

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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HOUSE OF
REPRESENTATIVES

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JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, August 30, 2001

1:30 p.m.

House Hearing Room 4

AGENDA

- Call to Order
- [Approval of Minutes of June 28, 2001.](#)
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- DIRECTOR'S REPORT (if necessary).
- 1. SCHOOL FACILITIES BOARD
 - A. [Consider Approval of Index for Constructing New School Facilities.](#)
 - B. [Report on Energy Efficiency Requirements for School Construction and Repair.](#)
- 2. DEPARTMENT OF ECONOMIC SECURITY
 - A. [Determine Arizona Works Caseload Reduction Savings.](#)
 - B. [Determine Arizona Works Administrative Baseline Costs for Mohave County.](#)
 - C. [Bimonthly Report on Children Services Program.](#)
 - D. [Bimonthly Report on Arizona Works.](#)
- 3. DEPARTMENT OF HEALTH SERVICES - [Review of Capitation Rate Changes.](#)
- 4. ARIZONA DEPARTMENT OF ADMINISTRATION - [Review of Retiree Accumulated Sick Leave Rate.](#)
- 5. ARIZONA LOTTERY COMMISSION - [Consider Approval of Revisions to Retailer Incentive Plan.](#)
- 6. ATTORNEY GENERAL - [Review Allocation of Settlement Monies.](#)
- 7. JOINT LEGISLATIVE BUDGET COMMITTEE STAFF - [Report on Joint Student Enrollment Forms.](#)

8. ARIZONA BOARD OF REGENTS - Report on FY 2002 Tuition Revenues.
9. REPORT ON RECENT AGENCY SUBMISSIONS
 - A. Department of Health Services - Report on Health Crisis Fund.
 - B. Department of Transportation - MVD Wait Times Report.
 - C. Attorney General - Report on Model Court.
 - D. Attorney General - Report on Incarceration Costs Offset by Monetary Judgments.
 - E. Department of Economic Security - Report on Placements into State-Owned ICF-MR or the Arizona Training Program at Coolidge Campus.
 - F. Department of Emergency and Military Affairs - Report on Camp Navajo Fund.

The Chairman reserves the right to set the order of the agenda.
08/23/01

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

June 28, 2001

The Chairman called the meeting to order at 1:30 p.m., Thursday, June 28, 2001, in House Hearing Room 4. The following were present:

| | | |
|----------|---|---|
| Members: | Senator Solomon, Vice-Chairman Senator Bee Senator Bowers Senator Brown Senator Rios | Representative Knaperek, Chairman Representative Allen Representative Burton Cahill Representative Gray Representative May Representative Pickens Representative Weason |
| Absent: | Senator Arzberger Senator Bundgaard Senator Cirillo | Representative Pearce |
| Staff: | Richard Stavneak, Director Sharon Savage, Secretary Pat Mah Beth Kohler Gina Guarascio | Patrick Fearon Tom Mikesell Stefan Shepherd Bruce Groll Bob Hull |
| Others: | Frank Hinds Debbie Spinner Steve Whitterspoon Rick Sanders Sherri Collins Christy Anderson Bruce Liggett Desiree Johnson Deborah Chapman Hank Atha William Ponder Gary Adams | Risk Management, ADOA Office of the Attorney General Outside Counsel Department of Public Safety Arizona Commission for the Deaf and the Hard of Hearing Governor's Office Department of Economic Security MAXIMUS - Arizona Works MAXIMUS - Arizona Works Chairman, Arizona Works Agency Procurement Board AZ Historical Society ADOT/Aeronautics |

APPROVAL OF MINUTES

Representative Knaperek moved that the minutes of May 31, 2001 be approved. The motion carried.

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

Ms. Beth Kohler, JLBC Staff, said that pursuant to A.R.S. § 36-1947E, the Arizona Commission for the Deaf and the Hard of Hearing was requesting a favorable review to expenditures from the Telecommunication Fund for the Deaf. The Commission reports a beginning balance of \$3,200,000, with third quarter revenues of \$1,266,300 and expenditures of \$1,195,500. As of the end of March, the Commission has received \$3,324,700 in FY 2001 revenue and has expended \$3,314,300. In addition to giving the report a favorable review, the JLBC Staff recommends that the Committee delegate their responsibility for reviewing the report to the JLBC Staff for the next 3 quarters. JLBC Staff further recommends seeking a legislative change to eliminate this reporting requirement. Since the fund is now subject to appropriation, the review is no longer necessary.

Richard Stavneak, Director, explained that the report requirement was instituted before the fund became appropriated. They typically do not do this type of quarterly report for an appropriated fund. A statutory change would be necessary to eliminate this requirement. Every 2 years JLBC recommends additional funds for appropriation or consolidation. That report would be used to address this type of issue, which is essentially clean up.

Senator Solomon moved that the Committee give a favorable review of the expenditures from the Telecommunication Fund for the Deaf. Senator Solomon further moved that the Committee seek legislation to eliminate the review requirement in the future and transfer the responsibility for reviews in the next 3 quarters to the JLBC Staff. The motion carried.

EXECUTIVE SESSION

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

At 1:39 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

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

Senator Solomon moved that the Committee approve the recommended settlement proposals by the Attorney General's Office in the following cases:

1. Claxton v. DPS, et al.
2. Lawrence v. State of Arizona
3. Redhouse v. State of Arizona, et al.

The motion carried.

DIRECTOR'S REPORT

Richard Stavneak told the Committee that Staff has just published this year's Appropriation Report. It is a very detailed document used by the agencies and may be of interest to some constituents. It also will be on the Internet. Mr. Stavneak added that they started at the last meeting summarizing the actions taken by the Committee in the monthly Preliminary Revenue Highlights. This document goes to all legislators so they can be aware of the numerous issues that the Committee is involved with. The Preliminary Revenue Highlights is published around the seventh of each month.

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

Patrick Fearon, Senior Fiscal Analyst, said the Governor and the Superintendent of Public Education asked that the Committee revise the per pupil distribution amount of Proposition 301 Classroom Site Fund money. Under Proposition 301,

certain monies from a 0.6% sales tax increase and from the State Land Trust are designated to the Classroom Site Fund. These monies are then distributed to schools based on their Group A weighted student count multiplied by a per pupil dollar amount that is determined by the JLBC. In April, the Committee approved a per pupil distribution of \$240.56. That figure was based on a projected FY 2002 student count and the expected availability of funds in the Classroom Site Fund. The \$248 million assumed for the Classroom Site Fund was based on only 11 months of revenue from the sales tax being available for distribution in FY 2002. Mr. Fearon said the Department of Revenue (DOR) and other related agencies have now determined that the amount would be from 12 months of sales tax revenue, which would increase the amount of money available for the per pupil distribution to \$272.42. The original amount that was projected for 11 months distribution was \$248 million. That amount increases to roughly to \$281 million for 12 months.

Representative Gray asked what the per pupil amount would be if they were to include the Arizona Schools for the Deaf and the Blind (ASDB) and the Department of Juvenile Corrections (DJC). Mr. Fearon explained that he could not give an estimate at this time because he would need to confirm the student count. He would have to get back to Representative Gray with an answer.

Representative Gray said that she thought they were not including the weighted count for the Classroom Site Fund. Mr. Fearon explained that the way the statute is currently written is that the count is the Group A weighted count. During the end of the session there was a proposal to use an unweighted count but it was not approved.

Christy Anderson, Education Policy Advisor, Governor's Office, explained that the Governor's Office, the State Treasurer's Office, the Auditor General's Office, representatives from the JLBC, OSPB, DOR, and the General Accounting Office confirmed that was practice to count the dollars received by the state for a fiscal year and that Arizona will, in fact, collect 12 months worth of sales tax revenues. They thought it only appropriate that these revenues be paid out to the school districts. Ms. Anderson said that she did not have any numbers, but the student count at ASDB and DJC is a relatively small number. However, using weighted or unweighted numbers would have to be addressed by the Legislature. They tried to see if there was any way that they could include ASDB and DJC without a statutory change, but Propositions 301 and the Education 2000 bill referenced only schools districts and charter schools. ASDB and DJC are educational facilities operating under completely different statutes. They are not normally considered school districts. While it would be beneficial for them to be considered a school district for Proposition 301, at other times it would be detrimental to them when they had to comply with the same laws as school districts. Ms. Anderson said that they hoped to introduce legislation in the next session to address the Proposition 301 distribution.

Mr. Fearon said that it would be about 30 cents less per pupil if they included ASDB and DJC and that equates to roughly \$250,000 a year. He added that this was just a quick calculation.

Senator Solomon moved that the Committee adopt the 12-month calculation for the Classroom Site Fund allocation. The motion carried.

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

Mr. Jim Rounds, JLBC Staff, said the JLBC Staff recommendation was to adopt the proposed repayment schedule to the Budget Stabilization Fund (BSF). During the last Special Session, the tax credit on the alternative fuels program was reduced but was still estimated at \$200 million over the next 2 years. Since the General Fund could not support this, they had to borrow money from the BSF. The provision was that \$16 million a year was to be paid back from the General Fund and each June, JLBC Staff was to come back before the Committee and give an update as to the actual cost of the program. In June 2002, JLBC Staff will be coming back to give more precise numbers and a more precise repayment schedule for the remaining number of years. Mr. Rounds explained that there are 2 different components of what will have to be paid back. First, the state incurred costs related to individuals who realized some form of a financial loss when the program was modified. The original estimate to be reimbursed through the Consumer Loss Recovery Fund is about \$8.2 million. The second component is the tax credits that are actually being paid on alternative fuel vehicles, refueling apparatus, and fueling stations. The Office of Alternative Fuel Recovery (OAFR) has reviewed claims for \$108 million in credits related to alternative fuel vehicles. Based on the higher OAFR estimate, the total BSF loan could be at least \$116.2 million (\$108 million for AFV tax credits and \$8.2 million for consumer loss recovery payments). After adjusting for 5% interest on the unpaid balance, the total repayments to the BSF would equal \$139.3 million.

Mr. Rounds said the Legislature had already set aside \$16 million in FY 2001, FY 2002, and FY 2003 to pay back the BSF. Adopting this schedule would allow the State Treasurer to take the General Fund money and put it back into BSF this year. The years shown in the estimate are for information only and could change.

Representative Knaperek asked if the \$16 million repayment to the BSF was statutorily driven. Mr. Rounds confirmed that it was. The funds have already been set aside and the State Treasurer can use the repayment schedule to actually view the transfers that have been put in the budget.

Mr. Stavneak clarified that statute states that they shall repay no more \$16 million a year.

Senator Solomon asked if they could reduce the \$16 million repayment if the state's economic recovery was not as rapid as expected. Mr. Stavneak replied that they could.

Representative May explained that the intent of the legislation was that they could not repay any more nor any less than \$16 million. This allowed those who wished to spend money on other issues to do so.

Senator Bee asked who they were paying the interest to on the money borrowed from the BSF. Mr. Rounds explained that the interest was an estimate of what interest they would be earning if the money was in the fund.

Mr. Rounds explained that the BSF was set up a few years ago so that when the economy was slow they could borrow money from the BSF to take care of spending requirements. If the economy allows, they could also put money away for a rainy day. If personal income growth is greater than the 7-year average, the formula suggests putting money into the BSF. If personal income growth is less than the 7-year average and less than 2%, they could take money out. During session there was an estimate of personal income growth that was slightly below the 7-year average, but there was never a recommendation to taking money out of the BSF because it never reached the 2% threshold. Mr. Rounds added that the Economic Estimate Commission recently came in with their final numbers for personal income, which are actually higher than the 7-year average. The BSF formula actually calls for a \$28 million deposit from the General Fund. There is no provision for an automatic transfer and the Legislature would need to appropriate the funds for this event to occur.

Senator Solomon asked how much money was currently in the BSF. Mr. Stavneak replied that it depends on how much is used from the BSF to pay for alternative fuels. If all \$200 million were used, they would have a balance in the fund of \$221 million.

Senator Solomon moved that the Committee approve the Budget Stabilization Fund repayment schedule. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY –

A. Background Information on Arizona Works Program and Bimonthly Report Update.

Mr. Stefan Shepherd, JLBC Staff, distributed an updated memo on the above subject. He explained that Representative Knaperek had asked JLBC Staff to provide the Committee with background information regarding the Arizona Works pilot welfare program. The Committee's responsibilities include the following: 1) determining the administrative baseline cost; 2) determining yearly caseload reduction savings; 3) receiving bimonthly reports from the Arizona Works vendor; and 4) evaluating the Arizona Works program one year after the first year of implementation. Mr. Shepherd explained that statute requires that the Committee determine the total direct and indirect costs of administering the welfare eligibility programs in the Arizona Works pilot areas. In August of 1998, the Committee approved the baseline costs for DES District 1-East, which is located in the East Valley and where the Arizona Works program has been operating since April 1, 1999.

Subsequent to the approval of the baseline cost assessment, two things occurred in 1999 that had an impact on DES and the Arizona Works program. The first occurred in the fall of 1998 when the federal government changed the way it required states to allocate the cost for determining welfare eligibility between the TANF program, the Food Stamp program, and the Medicaid program. That change took effect in July 1999. The second thing that happened was that the federal government denied the state's waiver request to have a private vendor administer the Food Stamps and AHCCCS Medicaid program. The vendor was limited to only administering the state's TANF program. The contract with MAXIMUS was signed in January 1999 and uses the August 1998 baseline cost estimate approved by the Committee. This cost estimate did not take into account the federal government's subsequent decision to change the cost allocation method, which essentially shifted

costs away from the TANF program and to the Food Stamps and Medicaid program. Both the DES and AHCCCS budgets were adjusted to account for the cost allocation changes. Money was added to the DES budget to account for the increase in Food Stamp costs and also added to the AHCCCS budget to account for the AHCCCS determination costs. Money was also backed out of the DES budget because their TANF costs were going to be less.

Mr. Shepherd said that earlier this spring DES requested that the Committee revisit its August 1998 baseline cost estimate, which takes into account the federal government changing the way it allocated costs between the 3 programs. DES indicated that their budget was changed to account for the cost allocation shifts and as a result, the amount of money that is in the contract for Arizona Works exceeds the amount that is actually in the DES budget. There is a difference of opinion between DES's Attorney General representatives and Legislative Council on the legality of a revised administrative cost estimate. Mr. Shepherd also pointed out that there was a second pilot area in Mohave County. DES has also requested that the Committee determine the administrative baseline costs for the Mohave County area. JLBC Staff has received updated revised figures for both District 1-East and Mohave County and was working on an estimate of the costs for District 1-East and an estimate for Mohave County, per a request from Senator Solomon.

In reply to questions from Senator Solomon, Mr. Shepherd explained that the administrative costs were calculated in July 1998 by looking at the FY 1999 appropriations and deducting certain costs that DES would continue to retain even after the vendor took over. They had used FY 1998 actuals for those deductions and then applied caseloads from the spring of 1998 to try to get a percent total. They only looked at caseload, not ethnicity of the population, income level of the population, the number of children in the families, or any other of the numerous economic factors. They did not assume that there was any difference in the costs of administering a case in District 1-East as compared to the rest of the state.

Representative Knaperek explained to the Committee that she put this item on the agenda so that all members would know what was going on. She wanted to present the facts to the members so they can determine on their own how they felt about the program. She also requested people from MAXIMUS to testify.

Senator Bowers asked if JLBC Staff had seen a wide disparity in costs between the different areas. Mr. Shepherd said they had not investigated nor had they seen from DES any information regarding potential differences in costs between the areas. Senator Bowers said that if they are being asked to compare MAXIMUS with DES, he thought DES operates all areas at the same cost. MAXIMUS, however, would have to fine-tune their prices for the different areas.

Senator Solomon said that she agreed that the draft report was not a fair comparison. They are comparing one area with another, each with different types of populations. They are comparing the Mesa area with other areas that are less educated and less white according to the Abt report.

Representative Knaperek clarified where the Arizona Works programs are currently located -- Mesa, Chandler, Tempe, and parts of North Phoenix.

Mr. Shepherd said another responsibility of the Committee was caseload reduction savings, which was the next item on the agenda and would be covered at that time. The Committee was also responsible for reviewing the bimonthly report. The latest report shows that there was a difference between the caseload performance of Arizona Works and the rest of Maricopa County under EMPOWER Redesign from July 2000 to March 2001. The difference in caseload performance had not been adjusted for demographic or economic differences between the 2 programs. The bimonthly report indicates that the contract for the expansion of the pilot program into Mohave County, scheduled for January 1, 2001, is still pending. There was also a statutory requirement that the JLBC evaluate the Arizona Works program one year after the first year of implementation.

Mr. Shepherd said they hoped to have a preliminary review of the results of the Arizona Works program by the end of July 2001. An independent evaluator will be submitting updated increment reports yearly until the January 1, 2003 report.

Deborah Chapman, MAXIMUS, gave an overview of the Arizona Works program.

Senator Solomon questioned what percentage of the incentives has Arizona Works earned to this point. Ms. Chapman said the results are only preliminary and the validation has not been finalized. For the year it looks like they will be earning about 60% of the incentive dollars. In the first year they earned about 55% of the incentive dollars. She did not know the exact dollar amount of the incentives, but would get the information and forward it to the Committee.

Bruce Liggett, Deputy Director, DES, said that during the first contract year, MAXIMUS earned approximately 55% of their incentives. They had available to them about \$1.9 million and were paid \$1,350,000. They were only one or two cases off from reconciling the cases and figures for FY 2001. So far, MAXIMUS has earned about \$1 million, which is about 60% of the available incentives. For FY 2001, DES would have had about \$4.3 million to operate the East Valley. MAXIMUS's stake, which is based on their bid when they submitted their contract, plus available incentives, operated the program for about \$1.3 million more than you would have using DES only. The earning of incentives takes them over their base bid.

Senator Solomon thought it was important to know what percentage of incentives are being earned, what they are being based on, and whether or not there is something to compare them to.

Representative Knaperek added that it was her understanding that that caseloads have been dropping in the Arizona Works program, but they have no way of knowing if DES's caseload would have dropped. She asked if that could count as a savings in money.

Mr. Liggett said they would count that as a savings in money. What makes it complicated is that there are so many fiscal years involved. MAXIMUS's contract is on an April through March program year basis. Caseload reductions are calculated by JLBC Staff based on calendar year 2000. There are also 3 different methods used to calculate the way that one looks at caseload reduction. Had those methods been applied to DES, DES would have earned a total reduction in 2 of the 3 methods. In this calendar year period, there was a caseload reduction in the remainder of Maricopa County for DES.

Representative Knaperek said that the program was designed to work with a waiver. The waiver was declined and DES could have, if it wanted to, resubmit a waiver under the new administration. They are also trying to compare unlike entities, which will not work. They will have to determine if they should continue this program based on information that they really have no way of calculating.

Mr. Liggett said that the department's role is to administer the policy in terms of the Legislative intent. Reissue of the waiver is a policy decision beyond the department. Representative Knaperek replied that it is in legislation that a waiver was to be requested. It is not a policy decision, it has already been passed. The policy decision apparently is within the agency.

Mr. Liggett explained that the legislation in statute actually contemplated denials of waivers. The statute put in an explicit process that if waivers were denied or not approved, as they were for Medicaid and Food Stamps, the vendor would give the money back to DES. He added that the denial of waivers and the federal government changing the cost allocation has changed the project. There is a standard methodology approved by the federal government so they know what percentage of time is spent on TANF, Medicaid, and Food Stamps. This is done by random moment sampling. The federal government used to allow states to establish a primary program; however, there was concern that with the block grant flexibility more and more costs would get shifted to TANF. When the federal government stopped that practice, they told the states that they had to allocate their costs based on the benefiting program.

Senator Solomon asked if DES would qualify for the incentive payment if there were money available. Mr. Liggett said that in the calendar year being discussed before JLBC, DES would have earned money based on 2 or 3 of the qualifications here in Maricopa County, caseload reduction being one.

Mr. Stavneak thought it would be useful to clarify that there are actually 2 different incentive costs -- administrative costs and caseload reductions.

Senator Solomon requested that this item be put on the agenda for the next JLBC Meeting. Senator Rios added that if they were going to put it on the next agenda, they should be sure to request baseline costs and what is taken into consideration if demographics are considered. If DES has that type of information he would appreciate seeing it.

Senator Bowers requested demographic data from both DES and MAXIMUS for comparison purposes.

Desiree Johnson, MAXIMUS, gave public testimony in favor of the program and explained her personal success with the program. She currently works for MAXIMUS after completing their program.

Mr. Hank Atha, Chairman, Arizona Works Agency, Procurement Board said that the Board originally looked at a number of counties and asked for demographics and advice from Abt, the independent evaluator, as how to select the next county. Abt recommended that they match counties. They had 3 sets of counties. They visited each of those counties and held public

hearings. All of the counties indicated in their resolutions from their Board of Supervisors that they did not want to participate in the program. In a few cases, agencies did step forward with letters in support of MAXIMUS, but in general there was resistance from all of the counties. They eventually chose Mohave County matched with Pinal County. There is resistance there and they have a member recently appointed from Mohave County to the board.

Representative Knaperek asked what counties were originally considered. Mr. Atha said Mohave, Pinal, Gila, and Cochise were originally considered. It was decided that Mohave County would be used and matched with Pinal County, just like eastern Maricopa County was matched with the rest of Maricopa County.

Representative Allen asked if there was any set reason why Mohave County was so against this program. Mr. Atha said he did not personally attend the hearings in Mohave County, but thought a lot had to do with just resistance to change. Another may have been the working relationship they have with DES.

Senator Rios said that a lot of resistance came not only from the Board of Supervisors, but also mayors, school superintendents, and community-based organizations. A lot of the concern in the rural areas was the incentive pay and that MAXIMUS was not really concerned about the client. Also, the employment availability in these counties is not what it is in Maricopa and Pima Counties. The initial fear was that a lot of the people would not be placed in jobs and would be terminated from services because they didn't get a job. The community-based organizations and food banks would then have fill the gap because they would not longer qualify for TANF.

Representative Knaperek said the same issues would also apply for DES. Mr. Atha said that MAXIMUS has a specific timeframe to make people job ready and to place them. If that did not occur they would be cut off, where DES carries people a little longer.

Mr. Shepherd explained that one potential issue is that Arizona Works has a different time limit because it is a new program as opposed to the old Empower Redesign program, which was established prior to the welfare reform legislation in 1996. There is a limit in statute of 24 months out of 60 months under the EMPOWER Redesign program and 60 months lifetime for Arizona Works program.

Senator Solomon asked about the contract negotiations for Mohave County. Mr. Atha replied that they had preliminary material completed in May and there appears to be a large gap between the numbers that MAXIMUS would like to see for administrative costs and the number DES presented based on their computation of the base.

At the end of the meeting, Representative Knaperek suggested compiling an Ad Hoc Committee to further discuss DES and the AZ Works Program.

B. Determine Arizona Works Caseload Reduction Savings.

Mr. Stavneak said this agenda item could be held for a future meeting. It pertains to the maximum amount by which Arizona Works generates any incentive payments off of caseload reduction. The item was held until a future meeting.

DEPARTMENT OF HEALTH SERVICES –

A. Review of Behavioral Health Capitation Rate Changes.

There was no discussion of this agenda item.

Senator Solomon moved that the Committee give a favorable review to the expenditure plan submitted by the Department of Health Services for a change in the capitation rates for the Title XIX behavioral health programs. The motion carried.

B. Review of Expenditure Plan for Arnold v. Sarn Special Line Item.

There was no discussion of this agenda item.

Senator Solomon moved that the Committee give a favorable review to the expenditure plan for the Arnold v. Sarn Special Line Item in Behavioral Health. The motion carried.

ARIZONA HISTORICAL SOCIETY – Consider Approval of Transfer of Appropriations.

There was no discussion on this item.

Senator Solomon moved that the Committee approve the agency request to transfer \$39,100 from Personal Services and \$5,900 from Employee Related Expenditures to Other Operating Expenditures. The motion carried.

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

There was no discussion of this item.

Senator Solomon moved that the Committee approve the transfer of \$63,000 from Personal Services to Travel (\$5,000), Professional/Outside Services (\$15,000), and Other Operating Expenditures (\$43,000) for the Arizona Pioneers' Home. The motion carried.

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

Mr. Gary Adams, ADOT, explained that they are still negotiating for the lease of the airport and hoped to have a favorable solution in the next month or so.

Senator Solomon moved that the Committee concur with the Arizona Department of Transportation's request to release \$323,100 for 6 months of funding to operate the Grand Canyon Airport. The Committee further recommended that the department report back to the Committee by December 1, 2001, regarding the status of the lease. The motion carried.

Without objection, the meeting adjourned at 4:25 p.m.

Respectfully submitted:

Sharon Savage, Secretary

Richard Stavneak, Director

Representative Laura Knaperek, Chairman

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DATE: August 29, 2001

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

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Senior 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 0.6% 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 2001. The Board is recommending that the 0.6% adjustment take effect for new school construction in FY 2002, but be deferred for building renewal until FY 2003. 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 0.6% increase in the cost-per-square-foot factors used in SFB's building renewal and new school construction financing formulas for FY 2002. This recommendation is consistent with the existing construction cost index and legal advice from Legislative Council (*see Attachment 1*). They believe that the recommended adjustments should take effect during the current year (i.e., FY 2002). Since we have originally budgeted inflation at 3.5%, the 0.6% adjustment would lead to savings. We currently estimate the savings at \$4 million to \$8 million.
- 2) Defer the building renewal adjustment until FY 2003, as requested by the SFB. They believe that the 0.6% increase should not take effect until FY 2003 based on legal counsel that they have received from the Attorney General's Office. We do not have written documentation from the Attorney General regarding this matter. The Committee potentially could request an opinion from the Attorney General on this issue and defer action on this agenda item until after such documentation was received. The Board estimates that its proposal would result in \$9.2 million of savings. We have some questions about this estimate and are working with SFB to resolve those issues.

(Continued)

On a related note, A.R.S. §15-2031(E) requires the SFB to annually submit (no specific date) to the Joint Committee on Capital Review its proposed allocations from the Building Renewal Fund for the current fiscal year. It also requires the SFB to submit by October 1st of each year a report regarding those proposed allocations. Since annual allocations from the Building Renewal Fund depend upon the currently approved cost per square foot (as adjusted for inflation), the SFB will not be able to meet its October 1st reporting requirement pursuant to A.R.S. § 15-2031(E) if the issue regarding the timing of the recommended 0.6% index is deferred. The next JLBC meeting is scheduled for October 4. If action is deferred, the SFB could meet its statutory deadline by coming up with two different plans - one with the 0.6% increase and one without.

Analysis

This section includes 1) background information regarding the SFB inflation index, 2) an explanation of the current index, 3) a description of current legal uncertainties regarding the effective date of each year's index, 4) a summary of the estimated impact of the recommended 0.6% index on the state budget and 5) some observations regarding the "index" identification process in general.

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."

The Committee made its first approval regarding the required index at its February 2000 meeting, at which time it identified as the approved index 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 (*see Attachment 2*). 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.

Current Index

The 0.6% increase equals the MVS index for "Class C" structures for Phoenix for the period from July 1, 2000 through June 30, 2001. This 0.6% amount is significantly lower than the index's change of 4.6% in the year ending July 2000 and 3.5% in the year ending July 1999. It is also lower than the federal government's consumer price index growth of 2.7% in the year ending July 2001. Finally, it is also lower than the increases for other classes of construction in the Phoenix area (*see Table 1*).

| Table 1 | |
|---|---------------------|
| Marshall Valuation Service Construction Cost Index | |
| Construction Cost Change 7/2000 to 7/2001 | |
| Construction Class | Index Change |
| A: Fireproofed Steel Frame | 1.8 |
| B: Reinforced Concrete Frame | 1.8 |
| C: Masonry Bearing Walls | 0.6 |
| D: Wood Frame | 2.3 |
| E: Metal frame and Walls | 2.8 |

Source: Marshall Valuation Service, July 2001

(Continued)

Although the implied construction cost inflation appears low, we believe that it may be an accurate reflection of construction cost changes in Arizona over the last year. Technical experts at the Marshall Valuation Service indicate that there has been very little change in construction labor costs or masonry material costs in the Phoenix area over the last year. We believe that this may reflect the economic slowdown, and the corresponding reductions in capital investment by businesses, that began nationwide in mid-2000. Although the SFB believes that the Deficiencies Correction program will put upward pressure on construction costs in Arizona, few projects under that program have gotten under way yet. We therefore would not expect that the program's impact on construction prices would be strong enough yet to outweigh the disinflation resulting from the slower economy.

It is also instructive that the construction cost inflation figures for Class D (wood frame buildings) and Class E (buildings with metal frames and walls) are higher than for Class C. We presume that many of the construction projects in those classes consist of single-family houses, other residential buildings, or agricultural buildings. Because housing construction remains strong in Arizona, we would expect those classes to continue to experience relatively high construction cost inflation. Likewise, Class A (fireproofed steel frame buildings) and Class B (reinforced concrete frame buildings) consists largely of office buildings, which have not been scaled back to the same extent as manufacturing investment.

If the cost-per-square-foot factors were changed as recommended, the new factors would be as follows (see Table 2).

| Table 2 | | | | |
|---|---------------------------|-----------------|--|-----------------|
| SFB Cost Per-Square Foot Factors | | | | |
| Current and Proposed | | | | |
| Grade Level | Urban Cost/Sq. Ft. | | Rural Cost/Sq. Ft. (Urban x 1.05) | |
| | Current | Proposed | Current | Proposed |
| Preschool w/ Disabilities and Kindergarten to Grade 6 | \$ 97.43 | \$ 98.01 | \$102.30 | \$102.91 |
| Grades 7 and 8 | \$102.85 | \$103.47 | \$107.99 | \$108.64 |
| Grades 9 to 12 | \$119.09 | \$119.80 | \$125.04 | \$125.79 |

Legal Uncertainties

As noted above, the SFB believes (based on legal counsel from the Attorney General) that the recommended 0.6% increase would not take effect until FY 2003. Legislative Council, however, believes that A.R.S. § 15-2041D.3c would require the increase to take effect starting in FY 2002 (*Attachment 1*).

We do not have written documentation of the Attorney General's opinion on this matter and the SFB indicates that no formal opinion has been requested. Our understanding based on conversations with SFB Staff, however, is that the Attorney General believes that SFB allocations from the Building Renewal Fund for FY 2002 should be based only on information that was available to the Board last November. At the time that it decided how much funding the State Treasurer should transfer to the Building Renewal Fund for FY 2002 pursuant to A.R.S. §15-2002(A10).

Affect on State Budget for K-12 Building Renewal

The SFB assumed in its budget projections for the Building Renewal Fund for FY 2002 that the MVS index for that year would be 3.5% rather than the currently recommended 0.6% amount. (Note: the SFB now believes that it should have assumed *no* increase rather than a 3.5% increase in Building Renewal costs per square foot for FY 2002 based on recent input from the Attorney General.) Therefore the lower (0.6%) increase would result in a state savings for K-12 building renewal. The amount of the savings would depend upon whether the 0.6% increase would take effect during FY 2002 (as is assumed by

(Continued)

Legislative Council) or not until FY 2003 (as is assumed by the Attorney General). If the 0.6% increase would not take effect until FY 2003, the SFB estimates that a **FY 2002** state savings of about **\$(9.2) million** would be realized. If the 0.6% increase *would* take place during FY 2002, we estimate that the savings would be about **\$(8.5) million**. Those savings could be recouped by the Legislature in a number of ways, such as potentially transferring the monies out of the fund or requiring the savings to roll over into the following fiscal year.

Affect on State Budget for New School Construction

The SFB assumes that the 0.6% increase *would* affect costs for new school construction (not building renewal) during FY 2002. The estimated fiscal impact for this change for **FY 2002**, however, is only about **\$59,900**. This is because an SFB analysis indicates that the new factors would increase the cost of new school construction by approximately \$1,197,500 spread over FY 2002 and FY 2003. Based on the typical funding flow for new school facilities, only about 5% of that sum **\$59,900** would be expended in FY 2002. The remainder (estimated at **\$1,137,600**) would be expended in **FY 2003**, with some expenditure possibly slipping into FY 2004. In the budget process during the last legislative session, the SFB had projected that the New School Facilities Fund would require \$250 million in FY 2002 and \$260 million in FY 2003, based on rough estimates and without taking into account any increase in the construction cost factor for those years. Because the costs arising from the new construction cost factor are small compared with the estimated funding for the New School Facilities Fund, they are likely to be absorbed within the existing amounts set aside in the budget for FY 2002 and FY 2003.

Final Note

The JLBC Staff also believes that some adjustment to the Building Renewal Fund and New School Construction Fund formulas may be necessary in order to improve the process of inflation adjustments. The JLBC Staff recommended, in January 2000, that the construction cost index be measured from July to July because 1) the Students FIRST legislation which set the initial cost per square foot was adopted in July 1998, 2) the state fiscal year begins July 1, and 3) the Arizona Department of Administration (ADOA) building system uses the July 1 date for the same index for ADOA system building renewal. Now, however, it is clear that the July-July schedule is not well coordinated with the January 1 transfer instruction date. One solution would be to use a December-December schedule, so that the latest inflation data available could be used for the January 1 transfer instruction for the following fiscal year. Alternatively, since statute requires that building renewal allocations be sent by the SFB to the school districts in equal installments in November and May of each year, the formula could be adjusted to use a November-November schedule and allow adjusting the January 1 transfer instruction based on that index indicator.

RS/PF:ag
Attachments

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DATE: August 23, 2001

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

THRU: Richard Stavneak, Director

FROM: Patrick Fearon, Senior Fiscal Analyst

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

Request

The School Facilities Board (SFB) wishes to provide a report on the status of the energy efficiency guidelines that it adopted in April 2001 in response to Executive Order 2001-03 ("Energy Efficiency in Schools"). This report has been requested by Representative Knaperek.

Recommendation

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

Analysis

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

In response to the Executive Order, the SFB amended its building adequacy guidelines and adopted new funding policies. The amended guidelines require that "New school facility construction and, as required, building renovations in existing schools shall include, where reasonable, energy conservation upgrades that will provide dollar savings in excess of the cost of the upgrade within 8 years of the installation." The SFB said that it would provide funding to school districts above the statutory formula amount in order to pay for energy conservation upgrades that meet the new guideline, but only if the statutory formula amount would not provide enough funds for the upgrades. At the time when the Executive Order was released, Executive Director Geiger told the press that the energy conservation upgrades might add

(Continued)

an additional 2-8% to the cost of new school construction. Based on the SFB's estimate that it will need a Transaction Privilege Tax (TPT) transfer of \$260,000,000 to the New School Facilities Fund in FY 2003, this might imply total additional costs of \$5,200,000 to \$20,800,000 for that year. The SFB has indicated, however, that it currently is unable to present an official estimate of the total incremental cost or the amount that would not be covered by the current square footage formula funding. The guidelines would also require energy upgrades in the Deficiencies Correction program, but SFB can not estimate how much additional funding would be needed for the Deficiencies Correction Fund to provide for that funding.

At its May 31, 2001 meeting, the Committee had some concern that the "reasonableness" standard of the new guidelines could be too vague and suggested that the guideline be revised to include more concrete language. The Committee requested that the SFB report back at its August meeting with revised language for the guideline and an update regarding the estimated cost of the Executive Order. The SFB has provided no proposed language revisions for the guideline or cost updates. The SFB has indicated that it will provide a report on this issue to the Committee.

RS/PF:jb

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DATE: June 20, 2001

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - DETERMINE ARIZONA WORKS
CASELOAD REDUCTION SAVINGS

Request

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

Recommendation

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

Analysis

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

(Continued)

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

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

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

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

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

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

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

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

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

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

(Continued)

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

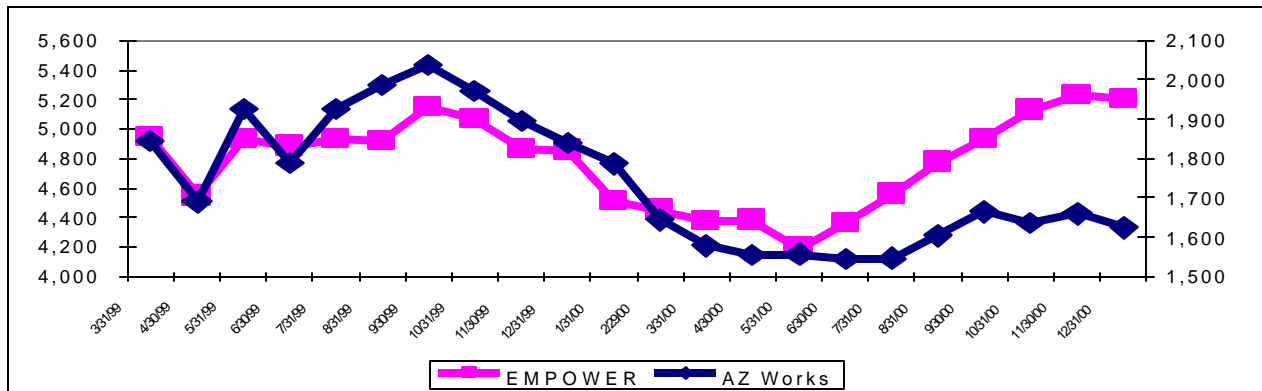
The average caseload in the EMPOWER Redesign in Maricopa County during CY 1999 was 4,906 cases. The average end-of-month caseload for EMPOWER Redesign during CY 2000 was 4,676 cases. This means that the average decrease in the EMPOWER Redesign area during CY 2000 was 230 cases, or 4.69%. The average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

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

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

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

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



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

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

RS:SSH:jb

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DATE: August 22, 2001

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - DETERMINE ARIZONA WORKS
ADMINISTRATIVE BASELINE COSTS FOR MOHAVE COUNTY

Request

Pursuant to a provision in A.R.S. § 46-342, the Department of Economic Security has requested that the Joint Legislative Budget Committee determine the total direct and indirect costs of administering the EMPOWER Redesign welfare program in the Arizona Works pilot area of Mohave County. These administrative costs are used as a benchmark in determining the level of reimbursement for the Arizona Works contractor.

Recommendation

The JLBC Staff recommends that the Committee approve the JLBC Staff estimate of the total direct and indirect costs of administering the EMPOWER Redesign welfare program in Mohave County for all of FY 2002. The Staff estimates the total cost as \$4,438,400, as outlined below:

- \$1,173,300 is used to administer the state-controlled cash assistance, job training, child care, and General Assistance programs, along with central administration for those programs,
- \$2,056,900 is used to administer the Food Stamps program, and
- \$1,208,200 is used to administer the AHCCCS program.

Analysis

A.R.S. § 46-342 requires the Joint Legislative Budget Committee to determine the current total direct and indirect costs of administering the EMPOWER Redesign welfare program in the Arizona Works pilot areas. Statute requires that the Arizona Works offer at least 10% administrative cost savings from the JLBC-determined costs.

As you are aware, the Arizona Works program consists of two phases. The first phase, located in District I-East (primarily the East Valley of Maricopa County), began on April 1, 1999. A.R.S. § 46-343 specifies that a "rural district or district selected by the Procurement Board" will be the location of the 2nd phase pilot site beginning on January 1, 2001. The Procurement Board selected Mohave County in June 2000 to be the site of the 2nd phase pilot site.

(Continued)

DES has been negotiating with MAXIMUS, the Arizona Works vendor, on the budget for the Mohave County site since October 2000. On April 16, 2001, DES sent JLBC a letter requesting that it determine the administrative baseline costs for the Mohave County location. Based on our interpretation of A.R.S. § 46-342, JLBC Staff believes that the statute requires that the Committee determine an estimate for Mohave County.

Estimate Methodology

To estimate the baseline administrative costs for Mohave County, JLBC Staff employed the same methodology it used in estimating District I-East baseline administrative costs in July 1998. In our memorandum explaining our District I-East 1998 calculations, the JLBC Staff:

“based its cost estimates for each program on FY 1999 appropriations and on DES estimates of FY 1998 charges for certain functions the department believes it will retain even after the Arizona Works program begins on January 1, 1999. These functions include the Office of Program Evaluation, occupancy charges, postage, computer systems development and service, appeals, and special investigations.”

To allocate statewide costs for District I-East, we determined the percentage of statewide cases located in District I-East at a point in time in spring 1998, then applied that percentage to the estimated statewide costs.

For this calculation, we essentially updated each set of assumptions by 3 years. The FY 1999 appropriations and estimated FY 1998 charges used 3 years ago are now FY 2002 appropriations and estimated FY 2001 charges. Instead of using spring 1998 caseloads, we used spring 2001 caseloads for Mohave County instead of District I-East.

The JLBC Staff estimate of full-year administrative costs for all 3 programs totals \$4,438,400. The basic components of this estimate are shown below. The table lists the FY 2002 appropriation or FY 2001 estimate for each component, the total amount of deductions for functions that DES will retain, the percentage of the statewide caseload that is in Mohave County, and the final estimate. Specific amounts for each retained task can be found in the attached spreadsheet.

| <u>Category of Administrative Costs</u> | <u>FY02 Approp./ FY01 Estimate</u> | <u>Deductions for Retained Tasks</u> | <u>% of Caseload in Mohave County</u> | <u>Total</u> ^{1/} |
|---|--|--|---|----------------------------|
| <u>State-Controlled Programs</u> | | | | |
| <i>Eligibility Determination for Cash Assistance</i> | \$12,943,700 | \$(1,067,382) | 3.95% | \$469,100 |
| <i>Job Training</i> | 10,177,000 | -0- | 5.19% | 528,200 |
| <i>Child Care</i> | 7,777,200 | (2,606,804) | 32.16% * 3.77% | 66,200 |
| <i>General Assistance</i> | 215,752 | (15,907) | 5.81% | 11,600 |
| <i>Central (Indirect) Administration - Cash, Job Training, GA</i> | 11,328,267 | (6,495,994) | 3.95% * 50% | \$90,400 ^{2/} |
| <i>Central (Indirect) Administration - Child Care</i> | 2,597,217 | (1,324,650) | 32.16% * 3.77% * 50% | 7,800 ^{2/} |
| TOTAL - State-Controlled Programs | | | | 1,173,300 |
| <u>Food Stamps</u> | 52,442,312 | (9,747,298) | 4.66% | 2,056,900 ^{2/} |
| <u>AHCCCS Eligibility</u> | 45,472,900 | (8,181,487) | 3.24% | 1,208,200 ^{2/} |
| TOTAL - ALL Programs | | | | \$4,438,400 |

^{1/} Derived by subtracting deductions for retained tasks from FY 02 appropriation, then multiplying by % of caseload.
^{2/} Includes small FY 02 adjustments for salary increases and other adjustments not included in FY 01 estimate base.

We would note that, as in 1998, the estimate above takes into account functions that DES will continue to perform that are specifically excluded from the RFP. These reductions, however, leave some central administration expenditures that could be included in the administrative cost estimate. Some of this central administration, such as the DES Director’s salary, will not be reduced as a result of hiring a vendor for Arizona Works. In order to recognize that some central administration costs will be reduced after Arizona Works is running with a vendor, the JLBC Staff estimate includes 50% of associated central administrative costs in its total cost estimate.

(Continued)

Impact of Estimates on Contract Reimbursement

The table below shows how the estimates of Mohave County baseline administrative costs impact reimbursement levels to the Arizona Works vendor. For comparison purposes, we have included the figures incorporated in a proposed amendment considered by the Procurement Board. The figures were calculated by DES using the “JLBC methodology,” though we have not independently verified the use. Although the results are similar, it is our understanding the DES calculation’s fiscal information may not be as updated as the JLBC Staff estimate.

These impacts are based upon the bid submitted by MAXIMUS in the fall of 1998 and are included directly in MAXIMUS’ contract with DES. Please note that although MAXIMUS does not administer Food Stamps or AHCCCS eligibility determination, the contract approved by the Procurement Board and signed by MAXIMUS and DES incorporates those cost estimates into the total amount available for incentive funding. Please also note that these are full-year figures for FY 2002.

| Category of | Procurement Board Amendment | | | JLBC Staff Estimate | | |
|---------------------------------|-----------------------------|-----------------------|---|------------------------|-----------------------|---|
| | <u>Allocation</u> | <u>Bid (80%)</u> | Incentive Pool (Diff. between Bid and 90% of Allocation) | <u>Allocation</u> | <u>Bid (80%)</u> | Incentive Pool (Diff. between Bid and 90% of Allocation) |
| <u>Administrative Costs</u> | | | | | | |
| Total State-Controlled Programs | 1,134,744 | 907,795 | 113,374 | 1,173,300 | 938,640 | 117,330 |
| Food Stamps | 2,010,812 | 1,608,650 | 201,081 | 2,056,900 | 1,645,520 | 205,690 |
| AHCCCS | <u>1,209,065</u> | <u>967,252</u> | <u>120,907</u> | <u>1,208,200</u> | <u>966,560</u> | <u>120,820</u> |
| Total All Programs | 4,354,621 | 3,483,697 | 435,462 | 4,438,400 | 3,550,720 | 443,840 |
| | <u>100% Incentives</u> | <u>57% Incentives</u> | | <u>100% Incentives</u> | <u>57% Incentives</u> | |
| Total Guaranteed Funding | 907,795 | 907,795 | | 938,640 | 938,640 | |
| Incentive Funding | <u>435,462</u> | <u>248,213</u> | | <u>443,840</u> | <u>252,989</u> | |
| Total Available Funding | 1,343,257 | 1,156,009 | | 1,382,480 | 1,191,629 | |

As noted earlier, the Procurement Board considered the amendment incorporating the DES estimate at its July 12 meeting. In calculating how much MAXIMUS guaranteed funding would receive in FY 2002, the contract amendment multiplied the DES estimate for the state-controlled programs (\$1,134,744) by 80%. This percentage was derived from the amount of money MAXIMUS originally bid in 1998 for guaranteed funding in FY 2002 as a percentage of the originally-determined baseline costs. As noted above, statute requires that the private contractor offer 10% administrative cost savings, or no more than 90% of the current administrative cost.

The total incentive funding pool is calculated by taking the difference between the bid percentage of 80% and the statutory cap of 90%, multiplied by the estimated costs for all 3 programs. This provision was based on the original contract. MAXIMUS would be eligible to receive funding from this administrative incentive pool based its success on a variety of performance measures such as achieving at least a 30% higher rate of placement in subsidized and unsubsidized employment than EMPOWER Redesign in Pinal County (the comparison county for the Mohave County pilot).

As seen in the above table, under the JLBC Staff estimate, the Arizona Works vendor would be potentially eligible for \$1,382,480 in administrative funding for all of FY 2002, an increase of \$39,223, or 2.9%, above the equivalent amount in the considered contract amendment. Most of this increase would be as guaranteed funding. We would note that over the 2-year period from April 1, 1999 through March 31, 2001, the Arizona Works vendor has earned approximately 57% of the performance incentives available to it in District I-East. If the Arizona Works vendor earned incentives at that same rate in FY 2002 in Mohave County, it would receive \$1,191,629 in total funding, an increase of \$35,620 from the amount it would earn under the considered contract amendment of \$1,156,009. We would also note that the figures shown above do not include possible incentives from any caseload reduction savings estimates approved by the Joint Legislative Budget Committee.

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CHRISTINE WEASON

DATE: August 21, 2001

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - BIMONTHLY REPORT ON
CHILDREN SERVICES PROGRAM

Request

Pursuant to a footnote in the FY 2002 - FY 2003 General Appropriation Act, the Department of Economic Security (DES) is submitting the first bimonthly report on the Children Services program to JLBC Staff.

Recommendation

This item is for information only and no committee action is required. Although the report only needs to be submitted to JLBC Staff, we are presenting this first report to the Committee for its review. JLBC Staff intends to review future reports in its monthly report on "Recent Agency Submissions."

Analysis

Laws 2001, Chapter 236, the FY 2002 - FY 2003 General Appropriation Act, includes the following footnote in the Division of Children, Youth and Families (DCYF) budget in DES:

"The Department of Economic Security shall provide the Joint Legislative Budget Committee Staff with bimonthly reports beginning August 1, 2001 of this and all other appropriated and non-appropriated expenditures for the Children Services program. Each bimonthly report shall compare for each month in the current fiscal year projected funding needs by funding source to client caseload levels and approved funding in the current fiscal year."

(Continued)

The department has submitted its first report pursuant to this footnote. The report lists projected client counts and expenditures by month for all of FY 2002. The report also provides the approved or estimated funding for FY 2002 in its appropriation (see page 164 of the FY 2002 and FY 2003 Appropriations Report). The lower right-hand corner of the table provides the yearly variance between the projected and approved expenditures.

The report submitted by DES shows one projected deficit and one projected surplus. We would note, however, that these are based on projections without any actual expenditure or caseload data. As a result, the figures discussed below are highly speculative and are used only to highlight a couple of programmatic issues. DES has indicated that future reports will replace the projected client counts and expenditures with actual client counts and expenditures.

DES shows a deficit in state funds totaling \$(5,270,400). We would note that a footnote in the General Appropriation Act transfers \$6,471,000 from the federal Temporary Assistance for Needy Families Block Grant to the Social Services Block Grant in FY 2002 for use in FY 2003. The footnote permits DES use of some or all of this \$6,471,000 for FY 2002 shortfalls upon JLBC review. Use of these monies, however, would generate a FY 2003 shortfall of an equivalent amount. DES has displayed the figures in this manner based on a request from JLBC Staff that the \$6,471,000 not be incorporated in the FY 2002 appropriation totals.

The surplus in the report is in the “Non-Appropriated Federal” category. Funds in this category come from the federal Title IV-E grant, which provides funding to states based on the number of eligible IV-E children. DES projects a \$3,659,800 surplus in this category. DES bases this projection on the number of children they expect to qualify for IV-E funding. If a higher percentage of children receiving Children Services qualify for IV-E funding than DES projects, it is likely that IV-E spending would rise while state-funded spending would decrease.

In order to inform the Committee of potential budgetary issues associated with this large program, JLBC Staff intends to review future reports in its monthly report on “Recent Agency Submissions.”

RS:SSH:jb

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CHRISTINE WEASON

DATE: August 22, 2001

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - BIMONTHLY REPORT ON
ARIZONA WORKS

Request

Pursuant to A.R.S. § 46-344, the Arizona Works vendor, MAXIMUS, is submitting its latest bimonthly report on the Arizona Works pilot welfare program. The Department of Economic Security (DES), pursuant to a footnote in the General Appropriation Act (Laws 2001, Chapter 236), is submitting its report to accompany the MAXIMUS report.

Recommendation

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

Analysis

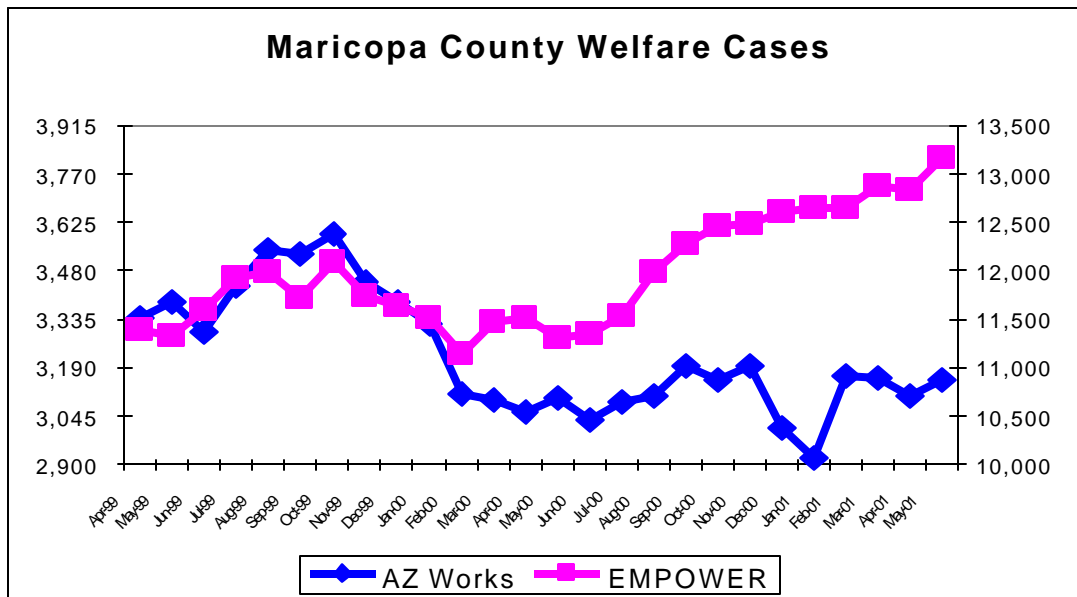
As the vendor for the Arizona Works program, MAXIMUS is required to report to the Joint Legislative Budget Committee bimonthly. DES is required to submit an accompanying report by a new footnote in the General Appropriation Act (Laws 2001, Chapter 236). Prior to the passage of Chapter 236, however, DES had previously submitted equivalent information to the Committee.

MAXIMUS submitted its latest report on July 25, covering the period from May 15 through July 15, with caseload information through the end of May. Total caseloads in Arizona Works increased 2.2% from July 2000 to May 2001; over the same period of time, welfare caseloads in

(Continued)

the rest of Maricopa County increased 14.1%. From the last bimonthly report to this one (March to May 2001), total Arizona Works caseloads declined from 3,160 to 3,156, a decrease of (0.1)%. Over the same two-month period, welfare caseloads in the rest of Maricopa County increased from 12,869 to 13,157, an increase of 2.2%.

Caseloads in both Arizona Works and the rest of Maricopa County are shown in the graph below. The graph shows how that the difference in caseload performance between Arizona Works and the rest of Maricopa County has widened since July 2000. (Although the numbers of cases differ between Arizona Works and the rest of Maricopa County, the scale is identical; the top figure on each vertical axis is 35% higher than the low number on the axis.) This difference in caseload performance has not been adjusted for demographic or economic differences between the two programs. The independent evaluator for the Procurement Board may address this issue as part of its evaluation. The caseloads also include child-only cases, which are cases without an adult subject to TANF rules.



The bimonthly report also indicates that the Arizona Works Agency Procurement Board approved the 2nd year annual performance results. In addition, the Procurement Board did not approve the budget amendment for the Mohave County pilot expansion, scheduled for January 1, 2001.

RS/SSH:jb

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CHRISTINE WEASON

DATE: August 22, 2001

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

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

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

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX Children's Rehabilitative Services (CRS) program. DHS has received approval from the Arizona Health Care Cost Containment System (AHCCCS) to change the capitation rates for the CRS line items retroactive to July 1, 2001.

DHS is also reporting on minor changes in the FY 2002 behavioral health capitation rates.

Recommendation

The JLBC Staff recommends a favorable review of the request, since the proposed CRS capitation rate changes are based upon actuarial study.

No Committee action is required regarding the behavioral health capitation rate changes.

Analysis

Children's Rehabilitative Services (CRS)

In the past, CRS has contracted with community providers for Title XIX services on a fixed price annual basis. During FY 2000, CRS, along with AHCCCS, developed a capitation methodology for the Title XIX component of the CRS program. The capitation rates covered all services except the Genetics Services component, which represented only a small fraction of the total projected expenditure. CRS began reimbursing contractors using a per-member, per month capitation rate in FY 2001. These rates vary by provider. The rate structure also includes a high, medium and low tier, which represent varying degrees of medical acuity.

For FY 2002, small changes in the rate structure are proposed. Genetics services are now included in the capitation rate paid to each provider. The proposed rate structure also includes an adjustment of 7% of administrative costs incurred by the CRS program. Rates used to develop the FY 2002/2003 appropriation for the Title XIX CRS program did not include 7% administrative adjustment. Subsequent to the development of the appropriation level, the FY 2001 rates were adjusted to include a 7% administrative fee. Because the Legislature appropriates monies for the administrative costs of the program separately, we generally adjust our calculations downward to reflect this difference. The addition of 7% for administrative costs raises additional questions regarding DHS administrative efforts for the CRS program that JLBC Staff will pursue over the next few months. The following table shows the FY 2002 budgeted capitation rates, as well as the proposed rates.

| Anticipated CRS Savings and Capitation Rate Changes in FY 2002 | | | | | | |
|---|-------------------------|----------------------------------|----------------------------------|---|---|--|
| | <u>FY 2001 Rate</u> | <u>FY 2002 Budgeted Rate</u> | <u>FY 2002 Proposed Rate</u> | <u>Proposed Rates Adjusted for 7% Admin. Increase</u> | <u>FY 2002 Change Above FY 2001</u> | <u>Anticipated State Match Savings</u> |
| Phoenix | | | | | | |
| High | 470.18 | 494.63 | 507.06 | 471.57 | 0.3% | (\$275,100) |
| Medium | 275.89 | 290.24 | 297.52 | 276.69 | 0.3% | (275,300) |
| Low | 195.64 | 208.81 | 210.98 | 196.21 | 0.3% | (388,000) |
| Tucson | | | | | | |
| High | 370.17 | 389.42 | 401.03 | 372.96 | 0.8% | (148,000) |
| Medium | 348.19 | 366.30 | 377.21 | 350.81 | 0.8% | (112,200) |
| Low | 210.64 | 221.59 | 228.2 | 212.23 | 0.8% | (107,800) |
| Flagstaff | | | | | | |
| High | 295.28 | 310.63 | 320.09 | 297.68 | 0.8% | (36,200) |
| Medium | 177.14 | 186.35 | 192.02 | 178.58 | 0.8% | (38,400) |
| Low | 147.63 | 155.31 | 160.03 | 148.83 | 0.8% | (30,400) |
| Yuma | | | | | | |
| High | 202.64 | 213.18 | 220.87 | 205.41 | 1.4% | (15,000) |
| Medium | 140.08 | 147.36 | 152.68 | 141.99 | 1.4% | (4,700) |
| Low | 123.70 | 130.13 | 134.82 | 125.38 | 1.4% | <u>(12,900)</u> |
| | | | | | | (\$1,444,000) |

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

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

Without changes to the enrollment projections used in developing the FY 2002 appropriation, the capitation rate changes will create a savings of approximately \$(1,444,000) associated with the CRS

Program. The actual cost or savings associated with the proposed capitation rate will depend upon the number of people that are eligible for Title XIX CRS services.

The JLBC Staff recommends that the Committee give the rates a favorable review.

Title XIX Behavioral Health Capitation Rates

At the request of JLBC Staff, DHS reported changes in the FY 2002 Title XIX Behavioral Health capitation rates from the rates approved by JLBC at its June meeting. Subsequent to the Department's submittal to JLBC, the Arizona Health Care Cost Containment System (AHCCCS) approved a change that reduced the administrative percentage paid to DHS from 4% to 3.3%. The statewide rates were then adjusted downward to compensate for this change. The following table summarizes the changes in capitation rates by program:

| | <u>Previous Rate</u> | <u>Final Rate</u> |
|----------|----------------------|-------------------|
| Children | \$25.94 | \$25.75 |
| SMI | \$75.61 | \$75.13 |
| GMH/SA | \$17.82 | \$17.69 |

RS/GG:ck

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CHRISTINE WEASON

DATE: August 22, 2001

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

THRU: Richard Stavneak, Director

FROM: Rebecca Hecksel, Assistant Fiscal Analyst

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

Request

The Arizona Department of Administration (ADOA) requests the Committee review its recommendation to establish a FY 2002 Retiree Accumulated Sick Leave (RASL) rate of 0.40% of the total benefit-eligible payroll. State agencies have been budgeted at the 0.4% rate in the current fiscal year.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to a FY 2002 RASL rate of 0.40%. This rate will provide sufficient funding for program operations and will generate a fund balance of approximately \$5.4 million at the end of FY 2002. Of this amount, up to approximately \$3.5 million may be available to be transferred back to the General Fund as a potential budget reduction.

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 2000 meeting, JLBC gave a favorable review to the FY 2001 rate of 0.40%. In the 2001 legislative session, all agencies were budgeted for a contribution rate of 0.40% in both FY 2002 and FY 2003.

(Continued)

The attached letter from ADOA includes a fund balance statement. The budgeted rate of 0.40% will result in payments into the RASL Fund of approximately \$6,916,000 from the General Fund and \$2,964,100 from Other Funds, for total receipts of \$9,880,100. This amount is added to the FY 2002 beginning fund balance of \$4,373,600 for a total fund balance of \$14,253,700. ADOA projects expenditures to total \$8,811,000 in FY 2002, resulting in a FY 2002 ending fund balance of approximately \$5,442,800. ADOA has stated that they would like to maintain a fund balance buffer of approximately \$1,000,000, as it is difficult to accurately predict the number of new retirees that must be paid in the next fiscal year. With such a large fund balance, ADOA has stated that they may pursue legislation in the 2002 legislative session that would make changes to the RASL program including making the RASL payments to retirees in one year rather than spreading the payments over three years as required by current law. If the Legislature approves these changes, they can be funded in part from this fund balance.

The Executive has suggested that the remaining fund balance of \$5,442,800 in FY 2002 and the projected fund balance of \$6,318,900 in FY 2003 could be used as a potential budget reduction option. Not all of these monies, however, are available to be "swept," or transferred to the General Fund. As mentioned earlier, a balance of approximately \$1,000,000 is needed in the fund to account for fluctuations in the number of employees choosing to retire in a given year. In addition, a component of the RASL Fund balance is from contributions from Federal Funds. These amounts would not be available to be swept as they would have to be reverted to the federal government. The Federal Fund contribution is a combination of payrolls from both the ADOA Personnel System and the University Personnel System. ADOA states that approximately 18% of the total ADOA Personnel System payroll dollars that are paid into RASL are Federal Funds. The Universities were not able to provide the JLBC Staff with an estimate of their Federal Funds contribution to the total payroll. The JLBC Staff therefore applied the same contribution rate as for the ADOA Personnel System of 18%. Applying this percentage to the FY 2002 ending fund balance, the JLBC staff calculates the Federal Fund component to be \$979,700. Subtracting this out of the FY 2002 RASL Fund balance, we calculate the unencumbered balance in the RASL Fund at the end of FY 2002 to be \$4,463,100.

The following table details the funds that may be available to be swept.

| Retiree Accumulated Sick Leave Fund | | |
|--|--------------------|---------------------|
| | <u>FY 2002</u> | <u>FY 2003</u> |
| Beginning Fund Balance | \$4,373,600 | \$ 5,442,800 |
| Revenues | 9,880,100 | 10,003,600 |
| Expenditures | <u>8,810,900</u> | <u>9,127,500</u> |
| <i>Ending Fund Balance</i> | <i>5,442,800</i> | <i>6,318,900</i> |
| Fund Balance Buffer | 1,000,000 | 1,000,000 |
| Federal Monies | <u>979,700</u> | <u>1,137,400</u> |
| Total Available | \$3,463,100 | \$ 4,181,500 |

RS:RH:ss
Attachment

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CHRISTINE WEASON

DATE: August 23, 2001

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

THRU: Richard Stavneak, Director

FROM: Tom Mikesell, Fiscal Analyst

SUBJECT: ARIZONA LOTTERY COMMISSION - CONSIDER APPROVAL OF
REVISIONS TO RETAILER INCENTIVE PLAN

Request

Pursuant to Laws 1997, Chapter 214, the Arizona Lottery Commission requests Committee approval of revisions to the Retailer Incentive Plan. The current plan allows for an additional 0.5% of Lottery ticket sales to be distributed to retailers if specified sales and promotional measures are met. The revisions would delete all promotional measures from the plan and would tie incentive payments entirely to a 5% ticket sales increase.

Recommendation

The JLBC Staff is forwarding the Lottery request without a particular recommendation as the issue of deleting the promotional requirements is primarily a policy matter.

Deleting the promotional requirement may have the impact of reducing Lottery advertising in stores. As discussed below, there is no strong evidence that increased in-store advertising has had a substantial sales impact.

Under the Lottery proposal, retailers will now receive incentive payments without having met any particular performance standard other than having a 5% sales increase. This may be viewed as advantageous since the 5% standard represents a "bottom-line" result. On the other hand, it does not take into account outside forces that may effect Lottery sales. For example, several large Powerball jackpots can drive up sales without an individual retailer having taken any particular action to boost returns. As an alternative, the Lottery could provide incentive payments based on performance relative to other retailers.

(Continued)

Analysis

Laws 1997, Chapter 214 increased the percentage of total ticket sales that the Lottery could return to retailers from 6% to 7%. However, the legislation required that half of this increase be based on a plan approved by the Joint Legislative Budget Committee. The law required that the plan be designed to maximize revenues received from Lottery ticket sales. The current plan, approved by the Committee in January of 2000, allows for an additional 0.5% of ticket sales to be distributed to retailers who increase their sales by at least 5%. In addition, the plan requires retailer participation in various promotional activities, and requires display of certain advertising materials in order to receive the additional 0.5% commission. The proposed revision deletes the promotional activities and advertising material requirements from the Retailer Incentive Plan. The Lottery states that these non-sales measures are burdensome to some retailers as well as Lottery sales agents and are not as important as the 0.5% incentive payment in increasing ticket sales.

According to the Lottery, 678 retailers qualified for \$184,653 in incentive payments in the first 6-month period of the plan. During this period, sales for these retailers were 20.3% higher than in the prior 6-month period. In the plan's second 6-month period, 1,064 retailers qualified for \$283,957 in incentive payments. Sales for these retailers increased by 20.2%, over the prior 6-months. These retailers qualified for the incentive payment because they met both the sales and promotional requirements of the plan.

A number of retailers increased sales by at least 5% but did not meet the promotional requirements and therefore did not receive the additional 0.5% commission. During the first 6 months of the plan, 45 retailers had ticket sales growth of 22.1%, but did not qualify for incentives because they did not meet the additional requirements. During the second 6 months of the plan, 54 retailers had 22.9% growth in sales but did not meet the additional requirements.

Based on this data, it appears as though there is essentially no difference between the sales performance of retailers who met the promotional requirements and those who did not. It is not possible to calculate the effect that the additional requirements have on sales based on this information alone. These requirements were originally added to ensure that incentive payments were not made solely as a result of big jackpots. For example, large sales volumes due to one or two large jackpots in one period could lead to a 5% increase over a prior period with fewer jackpots and thus lower sales. The promotional requirements were a way of measuring that retailers were taking actions that could potentially impact sales.

Absent these requirements, one alternative would be to have components in the plan that ensure that retailer activity is causing sales increases and not other factors, such as big jackpots. One possible method would be to award incentives to retailers who had better than average sales increases. With this type of measure, only those retailers achieving sales growth that is better than that of their peers would receive incentive payments. Also, the effects of external factors such as large jackpots would be factored out.

(Continued)

In addition, the current incentive program does not provide an incentive to increase sales beyond 5%. In the plan's current form, the additional 0.5% retailer commission is paid to both retailers who increase their sales by 5% as well as those who increase sales by a much larger amount. While it would be useful to provide larger incentive payments to retailers that attain larger sales increases, this would require a change to current law.

The Lottery does not anticipate decreasing its expenditures for promotional materials in light of the change. The Lottery did not receive additional monies for the production of promotional and advertising materials at the beginning of the plan. Because of this, no reduction in expenditures is expected if these requirements are deleted from the plan.

TM:jb

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MARION L. PICKENS
CHRISTINE WEASON

DATE: August 22, 2001

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

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL – REVIEW ALLOCATION OF
SETTLEMENT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has notified the Committee of the allocation of monies received from 2 settlement agreements.

Recommendation

The JLBC Staff recommends a favorable review of the allocation plan for both settlement agreements.

Analysis

The FY 2002 and 2003 General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over \$100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review or approval.

The Office of the Attorney General recently settled 2 cases that will result in the receipt of settlement monies over \$100,000. The first case involved violations of the Arizona Consumer Fraud Act (A.R.S. § 44-1521) relating to the company's sweepstakes solicitations. Publishers Clearing House

(Continued)

agreed to pay a total of \$34 million to be distributed to the 26 states involved in the settlement. Of the total settlement amount, Publishers Clearing House will pay \$19 million in consumer restitution; \$14 million to the 26 settling states for attorneys' fees, consumer fraud education, and administration of a restitution program; and \$1 million in civil penalties. It has not been determined exactly how these funds will be distributed among the 26 settling states, but the Office of the Attorney General estimates that Arizona will receive at least \$250,000. Pursuant to A.R.S. § 44-1531.01, any court costs, attorney fees, or civil penalties recovered by the state as a result of violations of consumer protection laws are deposited in the Consumer Fraud Revolving Fund. Monies in this fund are used for consumer fraud education, investigations and enforcement operations.

The second case involved violations of Arizona's air quality laws by North Star Steel. North Star Steel agreed to pay \$5 million in civil penalties that, pursuant to statute, was deposited in the General Fund on August 14. According to the footnote in the General Appropriation Act, settlements deposited in the General Fund pursuant to statute do not require JLBC review. The JLBC Staff has included this settlement for informational purposes only.

RS/KH:jb

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: August 21, 2001

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

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Senior Fiscal Analyst

SUBJECT: JOINT LEGISLATIVE BUDGET COMMITTEE STAFF - REPORT ON JOINT
STUDENT ENROLLMENT FORMS

Request

Laws 2001, Chapter 251 (HB 2560) required the JLBC Staff to develop forms and instruction for reporting "dual enrollment" information. A copy of the now-completed forms and instructions are attached (Attachments 1-3).

Recommendation

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

Analysis

The attached forms and instructions were developed pursuant to Laws 2001, Chapter 251, which requires each superintendent of a joint technological education district ("JTED") to submit information regarding "joint student enrollment" by September 1, 2001. The required information is intended to provide insight regarding the extent to which high school pupils are receiving both high school and community college credit for JTED classes or courses.

Copies of the attached forms have been transmitted to the 2 JTED's that were in operation during the 2000-2001 school year: 1) the East Valley Institute of Technology [EVIT], and 2) the Northern Arizona Vocational Institute of Technology [NAVIT]. Because the statutory due date for the reports (September 1, 2001) occurs during the Labor Day weekend, we have asked EVIT and NAVIT to instead return their reports to us by September 7, 2001.

RS:SSC:jb
Attachments (3)

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: August 21, 2001
TO: Representative Laura Knaperek, Chairman
Members, Joint Legislative Budget Committee
THRU: Richard Stavneak, Director
FROM: Lorenzo Martinez, Senior Fiscal Analyst
Jill Young, Fiscal Analyst
SUBJECT: ARIZONA BOARD OF REGENTS - REPORT ON FY 2002 TUITION REVENUES

Request

Pursuant to footnotes in the FY 2002-FY 2003 General Appropriation Act, the Arizona Board of Regents (ABOR) is submitting a report on FY 2002 tuition revenue amounts that are different from the amounts appropriated by the Legislature.

Recommendation

This item is for information only and no Committee action is required. Systemwide, FY 2002 tuition collections are estimated to be \$16,356,500 more than tuition amounts appropriated by the Legislature. The higher amount is primarily due to increases in tuition approved by ABOR in April 2001.

Analysis

Footnotes in the General Appropriation Act (Laws 2001, Chapter 236), require ABOR to inform the Committee of any tuition revenue amounts that are different from the amounts appropriated by the Legislature to each university. The same footnotes also appropriate tuition collections above the appropriated amounts to each university for operating expenditures, capital outlay and fixed charges.

The following table shows the amounts above the appropriated levels for each university.

| Tuition Revenue Above Appropriated Amounts | |
|---|---------------------|
| ASU-Main | \$7,561,300 |
| ASU-East | 358,700 |
| ASU-West | 961,500 |
| NAU | 2,938,400 |
| UofA-Main | 4,375,200 |
| UofA-Health Sciences Center | 161,400 |
| TOTAL | \$16,356,500 |

(Continued)

ABOR reports the increased amounts are primarily due to increases in tuition approved by ABOR at its April 2001 meeting. The following table shows the changes in resident and non-resident tuition from FY 2001 to FY 2002.

| | Resident Tuition | | | | Non-Resident Tuition | | | |
|------|-------------------------|----------------|------------------|-----------------|-----------------------------|----------------|------------------|-----------------|
| | <u>FY 2001</u> | <u>FY 2002</u> | <u>\$ Change</u> | <u>% Change</u> | <u>FY 2001</u> | <u>FY 2002</u> | <u>\$ Change</u> | <u>% Change</u> |
| ASU | \$2,259 | \$2,344 | \$85 | 3.8% | \$9,411 | \$9,800 | \$389 | 4.1% |
| NAU | 2,259 | 2,344 | 85 | 3.8% | 8,375 | 8,776 | 401 | 4.8% |
| UofA | 2,259 | 2,344 | 85 | 3.8% | 9,411 | 9,800 | 389 | 4.1% |

The additional amounts will be used to provide support for on-going services and program enhancements. The following table and attached materials provide more information.

| Uses of Increased Tuition Revenues | |
|---|---|
| ASU-Main | Support current services and limited program enhancements such as technology assisted courses and classrooms, library acquisitions, on-line registration, and increased academic advising opportunities. Includes \$1.4 million from special program fees to support program enhancements in the College of Business. |
| ASU-East | Support for current services, additional academic and student services, and a transfer of the Exercise and Wellness program for the main campus. |
| ASU-West | Support for current services and program enhancements that include the acceleration of the Applied Computing Program and Learning Enhancement Center, and the expansion of academic support including student advising. |
| NAU | Support utility cost increases, and the new student administration system (SOLAR). |
| UofA-Main | Support current services, and limited program enhancements such as academic advising and information technology. |
| UofA-Health Sciences Center | Support for instructional programs and academic support. |

RS:LM:JY:jb

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CHRISTINE WEASON

DATE: August 22, 2001

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

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

Request

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

Recommendation

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

Reports

A) Department of Health Services - Report on Health Crisis Fund.

A.R.S. § 36-797 requires the Department of Health Services to report to the Legislature on the expenditures from the Health Crisis Fund by August 1 of each year. We received the report for FY 2001 on August 8, 2001. The Health Crisis Fund receives up to \$1,000,000 per year from the Medically Needy Account of the Tobacco Tax and Health Care Fund. Pursuant to A.R.S. § 36-797, the Governor may declare a health crisis and authorize expenditures from the Health Crisis Fund. In FY 2001, the Governor authorized the following expenditures:

| <u>Executive Order</u> | <u>Date</u> | <u>Recipient</u> | <u>Amount</u> |
|------------------------|-------------|--|---------------|
| 2000-15 | 7/21/2000 | Arizona Board of Osteopathic Examiners | \$125,000 |
| 2000-19 | 10/11/2000 | El Pueblo Clinic | \$ 60,000 |
| 2001-7 | 5/1/2001 | Southeast Arizona Medical Center/ Community Healthcare of Douglas | \$250,000 |
| 2001-12 | 6/27/2001 | AHCCCS | \$500,000 |

The Governor authorized a \$125,000 loan from the Health Crisis Fund to the Arizona Board of Osteopathic Examiners to address a revenue deficit. The board must repay the loan by June 30, 2002. The monies for the El Pueblo Clinic and Southeast Arizona Medical Center were authorized to maintain financial solvency of the clinic and the center over the short term until the institutions regain financial stability. The monies for AHCCCS were authorized for reimbursement of emergency services for undocumented persons.

B) Department of Transportation - MVD Wait Times - 6 Month Summary Report.

The Arizona Department of Transportation reported average customer wait times from door to counter in Motor Vehicle Division field offices of 29.1 minutes in FY 1999, 14.9 minutes in FY 2000, and 15.4 minutes in FY 2001. Total customer time spent in Motor Vehicle Division field offices averaged 23.7 minutes, including 15.4 minutes of wait time and 8.3 minutes of transaction time in FY 2001. In the second half of FY 2001, total customer time averaged 24.2 minutes including 15.9 minutes of customer wait time, each of which was 1.1 minute longer than in the first half of FY 2001. Transaction time was unchanged at 8.3 minutes in each half of FY 2001.

C) Attorney General - Report on Model Court.

Laws 2001, Chapter 238 requires the Office of the Attorney General to submit a quarterly report summarizing program information related to Model Court. It submitted its latest report on June 29. The report should provide a summary of projected expenditures by line item for the following quarter, including the number of Full-Time Equivalent (FTE) Positions and Federal matching funds. It should also include actual expenditures for the previous quarter as well as the reduction in the backlog of cases, the number of children placed, the type of placement, and the number of children still awaiting placement. The agency projects expenditures for the 4th Quarter of FY 2001 to be approximately \$610,000, with a total of 48 FTE Positions. The amount in Federal matching funds earned through March 2001 was more than \$840,000.

The agency's summary for the 3rd Quarter of FY 2001 reports total expenditures at approximately \$534,000. As of January 1, 1999 there were approximately 6,000 open dependency cases (cases open before statewide implementation of Model Court). By the end of the 3rd Quarter of FY 2001, 1,380 of the original 6,000 remain. The Office of the Attorney General estimates that by the end of the fiscal year, 250 of these cases will be dismissed, leaving a total of 1,130 backlog cases. The total number of children (both new and existing) placed during the 3rd Quarter was 827. Of this amount, 411 children represent backlog cases. The number of cases does not correspond directly to the number of children (i.e. each case may involve more than one child). Of the 827 children placed, 59 were adopted by a relative, 227 were adopted by a non-relative, 124 were placed with a guardian related to the child, 91 were placed with a guardian not related to the child, and 326 were reunited with a parent. The agency reports a total of 5,519 children still awaiting placement. These children represent both new and backlog cases. The agency could not provide a breakout of the number of backlog children still awaiting placement.

D) Attorney General - Report on Incarceration Costs Offset by Monetary Judgments.

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. It submitted its latest report on July 16. From January 1, 2001 to June 30, 2001, the state did not exercise its right to offset the costs of incarcerating inmates under this statute. The agency does, however, indicate that the existing statute results in reduced negotiated settlement amounts as well as discouraging the filing of frivolous lawsuits.

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

Laws 1999, Chapter 1, 1st Special Session 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, 2001 for FY 2001. DES' Division of Developmental Disabilities reported to JLBC that there were no new placements in FY 2001.

F) Department of Emergency and Military Affairs - Report on Camp Navajo Fund.

Pursuant to A.R.S. § 26-152, the Department of Emergency and Military Affairs (DEMA) is required to submit an annual report describing the activity in the Camp Navajo Fund by August 31 of each year. We received DEMA's report on August 9, 2001. The Camp Navajo Fund was established for the operation, maintenance, capital improvements and personal services necessary for the National Guard to operate a regional training site and storage facility at Bellemont. The fund's revenues consist of monies received from federal and other government sources for storage of government commodities and services provided by the camp. DEMA reports that the Camp Navajo Fund received revenues of \$7,923,000 and had expenditures of \$7,632,000 in FY 2001. This left a fund balance of \$6,755,000 at the end of the fiscal year.

RS:lm