENCY REQUIREMENTS FOR SCHOOL CONSTRUCTION AND REPAIR

Request

The School Facilities Board (SFB) wishes to submit a report on its implementation of the Governor's March 3, 2001 executive order on energy efficiency in Arizona's public schools. This report has been requested by Representative Knaparek.

Recommendation

This item is for information only and does not require Committee action.

Analysis

Executive Order 2001-03 ("Energy Efficiency in Schools), developed after consultation with the SFB and Executive Director Geiger, requires that "all public schools in the State of Arizona shall be designed and constructed in a manner to reduce energy consumption and create more energy efficient facilities without adversely affecting the quality of school design and construction . . . ." (see Attachment 1). The Governor has indicated that the purpose of the Executive Order is to improve energy use in Arizona in order to avoid economic harms from potential electricity shortages such as those suffered by California.

In its letter to the Committee (see Attachment 2), the SFB has indicated that in response to the Executive Order it has amended its building adequacy guidelines and adopted new funding policies. The amended guidelines require the addition of energy conservation upgrades to new school facilities and school renovations if the additional cost of those upgrades can be recovered within 8 years. These guidelines affect the New School Facilities Fund and the Deficiencies Correction Fund, as described below.

New School Facilities Fund. The New School Facilities Fund is established by A.R.S. § 15-2041 in order to provide funding for school districts to construct new K-12 school facilities. Pursuant to A.R.S. § 15-2002, funding for the New School Facilities Fund is determined not by legislative

(Continued)

appropriation, but by an annual SFB instruction to the State Treasurer regarding required transfers of Transaction Privilege Tax (TPT) revenues into the fund. The amounts allocated to each school district are determined by a statutory formula based primarily on the district's projected enrollment, square footage per pupil factors, and square footage costs prescribed by statute and annually updated by the Committee. (The current costs range from $97.43 per square foot for K-6 facilities to $119.09 per square foot for 9-12 facilities.) The amount allocated to each school district may be adjusted to account for geographic factors, nonstandard grade configurations, and the SFB's building adequacy standards (as amended by the new energy conservation measures).

Because the design of new schools is the responsibility of school districts, the SFB has initiated an education program to inform school districts, architects, and engineers about its new energy efficiency guidelines. The SFB believes that all future school designs will incorporate upgrades for energy conservation, but to date no school districts have requested additional funding for such upgrades.

The SFB has adopted a policy that it will fund energy conservation upgrades at new schools if the upgrades are reasonable and meet the 8-year payback period encompassed in the amended adequacy guidelines. However, the SFB policy will provide additional funds for the incremental costs of energy conservation upgrades only if the standard square footage formula funding would not be sufficient. The SFB believes that most of the energy conservation upgrades could be funded from the current square footage formula monies. At the time when the Executive Order was released, Executive Director Geiger told the press that the energy conservation upgrades might add an additional 2-8% to the cost of new school construction. Based on the SFB's estimate that it will need a TPT transfer of $260,000,000 to the New School Facilities Fund in FY 2003, this might imply total additional costs of $5,200,000 to $20,800,000 for that year. The SFB has indicated, however, that it currently is unable to present an official estimate of the total incremental cost or the amount that would not be covered by the current square footage formula funding. The SFB therefore can not estimate how much additional funding it would need to request from the State Treasurer, if any, for the New School Facilities Fund in any given year.

Despite the requirement for an 8-year payback period, none of the future energy cost savings will accrue to the State because state funding for school districts' maintenance and operations is based on a formula that is driven primarily by student counts and transportation mileage, not actual costs. The future energy cost savings will accrue primarily to the local school districts, which should have lower energy costs with no corresponding reduction in state maintenance and operations funds. In addition, local taxpayers in some districts may benefit from a reduction in "excess utility" costs. Pursuant to A.R.S. § 15-910, school districts may increase their budget beyond the statutory limit to pay for certain utility costs, including energy costs. These excess utility costs are funded by local property taxes. Reductions in energy costs could reduce or limit the increase in these excess utility costs and the impact on local taxpayers.

Deficiencies Correction Fund. The Deficiencies Correction Fund is established by A.R.S. § 15-2021 to correct existing square footage and quality deficiencies at Arizona's public schools. Adequacy requirements are defined in A.R.S. § 15-2011 and in the related guidelines adopted by the SFB. Pursuant to A.R.S. § 15-2002, funding for the Deficiencies Correction Fund is determined not by legislative appropriation, but by an annual SFB instruction to the State Treasurer regarding required transfers of TPT revenues into the fund.

The design of deficiencies correction projects is controlled by local school districts, but the SFB has the right to approve all designs and value engineer any design or upgrade the designs for energy efficiency. It will be the responsibility of the SFB's project manager to add energy conservation upgrades to a design if the upgrade can be certified by an engineer that it meets the 8-year payback period. The SFB provides full funding of deficiencies correction projects, including the cost of any energy conservation upgrades. However, the SFB can not currently estimate the total incremental cost of energy conservation upgrades statewide because most approved work is still in the design phase.

(Continued)

As noted above, the ongoing maintenance and operations savings from energy measures funded from the Deficiencies Correction Fund will not result in state savings. The savings will instead accrue to local school districts, and in the case of excess utilities, to local taxpayers.

RS/PF:jb
Attachments

Arizona Administrative Register
Governor's Executive Orders/Proclamations

EXECUTIVE ORDERS, PROCLAMATIONS OF GENERAL APPLICABILITY, AND STATEMENTS ISSUED BY THE GOVERNOR PURSUANT TO A.R.S. § 41-1013(B)(3)

The Administrative Procedure Act (APA) requires the full-text publication of all Executive Orders and Proclamations of General Applicability issued by the Governor. In addition, the *Register* shall include each statement filed by the Governor in granting a commutation, pardon or reprieve, or stay or suspension of execution where a sentence of death is imposed.

EXECUTIVE ORDER 2001-03
ENERGY EFFICIENCY IN SCHOOLS

WHEREAS, the citizens of Arizona will be best served by conserving the state's precious energy resources to ensure the state's capability to provide services and protect the health, welfare and safety of the state's residents; and

WHEREAS, Students FIRST legislation provides for state funding of all new schools to ensure the construction of safe, sound and educationally effective facilities for all students and the faculties that serve them; and

WHEREAS, it is in the best interest of the state's taxpayers to reduce the cost of energy consumption in the state's public school districts wherever and whenever practicable; and

WHEREAS, it is beneficial to our schools to invest in energy efficient systems which will reduce utility costs and increase the funds available for resources in the classroom; and

WHEREAS, after consultation with the School Facilities Board and its Executive Director, I have determined that the School Facilities Board can effectively employ energy management methods in our schools;

NOW, THEREFORE, I, Jane Dee Hull, do hereby order that from this date forward all public schools in the State of Arizona shall be designed and constructed in a manner to reduce energy consumption and create more energy efficient facilities without adversely affecting the quality of school design and construction by providing necessary funds to schools in accordance with School Facilities Board policies and guidelines and this order.

IN WITNESS WHEREOF, I have hereunto set my hand and caused to be affixed the Great Seal of the State of Arizona.

Jane Dee Hull
Governor

DONE at the Capitol in Phoenix on this Third Day of March Two Thousand One and of the Independence of the United States of America the Two Hundred and Twenty-fifth.

ATTEST:
Betsey Bayless
Secretary of State

ATTACHMENT 2

STATE OF ARIZONA
SCHOOL FACILITIES BOARD

Governor of Arizona
Jane Dee Hull

Executive Director
Dr. Philip E. Geiger

May 24, 2001

RECEIVED
MAY 29 2001
JOINT BUDGET COMMITTEE

The Honorable Laura Knaperek
Chairman
Joint Legislative Budget Committee

The Honorable Ruth Solomon
Vice Chairman
Joint Legislative Budget Committee

Dear Representative Knaperek and Senator Solomon,

The Joint Legislative Budget Committee has requested the School Facilities Board to submit a report on the implementation of the Governor's March 3, 2001 Executive Order (#2001-3) Energy Efficiency in Schools. This letter is in response to that request.

Adopted Policies

The Executive Order states that "all public schools... shall be designed and constructed in a manner to reduce energy consumption and create more energy efficient facilities..." In response to the Executive Order, the School Facilities Board added the following paragraph to the Adopted Building Adequacy Guidelines:

> New School Facility Construction and, as required, building renovations in existing schools shall include, where reasonable, energy conservation upgrades that will provide dollar savings in excess of the cost of the upgrade within eight-years of the installation.

Further, the School Facilities Board adopted policies that would allow the Board to provide monies above the New School Facilities formula to add energy conservation upgrades if the upgrade met the conditions outlined in the Minimum Guideline.

Implementation

For new schools, since the school districts control the design of the school, the School Facilities Board staff has begun an education period with school districts to inform them of the available energy management tools. Staff also held a conference for architects and engineers to explain the Board policy. Through this process, the Board believes all future school designs will be upgraded for energy

Table 1

Agency Contributions to OAH Operating Budget

Agency	FY 2001 Original Contributions	FY 2001 Increase [1/]	FY 2001 Total Contribution
Board of Appraisal	$ 1,400	$ 2,000	$ 3,400
Board of Accountancy	3,100	10,700	13,800
Board of Behavioral Health Examiners	200	600	800
Board of Chiropractic Examiners	400	600	1,000
Board of Cosmetology	1,400	6,700	8,100
Board of Dental Examiners	1,700	3,600	5,300
Board of Medical Examiners	8,900	17,400	26,300
Board of Naturopathic Physicians Examiners	300	700	1,000
Board of Nursing	3,800	14,400	18,200
Board of Psychologist Examiners	0	800	800
Board of Technical Registration	900	1,300	2,200
Structural Pest Control Commission	2,800	4,800	7,600
Subtotal 90/10 Boards	**$24,900**	**$63,600**	**$88,500**
Department of Gaming [2/]	200	1,300	1,500
Peace Officers Standards and Training [2/3/]	4,500	8,100	12,600
State Lottery [2/]	500	900	1,400
TOTAL	**$ 30,100**	**$ 73,900**	**$ 104,000**
General Fund	**$1,251,000**	**$(32,400)**	**$1,218,600**
Registrar of Contractors	**$ 852,000**	**$(41,500)**	**$ 810,500**

1/ These amounts will be swept from each agency's fund and $32,400 will be deposited into the General Fund and $41,500 will be deposited into the ROC Fund.
2/ The increase will be funded from the agency's base budget.
3/ This contribution comes from a non-appropriated funding source.

Analysis

During the past session, the JLBC Staff recommended the implementation of a new OAH cost allocation plan in which all agencies that utilize the services of OAH are charged based on the actual number of Administrative Law Judge hours used in the previous 2-years' caseload. Previously, only General Fund agencies and the ROC received an appropriation for OAH services and all other agencies were billed on a per case basis. The per case rate did not reflect the actual cost of OAH services and resulted in the General Fund and the ROC Fund subsidizing all other agencies that used OAH services. The new plan is intended to ensure each agency pays for actual usage and the FY 2002 and FY 2003 budget reflects an appropriation for all agencies that utilize the services of the OAH. This results in increased charges for some agencies (primarily 90/10 boards) and a decreased contribution from the General Fund and the ROC Fund. The overall funding change for OAH is $0.

It was the intent of the Legislature that the cost allocation plan be implemented in FY 2001. In Table 1, the column labeled "FY 2001 Original Contribution" shows the amounts included in each agency's base appropriation. The increased charges due to the new plan are shown in the column labeled "FY 2001 Increase." Rather than recommending a supplemental increase for each of the 90/10 boards, the JLBC recommended that each board utilize the contingency

(Continued)

appropriation given in the General Appropriation Act for the increased charges. The JLBC recommends that the amounts that are due from the 90/10 boards be transferred directly from each board's fund to the General Fund and the ROC Fund for reimbursement.

In total, $63,600 will be transferred from the 90/10 contingency amounts. In addition, $10,300 will need to be transferred from the base budgets of the Department of Gaming, Peace Officers Standards and Training, and the State Lottery, for a total transfer of $73,900. Of this amount, $32,400 will be deposited in the General Fund and $41,500 will be deposited in the ROC Fund to reimburse the funds for overpayment. Thus, with the increased funding from the 90/10 contingency amounts, the new OAH cost allocation plan will be fully implemented. It is the intent of this plan that each agency will pay the total charge listed in the "FY 2001 Total Contribution" column for OAH services. As mentioned above, this amount is fully funded through the combination of what was already included in the agencies' base budgets and the contingency amounts.

RS:RH:ss

STATE OF ARIZONA

Joint Legislative Budget Committee

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

DATE: May 30, 2001

TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Rebecca Hecksel, Assistant Fiscal Analyst RH

SUBJECT: OFFICE OF ADMINISTRATIVE HEARINGS - REVIEW OF FY 2001 SUPPLEMENTAL ADJUSTMENTS FOR NEW COST ALLOCATION PLAN - **REVISED**

Request

This memo updates our May 22, 2001 memo to the committee. The data on which the original cost allocation plan was based has been updated since our previous memo to include FY 2001 actual data. As a result, the JLBC Staff recommends revising the contingency amounts.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to expending $53,900 from the 90/10 boards' contingency amounts based on updated data. This results in changes to each agency's contingency allocation (See Table 1).

(Continued)

Table 1

Agency Contributions to OAH Operating Budget

Agency	Revised FY 2001 Contingency Appropriation	JLBC Original Memo FY 2001 Allocation
Board of Acupuncture Examiners	$ 2,000	$ 0
Board of Appraisal	6,400	2,000
Board of Accountancy	10,800	10,700
Board of Behavioral Health Examiners	3,000	600
Board of Chiropractic Examiners	1,400	600
Board of Cosmetology	1,700	6,700
Board of Dental Examiners	3,000	3,600
Board of Medical Examiners	8,500	17,400
Board of Nursing	6,900	14,400
Board of Nursing Care Examiners	200	0
Board of Podiatry Examiners	2,000	0
Board of Psychologist Examiners	2,600	800
Board of Technical Registration	1,900	1,300
Structural Pest Control Commission	3,500	4,800
Subtotal 90/10 Boards	**$53,900**	**$63,600**
Citizens Clean Elections Commission 1/	$ 1,800	$ 0
Department of Gaming 1/	4,300	1,300
Peace Officers Standards and Training 1/2/	5,400	1,800
State Lottery 1/	4,400	900
TOTAL	**$69,800**	**$73,900**

1/ The increase will be funded from the agency's base budget.
3/ This contribution comes from a non-appropriated funding source.

Analysis

The original JLBC Staff memo on the OAH cost allocation plan recommended contingency amounts based on FY 2000 caseload data. This was consistent with the estimates in the JLBC budget recommendation. Since that time, however, the Executive has raised a concern regarding several statutory provisions, that when combined, would require OAH charges to be based on the fiscal year in which they are incurred. As a result, the plan would need to be based on FY 2001 data. If FY 2001 data is used, the original cost allocation plan results in some 90/10 boards paying too much and some paying too little.

In order to resolve this issue in FY 2001, the JLBC Staff recommends that the contingency allocations be revised to reflect the updated FY 2001 data. Table 1 above shows the amount each agency would have paid in the original JLBC Staff memo and the revised recommended amount. The total amount to be paid by the 90/10 boards is slightly lower than the original cost allocation plan due to differences between FY 2000 and FY 2001 caseloads.

(Continued)

In addition, the original JLBC Staff memo recommended that the increased 90/10 charges be transferred to the General Fund and the Registrar of Contractors' Fund. The amounts should actually be transferred to the OAH since the equivalent amounts have already been ex-appropriated from the OAH budget by the FY 2001 Supplemental bill.

A statutory change may be needed to permanently correct this issue and the agency plans to seek a change in the next legislative session. As a further solution in FY 2002, the agency plans to sign Interagency Service Agreements with the affected 90/10 boards specifying the original cost allocation plan amounts. The Executive has agreed to this course of action.

RS:RH:ss