STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
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MARSHA ARZBERGER
TIMOTHY S. BEE
RUSSELL W. "RUSTY" BOWERS
JACK A. BROWN
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HOUSE OF
REPRESENTATIVES

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CHRISTINE WEASON

MEETING NOTICE

DATE: Thursday, June 28, 2001

TIME: 1:30 p.m.

PLACE: HOUSE HEARING ROOM 4

TENTATIVE AGENDA

- Call to Order

- Approval of Minutes of May 31, 2001

- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

- DIRECTOR'S REPORT (if necessary).

1. JOINT LEGISLATIVE BUDGET COMMITTEE STAFF - Consider Approval of a Revised Classroom Site Fund Per Pupil Amount.

2. JOINT LEGISLATIVE BUDGET COMMITTEE STAFF - Consider Approval of a Budget Stabilization Fund Repayment Schedule.

3. DEPARTMENT OF HEALTH SERVICES
   A. Review of Behavioral Health Capitation Rate Changes.
   B. Review of Expenditure Plan for Arnold v. Sarn Special Line Item.

4. DEPARTMENT OF ECONOMIC SECURITY
   A. Background Information on Arizona Works Program and Bimonthly Report Update.
   B. Determine Arizona Works Caseload Reduction Savings.

5. ARIZONA HISTORICAL SOCIETY - Consider Approval of Transfer of Appropriations.

6. ARIZONA PIONEERS' HOME - Consider Approval of Transfer of Appropriations.

7. ARIZONA DEPARTMENT OF TRANSPORTATION - Report on Grand Canyon Airport Funding.

8. COMMISSION FOR THE DEAF AND THE HARD OF HEARING - Review of the Telecommunication Fund for the Deaf.

The Chairman reserves the right to set the order of the agenda.
06/21/01

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

May 31, 2001

The Chairman called the meeting to order at 1:40 p.m., Thursday, May 31, 2001, in House Hearing Room 4. The following were present:

Members:	Senator Solomon, Vice-Chairman	Representative Knaperek, Chairman
	Senator Arzberger	Representative Burton Cahill
	Senator Bee	Representative Gray
	Senator Bowers	Representative Pearce
	Senator Brown	Representative Pickens
	Senator Bundgaard	Representative Weason
	Senator Cirillo	
	Senator Rios	
Absent:		Representative Allen
		Representative May
Staff:	Richard Stavneak, Director	Patrick Fearon
	Cheryl Kestner, Secretary	Rebecca Hecksel
	Kim Hohman	Beth Kohler
	Gretchen Logan	Tom Mikesell
	Paul Shannon	Stefan Shepherd
	Jennifer Vermeer	
Others:	Elliott Hibbs	Director, ADOA
	Frank Hinds	Risk Management, ADOA
	Phyllis Biedess	Director, AHCCCS
	John Arnold	Deputy Director, Finance, SFB
	Tom Betlach	Director, OSPB
	Betty Bates	Information Technology, ASRS

APPROVAL OF MINUTES

Senator Solomon moved that the minutes of May 10, 2001 be approved. The motion carried.

EXECUTIVE SESSION

Senator Solomon moved that the Committee go into Executive Session. The motion carried.

At 1:42 p.m. the Joint Legislative Budget Committee went into Executive Session.

Senator Solomon moved that the Committee reconvene into open session. The motion carried.

At 2:50 p.m. the Committee reconvened into open session.

<u>Senator Solomon moved</u> that the Committee recommend the amount used from the Risk Management Fund for the "on-call" duty pay resolution be capped at $2 million a year. The motion carried.

<u>AHCCCS/Department of Economic Security (DES) /Department of Health Services (DHS)</u> - Transfer of Monies from Medical Services Stabilization Fund (MSF).

Ms. Gina Guarascio, JLBC Staff, said that this item is a request from AHCCCS to use approximately $52,339,900 of the MSF for state match deficiencies in Title XIX programs between AHCCCS, DES and DHS. The amounts recommended for transfer are consistent with the amounts discussed during the legislative session. After this transfer, the balance in the MSF at the end of FY 2001 will be approximately $24.2 million. A scheduled repayment to the fund should increase the fund to approximately $37.6 million

In response to Senator Bowers question regarding demand and trends in Title XIX programs, Ms. Guarascio responded that it is more an increase in demand for Title XIX programs, and that the trend in Title XIX programs first started in November of 1999.

Ms. Gretchen Logan, JLBC Staff, said part of the issue when welfare reform was enacted, a lot of people dropped out because they were no longer eligible for cash assistance. They were eligible to continue with the medical coverage, however, many of them still dropped out. A directive was issued a year ago for state Medicaid directors to make sure those people were not inappropriately dropped off. This is partly responsible for the Title XIX increase.

Representative Weason asked since we have just completed a budget cycle, did we not appropriate sufficient funds from the General Fund to pay for all these services. Ms. Logan responded that this was for the FY 2000-2001 budget and these trends have begun since that was put together.

<u>Senator Solomon moved</u> that the Committee approve the use of the Medical Stabilization Fund for FY 2001 state match deficiencies for Title XIX programs, and that the Committee approve the 5% contingency amount in addition to the amount requested for deficiencies.

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

Mr. Stavneak asked for clarification on whether that is a contingency for everyone or just AHCCCS. Senator Solomon responded that it would incorporate them all.

The motion carried.

<u>Arizona Health Care Cost Containment System</u> - Review Transfer of Tobacco Tax Medically Needy Account Allocations.

Ms. Gretchen Logan, JLBC Staff, said this item was a technical transfer between 6 of the tobacco tax allocations and the AHCCCS budget.

<u>Senator Solomon moved</u> that the Committee give a favorable review to AHCCCS for the requested 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. The motion carried.

<u>Line Item</u>	**<u>Original Allocation</u>**	**<u>Transfer</u>**	**<u>Revised Allocation</u>**
Federal Matching Assistance Percentage	$ 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	<u>5,276,000</u>	<u>2,114,500</u>	<u>7,390,500</u>
TOTAL	**$31,947,300**	**$ 0**	**$31,947,300**

Arizona Health Care Cost Containment System (AHCCCS) - Review of AHCCCS Customer Eligibility (ACE) System.

Ms. Logan said this item was a report on compatibility of the ACE System with the "No Wrong Door" Initiative. The JLBC Staff has deferred its recommendation because there was some concern about how the potential impact of ACE could affect the future development of the "No Wrong Door" Initiative. Therefore the agency committed to 3 additional conditions.

Senator Solomon asked if these conditions are met, can they move forward. Ms. Logan said that was correct.

Representative Pickens asked if No Wrong Door funding was in a trigger, and if so, how could they move ahead without any money.

Representative Knaperek responded that it is in the trigger and that was the problem. No Wrong Door was not able to move ahead and AHCCCS needed to move forward. The Committee wants to ensure that AHCCCS has the ability to utilize their system which is greatly needed, but in the meantime make sure it is compatible with No Wrong Door.

Representative Weason asked if they were to adopt this recommendation, would this in anyway affect the services that ACE is currently providing. Ms. Logan said that these conditions enable the agency to move forward. She believes that the agency is comfortable with these conditions and they would allow them to do what is necessary to put ACE in place.

Ms. Phyllis Biedess, Director, AHCCCS said that the agency is committed to this and they feel it is imperative to move ahead with the ACE program. However, they have a commitment both to No Wrong Door and to the Committee to ensure compatibility with the No Wrong Door Initiative as it moves forward. It is simply an issue of timing at this point.

Senator Solomon moved that the Committee approve the AHCCCS ACE System moving forward with the caveat that they meet the compatibility requirements between ACE and the No Wrong Door Initiative. The motion carried.

Proposition 204 Public Health Programs - Consider Approval of Inflation Adjustments.

Ms. Beth Kohler, JLBC Staff, said that Proposition 204 specifies that after the AHCCCS expansion, 6 public health programs shall receive funding from the remainder of tobacco settlement money. The health programs were statutorily established in 1996 and were to be funded from the State Lottery. However, the funding would come 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 funding since their inception in 1996.

The Proposition requires the JLBC Staff to calculate the inflation adjustment annually to determine the allocations for the programs in each year. An Attorney General (AG) opinion was requested, and the opinion stated that the amount should be adjusted for inflation since 1996 and the FY 2001 amount should not be prorated.

Representative Pickens said that this is all based on the assumption that they can make the adjustments if there is money. If there is not money or only some money, how can the adjustments be made. Ms. Kohler replied that it can be reduced proportionately if there is not sufficient money to fully fund the programs.

Representative Knaperek asked when the reduction would occur. Ms. Kohler said that it would probably be at the end of the fiscal year in order to wait and see how much money is left after the AHCCCS expansion is funded.

Senator Solomon mentioned how hard Senator Nichols fought for these programs.

Senator Solomon moved that the Committee approve the rates to fund the 6 public programs that are funded in the proposition from the Tobacco Litigation Master Settlement. The motion carried.

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

<u>Department of Health Services</u> - Consider Approval of Transfer of Appropriations.

Ms. Beth Kohler, JLBC Staff, said that this item was a request from DHS to transfer funding to the Employee Related Expenditures (ERE) line item in the Public Health Program. These are essentially technical changes.

<u>Senator Solomon moved</u> that the Committee approve the Department of Health Services requested transfer of funds to the Employee Related Expenditures line item in the Public Health Program. The motion carried.

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

<u>Department of Economic Security</u> - Review of Plan to Provide Matching Monies to Hopi Tribe to Operate a Tribal Cash Assistance Program.

Mr. Stefan Shepherd, JLBC Staff, said this item relates to the Hopi Tribe and the operation of their own welfare program. Statute permits the state to pass-through some matching General Fund money to any Native American tribe operating their own welfare program. The DES request is identical to, and the Committee approved, requests from 4 other tribes that are currently operating their own welfare program.

In response to Representative Weason's question, Mr. Shepherd said there is currently a line item in the budget for FY 2002 - FY 2003 that reflects General Fund pass-throughs for the 4 tribes that are operating their own welfare programs. The monies for the Hopi Tribe, however, are not included as part of that line item because it was not clear that they were going to operate their own program. Those General Fund monies are in the DES Operating Budget.

<u>Senator Solomon moved</u> that the Committee approve the Department of Economic Security's plan to provide matching funds to the Hopi Tribe to operate a tribal cash assistance program. The motion carried.

<u>Department of Economic Security</u> - Report on Additional FY 2001 Child Support Expenditures.

Mr. Shepherd stated this item was for information only. The Division of Child Support Enforcement is getting additional federal revenues from incentives as the result of increased collections. They are using the increased monies to help fund the deficits that are largely a result of increased caseloads.

<u>School Facilities Board</u> - Report on Energy Efficiency Requirements for School Construction and Repair.

Mr. Stavneak stated that this item was sent to the Committee separately from the JLBC Staff agenda book as supplementary information.

Mr. Patrick Fearon, JLBC Staff, said this is a report from the School Facilities Board (SFB) regarding its implementation of the Governor's Executive Order on energy efficiency in public schools, which was issued in March 2001. In order to implement the Executive Order the SFB has amended its school facility adequacy guidelines to mandate the inclusion of energy efficiency upgrades in new school construction and deficiencies corrections projects if the upgrades are projected to pay for themselves within 8 years, and are deemed reasonable.

At the time of the Executive Order, Director Phil Geiger was quoted in the press as saying that the additional cost for new construction would be about 2% to 8%. However, the SFB is not prepared to offer an official estimate of the additional cost. For new school construction, the SFB believes that a substantial part of the additional cost would be covered by the already existing square footage funding formula that is provided to school districts for new schools. On the deficiencies corrections issue, the SFB said the Deficiencies Corrections Fund would be responsible for the entire cost of any new upgrades. However, the SFB is still in the process of having the project managers estimate the upgrades that would be included. Mr. Fearon said the additional cost that would be borne by the state, while energy efficiency savings would actually accrue to the school districts.

Mr. John Arnold, Deputy Director of Finance, School Facilities Board, responded to Senator Bowers question regarding why the energy savings goes to the school district instead of the state. Mr. Arnold said the Legislature had already acted to remove the excess utilities component from the formula, which will occur approximately 7 years from now. That is a savings to property taxpayers. The districts are aware that they are going to lose that funding source and the decisions made now about the energy deficiencies with buildings, is in preparation for that.

Representative Knaperek asked if there was anything in place that states that the money goes to reduce property tax. Mr. Arnold said there is nothing in place.

Representative Gray said most of the schools that have been built in the past are not energy efficient and we will not see any benefit unless they replace the schools. We do benefit by implementing an energy savings cost for the future. The savings are passed on to the taxpayers.

Representative Knaperek asked if this was for existing schools as well as new school construction. Mr. Arnold responded that it was for both. During the deficiency correction process, the SFB has gone out to each district and identified the projects that need to be done. If it is the type of project that can have an energy impact, for example replacing windows, doors or HVAC units, they then submit their design for that project. The project managers review it and look for opportunities to improve the energy efficiency of their design. The project manager submits those ideas to the SFB staff, they review it for reasonableness, and have the design engineer review it as well, to certify that there is an 8-year payback. This is the state standard that is used. If it is deemed reasonable and has the 8-year payback period and makes sense within their budget, then they do the project.

Representative Knaperek said she has a problem with the fact that there is nothing in writing to define what is "deemed reasonable." Mr. Arnold said it must be approved by the SFB staff at to what reasonable is. For example, they are going out and replacing many HVAC units. The Governor saw this as a real opportunity to improve the energy efficiency of our buildings. Representative Knaperek said it could also be a huge cost without a lot of savings. Mr. Arnold said they are only upgrading areas that are in need of repair and not replacing equipment, such as HVAC units, that are in good working condition. Essentially, the guidelines say "where we are already doing work, we are going in to determine if there is an opportunity for energy savings."

Representative Knaperek said the language seems very subjective and she would like to see that tightened up. She was concerned that they are going to expend a lot more money for very little return. For instance, they just had the issue with the stadium where they had to show that there was enough money to take care of the building renewal issues before they allow the money to be spent to build a stadium. If we have standards in place, we need to know how much this is going to cost.

Mr. Arnold said the estimate was given before the change went into effect. The eventual cost in deficiencies corrections is unknown at this time. Until about a year from now, they will not know one way or the other. The SFB is still comfortable with their total deficiencies cost estimate of $1.072 billion.

Representative Knaperek said that since what is "reasonable" on energy efficiency is going to be interpreted by staff, she would like to see a little more specificity used so there is a higher level of comfort. Mr. Arnold said that as they implement this, they are going to be very budget conscious. He would see if they could be more specific in their guidelines.

Representative Gray said it was her understanding that school districts get to keep any funds leftover from construction projects. Mr. Arnold said that on new construction projects that is correct. She asked if there is a penalty if a school district asks for a school to be built and they decide not to go with an energy efficient design, which saves expenses. They then have this money left over for baseball fields, which are not covered. Mr. Arnold said that there are no rules in place for implementing this on new construction sites. He was not sure how much pressure will be put on schools to use the money to do energy efficient upgrades.

Representative Gray said that it sounds like building energy efficient buildings is just a recommendation rather than a requirement. Mr. Arnold said it really is a requirement from 2 levels. First, the Governor issued an Executive Order that applies to the school districts, to design energy efficient buildings, and secondly, the SFB requires that if there is an opportunity to upgrade they should seek that opportunity. However, he was not sure how they would implement that.

Representative Weason said that because of the Executive Order an injunction could be filed against any district that was not using energy efficient designs.

Representative Knaperek asked that the SFB come back before the Committee at the August 2001 JLBC meeting with further language that more clearly defines what is "reasonable" regarding energy upgrades for existing schools and new school construction.

Office of Administrative Hearings - Review of FY 2001 Supplemental Adjustments for New Cost Allocation Plan.

Mr. Stavneak stated that there is a supplementary memo included in the same packet with the School Facilities memo, which is for a technical correction.

Ms. Rebecca Hecksel, JLBC Staff, said this item was the Office of Administrative Hearings cost allocation plan to allow various 90/10 boards access to their FY 2001 contingency appropriation which totals $53,900. Ms. Hecksel added that the Board of Appraisal was included in this, however, they already received access to their contingency amount at the April 2001 JLBC meeting so they do not need approval at this time.

Senator Cirillo asked if that means they should change the total. Ms. Hecksel said that they would need to back out the $6,400 for the Appraisal Board, changing the total to $47,500.

Senator Solomon moved that the Committee give a favorable review to the Office of Administrative Hearings cost allocation plan to spend $47,500 for the 90/10 Boards contingency amount. The motion carried.

Table 1

Agency Contributions to OAH Operating Budget

Agency	**FY 2001 Contingency Appropriation**
Board of Acupuncture Examiners	$ 2,000
Board of Accountancy	10,800
Board of Behavioral Health Examiners	3,000
Board of Chiropractic Examiners	1,400
Board of Cosmetology	1,700
Board of Dental Examiners	3,000
Board of Medical Examiners	8,500
Board of Nursing	6,900
Board of Nursing Care Examiners	200
Board of Podiatry Examiners	2,000
Board of Psychologist Examiners	2,600
Board of Technical Registration	1,900
Structural Pest Control Commission	3,500
Subtotal 90/10 Boards	**$47,500**
Citizens Clean Elections Commission [1/]	$ 1,800
Department of Gaming [1/]	4,300
Peace Officers Standards and Training [1/2/]	5,400
State Lottery [1/]	4,400
Board of Appraisal [3/]	6,400
TOTAL	**$69,800**

1/ The increase will be funded from the agency's base budget.
2/ This contribution comes from a non-appropriated funding source.
3/ The Board of Appraisal received its contingency appropriation at the April 2001 JLBC meeting.

Arizona State Retirement System - Review of Information Technology Plan (IT).

Ms. Gretchen Logan, JLBC Staff, said that this item was for review of the FY 2002 $9 million expenditure plan submitted for the agency's IT plan. This represents a significant increase in IT spending for the agency but it has been through the formal IT process. Highlights of their IT plan include enhancements that will make it possible for people to have on-line access to their pension history, on-line benefit calculations, in addition to a number of system changes that will result in general operating improvements for the agency.

Senator Solomon asked if there were security measures in place to access on-line personal information.

Senator Arzberger also had questions on privacy protection and said that it was a major concern to her that this be a high priority of on-line access.

Ms. Betty Bates, Business Application Development Manager, said she played an active role in developing the IT plan. They are looking at all security and privacy requirements for providing services through the Web site. On some member statements that have been sent out over the past year, there is a unique PIN number that each individual will have to use in order to access their personal information.

Senator Arzberger asked if the security issue is being addressed from a statewide point of view rather than just from each agency.

Mr. Stavneak said that the Retirement System will have to come back before the Committee a year from now to have their FY 2003 monies reviewed. He suggested that at that time they address the security issues to see how they have proceeded with development of their system.

Senator Solomon moved that the Committee give a favorable review of the Arizona State Retirement System FY 2002 expenditure for the IT Plan. The motion carried.

Arizona Commission on the Arts - Review of the Arizona Arts Endowment Fund and Private Contributions.

Ms. Kim Hohman, JLBC Staff, said that this is a report by the Arizona Arts Commission. They are required by statute to report annually on the Arts Endowment Fund and the Private Contribution Fund. The Arts Endowment Fund was created in 1996 and has received $6 million in General Fund appropriations, with an additional $2 million to be deposited in July of this year. Private contributions have totaled approximately $22 million since 1996.

Senator Solomon moved that the Committee give a favorable review to the Arizona Commission on the Arts report. The motion carried.

Report on Recent Agency Submissions

- Blue Ribbon Task Force on Effluent Reuse - Initial Report
- Department of Health Services - Report on AIDS Drug Assistance Program

Mr. Stavneak stated that these items are for information only and no Committee action is required.

Without objection, the meeting adjourned at 3:50 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.

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HOUSE OF REPRESENTATIVES

DATE: June 21, 2001

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

THRU: Richard Stavneak, Director

FROM: Patrick Fearon, Senior Fiscal Analyst

SUBJECT: JLBC STAFF - CONSIDER APPROVAL OF A REVISED CLASSROOM SITE FUND PER PUPIL AMOUNTS

Request

The Governor and the Superintendent of Public Instruction have requested that the Committee revise the per pupil amount to be allocated to schools from the Classroom Site Fund for the upcoming fiscal year under Proposition 301 (Education 2000) (*see Attachment 1*). In April, pursuant to A.R.S. § 15-977(B1), the JLBC Staff recommended and the Committee approved a Classroom Site Fund allocation of $240.56 per pupil for FY 2002. Based on the prevailing thinking at the time, that figure assumed that state accounting rules would allow only 11 months of deposits into the Classroom Site Fund in FY 2002. Relevant state financial officials now seem to agree that 12 months of deposits can be made in FY 2002.

Recommendation

If the Committee decides to adopt a 12 month calculation, the Classroom Site Fund allocation would become $272.42 per pupil for FY 2002. As in our April analysis, the $272.42 amount is based on 3.7% pupil growth in FY 2001 (2.9% for school districts and 14.9% for charter schools) and sales tax growth of 4.0% for FY 2002. While the assumed 4.0% sales tax growth rate is below the historical average, it provides a margin for safety in the calculation. For every 1% error in the sales tax calculation, the Classroom Site Fund revenues will increase or decrease by about $3.5 million. If we underestimate sales tax growth, the excess monies will remain in the Classroom Site Fund for distribution in the following year.

(Continued)

Analysis

Laws 2000, Chapter 1, 5th Special Session (the Proposition 301 companion bill) requires the Classroom Site Fund per pupil amount for a given year to be based on the estimated statewide "Group A weighted" Average Daily Membership (ADM) pupil count for the current fiscal year (FY 2001 in this case) and upon estimated available resources in the Classroom Site Fund for the upcoming fiscal year (currently FY 2002). In our memo for the April 2001 meeting, we described why it is not possible to precisely estimate the per pupil Classroom Site Fund allocation at this time and provided a range of possibilities depending on differing assumptions (*see Attachment 2*). We recommended a level of $240.56 per pupil based on a conservative assumption of 4% sales tax growth, a student population of 1,031,000, and 11 months of sales tax deposits into the Classroom Site Fund. The Committee adopted that recommendation.

Under A.R.S. § 15-977(B1 & 2), the amount of per pupil funding that will be available from the Classroom Site Fund in FY 2002 will depend on 2 factors: 1) ADM counts from the 2000-2001 school year, and 2) 0.6% sales tax deposits (from Proposition 301) into the Classroom Site Fund during FY 2002. As indicated below, our estimate of the per pupil amount assuming 12 months of deposits affects only the assumed level of sales tax deposits, not the assumed ADM counts.

ADM Counts. Pursuant to A.R.S. § 15-977(B1 & 2) the ADM count consists of the statewide total "Group A weighted" ADM count from the current school year. The "Group A weighted" reference here refers to "Group A" weights established in A.R.S. § 15-943(2a). Those weights are "generic" ones that apply to *all* pupils within a particular range of grades (e.g., K-8), although they are increased for pupils in districts that are "small" (less than 600 pupils) or "isolated" (at least 30 miles from other schools). In our April memo, we estimated that there will be about **1,031,000** "Group A weighted" ADM pupils in school districts and charter schools combined during the current school year (FY 2001). This is based on preliminary "100th day" ADM counts from charter schools for the current year (adjusted by the Department of Education for miscellaneous factors) and on *projected* "100th day" ADM counts for school districts (the same counts assumed in the JLBC recommended supplemental for FY 2001 for the Arizona Department of Education). The latter counts assume 2.9% ADM growth in the current year for school districts, which would result in 3.7% overall ADM growth during FY 2001 once revised charter school estimates are included. Our estimate of the per pupil amount with 12 months of deposits assumes that there would be no substantial revision in our estimate of the student count.

Sales Tax Deposits Into Classroom Site Fund. The other factor that will affect per pupil funding from the Classroom Site Fund in FY 2002 is the amount of revenues available from the 0.6% sales tax established by Proposition 301. Implementation of that tax began in June 2001. The Arizona Department of Revenue originally indicated that only 11 months of sales tax revenues could be distributed to schools during FY 2002 because of lags in receiving and processing monthly sales tax revenues. Subsequently, discussions between the Department of Revenue, State Treasurer, Auditor General, ADE, and legislative and executive officials indicated that schools could count as FY 2002 revenues any Classroom Site Fund monies collected *by the state* before the end of FY 2002, even if some of those funds might not be distributed to schools until July or even August 2002 (up to two months after the end of FY 2002). Pursuant to A.R.S. § 15-304 and A.R.S. § 15-996, the Classroom Site Fund monies are "cash controlled," which prevents schools from spending them unless the funds are actually on hand. The officials concluded, therefore, that schools could utilize the Classroom Site Fund monies collected by the state in FY 2002 if those expenditures were from Classroom Site Fund monies in their bank accounts at that time. Because a substantial portion of the schools' FY 2002 Classroom Site Fund monies is for performance pay for teachers (which would be delayed until after the end of the school year) and because of the availability of other cash resources, it is believed that the schools would be able to use those funds.

(Continued)

Table 1 below shows our estimates of Classroom Site Fund deposits for FY 2002 and the resulting per-pupil amount (assuming a Group A weighted total ADM count of 1,031,000) under both the 11 month and 12 month scenarios. The table indicates that the per-pupil amount would be $272.42 for FY 2002 in that case.

Table 1

Estimated Classroom Site Fund Revenue for FY 2002
At Various Assumed Sales Tax Growth Rates
(Assuming "Group A Weighted" ADM of 1,031,000)

Sales Tax Growth Rate	Estimated Revenues Into Classroom Site Fund (11 Months)	Estimated Per-Pupil Amount	Estimated Revenues Into Classroom Site Fund (12 Months)	Estimated Per-Pupil Amount
1%	$237,594,400	$230.45	$269,495,700	$261.39
2%	241,068,800	233.82	273,286,000	265.07
3%	244,543,100	237.19	277,076,300	268.75
4%	248,017,600	**240.56**	280,866,500	**272.42**
5%	251,492,000	243.93	284,656,800	276.10
6%	254,966,400	247.30	288,447,000	279.77
7%	258,440,800	250.67	292,237,300	283.45
8%	261,915,200	254.04	296,027,600	287.13
9%	265,389,600	257.41	299,817,800	290.80
10%	268,864,000	260.78	303,608,100	294.48

The amounts shown include not only sales tax revenues but also an estimated $2,204,400 in revenues from the Permanent State Common Schools Fund in FY 2002. This is because the Proposition 301 companion bill (Laws 2000, Chapter 1, 5th Special Session) dedicates all expendable earnings from that fund beyond FY 2001 levels to the Classroom Site Fund. The $2,204,400 figure is our current estimate of the amount of land trust monies that will be deposited into the Classroom Site Fund in FY 2002 pursuant to Chapter 1.

RS:PF:jb

Attachment 1

JANE DEE HULL
GOVERNOR
STATE OF ARIZONA

June 11, 2001

The Honorable James Weiers
Arizona House of Representatives
1700 W. Washington
Phoenix, Arizona 85007

Dear Speaker Weiers:

As you are aware, after the passage of Proposition 301, we began a thorough review of this important education reform measure to ensure proper implementation is applied. We attempted to pursue legislative remedies to address some areas of concern and disagreement; however, a final consensus package was not adopted.

Since the close of the legislative session we have brought together all of the parties involved to find, where available, administrative solutions to questions that have been raised concerning implementation. There are numerous state agencies and local school districts involved in allocating and receiving these funds and we must proceed with a coordinated effort to comply with the will of the voters in passing this proposition. It is our responsibility to provide a smooth implementation process as we distribute the first year of Proposition 301 revenues into every classroom in Arizona.

As required under the EDUCATION 2000 legislation, on April 2, 2001, JLBC projected the estimated revenue to be collected under Proposition 301 and identified the per pupil amount that will be allocated during FY 2002 based on revenue projections. As requested by all parties involved in these discussions, the number adopted was a conservative estimate based on 4% growth in sales tax over the current collections. The number that was adopted was also based on only eleven months of Classroom Site Fund payments to school districts for Fiscal Year 2002 only. During further examination of this issue and numerous discussions regarding general accounting principles used by the State of Arizona, we believe that this subject should be revisited. The State of Arizona will collect twelve months of sales tax revenue from Proposition 301 during Fiscal Year 2002. While the twelfth payment will not be distributed to school districts until July of 2002, it is revenue collected by the State and rightfully due the school districts to be accounted for in the same fiscal year. School districts do not close their accounting books for Fiscal Year 2002 until August and can therefore make expenditures during the month of July and August consistent with their current system of accounting.

We respectfully request that JLBC convene a special meeting to reconsider the per pupil allocation adopted at the April 2, 2001 meeting and increase this amount to reflect a full twelve months of revenue collections. Based on additional information provided in the JLBC memo dated April 2, 2001, we believe that this will result in an increase of approximately $32 million to the Classroom Site Fund in Fiscal Year 2002. These dollars are rightfully due Arizona schools for use during the next school year and we strongly encourage you to approve a revised per pupil amount which reflects the full annual payment.

Several additional conversations have also occurred regarding the student populations that are eligible for consideration for receipt of Proposition 301 monies under the current law. The populations under question include: the Arizona School for the Deaf and the Blind, the Department of Juvenile Corrections and Department of Corrections education systems as well as county jail education programs for minors. Staff from numerous agencies, including: the Governor's Office, the Department of Education, legislative staff, JLBC, and OSPB are reviewing this issue and will be prepared to make a recommendation later this week on this subject.

Thank you for your consideration of this very important subject.

Sincerely,

Jane Dee Hull

JANE DEE HULL
Governor

Sincerely,

JAIME A. MOLERA
Superintendent of Public Instruction

Cc: Members of the Arizona Senate
Members of the Arizona House of Representatives

Attachment 2

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
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http://www.azleg.state.az.us/jlbc.htm

DATE: April 2, 2001

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

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Senior Fiscal Analyst SS

SUBJECT: JLBC STAFF - REPORT ON CALCULATION OF CLASSROOM SITE FUND PER PUPIL AMOUNTS

Request

A.R.S. § 15-977(B1) requires the JLBC Staff to determine by March 30 of each year the per pupil amount that is to be allocated from the Classroom Site Fund for the upcoming fiscal year. The JLBC Staff requests the committee's advice regarding the per pupil calculation.

Recommendation

The JLBC Staff recommends a Classroom Site Fund allocation of $240.56 per pupil for FY 2002. This amount is based on 3.7% pupil growth in FY 2001 (2.9% for school districts and 14.9% for charter schools) and sales tax growth of 4.0% for FY 2002. While the assumed 4.0% sales tax growth rate is below the historical average, it provides a margin for safety in the calculation. Under current law, the state cannot lower the Classroom Site Fund allocation during the year if sales tax revenues fall short of projections.

For every 1% error in the sales tax calculation, the Classroom Site Fund revenues will increase or decrease by about $3.5 million. If we underestimate sales tax growth, the excess monies will remain in the Classroom Site Fund for distribution in the following year.

Analysis

Laws 2000, Chapter 1, 5th Special Session (the Proposition 301 companion bill) requires the Classroom Site Fund per pupil amount for a given year to be based on the estimated statewide "Group A weighted" Average Daily Membership (ADM) pupil count for the current fiscal year (FY 2001 in this case) and upon estimated available resources in the Classroom Site Fund for the

(Continued)

upcoming fiscal year (currently FY 2002). The discussion below explains why it is not possible to precisely estimate the per pupil Classroom Site Fund allocation at this time, and why Committee input therefore is requested in this matter.

Data Limitations

Under A.R.S. § 15-977(B1 & 2), the amount of per pupil funding that will be available from the Classroom Site Fund in FY 2002 will depend upon 2 factors: 1) ADM counts from the 2000-2001 (current) school year, and 2) 0.6% sales tax deposits (from Proposition 301) into the Classroom Site Fund during FY 2002. Uncertainty exists for both of these data items because grand total statewide ADM counts for the current school year will not be known until late May of this year (2 months from now) and grand total statewide revenues from the 0.6% sales tax under Proposition 301 in FY 2002 will not be know until June 2002 (15 months from now).

It therefore is necessary to designate a per pupil amount from the Classroom Site Fund for FY 2002 based on *estimates* for both FY 2001 ADM counts and FY 2002 sales tax revenues. The rest of this memo describes some possible alternatives for these estimates and what their impact would be on the Classroom Site Fund per pupil amount for FY 2002.

ADM Counts

A.R.S. § 15-977(B1 & 2) require the Classroom Site Fund per pupil amount for FY 2002 to be based on the statewide total "Group A weighted" ADM count from the current school year. The "Group A weighted" reference here refers to "Group A" weights established in A.R.S. § 15-943(2a). Those weights are "generic" ones that apply to *all* pupils within a particular range of grades (e.g., K-8), although they are increased for pupils in districts that are "small" (< 600 pupils) or "isolated" (at least 30 miles from other schools).

We currently estimate that there will be about **1,031,000** "Group A weighted" ADM pupils in school districts and charter schools combined during the current school year (FY 2001). This is based on preliminary "100th day" ADM counts from charter schools for the current year (adjusted by the Department of Education for miscellaneous factors) and on *projected* "100th day" ADM counts for school districts (the same counts assumed in the JLBC recommended supplemental for FY 2001 for the Arizona Department of Education). The latter counts assume 2.9% ADM growth in the current year for school districts, which would result in 3.7% overall ADM growth during FY 2001 once revised charter school estimates are included. Final ADM counts for school districts and charter schools for FY 2001 will not be available until late May. Our 1,031,000 "Group A weighted" ADM count estimate for FY 2001 therefore is subject to revision.

In order to be conservative, we could choose to increase our estimated FY 2001 "Group A weighted" ADM count by a small percentage (a higher ADM count would reduce the per pupil allocation). We recommend, however, using the 1,031,000 "Group A weighted" ADM estimate for purposes of this memo and instead selecting a relatively conservative sales tax growth estimate for the Classroom Site Fund in FY 2002 in order to avoid overbudgeting that fund for FY 2002. This is because the year-to-year growth rate for ADM has typically been between 3.2% to 4.2% in the past few years, which is a much narrower range of volatility than for the sales tax, which has grown anywhere from 0.4% to 9.9% during the past decade (see tables below). The next section describes some suggested alternatives for estimating Classroom Site Fund revenues for FY 2002 under the 0.6% sales tax established by Proposition 301.

(Continued)

Table 1: K-12 Average Daily Membership Growth (FY 1990 through FY 2000).

Fiscal Year	ADM Total	Increase	% Change
1990	589,509	9,545	1.6%
1991	604,763	15,254	2.6%
1992	624,761	19,998	3.3%
1993	646,798	22,037	3.5%
1994	669,742	22,944	3.5%
1995	695,054	25,312	3.8%
1996	723,937	28,883	4.2%
1997	754,450	30,513	4.2%
1998	776,595	22,145	2.9%
1999	803,314	26,719	3.4%
2000	828,627	25,313	3.2%
10-year Average Growth Rate			3.5%

[Note: These data are for *un*weighted ADM because data on *weighted* ADM are not available. Historical growth rates for both, however, would be similar.]

Table 2: State Sales Tax Growth (FY 1990 through FY 2000).

Fiscal Year	General Fund Collections (in Thousands)	% Change
1990	$1,440,588	7.6%
1991	1,445,915	0.4%
1992	1,503,125	4.0%
1993	1,631,354	8.5%
1994	1,792,998	9.9%
1995	1,968,614	9.8%
1996	2,103,275	6.8%
1997	2,211,159	5.1%
1998	2,367,883	7.1%
1999	2,577,171	8.8%
2000	2,829,307	9.8%
10-year Average Growth Rate		7.7%

Sales Tax Revenues

The other factor that will affect per pupil funding from the Classroom Site Fund in FY 2002 is the amount of revenues available from the 0.6% sales tax established by Proposition 301. That tax is scheduled to be implemented starting in June 2001. The Arizona Department of Revenue, however, indicates that only 11 months of revenue will come into the fund during FY 2002 because of lags in receiving and processing monthly sales tax revenues. (The June 2001 collections are not expected to be available for disbursement until mid to late August 2001.) Table 3 below shows our estimates of Classroom Site Fund deposits for FY 2002 (assuming 11 months of disbursements) at various assumed growth rates for the overall state sales tax.

(Continued)

Table 3: Estimated Classroom Site Fund Revenue for FY 2002 at Various Assumed Sales Tax Growth Rates.

Sales Tax Growth Rate Assumed (above FY 2001)	Estimated Revenues from 0.6% Sales Tax	Estimated Revenues into Classroom Site Fund
1%	$412,841,100	$237,594,400
2%	416,928,600	241,068,800
3%	421,016,100	244,543,100
4%	425,103,700	248,017,600
5%	429,191,200	251,492,000
6%	433,278,800	254,966,400
7%	437,366,300	258,440,800
8%	441,453,800	261,915,200
9%	445,541,400	265,389,600
10%	449,628,900	268,864,000

The amounts shown under "Estimated Revenues into Classroom Site Fund" in Table 3 are less than the amounts shown under "Estimated Revenues from 0.6% Sales Tax" in the table because some of the 0.6% sales tax revenues are dedicated first to universities, community colleges, costs of an additional school day for K-12, the School Safety program and other items. The amounts shown in the last column also include an estimated $2,204,400 in revenues from the Permanent State Common Schools Fund. This is because the Proposition 301 companion bill (Laws 2000, Chapter 1, 5th Special Session) dedicates all expendable earnings from that fund beyond FY 2001 levels to the Classroom Site Fund. The $2,204,400 figure is our current estimate of the amount of land trust monies that will be deposited into the Classroom Site Fund in FY 2002 pursuant to Chapter 1.

Possible Per Pupil Amounts

Table 4 below shows what the per pupil amount from the Classroom Site Fund would be for FY 2002 assuming the various sales tax growth rates shown in Table 3. Since we have not incorporated a "safety margin" in our estimate of 1,031,000 "Group A weighted" ADM pupils for FY 2002 (the other determining factor for the per pupil Classroom Site Fund amount for FY 2002), the JLBC Staff recommends that a conservative 4% sales tax growth rate be assumed in computing the per pupil amounts for FY 2002. We believe that it is important to assume a conservative sales tax growth rate because Legislative Council confirms that under current law the per pupil amount for the upcoming budget year cannot be changed once established. In addition, Legislative Council notes that current law is not clear regarding what would happen if the per pupil amount is set too high and the Classroom Site Fund runs a shortfall as a result. This is because current law does not indicate whether such a shortfall would have to be made up and which funding source, if any, would have to be used for this purpose. The March JLBC revenue forecast assumes 7.9% to 8.7% sales tax growth for FY 2002 and the March OSPB budget forecast assumes 7.3% sales tax growth for that year.

Monies in the Classroom Site Fund are exempt from lapsing pursuant to A.R.S. §15-977(B). Therefore any potential unused monies that would remain in the Classroom Site Fund at the end of FY 2002 because of a conservative per pupil allocation for FY 2002 would simply be available for allocation to schools in FY 2003. They would *not* revert to the State General Fund and therefore would *not* reduce long-term allocations to school districts and charter schools under Proposition 301. If actual sales tax growth in FY 2002 equaled 6% rather than 4%, for example (and if our FY 2001

(Continued)

ADM estimate is correct), approximately $6.9 million would remain in the Classroom Site Fund at the end of FY 2002. Those monies would be available for allocation to school districts in FY 2003.

Table 4: Classroom Site Fund Per Pupil Amounts for FY 2002 Under Various Sales Tax Growth Rate Scenarios.

Sales Tax Growth Rate Assumed (above FY 2001)	Estimated Revenues into Classroom Site Fund	Estimated "Group A Weighted" ADM Count from FY 2001	Estimated Funding Allocation per "Group A Weighted" ADM Pupil from FY 2001
1%	$237,594,400	1,031,000	$230.45
2%	241,068,800	1,031,000	233.82
3%	244,543,100	1,031,000	237.19
4%	**248,017,600**	**1,031,000**	**240.56**
5%	251,492,000	1,031,000	243.93
6%	254,966,400	1,031,000	247.30
7%	258,440,800	1,031,000	250.67
8%	261,915,200	1,031,000	254.04
9%	265,389,600	1,031,000	257.41
10%	268,864,000	1,031,000	260.79

Possible Per Pupil Amounts Under Proposed Amendment

Members of the education community indicate that they will be seeking to amend A.R.S. § 15-977 during the current legislative session in order to allow school districts and charter schools to spend 12 months of 0.6% sales tax collections during FY 2002, even if only 11 months of collections are actually received and "posted" during that year. Our understanding is that the amendment would *not* require State General Fund revenues to be used to pay for the "12th month," but that school districts instead would cover the shortfall temporarily with existing cash balances in county-level school district accounts. (School district revenues typically are processed and disbursed through county treasurers and monies for individual school districts are "pooled" together into single funds, but with separate accounts maintained for each individual school district. The "pooled" county level funds typically have positive cash balances due to monies that school districts are allowed to carry forward at the end of a fiscal year and for other miscellaneous reasons.)

Our understanding is that the proposed amendment would have the state "pay back" the county level funds during the subsequent year with Classroom Site Fund collections from that year. The proposed amendment also would make the Arizona State Schools for the Deaf and the Blind (ASDB) and the Arizona Department of Juvenile Corrections (ADJC) eligible for Classroom Site Fund monies. The latter change would have a minimal impact on the per pupil amount because these two entities represent less that 0.5% of the statewide ADM count.

In addition, the Senate Engrossed version of SB 1481 (which would be modified by the proposed amendment) would change the computational formula in A.R.S. § 15-977 by having the per pupil amount be based on *unweighted* rather than *weighted* counts and by using "*student* counts" rather than "*ADM* counts" in the formula. "Student counts" essentially mean *prior* year ADM counts for school districts and *current* year ADM counts for charter schools. "ADM counts," in contrast, mean *current* year counts for both charter schools and school districts. Under the K-12 equalization funding formula (but not the current Classroom Site Fund formula), charter school funding is based entirely on *current* year ADM but school district funding is based primarily on *prior* year ADM.

(Continued)

Table 5 shows what the Classroom Site Fund per pupil amount would be under the proposed amendment based on our understanding of it at this time under various sales tax growth rate scenarios. Since the proposed amendment is not in final form as of the time of this writing, there has not been an opportunity to have it reviewed by legal counsel or by the various agencies that would have to interpret the proposed amendment language.

Table 5: Classroom Site Fund Per Pupil Amounts for FY 2002 Under our Current Understanding of the Proposed Amendment and Under the Same Sales Tax Growth Rate Scenarios Shown in Table 4.

Sales Tax Growth Rate Assumed (above FY 2001)	Estimated Revenues into Classroom Site Fund	Estimated Unweighted Student Count for FY 2002	Estimated Funding Allocation per Unweighted ADM Pupil for FY 2002
1%	$269,495,700	866,139	$311.15
2%	273,286,000	866,139	315.52
3%	277,076,300	866,139	319.90
4%	280,866,500	866,139	324.27
5%	284,656,800	866,139	328.65
6%	288,447,000	866,139	333.03
7%	292,237,300	866,139	337.40
8%	296,027,600	866,139	341.78
9%	299,817,800	866,139	346.15
10%	303,608,100	866,139	350.53

Finally, the JLBC Staff recommends that the committee be consulted for further advice if any legislation is enacted into law that would change the Classroom Site Fund formula for FY 2002. Legislative Council indicates that this could occur if such legislation contained both an emergency clause and a notwithstanding clause regarding the March 30th statutory date in A.R.S. § 15-977(B1) for determining the Classroom Site Fund per pupil amount for the upcoming fiscal year.

RS:SSC:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

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DATE: June 21, 2001

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

THRU: Richard Stavneak, Director

FROM: Jim Rounds, Senior Economist

SUBJECT: JLBC STAFF – CONSIDER APPROVAL OF BUDGET STABILIZATION FUND REPAYMENT SCHEDULE

Request

Pursuant to language included in Laws 2000, Chapter 1, 7th Special Session, the JLBC shall calculate a repayment schedule from the General Fund to the Budget Stabilization Fund (BSF) for revenues related to the alternative fuels tax credit program. The State Treasurer shall transfer no more than $16.0 million annually to the BSF based on the JLBC repayment schedule.

Recommendation

The JLBC Staff recommends the Committee approve a repayment schedule. We estimate that the General Fund will have to repay the BSF a minimum of $139.3 million. For FY 2001, FY 2002 and FY 2003, $16.0 million has already been set aside in the budget for this purpose (for a total of $48.0 million). A repayment schedule consistent with the budget is provided in Table 1. The Committee will have to recompute the payment schedule again next year after the final cost is known.

Analysis

<u>Background</u>
Laws 2000, Chapter 1, 7th Special Session eliminated the alternative fuel tax credit program, modified eligibility, and allowed up to $200.0 million (the cost estimate under the revised program) from the Budget Stabilization Fund (BSF) to be used to reimburse the General Fund for lost tax revenues, and pay for losses incurred by consumers from the modification of the program. The legislation requires that the BSF be reimbursed no more than $16.0 million annually from the General Fund until all outgoing payments related to the tax credit program are restored, including lost interest.

(Continued)

Update on Program Cost

Over the past couple of months, additional information on the potential cost of the alternative fuels program has become available through the Office of Alternative Fuel Recovery, and through the Department of Revenue (DOR). However, there is still some uncertainty as to the final cost due to the fact that not all tax returns including alternative fuel tax credits have been processed.

The cost of the program has 2 components. First, the state incurred costs related to individuals who realized some form of a financial loss from the program being modified (Laws 2000, Chapter 1, 7th Special Session allows for individuals to receive reimbursement for losses). These individuals were reimbursed through the Consumer Loss Recovery Fund (CLRF). The CLRF is funded through transfers from the BSF. The Office of Alternative Fuel Recovery reports that as of June 12, validated claims related to these financial losses total $8.2 million. Of this amount, $7.8 million has already been sent to individuals. However, this amount could go up as the office reports that 4 cases are still being reviewed.

The second component of the state's cost relates to lost income tax revenue from individuals and corporations taking tax credits on alternative fuel vehicles, refueling apparatus, and fueling stations. Through June 8, the Department of Revenue has approved or has in process $64.7 million in alternative fuel tax credits. This amount is expected to increase as the Office of Alternative Fuel Recovery (OAFR) had earlier reviewed claims for $108 million in credits related to alternative fuel vehicles.

Based on the higher OAFR estimate, the total BSF loan could be at least $116.2 million – $108 million for AFV tax credits and $8.2 million for consumer loss recovery payments. After adjusting for 5% interest on the "unpaid" balance, the total repayments to the BSF would equal $139.3 million. Based on $16.0 million annual repayments, the payment schedule would be as appears in Table 1.

Table 1: Budget Stabilization Fund Repayment Schedule ($ in Millions)

Fiscal Year	Principal	Interest	**Payback**	Debt-Carryforward
2001	$116.2	$ 0	**$(16.0)**	$100.2
2002	100.2	5.0	**(16.0)**	89.2
2003	89.2	4.5	**(16.0)**	77.7
2004	77.7	3.9	**(16.0)**	65.6
2005	65.6	3.3	**(16.0)**	52.8
2006	52.8	2.6	**(16.0)**	39.5
2007	39.5	2.0	**(16.0)**	25.4
2008	25.4	1.3	**(16.0)**	10.7
2009	10.7	0.5	**(11.3)**	0.0
Total		$23.1	**$(139.3)**	

Budget Stabilization Fund Status

The Chairman has also requested that we update the Committee on the overall status of the BSF. Under state law, the calculation of BSF deposits or withdrawals is based on the growth in adjusted Arizona personal income. If personal income grows more quickly than the average of the last 7 years, the statutory formula suggests a deposit. If personal income growth is less than the trend growth rate, and less than 2.0%, the formula would result in a withdrawal.

During the legislative session, we had anticipated that calendar year (CY) 2000 personal income growth would be 4.7%, or (1.4)% slower than the estimated 7-year average. While slower than average, estimated CY 2000 personal income growth was still higher than the 2.0% threshold necessary for a withdrawal from the BSF.

(Continued)

The Economic Estimates Commission has just released its final CY 2000 personal income calculations. The EEC consists of the director of the Department of Revenue and two other independently appointed economists. They have calculated that CY 2000 income grew by 7.31%, which is actually 0.47% higher than the final 7-year average of 6.84%.

Since personal income grew faster than the average, the BSF formula calls for a $28.0 million deposit from the General Fund to the BSF. There is no provision, however, for an automatic transfer and the Legislature would need to appropriate the funds for this event to occur.

RS/JR:ag

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 20, 2001

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

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES - REVIEW OF BEHAVIORAL HEALTH CAPITATION RATE CHANGES

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX behavioral health programs.

Recommendation

The JLBC Staff recommends a favorable review of the request, since the proposed capitation rate changes are based upon an actuarial study. Further, DHS does not anticipate that a General Fund supplemental will be necessary to support the additional state match costs of $13,964,500 for this capitation rate adjustment. DHS believes that savings associated with the implementation of Proposition 204 in the non-Title XIX SMI program will be available to provide necessary state match for this adjustment. In addition, approximately $5,000,000 of funding from the Arnold v. Sarn Special Line Item will be used to fund SMI capitation rate increase.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims and encounter data and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DHS requests a change in rates, the new rates must be approved by AHCCCS. AHCCCS generally consults with their own actuaries to evaluate DHS's requests.

DHS has received approval from the Arizona Health Care Cost Containment System (AHCCCS) to change the capitation rates for the Children's Behavioral Health (CBH), Seriously Mentally Ill (SMI) and General Mental Health/Substance Abuse (GMH/SA) line items on July 1, 2001, and has submitted a plan showing the estimated cost of the rate changes for the Committee's review.

The following table shows the budgeted and proposed capitation rates for each program and JLBC Staff estimates for cost impact by program above the FY 2002 appropriation based on the enrollment projections used in developing the FY 2002 appropriation. Final costs based on the new capitation rates may be higher or lower, depending upon the actual number of people that are eligible for Title XIX behavioral health services.

Anticipated Costs of Capitation Rate Changes in FY 2002 Above the Appropriated Levels

Program	FY 2002 Budgeted Rate	Proposed FY 2002 Rate	Dollar Change	% Change Above Budgeted Rate	Additional Anticipated State Match Cost	Additional Anticipated Federal Cost	Additional Anticipated Total Cost
CBH	$25.24	25.94	$0.70	2.7	$862,000	$1,613,100	$2,475,100
SMI	$56.97	75.61	$18.64	24.7	11,158,900	20,882,000	32,040,900
GMH/SA	$14.57	17.82	$3.25	18.2	1,943,600	3,637,000	5,580,600
TOTAL					**$ 13,964,500**	**$26,132,100**	**$40,096,600**

Actuaries based adjustments in the capitation rates on a number of factors, including normal inflation costs. Other factors also contributed to the size of this year's capitation rate increases include the availability of more accurate data from the RBHAs, the rising cost of prescription drugs, the implementation of a new care model for the seriously mentally ill, and changes in a fee schedule used to reimburse RBHAs.

Problems with claims data had kept capitation rates artificially low. During the course of FY 2001, DHS invested significant time in improving the accuracy and completeness of this data obtained from the RBHAs, which has resulted in adjustments to the base rate. The actuaries also found the cost of prescription drugs to be escalating at an annual rate of approximately 20%, significantly higher than the rate of inflation, and adjusted the capitation rates for this increase.

DHS plans to implement a care model that expands services provided to the Title XIX seriously mentally ill population throughout the state. This model focuses on a range of residential and support services. DHS plans that this portion of the capitation rate increase will be funded from the Arnold v. Sarn Special Line Item. DHS anticipates that approximately $5,000,000 from the General Fund will be used during FY 2002 for these expanded services, and expects that approximately $14,300,000 in Total Funds will be available. This proposal will be discussed more completely in the review of the Arnold v. Sarn expenditure plan (See Item 3B).

DHS is also updating the fee schedule that is used to reimburse by RBHAs to reimburse providers that had not been updated in 10 years. While RBHAs are reimbursed by DHS using a capitated model, most RBHAs reimburse their contracted providers on a fee-for-service basis. Changes in this schedule will increase payments received by individual providers, and will necessarily increase the capitation rates paid to the RBHAs by DHS. DHS intends to phase this schedule in over the next two years. Combined with the inflationary and other increases detailed above, the JLBC estimate of the total cost of the Title XIX capitation rate changes is shown on page 1. This adjustment will also have an impact in the Non-Title XIX line items. DHS is estimating the Non-Title XIX impact will be approximately $10,600,000. This Non-Title XIX cost is not reflected in the table above. DHS does not anticipate that any supplemental funding will be necessary to accommodate this change in fee schedule, as DHS plans on using savings associated with the implementation of Proposition 204 to fund this increase.

As mentioned above, a footnote in the General Appropriation Act requires DHS to submit an expenditure plan to the Committee prior to implementing any change in capitation rates in the Title XIX behavioral health programs. In the past, capitation rate changes were implemented without notification of the Legislature. The footnote was added so that legislators would be made aware of these changes and the potential budget impacts before the new rates are implemented.

Based on enrollment projections used in developing the FY 2002 appropriation, the capitation rate changes will create an increase of $862,000 associated with the children's programs, an increase of $11,158,900 associated with the SMI program, and an increase of $964,500 for General Mental Health. The actual cost of the capitation rate increase will depend upon the number of people that are eligible for Title XIX behavioral health services. Over the past several months, AHCCCS enrollment has been sharply increasing, so the actual cost of these changes may well be greater is anticipated.

RS:GG:ck

Arizona Department of Health Services

Office of the Director

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JANE DEE HULL, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

JUN 15 2001

RECEIVED JUN 15 2001 JOINT BUDGET COMMITTEE

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

Dear Representative Knaperek:

Pursuant to Laws 2001, Chapter 236, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting on June 28, 2001, to discuss (1) the proposed changes to the Behavioral Health Services capitation rates for FY 2002; (2) the Seriously Mentally Ill expenditure plan; and (3) proposed changes to the Children's Rehabilitative Services capitation rate for FY 2002.

Behavioral Health Capitation Rate Adjustment The Department is submitting Title XIX capitation rates effective July 1, 2001, for your review. The rates were developed by William M. Mercer, Inc. and include the following major adjustments:

- Base Capitation Rate Adjustment for all Populations
- Prescription Drug Adjustment for all Populations
- Arizona State Hospital IMD Impact
- Service Matrix Rate Adjustment for all Services/Populations – Phase I
- "Leff Report" Add-On for Seriously Mentally Ill (SMI) Services

Attachment #1 includes a breakdown of the current and proposed capitation rates. The Service Matrix Rate Adjustment will be implemented in two phases beginning July 1, 2001(FY 2002). Phase I reflects 50% of the rate adjustment, which will be fully implemented with Phase II in FY 2003. We plan to fund the general fund match from savings generated in the state-only line items (subvention) by converting behavioral-health enrolled members to Title XIX /Proposition 204.

The Department estimates that the general fund requirement for these adjustments, exclusive of the Leff Report add-on, is approximately $23.8 million. We further estimate that $40.8 million will be available from the state-only special line items to fund the capitation rate adjustments. A corresponding adjustment in the state-only line items for the service matrix rate adjustment of approximately $10.6 million is included. Transfers between special-line items will be required to implement this plan.

Seriously Mentally Ill Expenditure Plan Also, the Department is submitting an expenditure plan for the newly developed Arnold v. Sarn special-line item. Our plan is to allocate $19.5 million in general fund ($27.5 million appropriated for Arnold v. Sarn less $8.0 million in appropriated offsets) of which $5.0 will be federalized to draw down approximately $9.3 million in federal funds for a total fund allocation of $28.8 million in the Arnold v. Sarn special-line item.

The expenditure plan uses the "Leff Report" model to develop residential, rehabilitation, intensive and assertive treatment teams, and other needed services along the continuum of care. It is important to note that the unique services are estimates and will adjust as the mix between the Non-Title XIX and Title XIX eligible populations also adjust. The plan can be found as Attachment #2.

Arizona State Hospital Transfer The Department proposes to use a combination of Proposition 204 savings, prior year Title XIX residuals, and other appropriations to fund the Arizona State Hospital $12.5 million transfer in accordance with Laws 2001, Chapter 236. However, should additional General Funds become available during FY2002 to alleviate the transfer, DBHS may be able to increase the funding for services to persons with Serious Mental Illnesses.

Proposition 204 Update In conjunction with AHCCCS, we are actively outreaching to behavioral health enrolled members and assisting them with the eligibility process so that they may become Title XIX-eligible under the Proposition 204 expansion. To date, approximately 1,600 non-Title XIX behavioral-health enrolled persons with a serious mental illness have converted from the state-only program to Title XIX status. An additional 550 applications have been received by AHCCCS for determination of eligibility.

Estimated FY 2002 Budget for Seriously Mentally Ill Services For FY 2002 As a result of these capitation changes, new funding approved during this last legislative session, and the passage of Proposition 204, we estimate that approximately $306 million will be available in FY 2002 for Seriously Mentally Ill services. This represents an increase of $126 million over FY 2001. Attachment #3 compares this data.

Attachment #4 provides detail of all the adjustments required for the Behavioral Health portion of this request.

Children's Rehabilitative Services Capitation Rate Adjustment

And finally, the Department is submitting capitation rates effective July 1, 2001, for the Children's Rehabilitative Services program. These rates were also prepared by William M. Mercer, Inc. and are shown in Attachment # 5. The rates are unchanged from FY 2001 except that genetics services were added to the rate. Previously, genetics services were provided under separate contract on a fee-for-service basis. Attachment #6 includes the estimated FY 2001 and FY 2002 member months and funding allocations by site.

If you need additional information, please contact me at 542-1025, or Leslie Schwalbe at 553-9002.

Sincerely,

Catherine R. Eden
Director

CRE:LS:adlt

cc: Senator Ruth Solomon
Tom Betlach, Director, OSPB
Bob Chapko, Manager, OSPB
Christine Sato, Analyst, OSPB
Richard Stavneak, Director, JLBC
Jennifer Vermeer, Assistant Director, JLBC
Gina Guarascio, Analyst, JLBC
Danny Valenzuela, Deputy Director, ADHS
Leslie Schwalbe, Deputy Director, ADHS
Michael Fett, Chief, Bureau of Financial Operations, ADHS/DBHS
Peter Vazquez, Acting Administrator, Central Budget Office, ADHS
Anne Ronan, Center for Disability Law
Regional Behavioral Health Authority CEOs

Arizona Department of Health Services/Division of Behavioral Health Services
Capitation Rate Impact Summary
(Based on PMPM)

Attachment #1

Children

	Current Rates	Recommended Rates	Percent Change	Trend and Program Changes Added Cost	Leff Report Added Cost	Fee Schedule Added Cost
Statewide Rate	**$ 24.29**	**$ 25.94**	**6.8%**	**$ 0.27**	**$ -**	**$ 1.38**

SMI

	Current Rates	Recommended Rates	Percent Change	Trend and Program Changes Added Cost	Leff Report Added Cost	Fee Schedule Added Cost
Statewide Rate	**$ 54.31**	**$ 75.61**	**39.2%**	**$ 11.23**	**$ 8.30**	**$ 1.77**

GMH/SA

	Current Rates	Recommended Rates	Percent Change	Trend and Program Changes Added Cost	Leff Report Added Cost	Fee Schedule Added Cost
Statewide Rate	**$ 13.89**	**$ 17.82**	**28.3%**	**$ 3.43**	**$ -**	**$ 0.50**

Attachment #4

ADHS/DBHS
FY 2002 General Fund Fiscal Impact Analysis
July 1, 2001 Rate Adjustments

		SMI	GMH/SA	Children	Total
Title XIX Medicaid					
Capitation Adjustment - 7/1/01		$ 4,588,742	$ 1,152,210	$ 4,293,444	**$ 10,034,396**
Service Matrix Rate Adjustment - 7/1/01	(1)	$ 1,403,079	$ 353,129	$ 1,311,396	**$ 3,067,604**
Leff Report Add-on Adjustment - 7/1/01		$ 5,000,000	$ -	$ -	**$ 5,000,000**
Subtotal Title XIX Medicaid		**$ 10,991,821**	**$ 1,505,339**	**$ 5,604,839**	**$ 18,102,000**
Subvention Funding					
Service Matrix Rate Adjustment - 7/1/01	(1)	**$ 7,244,877**	**$ 2,165,336**	**$ 1,239,788**	**$ 10,650,000**
Total New General Fund Monies Needed for FY 2002		**$ 18,236,698**	**$ 3,670,675**	**$ 6,844,627**	**$ 28,752,000**

Footnotes:

(1) Amounts are 50% of Service Matrix FFS rate adjustments effective 7/1/01 for Title XIX ($6,241,900) and Non-Title XIX ($21,300,000).

Arizona Department of Health Services

Attachment #4

Percent Allocation of Rate Adjustment by Title XIX and Non-Title XIX and Population

	Title XIX	%	Non-Title XIX	%
SMI	$ 99,553,700	**45.7%**	$ 84,808,800	**68.0%**
GMH/SA	$ 25,055,800	**11.5%**	$ 25,347,500	**20.3%**
Children	$ 93,048,400	**42.7%**	$ 14,513,000	**11.6%**
Total	**$ 217,657,900**	**100.0%**	**$ 124,669,300**	**100.0%**

Source: FY 2002 Appropriation

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 20, 2001

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

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES - REVIEW OF EXPENDITURE PLAN FOR ARNOLD v. SARN SPECIAL LINE ITEM

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to expending any funding for the Arnold v. Sarn Special Line Item in Behavioral Health. DHS is requesting review of its FY 2002 expenditure plan for this line item.

Recommendation

The JLBC Staff recommends a favorable review of the request as the plan appears technically consistent with legislative intent for the Arnold v. Sarn line item. Members, however, may wish to review the proposed distribution on page 3 to ensure that it meets their policy concerns.

Analysis

The FY 2002-2003 budget included $27,500,000 in FY 2002 and $54,902,100 in FY 2003 to address the requirements of the state's settlement in *Arnold v. Sarn* lawsuit in Maricopa County. Further, the General Appropriation Act specified that it is the intent of the Legislature that this funding be used throughout the state for all persons who meet the same criteria as those covered in the *Arnold v. Sarn* lawsuit. The General Appropriation Act also required DHS to present an expenditure plan to the Committee for its review.

The General Appropriation Act included a $(8,000,000) General Fund offset for receipts in FY 2002. In July of 1997, Governor Symington declared a Behavioral Health Emergency by Executive Order and DHS initiated court action to operate ComCare, the agency that at the time was contracted to provide mental health services in Maricopa County. During the course of FY

2000 and FY 2001, approximately $18,000,000 from the dissolution of ComCare, was placed in a Behavioral Health Trust Fund to be used to provide mental health services in Maricopa County. This fund is not part of the state accounting system nor the DHS budget. Monies in the trust fund have been used to provide a variety of behavioral health services in Maricopa County. In recognition of the additional source of revenue for behavioral health in Maricopa County, the FY 2002 General Fund appropriation for behavioral health was reduced by $(8,000,000). The General Appropriation Act did not specify where the $(8,000,000) reduction in the behavioral health budget needed to be made.

DHS plans to reflect the $(8,000,000) reduction in its entirety in the Arnold v. Sarn line item, leaving $19,500,000 to be allocated to each Regional Behavioral Health Authority (RBHA) based on a population formula. Of this amount, $14,500,000 will be used for services for the Seriously Mentally Ill that cannot be paid for using Title XIX funds. The sum of $5,000,000 will be used to adjust the Title XIX capitation rate for the Seriously Mentally Ill to expand Title XIX services. DHS expects to leverage an additional $9,300,000 in Federal Funds for these services, for a total of $28,785,000.

The expenditure plan continues the implementation of a model developed in the 1999 report from the Human Services Research Institute (frequently referred to as the Leff Report) that was commissioned by the Department in accordance with the exit stipulation in *Arnold v. Sarn*. This model focuses on the development of residential and rehabilitative services for the seriously mentally ill, the development of treatment teams, as well as other services. DHS uses the Leff Report to guide the expansion of both its Non-Title XIX and Title XIX Services.

In regard to non-Title XIX services, DHS is planning to spend approximately 39% of the Non-Title XIX allocation on residential services. Another 15% will be spent on community based clinical treatment teams. The remainder will support a variety of services, including emergency care, hospital-based inpatient services, outpatient services, rehabilitation, including supported employment, transportation, and medication. The DHS expenditure plan also provides funding for RBHA administrative expenses at their contracted rate of 8%, or $1,160,000. Finally, the expenditure plan provides that 4% of the RBHA's total expenses may be used as "profit". In this context, "profit" represents the excess of state reimbursement over actual operating costs. Profits are generally available for reinvestment in RBHA programs.

DHS plans to spend approximately 27% of the funding available for Title XIX services, including federal funds, on outpatient treatment. Another 21% will be spent on emergency services. DHS plans to spend 16% of the Title XIX funding on medications, 14% on clinical case management services, and 9% on hospital inpatient services. RBHAs may use 8% for their administrative expenses, and 5% may be used for "profit", again in accordance with the contracts.

At the request of the chair, JLBC Staff attempted to obtain information about how this new funding will affect the relative ranking of Arizona in relationship to other states in terms of behavioral health funding. This information has been difficult to obtain, and the accuracy of the information has been questioned by those that point out that in many states, behavioral health services are dispersed through many agencies in state and local governments, and the actual amount spent may therefore be underrepresented. The last survey, conducted in FY 1997, estimated that Arizona placed 17th among the states in terms of average behavioral health spending per person. It is unclear what effect the additional funding will have on Arizona's relative ranking. It is reasonable to surmise, however, that in the absence of a large infusion of funds from other state comparable to the increase in Arizona's behavioral health system, the relative position of Arizona will rise.

Table 1 summarizes the DHS expenditure plan by type of service, as well as dollar allocation for both Title XIX and non-Title XIX services. This plan is consistent with plans circulated during the FY 2001 Legislative session.

At the Chairman's request, JLBC Staff is in the process of preparing material comparing the previous spending plan to the new plan. Staff plans to distribute that information at the Committee meeting.

FY 2002 Arnold v. Sarn Expenditure Plan, as submitted by DHS

	Non-Title XIX Services	%	Title XIX Services	%	Total	%
Residential Services	5,660,000	39%	-	0%	5,660,000	20%
Emergency Services	390,000	3%	3,070,000	21%	3,460,000	12%
Hospital Services	1,070,000	7%	1,285,000	9%	2,355,000	8%
Outpatient Treatment	1,190,000	8%	3,890,000	27%	5,080,000	18%
Rehabilitation	1,260,000	9%	-	0%	1,260,000	4%
Clinical Case Management	2,220,000	15%	1,930,000	14%	4,150,000	14%
Community Support	480,000	3%	-	0%	480,000	2%
Medication	140,000	1%	2,260,000	16%	2,400,000	8%
Other	350,000	2%	-	0%	350,000	1%
RBHA Administration	1,160,000	8%	1,140,000	8%	2,300,000	8%
RBHA Risk Corridor or "Profit"	580,000	4%	710,000	5%	1,290,000	4%
TOTAL	**14,500,000**		**14,285,000**		**28,785,000**	

RS:GG:ck

Arizona Department of Health Services/Division of Behavioral Health Services
FY 2002 Arnold v. Sarn SMI Spending Plan

Attachment #2

RBHA: Statewide	Projected FY 2002	Projected FY 2002	
	SMI Subvention	SMI Title XIX	
Leff Categories	Services	Services	
Residential			
1. Intensive Staff/ Supervision	$ 2,121,244	$ -	
2. Moderate Staff/ Supervision	$ 561,104	$ -	
3. Minimum Staff/ Supervision	$ 717,066	$ -	
4. Independent Living w/ Housing Subsidy	$ 564,584	$ -	
5. Independent Living w/o Housing Subsidy	$ 287,123	$ -	
6. Specialized Residential	$ 1,406,330	$ -	
SUBTOTAL	$ 5,657,452	$ -	
Emergency			
7. Crisis Outreach	$ 141,106	$ -	
8. Crisis Emergency Walk-In	$ 141,145	$ -	
9. Crisis Residential	$ 103,082	$ -	
10. Respite Care	$ 4,588	$ -	
SUBTOTAL	$ 389,921	$ 3,071,250	
Hospital			
11. Inpatient - Specialty/State	$ 968,368	$ -	
12. Inpatient - General	$ 75,841	$ -	
13. Inpatient - Forensic	$ -	$ -	
14. Inpatient - Detoxification	$ 30,727	$ -	
SUBTOTAL	$ 1,074,935	$ 1,285,500	
Outpatient Treatment			
15. Evaluation (Diagnosis)	$ 3,054	$ -	
16. Court Ordered Evaluation	$ 56,110	$ -	
17. Individual Psychotherapy	$ 61,648	$ -	
18. Group Psychotherapy	$ 113,654	$ -	
19. Family Psychotherapy	$ 226,419	$ -	
20. Therapeutic Supervision	$ -	$ -	
21. Outpatient Detoxification	$ 112,221	$ -	
22. Substance Abuse Counseling	$ 589,426	$ -	
23. Methadone Maintenance Clinic	$ 28,055	$ -	
SUBTOTAL	$ 1,190,588	$ 3,885,500	
Rehabilitation			
24. Psychosocial Rehabilitation	$ 658,762	$ -	
25. Consumer Operated Services	$ 13,920	$ -	
26. Vocational Assessment	$ 24,360	$ -	
27. Supported Employment	$ 561,104	$ -	
28. Supported Education	$ -	$ -	
SUBTOTAL	$ 1,258,146	$ -	
Clinical Case Management			
29. Assertive Community Treatment	$ 1,735,242	$ -	
30. Intensive Clinical Services	$ 471,526	$ -	
31. Medication Management	$ 13,050	$ -	
SUBTOTAL	$ 2,219,818	$ 1,928,700	
Support			
32. Protection & Advocacy	$ -	$ -	
33. Transportation	$ 336,924	$ -	
34. Family Psychoeducation	$ 140,276	$ -	
35. Friend Advocacy	$ -	$ -	
SUBTOTAL	$ 477,200	$ -	
Other			
Medication	$ 143,939	$ 2,257,000	
SUBTOTAL	$ 143,939	$ 2,257,000	
Capital/Lease Expenses	$ 348,000	$ -	
RBHA Administration (as per contract - 8%)	$ 1,160,000	$ 1,142,800	
RBHA Risk Corridor (as per contract - 4% NT19 and 5% T19)	$ 580,000	$ 714,250	
Total New SMI Funding	$ 14,500,000	$ 14,285,000	$ 28,785,000
Additional State Match for New Title XIX Services		$ 5,000,000	
Total New Federal SMI Funding		$ 9,285,000	

Arizona Department of Health Services/Division of Behavioral Health Services
SMI Funding Comparison
FY 2001 and 2002

Attachment #3

SMI Funding		FY 2001 Federal Funds	FY 2001 State Funds	FY 2001 Total Funds		FY 2002 Federal Funds	FY 2002 State Funds	FY 2002 Total Funds
Title XIX	(1), (6)	$ 57,335.4	$ 29,794.1	**$ 87,129.5**	(5), (6)	$ 76,266.0	$ 41,106.5	**$ 117,372.5**
Title XIX - Proposition 204	(3)	$ 3,423.7	$ 1,779.5	**$ 5,203.2**	(3)	$ 54,136.0	$ 28,311.6	**$ 82,447.6**
Subtotal Title XIX		**$ 60,759.1**	**$ 31,573.6**	**$ 92,332.7**		**$ 130,402.0**	**$ 69,418.1**	**$ 199,820.1**
Non-Title XIX (state-only) - prior to hospital transfer	(1), (6)	$ -	$ 77,408.8	**$ 77,408.8**	(6)	$ -	$ 64,417.0	**$ 64,417.0**
Transfer to AZ State Hospital		$ -	$ -	**$ -**	(7)	$ -	$ (12,500.0)	**$ (12,500.0)**
Less: Prior Year Residuals		$ -	$ -	**$ -**		$ -	$ 5,229.9	**$ 5,229.9**
Less: Vaccines		$ -	$ -	**$ -**		$ -	$ 500.0	**$ 500.0**
Subtotal Non-Title XIX		**$ -**	**$ 77,408.8**	**$ 77,408.8**		**$ -**	**$ 57,646.9**	**$ 57,646.9**
HB 2003	(1), (2)	$ -	$ 10,000.0	**$ 10,000.0**	(2)	$ -	$ 20,000.0	**$ 20,000.0**
Arnold v. Sarn		$ -	$ -	**$ -**	(4)	$ 9,285.0	$ 19,500.0	**$ 28,785.0**
Total		**$ 60,759.1**	**$ 118,982.4**	**$ 179,741.5**		**$ 139,687.0**	**$ 166,565.0**	**$ 306,252.0**

(Amounts in 000's)

Footnotes:

(1) Based on the FY 2001 appropriation and supplementals.
(2) Based on HB 2003 Appropriation of $50 million with payments to the RBHAs of $10 million in FY01 and $20 million in FY 2002 and 2003.
(3) Based on the 4/01/01 MNMI and QMB conversion groups for FY 2001. Amounts for FY 2002 are based on projected conversion estimates of Non-Title XIX clients to Title XIX and new Title XIX eligibles.
(4) Based on the Arnold v. Sarn $27.5 million, reduced by the $8 million offset for receipts. A total of $19.5 million will go into new services with $14.5 million for Non-Title XIX services and $5 million to be used as state match to draw down an additional $9.2 million of federal funds.
(5) Based on the FY 2002 appropriation and the 7/01/01 capitation and fee-for-service rate adjustments.
(6) No county IGA or non-Medicaid federal dollars (grants) are included.
(7) Transfer may be necessary due to revenue limitations.

Arizona Department of Health Services
FY 2002 General Fund Summary of Funding

Attachment #4

	SMI	GMH/SA	Children	Total
Total New GF Funding Available in FY 2002 (1)	$ 33,958,557	$ 12,773,948	$ 3,785,932	**$ 50,518,437**
New GF Required for 7/1/01 Rate Adjustments	$ (18,236,698)	$ (3,670,675)	$ (6,844,627)	**$ (28,752,000)**
Adjusted New GF Monies Available for Distribution	**$ 15,721,859**	**$ 9,103,273**	**$ (3,058,695)**	**$ 21,766,437**
Additional Arnold v. Sarn Non-Title XIX SMI Allocation - FY 2002	$ (14,500,000)	$ -	$ -	**$ (14,500,000)**
Remainder (2)	**$ 1,221,859**	**$ 9,103,273**	**$ (3,058,695)**	**$ 7,266,437**

Footnotes:

(1) Included in the SMI column is $5,000,000 of new GF monies for a Leff Report Title XIX prospective add-on rate. This brings the total Arnold v. Sarn GF line item in FY02 to $19,500,000 ($14,500,000 + $5,000,000).

(2) Of the amount remaining in GMH/SA, approximately $3.1 million will need to be transferred to the Children's Title XIX state match line.

Arizona Department of Health Services
FY 2002 Fiscal Impact of Prop. 204, New General Fund and Offsets

Attachment #4

	SMI	GMH/SA	Children	Total
Savings from Prop 204 for FY 2002	$ 28,228,657	$ 12,373,948	$ 285,932	**$ 40,888,537**
Savings in KidsCare Due to Removal of Limitations	$ -	$ -	$ 500,000	**$ 500,000**
Legislative Offsets:				
AZ State Hospital - DSH Funding Reduction	$ (12,500,000)	$ -	$ -	**$ (12,500,000)**
Offset of receipts	$ (8,000,000)	$ -	$ -	**$ (8,000,000)**
Tobacco Tax Psychotropic Meds SMI Funding Reduction	$ (8,600,000)	$ -	$ -	**$ (8,600,000)**
Subtotal Legislative Offsets	**$ (29,100,000)**	**$ -**	**$ -**	**$ (29,100,000)**
New Arnold v. Sarn GF Funding for FY 2002	**$ 27,500,000**	**$ -**	**$ -**	**$ 27,500,000**
Other Resources:				
FY 2002 Title XIX Appropriation Inflation Adjustment	$ 1,600,000	$ 400,000	$ 1,500,000	**$ 3,500,000**
FY 2001 and Prior Year Residuals	$ 5,229,900	$ -	$ -	**$ 5,229,900**
Base Tobacco Tax Money (1)	$ -	$ -	$ 1,500,000	**$ 1,500,000**
Vaccine Supplemental	$ 500,000	$ -	$ -	**$ 500,000**
Subtotal Other Resources for FY 2002	**$ 7,329,900**	**$ 400,000**	**$ 3,000,000**	**$ 10,729,900**
Total New GF Funding Available in FY 2002	**$ 33,958,557**	**$ 12,773,948**	**$ 3,785,932**	**$ 50,518,437**

Footnotes:

(1) $1.5 million represents the amount of funding allocated by H.B. 2238.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 28, 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 - BACKGROUND INFORMATION ON ARIZONA WORKS PROGRAM AND BIMONTHLY REPORT UPDATE

Request

Chairman Knaperek has asked JLBC Staff to provide the Committee with background information regarding the Arizona Works pilot welfare program. Pursuant to A.R.S. § 46-342, 46-342.01, and 46-344, the Committee has several statutory responsibilities for Arizona Works. In addition, the Arizona Works vendor, MAXIMUS, has submitted its bimonthly progress report.

Recommendation

This item is for information only and no Committee action is required. The Committee's responsibilities pertaining to Arizona Works include the following items:
- determining the administrative baseline cost
- determining yearly caseload reduction savings
- receiving bimonthly reports from the Arizona Works vendor
- evaluating the Arizona Works program one year after the first year of implementation

Analysis

Program Background

The Arizona Works program was established by Laws 1997, Chapter 300 and Laws 1998, Chapter 211. The program replaced the EMPOWER Redesign welfare program operated by the Department of Economic Security (DES) in DES' District I-E. District I-E is centered around the eastern part of Maricopa County. Major components of the Arizona Works included changing the changing benefit payment structure and privatizing the delivery of eligibility and job training services. The Arizona Works Agency Procurement Board oversees the program. The Procurement Board is a 9-member board

(Continued)

appointed by the Governor and consisting of the DES director and 8 private sector members as outlined in A.R.S. § 46-343. Chapter 211 included a provision permitting the Arizona Works vendor to contract back with DES for Food Stamps and Medicaid eligibility determination if the federal government did not grant the state waivers to allow privatization of Food Stamps and Medicaid eligibility determination.

Administrative Costs

A.R.S. § 46-342 requires that the Joint Legislative Budget Committee determine the current total direct and indirect cost of administering the EMPOWER Redesign program in the Arizona Works pilot areas, and that the cost estimate including comparable costs and functions for the Arizona works program shall be used by the Arizona Works agency as the basis for the administrative savings. The statute requires that the program offer at least a 10% savings in administrative cost, not including starting costs of the first year of phasing in the program.

At its August 27, 1998 meeting, the Committee approved the JLBC Staff estimate of total direct and indirect costs of administering the EMPOWER Redesign program in the Arizona Works pilot area. This JLBC Staff estimate was outlined in a July 23, 1998 memorandum we have attached to this memo. In general, the estimate used the FY 1999 appropriation for the assorted welfare-related functions administered by DES statewide, backed out FY 1998 costs that would be retained by DES (e.g., operating the main server which stores client data), and applied the percentage of each program's population within District I-E compared to the state as a whole. This methodology produced a total full-year cost estimate of $13,390,000, consisting of the following 3 components:

- $6,080,100 for state-controlled cash assistance, job training, child care, and General Assistance programs, along with central administration for those programs
- $2,605,700 to administer the Food Stamps program
- $4,704,200 to administer the AHCCCS program

The Procurement Board used this administrative baseline estimate as part of its RFP. Bids were received in October 1998. While the Procurement Board evaluated the responses to the RFP, the state continued to negotiate with the federal government to obtain the waivers to permit the state to privatize eligibility determination for Food Stamps and Medicaid. On December 2, 1998, however, the United States Department of Agriculture (USDA) denied the state's request for waivers related to the Food Stamp program. The Health Care Financing Authority (HCFA) subsequently denied the Medicaid waiver.

In January 1999, the Procurement Board's selected vendor, MAXIMUS, signed a contract to administer the Arizona Works program. MAXIMUS submitted the bid before USDA and HCFA denied the state's waiver requests to privatize Food Stamps and Medicaid eligibility. It assumed that MAXIMUS' level of guaranteed funding as a percentage of the administrative baseline cost would gradually decline from 78% in FY 2000 to 66% in FY 2003, the contract's last year. This was based on the statutory requirement that costs could be no more than 90% of the administrative baseline. The Procurement Board, however, required bidders to submit bids guaranteeing no more than 80% of the baseline, with the difference between the guaranteed level of funding and the 90% maximum used for administrative incentives. Even after the federal government denied the Food Stamps and Medicaid waivers, however, those costs were included in the calculation of the administrative performance incentive pool.

Meanwhile, in September 1998, the federal government changed the way states were to allocate eligibility determination costs between the Temporary Assistance for Needy Families (TANF), Food Stamps, and Medicaid programs, effective July 1, 1999. The effect of this change in approach was to shift costs, all else being equal, from the TANF program onto the Food Stamps and Medicaid program. Even if total

(Continued)

costs for administering all 3 programs did not change, the cost allocation between the 3 programs did change.

The FY 2000 and FY 2001 DES and AHCCCS budgets included funding shifts (increased General Fund, decreased TANF Block Grant) to address this allocation change for the entire eligibility system. DES' and AHCCCS' FY 2000 and FY 2001 budgets also included a sizeable cut in eligibility workers, along with pay raises for those workers. Portions of the cut in workers and of the pay raise were passed through to MAXIMUS, resulting in a net decrease in contract reimbursement levels. We are not familiar with any discussions MAXIMUS, DES, and the Procurement Board may have had about incorporating the cost allocation shift into the MAXIMUS contract.

DES has stated that it does not have sufficient funding for the contract. As noted above, their budget was changed in FY 2000 to account for the change in cost allocation. Essentially, their General Fund budget was increased (to pay for the increased Food Stamp allocation), and their budget for TANF was decreased. DES states that the amount of money expected to be paid to MAXIMUS according to their current contract exceeds the amount budgeted for Arizona Works after the cost allocation shift.

DES has requested that the Committee revisit its July 23, 1998 administrative cost estimate to take into account the revised cost allocation. It is our understanding that there is a difference of opinion between Legislative Council and DES' Attorney General representatives on the legality of a revised administrative cost estimate. At the request of the Chairman Knaperek, we asked DES to have its Attorney General representatives meet with Legislative Council to discuss the issue. As of yesterday (June 27), however, Legislative Council indicated that DES' Attorney General representatives had not contacted them.

We would also note that although DES has presented its explanation for why the amount of money to be paid to MAXIMUS exceeded the budgeted amount in FY 2000 and FY 2001, DES did have sufficient funds to pay the MAXIMUS contract in FY 2000. Because DES has not requested supplemental funding, DES apparently also has sufficient funds to pay MAXIMUS at the original contract rates (pre-FY 2000 adjustments) for FY 2001.

Senator Solomon has requested that we recalculate the baseline based on the new cost allocation methodology and the latest available data. DES submitted this revised and updated material to us on Monday. Due to my paternity leave, I have not yet been able to start this analysis.

Mohave County Administrative Costs

A.R.S. § 46-343 requires that the Procurement Board also select a rural district or other district for the second phase pilot site for the third and fourth years of the pilot program beginning on January 1, 2001. The Procurement Board selected Mohave County as the site for this second phase. DES has also asked that the Committee, pursuant to A.R.S. § 46-342, determine the total direct and indirect costs of administering the EMPOWER Redesign program in Mohave County. Unlike District I-E, the Committee has not yet approved an estimate for the Mohave County area. In order to provide the Committee with a proposed estimate of administrative costs for Mohave County, JLBC Staff has requested updated data from DES. JLBC Staff received data from DES Monday and is in the process of analyzing the data.

Caseload Reduction Savings

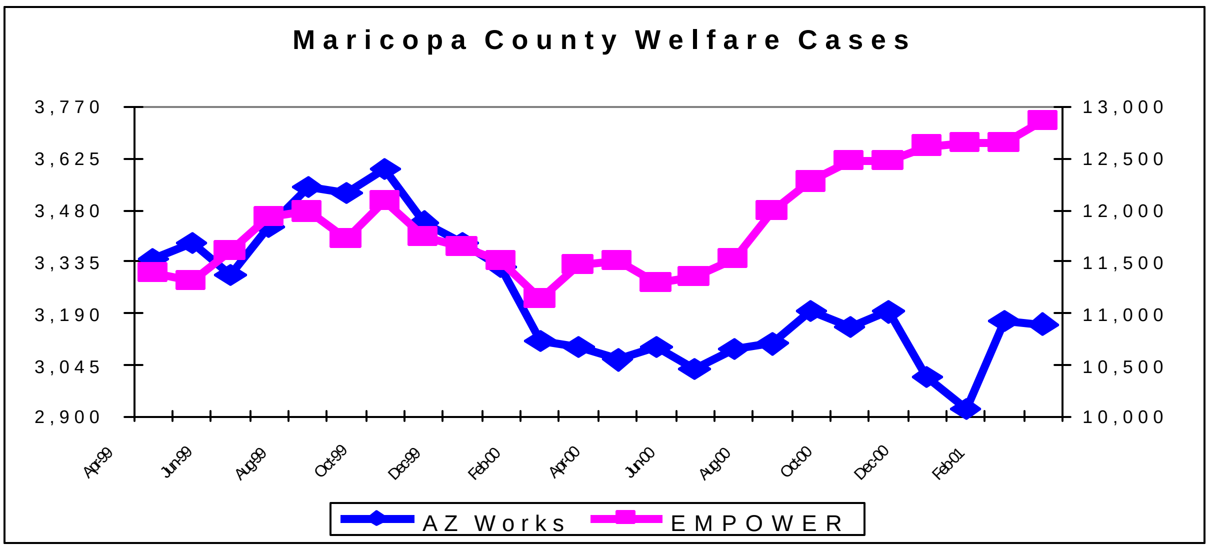
A.R.S. § 46-342.01 (B) requires that, "on or before February 15 of each year, the Joint Legislative Budget Committee shall determine the cash benefit dollar amount savings attributable to caseload reduction, if any, achieved for the previous calendar year by Arizona Works." In another agenda item for this meeting,

(Continued)

the JLBC Staff has presented an estimate for these savings using methodology approved by the Committee in February 1999. Please see the JLBC Staff memorandum for that item for further details.

Bimonthly Progress Report

As the vendor for the Arizona Works program, MAXIMUS is required to report to the Committee bimonthly. It submitted its latest report on May 15. Total caseloads in Arizona Works increased 2.3% from July 2000 to March 2001; over the same period of time, welfare caseloads in the rest of Maricopa County increased 11.6%. Caseloads in both Arizona Works and the rest of Maricopa County are shown in the graph below. The graph shows how that the difference in caseload performance between Arizona Works and the rest of Maricopa County has widened since July 2000. (Although the numbers of cases differ between Arizona Works and the rest of Maricopa County, the scale is identical; the top figure on each vertical axis is 30% higher than the low number on the axis.) This difference in caseload performance has not been adjusted for demographic or economic differences between the two programs. The independent evaluator (see below) may address this issue as part of its evaluation.



The bimonthly report also indicates that the contract for the expansion of the pilot into Mohave County, scheduled for January 1, 2001, is still pending. DES has submitted a proposed budget based on the "JLBC methodology" for calculating administrative costs to MAXIMUS; it is our understanding that MAXIMUS has not agreed to the proposed budget.

JLBC Evaluation of Arizona Works

A.R.S. § 46-344 requires that the JLBC evaluate the Arizona Works program one year after the first year of implementation. The statute requires that the evaluation determine the following:

1. If the outside vendor has met the requirements of the contract.
2. If the vendor has met the goals of the Arizona Works program.
3. If the vendor has met the requirements of the performance bond.
4. The fiscal impact of Arizona Works implementation.
5. The impact of Arizona Works on the following:
   (a) Placement of recipients in paid employment.
   (b) Caseload reduction.

(Continued)

(c) Development of community partnerships.
(d) Placement of individuals who were previously exempt under the Job Opportunities and Basic Skills program.
(e) Placement of individuals with higher than average lengths of stay on the program.
(f) Compliance with federal work participation rates.

The statute also states that if the JLBC determines that the contractor is meeting the above criteria, then it shall make a recommendation to the Arizona Works Agency Procurement Board and the Legislature regarding the first and second phases of the pilot program. The first phase of the program is the pilot in District I-E. The second phase of the program is the Mohave County expansion.

Although the Arizona Works program began accepting clients on April 1, 1999, clients were converted from EMPOWER Redesign to Arizona Works through June 1999. As a result, JLBC Staff considers the "first year of implementation" as having ended at the end of June 2000.

Other Evaluations of Arizona Works

A.R.S. § 46-345 requires that the Procurement Board select an independent evaluator to conduct and complete a performance review of the pilot program. The final report is to be submitted to the President of the Senate, the Speaker of the House of Representatives, the Joint Legislative Budget Committee, the Procurement Board, and the Governor by January 1, 2003. The Procurement Board selected Abt Associates, an evaluation firm, to conduct the performance review.

Abt Associates has issued two draft interim reports, one studying the Arizona Works process and the other studying the impact of Arizona Works. The draft process study interim report, dated October 14, 2000, provides details on initial program planning and start-up, the organization of Arizona Works and EMPOWER Redesign, intake and benefit determination, support services (including training), and stakeholder perceptions. This report included the statement that "MAXIMUS met the requirements of the Arizona Works pilot program and established a solid welfare-to-work program," though the report cautioned that the observation was "not intended to assess the overall quality or effectiveness of the Arizona Works program relative to EMPOWER Redesign." The report mentions that the pilot is "less than a clear-cut test of privatization."

The draft impact study interim report, dated December 12, 2000, discusses the impact on employment and public assistance receipt. Regarding employment effects, Unemployment Insurance wage data suggest that the difference in employment rates in Arizona Works and its comparison area through March 2000 is statistically insignificant, whereas placement data reported by MAXIMUS and DES job placement staff suggest that Arizona Works did have higher placement rates at a statistically significant level. Regarding effects on receipt of public assistance, the data suggest that average monthly TANF benefit levels for Arizona Works increased by about 50%. One possible reason for this increase is that the flat grants in the Arizona Works program are not reduced by a fraction of earned income, as they are in EMPOWER Redesign (as long as the family does not earn so much as to become ineligible to receive TANF). We would caution, however, that the reports prepared by Abt Associates are not only interim in nature but are also significantly more complex than can be addressed in this memorandum.

We would also note that the Goldwater Institute has issued its own report on Arizona Works. This February 2001 report is not related to the independent evaluation conducted for the Procurement Board by Abt Associates. The Institute's report noted that MAXIMUS met 4 of the 7 performance measures in its contract with the Performance Board that are tied to incentive funding. The report stated that "many of these goals require the contractor to outperform the state's program, EMPOWER, by 10 to 30 percent."

(Continued)

The study also reported that salaries of former state employees increased 31.5% on average since they started working for MAXIMUS.

Finally, Laws 2001, Chapter 345 added a provision to A.R.S. § 46-345 requiring the Auditor General, from and after December 31, 2001, to conduct an annual audit of the Arizona Works program.

Attachment
RS/SSh:ag

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

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MARION L. PICKENS
CHRISTINE WEASON

DATE: June 20, 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 - DETERMINE ARIZONA WORKS CASELOAD REDUCTION SAVINGS

Request

Pursuant to A.R.S. § 46-342.01(B), the Joint Legislative Budget Committee each year shall determine the cash benefit dollar amount savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program. Up to 25% of the savings calculation may be awarded by the Arizona Works Agency Procurement Board to the Arizona Works vendor as performance-based incentives. The JLBC Staff is presenting the Committee with its estimate of savings for calendar year (CY) 2000 based on methodology reviewed by the Committee at a February 1999 meeting.

Recommendation

The JLBC Staff recommends the Committee approve a calculation of cash benefit savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program for calendar year 2000. The Committee originally approved a calculation methodology in 1999. If the Committee continues to use that methodology, the Arizona Works vendor generated $727,600 in caseload reduction savings for CY 2000. Current statute allows up to 25% of these savings (or $181,900, in this circumstance) to be awarded by the Arizona Works Agency Procurement Board if the Arizona Works vendor meets performance-based incentives specified in its contract.

Analysis

Laws 1997, Chapter 300 created the Arizona Works pilot program. This program replaces the regular Temporary Assistance for Needy Families (TANF) assistance program, known as EMPOWER Redesign, in the Department of Economic Security's (DES) District I-E, centered around eastern Maricopa County. Laws 1998, Chapter 211 added A.R.S. § 46-342.01, which requires in part that "on or before February 15 of each year the Joint Legislative Budget Committee shall determine the cash benefit dollar amount savings attributable to caseload reduction, if any, achieved for the previous calendar year by Arizona Works." Up to 25% of these caseload reduction savings may be used by the Arizona Works Agency Procurement Board to award incentives to the vendor for satisfactory performance on several criteria.

(Continued)

The Procurement Board selected MAXIMUS as the vendor for the Arizona Works program, which began operation on April 1, 1999. The contract signed by MAXIMUS includes performance incentives using these caseload reduction savings based on MAXIMUS' success in meeting certain performance criteria.

At its February 1999 meeting, the Committee gave a favorable review to the JLBC Staff's blended caseload reduction methodology. This blended methodology combined 3 different options for calculating caseload reduction savings:

- Measuring caseloads against a fixed April 1, 1999 baseline
- Measuring caseloads against a moving baseline
- Adjusting caseloads for Maricopa countywide performance

Because each option had its own merits and because the statutory language gave little guidance to the Committee on how to calculated these savings, the reviewed methodology incorporated each option into its methodology. Measuring caseloads against a fixed baseline and a moving baseline were given a 25% weight, and adjusting caseloads for countywide performance were given a 50% weight. "Caseload" was defined as the unduplicated caseload in the Regular and Unemployed Parent programs, excluding child-only cases.

At its May 16, 2000 meeting, the JLBC approved the JLBC Staff's estimate of no caseload reduction savings attributable to the Arizona Works vendor for CY 1999. This estimate was based on the previously approved methodology discussed above.

Because caseload information for December 2000 was not available until after February 15, 2001 and has taken DES additional time to calculate, we are only able now to present the Committee with our estimate. The JLBC Staff has taken the data provided for Arizona Works and the rest of Maricopa County to calculate its caseload reduction savings estimate for CY 2000. The per case savings estimate of $273.72 per month (or $3,284.64 per year) reflects the average per-case payment in December 2000. The components of the calculation are described below.

Method 1: Measure Caseloads Against Fixed April 1, 1999 Baseline: This method compares the average caseload for each calendar year against a fixed April 1, 1999 baseline. The caseload in the Arizona Works pilot area on April 1, 1999 was 1,844 cases. The average end-of-month caseload for Arizona Works during CY 2000 was 1,617 cases. This means that the average decrease from the fixed April 1, 1999 baseline during CY 2000 was 227 cases. Assuming yearly savings of $3,284.64 per case, we estimate total savings for this method was $745,600.

Method 2: Measure Caseloads Against Moving Baseline: This method is similar to Method 1, but the baseline will be reset each year to the prior year's average caseload. The CY 1999 average caseload was 1,896 cases. As noted above, the average end-of-month caseload for Arizona Works during CY 2000 was 1,617 cases. This means that the average decrease from the CY 1999 average caseload during CY 2000 was 279 cases. Assuming yearly savings of $3,284.64 per case, we estimate total savings for this method was $916,400.

Method 3: Adjust Targets for Maricopa Countywide Performance: This method compares caseload performance in the Arizona Works pilot area with caseload performance in the rest of Maricopa County. The average caseload in the Arizona Works pilot area during CY 1999 was 1,896 cases. The average end-of-month caseload for Arizona Works during CY 2000 was 1,617 cases. This means that the average decrease in the Arizona Works area during CY 2000 was 279 cases, or 14.72%.

DES provided data on the caseload in the remainder of Maricopa County. Although this issue was not specified in the discussion on methodology in February 1999, JLBC Staff intent was to compare the performance of Arizona Works to DES' EMPOWER Redesign program. As in last year's calculation, we have excluded participants in welfare programs operated by the Salt River Pima-Maricopa and Pascua Yaqui Indian

(Continued)

communities in Maricopa County. These 2 communities operate their own welfare programs; they are not operated by DES. We have also used once again a definition of “child-only cases” in EMPOWER Redesign that matches that used by Arizona Works, that is, cases with no adult potentially subject to work requirements residing in the household.

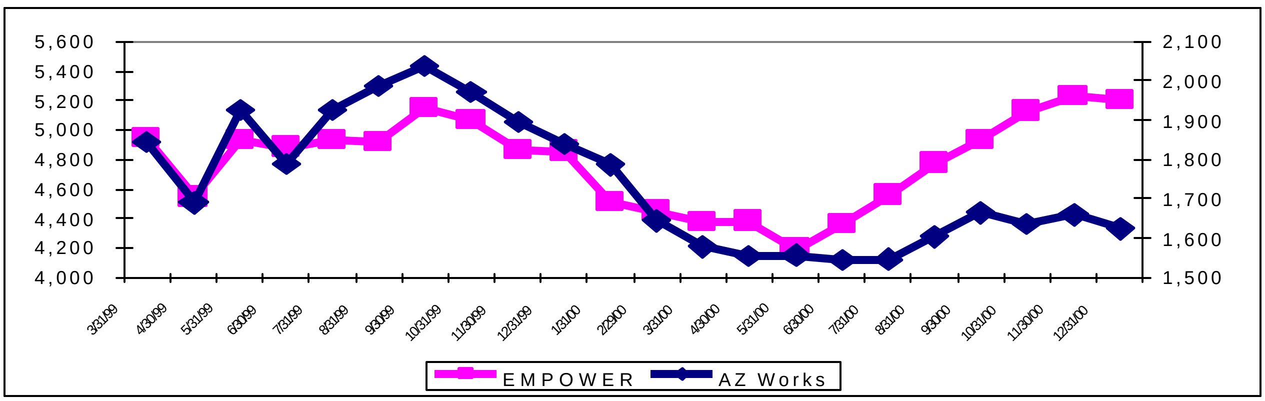
The average caseload in the EMPOWER Redesign in Maricopa County during CY 1999 was 4,906 cases. The average end-of-month caseload for EMPOWER Redesign during CY 2000 was 4,676 cases. This means that the average decrease in the EMPOWER Redesign area during CY 2000 was 230 cases, or 4.69%. The average caseload decrease in the Arizona Works pilot area (14.72%) exceeded that in the EMPOWER Redesign area (4.69%) by a total of 10.03%. Applying that percentage to the average number of cases during CY 1999, 1,896 cases, produces a total CY 2000 “Arizona Works only” decrease of 190 cases. Assuming yearly savings of $3,284.64 per case, we estimate total savings for this method was $624,100.

The table below summarizes the caseload figures used in calculating bonuses in each of the 3 methods.

Method	**CY 1999 Cases**[1/]	**Average # of CY 2000 Cases**	**Difference (% for “County” Method)**	**Total Savings**
Fixed Baseline	1,844	1,617	227	$745,600
Moving Baseline	1,896	1,617	279	$916,400
County Performance				
Non-AZ Works	4,906	4,676	230 (4.69%)	
AZ Works	1,896	1,617	279 (14.72%)	
-- Total Difference	1,896	1,706	190 (10.03%)	$624,100

1/ “Fixed Baseline” method reflects 4/1/99 caseload; other 2 methods use average CY 1999 caseload.

The graph below depicts the caseloads in Arizona Works and EMPOWER Redesign in the rest of Maricopa County used in this calculation.



Blending the Methodologies: As noted above, the approved methodology blends the 3 methods of calculating caseload reduction savings. The results of the blending are shown in the table below:

Methodology	**Bonus**	**Weighting**	**Blended Result**
Fixed Baseline	$745,600	25%	$186,400
Moving Baseline	916,400	25%	229,100
Countywide Adjustment	624,100	50%	312,100
TOTAL Performance Bonus			$727,600

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

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DATE: June 12, 2001

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

THRU: Richard Stavneak, Director

FROM: Bruce J. Groll, Senior Research/Fiscal Analyst

SUBJECT: ARIZONA HISTORICAL SOCIETY — CONSIDER APPROVAL OF TRANSFER OF APPROPRIATIONS

Request

Pursuant to A.R.S. § 35-173(E), the Arizona Historical Society requests Committee approval to transfer appropriations in FY 2001. Specifically, the Society requests to transfer $45,000 in General Fund monies as shown below:

TRANSFER FROM:		TRANSFER TO:	
Personal Services	$39,100	Other Operating Expenditures	$45,000
Employee Related Expenditures	5,900		
TOTAL	$45,000	TOTAL	$45,000

Recommendation

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

Analysis

A.R.S. § 35-173(E) requires the Committee to approve any transfer to or from Personal Services and Employee Related Expenditures (ERE) if those line items are separately delineated for an agency in the General Appropriation Act. The Arizona Historical Society's FY 2001 budget includes Personal Services and ERE as separate line items. The agency is proposing to transfer Personal Services and ERE funds to cover higher than expected utility and security costs.

(Continued)

The Society's utility costs have increased annually due to longer hours of operation and increased public access to Society facilities after hours for exhibits, meetings and special events throughout the year. In FY 2001, the Society estimates that its facilities have been open to the public for 1,950 non-traditional hours.

This is the fourth consecutive year that the Arizona Historical Society has made this request to JLBC. To resolve this recurring issue, the Legislature approved an increase of $80,000 for both FY 2002 and FY 2003 above FY 2001 for utilities in the Museum and Library program. Additionally, the Legislature approved changing the Society's budget format from *Modified Lump Sum by Agency* to *Lump Sum by Agency with Special Line Items* beginning in FY 2002, thus enabling the agency to transfer funds among operating lines without JLBC approval as special needs arise. While these actions will enable the Society to fully fund its utility costs for the next biennium and subsequent years, it does not address the immediate need in the current fiscal year.

The extended programming results in higher than expected utility costs because it takes more energy to maintain appropriate climate controls when the building is open to the public. The facilities must be maintained at constant climate controls of 70 degrees and 50 percent humidity in order to preserve the historical collections of artifacts, maps, manuscripts, photographs and other archival materials. Consequently, the Society's utility expenses have exceeded the budgeted amount for Other Operating Expenditures by $45,000.

RS/BJG:ss

Arizona Historical Society

founded by Arizona pioneers in 1884

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June 11, 2001

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The Honorable Laura Knaperek, Chair
Joint Legislative Budget Council
1716 W. Adams
Phoenix, Arizona 85007

Dear Representative Knaperek,

As a modified lump sum agency, the Arizona Historical Society (AHS) is required to request JLBC approval in order to transfer funds from Personnel Services to Operations. Accordingly, the Society is requesting the Committee's approval to transfer $45,000 from Personnel Services (vacancy savings) to Operations to cover excess utility costs.

The Society estimates that vacancy savings will result in $96,871 of available resources. If able to apply $40,000 of that to agency excess utility requirements, over $56,000 would remain available for reversion to the General Fund.

As you are aware, this is the fourth consecutive year that this agency has made this request to JLBC. Each prior request has been approved. Further, as a result of this recurring problem, the legislature has seen fit to approve additional operating funds in the AHS budget. While this will mediate future concerns, it does not address the current fiscal year's need.

Again, the Society requests that JLBC approves its request to transfer $40,000 from Personnel Services to Operations to cover excess utility costs.

Your consideration is greatly appreciated.

Sincerely,

William Ponder
Chief Administrative Officer

C. Senator Ruth Solomon, Co-Chair JLBC
Richard Stavneak, Director JLBC
Richard Shaw, President AHS
Marty Rondstat, Treasurer AHS
Anne Woosley, Executive Director
Terri Garcia, OSPB Analyst

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: June 21, 2001

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

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: ARIZONA PIONEERS' HOME – CONSIDER APPROVAL OF TRANSFER OF APPROPRIATIONS

Request

Pursuant to A.R.S. § 35-173(E), the Arizona Pioneers' Home requests Committee approval to transfer appropriations in FY 2001 to increase the Travel, Professional/Outside Services, and Other Operating Expenditures (OOE) line items. Specifically, the Pioneers' Home requests to transfer $63,000 as shown below:

TRANSFER FROM:		TRANSFER TO:	
Personal Services	$ 63,000	Travel	$5,000
		Professional/ Outside Services	15,000
		Other Operating Expenditures	43,000
		TOTAL	$63,000

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. The Pioneers' Home FY 2001 appropriation includes Personal Services and Employee Related Expenditures (ERE) as separate line items. Thus, Pioneers' Home is requesting Committee approval of a transfer from the Personal Services line item and Travel, Professional/Outside Services, and OOE line items.

(Continued)

The Pioneers' Home is requesting the transfer to cover expenses related to the purchase of a vehicle. In FY 2001, the Legislature provided funds to purchase a vehicle, but did not provide additional funding to support vehicle operations. Funds transferred to the Travel line item will cover these expenses. The requested transfer for Professional and Outside Services will support building security. In FY 2001, Pioneers' Home began contracting out for building security, which caused them to exceed their appropriation for this line item. This issue was addressed in the FY 2002-FY 2003 budget. Finally, the requested transfer for OOE is needed to support increased costs of regular operating expenses, including prescription drugs.

The JLBC Staff recommends the Committee approve the requested transfer.

RS:GG:ck

Arizona Pioneers' Home

Jane Dee Hull
Governor

300 South McCormick Street
Prescott, Arizona 86303

Jeanine Dike
Superintendent

June 15, 2001

Representative Knaperek, Chairperson JLBC

Subject: JLBC Meeting, June 28,2001

Dear Representative Knaperek:

This letter is a request that the following request to transfer funds within the Arizona Pioneers' Home 2001 appropriation be included on your June 28, 2001 JLBC meeting.

The Arizona Pioneers Home is requesting that :

$63,000 transferred from Personal Services
to:

1. $5,000 Travel
2. $15,000 Professional Outside Services
3. $43,000 Other Operating Expenses

Justification:

1. Travel: In the 2001 budget funds were appropriated to purchase a vehicle (lease from ADOA Motor Pool) there was no additional money placed in the APH budget to cover the expenses for operating the vehicle in the same budget. This transfer will cover the additional costs, which are charged to TRAVEL.
2. Professional Outside Services: The Pioneers' Home has contracted out its building security for the first time starting in April 2000, the costs for this service has come from the Professional Outside Services account. The program started after the budget for FY 2001 was approved and has caused us to go over the appropriation in that line item. A change in the appropriation was made in the 2002/2003 Appropriation.
3. OOE: Normal operating expensed has exceeded our original estimates in all areas of Operating Expenses including drugs for residents, building materials in our building maintenance operation, medical supplies and other related expenditures.

Please include this request in your June 28,2001 JLBC adjenda and let us know if we can be of further assistance in your consideration of this request.

Sincerely:

Jeanine Dike

Jeanine Dike , Superintendent

CC: JLBC Staff

DATE: June 20, 2001

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF TRANSPORTATION – REPORT ON GRAND CANYON AIRPORT FUNDING

Request

The Arizona Department of Transportation (ADOT) requests that the Committee release $323,100 (6 months) of the FY 2002 appropriation to operate the Grand Canyon Airport until it is leased to a non-profit corporation. The General Appropriation Act requires that ADOT report to Committee on its effort to privatize the airport prior to expending the FY 2002 appropriation.

Recommendation

The JLBC Staff recommends that the Committee concur with ADOT's request to release $323,100 for 6 months of funding in FY 2002 to operate the Grand Canyon Airport. A General Appropriation Act footnote requires that no more than $53,800 may be made available to ADOT in any month.

The JLBC Staff further recommends that ADOT report back to the Committee by December 1, 2001, regarding the status of the lease, if ADOT has not leased the airport by then.

Analysis

The ownership and management of the Grand Canyon Airport was transferred from ADOT to the then newly established Grand Canyon Airport Authority on October 1, 1999, in accordance with Laws 1999, Chapter 213. The Authority was envisioned as having more local control, more freedom from the state bureaucracy, and with the ability to borrow funds for capital needs. However, ADOT subsequently determined that the Authority was a semi-autonomous state entity, instead of an independent municipal corporation, which still had to use the state accounting system, personnel system, and administrative rule making process. To remedy these shortcomings, Laws 2000, Chapter 99 was enacted. Chapter 99 eliminated the Grand Canyon Airport Authority, reverted any unexpended and unencumbered monies previously appropriated to the Authority to the State Aviation Fund, and returned the operation of the

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Grand Canyon National Park Airport to ADOT, effective July 18, 2000. ADOT had to lease the airport to a nonprofit corporation, to operate and develop the airport as provided in the lease, by March 1, 2001.

The funding source of the Grand Canyon Airport Authority's operating budget was to be airport user fees and charges. Laws 2000, Chapter 99 transferred all remaining collected but unspent airport related cash and revenues of the Grand Canyon Airport Authority, amounting to $1,123,800, to ADOT on July 18, 2000, and subsequently appropriated these monies to ADOT for transfer to the nonprofit corporation lessee on the effective date of the lease. These monies were to revert to the State Aviation Fund if they have not been transferred to the nonprofit lessee by July 1, 2001.

When ADOT attempted to negotiate a lease for the airport, they found that further statutory changes were needed. In response, Laws 2001, Chapter 99, was enacted. This Chapter 99 specifically exempts the Grand Canyon Airport lessee from bid requirements, mechanics liens, the personnel system, rule making procedures, and the procurement code. The Chapter removes the March 1, 2001 deadline for the lease, and removes the 20-year time limit on leases of the airport. The Chapter also extends the reversion of the airport related cash and revenues of the Grand Canyon Airport Authority from July 1, 2001 to July 1, 2002, if they have not been transferred to the nonprofit lessee by July 1, 2002.

Laws 2000, Chapter 99 still requires ADOT to submit the lease to the Joint Legislative Budget Committee for review at least 30 days before they intend to execute the lease. ADOT may not execute the lease until the Joint Legislative Budget Committee reviews the lease and submits a report summarizing the terms of the lease to the Speaker of the House of Representatives and the President of the Senate, which shall be within 30 days after receipt of the lease.

The General Appropriation Act included a $646,100 appropriation, as adjusted for statewide salary and other allocations, to ADOT in FY 2002 for the operation of the Grand Canyon Airport. A General Appropriation Act footnote requires that before the expenditure of any of this money for the Grand Canyon Airport, the department must report to the Joint Legislative Budget Committee on the status and projected date of the privatization of the airport. The footnote further provides that no more than one-twelfth of the $646,100 may be made available to ADOT in any month.

On April 11, 2001 our office received a proposed lease from ADOT, noting that certain changes would still have to be made to the document and that certain blanks would still have to be filled in. After reviewing ADOT's draft of a proposed lease, we responded to ADOT in a May 1, 2001 memo. In that memo, we told ADOT that it was our assessment that they had not submitted a final lease ready for signing for our office to review, and thus ADOT had not yet fulfilled the requirements of Laws 2000, Chapter 99 in that regard. We told ADOT that our office cannot fulfill the requirements of Laws 2000, Chapter 99, to review and to summarize the terms of the lease for legislative leadership, until ADOT submits a final lease for our review.

We also stated that we had other concerns about their draft of the proposed lease, which we believe need to be addressed in a final lease, such as the following:

1) ADOT had not resolved whether the lessee's operational control date would be different from the lease signing date, and if so then what that operational control date would be. The draft lease had blanks for the operational control date.

2) ADOT's draft lease provided for an annual rent of $100, and for the lessee to reimburse ADOT for ADOT's cost of insurance coverage of the airport with a $25,000 annual cap on the insurance

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It is unclear if or when ADOT will actually lease the airport to a nonprofit corporation. In their June 11, 2001 letter to the Committee, ADOT reports that they and the nonprofit corporation have not yet reached agreement on a lease, and that indemnification is still an unresolved issue between ADOT and the nonprofit corporation. ADOT states that they anticipate concluding negotiations with the current nonprofit corporation by the end of July. It is unclear why or how ADOT thinks that they will have resolved all of the currently pending issues by the end of July.

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RS:BH:jb

Joint Legislative Budget Committee

1716 WEST ADAMS
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PHONE (602) 542-5491

FAX (602) 542-1616

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

DATE: June 20, 2001

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

THRU: Richard Stavneak, Director RS

FROM: Bob Hull, Principal Research/Fiscal Analyst BH

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STATE OF ARIZONA

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

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THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

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HOUSE OF REPRESENTATIVES

DATE: June 19, 2001

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: COMMISSION FOR THE DEAF AND THE HARD OF HEARING – REVIEW OF THE TELECOMMUNICATION FUND FOR THE DEAF

Request

Pursuant to A.R.S. § 36-1947.E, the Arizona Commission for the Deaf and the Hard of Hearing requests the Committee review expenditures from the Telecommunication Fund for the Deaf.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request. The Commission reports a beginning FY 2001 fund balance of $3,200,000, with third quarter revenues of $1,266,300 and expenditures of $1,195,500. As of the end of March, the Commission has received $3,324,700 in FY 2001 revenue and has expended $3,314,300.

The JLBC Staff recommends seeking a legislative change to eliminate the review requirement for this fund. The requirement was established prior to the fund becoming appropriated. Since the fund is now subject to appropriation, the review seems no longer necessary. Further, we recommend that the Committee delegate the responsibility for review of the next three quarterly expenditure reports to the JLBC Staff.

Analysis

The Telecommunication Fund for the Deaf receives revenue from the Telecommunications Services Excise Tax. The tax is a 1.1% levy on local phone bills. Of the 1.1%, 0.8% is deposited in the Telecommunication Fund for the Deaf and 0.3% is deposited in the Poison Control Fund. The Telecommunication Fund for the Deaf also consists of interest earned on the investment of fund monies.

The fund is used for the operating expenditures of the Commission, which include providing telecommunication devices to the deaf and hard of hearing population in Arizona, and providing a Telecommunications Relay Service, which allows deaf and hard of hearing individuals to have telephone access services. The Commission also serves as an information and referral resource for the deaf and the hard of hearing and provides educational materials to the general public.

The following table reflects revenue and expenditures for the fund for the first three quarters of FY 2001:

Beginning Fund Balance	$3,200,000
Revenue	$3,279,800
Interest Earnings	44,900
Total Revenue	$3,324,700
Total Available	$6,524,700
Expenditures	
Personal Services and ERE	$ 261,400
Other Operating Expenditures	384,000
Relay Contract	2,602,700
TDD Program	66,200
Total Expenditures	$3,314,300
Balance Forward	$3,210,400

The fund balance at the end of the third quarter of FY 2001 was $10,400 greater than the beginning FY 2001 fund balance. Revenues for the third quarter constituted 38% of the total revenue for the first three quarters of FY 2001. Third quarter expenditures accounted for 36% of expenditures for the first three quarters of FY 2001.

Revenues from the tax for the first three quarters of FY 2001 have been 4% greater than the first three quarters of FY 2000. However, from FY 1999 to FY 2000, fund revenue decreased by (3.7)%. Thus, it is difficult to predict the growth of the fund over the next few years. If the fund revenue remains constant from FY 2000 to FY 2001 and the commission spends its entire appropriation of $6,065,100, the ending FY 2001 fund balance will be $2,149,100. However, if fund revenue continues to decrease, the ending FY 2001 fund balance could be less than $2 million.

If fund revenue continues to decrease, the fund will have a negative fund balance by the end of FY 2003. If the fund revenue remains constant, the fund will have a negative fund balance sometime in FY 2004. However, if the revenue for the remainder of the year continues to increase by 4% from FY 2000, and expenditures do not grow at a rate higher than revenue growth, the fund should remain solvent.

RS:BK:ck

ARIZONA COMMISSION FOR THE DEAF AND THE HARD OF HEARING
1400 West Washington, Room 126
Phoenix, AZ 85007
602-542-3323

BASED ON NEW FORMAT

FY2001 TELECOMMUNICATION FUND FOR THE DEAF AND THE HARD OF HEARING

		TOTAL YTD	Ist & 2nd Qtr YTD	January	February	March
Beg Fund Bal		**3,199,971.08**	3,199,971.08	3,139,576.61	3,523,720.20	3,547,568.94
Revenue		3,279,776.95	2,030,593.98	415,829.21	416,155.91	417,197.85
Interest Earnings		44,902.12	27,802.26	5,555.87	6,730.46	4,813.53
Total Revenue		**3,324,679.07**	2,058,396.24	421,385.08	422,886.37	422,011.38
Total Available		**6,524,650.15**	5,258,367.32	3,560,961.69	3,946,606.57	3,969,580.32
Expenditures						
Personal Services	CA Program	148,692.49	104,363.04	14,769.34	14,769.34	14,790.77
	TTY Program	67,010.42	44,993.15	7,230.05	7,307.94	7,479.28
ERE	CA Program	26,618.83	17,577.19	2,789.81	2,655.91	3,595.92
	TTY Program	19,124.93	14,709.84	1,458.41	1,467.90	1,488.78
Other Operating		-				
Expenditures	CA Program	211,878.79	131,315.95	8,866.94	35,020.54	36,675.36
	TTY Program	172,107.47	102,373.63	2,126.94	30,707.04	36,899.86
Relay Contract	TTY Program	2,602,705.75	1,642,650.80	0.00	301,754.88	658,300.07
TDD Program	TTY Program	66,161.19	60,807.11	0.00	5,354.08	0.00
		-				
Total Expenditures		3,314,299.87	2,118,790.71	37,241.49	399,037.63	759,230.04
Balance Forward		**3,210,350.28**	3,139,576.61	3,523,720.20	3,547,568.94	3,210,350.28

Sherri Collins, Executive Director

5-9-01
Date