STATE OF ARIZONA

Joint Legislative Budget Committee

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REVISED

JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, August 22, 2002
9:30 a.m.
Senate Appropriations Room 109

AGENDA

- Call to Order
- Approval of Minutes of June 20, 2002 and July 17, 2002.
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
  A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Retiree Accumulated Sick Leave Rate.
2. COMMUNITY COLLEGES - Review of the Operations and Business Plan for the Arizona Learning Systems.
3. SCHOOL FACILITIES BOARD - Consider Approval of Index for Constructing New School Facilities.
4. STATE PARKS BOARD - Review of the State Parks Enhancement Fund Acquisition and Development Fund Expenditure.
5. DEPARTMENT OF PUBLIC SAFETY – Report on Firearms Center.

(Continued)

6. REPORT ON RECENT AGENCY SUBMISSIONS
   A. Arizona Department of Administration – Semi-Annual Report on Health Insurance Performance Standards.
   B. AHCCCS – Report on the Implementation of the Special Provider Rate Increase.
   C. Attorney General – Report on Legal Expenses for Alternative Fuels.
   D. Attorney General – Attorney General – Report on Incarceration Costs Offset by Monetary Judgments.
   E. Department of Economic Security – Bimonthly Report on Arizona Works.
   F. Department of Economic Security – Bimonthly Report on Children Services Program.
   G. Department of Economic Security – Report on Placements into State-Owned ICF-MR or the Arizona Training Program at Coolidge Campus.
   H. Department of Emergency and Military Affairs – Report on Declared Emergencies.
   I. Governor's Office for Excellence in Government – Report on Privatizing the Arizona Pioneers' Home.
   J. Department of Health Services – Report on Health Crisis Fund Expenditures.
   K. Naturopathic Physicians Board of Medical Examiners – Report on Inspection and Evaluation Special Line Item Expenditures.
   L. Department of Revenue – Report on Ladewig Expenditure Plan.
   M. Arizona Department of Transportation – Report on Motor Vehicle Division Wait Times.

7. DEPARTMENT OF HEALTH SERVICES
   A. Review of Behavioral Health Capitation Rate Changes and Consider Approval of Requested Transfer of Appropriations.
   B. Consider Approval of Transfer of Appropriations for the Seriously Emotionally Handicapped Program.

The Chairman reserves the right to set the order of the agenda.
08/19/02

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

June 20, 2002

The Chairman called the meeting to order at 9:43 a.m., Thursday, June 20, 2002, in Senate Appropriations Room 109. The following were present:

Members:	Senator Solomon, Chairman	Representative Knaperek, Vice-Chairman
	Senator Bee	Representative Burton Cahill
	Senator Bennett	Representative Gray
	Senator Brown	Representative Pearce
	Senator Cirillo	Representative Pickens
	Senator Rios	
Absent:	Senator Arzberger	Representative Allen
	Senator Bundgaard	Representative May
		Representative Weason
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Gina Guarascio	Bob Hull
	Beth Kohler	Gretchen Logan
	Tom Mikesell	Paul Shannon
	Stefan Shepherd	
Others:	Steve Shiffrin	Chief Tax Advocate, Department of Revenue
	Mark Killian	Director, Department of Revenue
	Mike Kempner	Chief Tax Attorney, Attorney General's Office
	Michael Fett	Chief Financial Officer, Behavioral Health
	Carl Johnson	Deputy Superintendent, Arizona Pioneers' Home

APPROVAL OF MINUTES

Senator Solomon moved that the minutes of May 7, 2002 be approved. The motion carried.

EXECUTIVE SESSION

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

At 9:45 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 10:08 a.m. the Committee reconvened into open session.

DEPARTMENT OF REVENUE (DOR) – Consider Approval of Ladewig Expenditure Plan.

Bob Hull, JLBC Staff said that Chapter 321 allocates $75,000,000 in FY 2003 for first year settlement payments and costs for the Ladewig case, of which up to $15,000,000 may be used for administration and review of payments after Committee approval of an expenditure plan presented by DOR. DOR originally requested $1.4 million for the first quarter of FY 2003, but after working with them DOR now revised its estimate to $1.2 million. The JLBC Staff recommends $866,400 for the first quarter. If DOR needs more than that they can submit an amended request and update their project status at a future monthly Committee meeting. About half of the recommended amount is for personnel and a large part of Other Operating Expenditures is for postage. The agency requested $200,000 for contingency purposes, however the JLBC Staff does not recommend that because DOR can come back before the Committee with a revised request.

Representative Knaperek asked where the personnel will be coming from and what will they be doing. Mr. Hull responded that there are no new FTE Positions authorized in the legislation. DOR plans to use 4 FTE's to administer the project, the rest is for either overtime or temporary personnel. The personnel will be used for the initial onslaught of mail claims and correspondence and to answer phones and process mail.

Representative Knaperek asked how many potential claimants they expect. Mr. Hull said they anticipate about 600,000 people that they know of, but there may be more.

<u>Mr. Steve Shiffrin, Chief Tax Advocate, DOR</u>, stated that pursuant to the court order for the case they looked at DOR computer records and IRS data that showed everyone who filed Arizona returns with some indication of dividend income. That would be from 1 of 2 sources: the federal tax return information or from the tapes they have of 1099 DIV forms. They are looking for anyone from the 4 years – 1986-1989. All of these people will not qualify, but are people who potentially could qualify. The total that was identified was about 675,000 that would have to be sent a notice. The court also requires a notice by publication for people who may not have shown up in the records.

Representative Knaperek asked for Mr. Shiffrin to expand on what he meant by people who could potentially qualify. Mr. Shiffrin said the court asked that they identify people who appear to qualify, but there are a number of reasons why someone might not fit in that class. The 1099 DIV form is also used for returns that are not directly equity dividends from stock. The form shows all income from a brokerage house no matter what the original source of the income was. The form also shows funds that were either debt funds or money market funds or hybrid funds.

Representative Knaperek asked where the line is drawn from the court order in their ability to contact all the people who would qualify. Mr. Shiffrin said the court order specifically asked them to create a mailing list and to notify those people on the list. The court has signed the order to do a mailing but did a stay of execution on that mailing list pending settlement of questions that are going on between the parties. There will be another status conference to address some of these issues.

Senator Cirillo asked who does follow-up on the letters if there is no response. Mr. Shiffrin said there are 2 kinds of class action lawsuits, opt-in and opt-out. Opt-in includes only those who elect to be in the class. Opt-out includes all those who qualify, except those who elect to opt-out. What the court has created in this case is an opt-out class action lawsuit. The court order on the mailing only provides notice on the status of the case, that there is a case, and that you must opt-out if you do not want to be included in the class action.

Senator Solomon asked that if a settlement is reached is it still required that the Department go through this procedure of a mailing and identification. Mr. Shiffrin said that if a settlement is reached they would only need to do a mailing letting the claimants know there has been a settlement and what the terms are.

Senator Solomon asked if they are anticipating a settlement at some date certain in the near future.

It was determined to go into Executive Session for further discussion on this item.

<u>Representative Knaperek moved</u> that the Committee reconvene into Executive Session. The motion carried.

At 10:23 a.m. the Joint Legislative Budget Committee reconvened into Executive Session.

<u>Representative Knaperek moved</u> that the Committee reconvene into open session. The motion carried.

At 11:08 a.m. the Committee reconvened into open session.

<u>Representative Knaperek moved</u> that the Committee approve $866,400 for DOR's 3-month interim expenditure plan. Any monies remaining unspent from the $866,400 at the end of the first quarter would be available for the remainder of DOR's full year expenditure plan. If DOR needs more than $866,400 for the first quarter, the department can submit an amended request and update their project status at a future monthly Committee meeting if necessary. The Committee further requested that these Personal Services monies (including overtime) only be spent on staff directly working on Ladewig, and that the next expenditure plan should include an accounting of expenditures to date, in addition to an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, as required by Laws 2002, Chapter 321. The Committee requested that DOR report back on a monthly basis to provide the JLBC with updates on this case.

Representative Gray asked if the 4 FTE Positions were new positions. Mr. Hull said that DOR did not get any new FTE Positions for Ladewig. The 4 FTE Positions are currently approved FTE Positions, which DOR has decided to assign to the project. If DOR wants new FTE Positions for Ladewig they will have to request them in the next budget cycle.

The motion carried.

ARIZONA LOTTERY COMMISSION – Consider Approval of Revisions to Retailer Incentive Plan.

Mr. Tom Mikesell, JLBC Staff, said that this item is a request for a review of the Retailer Incentive Plan. This is a follow-up item from last August's meeting. As background, the Lottery sells tickets through agreements with private retailers. As part of the agreement, the private retailer receives 6.5% of the ticket sales that they make. On top of this base amount the Lottery is authorized to provide an additional 0.5% commission to retailers that meet certain performance objectives. The performance objectives are spelled out in the Retailers Incentive Plan. The current plan was approved by the Committee in July 2000, and it basically gives retailers the additional 0.5% commission for achieving 5% sales increases over the prior year and performing certain promotional and point of sale activities. The revised plan that the Lottery brought to the Committee in August dropped the promotional activities and advertising material requirements and based the incentive entirely on a 0.5% sales increase. Due to concerns about the revised plan and especially concerns that it might not protect against awarding the additional 0.5% for sales increases that were based on factors outside the control of the retailers, such as a large powerball jackpot and there are a lot of sales from that. The Committee directed the Lottery to come back with a revised plan that based the incentive awards on a more comparative measure.

The Lottery put together 6 different proposals, 2 of which appear to satisfy the comparative sales directed from the Committee. Of those 2 proposals the Lottery Commission endorsed a proposal that would award the additional 0.5% commission to retailers that have sales that are equal to or greater than total lottery sales. Basically this would award the retailer for average sales. The alternate proposal would award the additional 0.5% commission to retailers that have sales 5% better than average, which is a more stringent standard. Either one of these options would fulfill the directive from the Committee's meeting of last August. However, should the Committee desire a more stringent standard, the additional 5% better than average over total sales would fit the scenario.

In response to Representative Knaperek, Mr. Mikesell said that under the current plan anyone who has sales that are 5% better than what they did the prior year would get the additional commission. With the proposal that the Lottery is endorsing, if you look at what total lottery sales were for that period, any retailer whose growth is better than that would get the incentive. If the retailer is below average they would not get the 5%. With the more stringent proposal the retailers growth would have to be 5% better than the average growth.

Representative Knaperek asked if population growth were taken into account to make the average determination. Mr. Mikesell said there were no controls that were in place. That was something that was looked at in the early stages but it was determined to be too difficult to separate that out.

Senator Cirillo said that the concept of incentive is to encourage someone to do something better. To try to get into all the demographics does not sound like a good idea. He suggested recognizing the individual based on what they are doing, not based on the average of all retailers in the state.

Senator Bennett asked about the definition of a retailer. If a retailer opens 5 more locations, it would show an increase but only because of the new stores. He asked if retailer meant the entire body or the individual stores. Mr. Mikesell said that it is each individual store, not the organization. Senator Bennett said that economic activity in the Lottery can be influenced by more than just what an individual retailer is doing. He preferred the more stringent proposal.

Representative Gray asked what are promotional activities. Mr. Mikesell said that is in reference to the current plan. Promotional activities would be things like the secret shopper, saying a secret slogan or a button that the retailer would wear. The other 2 alternatives would delete the promotional activity option if one were put in place.

Senator Rios moved that the Committee approve a revised Retailer Incentive Plan which awards an additional 0.5% commission based on retailer sales growth that is at least 5% greater than total Lottery sales growth. The motion carried.

ARIZONA PIONEERS' HOME – Consider Approval of Requested Transfer of Appropriations.

Ms. Beth Kohler, JLBC Staff, said this item is a request from the Pioneers' Home to transfer monies from the Equipment line item to the Personal Services and Employee Related Expenditures line item. The Home has had higher than anticipated Personal Services costs as a result of on-call pay and overtime costs. They will forego some of their equipment expenditures in FY 2002 to cover the shortfall.

Mr. Carl Johnson, Deputy Superintendent, Arizona Pioneers' Home, in response to Representative Knaperek's question regarding pro-bono work, said that they have had that studied with Arizona Department of Administration (ADOA) construction services. There is still a possibility of pro-bono work, however, the magnitude of the project is over a million dollars so it is unlikely.

Senator Solomon said that over the years there have been issues at the Arizona Pioneers' Home other than the plumbing problems and she asked if there have been any assistance given to the Pioneers' Home for financial and budgeting techniques that may be helpful.

Mr. Johnson said that last week they were visited by the ADOA Auditors who actually found that nothing was being done wrong but they would offer any assistance possible. The Home has taken them up on that offer and they will be working with them as they prepare their next budget to make sure there are controls in place.

Ms. Kohler said that she had spoken with Office of Strategic Planning and Budgeting (OSPB) and they intend to send some of their analysts to the Arizona Pioneers' Home during their budget development process. In terms of the plumbing project, that will be discussed at the Joint Committee on Capital Review (JCCR) meeting.

Representative Knaperek moved the JLBC Staff recommendation that the Committee approve the transfer as requested by the Arizona Pioneers' Home. The motion carried.

TRANSFER FROM:		TRANSFER TO:	
Equipment	$101,607	Personal Services	$51,175
		Employee Related Expenditures	50,432
TOTAL	$101,607	TOTAL	$101,607

AHCCCS – Review of Capitation Rates.

Ms. Gretchen Logan, JLBC Staff, said this item is for Committee review of the capitation rates in the Acute and Long-Term Care programs in AHCCCS. The JLBC Staff recommends that the Committee give a favorable review to the capitation rate changes as all of them are in the budgeted amounts.

Representative Knaperek moved the Committee give a favorable review to the capitation rate changes. The motion carried.

DEPARTMENT OF HEALTH SERVICES (DHS)

A. Review of FY 2003 Expenditure Plan for Arnold v. Sarn Special Line Item.

Ms. Gina Guarascio, JLBC Staff, said DHS has requested Committee review of its FY 2003 expenditure plan for Arnold v. Sarn Special Line Item. This plan is essentially the same as the FY 2002 expenditure plan that was approved last year in terms of where the money is being spent. There is a slight increase because of a change in the federal match. There are more federal dollars available this year than last year.

Mr. Michael Fett, Chief Financial Officer, DHS Behavioral Health, stated that the additional federal dollars were allocated based upon the Title XIX plan which is geared more towards the out-patient treatment program.

Representative Knaperek moved that the Committee give a favorable a review to the request of DHS for the expenditure plan for the Arnold v. Sarn Special Line Item as shown below. The motion carried.

Table 1

FY 2003 Arnold v. Sarn Expenditure Plan

	Non-Title XIX Services		**Title XIX Services**		**Total SMI Services**	
	Dollar Amount	% of Non-Title XIX Total	Dollars	% of Title XIX Total	Dollar Amount	% of Total
Residential Services	$ 5,657,400	39%	-	0%	$ 5,657,400	19%
Clinical Case Management	2,219,800	15%	1,928,700	13%	4,148,500	14%
RBHA Admin/Risk Corridor	1,739,900	12%	1,857,100	12%	3,597,000	12%
Rehabilitation	1,258,200	9%	-	0%	1,258,200	4%
Outpatient Treatment	1,190,600	8%	4,621,400	31%	5,812,000	20%
Hospital Services	1,075,000	7%	1,285,500	9%	2,360,500	8%
Support	477,200	3%	-	0%	477,200	2%
Emergency Services	389,900	3%	3,071,300	20%	3,461,200	12%
Capital/Lease Expenses	348,000	2%	-	0%	348,000	1%
Medication	144,000	1%	2,257,000	15%	2,401,000	8%
Total	**$14,500,000**		**$15,021,000**		**$29,521,000**	

B. Review of Children's Rehabilitative Services Capitation Rate Changes.

This item was held until a later date.

DEPARTMENT OF ECONOMIC SECURITY (DES)

A. Review of Long Term Care Expenditure Plan

Mr. Stefan Shepherd, JLBC Staff, said this item is a review of capitation rates for the Long Term Care program for the developmentally disabled in DES. The proposed capitation rates are about 5% less than last year's rates.

Representative Knaperek moved that the Committee give a favorable a review to the Long-Term Care expenditure plan for FY 2002 Capitation Rates. The motion carried.

B. Review of Proposed Transfer from Developmental Disabilities Programs (DD) to Children Services.

Mr. Shepherd, stated that DES is requesting that the Committee review a transfer of about $1 million from the DD programs to the Childrens Services Special Line Item in the Division of Children, Youth and Families (DCYF). There is a footnote which says DES can spend surplus monies in the state-only DD program waiting list but only if those monies are expected to be there in the subsequent year. Since those monies are going to be tapped to funds to provide a rate increase they cannot annualize the use of those monies and DES is asking to transfer $1 million.

Representative Pickens said that there is more than a $1 million deficit in the Childrens Services line item. She asked where the rest of the money is coming from. Mr. Shepherd said that the department indicated that the money is coming from internal transfers, primarily from the DCYF operating budget where there are some vacancy savings and other savings as well as some surplus monies in the Children's Protective Services Appeals Special Line Item.

Representative Knaperek moved the Committee give a favorable review of the request by DES to transfer $1,000,000 from Developmental Disabilities programs in FY 2002 to the Children Services Special Line Item. The motion carried.

Report on Proposed Use of TANF Cash Benefits Expenditure Authority.

Mr. Shepherd stated that this item does not require Committee action. It is a notification that the department may spend up to $1,000,000 of its expenditure authority for Temporary Assistance for Needy Families (TANF) Cash Benefits in FY 2002. At this point the department's best estimate is that they will not need to use any of the authority.

C. Update on Domestic Violence Baseline Cost-Effectiveness Measures.

Mr. Shepherd stated that this item is a report from DES on the cost-effectiveness measures that they have developed with the domestic violence shelters that they help fund. No Committee action is required on this item.

ARIZONA STATE RETIREMENT SYSTEM (ASRS) – Review of FY 2003 Information Technology Expenditure Plan.

Ms. Gretchen Logan, JLBC Staff, said that this item is a review of the FY 2003 Information Technology Expenditure Plan. ASRS was appropriated $9 million in FY 2002 and FY 2003 to upgrade its information technology capabilities. Prior to the expenditures of these monies ASRS is required to submit an expenditure plan to JLBC for review. On page 3 of the JLBC agenda book is a table detailing the FY 2003 proposed expenditure plan and also the FY 2002 plan. The JLBC Staff recommends a favorable review of the expenditure plan.

In response to Senator Cirillo, Ms. Logan stated that this is consistent with the FY 2003 budget.

Senator Bennett asked if this expenditure plan creates an ongoing commitment to expend $9 million indefinitely. Ms. Logan said that this is the money that was needed to make the change from a mixed COBOL and Oracle environment to Oracle. There could be a request in FY 2004 for monies to continue some of these things but not the magnitude of $9 million.

Representative Knaperek moved that the Committee give a favorable review to the FY 2003 expenditure plan submitted for the agency's Information Technology Plan (see below). The motion carried.

ASRS IT PLAN

	Proposed FY 2003
FTE Positions	14
Personal Services & ERE	$1,103,800
Professional & Outside Services	6,682,700
Travel	10,500
Other Operating Expenditures	735,500
Equipment	467,500
Total	$9,000,000

ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT INFORMATION TECHNOLOGY AGENCY (GITA).

A. Report on HRMS Replacement Project.

Mr. Paul Shannon, JLBC Staff, said that items 8A and 8B are for information only and concern the replacement of the Human Resources Management System. Item 8A is a status report on the replacement of the project. The most significant development in this quarterly report is that the estimated go-live date for this project has been moved from January 1, 2003 to April 14, 2003. GITA raised some concerns in a letter to ADOA, primarily about the budget for the project. At this point in the project there cannot be conclusions drawn as to whether the project, is exactly on budget. The department feels they are doing okay on the budget. The JLBC Staff has made a recommendation that should quarterly reports be insufficient to provide adequate information about the progress of the project that GITA and ADOA provide reports as necessary.

Senator Solomon requested that the members of the Committee be given a copy of the answers on the 18 questions listed in a letter from GITA to Mr. Bill Bell, Deputy Director, ADOA, dated June 7, 2002.

Mr. Shannon stated that in regards to question 18 the vendor has agreed, at no extra charge, to support the current system since the new Human Resources Information Solution (HRIS) is delayed.

In response to Representative Knaperek, Mr. Shannon said that approximately $9.8 million has been spent to date, and they have purchase orders for another $5.3 million to be expended. There are some up-front costs in one-time equipment expenses that tend to skew the budget.

Representative Knaperek requested a breakdown of the $9.8 million that has been expended.

Senator Cirillo said that if the system is barely being held together now and the new system has been delayed 3 months are there any concerns about not being able to process payroll checks if the current system fails. Mr. Shannon said that that is a concern every pay period and will continue to be a concern until the new system is in place.

Representative Pearce said he is supportive of new technology, the problem he has is that everyone involved is at the table to discuss this except the Legislature, who funds these things. He feels the Legislature should be fully informed throughout the whole process and that maybe GITA should work for the Legislature.

B. Report on HRMS Replacement Project Agency Budget Savings.

Mr. Shannon said that this item is a report on savings as a result of replacement of the project. ADOA has identified approximately $1.3 million average savings over the life of the project in what they call "hard" savings. Those are actual reductions in FTEs that result in savings to the agency. There will be additional information on other savings in the agencies from the redundancy of human resources that are in place now. As the department moves through the project they will be better able to identify the costs associated with those redundant systems. There will be another report required by January 31, 2003 and then another statutory requirement for a report by June 30, 2003 on the same subject.

Senator Solomon asked what an example of soft savings might be. Mr. Shannon said an example would be not needing to do data entry at the level it is being done now.

ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) – Report on Grand Canyon Airport Funding.

Mr. Bob Hull, JLBC Staff, said that the JLBC Staff recommends the release of $161,500 to operate the Grand Canyon Airport for the final 3 months of FY 2002. This was an item that originally would have been on the agenda in May but was postponed due to time constraints. ADOT has not yet leased the airport, and does not know if or when they will reach agreement on such a lease.

Representative Knaperek moved that the Committee the release of $161,500 to operate the Grand Canyon Airport for the final 3 months in FY 2002. The motion carried.

REPORT ON RECENT AGENCY SUBMISSIONS

These are the recent reports received in the last month and no Committee action was required.

A. Arizona State Schools for the Deaf and the Blind – Report on Intended Use of Classification Salary Adjustment Monies

B. Department of Emergency and Military Affairs – Report on Declared Emergencies.

Without objection, the meeting adjourned at 12:00 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Senator Ruth Solomon, Chairman

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

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

July 17, 2002

The Chairman called the meeting to order at 9:35 a.m., Wednesday, July 17, 2002, in Senate Appropriations Room 109. The following were present:

Members:	Senator Solomon, Chairman	Representative Knaperek, Vice-Chairman
	Senator Bennett	Representative Burton Cahill
	Senator Cirillo	Representative Gray
	Senator Rios	Representative Pearce
		Representative Pickens
		Representative Weason
Absent:	Senator Arzberger	Representative Allen
	Senator Bee	Representative May
	Senator Brown	
	Senator Bundgaard	
Staff:	Richard Stavneak, Director	Jan Belisle, Secretary
	Kim Hohman	Beth Kohler
	Stefan Shepherd	Jill Young
	Paul Shannon	Gretchen Logan
	Jake Corey	Tom Mikesell
Others:	Cynthia Odom	Attorney General's Office
	Kathy Wieneke	Outside Counsel for the Attorney General
	Frank Hinds	Risk Management, ADOA
	Bruce Liggett	Department of Economic Security
	Joy Hicks	House of Representatives
	Patsy Osman	Senate
	Dan Lance	Arizona Department of Transportation
	Elliott Hibbs	Arizona Department of Administration
	Ric Zaharia	Department of Economic Security
	Tom Betlach	Arizona Health Care Cost Containment System
	Catherine Echeverria	Department of Health Services
	Reed Spangler	Department of Revenue

DIRECTOR'S REPORT

Mr. Richard Stavneak, JLBC Staff, stated the preliminary estimate issued last week for the end of the fiscal year indicated the state was $25 million short. Updated information received indicates that preliminary spending numbers were about $15 million below what was anticipated. This indicates a positive sign in getting a number in the black for the ending balance.

(Continued)

EXECUTIVE SESSION

<u>*Representative Knaperek moved*</u> *that the Committee go into Executive Session.* The motion carried.

At 9:38 a.m. the Joint Legislative Budget Committee went into Executive Session.

<u>*Representative Knaperek moved*</u> *that the Committee reconvene into open session.* The motion carried.

At 10:20 a.m. the Committee reconvened into open session.

<u>*Representative Knaperek moved*</u> *that the Committee approve the recommended settlement proposals by the Attorney General's Office in the following cases:*

1. Brier v. State
2. Z. Doe v. James Corrigan, M.D.

The motion carried.

Chairman Solomon introduced and welcomed two of her nephews to the meeting.

DEPARTMENT OF ECONOMIC SECURITY (DES) – Review of Plan and Methodology for Distributing Developmental Disabilities Provider Rate Adjustment.

Mr. Stefan Shepherd, JLBC Staff, presented the DES request that the Committee review the plan and methodology for distributing the Developmental Disabilities (DD) provider rate adjustment. The General Appropriation Act for FY 2003 included approximately $19.5 million to help increase provider rates in the DD program. The footnote in the General Appropriation Act specified it was to be targeted toward the low-paid providers, (providers being paid less than the average rate) and DES' plan would, for most rates, increase the floor to the 93% of the "base weighted average." The group home rate has been raised to 100% of the "base weighted average." DES' plan cost is approximately $60,000 more than the amount in the feed bill. DES' total estimated amount, however, does include $300,000 for contingencies. It should be noted that this proposal assumes Arizona Health Care Cost Containment System (AHCCCS) provides DES with a capitation rate increase for its Long Term Care program.

<u>Mr. Tom Betlach, Deputy Director, AHCCCS,</u> stated that AHCCCS is aware of the plan to go forward and the capitation adjustment for the overall DD program that will incorporate the higher cost of the expenditures.

In response to Senator Cirillo, Mr. Shepherd stated that the recommendation is a favorable review of DES' plan which DES assumes will cost the higher number, but if they do not spend any of the contingency they obviously would come in below the actual amount in the General Appropriation Act.

Senator Cirillo recommended the contingency be reduced from $300,000 by $61,793 and the Committee approve the $19,532,200.

In response to Chairman Solomon, Mr. Shepherd stated that if the Committee favorably reviews DES' plan, it would be interpreted as if DES wanted to use the $300,000 contingency to give additional increases and raise everybody's rate to 93.5%. DES has mentioned that if they run over they will find the money within their budget to pay for it.

Representative Knaperek commented about the work that has yet to be done regarding the overall rate increase and we must continue to work on this issue.

<u>Mr. Ric Zaharia, Assistant Director, Division of Developmental Disabilities,</u> stated that this increase goes about 1/3 of the way towards getting the providers across the system up to competitive market place rates. All provider issues have not been resolved at this point.

In response to Representative Knaperek, Mr. Zaharia stated that to reach the market place rates they would need approximately $12 to $13 million General Fund, which overall represents a 16% increase when combined with this recommended rate increase.

(Continued)

In response to questions, Mr. Stavneak stated that as the rates are implemented, they may not work as anticipated and this could be the purpose of the contingency. If the full contingency of $300,000 was spent, the department would have to find $61,000 elsewhere in the DES budget. None of the contingency monies have been encumbered.

Senator Cirillo stated he would like to withdraw his recommendation.

In response to Senator Bennett, Mr. Shepherd stated that there are few exceptions. There are a few therapy providers who are already on a published rate schedule and there is not a variation in rates. They also were given a flat increase. In one of the transportation categories, they raised the mileage rate.

Representative Knaperek moved that the Committee give a favorable review of the Department of Economic Security's plan and methodology for distributing a provider rate adjustment for community service and independent service agreement providers of services to developmental disabled clients. The motion carried.

DEPARTMENT OF HEALTH SERVICES (DHS)

A. Review of Children's Rehabilitative Services Capitation Rate Changes.

Ms. Beth Kohler, JLBC Staff, presented the DHS request that the Committee review the Children's Rehabilitative Services program capitation rate changes. The DHS must present an expenditure plan to the Joint Legislative Budget Committee for its review prior to implementing any change in capitation rates for the Title XIX Children's Rehabilitative Services (CRS) program. DHS has received approval from the AHCCCS to change the capitation rates for the CRS line item effective July 1, 2002.

In response to Representative Knaperek, Ms. Catherine Echeverria, Office Chief for Children Special Health Services, DHS stated this was the third year of implementation of decreased capitation rates for CRS. The first two years there was a 4% risk band placed on the rates.

Representative Knaperek moved that the Committee give a favorable review of the DHS' Children's Rehabilitative Services capitation rate changes. The motion carried.

The following table shows the proposed rates for FY 2003:

Proposed Monthly Rate Changes for the CRS Title XIX Program

	FY 2002 Rate	Proposed FY 2003 Rate
Phoenix		
High	$507.06	$464.43
Medium	297.52	281.19
Low	210.98	197.18
Tucson		
High	401.03	395.26
Medium	377.21	364.66
Low	228.20	218.29
Flagstaff		
High	320.09	318.39
Medium	192.02	189.30
Low	160.03	150.26
Yuma		
High	220.87	220.05
Medium	152.68	156.94
Low	134.82	132.91

B. Review of Behavioral Health Capitation Rate Changes

Ms. Kohler, JLBC Staff, stated that DHS must present its plan to the Committee for its review prior to implementing any change in capitation rates changes for three Title XIX populations. The Seriously Mentally Ill (SMI) rate change is a decrease resulting from the influx of people into the system due to Proposition 204. The adjustments are not as large as budgeted for FY 2003, the net impact results savings of $8 million and the budget included $15.2 million.

(Continued)

JLBC Staff recommends deferring a decision on the GMH and CBH rates. The General Mental Health/Substance Abuse (GMH/SA) rates include an increase of $1.5 million. DHS has raised concerns that the SMI rate decrease, in combination with no GMH/SA adjustment, may affect the financial viability of particular RBHAs. In addition, the rates need to be based on a sound actuarial analysis. However, JLBC Staff believes there needs to be a better understanding on the funding source in a tight budget year. DHS is requesting review of rate changes for the Children's Behavioral Health (CBH). Most of the rates are associated with a population that is currently 100% state funded. With issues needing to be resolved on the CBH rate increase, it is recommended to defer a decision on the proposed rate change for the CBH capitations until those issues are resolved.

In response to questions, Ms. Kohler stated that much of the increases for children is related to children that are served in the Department of Economic Security currently 100% state funded. There is some uncertainty of how many children will actually convert up to the Title XIX and therefore, how much savings will be received.

Mr. Stavneak said that we are receiving federal dollars under the proposed capitation rate for an existing population. Every state dollar that is currently spent will now receive $0.66 from the federal government and the state will continue to pay $0.44. The logistics of how the savings will be identified in the state system is yet to be determined.

Representative Knaperek moved the Committee give a favorable review to the downward rate adjustment for the Seriously Mentally Ill rate from $75.13 per month in FY 2002 to $63.48 per month in FY 2003. The motion carried.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS) – Report on the Implementation of the Ticket to Work Program.

Ms. Gretchen Logan, JLBC Staff, said this item was at the request of the Chairman and no Committee action is required. AHCCCS has a statutory requirement to implement the Ticket to Work by January 2002, but the plan to start the program will not be until January 2003. The statutory implementation date is contingent upon federal approval. The agency does not plan to submit the amendment to the state plan until December of 2002 when all operational issues have been resolved.

In reply to questions, Mr. Tom Betlach, Deputy Director, AHCCCS, stated the action for implementation of the program is moving forward and the state plan amendment change will be submitted when issues and rules are completed and processed. There has been communication with the federal government regarding issues and implementation of the plan.

Ms. Diane Ross, Assistant Director of Member Services, AHCCCS, stated that there have been 129,000 tickets mailed to individuals in the State of Arizona. The estimated number of individuals eligible is 721. Clarification has been received from the Centers for Medicare and Medicaid indicating that there needs to be the same methodology that the Social Security Administration uses for the Supplementary Security Income program. Other issues being considered are, how are the premiums charged, whether individuals are given a grace period or should we align the premium program that we have with the Children's Health Insurance Program (Kids Care). There is an issue of individuals bouncing back and forth between the regular program and the Ticket to Work Program, which is an extension under a higher income. Some other questions that will need to be answered include what employee related expenses be and how it will fit into the budget in process and the deduction sequence of income. There are plans for the program to be submitted by the first week in October.

Representative Knaperek expressed appreciation for the work that AHCCCS has done with the program.

Ms. Donna Kruck, Arizona Bridge to Independent Living (ABIL), stated that there are 10 individuals that are ready to enter the work program. Arizona is one of the first thirteen states across the country that are offering these new opportunities.

No Committee action was required.

PROPOSITION 204 PUBLIC HEALTH PROGRAMS – Consider Approval of Inflation Adjustments.

Ms. Kohler, JLBC Staff, stated that Proposition 204 requires the Joint Legislative Budget Committee to calculate annual inflation adjustments for the public health programs that are funded in the proposition from the Tobacco Litigation Master Settlement and to provide this information to the Director of the AHCCCS. FY 2002 allocations for the 6 programs that are funded represent an increase of approximately $300,000 from last year, the funding totals about $18.8 million.

(Continued)

In answer to questions, Ms. Kohler stated that for FY 2002 the monies are available.

Representative Knaperek moved the Committee approve the calculation of the annual inflation adjustments for the 6 public health programs in FY 2002 that are funded in Proposition 204 from the Tobacco Litigation Master Settlement (see below). The motion carried.

Program	
Healthy Families	$ 5,522,563
Arizona Health Education System	4,418,050
Teenage Pregnancy Prevention	3,313,538
Disease Control Research	2,209,025
Health Start	2,209,025
Women, Infants, and Children Food Program	1,104,513
Total	**$18,776,714**

ARIZONA DEPARTMENT OF EDUCATION – Report on Implementation of FY 2003 Lump Sum Reduction.

Mr. Stavneak presented the report on the Arizona Department of Education (ADE) plan to allocate its lump sum reduction for FY 2003. The largest program cut was in the Adult Basic Education Program. The department has agreed that they would not be taking any of the reduction against the Adult Basic Education Program dollars that pass through to schools. Within the line item, there are monies that fund ADE employees and part of the lump sum reduction may be taken against those monies. There would be no reductions in pass through funding to schools. An amount of money was identified that is being carried-forward each year as not all of the adult basic education monies were being spent. There are also other districts stating that they do not have enough Adult Basic Education monies.

Chairman Solomon stated that a memo was received referencing the program cuts that were made. These program cuts will be offset by revertments. Chairman Solomon also asked for more information as to which districts are returning monies and how the allocations were made to the districts. The department has indicated that they will not be taking these cuts against programs. She asked for the numbers on how allocations are made and why we are not servicing all those that we should be servicing.

Chairman Solomon asked for a follow-up report.

No Committee action was required.

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

Ms. Jill Young, JLBC Staff, presented the Arizona Commission of the Arts request that the Committee review the Arizona Arts Endowment Fund and Private Contributions. The Arts Endowment Fund was created in 1996 and has received $8 million in General Fund appropriations. Since then, private contributions total about $24 million and of this amount about 40% has actually been transferred from the donor to the recipient. The records indicate that the Arizona Arts Endowment Fund is technically operating as the Legislature intended.

Representative Knaperek moved the Committee give a favorable review of the Arizona Arts Endowment Fund and Private Contributions report. The motion carried

ARIZONA DEPARTMENT OF ADMINISTRATION – Report on Human Resources Information System (HRIS) Status Questions and Responses.

Mr. Paul Shannon, JLBC Staff, stated that the Arizona Department of Administration (ADOA) has provided the Government Information Technology Agency (GITA) in a quarterly report the progress of the HRIS. GITA has reviewed the responses and is generally satisfied with the information that ADOA provided. GITA and ADOA continue to work together on the design of the project, including discussions on the level to which agencies will participate in the full package of HRIS features.

(Continued)

Mr. Stavneak said that a letter has been received from GITA stating that there are no unusual risks associated with the projects to be reported. To date, the HRIS project is within budget. GITA has some recommendations that they want to implement to ensure that the project remains on track. It is an ongoing project and the Committee will continue to receive periodic updates.

There was no discussion on this item and no Committee action was required.

REPORT ON RECENT AGENCY SUBMISSIONS

These are the recent reports received in the last month and no Committee action was required.

A. Arizona Department of Administration – Report on On-Line Bidding Systems Implementation.
B. Attorney General – Report on Model Court.
C. Department of Economic Security – Bimonthly Report on Arizona Works.
D. Department of Economic Security – Bimonthly Report on Children Services Program.
E. Department of Environmental Quality – Preliminary Progress Report on the Arizona Alternative Testing and Compliance Study.
F. Department of Health Services – Report on Health Crisis Fund Expenditures.

Chairman Solomon stated that several months ago concerns were expressed regarding dialysis treatment for the individuals that require it and new patients were not being added to the list except those that would continue to survive based on the treatment that was already being provided. There was hope to be able to use money from the Governor's Health Crisis Fund. The Governor has the discretion to use those funds any way she views for health crisis purposes. She also expressed concern about the Pioneers' Home.

Mr. Stavneak referred to page 3 of Agenda Item 8 – report "F" which is the DHS Report on Health Crisis Fund Expenditures where it addresses the allocations from the fund.

Ms. Kohler stated that there have been reports on allocations from the fund periodically throughout the year. The most recent 3 are the Pioneers' Home, which received $100,000 to address a funding deficit and AHCCCS – Dialysis and Chemotherapy was allocated $90,000 for the dialysis programs and $300,000 allocated to the Governor's Community Policy Office, Division for Prevention of Family Violence, which was to be distributed to 2 sexual abuse hotlines that had received reductions in funding.

Mr. Tom Betlach, AHCCCS, stated that there are approximately 100 individuals receiving dialysis services. There was funding provided last fall to cover individuals that had been receiving services prior to November of 2001. At the end of FY 2002, there was approximately $1 million left over of that appropriation from the Legislature that AHCCCS will use to provide services to approximately 100 individuals. It is expected that money will last until October 1, 2002. There is a need for more monies in FY 2003 above and beyond the $300,000 or the $90,000 remaining in the Health Crisis Fund. There are also many legal issues and judges requiring access to provide services.

In response to Senator Rios, Mr. Betlach stated that they have worked with the Comptroller's office and based on looking at the language, it was their opinion that they were comfortable and AHCCCS could go ahead and spend the money for FY 2003.

G. Department of Revenue (DOR) – Report on Ladewig Expenditure Plan.

In response to Senator Cirillo, Mr. Reed Spangler, Budget Director, DOR, stated that the 2 parties have not been able to reach a settlement on their own. Names have been submitted for a mediator and they have agreed on a mediator. A timeline is still in place for the mailings to begin August 8. It is anticipated the full mailing to go out on August 16.

Without objection, the meeting adjourned at 11:22 a.m.

(Continued)

Respectfully submitted:

Jan Belisle, Secretary

Richard Stavneak, Director

Senator Ruth Solomon, Chairman

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

STATE OF ARIZONA

Joint Legislative Budget Committee

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MARION L. PICKENS
CHRISTINE WEASON

DATE: August 15, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION – REVIEW OF RETIREE ACCUMULATED SICK LEAVE RATE

Request

The Arizona Department of Administration (ADOA) requests that Committee review its recommendation to establish a FY 2003 Retiree Accumulated Sick Leave (RASL) rate of 0.4% of the total benefit-eligible payroll. State agencies have been budgeted at the 0.40% rate in the current fiscal year.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to a RASL rate of 0.40%. The 0.40% is the same rate as was charged in FY 2002. This rate will provide sufficient funding for program operations and will generate a cash fund balance of approximately $2,607,000. The rate will not need further Committee review unless the percentage changes.

Analysis

The RASL program was established to pay employees, upon retirement, for their unused sick leave. Retirees are paid up to $30,000 depending on their final salary and number of accumulated sick leave hours. Payments are made over a period of three years. A.R.S. § 38-616 provides that, subject to JLBC review, the ADOA Director shall establish a RASL pro rata share to be paid by each agency. The RASL charge is paid by each agency as a component of Employee Related Expenditures (ERE) to allow funding for the program. Starting in FY 2001, statute specifies that the rate shall not exceed 0.55%. At the August 2001 meeting, JLBC gave a favorable review to the FY 2001 rate of 0.4%. In the 2001 legislative session, all agencies were budgeted for a contribution rate of 0.4% in both FY 2002 and FY 2003.

(Continued)

Laws 2002, Chapter 327 provides that $1,286,900 be transferred to the General Fund by the end of FY 2003. ADOA represents this amount as a liability to the fund, plus $225,300 that is estimated to be reimbursed to the Federal government to account for federal monies paid into the fund. Approximately 18% of the total ADOA Personnel System payroll dollars are paid into the RASL fund are from Federal Fund sources. In FY 2002, $3,463,100 was transferred to the General Fund and an additional $606,300 was reimbursed to the Federal government.

ADOA has previously stated that it desires to keep $1,000,000 in the fund balance as a buffer. Given the estimated ending fund balance of $2,607,000 and desired buffer amount and the federal reimbursement requirement, JLBC Staff estimates a balance available for transfer of approximately $1.3 million dollars. This amount is contingent on the level of state employee retirement's remains similar to previous years.

The Government Accounting Standards Board (GASB) provides a number of guidelines under GASB Statement #34. One provision requires accounting for the future obligations of funds such as RASL. ADOA estimates that utilizing the GASB provision, which is more similar to an accrual accounting method than the cash method the state currently employs, the ending FY 2002 for the RASL is in excess of $(7.3 million).

RS:PS:ss

JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION
FINANCIAL SERVICES DIVISION • GENERAL ACCOUNTING OFFICE
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June 6, 2002

Senator Ruth Solomon, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Ms. Solomon:

We are submitting two areas to the Joint Legislative Budget Committee (JLBC) for review; the Retiree Accumulated Sick Leave (RASL) Fund pro rata payroll charge for FY03 and some recommended changes in the travel rates.

Retiree Accumulated Sick Leave (RASL)

A.R.S. §38-616 states that the pro rata payroll charge for the RASL Fund shall be established by the Director of the Department of Administration, subject to review by the JLBC. We recommend that the pro rata charge be maintained at the budgeted rate of .40 percent of the total benefit eligible payroll for FY03. This is within the limit established by statute and consistent with the State's appropriated budget.

Travel

Mileage Reimbursement: Effective January 1, 2002, the Federal Government increased the allowance for mileage reimbursement from 34.5 cents per mile to 36.5 cents per mile. At that time we reviewed the impact on the State. Due to significant reductions in gas prices last fall and our budget conditions, we did not feel an increase was warranted. However, gas prices have increased substantially once again. This latest increase is expected to be maintained. Accordingly, we request your review of this item.

Lodging: The Federal Government has adjusted their lodging allowances for several locations. We have reviewed these changes and are recommending some adjustments to the State's maximum lodging rates (see attached). For in-state lodging we are recommending 2 increases and 2 decreases. For out-of-state lodging, we are recommending increases to 7 of the top 20 most traveled destinations by State agencies. For the remaining out-of-state destinations, we are recommending decreases for 35 cities/seasons. The budgetary impact of these lodging changes is expected to be insignificant.

If you have any questions or need any additional information, please call me at 542-2122.

Sincerely,

D. Clark Partridge

D. Clark Partridge
Acting State Comptroller

Attachment

cc: J. Elliott Hibbs
Lee Baron
Tom Betlach
Kristine Ward
Richard Stavneak
Paul Shannon

2002 Domestic Per Diem Rates - Proposed Changes

STATE	CITY	County Location	Seasonal Dates		Lodging FED Rate	Lodging State Rate	Difference (-) indicates state rate is higher
	Top 20 Cities	**(Same as Federal)**					
DC	WASHINGTON, DC	Washington, DC (also the cities of Alexandria, Falls Church, and Fairfax, and the counties of Arlington, Loudon, and Fairfax in Virginia; and the counties of Montgomery and Prince George's in Maryland). (See also Maryland and Virginia)			$150.00	$119.00	$31.00
NV	LAS VEGAS	Clark County; Nellis AFB			$79.00	$72.00	$7.00
CA	SAN DIEGO	San Diego			$99.00	$99.00	$0.00
CO	DENVER	Denver (Denver, Adams, and Arapahoe Counties, that portion of Westminster, CO located in Jefferson County, and Lone Tree, CO in Douglas County)			$112.00	$86.00	$26.00
CA	SAN FRANCISCO	San Francisco			$159.00	$159.00	$0.00
NM	ALBUQUERQUE	Bernalillo			$65.00	$65.00	$0.00
UT	SALT LAKE CITY	Salt Lake and Dugway Proving Ground and Tooele Army Depot			$75.00	$75.00	$0.00
CA	LOS ANGELES	Los Angeles; Orange and Venture Counties; Edwards AFB; Naval Weapons Center and Ordinance Test Station, China Lake (see Santa Monica)			$99.00	$99.00	$0.00
GA	ATLANTA	Fulton and Gwinnett			$93.00	$93.00	$0.00
IL	CHICAGO	Cook and Lake			$155.00	$130.00	$25.00
WA	SEATTLE	King			$143.00	$109.00	$34.00
CA	SACRAMENTO	Sacramento			$79.00	$79.00	$0.00
TX	DALLAS	Dallas			$89.00	$89.00	$0.00
TX	FORT WORTH	City limits of Fort Worth			$94.00	$94.00	$0.00
OR	PORTLAND	Multnomah			$91.00	$77.00	$14.00
TX	SAN ANTONIO	Bexar			$91.00	$91.00	$0.00
LA	NEW ORLEANS	Orleans, St. Bernard, Paquemine and Jefferson Parishes	1/1	5/31	$139.00	$139.00	$0.00
LA	NEW ORLEANS	Orleans, St. Bernard, Paquemine and Jefferson Parishes	6/1	12/31	$89.00	$89.00	$0.00
MN	MINNEAPOLIS/ST PAUL	Hennepin County and Fort Snelling Military Reservation and Navy Astronautics Group (Detachment BRAVO and Ramsey County			$95.00	$95.00	$0.00
FL	ORLANDO	Orange			$95.00	$86.00	$9.00
	All Others	**(Decreases only)**					
CA	DEATH VALLEY	Inyo			$60.00	$85.00	($25.00)

	2002 Domestic Per Diem Rates - Proposed Changes						
STATE	CITY	County Location	Seasonal Dates		Lodging FED Rate	Lodging State Rate	Difference (-) indicates state rate is higher
CA	OAKHURST	Madera	10/1	4/30	$55.00	$59.00	($4.00)
CA	SOUTH LAKE TAHOE	El Dorado (see also Stateline, NV)	6/1	8/31	$97.00	$99.00	($2.00)
CA	TRUCKEE	Nevada	10/1	6/14	$63.00	$69.00	($6.00)
CO	CRESTED BUTTE	City limits of Crested Butte (see Gunnison County)	4/16	6/15	$58.00	$95.00	($37.00)
CO	CRESTED BUTTE	City limits of Crested Butte (see Gunnison County)	6/16	11/14	$71.00	$95.00	($24.00)
CO	GUNNISON	Gunnison (except Crested Butte)	10/1	12/31	$55.00	$69.00	($14.00)
CO	TELLURIDE	San Miguel	10/1	12/19	$85.00	$90.00	($5.00)
CO	VAIL	Eagle	7/1	11/30	$105.00	$106.00	($1.00)
CT	NEW LONDON	New London	11/1	4/30	$79.00	$93.00	($14.00)
ID	STANLEY	Custer	6/1	9/30	$55.00	$64.00	($9.00)
IL	AURORA	Kane (except Elgin)			$66.00	$76.00	($10.00)
IN	ANDERSON	Madison	4/1	9/30	$55.00	$61.00	($6.00)
IN	ANDERSON	Madison	10/1	3/31	$55.00	$59.00	($4.00)
IN	LAFAYETTE	Tippecanoe			$59.00	$62.00	($3.00)
IN	MUNCIE	Delaware			$55.00	$59.00	($4.00)
MA	BOSTON	Suffolk			$159.00	$192.00	($33.00)
MA	CAMBRIDGE	Middlesex (except Lowell)			$159.00	$192.00	($33.00)
MA	MARTHA'S VINEYARD	Dukes	6/1	9/30	$150.00	$160.00	($10.00)
MA	NANTUCKET	Nantucket	10/16	6/14	$75.00	$90.00	($15.00)
MI	GAYLORD	Otsego			$65.00	$67.00	($2.00)
MI	SAULT STE MARIE	Chippewa	10/16	5/14	$55.00	$60.00	($5.00)
MI	WARREN	Macomb			$79.00	$83.00	($4.00)
MO	BRANSON	Taney	1/1	3/31	$55.00	$58.00	($3.00)
NH	HANOVER/SULLIVAN COUNTY	Grafton and Sullivan			$95.00	$96.00	($1.00)
NY	THE BRONX/BROOKLYN/QUEENS	The boroughs of The Bronx, Brooklyn and Queens (Effective 1/1/02)			$168.00	$170.00	($2.00)
PA	LANCASTER	Lancaster	11/1	11/30	$60.00	$69.00	($9.00)
SC	MYRTLE BEACH	Horry County; Myrtle Beach AFB	6/1	8/31	$99.00	$100.00	($1.00)
TN	GATLINBURG	Sevier	5/1	10/31	$78.00	$80.00	($2.00)
UT	CEDAR CITY	Iron	6/1	9/4	$59.00	$71.00	($12.00)
VA	WOODBRIDGE	City limits of Woodbridge			$55.00	$69.00	($14.00)
VT	MANCHESTER	Bennington			$68.00	$95.00	($27.00)
WA	SEQUIM	Clallam (except Port Angeles)	9/2	6/28	$55.00	$59.00	($4.00)
WI	WISCONSIN DELLS	Columbia	6/1	9/30	$85.00	$89.00	($4.00)
WY	CODY	Park	10/16	5/14	$55.00	$60.00	($5.00)

	2002 Domestic Per Diem Rates - Proposed Changes						
STATE	CITY	County Location	Seasonal Dates		Lodging FED Rate	Lodging State Rate	Difference (-) indicates state rate is higher
	In-State	(Same as Federal)					
AZ	CASA GRANDE	Pinal	1/1	4/30	$80.00	$80.00	$0.00
AZ	CASA GRANDE	Pinal	5/1	12/31	$65.00	$60.00	$5.00
AZ	CHINLE	Apache	5/1	10/31	$98.00	$98.00	$0.00
AZ	CHINLE	Apache	11/1	4/30	$55.00	$62.00	($7.00)
AZ	FLAGSTAFF	All points in Coconino County not covered under Grand Canyon per diem area	5/1	10/31	$67.00	$67.00	$0.00
AZ	FLAGSTAFF	All points in Coconino County not covered under Grand Canyon per diem area	11/1	4/30	$55.00	$55.00	$0.00
AZ	GRAND CANYON	All points in the Grand Canyon National Park and Kaibab National Forest within Coconino County	5/1	10/21	$106.00	$106.00	$0.00
AZ	GRAND CANYON	All points in the Grand Canyon National Park and Kaibab National Forest within Coconino County	10/22	4/30	$94.00	$106.00	($12.00)
AZ	KAYENTA	Navajo	4/15	10/15	$98.00	$98.00	$0.00
AZ	KAYENTA	Navajo	10/16	4/14	$65.00	$65.00	$0.00
AZ	PHOENIX/SCOTTSDALE	Maricopa	1/1	4/15	$107.00	$107.00	$0.00
AZ	PHOENIX/SCOTTSDALE	Maricopa	4/16	5/31	$79.00	$79.00	$0.00
AZ	PHOENIX/SCOTTSDALE	Maricopa	6/1	8/31	$59.00	$59.00	$0.00
AZ	PHOENIX/SCOTTSDALE	Maricopa	9/1	12/31	$90.00	$90.00	$0.00
AZ	TUCSON	Pima County; Davis-Monthan AFB	1/1	4/15	$85.00	$85.00	$0.00
AZ	TUCSON	Pima County; Davis-Monthan AFB	4/16	12/31	$58.00	$58.00	$0.00
AZ	YUMA	Yuma			$68.00	$58.00	$10.00

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE:	August 15, 2002
TO:	Senator Ruth Solomon, Chairman Members, Joint Legislative Budget Committee
THRU:	Richard Stavneak, Director
FROM:	Jill Young, Fiscal Analyst
SUBJECT:	COMMUNITY COLLEGES – REVIEW OF THE OPERATIONS AND BUSINESS PLAN FOR ARIZONA LEARNING SYSTEMS

Request

Pursuant to a footnote in the General Appropriations Act (Laws 2002, Chapter 327), an operations and business plan for continued statewide use and financial viability of the Arizona Learning Systems (ALS) must be submitted to the Joint Legislative Budget Committee (JLBC) for its review or ALS will terminate by the end of August 2002. ALS did not submit a plan, therefore, the system will terminate at the end of August 2002. The Committee has the responsibility to direct the disbursement of ALS state-funded assets upon termination.

Recommendation

The Committee has at least 3 options:

1. Allow community college districts to retain equipment upon termination of ALS.

2. Sell all or part of the equipment upon termination of ALS. We do not have a precise estimate of the current value of these assets, but the sale could possibly generate $300,000.

3. Transfer state-funded assets of ALS to an alternate management group for statewide use. The Arizona Area Health Education Center (AHEC) has submitted a proposal to JLBC to assume management of the system and continue its statewide use through the collaboration of AHEC, the universities and the community colleges.

   If the Committee would like to pursue this issue, JLBC Staff believes more information is necessary. The major issues to be resolved are: 1) the financial viability of the system and 2) the interest of the community colleges to participate.

(Continued)

The JLBC Staff recommends that ALS staff be retained during the transition period to coordinate the termination of ALS and disbursement of state-funded assets and that any remaining funds be reverted to the General Fund.

Analysis

History

ALS is a consortium of Arizona's 10 community college districts to promote distance learning across district boundaries using Internet, interactive video-conferencing (ITV), and other technologies. The ALS telecommunications plan, originally approved by JLBC in December 1996, was to create a coalition of educational and governmental agencies that would contract with a private company to construct a network that would be available for lease. In addition to increasing educational opportunities, ALS was to spur economic development by making advanced telecommunications accessible to the private sector in rural areas.

ALS was intended to develop in 3 phases: 1) Construct a pilot network of 10 sites, one in each community college district, for the delivery of distance learning classes; 2) Expand the ALS network to another 67 community college sites; and 3) Expand the ALS network to university and K-12 sites. At the request of the community college districts and the State Board of Directors for Community Colleges (State Board), the Arizona Legislature appropriated $1.1 million in FY 1997 and $2.8 million in FY 1998 to implement Phase 1 of the ALS network. No additional monies have been appropriated for ALS since FY 1998. A FY 2002 budget request by the State Board for Phase 2 was not approved by the Legislature, although one community college district has procured ALS compatible equipment for additional sites at its own expense.

ALS started classes in Spring 2001 and continued offerings through Spring 2002. The courses were both ITV and Internet-based. Any revenue generated by ALS classes was split between the originating college, receiving college and ALS. ALS enrollment for each of the semesters is as follows:

	Spring 2001	Fall 2001	Spring 2002
Enrollment	3	2	113

The low enrollment has been attributed to insufficient marketing and student awareness, lack of course integration with specific certificate or degree programs, and inadequate staffing.

If ALS terminates, Arizona students have at least 2 options for distance learning from public institutions. Maricopa County Community College District, through its Rio Salado campus, offers Internet courses and on-line student services. Northern Arizona University also offers a variety of courses and degree programs over the Internet and ITV.

Budget

As of August 2002, approximately $3.5 million has been expended for network implementation, network management and operations, academic development, and ALS administrative support. Approximately $391,000 remains unexpended to date from the FY 1998 appropriation and interest earned, which would be transferred to the General Fund in the event that ALS is terminated. The following table shows the breakdown of expenditures in each category.

(Continued)

ALS Expenditures	
Network Implementation	$1,737,700
Network Management & Operations	674,500
Academic Development	475,600
ALS Administrative Support	626,800
Total Expenditures	**$3,514,600**

The annual operating expenses for ALS are approximately $500,000. Current funding would only cover operating expenses for part of FY 2003.

Recent Legislation

The State Board wrote a report to JLBC in April 2002 regarding ALS, which conveyed concerns that the system cannot continue operations as it has. The following 2 paragraphs are excerpts from the conclusion if the report:

> "The State Board, therefore, respectfully recommends that the next six months be used for the pursuit and drafting of a business and operational plan/model that will bring together the myriad potential participants for the future of this statewide system.
>
> Should such a request not be considered affirmatively by JLBC, then the State Board recommends Alternative B which terminates the operation of the Network and provides its associated equipment to each of the community college districts for their use, and returns all unencumbered funds to the State of Arizona."

In response to the State Board conclusions concerning ALS, a footnote was created in the General Appropriations Act (Laws 2002, Chapter 327). It reads:

> "Arizona learning systems shall develop an operations and business plan for continued statewide use and financial viability of the system. If a plan is not developed and submitted to the joint legislative budget committee for its review by July 31, 2002, Arizona learning systems shall terminate by the end of August 2002. If Arizona learning systems is terminated, state-funded assets for the Arizona learning systems shall be disbursed as directed by the joint legislative budget committee and any remaining state appropriations for Arizona learning systems shall be returned to the state general fund."

As of July 31, 2002, JLBC did not receive an operations and business plan from ALS for continued statewide use. Therefore, ALS will terminate as of the end of August 2002.

JLBC has the responsibility to direct the disbursement of the state-funded assets of ALS. State-funded assets include video and telecommunications equipment at one site in each of the 10 community college districts and hub equipment housed at Rio Salado Community College. At the time of purchase in 2000, equipment costs totaled approximately $1.1 million. It is difficult to estimate the current value of the equipment. The ALS Executive Director estimates that the video equipment may be worth 30-40% of the original value and the telecommunications equipment may be worth 10% of the original value.

(Continued)

Options

There are at least 3 options for ALS:

1. Allow community college districts to retain equipment upon termination of ALS.

   This option could allow continued connectivity within districts that have procured additional compatible equipment. Mohave County, for example, has purchased ALS compatible equipment for additional college sites to increase communication and broaden course offerings within the district. The state, however, will not recoup any of its investment.

2. Sell all or part of the equipment upon termination of ALS.

   This option allows some the state's investment to be recouped. If a district has invested in the network by purchasing ALS compatible equipment for multiple district sites, as a result of this option, the district may be required to expend funds for replacement equipment in order to continue using its internal network or connectivity may be disabled.

3. Transfer state-funded assets of ALS to an alternate management group for statewide use.

   The Arizona Area Health Education Centers (AHEC) has submitted a proposal to JLBC for the continued statewide use of the system. AHEC proposes to assume management of the network and pay for operations with existing funds. AHEC views its future role as the "anchor tenant" for the network that would collaborate with others to expand the network's use and ensure its financial viability.

   AHEC is a program through the Arizona Board of Regents housed within the University of Arizona Health Sciences Center that attempts to improve the supply and distribution of health care professionals through community/academic educational partnerships. AHEC strives to attract under-represented ethnic and racial students into the health professions. Additionally, the organization focuses its attention on supporting the state's health professionals with continuing training and career enhancements. AHEC proposes to use the network primarily to deliver health education and training across the state through the creation of Arizona Health Outreach Network (AzHON). AzHON would serve as a communication interface between the University of Arizona Health Science Center, AHEC, and the community colleges.

If the Committee is interested in pursuing this third option, we recommend receiving clarification on the following issues:

- AHEC proposes to work with the community college districts in the provision of health education. We have not had an opportunity to receive feedback from the community college districts in their interest in cooperating in such a venture.

- After discussions with community colleges, we recommend that AHEC develop a financial plan to demonstrate that AzHON will be self-supporting. It is unclear how AHEC will fund operations past FY 2003 if partners and other revenue sources are not found. AHEC has received approximately $4.4 million for the last 2 years from Proposition 204. JLBC Staff does not anticipate available Proposition 204 money for public health programs after FY 2003.

- Finally, if community college districts did not choose to participate, it would be useful to understand how AHEC would utilize the network.

Copies of the State Board's report to the JLBC (April 2002) and the full AHEC proposal are available upon request.

RS:JY:ss

Northland Pioneer College
Office of the President

RECEIVED
JUN 11 2002
JOINT BUDGET COMMITTEE

June 10, 2002

Senator Ruth Solomon
Co-Chair Joint Legislative Budget Committee
State Capitol
1700 West Washington
Phoenix, AZ 85007

Representative Laura Knaperek
Co-Chair Joint Legislative Budget Committee
State Capitol
1700 West Washington
Phoenix, AZ 85007

Dear Senator Solomon and Representative Knaperek:

This letter is a request from the Arizona Community College Association for its representatives to address the Joint Legislative Budget Committee at its July meeting. We respectfully request that the status and future of Arizona Learning System be placed on the agenda of that meeting.

It is my understanding that a meeting is currently anticipated on July 17. I will be pleased to represent ACCA at the meeting, as may Dr. Linda Thor, President of Rio Salado College and Mike Emerson, Director of Arizona Learning System.

If staff could please notify me regarding the date, time and location of the meeting, I will inform the others.

Thank you very much for your consideration and facilitation of this matter!

Sincerely,

Gary Passer
Vice Chair Arizona Learning System President's Council

cc: Richard Stavneak, Executive Director JLBC
Bruce Groll, Budget Analyst, JLBC

Navajo County Community College District
(520) 524-1993 • Fax: (520) 524-6920 • Mailing Address: P.O. Box 610, Holbrook, AZ 86025

Vice President for Health Sciences

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August 13, 2002

Honorable Senator Ruth Solomon
Chair, Joint Legislative Budget Committee
1616 West Adams
Phoenix, Arizona 85007

Dear Senator Solomon:

The State Board of Community Colleges has invited the Arizona Area Health Education Centers (AzAHEC) of the Arizona Health Sciences Center (AHSC) to submit a proposal for alternative uses of the Arizona Learning System (ALS). The AzAHEC director, Dr. Carlos (Kent) Campbell, submitted a draft proposal to the Joint Legislative Budget Committee on July 31, 2002. Due to the upcoming deadline for dismantling the ALS, there was inadequate time to fully assess the range of possible options or their financial implications.

I suggest we replace the draft that was submitted by AzAHEC with a more modest proposal such as the one that is attached to this letter. In this proposal we ask that the hub for ALS be moved to our AHSC Biomedical Communications site in Phoenix. Our Biomedical Communications Department has the staff and expertise to establish and maintain the links to the Community College Networks. Once the hub is relocated, AzAHEC and AHSC can then work with the community colleges to determine the feasibility of a long-term relationship and the continued viability for reconfigured ALS. We believe that the telecommunication network between the community colleges, AHSC and AzAHEC has a great deal of potential for efficiencies in education, outreach and recruiting for all concerned. A delay in the decision to dismantle the system at the community college sites would be an important first step.

Thank you for considering this request.

Yours truly,

Ray Woosley

Raymond L. Woosley, MD, PhD

cc: Richard Stavneak
Director, Joint Legislative Budget Committee Staff
President Peter Likins, University of Arizona
Linda Blessing, Arizona Board of Regents

Proposal: Establishment of the Arizona Health Outreach Network

ALS: The Original Mission
The Arizona Learning System (ALS) is a telecommunications infrastructure developed to support student-centered learning and increased telecommunications capacity in rural and underserved communities. System goals included networking the community colleges, state universities and K-12 to support community-based education and training.

Finances: Total investment of state dollars in the development of the network has been $3,856,000 of which cost of equipment was approximately $1.1 million.

Status Update:

- In February 2002, the ALS President's Council reported to the State Board of Community Colleges that ALS was not financially viable and recommended it be dismantled.
- In May 2002, the State Board of Community Colleges invited the Arizona Area Health Education Centers Program (Arizona AHEC) and AHSC to prepare a proposal for alternative use and management of ALS infrastructure.

Proposed Action: the Arizona Health Outreach Network (AzHON):
UA/AHSC proposes to JLBC that the ALS hub be moved to AHSC Phoenix for the creation of the **Arizona Health Outreach Network (AzHON)** to serve as a communication interface between the AHSC, Arizona AHEC and the Community Colleges.

- ✓ The AzHON will enable educators and employers to more effectively address the health workforce crisis in Arizona by delivering health education and training in collaboration with the Arizona Health Sciences Center.
- ✓ The operation of the AzHON would be negotiated with Arizona Rural Telemedicine Program and AHSC Biomedical Communications.
- ✓ Arizona AHEC would coordinate health education content in collaboration with all three state universities and the community colleges.
- ✓ AzHON would maintain connectivity to community colleges on a voluntary basis. .
- ✓ Community colleges could opt to work through AzHON to share credit bearing courses, and the financing of this use would be negotiated among the partners

Arizona Health Outreach Network: A Partnership between the AHSC, the Universities and the Community Colleges
According to the "Occupations Employment Projections to 2010," prepared by the Federal Bureau of Labor, the healthcare positions for which there will be the largest number of new job vacancies by 2010 are positions for which AZ community colleges are the frontline educational providers. The top five are:

- ✓ registered nurses
- ✓ nurse's aides/orderlies/attendants
- ✓ home health aides
- ✓ personal/home care aides
- ✓ medical assistants

The AzHON, as a network of health professions faculty, will make it possible for the strengths in our healthcare educational programs to reach a broader number and scope of students with maximum efficiency.

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: August 15, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD – CONSIDER APPROVAL OF INDEX FOR CONSTRUCTING NEW SCHOOL FACILITIES

Request

The School Facilities Board (SFB) requests that the Committee approve an increase of 4.8% in the cost-per-square foot factors used in its building renewal and new school construction financing formulas, based on the Marshall Evaluation Service construction cost index for July 2002. The 4.8% adjustment would take effect for new school construction in FY 2003. The adjustment for building renewal would be scheduled to take place in FY 2004. Laws 2002, Chapter 330, however, suspended the building renewal formula in that year. In February 2000, the Committee selected the Marshall Evaluation Service index as a benchmark for adjusting the cost-per-square-foot figures each year.

Recommendation

The Committee has at least two options:

1) Approve a 4.8% increase in the cost-per-square-foot factors used in the building renewal and new school construction financing formulas based on the recommendation of SFB. This option would cost $9.4 million in FY 2004.

2) Approve a 1.0% increase in the cost-per-square-foot factors used in the building renewal and new school construction financing formulas. This increase is equal to the Gross Domestic Product (GDP) price deflator for FY 2002. This option would cost $2.0 million in FY 2004.

A third option would be to forego an inflation index for the next year. In that circumstance, the Legislature may wish to notwithstand the statutory indexing requirement in session law.

(Continued)

Analysis

This section includes 1) background information regarding the SFB inflation index, 2) an explanation of the options available for the current index, and 3) a summary of the estimated impact of each option on the state.

Background Information

The original Students FIRST legislation (Laws 1998, Chapter 1, 5th Special Session) established funding amounts per square foot of space for new construction and building renewal (e.g., $90 per square foot for Grades K-6). It required, however, that those amounts be adjusted periodically for inflation (A.R.S. § 15-2041D.3c). The latter provision states that the funding amount per square foot "shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee as necessary but not less than once each year."

At its February 2000 meeting, the Committee approved the Marshall Valuation Service (MVS) construction cost index for Class C structures (masonry bearing walls) for Phoenix for the period from July 1st through June 30th of each year. At that time, the relevant MVS index was 3.5%, so the Committee approved that index for the subsequent budgetary period. Later that year (during September 2000), the Committee approved an additional 4.6% "catch up" increase based on revised data from MVS.

At its August 2001 meeting, the Committee again used the MVS index for Class C structures. At that time, the relevant MVS index was 0.6%.

Options for the Current Index

The MVS index for "Class C – Masonry Bearing Walls" structures for Phoenix for the period from July 1, 2001 through June 30, 2002 is 4.8%. Approving this option would be consistent with past decisions of the Committee. It would require, however, a greater increase in expenditures of the two options. In addition, the MVS only provides information on buildings in the city of Phoenix. We do not have information on the index for areas in Arizona outside of Phoenix. Therefore, we do not know how accurate the index is statewide.

A 1.0% increase would equal the GDP deflator for FY 2002. Though this option is not specifically tied to a construction index, it is a standard inflationary index and it is used to adjust K-12 maintenance and operations funding.

It should be noted that both of the above options are based on inflation that has occurred in the past. Neither of the measures is prospective.

The current cost-per-square-foot factors, and what those factors would become according to each of the above two options, are presented in the table below.

SFB Cost Per Square Foot Factors
Current and Proposed

	Urban Cost/Sq. Ft.			Rural Cost/Sq. Ft. (Urban * 1.05)		
Grade Level	Current	Proposed		Current	Proposed	
		4.8%	1.0%		4.8%	1.0%
Preschool w/Disabilities & K-6	$98.01	$102.71	$98.99	$102.91	$107.85	$103.94
Grades 7-8	$103.47	$108.44	$104.50	$108.64	$113.85	$109.73
Grades 9-12	$119.80	$125.55	$121.00	$125.79	$131.83	$127.05

(Continued)

Affect on State Budget for K-12 Building Renewal

There would be no effect on the Building Renewal Fund in FY 2003 or FY 2004 no matter what index is approved. Laws 2002, Chapter 330 suspended the building renewal formula in those years and determined a building renewal distribution amount of $38,274,100 in FY 2003.

Affect on State Budget for New School Construction

The SFB assumes that an increase in the cost-per-square-foot factors *would* affect costs for new school construction during FY 2003. If a 4.8% increase is approved, the estimated fiscal impact for this change for FY 2003 would be $495,600. SFB indicates that the new factors would increase the cost of new school construction by approximately $9,912,800 to be spread over FY 2003 and FY 2004. Based on the typical funding flow for new school facilities, only about 5% of that sum**C**$495,600**C**would be expended in FY 2003. The remainder (estimated at $9,417,200) would be expended in FY 2004, with some expenditure possibly slipping into FY 2005.

Assuming a 1.0% increase, the estimated fiscal impact for FY 2003 would be $103,300. The impact in FY 2004 (with again the possibility of some expenditures in FY 2005) would be $1,961,900 in this scenario. The total impact, therefore, would be $2,065,200.

Laws 2002, Chapter 330 give SFB authority to conduct lease-to-own transactions in an amount not to exceed $400 million. Because the costs arising from the new construction cost factor are small compared with the total funding required for new construction in FY 2003, they may be able to be absorbed within the existing amounts set aside in the budget for this year. Either inflation adjustment, however, would affect SFB's FY 2004 estimated funding.

RS/JC:jb

STATE OF ARIZONA SCHOOL FACILITIES BOARD
MEMORANDUM

TO: SENATOR RUTH SOLOMON, CHAIR
REPRESENTATIVE LAURA KNAPEREK, VICE CHAIR
RICHARD STAVNEAK, JLBC STAFF DIRECTOR

FROM: ED BOOT, INTERIM EXECUTIVE DIRECTOR

SUBJECT: INDEXING OF SCHOOL CONSTRUCTION COSTS

DATE: 8/8/02

AUG - 8

The School Facilities Board staff requests to placed on the August JLBC agenda for the purpose of approving the cost of construction index factor.

A.R.S. 15-2041, Section D, Subsection 3(c), states in part "...The cost per square foot shall be adjusted annually for construction considerations based on an index identified or developed by the joint legislative budget committee as necessary but no less than once each year."

Last August, JLBC approved a 0.6 percent increase based on the Marshall Evaluation Service index for class C (masonry bearing walls) construction in the Phoenix Market. The increase reflected inflation between July 2000 and July 2001.

The Marshall index lists the July 2001 to July 2002 increase in building costs at 4.8 percent. The impact of this increase on the dollars per square foot provided is reflected in Table 1. We recommend using this figure to update the statutory cost per square foot.

Table 1

Grade Level	Current Amount	Adjusted Amount
K - 6	$98.01	$102.71
7 - 8	$103.47	$108.44
9 - 12	$119.80	$125.55

The increase will affect both the building renewal and new construction programs. For building renewal there is no impact for FY 2003, and the estimated FY 2004 impact is $0 with the legislative suspension of the formula. The new construction impact is estimated at $9,912,807.79. This impact will be spread between FY 2003 and FY 2004.

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: August 15, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: STATE PARKS BOARD – REVIEW OF THE STATE PARKS ENHANCEMENT FUND ACQUISITION AND DEVELOPMENT FUND EXPENDITURE

Request

Pursuant to Laws 2002, 5th Special Session, Chapter 3 the Arizona State Parks Board requests JLBC review of a $450,000 expenditure from the Acquisitions and Development portion of the State Parks Enhancement Fund for park operations.

Recommendation

The JLBC Staff recommends that the Committee give a <u>favorable review</u> to the State Parks Board expenditure of $450,000 from the Acquisitions and Development portion of State Parks Enhancement Fund.

Analysis

The State Parks Enhancement Fund (SPEF) receives revenue from user fees generated at State Parks. One-half of the revenues are set aside for capital development of the State Parks system, and one-half is used for the operations of the State Parks system, subject to appropriation. At the end of FY 2002, the Acquisition and Development portion of SPEF had an unobligated balance of approximately $2.5 million.

Laws 2002, 5th Special Session, Chapter 3 restores a $450,000 FY 2003 General Fund reduction to the State Parks budget by allowing the department to use $450,000 from the Acquisitions and Development portion of SPEF. This action was taken by the Legislature in response to a plan by the State Parks Department to close several State Parks for a portion of FY 2003.

The State Parks Department intends to use the $450,000 to hire 12 permanent FTE positions (Park Ranger I's and II's), and several seasonal FTE positions. As of August 9, all 7 of the parks closed in early July have been reopened at normal operating hours, and the agency plans to have the above positions filled in September. *(The table on the second page of the agency submission details the parks at which these permanent FTE positions will be hired)*

Since the Parks request is consistent with Chapter 3 and all 7 parks have been reopened, the JLBC staff recommends a favorable review.

RS/TS:jb

"Managing and conserving natural, cultural, and recreational resources"

Arizona State Parks

Jane Dee Hull
Governor

State Parks
Board Members

Chair
Suzanne Pfister
Phoenix

Vice-Chair
Joseph H. Holmwood
Mesa

John U. Hays
Yarnell

Elizabeth Stewart
Tempe

William C. Porter
Kingman

Walter D. Armer, Jr.
Benson

Michael E. Anable
State Land
Commissioner

Kenneth E. Travous
Executive Director

Arizona State Parks
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Phoenix, AZ 85007

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(520 & 928) area codes

General Fax:
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Director's Office Fax:
602.542.4188

August 7, 2002

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JOINT BUDGET
COMMITTEE

Senator Ruth Solomon
Joint Legislative Budget Committee
1700 West Washington
Phoenix, AZ 85007

RE: JLBC Request – Review of Enhancement Fund Expenditures

Dear Senator Solomon:

Arizona State Parks (ASP) respectfully requests to be placed on the next agenda of the Joint Legislative Budget Committee (JLBC) for review of Enhancement Fund Acquisition and Development Fund expenditures of $450,000. The General Appropriation Act, as amended by the 5th Special Session of the Forty Fifth Legislature requires a review by the JLBC prior to the expenditure of these monies.

ASP appreciates you and the Legislature's hard work in resolving the issues concerning park closures. With these funds, ASP is starting the process to hire 12 permanent FTE positions and up to 30 seasonal FTE positions. All parks will be open normal hours beginning August 9th 2002. ASP anticipates having staff hired prior to the start of the busy season in September.

Again, your support of ASP and our staff is greatly appreciated. Please give me a call should you have any questions or if I may be of assistance to you or your staff.

Sincerely,

Kenneth E. Travous
Executive Director

Copy: Representative Laura Knaperek,
Richard Stavneak, Director, JLBC
Thomas Betlach, Director, OSPB
Nancy Stump, Office of the Governor
Timothy Sweeney, JLBC
Marcel Benberou, OSPB

Park	FY 2001	FY 2002	FY 2003	FY 2003 Revised	
Alamo	5.0	5.0	5.0	5.0	
Boyce Thompson	1.0	1.0	1.0	1.0	
Buckskin	9.0	10.0	10.0	10.0	Hire1 Vacant Position
Catalina	5.0	5.0	2.0	4.0	Lost 1 position
Cattail Cove	6.0	7.0	7.0	7.0	Hire 1 Vacant
Dead Horse	6.0	7.0	7.0	7.0	
Fool Hollow	5.0	6.0	2.0	4.0	Lost 2 Positions
Fort Verde	4.0	4.0	4.0	4.0	
Homolovi	4.0	4.0	2.0	3.0	Lost 1 Position
Jerome	4.0	4.0	4.0	4.0	
Kartchner	35.0	41.0	41.0	41.0	Hire 4 Vacant Postions
Lake Havasu	12.0	12.0	12.0	12.0	Hire 1 Vacant Positons
Lost Dutchman	3.0	4.0	2.0	4.0	
Lyman Lake	3.0	4.0	2.0	4.0	Hire 1 Vacant Position
McFarland	2.0	2.0	2.0	2.0	
Oracle	1.0	4.0	2.0	4.0	
Patagonia Lake	8.0	8.0	8.0	8.0	Hire 1 Vacant Position
Picacho Peak	4.0	5.0	2.0	5.0	
Red Rock	4.0	5.0	5.0	4.0	Lost 1 Position
Riordan	3.0	4.0	4.0	4.0	
Roper Lake	5.0	5.0	2.0	5.0	
San Rafael	2.0	2.0	2.0	2.0	Hire 1 Vacant Positon
Slide Rock	4.0	4.0	4.0	4.0	Hire 1 Vacant Positon
Tombstone	4.0	4.0	4.0	4.0	
Tonto	4.0	4.0	2.0	4.0	Hire 1 Vacant Positon
Tubac	4.0	4.0	2.0	4.0	
Yuma Crossing	4.0	4.0	4.0	4.0	
Yuma Prison	6.0	6.0	6.0	4.0	Lost 2 Positions
Total	157.0	175.0	150.0	168.0	

To account for loss of $700,000 General Fund and loss of Enhancement Fund Revenue
25 Park Ranger IIs were reduced for savings of $875,000.
Calculation of $27,600 PS, $6,900 ERE and $500 Uniform Allowance per PR II.
The $450,000 allows 13 PR IIs to be hired and opening of the parks allows
the reduction of 5 PR IIs associated with reduced EF revenues to be hired.

The chart above shows the hiring of 8 PR IIs and the loss of 7 PR IIs.
The reason the chart does not show the hiring of 18 PR IIs is that 10 PR IIs were
filling PR 1 vacancies. ASP normally has approximately 43 PR Is but currently has
only 17. Therefore, PR 1 vacancies will be filled also.

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CHRISTINE WEASON

DATE: August 15, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Fiscal Analyst

SUBJECT: DEPARTMENT OF PUBLIC SAFETY – REPORT ON FIREARMS CENTER

Request

Representative Knaperek has asked JLBC Staff to provide the Committee with background information regarding the transfer of responsibilities for firearm clearance background checks from the Department of Public Safety (DPS) to the Federal Bureau of Investigation (FBI).

Recommendation

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

Analysis

The federal Brady Handgun Violence Prevention Act of 1994 (Brady Act) requires that individuals purchasing firearms from licensed firearm dealers undergo a background check by means of the National Instant Criminal Background Check System (NICS). In the first phase of the Brady Act, state or local governments were responsible for conducting their own background checks on handgun purchases only. However, beginning in November 1998, the second phase required background checks on long gun and pawned gun purchases. In addition, each state was given the option of continuing to perform the background checks, or allowing the FBI to perform this function. Arizona chose to retain the responsibility and formed DPS' Firearm Clearance Center to conduct the required check for individuals purchasing guns from federally licensed firearm dealers.

Under the Firearm Clearance Center, completing a background check involved searching state and national criminal history databases, Department of Corrections (DOC) files, mental health records, certain state warrants, certain domestic violence records, and orders of protection. Prospective gun purchasers completed a request form that asked for identifying information, whether they were currently under

(Continued)

indictment, legally resided in the United States, or were ever convicted of a felony. Dealers called or faxed the information to the Firearm Clearance Center and requested a background check. Most background checks were completed in a matter of minutes with a clearance rate of 89%, but some (about 8%) required additional research because individuals had information in their criminal history record that indicated they might have been ineligible to purchase a gun. Pursuant to federal law, the Firearm Clearance Center had 3 business days to complete the research to determine eligibility. After the 3-day period, dealers were allowed to proceed with the sale.

Laws 2002, Chapter 328, transferred this responsibility from DPS to the FBI with an effective date of August 22, 2002. The transfer created savings of $621,300 in the department's FY 2003 budget. The FTE's that were assigned to the Firearm Clearance Center will be absorbed into existing vacant positions elsewhere within the agency. Currently, 25 states rely on the FBI to conduct background checks on prospective gun purchasers to determine eligibility.

After August 22nd, firearm dealers will call federal NICS customer service representatives and submit buyer information (such as name, date of birth, sex, race, and state of residence). Using this data, the FBI call centers search 3 FBI-managed databases, the National Crime Information Center (NCIC) 2000, the Interstate Identification Index (III), and the NICS index, to determine whether the prospective buyer is precluded from purchasing a firearm. According to the FBI, over 71% of the background inquiries receive an immediate proceed response with transactions completed within 30 seconds after information is entered into the NICS. The remainder of the FBI background inquiries are delayed to allow NICS examiners research time to establish a "proceed" or "deny" determination. The difference between the state immediate response rate and the NICS rate is primarily due to mistaken identity of the prospective purchaser or an arrest record with no disposition entry. Approximately 95% of all inquiries are issued a proceed or deny response within 2 hours. About 5% of the delayed transactions take hours or days to resolve and require NICS examiners to contact state or local sources for additional information.

If the NICS is unable to complete the background check within 3 business days, the Brady Act allows the firearm dealer to transfer the firearm to the purchaser, at the dealer's discretion. Once the check is completed after the 3-day time limit and the purchaser is found ineligible to purchase a firearm, the information is turned over to the Bureau of Alcohol, Tobacco and Firearms (ATF), the gun is retrieved, and the person is charged with felony possession of a gun.

The FBI will not have access to certain state files that may disqualify an individual from purchasing a firearm. These files include DOC files, mental health records, certain state warrants, certain domestic violence records, and orders of protection. Privacy laws and the state computer systems' inability to exchange data with the NICS computer system blocks the FBI's access to such information. Also, NICS data entry criteria restrict some files from being input into their system due to incomplete information in the files. These problems are common among all the states that utilize the NICS as the point of contact for background checks. The FBI is working to resolve this information integration problem with the states. For example, 24 states now provide the FBI with information on orders of protection.

RS/TV:jb

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MARION L. PICKENS
CHRISTINE WEASON

DATE: August 15, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

Request

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

Recommendation

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

Reports

A. Arizona Department of Administration – Semi-Annual Report on Health Insurance Performance Standards.

The Arizona Department of Administration (ADOA) is required to report at least semi-annually on the performance standards of medical and health vendors. The department has begun the survey process and expects to present the results at the November, 2002 JLBC meeting. The department also did not conduct the survey for the period ending for the period ending in December 31, 2001 because employees had insufficient experience with CIGNA under the statewide contract implemented on October 1, 2001. We reported this information to the Committee at our February 2002 meeting. At the time, ADOA said that the survey would be conducted in the spring. Due to staff shortages, the survey was not conducted then.

B. AHCCCS - Report on the Implementation of the Special Provider Rate Increase/

Pursuant to a footnote included in the General Appropriation Act (Laws 2001, Chapter 236), as amended by Laws 2001, Chapter 385, the Arizona Health Care Cost Containment System (AHCCCS) is required to report on how program contractors implemented the special provider rate increase by July 1, 2002.

(Continued)

Laws 2001, Chapter 236 provided an increase of 3.7% above the standard medical inflation adjustment of 3.5% (for a total of 7.2%) to increase the ALTCS capitation rates for Nursing Facilities (NF) and Home and Community Based Services (HCBS). The intent of this increase was to provide salary increases to direct care staff earning less than $13 per hour.

AHCCCS reports that program contractors implemented the increase to Nursing Facilities by applying a flat rate adjustment. Program contractors used more complex methodologies to determine the HCBS pass-through amounts, because there are varied services or providers that fall under HCBS. For example, to determine pass-through amounts for HCBS, program contractors based increases on: 1) utilization projections; 2) a facilities' score on a quality-of-care measuring tool; or, 3) alignment of reimbursement levels with AHCCCS fee-for-service rates. To ensure that providers implemented the increase as the program contractors intended, they were asked to either: 1) sign document indicating their intent to comply; or, 2) complete worksheets documenting wage increases to direct care staff. In addition, program contractors included language in their contracts with providers that allows them to monitor provider wages throughout the year and to make downward rate adjustments if the provider can not demonstrate that the pass-through monies went to direct care staff.

AHCCCS has established procedures for monitoring the program contractors' implementation of the special provider rate increase which involves: 1) review of program contractors' implementation plans and mid-year reviews; 2) review of current provider rates versus historical rates; 3) review of medical expenses and unit rates included in contractor and provider financial statements; and, 4) conducting sample reviews of provider direct care wages.

C. <u>Attorney General - Report on Legal Expenses for Alternative Fuels.</u>

At the JLBC meeting on July 17, the committee requested information on the Office of the Attorney General's (AG) total legal expenses to date for the Alternative Fuels program. The AG provides legal and investigative services to the Arizona Department of Administration (ADOA) and the Department of Revenue that are needed to administer the Alternative Fuel Cost Reimbursement program. Beginning in FY 2001, General Fund monies were appropriated for these purposes to the AG's Alternative Fuels Special Line Item, totaling $397,400 in FY 2001, FY 2002, and FY 2003.

In FY 2001, expenditures for the AG's Alternative Fuels program were $96,100. Of this amount, $52,900 was paid to the law firm of Gallagher & Kennedy for outside legal services. In FY 2002, program expenditures totaled $58,200 with outside legal counsel expenses paid directly by ADOA Risk Management. Of the FY 2002 expenditure total, $57,500 was spent on Personal Services and Employee Related Expenditures for attorneys within the AG's Office, and approximately $700 was spent for other operating expenses.

D. <u>Attorney General – Attorney General - Report on Incarceration Costs Offset by Monetary Judgments.</u>

Pursuant to A.R.S. § 31-238, the Office of the Attorney General is required to report semi-annually on the use of monetary judgments awarded to inmates to offset the costs of incarceration. From January 1, 2002 to June 30, 2002, the state did not exercise its right to offset the costs of incarcerating inmates under this statute. The agency does, however, indicate that it believes the existing statute results in reduced negotiated settlement amounts as well as discouraging the filing of frivolous lawsuits.

E. <u>Department of Economic Security – Bimonthly Report on Arizona Works.</u>

As the vendor for the state's Arizona Works pilot welfare program, MAXIMUS is required to report bimonthly on Arizona Works. It submitted its latest report in July. Total caseloads in Arizona Works increased by 16.4% from May 2001 through May 2002. Over the same period of time, welfare caseloads

(Continued)

in the rest of Maricopa County increased 29.4%. We would note, however, that any difference in recipient and economic characteristics in both areas may contribute to differences in caseloads. Laws 2002, Chapter 331 ends the Arizona Works pilot on September 30, 2002. After that date, the department will resume administration of the welfare program in Maricopa and Greenlee Counties.

F. Department of Economic Security – Bimonthly Report on Children Services Program.

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) has submitted the bimonthly Children Services report for August 1. The report does not contain any actual expenditure data, which is expected for this first report of the year. The report also does not contain DES' expenditure projections due to a variety of outstanding issues including uncertainty regarding both distribution of $10.9 million of TANF supplemental funding provided in the FY 2003 budget and federal participation in some foster care costs. DES expects to resolve these issues and incorporate them in expenditure projections in the next report due on October 1.

G. Department of Economic Security – Report on Placements into State-Owned ICF-MR or the Arizona Training Program at Coolidge Campus.

Laws 2002, Chapter 321 requires the Department of Economic Security (DES) to report all new placements into a state-owned Intermediate Care Facility for the Mentally Retarded (ICF-MR) or the Arizona Training Program at Coolidge (ATP-C) campus by July 15, 2002 for FY 2002. DES reports that there were no new permanent placements into the ATP-C campus in FY 2002. DES reports that there was one placement into a state-owned ICF-MR in Phoenix after placement into privately-run facilities was denied.

H. Department of Emergency and Military Affairs – Report on Declared Emergencies.

Governor's Emergency Fund: FY 2002

Pursuant to A.R.S. § 26-303, the Governor declared a State of Emergency (PCA 22006) effective June 18, 2002 due to the Rodeo Fire which started near Cibecue on the Fort Apache Indian Reservation. Pursuant to A.R.S. § 35-192, the Governor directed that $100,000 from the Governor's Emergency Fund be made available for expenditure by the Director of the State Division of Emergency Management. The Rodeo Fire burned homes and forested land near Pinedale, Linden and Show Low. There were 13 emergency declarations, amendments or other actions in FY 2002, with total authorized expenditures of $3,927,400 from the General Fund. A total of $4,000,000 is authorized each year for emergencies. As a result, $72,600 reverted to the General Fund at the end of FY 2002.

Governor's Emergency Fund: FY 2003

Pursuant to A.R.S. § 26-303, on July 1, 2002, the Governor amended the proclamation of June 18, 2002 (PCA 22006) to include Gila and Coconino Counties reflecting the Rodeo Fire's merger with the Chediski Fire. Pursuant to A.R.S. § 35-192, the Governor directed that an additional $100,000 from the Governor's Emergency Fund be made available for expenditure by the Director of the State Division of Emergency Management.

On July 3, the Governor declared a State of Emergency in Coconino and Gila Counties, due to a shortage of potable water, and directed that $50,000 from the Governor's Emergency Fund be made available for expenditure by the Director of the State Division of Emergency Management. Under current drought conditions, wells cannot meet current and projected potable water needs.

On June 25, 2002 the President declared the Rodeo/Chediski Fire a major disaster. This declaration provided Public Assistance Grants to Navajo County, Apache County and the Fort Apache Indian

(Continued)

Reservation, Individual and Family Grants to Navajo, Apache, Gila and Coconino Counties and the Fort Apache Indian Reservation, and Fire Management Assistance Grants statewide. The Federal share of grant programs is typically 75% with the remainder coming from state and local sources. The estimated total amount of aid from all sources for Fire Management Assistance Grants, Public Assistance Grants, and Individual and Family Grants for the disaster is $29,199,900. The total State share of this amount is currently estimated to be $6,074,700.

	Federal	State	Local	Total
Fire Management Assistance Grants	$11,772,500	$3,924,200	0	$15,696,700
Public Assistance Grants	$9,189,900	$1,838,000	$1,225,300	$12,253,200
Individual and Family Grants	$937,500	$312,500	0	$1,250,000
Total Amount	$21,899,900	$6,074,700	$1,225,300	$29,199,900

Pursuant to A.R.S. § 35-192, on July 18, 2002, the Governor's Emergency Council approved the expenditure of $3,312,500 from the $4,000,000 General Fund emergency fund to meet the State's cost share for the next 90 days.

There have been 3 emergency declarations, amendments or other actions in FY 2003 with total authorized expenditures of $3,462,500 from the General Fund. Under A.R.S. § 35-192, the Governor is authorized to approve the expenditure of $200,000 or less for any single disaster, emergency or contingency. Authorization of larger expenditures cannot be made without consent of a majority of the members of the State Emergency Council.

I. Governor's Office for Excellence in Government – Report on Privatizing the Arizona Pioneers' Home.

Pursuant to a footnote in the General Appropriations Act, the Governor's Office for Excellence in Government (OEG) was required to report on the potential costs and benefits of privatization of the Pioneers' Home as well as the legal issues pertaining to a private entity's use of the Miners' Hospital Fund. The report concluded that the privatization of the Pioneers' Home would require a phase out of residents or a transfer of current residents to a suitable facility. The current Home would have to undergo major capital improvements in order to meet licensure and regulatory standards required of a private sector operator if the operation of the Pioneers' Home was transferred to a private entity. The report also stated that the use of the Miners' Fund by a private entity may require the amendment of the Enabling Act.

OEG also recommended that if the State continues to operate the Pioneers' Home, the admission requirements of residents should be reevaluated, as these eligibility criteria may be too broad. Declining revenue sources for capital improvements and maintenance were also listed as a concern and OEG suggested that there could be a negative impact to the residents of Yavapai County if the Pioneers' Home was closed or privatized.

(Continued)

J. Department of Health Services - Report on Health Crisis Fund Expenditures.

At the July JLBC meeting, we reported that the Governor had approved an expenditure of $300,000 from the Health Crisis Fund to provide monies to 2 sexual abuse hotlines that were experiencing financial difficulties. In response to questions from members, we asked the Governor's Office about the magnitude of the deficit the hotlines were experiencing, and whether the deficits were related to state budget cuts. According to the Governor's Office, the expenditure was approved after a Phoenix group became unable to provide this service and a Tucson group filled in the gap for a period of time. The $300,000 expenditure will be used by the Tucson group as well as another Phoenix group that is now responsible for providing these services. The expenditure from the Health Crisis Fund was not meant to fund a specific deficit, but rather to compensate the Tucson group for their additional expenses, and help the new Phoenix group begin to provide new services. We were unable to obtain specific information about overall funding levels from either group.

K. Naturopathic Physicians Board of Medical Examiners – Report on Inspection and Evaluation Special Line Item Expenditures.

Pursuant to a General Appropriations Act footnote (Laws 2001 Chapter 236), the Naturopathic Board is required to submit a report of expenditures for the prior fiscal year for the Inspection and Evaluation special line item by August 1, 2002 and August 1, 2003. We received the Naturopathic Board's report on August 9, 2002. The Board reports expenditures of $49,900 from the Naturopathic Physicians Board of Medical Examiners Fund for inspections and evaluations of medical and educational programs in FY 2002. This left a fund balance of $155,500 at the end of the fiscal year. The expenditures appear to be consistent with the Board's requirement to oversee Naturopathic education programs in the state.

L. Department of Revenue - Report on Ladewig Expenditure Plan.

In June 2002, the Committee approved $866,400 for the Department of Revenue's (DOR) 3-month interim expenditure plan for Ladewig administration costs for the first quarter of FY 2003, and asked DOR to provide a monthly report on their status and expenditures. DOR reports that as a result of primarily positive settlement negotiations, the court is going to issue an order delaying mailing the notice to 675,000 putative class members. Under the new schedule, DOR must begin mailing the notice by October 4 (instead of by August 16), must complete the mailing by November 15, and must begin publishing the notice October 18. Class members must opt out by November 29 or they will be included in the class. If a settlement is reached this order will be modified or terminated. There is a judicial status meeting set for September 12.

DOR plans to use 4 existing FTE Positions to manage Ladewig. DOR moved 2 of these FTE Positions (program administrator and budget officer) to Ladewig effective July 1, established 1 FTE Position (executive staff assistant) on July 30, and is working on filling a vacant clerk typist position. DOR has not yet determined when they will hire temporary personnel to staff phones, open and sort mail, and act as audit clerks. DOR reports expenditures of $29,500 for Ladewig in July 2002.

M. Arizona Department of Transportation – Report on Motor Vehicle Division Wait Times.

Laws 2000, Chapter 343, requires the Arizona Department of Transportation (ADOT) to report to the legislature monthly on customer wait times from door to counter in every Motor Vehicle Division field office. Chapter 343 also repeals this requirement on July 1, 2005. For the second half of FY 2002, total customer time averaged 31.6 minutes, including 22.8 minutes of customer wait time and 8.8 minutes of transaction time. This was an increase from the first half of FY 2002, when total customer time averaged

(Continued)

22.1 minutes, including 13.7 minutes of customer wait time and 8.4 minutes of transaction time. ADOT attributes the increase in customer wait times for the second half of FY 2002 to implementing the license plate and fee to vehicle owner system in January 2002, and to a hiring freeze during this period. The following table compares the results for all of FY 2002 to those of previous fiscal years.

Average Customer Minutes Spent in Motor Vehicle Division Field Offices

Fiscal Year	Wait	Transaction	Total
FY 1999	29.1	1/	1/
FY 2000	14.9	1/	1/
FY 2001	15.4	8.3	23.7
FY 2002	18.4	8.6	27.0

1/ Prior to the current reporting requirement.

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CHRISTINE WEASON

DATE: August 20, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst
Stefan Shepherd, 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 its plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX behavioral health programs. DHS is requesting review of rate changes for the Children's Behavioral Health (CBH) and General Mental Health/Substance Abuse (GMH/SA) Title XIX rates. These rate changes may affect the CBH Title XIX and GMH/SA Title XIX Special Line Items, as well as the Proposition 204 Line Item.

DHS had previously requested review of these capitation rate changes, as well as the Seriously Mentally Ill (SMI) capitation rate. JLBC approved a reduction in the SMI capitation rate at its July meeting. Because savings were not as great as anticipated in the budget, however, the SMI rate change will require an additional $7 million in General Fund state match. At the July meeting, however, JLBC Staff recommended deferring a decision on the Children's rate and the GMH/SA rate until additional information became available.

As requested, DHS provided a mechanism for funding the CBH and GMH/SA capitation rate increases. This funding proposal would require Committee approval of a transfer of appropriations. The transfers include $1 million in Non-Title XIX funding within the Children's Behavioral Health State Match for Title XIX Special Line Item and $3 million from the Seriously Mentally Ill Non-Title XIX Special Line Item. Of these monies, $2.6 million would be used for the CBH rate increase and $1.5 million would be used for the GMH/SA increase.

(Continued)

Recommendation

The JLBC Staff recommends a favorable review of the request of the proposed capitation rate changes for the CBH and the GMH/SA populations. Given population estimates used in developing the FY 2003 appropriation, these capitation rate changes will require approximately $4 million beyond the current appropriated level. This includes $2.6 million for CBH and $1.5 million for GMH/SA. The CBH rate has been adjusted for a number of factors; however, the largest component of the increase relates to DHS assuming additional responsibility to provide behavioral health services for children in foster care, a responsibility that has been shared with the Department of Economic Security (DES). This change should free up to $13 million currently expended within DES.

At the request of JLBC Staff, DHS has submitted a plan to fund the capitation rate increase. DHS proposes to use $1 million appropriated for Non-Title XIX services for Title XIX eligible children, as well as $3 million from the SMI Non-Title XIX line item in order to fund the increase in capitation rates. In order to implement the DHS plan, the Committee would need to approve a transfer between Special Line Items.

After discussion with the Appropriations Chairmen, the JLBC Staff has developed an alternative to the DHS transfer request for the Committee's consideration. The Appropriations Chairmen recognize the effort DHS has made to maximize state resources by federalizing more behavioral health funding for children in foster care. However, the Chairmen also have voiced concerns about using Non -Title XIX funds in the DHS budget to pay for the Title XIX services. In this alternative, DES would use a part of their existing children's behavioral health budget to fund the capitation changes and DHS would no longer use its Non-Title XIX resources to pay for the Title XIX rate increases. The specifics of the alternative are as follows:

- DES would provide DHS with $2.6 million from its existing $13 million behavioral health budget to fund the capitation rate increase for children.
- DHS would find the resources from its existing budget (other than Non-Title XIX services) to cover the $1.5 million cost of the General Mental Health rate change. One option is the $46 million increase in the FY 2003 budget for the behavioral health needs of the Proposition 204 population. Since this increase was funded from Tobacco Settlement dollars, this shift of monies would require realigning General Fund resources for Proposition 204 in the AHCCCS budget.
- The Committee would not approve the requested transfers and DHS would retain its budgeted Non-Title XIX resources.
- DES would provide JLBC Staff with bimonthly updates of residential placement clients and expenditures in the Children Services program. DES estimates that it may have a $10 million deficit in its Children Services program and would like to retain all $13 million of its "freed up" monies as DHS begins to fund the DES population.

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 Arizona Health Care Cost Containment System (AHCCCS).

(Continued)

DHS has received approval from AHCCCS to change the capitation rates for the CBH and GMH/SA populations retroactive to July 1, 2002, and has submitted its planned capitation rate changes for the Committee's review. These rate changes will affect both Title XIX Special Line Items, as well as the Proposition 204 Special Line Item.

The following tables show the budgeted and proposed capitation rates for each program and JLBC Staff estimates for General Fund cost impact by program above the FY 2003 appropriation based on the enrollment projections used in developing the FY 2003 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.

JLBC Staff is unable to determine the impact of these capitation rate changes on the Proposition 204 Special Line Item. This line item receives its state match funding from the Tobacco Settlement. The estimates for this line item were developed by the Governor's office and have not been revised.

Table 1

	Monthly Budgeted Capitation Rate	Monthly Proposed Capitation Rate	$ Change	% Above/Below Budgeted Rate
CBH	$25.75	$27.49	$1.74	6.76%
GMH/SA	17.69	19.82	2.13	12.04%

	FY 2003 Appropriation			**Need with Rate Changes**			**Difference**		
	TF	GF	FF	TF	GF	FF	TF	GF	FF
CBH	$117,853,500	$40,344,600	$77,508,900	$125,827,492	$42,922,327	$82,905,165	$7,973,992	$2,577,727	$5,396,265
GMH/SA	37,538,800	12,532,300	25,006,500	42,063,900	14,014,600	28,049,300	4,525,100	1,482,300	3,042,800
	$155,392,300	$52,876,900	$102,515,400	$167,891,392	$56,936,927	$110,954,465	$12,499,092	$4,060,027	$8,439,065

CBH Rate

Actuaries included a variety of adjustment factors in calculating the appropriate capitation rate for the CBH population, including an adjustment for claims that were not properly posted in the DHS encounter system, an adjustment for the cost of prescription drugs, and an adjustment for including children receiving residential treatment as part of their Individual Education Plan (IEP). The largest adjustment in the rate, however, is due to an anticipated expansion in the services for which DHS is responsible for foster care children. The increase related to this change is $3.98 per member per month. In absence of this policy change, the CBH capitation rate would have decreased, based upon the actuarial report. The net increase in the rate is $1.74 per eligible child per month.

The Children Services line item in DES' Division of Children, Youth and Families provides in-home and out-of-home services for children in the state's foster care system, including residential treatment centers and therapeutic group homes. DES uses a variety of funding sources to pay for these services, including General Fund, federal Temporary Assistance for Needy Families (TANF) Block Grant, TANF Block Grant monies transferred to the federal Social Services Block Grant (SSBG), and matching federal monies.

Based upon information provided by DHS and DES, in FY 2002 approximately $18.5 million was spent by DES and $15 million by DHS for a total of $33.5 million to provide behavioral health services for children in foster care. The actuarial report estimates that DHS will become responsible for an additional

(Continued)

$17 million in behavioral health services, which results in the $3.98 per member per month component of the capitation rate change. DHS pays approximately 30% more daily for residential treatment than does DES. Applying this ratio to the $17 million means that the rate will cover approximately $13 million of the care DES has been providing, leaving approximately $5.5 million in Non-Title XIX costs that will continue to be spent on behavioral health in DES. This should leave approximately $13 million of surplus in the DES system due to this shift in responsibility. If DES were to transfer the $2.6 million to cover the state match increase associated with this rate increase, it would still have about $10 million of total funds available for other services for children. DES believes the surplus range is between $6-9 million. DES has raised concerns that the number of children eligible for Title XIX behavioral health services through DHS may be lower than originally thought. If this is the case, this would lower the savings experienced by DES.

DES believes that even if DHS continues to assume payment responsibility for these children at rates equivalent to that seen in May 2002, DES will have a FY 2003 total funds deficit of $10.4 million in the Children Services program. This deficit is based partly on an estimated $5 million loss in Title IV-E federal foster care funds. JLBC Staff is currently reviewing the FY 2003 Children Services estimates and will continue to monitor expenditures as it develops budget alternatives for the FY 2003 and FY 2004 budget. As noted above, we believe that even if DES funds the DHS match, there would be a significant amount of monies freed up in the Children Services line item to help address this deficit.

<u>GMH/SA Rate</u>

Actuaries also made a series of adjustments in the rate for General Mental Health/Substance Abuse. The net increase in the rate is $2.13 per member per month. Most of the increase in this rate is associated with an increase in utilization in a number of rural RBHAs.

Thus, based on enrollment projections used in developing the FY 2003 appropriation, the capitation rate changes will create a need for $2.6 million associated with the children's programs and a need for $1.5 million for General Mental Health. Upon request, DHS proposed that the increase be paid from $1 million in Non-Title XIX CBH funds and $3 million in Non-Title XIX SMI funds. The Appropriations Chairmen have concerns about using Non-Title XIX funds to pay for these capitation rate adjustments.

To address these concerns, the JLBC Staff has developed an alternative proposal that would require DES to pay for the state match cost of the CBH rate increase ($2.6 million) from the funds they previously used for this population. This would still leave them with savings that could be used to address their anticipated shortfall.

As part of this alternative, the GMH/SA rate increase ($1.5 million) would be paid from other sources within the DHS budget. One possible source is the Proposition 204 line item, which has an appropriation of $46.8 million in Tobacco Settlement funds in FY 2003. Given that this program is still being phased-in, there is a possibility that not all funds will be used in FY 2003 and may be available for transfer. Since these are Tobacco Settlement funds, this transfer would require a realignment of funds within the AHCCCS budget to free up General Fund monies in DHS. This transfer would require JLBC approval.

Since the alternative proposal contains funding sources for the capitation rate adjustments other than the Non-Title XIX funds suggested by DHS, no transfer would be approved under the alternative. A transfer from the Proposition 204 line item may be required at a later date. Finally, under the alternative proposal, DES would provide the JLBC with bimonthly updates of residential placement clients and expenditures in the Children Services program.

RS:GG:jb

Arizona Department of Health Services

Office of the Director

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JANE DEE HULL, GOVERNOR
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RECEIVED
JUN - 6 2002
JOINT BUDGET COMMITTEE

June 6, 2002

The Honorable Ruth Solomon, Chairman
Joint Legislative Budget Committee
1700 West Washington
State Capitol – Senate Wing
Phoenix, Arizona 85007

Dear Senator Solomon:

Pursuant to footnotes in the General Appropriation Act (Laws 2002, Chapter 327), the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to discuss (1) the proposed changes to the Behavioral Health Services capitation rates for FY 2003 (2) the Arnold v. Sarn expenditure plan; and (3) proposed changes to the Children's Rehabilitative Services capitation rate for FY 2003.

Behavioral Health Capitation Rate Adjustment: The Department is submitting Title XIX capitation rates effective July 1, 2002, 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, which includes medical inflation, retroactive claims, and a downward trend factor to account for the growth of new eligibles under Proposition 204
- Prescription Drug Adjustment for all populations
- Kids Care (Title XXI) Parents Adjustment resulting from changes in Title XIX eligibility for those parents
- CMDP Children's Adjustment for Level I and II Placements in RBHA-contracted providers
- SEH Children's Adjustment for Title XIX Children Previously Reimbursed under Non-Title XIX Funding Sources

The current and proposed statewide rates are as follows:

Program	*Current Statewide Capitation Rates*	*Proposed FY 2003 Capitation Rates*
Children	$25.75	$27.49
SMI	$75.13	$63.48
General Mental Health/ Substance Abuse	$17.69	$19.82

Arnold V. Sarn Expenditure Plan: Also, the Department is submitting an expenditure plan for the 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 million will be federalized to draw down approximately $10.0 million in Federal Funds for a Total Fund allocation of $29.5 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 1.

Children's Rehabilitative Services Capitation Rate Adjustment: And finally, the Department is submitting capitation rates effective July 1, 2002, for the Children's Rehabilitative Services program. These rates were also prepared by William M. Mercer, Incorporated. The rates have been modified from State Fiscal Year 2002 to reflect the elimination of the minimum and maximum revenue risk bands that were an integral part of the State Fiscal Year 2002 capitation rates. These adjustments resulted in base capitation rates. The base capitation rates were then adjusted to reflect health care trends for State Fiscal Year 2003. Attachment 2 identifies the estimated State Fiscal Year 2003 member months and funding allocations by site. Attachment 3 shows the FY 2002 approved rates and the FY 2003 proposed rates for your review.

If you need additional information, please contact me at 542-1025 or my Central Budget Office Staff at 542-6386.

Sincerely,

Cathy Eden

Catherine R. Eden
Director

CRE:LS:pm

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: August 20, 2002

TO: Senator Ruth Solomon, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – TRANSFER OF APPROPRIATIONS

Request

The Department of Health Services (DHS) reports that it has reduced the Seriously Emotionally Handicapped (SEH) Line Item in Behavioral Health from $4,200,300 to $138,400. The $4,061,900 in General Fund savings was used to increase the Behavioral Health Services administration budget. DHS plans to subsequently transfer some of these monies to other areas of the DHS operating budget.

The DHS FY 2003 lump sum reduction was originally prorated in the General Appropriation Act throughout the Department's administrative budgets, excluding the Arizona State Hospital. The Department now proposes to restore these administrative cuts and take the lump sum reduction from the SEH Line Item. The SEH state funds would be replaced in part by new federal funds.

The SEH Special Line Item provides funding for residential services for children that are unable to be educated in a conventional school environment due to a serious emotional handicap. This placement is made as part of the development of an Individual Education Plan (IEP) by individual school districts.

DHS proposes to use both Title XIX funds as well as $500,000 from the Children's Behavioral Health (Non-Title XIX) Line Item, in addition to the $138,000, to fund this population in FY 2003. Pursuant to a footnote in the General Appropriation Act, JLBC Staff believes that this reduction requires a transfer of appropriations approved by the Committee.

Recommendation

An agreement reached by DHS and the Arizona Department of Education (ADE) indicates that, regardless of Title XIX eligibility, DHS will continue to provide funding for children requiring residential treatment to meet the conditions of their individual education plan. Most of the SEH children would be converted to the Title XIX program. Under the DHS plan, $638,000 would be available for any children that cannot be converted to Title XIX. Of this amount, $138,000 would be from the original SEH Line Item, and they would commit an additional $500,000 from the Children's Behavioral Health (Non-Title XIX) Line Item.

The Appropriations Chairmen recognize the effort DHS has made to maximize state resources by federalizing funding for this population. However, the Chairmen also have voiced concerns about using Non-Title XIX funds to pay for the services that, for a variety of reasons, are unable to be paid for through the Title XIX program. As a result, we have developed an alternative option for the Committee to consider:

- Transfer $3.6 million from the SEH Line Item to the operating lump sum budget. The sum of $638,000 would remain the SEH Line Item.
- Consistent with on-going legislative intent, advise DHS that the $500,000 in the Children's Behavioral Health Line Item be expended for Non-Title XIX services rather than be used as the primary funding source of the SEH program. This alternative would mean that DHS would need to absorb $500,000 in its operating budget, rather than taking the reduction in Non-Title XIX service dollars.
- Recommend that DHS report back to the Committee by September 25 on how this transfer will be further allocated to the other DHS cost centers.
- Recommend that DHS report to the Committee by November 1 on the status of placement for this population. This report should include information about the number of children referred to Regional Behavioral Health Authorities (RBHAs) for placement, the number of children that become Title XIX eligible, the number that are not Title XIX eligible, and expenditures as of October 31, as well as a projection of expenditures for the remainder of FY 2003.

Under the alternative, the Committee would approve the following transfer:

<u>TRANSFER FROM</u>:		<u>TRANSFER TO</u>:	
Seriously Emotionally Handicapped	$3,562,300	Operating Lump Sum	$3,562,300

Analysis

During the appropriations process for the FY 2003 budget, DHS, like other agencies, received a lump sum reduction of approximately 4% of their General Fund appropriation, excluding Title XIX funding. This reduction equaled about $4.6 million. The General Appropriations Act reduced the operating lump sum appropriations for each of the cost centers in DHS, except the Arizona State Hospital, in order to distribute that reduction.

DHS determined that they could best absorb the bulk of their lump sum reduction by transferring payment for services previously paid for through the SEH Line Item to the Title XIX program. The majority of children placed in residential treatment centers for more than thirty days can become eligible for Title XIX funding, which reduces the state financial responsibility by about two-thirds. The Children's Behavioral Health Title XIX capitation rate increase, considered separately on this agenda, includes an adjustment of approximately $0.51 per child per month for this population. The actuaries currently estimate that this rate adjustment will generate total funds of $2.1 million. There is some uncertainty, however, about how many children will become eligible for Title XIX versus Non-Title XIX, particularly for children who are new to the behavioral health system and may require services once the school year begins.

DHS does not believe that the transfer of the SEH monies requires Committee approval. In order to implement this change, DHS increased the BHS General Fund operating budget and decreased the SEH Line Item. When DHS loaded their budget into the state accounting system, they reallocated federal funds to allow them to move the General Fund monies out of the SEH Line Item. Legislative intent was to fund this line item entirely from the General Fund, as has been the practice for many years. DHS then plans to make additional transfers through the Office of Strategic Planning and Budgeting (OSPB) to cover the reductions that have already been taken in the operating lump sum appropriations in the remaining cost centers. The revised budget structure loaded into the accounting system is not consistent with legislative intent. In addition, the SEH Line Item is covered by a footnote to the General Appropriation Act that requires DHS to seek JLBC approval of transfers of funds. As a result, the JLBC Staff believes this transfer is subject to Committee approval.

As discussed above, under DHS's plan, most of the SEH program would be federalized with Title XIX funding and the remaining SEH funding would be allocated from Non-Title XIX monies. The Appropriations Chairmen have voiced concerns about using Non-Title XIX funds as a primary funding mechanism for the SEH program. Under the alternative proposal, the Committee would advise DHS that the $500,000 be expended for Non-Title XIX services rather than be used as the primary funding source of the SEH program.

In summary, the Committee would approve this transfer under the alternative proposal, but at the lower amount of $3.6 million. The Committee would also:

- Consistent with on-going legislative intent, advise DHS that the $500,000 be expended for Non-Title XIX services rather than be used as the primary funding source of the SEH program. This alternative would mean that DHS would need to absorb $500,000 in its operating budget, rather than taking the reduction in Non-Title XIX service dollars.
- Recommend that DHS report back to the Committee by September 25 on how this transfer will be further allocated to the other DHS cost centers.
- Recommend that DHS report to the Committee by November 1 on the status of placement for this population. This report should include information about the number of children referred to Regional Behavioral Health Authorities (RBHAs) for placement, the number of children that become Title XIX eligible, the number that are not Title XIX eligible, and expenditures as of October 31, as well as a projection of expenditures for the remainder of FY 2003.

RS/GG:ck