STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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CHAIRMAN 2004
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JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, September 21, 2004
9:30 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of August 17, 2004.

- DIRECTOR'S REPORT (if necessary).

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

1. AHCCCS - Review of Capitation Rate Changes.

2. JLBC STAFF - Consider Approval of Index for Construction Costs.

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

4. DEPARTMENT OF ECONOMIC SECURITY - Report on Workforce Investment Act Issues.

5. DEPARTMENT OF PUBLIC SAFETY - Report on DPS Plan for Sworn Officer Salary Increases.

6. JLBC STAFF/ARIZONA STATE PARKS BOARD - Report on Parks Fees.

The Chairman reserves the right to set the order of the agenda.
09/14/04

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

August 17, 2004

The Chairman called the meeting to order at 9:36 a.m., Tuesday, August 17, 2004, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Mark Anderson	Representative Andy Biggs
	Senator Timothy Bee	Representative Meg Burton Cahill
	Senator Robert Cannell	Representative Linda Gray
	Senator Jack Harper	Representative Linda Lopez
	Senator Pete Rios	
Absent:	Senator Marsha Arzberger	Representative Eddie Farnsworth
	Senator Dean Martin	Representative Steve Huffman
		Representative John Huppenthal

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of June 29, 2004. The motion carried.

EXECUTIVE SESSION

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

At 9:36 a.m., the Joint Legislative Budget Committee went into Executive Session.

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

At 10:30 a.m. the Committee reconvened into open session.

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

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Arizona Public Service Company v. State of Arizona, Arizona Department of Transportation, D.H. Blattner & Sons, Inc. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Review of Risk Management Deductible.

Ms. Shelli Carol, JLBC Staff, presented ADOA's request for review of risk management deductibles.

In response to questions from Representative Pearce, Mr. Frank Hinds, State Risk Manager, ADOA, said the agency feels the deductible program is still valuable, although he is currently looking at making changes to the program.

Representative Pearce said he would appreciate seeing the report but would also like to see if these policies were really having an affect or were the agencies just doing a better job. Mr. Hinds said it was probably a combination of things. The deductible program has clearly contributed.

Representative Biggs noted that Rule 14 requires that a $10,000 deductible be assessed to an agency unless the agency implements a plan to eliminate or limit similar losses. He wondered how agencies submit these plans and how many times has this happened over the past year.

Mr. Hinds explained that every loss that exceeds $150,000, whether it comes before JLBC or not, requires an agency response. The plan has to be approved and accepted by Risk Management before it decides that the agency will not have to pay the $10,000. The Loss Prevention Unit follows that procedure in every case that settles for $150,000 or more.

Representative Biggs asked if they had any idea as to how many times that occurred. Mr. Hinds said he would have to check to see how many cases were at the $150,000 to $250,000 levels and would get the answer for him if he wished.

Senator Burns asked what kind of reporting mechanism was in place for those cases that go to trial. Mr. Hinds was not sure if there was a regular report given to the Legislature on cases that go to trial and are resolved. Mr. Richard Stavneak, JLBC Staff, said that in reviewing Risk Management's annual report, he thought it might be useful if the report gave them some sense of how often the Attorney General has gone to trial in the last year and did not need a JLBC review. He hoped in the upcoming report they could give the Committee some sense of issues that have gone directly to trial.

In response to questions from Representative Pearce, Mr. Hinds explained that the $10,000 deductible is set in statute and through the rules process they write the rules to implement the different parts of the statute. ADOA is in the process now of trying to come up with a draft submission to the Governor's Regulatory Review Committee on how it can change the rules. One thing the agency is looking at is a statute change that would allow some additional flexibility to reward agencies that do a good job.

Representative Pearce agreed with Mr. Hinds and added that he would gladly work with him on awarding agencies and using those dollars to benefit the public.

Representative Pearce moved to adopt the JLBC Staff recommendation and give a favorable review of the Risk Management deductible amounts charged to agencies for risk management losses. The motion carried.

DEPARTMENT OF HEALTH SERVICES – Report on Health Crisis Fund Expenditures and Arizona State Hospital.

Ms. Beth Kohler, JLBC Staff, explained that the Health Crisis Fund receives up to $1 million annually from the Tobacco Tax. The Governor has the ability to authorize expenditures from this fund if a health crisis or a significant potential for a health crisis exists in the state. Ms. Kohler also pointed out that there had been some recent press reports that the Federal government has found some issues at the State Hospital that may jeopardize the Federal Funds Arizona receives for the State Hospital.

Representative Burns said the Health Crisis Fund monies are appropriated to the Governor's Office and the Governor then has the authority to release them based on statute. He asked when the Executive authorized the expenditure of the funds.

Ms. Kohler replied that the first authorization for West Nile took place on April 26. On June 30, 2004, the Governor authorized the remainder of the monies. In answer to Senator Harper, Ms. Kohler explained the funds were not federal dollars. They were Tobacco Tax dollars, which are state dollars.

Representative Pearce asked Ms. Kohler to identify the crisis that triggered Executive Order 2004-16. Ms. Kohler deferred to the Governor's Staff to explain how they determined a crisis existed in the state.

Mr. Tim Nelson, Governor's Staff, explained that it was triggered by the fact that Arizona has over one million uninsured people and is in the top third in the country in terms of percentage of uninsured.

Representative Pearce said he thought that the fund was not set up for that purpose. He did not believe that is was a crisis, nor did it rise to the level of crisis agreed to in statute. That is clearly outside the legislative intent.

Mr. Nelson noted that if you look historically at how some prior governors have used this fund, particularly towards the end of the fiscal year, you will find that this not an unprecedented use of the fund.

Senator Burns said that the point of encouraging people to come into these programs appears to be an advertising program. A health crisis means you are reacting to an emergency and running an advertising program for a couple of programs do not qualify as an emergency.

Representative Pearce asked what crisis had been averted since the appropriation of these funds. Section 36-797E requires that when a crisis has been terminated, the Department of Health Services (DHS) report it to the Legislature. He wondered when they could anticipate a report from DHS.

Mr. Nelson said that the Executive Order asked the agencies that received the money to file a report with the Governor and the Legislature by the end of the fiscal year.

In response to questions from Senator Anderson, Mr. Nelson explained that if there was no crises and the funds were not spend, they would revert to the Medically Needy Account. If spent, the fund is automatically re-appropriated for another year in case there was a crisis.

Senator Burns asked why more of this money was not allocated to the West Nile crisis.

Mr. Nelson said they fully funded the request of the DHS for the West Nile Virus. They did not fully fund the requests from either AHCCCS or DHS regarding funding for the Health Care Group or for the State Hospital.

Representative Pearce asked why they are spending state money to promote a federal program.

Mr. Nelson explained that there was some money available for outreach with regards to the federal Medicare Program; however, since Arizona does not have a state pharmacy assistance program, we are less able to reach our low income eligible people. CMS specifically asked for help in this regard.

Senator Burns said the Copper Rx Card program was created by Executive Order, which is also a stretch as far as following statutes. He did not feel it was the business of the Executive Branch to institute programs.

Senator Harper referred to a letter sent to Mr. Nelson in February. He requested the constitutional or statutory language that authorized the drug discount card to be created by Executive Order rather than through the legislative process. The response was that legislation was not required to enact this program because there are no state fund expenditures associated with it. He asked if Mr. Nelson thought the Governor had violated some criminal statute and what criminal statute was it.

Mr. Nelson did not think the Governor had violated any criminal statutes. The use of funds for the Copper Rx Card is really ancillary. What they are talking about is getting people information about all of the discount card options available.

Senator Harper noted that now that the Governor has expended state funds for this, she has violated her authority to change this program without putting it out to bid. What about those bidders that should have had a second opportunity at the program, knowing that the program was going to be subsidized by state funds.
Mr. Nelson did not think it was a correct analysis. Rx America's bid was far superior to the others bidders. They did not materially change the scope of the work of the contract and in his opinion, they do not change what the bids would have been.

Senator Cannell said he thought the Legislature needed to do more to inform the public about what is available. There are a lot of people spending their food money on prescription drugs. He asked if there were any emergency programs turned down by the Governor in favor of the other things.

Mr. Nelson said one of the reasons they waited until the end of the fiscal year was to make sure there were not more pressing emergencies. There were no other emergencies that were turned down for funding.

Senator Anderson said they created this fund so that in case of an emergency the Governor can quickly apply the funds to a real crisis. If there is no crisis in a year, there is an incentive to use the funds for other things because the definition is vague enough to do so. He suggested they either tighten up the definition or change statute to allow the funds to grow if they are not used.

Mr. Nelson said that in light of some of the criticism, that was a very constructive suggestion.

Senator Burns added that there are people out there that individually feel like there is a crisis relative to their health insurance, but he also suspects that there are people out there that make the choice not to buy health insurance. He disagreed with loosening up the requirements.

In response to a question from Senator Bee, Senator Burns said there was $3.2 million appropriated during last session for outreach and marketing to promote the Health Care Group.

Mr. Tony Rogers, Director, AHCCCS, said there was $3.2 million allocated for the operation of Health Care Group, which is the existing staff, people who answer the phones, people who are responsible for collecting premiums, basically the infrastructure you need to do the program. There was also a portion of that that is allocated to outreach, about $300,000 for the entire year, and includes member materials. Mr. Rogers provided their rationale for using the Health Crisis Fund for Health Care Group.

Senator Burns said that was an issue for AHCCCS. The issue for this Committee and for the citizens of this state is that we should to be following the rules and this looks like a violation of the rules.

Representative Pearce said when AHCCCS came before the Legislature, their administrative costs were increased from $1.7 million to $3.2 million. That should have taken this into consideration before they used an inappropriate fund to increase the marketing for this program.

Mr. Nelson said they were aware of AHCCCS's budget and the amount of money that it is had for this program. Nevertheless, AHCCCS requested the additional money and made a convincing case and the Governor agreed and signed the Executive Order.

In response to questions from Representative Pearce, Mr. Rogers said that since January they had spent about $84,000 on advertising. Because they were delayed until legislation passed, their recruitment goal, which was to be 30,000, dropped down to 20,000. Today, they have had about 500 sign up for the program. They have a number of companies scheduled to sign in September.

Representative Pearce said they had a $4 million subsidy to do that. He also remembered the statement that the price of the future products will eliminate the need for subsidy by 2006.

Mr. Rogers said they believe that if they can grow to the projected level and with the amount of money they will get out of premium, this program can be fully subsidized by the premium and not by the state.

Ms. Cathy Eden, Director, Department of Health Services (DHS), replied to a question by Senator Burns that a hospital drug dispensing machine was a state of the art machine to account for all medication used. The Legislature gave DHS money for some machines, but they were short a few.

Senator Cannell congratulated DHS on their work on the West Nile Virus. There is a trend in the West Nile Virus to have a modest problem the first year and a horrendous problem the second. DHS knew that and reacted.

No Committee action was required on this issue.

GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING – Report on Federal Revenue Maximization Initiative.

Mr. Stefan Shepherd, JLBC Staff, said this item was for information only and was the first report from OSPB required by the General Appropriation Act on the Federal Revenue Maximization Initiative (RevMax). JLBC Staff recommended the Committee ask OSPB to provide more detail on the project in future reports.

Mr. David Jankofsky, Director, OSPB said they will comply with the future reporting requests. In response to questions asked by Representative Pearce, he explained that there were two types of savings. There are hard dollar reductions in current year savings or there are avoided costs savings in future years. In the JLBC Staff's recommendation, they have asked to try to identify both those types of saving in their reporting and will attempt to do so. Mr. Jankofsky said the Governance Board is in the process of developing guidelines as to what constitutes a viable RevMax project and how to measure savings. They will be made available to the Committee when they are completed.

Representative Pearce asked if they expect the savings to reach the total of the $25 million that was put into the budget. He wondered if the contractor has proposed projects or was it their role to simply review the ideas proposed by agencies.

Mr. Jankofsky said they all hope it exceeds the $25 million.

Senator Burns asked if the meetings held were public meetings. Mr. Jankofsky said they were.

No Committee action was required.

ARIZONA DEPARTMENT OF ADMINISTRATION – Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.

Ms. Shelli Carol, JLBC Staff, said the Department of Administration (ADOA) requested a review of the wireless service portion of its Emergency Telecommunication Services (ETS) Revolving Fund expenditure plan for the current fiscal year.

Ms. Carol explained that currently ADOA has an oversight role towards localities of the state in terms of asking them to submit plans for their expansion of 911 services. ADOA approves those plans and then provides the funds. GITA is hesitant to verify ADOA's numbers.

Senator Burns said it sounded like a grant program and wondered why it would be a problem for GITA to oversee what is going on in a grant program run by someone else. The focus of GITA was to have an oversight responsibility to all technical issues. He thought it was appropriated that GITA have some oversight with this technology venture.

In response to questions by Representative Pearce, Barbara Jaeger, State 911 Administrator, ADOA, explained that half of the budget for this issue was spent in 2004 for the prepatory process necessary to insure that the GIS (Global Information System, also known as mapping) data and the equipment at the 911 centers were brought up to standard. She further explained about Phase 1 and 2.

Representative Pearce said that the Phase 2 requirement is required by December 2005. He asked if the carriers would have their systems updated to Phase 2 by that time. Ms. Jaeger explained that the majority of the major carriers would. Some rural carriers have asked for extensions from the FCC for deployment.

Representative Pearce said this has also had some media play. The state transferred funds out of the 911 system to the General Fund in the past because of the budget shortfalls and because of their unwillingness to not spend on programs. He wondered if this has had an effect on the spending on this program.

Ms. Jaeger said that so far it has not. However, they estimate that will because there are two more legislative reductions in statute today. One takes effect in FY 2007 and a second that takes effect in FY 2008, which will reduce the tax to almost half of what is collected now.

Senator Burns asked if funds were available to restore the money that was swept from their fund currently, what long term effect would that have on the tax reduction in the future? Ms. Jaeger replied that putting the dollars back would probably extend it a few more years under the current funding criteria. Ms. Jaeger confirmed Senator Burn's statement that the reduction in tax in the future will not cover what they need to keep the program up and running.

Senator Burns asked if they purchase or lease equipment. Ms. Jaeger said they purchase.

Senator Burns asked what kind of research has been done as far as leasing equipment. Ms. Jaeger said the vendors they have worked with in the past have had to go to a 3rd party arrangement for that. They asked for pricing in the past and they have been reluctant to go through 3rd party leasing environment.

Senator Burns expressed an interest in a preliminary meeting with the JLBC Staff and the agency to discuss that issue.

Representative Pearce said there was then some risks to the future of this project. Is there some analysis to the impact on the future this deficit would have? Ms. Jaeger said that there are now additional technology needs that were never addressed.

Representative Pearce asked if there were some parts of this project that could be set aside, leaving the public safety portion the number one priority. Ms. Jaeger replied that those communities and the 911 centers that qualify are all public safety communications facilities.

Representative Pearce moved *that the Committee give a favorable review to the $16.4 million wireless portion of the ETS Fund expenditure plan with the provisions outlined in the recommendation, which are: the Committee requests the Government Information Technology Agency by July 31, 2005 to 1) examine ADOA's long-term revenue forecasts and expenditure plans and 2) provide its perspective on the state's overall long-term 911 needs. This date would coincide with the Committee's next annual review. Along with its FY 2006 ETSF Expenditure Plan, ADOA report to the Committee by July 31, 2005 its recommendations for preventing a future ETSF shortfall.* The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) – Review of Proposed Implementation of Developmental Disabilities Provider Rate Increases

Mr. Stefan Shepherd, JLBC Staff, explained that this item was a Committee review of an implementation plan for a Developmental Disabilities (DD) provider rate increase totaling more than $6.4 million General Fund and $18.9 Total Funds. JLBC Staff is recommending a favorable review of the plan because it raises the lowest rates to no less than 95.7% of a benchmark FY 2005 rate.

In response to questions from Representative Pearce, Mr. Shepherd said the distribution was consistent with the legislative intent to fund a provider rate adjustment as described during session. Mr. Shepherd said that there was concern in the provider community with the way the day treatment rate was calculated and how that rate was implemented in conjunction with changes in the way the department paid for client absences. The department has committed to getting an actuary to do an additional third party look at those rates.

Mr. Stavneak suggested that DES provide JLBC Staff with periodic reports as the actuaries are trying to develop better information on the day treatment rate. He suggested the Committee request DES to report back by the end of December of this year on the actuarial study, giving them periodic reports in the meantime with regard to how the study is moving along. This would be added to the motion.

Public testimony was given in support of this increase.

Representative Pearce moved *the Committee give a favorable review to the implementation plan as it meets the requirements of the General Appropriation Act with the following additions: 1) DES shall report the results of the actuarial study of day treatment programs by December 31, 2004. 2) DES will provide periodic reports to JLBC Staff on the status of the actuarial study.* The motion carried.

ATTORNEY GENERAL

A. Review of Allocation of Settlement Monies.

Ms. Kim Hohman, JLBC Staff, said this item was a review of an Attorney General settlement in which the state will receive more than $100,000. In the settlement with Ford Motor Credit Company and 27 other Ford and Lincoln dealers, the companies allegedly violated Arizona consumer fraud laws related to early termination of lease agreements. In the settlement, the state will receive a total of approximately $135,000. They also have an update on the settlement with MEDCO Health Solutions that was heard at the June JLBC meeting.

Representative Pearce said the MEDCO settlement was to be used to educate consumers about prescription drugs. He wondered if this doesn't overlap the prescription drug outreach and education effort in other agencies. Ms. Hohman said a portion of it would be designed to educate Arizona consumers and deferred to the Attorney General's Office for further clarification.

<u>Ms. Renee Rebillot, Section Chief Council for the Consumer Protection Section, Attorney General's Office</u> said there would be no conflict. This is a restitution settlement and the money will go to health centers, clinics, and state and local social service agencies, not only for education but also to benefit Arizona consumers who use prescription drugs.

Representative Pearce said there could be a cost benefit if they were to combine administrative efforts if indeed they are doing the same thing as some of the agencies. If we could, somehow, legislatively put them together and save some money.

<u>Representative Pearce moved</u> a favorable review of the allocation plan for the Ford settlement amount. The motion carried.

B. Review of Uncollectible Debts.

Ms. Kim Hohman, JLBC Staff, said this item was a review of the Attorney General's (AG) annual report of uncollectible debt.

Senator Burns asked for some background information on the two very large write-offs.

<u>Mr. Mike Kempner, Section Chief Council for Tax, Bankruptcy, and Collection, Attorney General's Office,</u> explained the $6.8 million debt was a shell corporation and they were still going after co-defendants. That item will be taken off the list because there is ongoing litigation against co-defendants and there is joint liability in a lot of these security fraud cases. The other case involves a taxpayer. They have spent nearly $200,000 trying to find hidden assets. They decided not to spend any more money on the case because there was nothing to find.

Senator Burns asked how continuing the investigation of the $6.8 million case affects the recommendation today from the Committee. Mr. Kempner said there were two cases shown on the report that would be excluded. One was Superior Leasing of Arizona and the other Cochise Financial Corporation. In both cases, there are co-defendants that they are still pursuing and they have joint liability.

<u>Representative Pearce moved</u> a favorable review of the Attorney General's report of uncollectible debts excluding the Superior Leasing of Arizona and the Cochise Financial Corporation. The motion carried.

ARIZONA COMMUNITY COLLEGES – Review of Workforce Development Plan Activities and Expenditures.

Mr. Lorenzo Martinez, JLBC Staff, explained that this item was a Committee review of the Community Colleges Workforce Development activities for FY 2003.

In response to questions from Senator Burns, Mr. Martinez explained that there were five items stated in statute as to what the monies can be used for: 1) Partnerships with businesses and educational institutions; 2) additional faculty; 3. technology and equipment; 4) student services for new and expanded job opportunities; and 5) property and new construction, remodeling, or repair of facilities. He did not know if there were reports that were specific to partnerships with private companies providing some of these workforce development programs.

Ms. Kim Sheane, Executive Director for the Arizona Community College Association, explained that since the elimination of the State Board of Directors for Community Colleges, it is their responsibility to produce all mandatory and voluntary reports that are required either by statute or research requests by the Legislature and the Governor's Office. The private sector is not required to report on the public/private partnerships.

Senator Burns said they are trying to encourage the private sector to participate and increase their participation in this type of training. It seemed that they should have some sort of feedback so they can understand whether or not the system is actually working and are there things that they can do to make it better. He was looking for something to show that this was a good program.

Ms. Sheane said there were accountability measures that are included in each report. Senator Burns requested Jake Corey, JLBC Staff, to inform him of what is in the reports and said they may be getting back to her for follow-up.

Representative Pearce asked what the private sector paid for any of the specialized training that benefits them directly. Ms. Sheane said that information would be included in each of the district's reports that are dissimulated and put in one aggregate report. Senator Burns requested a look at the report and to see what kind of information was provided. Representative Pearce added that if the report did not contain that information, they could add what efforts they undertake to encourage and seek that kind of support from the private sector.

Ms. Sheane said it was possible in the reports that they identify what the private sector contribution is to the partnership.

Representative Pearce moved that the Committee give a favorable review of the report submitted by the Community Colleges regarding Workforce Development activities and expenditures. The motion carried.

JLBC STAFF – Review of Calculation of Inflation for Transaction Privilege Tax County Withholding – AHCCCS Budget Neutrality Compliance Fund.

Mr. Tim Sweeney, JLBC Staff, said the next item was a Committee review of JLBC Staff calculation of the FY 2005 county withholding amount for the Budget Neutrality Compliance Fund.

Representative Pearce moved that the Committee give a favorable review of the Calculation of Inflation for Transaction Privilege Tax County Withholding. The motion carried.

ARIZONA STATE RETIREMENT SYSTEM – Review of FY 2005 Information Technology Expenditure Plan.

Mr. Eric Jorgensen, JLBC Staff, said this item was a review of the Arizona State Retirement System's (ASRS) 2005 Information Technology expenditure plan.

Representative Pearce moved that the Committee give a favorable review of the FY 2005 Information Technology expenditure plan submitted by the agency as recommended by JLBC Staff. The motion carried.

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

Mr. Steve Schimpp, JLBC Staff, explained that this was a report on the Achievement Testing Program at ADE. There is a $1.3 million shortfall estimated for the program in FY 2005.

Senator Burns asked about the re-testing issue. He was informed that the department was not very clear on how many retests are because someone failed or are just re-tests to try to improve the score of someone who has already passed. He suggested that the department charge for all re-tests and let the local school districts give a reason why or provide some indication of proof as to which ones were re-tests for failure, then refund the fee paid for mandatory retests.

Ms. Donna Lewis, Associate Superintendent for Accountability, ADE, said they believe that most retakes are mandatory, so the savings for charging for optional retakes would be minimal. If it becomes clear that they are large, ADE would want to look at the issue again.

Representative Pearce asked whether it should be the taxpayers' responsibility to pay for AIMS retakes. He stated that if a student is going to retake the test there should be a charge.

Representative Linda Gray said she thought the universities were basing enrollment upon SAT and ACT test scores. She asked if they are now considering AIMS scores for enrollment in universities or scholarships.

Ms. Lewis explained that the Board of Regents has offered a scholarship program for students who exceed standards on two of the three AIMS tests sections and who meet other requirements. The universities, however, still have their own separate admissions requirements.

Senator Burns asked if the Board of Regents was funding this scholarship program out of their current budget. Ms. Lewis replied that they were.

Senator Harper asked if the scholarships were also available to home school students. Ms. Lewis replied that they were.

Senator Cannell asked what was the purpose of consolidating the AIMS test and the norm-referenced test.

Ms. Lewis said the point was to collapse two weeks of testing into one. ADE will still receive norm-referenced testing information from the dual purpose AIMS.

Representative Gray asked what was the percentage change of passage of the AIMS test this year compared to last. Ms. Lewis said that that data has not been released as of yet, but will be shortly. She did not have an exact date.

Senator Burns explained that this was an informational item only. No Committee action was required.

Chairman Burns adjourned the meeting at 12:45 p.m.

Respectfully submitted:

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Sharon Savage, Secretary

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Richard Stavneak, Director

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Senator Bob Burns, Chairman

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

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DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Tim Sweeney, Fiscal Analyst

SUBJECT: AHCCCS – Review of Capitation Rate Changes

Request

Pursuant to the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report capitation and fee-for-service inflationary rate increases with a budgetary impact to the Committee for review prior to implementation.

Summary/Recommendation

The Committee has at least the following options:

1. A favorable review of AHCCCS' proposed capitation rates as requested. The proposed rates are within budgeted levels. Any AHCCCS FY 2005 supplemental would result from higher than anticipated caseload growth rather than this capitation rate adjustment.
2. A favorable review with the provision that AHCCCS should seek approval of its 3 discretionary policy changes, with a General Fund cost of $1.2 million, through the regular FY 2006 budget process rather than incorporate them into the FY 2005 capitation rate.
3. An unfavorable review. Given the federal actuarial study requirement, AHCCCS would likely proceed with the proposed capitation rates.

The proposed rates are based upon an actuarial study, which is required by the federal government. Based on appropriated caseload estimates, these rates would have no General Fund impact in FY 2005. Caseloads have recently spiked upward, however, and if these trends continue AHCCCS may require supplemental funding in FY 2005.

On average, the proposed rates represent an increase of approximately 5.7% above FY 2004 rates. In comparison, the FY 2005 budget assumed capitation rate growth of 6.0%. The 6% budgeted rate increase included 7.5% for medical inflation and utilization growth offset by a (1.5)% reduction due to changes to the reimbursement methodology for outpatient hospital services.

In addition, AHCCCS reports that the proposed FY 2005 capitation rates include 3 discretionary policy changes with a fiscal impact: 1) a Childhood Obesity Chronic Care Model pilot program in Pima County, 2) a provider and member survey, and 3) new contract incentives for AHCCCS health plans. These 3 issues are estimated to have a FY 2005 total fund cost impact of approximately $3.6 million, of which approximately $1.2 million would be from the General Fund.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates in managed care programs that are actuarially sound, capitation rates are not set by the Legislature. AHCCCS contracts with an actuarial firm, which uses claims and encounter data and projected enrollment to determine the actual cost of services, and thereby recommends increases or decreases in capitation and Fee-For-Service (FFS) rates.

AHCCCS is proposing rate increases for the Traditional Medicaid population, the Title XIX Waiver Group (previously the MN/MI population), the Arizona Long-Term Care System (ALTCS) EPD rates, and KidsCare rates.

Traditional Medicaid

This population represents members who are covered under the Temporary Assistance for Needy Families (TANF) (very low-income households) and Supplemental Security Income (SSI) (low-income elderly and disabled households) eligibility categories, and includes a portion of Proposition 204 households (up to 100% of the federal poverty level (FPL) and in the TANF and SSI categories). Regular capitation rates were budgeted to increase by 6.0%. The proposed monthly rates shown in *Table 1* below, and are approximately 5.5% above current rates.

None of the proposed FY 2005 capitation rates include an adjustment for the restoration of the redetermination period from 6 to 12 months. In the FY 2004 budget, the redetermination period was shortened from 6 to 12 months, however, AHCCCS and their actuaries were uncertain how this change might affect the capitation rates. Therefore, no adjustment was made to the FY 2004 capitation rates, and no adjustment is needed in FY 2005.

Title XIX Waiver Group

The Title XIX Waiver Group represents members eligible under the old Medically Needy/Medically Indigent (MN/MI) program. The Medically Needy population is commonly referred to as the "spend-down" population, in which people with extremely high medical costs can qualify for AHCCCS on a short-term basis. The Medically Indigent population represents single adults and childless couples up to 100% of the federal poverty level. The current budgeted amounts assumed capitation rate increases of 6.0%. The proposed monthly rates are shown in *Table 1* below and are approximately 6.3% above current rates.

Of the 6.3% increase, 1% is due to the court injunction on the co-payments originally implemented in FY 2004. Capitation rates were decreased in FY 2004 to account for the increased co-payments that were implemented, but these co-payments are currently the subject of a lawsuit filed against AHCCCS and the court has ordered that these co-payments cannot be collected.

Long-Term Care (ALTCS)

ALTCS services are provided to the elderly and physically disabled in need of long-term care either in nursing care facilities or in home and community based settings.

The approved FY 2004 budget provided for a 5.1% increase, however, the proposed ALTCS monthly capitation rate averaging approximately $2,592 represents an increase of 5.7% above FY 2004 rates. Based on enrollment projections used in developing the FY 2005 appropriation, the capitation rate change will result in additional State Match and Total Funds costs of approximately $1.3 million and $3.9 million above budgeted levels, respectively. Of the additional State Match costs, approximately half would be realized by the state, and half by counties in the form of additional county contributions.

Though enrollment in the Traditional Medicaid and Title XIX Waiver Group populations have been above budgeted levels in recent months, enrollment in the ALTCS program has been below forecast. As a result, the additional costs generated by the higher than budgeted capitation rates may be offset by lower than expected enrollment.

KidsCare (Federal Title XXI)

The KidsCare and KidsCare Parents programs serve children and adults with income below 200% FPL who are not eligible under either the Traditional Medicaid or Title XIX Waiver Group populations.

Capitation rates paid for KidsCare members are identical to those paid to Traditional Medicaid members, which are detailed in *Table 1* below. The FY 2005 budget assumes capitation rate increases in both the KidsCare and KidsCare Parents programs of 6%, and the proposed rates are within budgeted levels.

In the 2003 Legislative Session, additional cost-sharing measures were required for the KidsCare program. Various co-payments and monthly premium increases have been phased-in since that time. The last phase of the implementation of the additional monthly premiums took effect in July 2004. These additional premiums do not affect the capitation rates, but rather shift a portion of the monthly cost of the program to the covered individual. Additional savings were assumed in the FY 2005 appropriation to reflect the implementation of these premiums, however, it is too early to determine if the forecasted savings amounts will be met. As more information becomes available on the premiums collected and any affects the increased premiums have on enrollment, we will update the KidsCare forecast for FY 2005.

Cost Summary

In total, the proposed FY 2005 non-ALTCS capitation rates represent a 5.7% increase above FY 2004 rates, which is slightly below budgeted levels. *Table 1* shows the budgeted rates for FY 2005 and the actual rates AHCCCS is proposing, which would take effect October 1, 2004. Based on enrollment forecasts used in generating the FY 2005 appropriation, these rates would not lead to any additional costs relative to the FY 2005 appropriation.

Table 1

Monthly Regular Capitation Rates

Populations	Current Rate	Budgeted Rate[1/]	Proposed Rate	%
Traditional Medicaid / KidsCare				
Age <1	$368.91	$391.04	$379.27	2.8%
Age 1 – 13	91.46	96.95	97.03	6.1%
Age 14 – 44 (Female only)	163.60	173.42	171.70	5.0%
Age 14 – 44 (Male only)	112.75	119.52	119.16	5.7%
Age 45+	328.60	348.32	343.95	4.7%
SSI with Medicare	243.10	257.69	265.05	9.0%
SSI without Medicare	491.85	521.36	529.38	7.6%
Family Planning	14.27	15.09	15.36	7.6%
Deliveries	5,646.53	5,985.32	5,844.24	3.5%
Title XIX Waiver Group				
Prop 204 - Conversions	388.83	412.16	416.82	7.2%
Prop 204 - Medically Eligible	749.30	794.26	804.44	7.4%
Prop 204 - Newly Eligible	388.83	412.16	416.82	7.2%
Hospital “Kick” Payment	9,513.74	10,084.56	9,801.93	3.0%
ALTCS				
Statewide Average Rate [2/]	2,543.28	2,577.34	2,592.25	5.7%
Average Rate Increase [3/]				5.7%

1/ Rates adjusted to reflect outpatient reimbursement change
2/ The ALTCS rate represents the average statewide rate based on the estimated split between Nursing Facility and Home and Community Based providers – the actual rate may vary as the population mix changes.
3/ The average rate increase also includes adjustments to the Prior Period Rates (not shown), but does not include the increase to the ALTCS rates

Policy Changes

As discussed above, AHCCCS has included 3 discretionary policy changes that have an effect on the FY 2005 capitation rates.

- In Pima County AHCCCS is creating a pilot program to treat childhood obesity. The program will focus on Nutritional Therapy and Health Counseling, and is estimated to cost approximately $1.3 million in FY 2005 (of which, approximately $0.4 million would be from the General Fund).
- AHCCCS will be conducting member and provider surveys in FY 2005 for the first time in 5 years. AHCCCS is adding $750,000 in Total Funds for these surveys, of which approximately $250,000 would be from the General Fund.
- AHCCCS is establishing additional incentive payments to health plans in the areas of EPSDT well-child visits, disease management, participation in residency programs, and for meeting certain administrative requirements. AHCCCS is adding $1.5 million for these payments in FY 2005, with approximately $0.5 million coming from the General Fund.

In total, AHCCCS is adding additional funding of approximately $3.6 million, of which the General Fund would pay $1.2 million.

A footnote in the General Appropriation Act requires AHCCCS to submit to the Committee for review any policy changes that would have a General Fund cost of at least $500,000. AHCCCS’ 3 proposed changes are not part of the standard actuarial assessment of medical inflation and utilization. As a result, the Committee can recommend that AHCCCS defer these 3 issues to the FY 2006 budget process. As is the case with the capitation rates as a whole, however, AHCCCS could still implement these policy issues with the proposed rates.

Recent Enrollment Trends

AHCCCS membership has increased by nearly 30,000 members, or approximately 4.1%, since May 2004. As a result, total caseload in the first 2 months of FY 2005 is approximately 1.6% above budgeted levels. Based on continuing budgeted monthly growth estimates, the recent caseload increases could generate additional General Fund costs of approximately $10 million in FY 2005. Under this scenario, total FY 2005 caseload would be 2.3% above the budgeted levels. If caseloads continue to increase at the levels experienced in the last 4 months, however, caseloads could exceed budgeted levels by 5-6%, which could generate additional General Fund costs of $25-30 million in FY 2005.

As discussed above, lengthening the redetermination period to 12 months did not affect the capitation rates, however, it is a possible driver of the recent enrollment increases. Though it is not clear to the extent which the longer redetermination period is leading to enrollment increases, it is likely contributing to the increase in some fashion. AHCCCS does not currently have an official estimate of the potential FY 2005 supplemental need.

RS/TS:ck

AHCCCS

Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

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August 27, 2004

The Honorable Bob Burns, Chairman
Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Burns

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to review the following items.

- Acute Care Capitation Rates for Contract Year Ending 2005
- Long Term Care Capitation Rates for Contract Year Ending 2005
- Policy Changes for October 1, 2004

Acute Care Capitation Rates

As required by the Federal Balanced Budget Act of 1997, Title XIX and Title XXI Managed Care Programs must have actuarially sound capitation rates. In total Acute Care rates will increase on a weighted average basis of 5.7%. When using the FY 2005 Appropriation Report projected member months this percentage decreases to 5.4%. This rate increase is below the budgeted rate of 7.5%. This increase also includes an annual savings of $32.5 million associated with the hospital outpatient reimbursement adjustments mandated by Laws 2004, Chapter 279, Section 3. Without this adjustment, the rate increase would have come in at 7.1%. Below is a description of some of the various programs associated with Acute Care.

Traditional Medicaid (TANF, SSI and Delivery)

The major components accounting for almost 75% of the overall increase are depicted in Figure 1 (attached).

1. Pharmacy accounts for 37% of the overall increase. The PMPM trend increase for TANF of 12.4% is well below last years' increase of 21.1% while SSI went up from a 13.4% increase to 14.5%. These trends are also comparable to national average trends of 14.8% as reported by MedCo.

2. Physician costs account for 21% of the overall increase. The PMPM trend for TANF was 4.0%, which is similar to last year, while SSI increased from 5.9% to 8.7%.

3. Transportation and Inpatient account for another 14% of the overall increase (7% each). Currently AHCCCS, according to statue and rule, pays 80% of the ambulance rate determined by the Arizona Department of Health Services. In the spring of 2004, ambulance rates in the Phoenix Metropolitan area were increased by roughly 34%. Inpatient costs increased as a result of higher rates required by statute.

Title XIX Waiver Group (Non-categorical Proposition 204 Expansion)
This program will have an increase of 6.25% for Contract Year Ending 2005. However, the mandatory co-payment injunction accounts for over half of the overall rate increase. An estimated $21.7 million in total funds was added into the capitation rate increases to account for the fact that mandatory co-pays could no longer be collected.

HIFA Parents
This program will experience a 4.8% increase in capitation rates on October 1, 2004.

Budget Impact
As detailed in the attached table, the overall budget impact as a result of the new rates is estimated to be $128.6 million in total funds of which an estimated $41.4 million is state match. This impact is calculated by using the estimated FY 2005 member months times the current capitation rates and comparing that cost to the new rates.

As discussed above, the overall rate of increase is below the budget projection that was provided in the AHCCCS FY 2005 appropriation.

Long Term Care Capitation Rates
For State Fiscal Year 2005 AHCCCS was appropriated an increase of 5.1%. The actual increase in capitation rates for Long Term Care was 4.2% including the following components:

1. Non-Ventilator Dependent Rate 4.4%
2. Ventilator Dependent Rate 3.8%

In 1999, AHCCCS had 9,192 members in nursing facilities and today that number stands at 8,435. During this same time period the overall population has grown from 16,241 to 22,028 or 36%. As a result of this continued shift from nursing facilities to home and community based placements the overall capitation rate growth has been well below national medical cost trends. However, the ability to shift members to more community-based settings may be peaking and the overall population mix has leveled off over the past 18 months.

These rate adjustments reflect the Elderly and Physically Disabled population and do not include the Developmentally Disabled population, which is administered through the Arizona Department of Economic Security.

As detailed in the attached table the estimated costs of the new rates is $41.9 million of which approximately $13.7 million is state match.

Again the overall rate increase is below the AHCCCS Fiscal Year 2005 appropriation.

Policy Changes

A footnote in the General Appropriations Act requires that

> *"...before the administration implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of $500,000 or greater for a given fiscal year, the administration shall submit the policy changes to the joint legislative budget committee for review."*

There are three potential issues that AHCCCS would like to bring to the attention of the JLBC that are impacting the October 1, 2004 capitation rates and contract.

1. Obesity Services – AHCCCS will be implementing a Childhood Obesity Chronic Care Model that will focus on Medical Nutritional Therapy and Educational Health Counseling. Obesity has become a well-publicized national epidemic that results in the dramatic increases in costly debilitating diseases like diabetes. This program will initially be rolled out in Pima County at a projected total fund cost of $1.3 million.
2. Provider and Member Surveys – It has been 5 years since AHCCCS last conducted a comprehensive survey of members and providers. As part of improving the overall quality of care and network infrastructure, AHCCCS, in coordination with the health plans, will be conducting comprehensive surveys of these two important stakeholders over the course of the next year. $750,000 was included in capitation for this item.
3. Contract Incentives – AHCCCS has separately included a total of $1.5 million in incentive payments for the health plans for the Contract Year Ending 2005. These payments are targeting four specific criteria that focus on improving quality of services and administrative capabilities. The criteria include EPSDT Well-child visits, achieving Disease Management objectives, participation with residency programs and meeting administrative requirements.

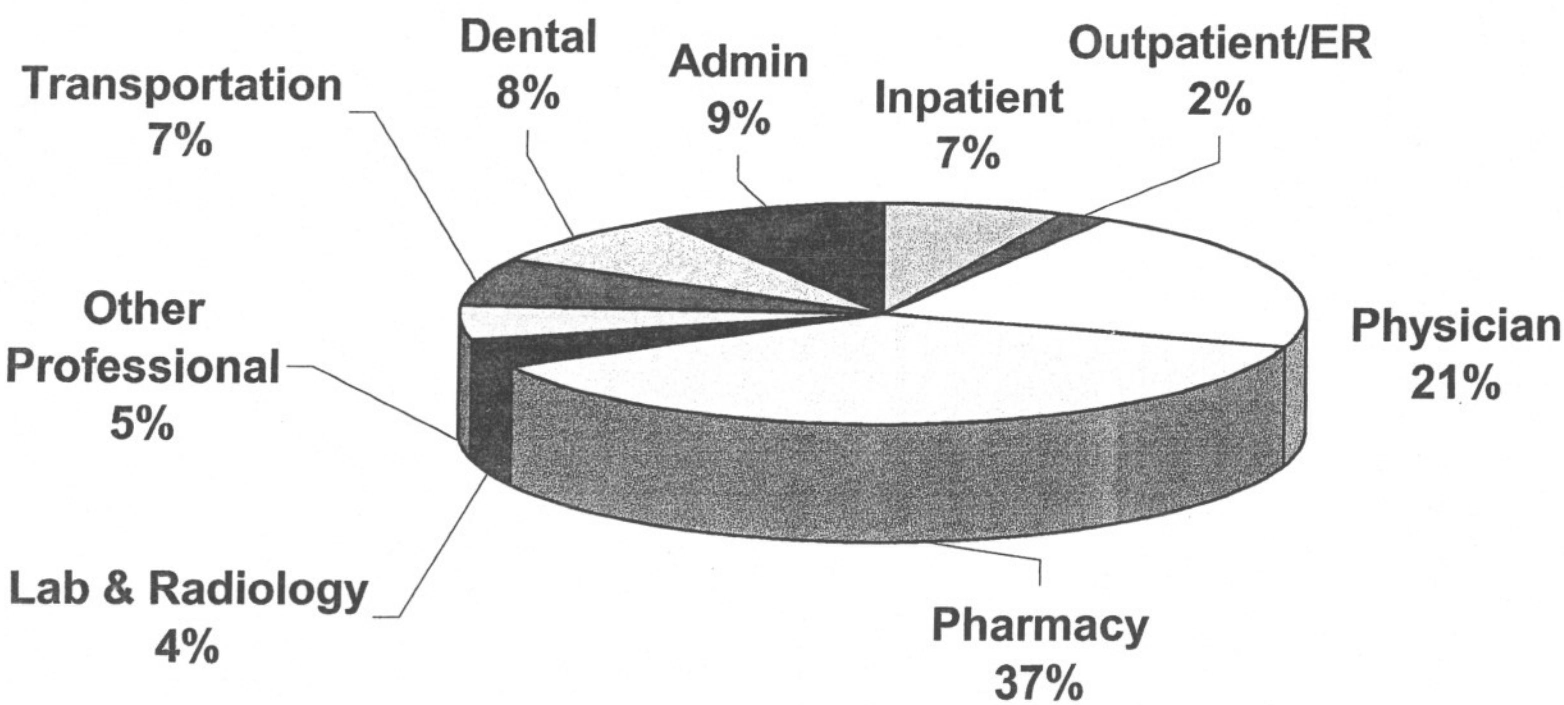
In addition to the detail included within this letter, AHCCCS has met with JLBC staff to review the rates in greater detail. Should you have any questions on any of these issues please feel free to contact Tom Betlach at (602) 417-4483.

Sincerely,

Anthony D. Rodgers
Director

c: David Jankofsky, OSPB
Richard Stavneak, JLBC

Title XIX - TANF & SSI
CYE 05 Capitation Rate Impact
Service Category % of Overall Rate Increase



Overall Rate Increase 5.9%

Acute Capitation Rate Analysis (Renewal Rates--pending approval)
Point in Time Comparison--no member growth factor
CYE '05

Revised - 8/23/04

Title XIX Waiver Group		7/1/04 enrollment/ payments	Average Cap Rate '04	Total Dollars	CYE '05 Cap Rate	New Annual Dollars	Difference	% Increase
	[1] Prospective-MED	3,473	$ 749.30	$ 31,227,827	$ 804.44	$ 33,525,841	$ 2,298,015	7.36%
	[2] PPC-MED	3,197	$ 1,610.07	$ 12,353,088	$ 1,610.07	$ 12,353,088	$ -	0.00%
	[4] Hospitalized Supp-MED	406	$ 9,513.74	$ 3,860,993	$ 9,801.93	$ 3,977,950	$ 116,957	3.03%
	Total MED			$ 47,441,908		$ 49,856,880	$ 2,414,972	5.09%
	[1] Prospective-non-MED	87,415	$ 388.83	$ 407,874,893	$ 416.82	$ 437,235,844	$ 29,360,950	7.20%
	[2] PPC -non-MED	39,027	$ 564.47	$ 52,870,712	$ 564.47	$ 52,870,712	$ -	0.00%
	Total non-MED			$ 460,745,606		$ 490,106,556	$ 29,360,950	6.37%
	Total TWG			$ 508,187,513		$ 539,963,435	$ 31,775,922	6.25%
TXIX								
	[1] <1	44,509	$ 368.91	$ 197,037,782	$ 379.27	$ 202,571,141	$ 5,533,359	2.81%
	[1] 1-13	300,977	$ 91.46	$ 330,328,277	$ 97.03	$ 350,445,580	$ 20,117,303	6.09%
	[1] 14-44F	132,257	$ 163.60	$ 259,646,942	$ 171.70	$ 272,502,323	$ 12,855,380	4.95%
	[1] 14-44M	60,219	$ 112.75	$ 81,476,307	$ 119.16	$ 86,108,352	$ 4,632,045	5.69%
	[1] 45+	16,755	$ 328.60	$ 66,068,316	$ 343.95	$ 69,154,587	$ 3,086,271	4.67%
	[1] SSI w/Med	45,080	$ 243.10	$ 131,507,376	$ 265.05	$ 143,381,448	$ 11,874,072	9.03%
	[1] SSI w/o Med	52,206	$ 491.85	$ 308,130,253	$ 529.38	$ 331,641,747	$ 23,511,494	7.63%
	[1] SFP	6,619	$ 14.27	$ 1,133,438	$ 15.36	$ 1,220,014	$ 86,577	7.64%
	[3] Delivery Supplemental Paymen	2,419	$ 5,646.53	$ 163,877,358	$ 5,844.24	$ 169,615,429	$ 5,738,071	3.50%
	Total Prospective-non-TWG			$ 1,539,206,049		$ 1,626,640,622	$ 87,434,573	5.68%
	[2] PPC'<1	5,206	$ 1,106.29	$ 13,821,394	$ 1,106.29	$ 13,821,394	$ -	0.00%
	[2] PPC'1-13	72,328	$ 39.66	$ 6,884,436	$ 39.66	$ 6,884,436	$ -	0.00%
	[2] PPC '14-44F	31,170	$ 155.38	$ 11,623,719	$ 155.38	$ 11,623,719	$ -	0.00%
	[2] PPC '14-44M	17,723	$ 125.72	$ 5,347,640	$ 125.72	$ 5,347,640	$ -	0.00%
	[2] PPC '45+	8,779	$ 289.14	$ 6,092,252	$ 289.14	$ 6,092,252	$ -	0.00%
	[2] PPC 'SSI w/Med	2,147	$ 32.69	$ 168,456	$ 32.69	$ 168,456	$ -	0.00%
	[2] PPC 'SSI w/o Med	3,538	$ 82.36	$ 699,331	$ 82.36	$ 699,331	$ -	0.00%
	PPC All non-TWG rate codes			$ 44,637,228		$ 44,637,228	$ -	0.00%
	Total Title XIX-non-TWG			$ 1,583,843,278		$ 1,671,277,850	$ 87,434,573	5.52%
Other								
	[1] HIFA Parents-TXXI	10,908	$ 194.54	$ 25,464,508	$ 203.84	$ 26,682,475	$ 1,217,967	4.78%
	HIV/AIDS Supp	650	$ 755.46	$ 5,892,588	$ 755.46	$ 5,892,588	$ -	0.00%
Grand Total Capitation				$ 2,123,387,887		$ 2,243,816,349	$ 120,428,462	5.67%

HIFA Parents - TXXI (10%> TANF)		
14-44F	5,194	$ 188.52
14-44M	3,703	$ 130.62
45+	2,011	$ 378.26
	10,908	$ 203.84

[1] Enrollment as of 7/1/04
[2] Member Months annualized 10/1/03 - 2/28/04
[3] Number of Supplements average 10/1/03 - 6/30/04
[4] Number of Supplements average 10/1/03 - 3/31/04

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Budget Impact of FY 2005 Capitation Rate Increases

	Statewide Rates SFY04	Statewide Rates SFY05	FY05 Population	SFY04 Rate with FY 05 Pop.	SFY05 Rate with FY 05 Pop.	Change Inc. (Dec.)	Percent Impact
Title XIX TANF/SOBRA	$ 140.27	$ 147.34	6,439,368	903,250,100	948,776,500	45,526,400	5.0%
Title XIX SSI w/ Medicare	$ 243.10	$ 265.05	533,172	129,614,100	141,317,200	11,703,100	9.0%
Title XIX SSI w/o Medicare	$ 491.85	$ 529.38	613,992	301,992,000	325,035,100	23,043,100	7.6%
Title XIX AHCCCS Care	$ 388.83	$ 416.82	1,183,008	459,989,000	493,101,400	33,112,400	7.2%
Title XIX MED	$ 749.30	$ 804.44	49,728	37,261,200	40,003,200	2,742,000	7.4%
Title XIX Prior Period	$ 251.33	$ 251.33	893,434	224,546,800	224,546,800	-	0.0%
Title XIX Other	$ 1,897.88	$ 1,962.60	113,173	214,788,900	222,113,600	7,324,700	3.4%
Title XXI Children	$ 103.96	$ 110.07	616,800	64,122,600	67,893,800	3,771,200	5.9%
Title XXI Parents	$ 194.54	$ 203.84	144,000	28,013,800	29,353,000	1,339,200	4.8%
Acute Subtotal	$ 223.26	$ 235.40	10,586,675	2,363,578,500	2,492,140,600	128,562,100	5.4%
					Acute State Impact	41,408,400	
					Acute Federal Impact	87,153,700	
ALTCS (EPD)	$ 2,650.98	$ 2,766.45	283,366	751,198,200	783,918,500	32,720,300	4.4%
ALTCS (EPD) Prior Period	$ 860.55	$ 868.39	8,649	7,442,900	7,510,700	67,800	0.9%
ALTCS (VD)	$ 11,402.68	$ 11,841.41	20,762	236,740,100	245,848,900	9,108,800	3.8%
ALTCS Subtotal	$ 3,182.40	$ 3,316.35	312,777	995,381,200	1,037,278,100	41,896,900	4.2%
					ALTCS State Impact	13,657,300	
					ALTCS Federal Impact	28,239,600	
Total Budget Impact	$ 308.18	$ 323.82	10,899,452	3,358,959,700	3,529,418,700	170,459,000	5.1%
					Total State Impact	55,065,700	
					Total Federal Impact	115,393,300	

NOTE:

1) Population estimates for FY 2005 are taken from the JLBC Appropriations Report - Member Years multiplied by twelve to approximate annual member months. The exception is Prior Period which is based on the preliminary AHCCCS FY05 rebase. ALTCS was split between EPD and VD using the preliminary AHCCCS ALTCS forecast for FY05.
2) Title XIX Other category includes Deliveries, Hospital Supplemental Payments, and Family Planning.
3) Title XXI Children rates are weighted based on total mm by age group for SFY 2004 and SFY 2005 forecast.
4) Federal Share is based on weighted FMAP and enhanced FMAP for SFY 2005 of 67.4% for Title XIX and 77.18% for Title XXI.

STATE OF ARIZONA

Joint Legislative Budget Committee

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

DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Senior Fiscal Analyst

SUBJECT: JLBC Staff – Consider Approval of Index for Construction Costs

Request

A.R.S. § 15-2041D.3c requires that the cost-per-square-foot factors used in the School Facilities Board (SFB) building renewal and new school construction financing "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 SFB is requesting that the Committee approve an adjustment for FY 2005. The board, however, is not specifying which index it believes the Committee should use to make the adjustment.

Summary

The Committee has at least two options:

1) Approve an increase in the cost-per-square-foot factors based on the U.S. Department of Commerce: Bureau of Economic Analysis (BEA) index for "State and Local Government Investment – Structures." Approving the adjustment may cost an estimated $400,000 for new construction in FY 2005 and an additional $3.8 million once fully implemented over the next four years. This adjustment would increase the building renewal formula by $2.0 million. At its September 2003 meeting, the Committee approved an adjustment based on this index.

2) Approve an increase in the cost-per-square-foot factors based on the Marshall Valuation Service (MVS) construction cost index for "Class C – Masonry Bearing Walls." Approving the adjustment may cost an estimated $2.6 million for new construction in FY 2005 and an additional $23.4 million once fully implemented over the next four years. This adjustment would increase the building renewal formula by $12.0 million. Prior to the August 2002 meeting the Committee based the adjustment on this index.

(Continued)

The SFB does not believe current new construction cost estimates should require the board to seek supplemental funding in the current year as its existing $250 million budget would cover this cost. For building renewal, though an inflation adjustment would increase the formula cost in future years, in FY 2005 the state appropriated $70.0 million for building renewal. Adjusting for inflation would not change the existing appropriation.

Analysis

This section includes background information regarding the SFB inflation index, an explanation of the options available for the current index, and a discussion of statewide K-12 student enrollment growth.

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 SFB also has statutory authority to modify a particular project cost per square foot for geographic factors or site conditions above the approved amounts.

Prior to 2002, the Committee used the MVS construction cost index for Class C structures (masonry bearing walls) for Phoenix. At the August 2002 meeting the Committee elected not to approve an adjustment in the cost-per-square-foot factors. Due to the decision not to approve an adjustment for that year, five school districts brought suit against the Committee, claiming the Committee had failed to perform its statutory duty under A.R.S. § 15-2041D.3c to adjust the index not less than once per year. The following year, at the September 2003 meeting, the Committee approved a two-year 4.2% adjustment. The adjustment was based on the BEA index for "State and Local Government Investment – Structures."

For building renewal, the inflation adjustment is applied to the *formula* amount. In FY 2005 the state funded $70.0 million of the $135.0 million building renewal formula amount. An inflationary adjustment, therefore, would increase the formula amount to at least $137.0 million in FY 2006 prior to any other possible formula adjustments.

Options for the Current Index

The JLBC Staff has identified at least two possible construction indexes.

U.S. State and Local Structures

The BEA index for "State and Local Government Investment – Structures" for FY 2004 is 1.4%. This index measures price changes for all U.S. state and local gross investment in structures, which includes all buildings. Unlike the MVS data, this index only measures government activity, so it may better reflect school district market conditions. This data, however, is only available nationwide.

Phoenix Masonry Construction

The MVS index for "Class C – Masonry Bearing Walls" structures for Phoenix for FY 2004 is 8.7%. School buildings typically fall into the Class C structure category. Class C structures are characterized by masonry or reinforced concrete construction and generally include office buildings of three stories or less. The MVS Class C index has a greater likelihood, as a single construction measurement, of year-to-year fluctuation.

(Continued)

K-12 Student Enrollment Growth

From FY 2001 to FY 2003 the K-12 school district Average Daily Membership (ADM) population grew by an average of approximately 20,000 students a year. (Figure excludes charter schools as they do not qualify for SFB funding.) Preliminary figures from the Arizona Department of Education (ADE) indicate that the district ADM count grew by approximately 15,000 students in FY 2004. (Note: The figures from ADE are subject to revision.)

Due to slowed statewide ADM growth in FY 2004, SFB may not approve as many new school construction projects in the future as the board has approved in prior years. If fewer projects are approved, this could offset any increase in construction costs due to inflation. Statewide ADM growth, however, may not reflect the growth in any one individual district. Since SFB assesses new school construction project needs on a district-by-district basis, the number of projects SFB ultimately approves would depend on the ADM growth in each individual district.

RS/JC:jb

STATE OF ARIZONA SCHOOL FACILITIES BOARD
MEMORANDUM

RECEIVED
SEP - 9 2004
JOINT BUDGET COMMITTEE

TO: Senator Robert Burns, Chairman Joint Legislative Budget Committee
Representative Russell Pearce, Vice Chairman Joint Legislative Budget Committee
Richard Stavneak, JLBC Staff Director

FROM: William Bell, Executive Director

DATE: 9/1/04

SUBJECT: INDEXING OF SCHOOL CONSTRUCTION COSTS

The School Facilities Board staff requests that the JLBC adjust the cost per square foot awarded for new school construction.

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

Table one shows the current amount per square foot awarded for new construction.

Table 1

Grade Level	Current Amount
K - 6	$102.13
7 - 8	$107.81
9 - 12	$124.84

The increase will impact both the building renewal and new construction programs.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: Nick Klingerman, Assistant Fiscal Analyst

SUBJECT: Arizona Commission on the Arts – Review of the Arizona Arts Endowment Fund and Private Contributions

Request

The Arizona Commission on the Arts requests the Committee review the report on private monies that are donated for use in conjunction with public monies from the Arizona Arts Endowment Fund.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request with the following provision:

- The Arts Commission provides a report on its efforts to increase future private donations.

Analysis

Between the advent of public funding in CY 1998 and CY 2006, the Commission grants had helped to annually generate between $4.4 million and $6.6 million in private donations. The slowdown in the economy reduced private contributions to $2 million in CY 2001. Despite the improving economy, private donations remained near $2 million in CY 2003.

Pursuant to A.R.S. § 41-986F, the Committee shall annually review the Commission's records regarding private monies that are donated for use in conjunction with public monies from the Arizona Arts Endowment Fund. The Committee is to compare the level of private contributions to the state's annual $2 million contribution to the Arizona Arts Endowment Fund. There is no statutory requirement that private donations match public appropriations for the Arizona Arts Endowment Fund. At the time of the endowment's enactment, however, there was an expectation that additional state funding would leverage private contributions.

(Continued)

The public component of the legislation began in FY 1998 and consists of an annual appropriation of up to $2,000,000 to the Arizona Arts Endowment Fund from the General Fund. These monies are then invested by the State Treasurer, who distributes the interest income to the Arts Commission to fund arts programs across the state. Laws 2002, Chapter 1, 3rd Special Session suspended the FY 2002 and FY 2003 deposit to the Arts Endowment Fund and extended the final deposit to FY 2009 when the fund will have accrued $19,000,000. Since FY 1998, the fund has earned approximately $1,309,000 in interest, $1,305,000 of which has been expended. In FY 2005, the fund will earn approximately $180,000 in interest, the Commission has committed $179,000 of these monies in the form of grants and contracts. The Arts Endowment Fund will have a principal balance of $11,000,000 in FY 2005.

The private component of the legislation allows the Arts Commission to partner with non-profits such that the non-profit may receive, invest and manage private donations 1) to its own endowment, 2) to the endowment of other arts organizations or 3) to the non-designated portion of the Arizona Arts Endowment Fund. Donors who wish to support endowments of a specific arts organization, such as the Phoenix Symphony, may do so. Such donations are administered by the individual arts organization, but must conform to the rules adopted by the Arts Commission to qualify as a contribution to the Arizona Arts Endowment Fund. Several smaller arts organizations have arranged for the Arizona Community Foundation to administer endowments on their behalf. The Arizona Community Foundation is a tax-exempt charitable organization, which manages more than 700 funds with 11 affiliate organizations across the state.

Donors who wish to endow the arts generally, without designating a particular arts organization, may do so by giving to the private non-designated portion of the Arizona Arts Endowment Fund. The Arts Commission receives the interest income from these non-designated donations and distributes the earnings according to its policy.

The table below summarizes private contributions that have been collected since the establishment of the Arizona Arts Endowment Fund. Private contributions were less in 2001, 2002 and 2003 than in previous years due to the slowing economy.

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

	1996 *	1997	1998	1999	2000	2001	2002	2003
Designated	$1,682,685	$2,973,245	$5,799,633	$3,887,349	$6,559,045	$2,044,004	$2,728,474	$1,819,208
Non-Designated	0	76,481	545,336	475,921	69,266	(24,446)	(44,518)	190,968
Totals	**$1,682,685**	**$3,049,726**	**$6,344,969**	**$4,363,270**	**$6,628,311**	**$2,019,558**	**$2,683,956**	**$2,010,176**

*1996 reporting period is from April 15, when the legislation was passed, to December 31.

RS:NK:ss

ARIZONA ARTSHARE

Summary of Endowment Contributions by Calendar Year

Arts Organization	**1996***	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**
Arizona Opera	11,642	7,207	25,350	5,070	69,376	231,870	0	0	350,515
Ballet Arizona	50,000	50,000	--	--	--	--	0	0	100,000
Flagstaff Symphony	--	--	16,085	--	--	--	200	0	16,285
Heard Museum	329,591	1,880	817	2,742	35,845	6,309	0	0	377,184
Museum of Northern Arizona	--	15,000	--	--	1,165,645	--	0	100	1,180,745
Orpheus Male Chorus of Phx	--	--	--	--	--	33,674	39,806	16,450	89,930
Phippen Museum	--	--	--	--	420,000	--	0	0	420,000
Phoenix Art Museum	549,000	1,116,635	718,230	559,912	122,244	416,000	35,000	1,379,524	4,896,545
Phoenix Boys Choir	--	--	818,673	--	143,057	184,067	86,094	0	1,231,891
Phoenix Symphony	30,000	--	3,125,000	1,311,680	3,363,968	418,890	2,413,395	66,707	10,729,640
Scottsdale Cultural Council	275,651	375,390	1,008,277	1,661,490	1,111,585	3,005	0	0	4,435,398
Sierra Vista Symphony Assc.	--	--	--	--	--	9,817	0	80,775	90,592
Tucson Museum of Art	5,500	33,131	42,109	27,910	32,298	19,139	34,684	5,000	199,771
Tucson Symphony	23,455	316,380	41,500	223,500	95,027	228,282	90,296	170,652	1,018,440
Subtotal:	**1,274,839**	**1,915,623**	**5,796,041**	**3,792,304**	**6,559,045**	**1,551,053**	**2,699,474**	**1,719,208**	**25,136,935**

Community Foundations	**1996***	**1997**	**1998***	**1999***	**2000**	**2001***	**2002**	**2003**	**Total**
Arizona Community Foundation	407,846	957,622	3,592	95,045	--	492,951		100,000	1,957,056
Community Foundation for Southern Arizona	--	100,000	--	--	--	--	29,000	0	129,000
Subtotal:	**407,846**	**1,057,622**	**3,592**	**95,045**	**0**	**492,951**	**29,000**	**100,000**	**2,086,056**
Arizona ArtShare (designated)		**76,481**	**545,336**	**475,921**	**69,266**	**(24,446)**	** **(44,518)**	**190,968**	**1,289,008**
TOTALS:	**1,682,685**	**3,049,726**	**6,344,969**	**4,363,270**	**6,628,311**	**2,019,558**	**2,683,956**	**1,910,176**	**28,511,999**

*1996 reporting period is from April 15 to December 31; Orpheum Theatre,Cross Culture Dance Resources, Bead Musuem, Pickard Arts & Culture Fund

*1998 Atlatl

*1999 Sun Cities Art Museum, Sun Cities Chamber Music, Sun Cities Symphony

*2001 Grand Canyon Music Festival, Herberger Christmas House Funds, Orpheus Sound Investments, Scottsdale Artists School, Sonoran Arts League

**Investment losses

Through December 31, 2003

09/14/04

STATE OF ARIZONA

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DATE: September 14, 2004

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Economic Security – Report on Workforce Investment Act Issues

Request

As requested by the Committee, the Department of Economic Security (DES) is submitting performance measures for three programs funded by Workforce Investment Act (WIA) monies (Women's Issues, Youth Programs, and a Nursing initiative). DES also responded to the Committee request for its perspective on a report that analyzed the workforce development system in Arizona.

Recommendation

These items are for information only and no Committee action is required.

The performance measures are a good starting point for evaluating program success. JLBC Staff has requested DES clarification of two issues: 1) how the agency plans on tracking program participants and 2) whether training plans for child care/master teachers meet federal requirements. DES is utilizing its "youth" allocation for these programs, but these monies may be intended to train youth, not to train adults working with youth.

As discussed at the June JLBC meeting, the Morrison Institute report suggested that Arizona's workforce development efforts could be better organized. DES responded to this report by indicating that they are in discussions with the Department of Commerce about further improvements to the system. The agency has indicated that they plan on providing further detail to the Committee by November 1, 2004.

When the Committee selects Strategic Area Performance Review (SPAR) topics later this year, the Committee may wish to include Arizona's Workforce Development System as a topic in order to gain a better perspective on this issue.

Analysis

At its June JLBC meeting, the Committee gave a favorable review to DES' expenditure plan for $1.8 million in new and expanded programs funded with Workforce Investment Act (WIA) monies. These new and expanded programs included Women's Issues, Youth Programs and a Nursing Initiative. The favorable review included a provision that DES submit performance measures for these new programs. The performance measures for these programs are delineated below:

Women's Issues $500,000

- 80% of clients served will receive supportive employment services including comprehensive assessments, development of individual employment plans, counseling and career planning.
- 80% of clients served will receive supportive social services that address their individual barriers to employment.
- 65% of clients served will gain improved job skills.
- 60% of clients will obtain employment, and of those clients, 40% will retain employment for six months.

DES' measures provide a good starting point to evaluate this program. JLBC Staff would recommend, however, including a measure that would quantify client satisfaction with the program as well as the satisfaction of employers who employ clients.

Youth Program $800,000

- 80% completion rate of youth involved in the programs.
- 60% of all youth enrolled will attain a GED.
- 50% of all youth enrolled will attain employment.
- 30% of all youth enrolled will pursue post-secondary education or advanced training.
- 75% of all child care providers/teachers enrolled will complete programs.
- 60% of all care providers/teachers enrolled will attain the Child Development Associate (CDA) certificate or an appropriate certificate of completion.
- 60% of those completing programs will be employed in an education position for six months following program completion.

According to DES' expenditure plan, approximately $170,000 would be utilized to establish and staff a State Youth Council on Youth Workforce Development. Staff would provide technical assistance to local boards in addition to establishing a statewide conference on youth workforce development activities. There were no performance measures submitted, however, that would measure the success of the Council. Additionally, as with the Women's Issues Program, there is no performance measure that would quantify client satisfaction with the program.

The Department has also indicated that monies will be allocated to support Master Teachers in Arizona as part of the Youth Program. There were no performance measures submitted for this initiative as well.

The Early Childhood Professional Workforce Development Program and the Master Teachers Program are new initiatives not included in the agency's original expenditure plan. The Early Childhood Professional Workforce Development Program will enable the School Readiness Board to support training that will allow child care providers to achieve a Child Development

Associate (CDA) certificate. The agency did not submit any information on the Master Teacher Program nor any performance measures for this issue.

It is not clear how these two programs are aligned with workforce development issues of youth in Arizona, because DES is utilizing its WIA funds to train adults working with youth, not youths directly. The WIA youth allocation is intended to provide workforce development opportunities for low-income and at-risk youth ages 14–21.

It is also not clear why additional funding is being allocated to train child care workers, when DES' budget contains $11.7 million in Child Care Development Block Fund (CCDF) monies for quality-related programs, including teacher training.

Nursing Initiative $510,000
Institutions receiving funding for this initiative include:

- Arizona State University
- Northern Arizona University
- University of Arizona
- Maricopa Community Colleges
- Northland Pioneer College

Each of the institutions listed above have submitted performance measures unique to their populations. The measures submitted for each of these organizations relate to the goals of the initiative which include increasing enrollment, decreasing the dropout rate, increasing the graduation rate and adding resources to accomplish these goals.

Morrison Institute Report on Streamlining Workforce Development Activities in Arizona.
Also at the June meeting, the Committee heard testimony on a report by the Morrison Institute on streamlining workforce development in Arizona. DES was to give its perspective to the Committee on the findings of the report, which indicated that "the state's workforce development system can best be described as stuck in transition."

DES responded to this report by indicating that they are in discussions with the Department of Commerce about further improvements to the system. There were no improvements suggested in the agency's response. DES has indicated that they plan on providing a more detailed response to the Committee by November 1, 2004.

Because of the lack of response by DES on this issue, the Committee may want to consider that Arizona's Workforce Development System be included as a Strategic Program Area Review (SPAR), which are examinations of programs in state government by both JLBC and OSPB Staff following an agency self-assessment. JLBC Staff is statutorily required to recommend to the Committee by January 1, 2005, potential SPAR topics that the Committee can consider in developing a final SPAR list. A review of the state's workforce development system would enable both offices to analyze the system in conjunction with the suggestions of the Morrison Institute report.

RS/JM:ck

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

Janet Napolitano
Governor

David A. Berns
Director

SEP 01 2004

Richard Stavneak
Director
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

The June 29, 2004, Joint Legislative Budget Committee (JLBC) meeting included a report by JLBC staff on two Workforce Investment Act issues: A) Review of FY 2004 Expenditure Plan for Workforce Investment Act Monies, and B) Review of FY 2005 Expenditure Plan for Workforce Investment Act Monies. As part of the Committee action on these agenda items, 2 follow-up responses from the Department of Economic Security (DES) were requested by September 1, 2004. The responses to these questions are provided below:

1. The Committee asked DES to provide performance measures for the new and expanded programs to be funded with the $1.8 M of the FY 2004 Workforce Investment Act (WIA) monies. The new and expanded programs address Women's Issues, Youth Programs, and a Nursing initiative.

Women's Issues – Performance Measures

- 80% of clients served with these funds will receive supportive employment services including comprehensive assessments, development of individual employment plans, counseling and career planning.
- 80% of clients served with these funds will receive supportive social services that address their individual barriers to employment.
- As a result of the above interventions 65% of clients served with these funds will gain improved job skills.
- 60% of clients served with these funds will obtain employment, and of those clients, 40% will retain employment for six months.

Please see attachment 1 for the information provided by the Governor's Office for Children Youth and Families – Division for Women submitted to DES in response to the JLBC request for performance measures for the women's workforce development program.

Youth Program – Performance Measures

- 80% completion rate of youth enrolled in the programs
- 60% of all youth enrolled will attain a general equivalency diploma (G.E.D.)
- 50% of all youth enrolled will obtain employment
- 30% of all youth enrolled will pursue post-secondary education or advanced training
- 75% of all care providers/teachers enrolled will complete programs
- 60% of all care providers/teacher enrolled will attain the Child Development Associate (CDA) certificate or an appropriate certificate of completions.
- 60% of those completing programs will be employed in an education position for six months following the program completion.

Please see attachment 2 for the information provided by the Governor's Office for Children Youth and Families submitted to DES in response to the JLBC request for performance measures for youth workforce development and educational programs. Please note that performance measures pertaining to the Master Teacher program will be submitted at a future date.

Nursing Initiative – Performance Measures

The Board of Regents (BOR) will be distributing funding to the following institutions for the Nursing initiative:

Arizona State University
Northern Arizona University
University of Arizona
Maricopa Community College
Northland Pioneer College

Each of the institutions have developed performance measures unique to their population and goals. Attachment 3 includes the information provided by BOR, which details the nursing initiative performance measures. In general, the Nursing initiative programs and performance measures relate to the broad goals of increasing enrollment, decreasing dropout rate, increasing graduation rate and/or adding resources to meet these goals.

2. The Committee asked DES to provide its perspective on the Morrison Institute report.

In minutes of the June 29, 2004 Joint Legislative Budget Committee (JLBC) meeting, the Committee passed a motion requesting that the Department of Economic Security (DES) provide its perspective on the findings of the Morrison Institute report on streamlining workforce development services. The report from DES is due to the JLBC by September 1, 2004.

DES has reviewed the Morrison Institute's report on streamlining workforce development services, entitled Can't Stand Still: Issues and Ideas for Workforce Governance in Arizona, March 2004 and is in discussions with the Department of Commerce about further improvements to the system.

The Morrison Institute report offers several options for governance structures based on a review of other states. DES agrees with the report's statement that Arizona's choice for the "coordination" approach is still viable, and is working collaboratively with the Department of Commerce and the Department of Education to strengthen that approach. As the departments move forward with their collaborative improvements to the system, DES will update the Committee.

Please let me know if the information provided requires clarification.

Sincerely,

David A. Berns

David Berns
Director

Attachment

DB:gl

cc: Senator Bob Burns, Chairman
Representative Russell Pearce, Vice-Chairman
Senate President Ken Bennett
Speaker of the House Jake Flake
D. Clark Partridge, State Comptroller, GAO, ADOA
David Jankofsky, Director, OSPB

Attachments available upon request.

STATE OF ARIZONA

Joint Legislative Budget Committee

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LINDA J. LOPEZ

DATE: September 13, 2004

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

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Senior Fiscal Analyst

SUBJECT: Department of Public Safety – Report on DPS Plan for Sworn Officer Salary Increases

Request

The Department of Public Safety (DPS) is reporting to the Committee on their plan to distribute $4.3 million for sworn officer salary increases in FY 2005.

Recommendation

This item is for information only and no Committee action is required. The plan, effective July 1, 2004, increases sworn officer pay between $1,000 and $5,148 among 12 position classifications. All positions have received a minimum $1,000 increase, with those positions identified as being farthest from market value (as defined by the department) receiving the largest increases.

The DPS method of market comparison uses the average salary of the top 5 highest paying law enforcement agencies, resulting in the department's weighted average salary being 9.6% below the market after the increases. While these 5 agencies do attract DPS officers, they are not the largest competing employers. Alternatively, DPS salaries could be compared with all law enforcement agencies employing 100 or more sworn officers. Using this comparison method, the weighted average salary of DPS sworn officers would be 3.4% below market value.

Analysis

Laws 2004, Chapter 275 appropriated $4,325,400 for salary increases for DPS sworn officers. Chapter 275 also included a footnote allowing the distribution of these monies to be determined by the department.

Under the department's plan, which was approved by the Law Enforcement Merit System Council in June, all sworn officers will receive at least a $1,000 increase. Those positions farthest from market value will receive between $4,215 (Officer III) and $5,148 (Sergeant II). The department's current salary

(Continued)

structure includes 12 salary levels. Table 1 displays the number of assigned positions at each salary level, the FY 2004 salary, the increase amount, and new salary according to the department's plan.

Table 1

Summary of DPS Sworn Officer Pay Increases

Salary Level	Number of Positions	FY 2004 Salary*	Increase Amount	New Salary*
Lieutenant Colonel	3	$103,253	$1,000	$104,253
Commander	13	90,408	1,000	91,408
Lieutenant	39	74,351	4,461	78,812
Sergeant II	127	60,662	5,148	65,810
Sergeant I	37	52,168	4,782	56,950
Officer III	442	47,557	4,215	51,772
Officer II	148	42,454	1,665	44,119
Officer I	256	36,096	1,000	37,096
Rotary Wing Pilot II	16	54,704	1,000	55,704
Rotary Wing Pilot I	3	44,629	1,000	45,629
Motor Carrier Supervisor	2	56,415	1,000	57,415
Motor Carrier Investigator	4	42,454	1,665	44,119

* Salaries shown are maximums for each level.

DPS' overall market study compared the average of the top 5 salaries paid to sworn officers by other law enforcement agencies in Arizona with each of the 12 DPS salary levels. The comparison contained maximum base salaries available to officers in each department and no other forms of compensation were included. Other forms of compensation, such as shift differential or education credits, were not included because they varied widely between departments and made an equitable comparison difficult.

According to DPS' salary study information, after the pay increases are implemented:

- Sworn officer pay would average 9.6% below market value among the 12 salary levels, with a range of 14.5% below market (Commander) to 3.6% above market value (Sergeant I).
- The entry-level salary for officers would be 9% behind market value.
- The Officer III salary level, which has the greatest number of filled positions (442) in the department, would be 10.5% behind market value.
- The Sergeant I salary level would be 3.6% above market value (the department's salary structure sets the Sergeant I salary level 10% higher than the Officer III level).

Alternative Market Comparison

The department's position in the market depends on how the market is defined. The department traditionally compared salary levels with larger agencies such as Phoenix and Tucson Police Departments and the mix of agencies was relatively stable over time. In recent years, the mix of agencies DPS has used for salary comparisons has fluctuated. The comparison now includes smaller agencies whose salary levels exceed DPS' but may have less effect on the overall market due to the number of positions available.

An alternative means of comparison could be done by size of department. For example, the federal government's Bureau of Justice Statistics uses the standard of 100 or more sworn officers (defined as large agencies) in the Law Enforcement Management and Administrative Statistics report. It is likely that large agencies have a more profound effect on DPS because they provide more opportunities for sworn officers to transfer due to a greater number of vacancies. In addition, the location of these departments generally coincides with the greatest concentration of where DPS officers are posted. According to the department, out of 1,090 officers, 65 have separated (23 retired, 37 resigned, and 5 were terminated) through the end of July. Of the 37 that resigned, 10 went to other law enforcement agencies and the department does not know the status of the remaining 27 officers, however, 16 officers were cadets that may have left due to poor academy performance or a change in career plans.

(Continued)

Table 2 lists the agencies included in both salary comparisons and the corresponding number of sworn officers assigned to each agency. The pool of sworn officers under the top 5 salary method includes 872 officers, while the large agency method includes 7,473 officers.

Table 2

Number of Officers Included in Salary Comparisons

Agency	Top 5 Salary Method*	Large Agency Method
Avondale	71	--
Paradise Valley	34	--
Scottsdale	347	347
Peoria	134	134
Chandler	286	286
Phoenix	--	2,773
Gilbert	--	116
Tempe	--	339
Mesa	--	772
Maricopa County	--	626
Yuma	--	126
Glendale	--	271
Tucson	--	969
Pinal County	--	142
Yavapai County	--	108
Pima County	--	464
Total Sworn Officers	872	7,473

* Goodyear, Lake Havasu, and Phoenix Police Departments were used for the Commander and Lieutenant Colonel salary comparisons.

Under this large agency method:

- Average DPS sworn officer pay would be 3.4% behind the market, compared to 9.6% under the top 5 method.
- The entry-level salary would be 3.9% behind market, compared to 9% under the top 5 method.
- The Officer III salary level would be 4.6% behind market, compared to 10.5% under the top 5 method.
- The Sergeant I salary level, which was the only salary above market under the top 5 method, would move from 3.6% to 10.5% above market under the large agency approach.

Table 3 summarizes the comparison of using the average top 5 salaries versus the average of large agencies for each salary level and the corresponding percent difference from market value.

Table 3

Comparison of Market Definitions for Law Enforcement Salaries

Salary Level	Avg. Top 5	% Difference	Avg. Large Agencies	% Difference
Lieutenant Colonel	$ 111,475	(6.5)%	$ 116,519	(10.5)%
Commander	100,637	(9.2)%	95,150	(3.9)%
Lieutenant	92,182	(14.5)%	81,979	(3.9)%
Sergeant II	73,336	(10.3)%	65,755	0.1%
Sergeant I	54,946	3.6%	51,557	10.5%
Officer III	57,872	(10.5)%	54,271	(4.6)%
Officer II	49,317	(10.5)%	46,446	(5.0)%
Officer I	40,762	(9.0)%	38621	(3.9)%
Rotary Wing Pilot II	58,299	(4.5)%	58,299	(4.5)%
Rotary Wing Pilot I	49,870	(8.5)%	49,870	(8.5)%
Motor Carrier Supervisor	54,946	3.6%	51,557	0.1%
Motor Carrier Investigator	49,317	(10.5)%	46,446	(5.0)%

RS:TV:ss

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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JANET NAPOLITANO
GOVERNOR

DENNIS A. GARRETT
DIRECTOR

June 10, 2004

Mr. Richard Stavneak, Director
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

In response to your letter dated June 4, 2004, we are enclosing details of the Department's sworn salary adjustment plan. The plan is scheduled to be considered by the Law Enforcement Merit System Council (LEMSC) on June 24. Until the plan has been approved by LEMSC, it is not final.

The Department intends to implement the plan labeled "Equalize Salaries w/$1,000 Minimum" in the attached tables. With one exception, the salary adjustments reflected in this plan are consistent with the Department's publicly stated objective to equalize all of our salaries at the same place relative to the market.

If we use a strict "equalization" approach (see columns labeled "Equalize Salaries Relative to Market"), some classifications would receive an adjustment of less than $1,000. In order to provide a reasonable increase for each classification, and to conform to the general salary adjustment for State employees, the Department's plan reflects a minimum increase of $1,000. The "cost" of implementing the minimum adjustment will come from the salary adjustments for the command ranks (Lieutenant Colonels, Commanders, and Lieutenants).

The Department's long-term objective remains to equalize salaries at the same place relative to the market. Any future pay adjustment monies will be distributed with this objective in mind.

If you have any questions, please contact Phil Case, DPS Comptroller, at (602) 223-2463.

Sincerely,

For Dennis A. Garrett, Colonel
Director

Enclosures (5)

Table I
FY 2005 DPS Sworn Salary Adjustment Plan
(New Salary Levels)

Salary Level	Current Salary	Equalize Salaries Relative to Market [1/]	Equalize Salaries w/ $1,000 Minimum
Lieutenant Colonel	$ 103,253	$ 105,895	$ 104,253
Commander	$ 90,408	$ 93,056	$ 91,408
Lieutenant	$ 74,351	$ 83,930	$ 78,812
Sergeant II	$ 60,662	$ 65,810	$ 65,810
Sergeant I [2/]	$ 52,168	$ 56,950	$ 56,950
Officer III	$ 47,557	$ 51,772	$ 51,772
Officer II	$ 42,454	$ 44,119	$ 44,119
Officer I	$ 36,096	$ 36,466	$ 37,096
Rotary Wing Pilot II	$ 54,704	$ 54,704	$ 55,704
Rotary Wing Pilot I	$ 44,629	$ 44,629	$ 45,629
Motor Carrier Supervisor [3/]	$ 56,415	$ 56,950	$ 57,415
Motor Carrier Investigator	$ 42,454	$ 44,119	$ 44,119

[1/] Based on an April 2004 salary survey.

[2/] Under the plan, Sergeant I salary is set at 10% above Officer III salary.

[3/] Under the plan, Motor Carrier Supervisor salary is set at Sergeant I salary.

Note: The Department intends to implement the adjustments reflected in the column labeled "Equalize Salaries w/$1,000 Minimum." The column labeled "Equalize Salaries Relative to Market" is shown for comparison purposes only.

Table II
FY 2005 DPS Sworn Salary Adjustment Plan
(Amount of Increase)

Salary Level	Current Salary	Equalize Salaries Relative to Market	Equalize Salaries w/ $1,000 Minimum
Lieutenant Colonel	$ 103,253	$ 2,642	$ 1,000
Commander	$ 90,408	$ 2,648	$ 1,000
Lieutenant	$ 74,351	$ 9,579	$ 4,461
Sergeant II	$ 60,662	$ 5,148	$ 5,148
Sergeant I	$ 52,168	$ 4,782	$ 4,782
Officer III	$ 47,557	$ 4,215	$ 4,215
Officer II	$ 42,454	$ 1,665	$ 1,665
Officer I	$ 36,096	$ 370	$ 1,000
Rotary Wing Pilot II	$ 54,704	$ -	$ 1,000
Rotary Wing Pilot I	$ 44,629	$ -	$ 1,000
Motor Carrier Supervisor	$ 56,415	$ 535	$ 1,000
Motor Carrier Investigator	$ 42,454	$ 1,665	$ 1,665

Note: The Department intends to implement the adjustments reflected in the column labeled "Equalize Salaries w/$1,000 Minimum." The column labeled "Equalize Salaries Relative to Market" is shown for comparison purposes only.

Table III
FY 2005 DPS Sworn Salary Adjustment Plan
(% of Increase)

Salary Level	Current Salary	Equalize Salaries Relative to Market	Equalize Salaries w/ $1,000 Minimum
Lieutenant Colonel	$ 103,253	2.6%	1.0%
Commander	$ 90,408	2.9%	1.1%
Lieutenant	$ 74,351	12.9%	6.0%
Sergeant II	$ 60,662	8.5%	8.5%
Sergeant I	$ 52,168	9.2%	9.2%
Officer III	$ 47,557	8.9%	8.9%
Officer II	$ 42,454	3.9%	3.9%
Officer I	$ 36,096	1.0%	2.8%
Rotary Wing Pilot II	$ 54,704	0.0%	1.8%
Rotary Wing Pilot I	$ 44,629	0.0%	2.2%
Motor Carrier Supervisor	$ 56,415	0.9%	1.8%
Motor Carrier Investigator	$ 42,454	3.9%	3.9%

Note: The Department intends to implement the adjustments reflected in the column labeled "Equalize Salaries w/$1,000 Minimum." The column labeled "Equalize Salaries Relative to Market" is shown for comparison purposes only.

Table IV
FY 2005 DPS Sworn Salary Adjustment Plan
(% Behind Market)

Salary Level	Current % Behind Market	Equalize Salaries Relative to Market	Equalize Salaries w/ $1,000 Minimum
Lieutenant Colonel	-14.6%	-11.8%	-13.5%
Commander	-15.1%	-11.8%	-13.8%
Lieutenant	-26.2%	-11.8%	-19.0%
Sergeant II	-21.3%	-11.8%	-11.8%
Sergeant I	N/A	N/A	N/A
Officer III	-21.7%	-11.8%	-11.8%
Officer II	-16.2%	-11.8%	-11.8%
Officer I	-12.9%	-11.8%	-9.9%
Rotary Wing Pilot II	-6.6%	-6.6%	-4.7%
Rotary Wing Pilot I	-11.7%	-11.7%	-9.3%
Motor Carrier Supervisor	N/A	N/A	N/A
Motor Carrier Investigator	-16.2%	-11.8%	-11.8%

Note: The Department intends to implement the adjustments reflected in the column labeled "Equalize Salaries w/$1,000 Minimum." The column labeled "Equalize Salaries Relative to Market" is shown for comparison purposes only.

Table V
Filled Appropriated Sworn Positions
(as of June 1, 2004)

Salary Level	# of Filled Positions
Lieutenant Colonel	3
Commander	13
Lieutenant	39
Sergeant II	127
Sergeant I	37
Officer III	442
Officer II	148
Officer I	256
Rotary Wing Pilot II	16
Rotary Wing Pilot I	3
Motor Carrier Supervisor	2
Motor Carrier Investigator	4

STATE OF ARIZONA

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DATE: September 13, 2004

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

THRU: Richard Stavneak, Director

FROM: Tim Sweeney, Fiscal Analyst

SUBJECT: JLBC Staff/Arizona State Parks Board – Report on Parks Fee

Request

The JLBC Staff has been working with the Parks Board Staff to update the Committee on recent changes to the parks fee schedule that were adopted by the Board.

Summary/Recommendation

This report is for information only and no action is required. The Legislature may wish to consider formalizing its request for an annual report on all fee changes the Parks Board adopts, so as to keep the Committee apprised of changes.

The Arizona State Parks Board recently approved several changes to park entrance and camping fees that will take effect on October 1, 2004. This memo summarizes the changes to the fee schedule that the Board adopted, and the expected revenue impact of these changes as estimated by the Parks Department. Based on FY 2003 attendance figures, the Department estimates that the adopted fee changes would have a revenue impact of approximately $100,000 in FY 2005.

The State Parks Enhancement Fund (SPEF) receives funding from park entrance fees. In FY 2004, revenue totaled approximately $8.8 million, while estimated FY 2004 expenditures (appropriated and non-appropriated) totaled approximately $10.5 million. The Department used fund balances to make up the revenue shortfall and the estimated FY 2004 ending balance is approximately $2.1 million.

In the agency's FY 2006 budget request, the SPEF revenue estimate for FY 2005 is approximately $11 million. This estimate represents an increase of approximately $2.2 million, or 25%, above the FY 2004 revenue estimate. The fee schedule changes adopted by the Parks Board will generate some additional revenue, however, increased attendance in FY 2005 would also be necessary to reach $11 million revenue target.

Analysis

Fee Changes

Current admission fees vary from park to park, and are charged on a per-vehicle basis for recreational State Parks and a per-person basis for historical State Parks. Nightly camping fees also differ between parks, and vary within each park, depending on the location of the individual campsite and whether the site is electrified or not. The Parks Board approved several changes in both admission and campsite fees in several parks, including:

- Increases and decreases of $1-2 in the per-vehicle fees at several recreational parks and an increase from $1 to $2 in the fee for an individual admission to recreational parks;
- Adult entrance fee reductions of $1 at many historical state parks and the elimination of admission fees for children between 7-13 (admission is currently free for children under 7);
- Restructuring the fee schedule at Tonto Natural Bridge State Park to replace the $6 per-vehicle admission fee with a $3 per-adult fee (children under 13 will be admitted free);
- The establishment of off-peak camping rates at several parks and increasing the price range for electrified campsites from $19-22 to $19-25 at most parks;
- Increasing the price of the unlimited annual pass from $75 to $100.

As mentioned above, entrance fees differ between parks and the changes approved by the Board vary as well. Tables 1-3 summarize the current and revised fee schedule for the recreational parks, historical parks, and for campsites, respectively.

Revenue Impact

The State Parks Department estimates that the changes to the fee schedules discussed above, and displayed in *Tables 1-3*, will yield approximately $100,000 in additional FY 2005 revenue, based on visitation figures from FY 2003. These monies are received by the State Parks Enhancement Fund, and are either appropriated for agency operating costs or set aside for capital development for the parks system. Depending on visitation changes that might occur as a result of the fee changes, the Parks Department estimates that the changes to the fee schedule for recreational parks will have the following revenue impacts:

- Approximately $87,000 for changes to recreational park fee schedule;
- Approximately $(126,000) for reduction in historical park entrance fees;
- Approximately $47,000 for restructuring of fee schedule at Tonto State Park;
- Approximately $(14,000) for addition of lower, off-season camping rates at select parks, though this amount may be offset by increased camping fees at some parks. (Implementation of the higher range for electrified campsites will vary between parks, therefore no formal estimate was made for the revenue impact of this change.);
- Approximately $100,000 for the $25 increase to the fee for unlimited annual passes

SPEF Revenue and Park Visitation

Statutes governing the State Parks Enhancement Fund direct that half of the fund may be appropriated for State Park operating costs, while the remaining monies are directed to capital development projects, subject to JCCR review. In recent years, however, the Legislature has passed session law allowing the entire fund to be appropriated for agency operating costs.

The agency's estimated FY 2005 SPEF budget includes $10.5 million appropriated for agency operations and $374,800 for the FY 2005 lease-purchase payment for Tonto Natural Bridge State Park (as required by statute). However, FY 2005 revenue may not adequately cover the estimated expenditures. In FY 2004, SPEF revenue totaled approximately $8.8 million, while expenditures from the fund are estimated to be approximately $10.5 million (including the Tonto lease-purchase payment). In order to reach FY 2005 spending levels, SPEF revenues would need to increase by approximately $2.1 million, or 24%, above FY 2004. While the fee increases discussed above are expected to generate a small revenue increase in FY 2005, visitation would also need to increase to meet FY 2005 revenue targets.

Visitation in the last 5 years has averaged approximately 2,347,013 visitors per year, and has fluctuated between a peak of approximately 2.5 million in FY 2001 and a low of approximately 2.2 million visitors in FY 2003. As *Chart 1* shows, FY 2004 visitation increased slightly above FY 2003 levels, however, it remained approximately 11% below the FY 2001 high and 5% below the 5-year average. Even Kartchner Caverns experienced visitation declines from a peak in FY 2001, and the FY 2004 visitation jump is due in part to the completion of the Big Room. Kartchner visitation may see slight increases in FY 2005 as the Big Room will be open for a full cycle, however, uncertainty as to the condition of the cave following the bats' inhabitance of the cave during the summer makes estimating the potential FY 2005 visitation difficult.

Revenue has increased substantially since FY 2000, however, as shown by *Chart 2*. Recent fee increases, the addition of more electrified campsites at several parks, and the opening of the Big Room at Kartchner Caverns in FY 2004 have all led to the revenue increases in the last 2 years. While FY 2004 revenue increased above FY 2003 revenue by approximately 14%, as mentioned above FY 2005 revenue would need to increase by approximately 25% above FY 2004 to reach the agency's FY 2005 revenue target and to match estimated FY 2005 expenditures.

Assuming some visitation growth, FY 2005 revenue should be greater than FY 2004 revenue, but growth may not meet these levels. In order to make up for revenue shortfalls in recent years the agency has had to rely on carry-forward balances in existence prior to FY 2003. These balances are shrinking, however, and will not be sufficient to continue to support appropriations in excess of revenues. The Fund should have sufficient resources to cover the SPEF appropriation in FY 2005, however, depending on actual FY 2005 revenue growth in the next few years, these balances could run out by the end of FY 2007.

While the Parks Board has authority and must approve of any fee changes, in future years the Legislature may wish to formally require that the Parks Department report to JLBC on any fee changes. We will continue to monitor the SPEF revenue situation as more up to date revenue estimates become available, and will monitor visitation in the coming months as well.

Table 1

Recreational Park Daily Entrance Fees

	Current Rates		New Rates Effective 10/1/04	
	Per-Vehicle	Individual	Per-Vehicle	Individual
Alamo Lake	$5.00	$1.00	$5.00	$2.00
Buckskin Mtn.	7.00	1.00	8.00	2.00
Buckskin River Island	7.00	1.00	8.00	2.00
Catalina	6.00	1.00	6.00	2.00
(Memorial – Labor day)	6.00	1.00	3.00	2.00
Cattail Cove	8.00	1.00	9.00	2.00
Dead Horse Ranch	5.00	1.00	6.00	2.00
Fool Hollow	6.00	1.00	6.00	2.00
(Oct. 16 – April 14)	6.00	1.00	3.00	2.00
Homolovi Ruins	5.00	1.00	5.00	1.00
Lake Havasu	8.00	1.00	9.00	2.00
Lost Dutchman	6.00	1.00	5.00	2.00
(Memorial – Labor day)	6.00	1.00	3.00	2.00
Lyman Lake	5.00	1.00	5.00	2.00
Oracle	6.00	1.00	6.00	2.00
(Memorial – Labor day)	6.00	1.00	5.00	2.00
Patagonia Lake	7.00	1.00	7.00	2.00
(Memorial – Labor day) *	7.00	1.00	8.00	2.00
Picacho Peak	6.00	1.00	6.00	2.00
(Memorial – Labor day)	6.00	1.00	3.00	2.00
Red Rock	6.00	1.00	6.00	2.00
Roper Lake	6.00	1.00	5.00	2.00
(Memorial – Labor day)	6.00	1.00	3.00	2.00
Slide Rock	8.00	1.00	8.00	2.00
(Memorial – Labor day) **	8.00	1.00	10.00	2.00
Tonto Nat. Bridge	6.00	1.00	See Table 2	

* Separate rates for Patagonia Lake are applicable on holidays and weekends only between Memorial and Labor Days.
** Separate rates for Slide Rock will be in effect the Friday before Memorial Day through the Monday after Labor Day.

Table 2

Historical Park Daily Entrance Fees

	Current Rates *		New Rates Effective 10/1/04 *	
	Children 7-13	Adults	Children 7-13	Adults
Fort Verde	$1.00	$3.00	Free	$2.00
Jerome	1.00	4.00	Free	3.00
McFarland	1.00	3.00	Free	2.00
Riordan Mansion	2.50	6.00	2.50	6.00
Tombstone	1.00	4.00	Free	4.00
(Memorial – Labor day)	1.00	4.00	Free	3.00
Tonto Natural Bridge	See Table 1		Free	3.00
Tubac Presidio	1.00	3.00	Free	3.00
(Memorial – Labor day)	1.00	3.00	Free	2.00
Yuma Crossing	2.00	4.00	Free	3.00
Yuma Territorial Prison	2.00	4.00	Free	4.00

* Admission is currently free for children under 7, and will remain free under new fee schedule.

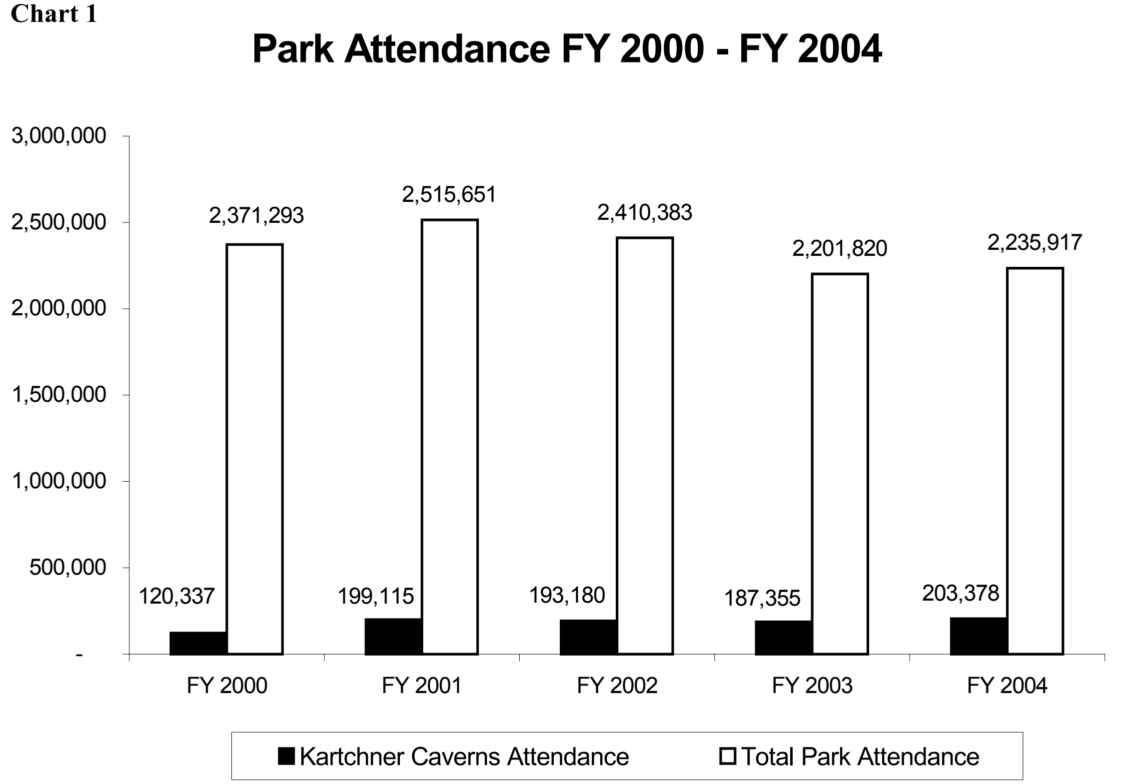
Table 3

Nightly Camping Fees by Park

	Current Rates		New Rates Effective 10/1/04	
	Non-Electrified	Electrified	Non-Electrified	Electrified
Alamo Lake	$10.00-12.00	$19.00-22.00	$10.00-12.00	$19.00-25.00
Buckskin Mtn.	NA	19.00-22.00	NA	19.00-25.00
Buckskin River Island	14.00-16.00	NA	14.00-16.00	NA
Catalina	12.00-15.00	19.00-22.00	12.00-15.00	19.00-25.00
(Memorial – Labor day)	12.00-15.00	19.00-22.00	10.00	15.00
Cattail Cove	NA	19.00-22.00	NA	19.00-25.00
Dead Horse Ranch	12.00-15.00	19.00-22.00	12.00-15.00	19.00-25.00
Fool Hollow	12.00-15.00	19.00-22.00	12.00-15.00	19.00-25.00
Homolovi Ruins	12.00-15.00	19.00-22.00	10.00-12.00	14.00-20.00
Lake Havasu	14.00-16.00	NA	14.00-16.00	NA
Lost Dutchman	12.00-15.00	NA	12.00-15.00	NA
Lyman Lake	12.00-15.00	19.00-22.00	12.00-15.00	19.00-22.00
Patagonia Lake	12.00-15.00	19.00-22.00	12.00-15.00	19.00-25.00
Picacho Peak	12.00-15.00	19.00-22.00	12.00-15.00	19.00-22.00
(Memorial – Labor day)	12.00-15.00	19.00-22.00	10.00	15.00
Roper Lake	12.00-15.00	19.00-22.00	12.00-15.00	19.00-25.00
(Memorial – Labor day)	12.00-15.00	19.00-22.00	10.00	15.00

* Cabins and Yurts are also available at select parks, nightly prices range from $35-75.

Chart 1



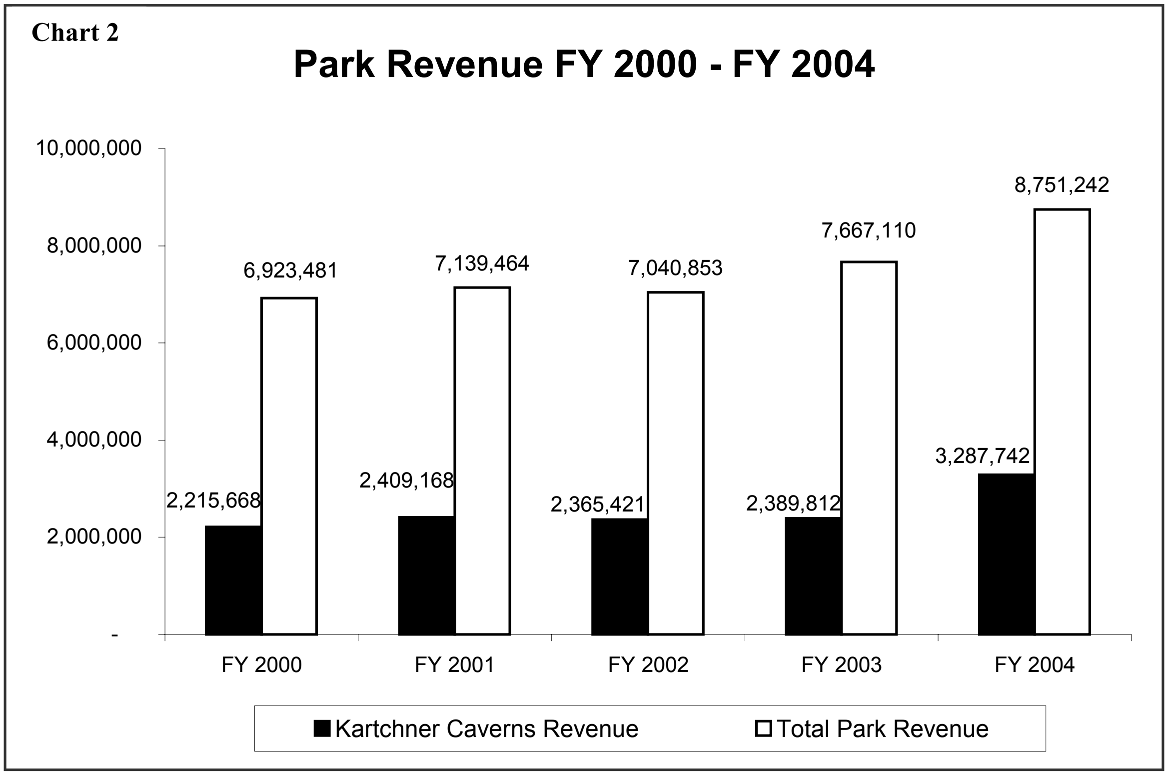


Chart 2
Park Revenue FY 2000 - FY 2004
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
6,923,481
7,139,464
7,040,853
7,667,110
8,751,242
2,215,668
2,409,168
2,365,421
2,389,812
3,287,742
FY 2000
FY 2001
FY 2002
FY 2003
FY 2004
Kartchner Caverns Revenue
Total Park Revenue

RS/TS:ck