

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
KEN BENNETT
JACK A. BROWN
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HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

MEETING NOTICE

DATE: Thursday, October 4, 2001
TIME: 1:30 p.m.
PLACE: HOUSE HEARING ROOM 4

TENTATIVE AGENDA

- Call to Order
- [Approval of Minutes of August 30, 2001.](#)
- EXECUTIVE SESSION
 - A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
 - B. Arizona Department of Administration, Risk Management - Joint Risk Allocation Agreement.
- DIRECTOR'S REPORT
 - [JLBC STAFF - Reports on JLBC and JLBC Staff Statutory Responsibilities.](#)
- 1. AHCCCS
 - A. [Review of Capitation and Fee-for-Service Rates.](#)
 - B. [Report on Provider Rate Adjustment Implementation Plan.](#)
- 2. [ARIZONA BOARD OF REGENTS - Report on Technology and Research Initiative Fund Award Program \(Proposition 301\).](#)
- 3. REPORT ON RECENT AGENCY SUBMISSIONS
 - A. [State Board of Directors for Community Colleges - Report on Arizona Learning Systems.](#)
 - B. [Department of Economic Security - Report on Annual Child Care Expenditures.](#)
 - C. [Department of Corrections - Report on Inmate Utility Fees.](#)
 - D. [Dental Board - Report on Unprofessional Conduct Definitions.](#)

- E. Arizona Department of Transportation - Report on Highway Maintenance Levels of Service.
- F. Arizona Department of Transportation - Report on Ports of Entry.
- G. Department of Emergency and Military Affairs - Report on Declared Emergencies.
- H. Department of Health Services - Report on SMI Services Distribution Plan.
- I. Boxing Commission - Report on Boxing Events and Revenue.

The Chairman reserves the right to set the order of the agenda.
09/27/01

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

August 30, 2001

The Chairman called the meeting to order at 1:35 p.m., Thursday, August 30, 2001, in House Hearing Room 4. The following were present:

Members:	Senator Solomon, Vice-Chairman Senator Arzberger Senator Bee Senator Brown Senator Cirillo Senator Rios	Representative Knaperek, Chairman Representative Burton Cahill Representative Pearce Representative Pickens Representative Weason
Excused:		Representative Allen Representative Gray Representative May
Absent:	Senator Bowers Senator Bundgaard	
Staff:	Richard Stavneak, Director Cheryl Kestner, Secretary Rebecca Hecksel Kim Hohman Beth Kohler Gina Guarascio	Patrick Fearon Tom Mikesell Lorenzo Martinez Stefan Shepherd Steve Schimpp Jill Young
Others:	Debbie Spinner Dan Cabot Frank Hinds John Arnold Dr. Philip Geiger Jim Westberg Linda French Greg Wetz Deborah Chapman Geoffrey Gonsler	Office of the Attorney General Office of the Attorney General Risk Manager, ADOA Deputy Director of Finance, SFB Executive Director, School Facilities Board Arizona Dept. of Commerce, Energy Division Arizona Works Agency Procurement Board Arizona Works Project Manager, DES Staff Community Outreach for MAXIMUS Arizona Works Lottery Commission

DIRECTOR'S REPORT

Mr. Richard Stavneak, JLBC Staff, stated that the next meeting of the Committee, which was scheduled for September 27, will now be held on October 4.

APPROVAL OF MINUTES

Senator Solomon moved that the minutes of June 28, 2001 be approved. The motion carried.

EXECUTIVE SESSION

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

At 1:38 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 2:05 p.m. the Committee reconvened into open session.

Senator Solomon moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Tews-Gay v. UPI, et al. The motion carried.

SCHOOL FACILITIES BOARD (SFB)

A. Consider Approval of Index for Constructing New School Facilities.

Mr. Steve Schimpp, JLBC Staff, said that this item is to consider approval of the inflation index for funding constructing of new school facilities. The original Students FIRST legislation authorized a figure of \$90 per square foot for grades K-6 and other amounts for grades 7-8 and high school. The legislation also had a feature that required those square footage allotments to be adjusted periodically for inflation. In February 2000, the Committee approved the use of the Marshall Valuation Index for inflation for School Facilities and made the first adjustment at 4.6%. Last September another adjustment was identified and now, 12 months later, it will change once again. The SFB recommends that the Committee approve a 0.6% increase. However, there are a couple of complicating issues. One is that there is a legal concern in terms of when the increase will take place. The SFB believes, based on information from the Attorney General's office, that the 0.6% increase will take effect immediately for new construction, but will not affect the cost of building renewal until FY 2003. Legislative Council, however, believes that the law is to affect the cost of both programs in the current year. There are also some cost implications. When the Board originally provided the instructions to the Treasurer on how much money to set aside for building renewal for the current year, they requested \$132 million. That was based on the assumption that the index would be 3.5%. An index of 0.6% would save some money. The amount of savings depends on when the 0.6% would go into effect. If it takes place in the current year, the savings would be approximately \$9 million.

Senator Solomon asked if there was a copy of the Attorney General's opinion available. Mr. Schimpp said there was not a formal opinion, it was merely on counsel from the Attorney General's office. She also asked Mr. Schimpp to elaborate on the controversy he referred to. Mr. Schimpp stated that there was a divergence of opinions between the Attorney General and Legislative Council in terms of the timing of the 0.6%. Legislative Council believes if the Committee were to approve a 0.6% adjustment it would take effect immediately for this year, whereas SFB believes, based on counsel from the Attorney General's office, that its cost impact for building renewal would be delayed a year.

In response to Representative Knaperek's question regarding the savings, Mr. Schimpp said the amount would be roughly \$9 million and it would stay in the Building Renewal Fund, unless some action was taken to divert it in some way.

Mr. Stavneak said that the \$9 million is an issue that needs to be explored more fully with the Board. He said that the Board asked for a 10% increase in building renewal monies and intended that it cover inflation, increased square footage, and increased age of buildings. A couple of those things could still occur. The piece relating to inflation may be less than \$9 million, possibly between \$4 and \$9 million.

Senator Solomon said that whether it is \$4 or \$9 million, the intent has always been to provide for the actual rate, which apparently did not occur.

Senator Cirillo asked why there is such a dip from 4.6% down to 0.6%. Mr. Schimpp said that the table in Attachment 1 of the JLBC memo shows a breakdown of inflation for different types of construction. The inflation rate was higher for the other types of construction besides the masonry bearing wall. It just happened to be that masonry bearing walls was the category of construction that this Committee chose a year and a half ago to use for the index, because most schools are masonry bearing wall construction.

Representative Burton Cahill said she had had a conversation with someone in the construction industry and what came out was that of the next 11 schools being built, 8 of them are being built with metal frame and walls. She asked why they are not using an index for metal framing, and would there be a shortfall. Mr. Stavneak said that issue is addressed in Attachment 2 of the JLBC memo. At the time the index was set up in February 2000, the choice had to be made on which indices to use. They chose Class "C" because at the time the Board thought the majority of the buildings would be masonry. It would not prevent the Committee, in the future, of using a different index. It is possible to create an index where you take the weight of a variety of buildings as opposed to just one. When the Board set its number for new construction in 2002 there was \$200 million set aside in 2001 and they increased that number to \$250 million in 2002.

Mr. Stavneak said the question is do you want to create an index in which you weight each year, or do you want to change the index each year depending on the kind of buildings you think are going to be built in the upcoming year.

Dr. Philip Geiger, Executive Director, School Facilities Board, responded to Representative Knaperek's question regarding sufficient money to build the new buildings, and what they are going to be made of. Dr. Geiger responded that this index affects 2 different funds. New school construction will happen immediately. In terms of building renewal dollars, this is only a fraction of the formula. What is going to happen is the districts next year will receive the same renewal dollars they received last year. From the discussions that have taken place and the arguments before the courts on the building renewal lawsuit that was filed, the Attorney General determined they would be using the calculations from the prior year.

Discussion continued regarding the building renewal calculation.

Senator Solomon moved that the Committee approve a 0.6% increase in the cost of the square foot factor used in School Facilities Board building renewal and new construction financing formulas for FY 2002.

Mr. Stavneak said it would be useful if the Board feels differently, after discussions with the Attorney General, to let the Committee know.

Dr. Geiger said there is no expected change in the Board's position. They have taken the advice of counsel and intend to function accordingly.

Representative Knaperek stated that if there were changes she would expect the SFB to let the Committee know.

Discussion ensued.

Mr. Stavneak understood Dr. Geiger to say that they will increase the new construction square footage dollar amount for 2002, but do not plan to increase the building renewal square footage amount until 2003. Dr. Geiger said that was correct. Mr. Stavneak said that goes back to the informal guidance they have received from the Attorney General. He noted that the JLBC Staff has not seen any form of a written opinion from the Attorney General. He observed that essentially what the Board plans to do is have districts receive the same building renewal dollar amount as last year, no inflation index and no change per square footage. He noted that maybe that is the appropriate legal action but that we do not have any documentation from the Attorney General to validate this.

Representative Knaperek requested that Dr. Geiger get a written legal opinion, since the legal counsel of the Committee differs. She said it appeared that the SFB would be acting on their legal advice even though the recommendation of the Committee is different.

The motion carried.

B. Report on Energy Efficiency Requirements for School Construction and Repair.

Mr. Steve Schimpp, JLBC Staff, stated that this item requires no action by the Committee. It is a report on the status of the energy efficiency guidelines that it adopted in April 2001 in response to Executive Order 2001-03. The guidelines were vague and the Committee requested that by the next meeting SFB provide more updated formal guidelines. Mr. Schimpp stated that the Staff had not yet received that information.

Dr. Geiger said he had the guidelines with him and they were on their Web site. Dr. Geiger stated that the guidelines were the same that DOA has been using for some time. After the Governor signed an Executive Order the SFB amended its building guidelines. For new school construction or deficiencies corrections that might be affected by the Executive Order, they were trying to determine whether or not there could be ways to reduce energy consumption, but only if they are going to actually be working on those areas. The Executive Order was for future repairs to reduce energy consumption not to retrofit all schools. Dr. Geiger continued to explain his handout (Attachment 1).

Representative Knaperek asked if the handout on guidelines is what will be used as the "Reasonable" standard. Dr. Geiger said that was correct.

Mr. Jim Westberg, Energy Division, Arizona Department of Commerce, is working with the SFB directly and said that each of the districts have a liaison they can work with.

Mr. Schimpp said that after looking through his material, the information that the JLBC Staff had not received was the updated costs associated with the Executive Order. Dr. Geiger said he had a handout with him that showed those costs and distributed it to the Committee (Attachment 2).

Further discussion ensued.

DEPARTMENT OF ECONOMIC SECURITY

A. Determine Arizona Works Caseload Reduction Savings.

Mr. Stefan Shepherd, JLBC Staff, said that this item was an agenda item from the June JLBC meeting. The Committee is required to calculate a reduction savings figure for the Arizona Works. It is the methodology the Committee approved 2½ years ago and was used last year. The methodology this year would produce a total savings of around \$727,000, of which the Arizona Works vendor could qualify for up to 25%, or around \$181,000.

Senator Solomon said there was an amendment agreed to in the contract with MAXIMUS that allowed them to earn bonus money based on functions that they are not performing. She said there was no one at the subcommittee meeting from the Procurement Board at the time so they could not ask them why they negotiated an amendment like that.

Linda French, Arizona Works Agency, Procurement Board Member, stated that she had only been on the Board a matter of months, however, she would attempt to answer any questions of the Committee.

Senator Solomon asked Ms. French if she knew the particulars of the amendment regarding MAXIMUS not performing Food Stamp and Medicaid eligibility.

Ms. French said when they designed the incentive structure it was based on MAXIMUS being paid on performing 3 different functions; TANF, Medicaid, and Food Stamps. What happened was the waivers to do both Medicaid and Food Stamps were not approved, consequently, MAXIMUS is only performing the TANF portion. However, the incentive money that was set aside is still based on all 3 of those functions. Because of new volunteer members, that particular facet of the amendment had eluded them until recently.

Senator Solomon asked why then was it included as part of the amendment in July.

Mr. Greg Wetz, Arizona Works Project Manager, DES, said he did not have very much information on that issue. The information he has is that the issue was discussed at the Board meeting. The Board went into Executive Session and voted to pass the amendment.

Senator Solomon said that Ms. French was part of the Executive Session, and even though she cannot divulge that discussion, she may be able to at least explain why it was included in the current amendment.

Ms. French said that this has been an ongoing discussion with the Board. Ms. Hurtado, Procurement Board member, said she wanted to be on the record saying she feels the Board made a mistake in the development of the RFP in terms of calculating the incentives, and thinks that possibly it should be changed. Ms. French said that she believes it had something to do with waiting for some figures from the JLBC that had to do with baseline costs. The Board was waiting for the

meeting that JLBC was going to have in June or July. Everything was on hold, but in the interest of time, they went ahead and approved the Maricopa County contract.

Ms. French asked if the Committee would like her to go back to the Board for clarification.

Senator Solomon said she would like to know, that given the fact that it is against federal rule for DES to allow anyone other than a state agency to do eligibility for Medicaid and Food Stamps, how it would be possible for them to give this back to MAXIMUS. They would be violating federal rule. If it is the DES worker who is doing the eligibility, and it is a function of DES, why would the amendment for incentives include functions that MAXIMUS is not allowed to do.

Ms. Deborah Chapman, Community Outreach Manager for the Arizona Works Program, stated that Arizona Works is responsible for determining TANF eligibility for participants that have applied for cash assistance. Along with the TANF eligibility they provide employment, training, help with job placements, child care while participants are looking for a job and transitional child care services. Participants applying for TANF assistance are usually eligible for Food Stamps and AHCCCS. They do not perform the eligibility functions for the Food Stamps nor medical eligibility, but they are responsible for the employment placement of the Food Stamp participant.

Representative Knaperek asked if there were any other responsibilities that they do like paperwork and tracking. Ms. Chapman said they track TANF placement, child care services, and when a change is reported by the participant they work with the DES eligibility worker to ensure that the changes occur on the case. There is a team concept and one entity cannot function without the other.

Senator Solomon asked who does the reporting to the federal government. Mr. Wetz said that Arizona Works inputs data into the department's automated system and then DES compiles it and ultimately does the reporting. Senator Solomon also asked how much MAXIMUS has earned for the current allowance for caseload reduction. Mr. Shepherd said that based on calculations that JLBC Staff and DES has done, they will earn anywhere from \$12,000 to \$14,000 of the \$181,000 that they are eligible for in CY 2000.

Senator Solomon moved that the Committee approve a calculation of cash benefit savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program for calendar year 2000. The motion carried.

B. Determine Arizona Works Administrative Baseline Costs for Mohave County.

Mr. Stefan Shepherd said this item is an estimate of the administrative baseline costs for the Arizona Works program in Mohave County. JLBC Staff has estimated the total cost at approximately \$4.4 million. If MAXIMUS were to earn 100% of all the administrative incentive funding, excluding any caseload reduction savings incentive they might earn, MAXIMUS would earn about \$1.4 million under the contract. If they earned 57% of the administrative incentives, which is the approximate amount they have earned over the first 2 years of the pilot in Maricopa County, they would earn about \$1.2 million.

Senator Solomon reiterated that MAXIMUS will not be doing eligibility for Food Stamps or AHCCCS. Mr. Shepherd said that was correct.

Representative Knaperek asked if MAXIMUS would be doing the same activities in Mohave County as they do in District I-East. Mr. Shepherd said they would be.

Representative Knaperek recalled that the Procurement Board amended their motion and changed the direction in which they were going, which was to include Mohave County. Linda French said that she is the Mohave County representative. She said one of the things they were concerned about is that there were no baseline statistics on the amendment. They were also concerned about the evaluation time being less than 2 years at this point. She thought it would be wise to consult with their independent evaluator before they entered into the Mohave County plan. In addition, they were waiting for an evaluation from the JLBC. A year after the first implementation of the Maricopa site, the JLBC was to forward a review to them so they can evaluate the pilot program. Their recommendation then goes to both the Legislature and to the Procurement Board on implementing the second phase. They voted not to approve that contract, and as she remembers, the incentives were not addressed.

Representative Knaperek asked Ms. French if she envisioned the Board going forward with this, and whether there is a statutory requirement that this rollout to rural areas. Ms. French said that there is a statutory requirement, and according to their attorney, it directs them to do that. Ms. French said that she needs to be assured that less than 2 years of a roll out is

going to provide them with enough time to get sufficient data, so that their clients will not be disrupted too much, but also so they are not setting MAXIMUS up to fail.

Representative Knaperek said that unfortunately no one from the Procurement Board was at the subcommittee meeting where that was discussed. She said some of the members felt like they needed to work up some legislation to extend the pilot program. Ms. French said that would be very reassuring, because she was concerned that they have the full 2 years. Less than 2 years most likely will not provide the data needed to properly evaluate it.

Senator Rios said he understood that Mohave County is opposed to having MAXIMUS. Ms. French said that was correct as far as their Workforce Investment Board is considered.

Representative Knaperek said it would be helpful if the Chairman of the Procurement Board, Mr. Atha, would call her so he could meet with her and Senator Solomon to discuss some of these issues.

Representative Pickens asked why more than the Empower Redesign was included since they were not going to be able to do Food Stamps and AHCCCS, they therefore did not need the administrative costs to cover it. Mr. Shepherd said that they followed the methodology that was set up when they first did this for Maricopa County 3 years ago, and again when they provided the subcommittee with an estimate of the revised Maricopa County costs. He also said that the RFP, to which the Arizona Works vendor responded to over 3 years ago for both the Maricopa County and the pilot site, specified all 3 portions of the eligibility determination process. Representative Pickens said it appears they are not going to administer it but are going to get paid for it anyway.

Representative Knaperek said it is her understanding that the Committee is approving the calculation, not approving the contract. That is the job of the Procurement Board. The JLBC job, by statute, is to come up with a calculation.

Mr. Stavneak said that what they are doing is calculating how much the administrative costs are. Whether or not the Board decides to pursue Mohave, or decides to include Food Stamps, it is up to the Board. This just gives them the baseline administrative costs by which to proceed with any contract, should they so desire.

Senator Solomon said that after speaking with her colleagues they said the Committee would be approving the calculation based on AHCCCS and Medicaid costs and thus, giving their approval for that to be used as part of the incentive package. Senator Solomon said her colleagues would like the meeting with Mr. Atha to take place prior to taking action on this item.

Representative Knaperek said her understanding is if they approve it, the Board could choose to use it but is not mandated to do so.

Mr. Stavneak said this just gives a baseline number for AHCCCS and Food Stamps. It would depend on whether or not the Committee wanted to stipulate that this is not an endorsement of that.

Senator Cirillo said there could be a parenthetical comment after the second 2 items of the recommendations saying that since the waiver has not been approved these are not applicable at this time.

Mr. Stavneak said essentially what the choices are is to not use the calculation, or give them the calculation but leave it up to them whether to use it for Food Stamps and Medicaid.

Representative Knaperek said when we say Food Stamps and Medicaid are we talking about what Arizona Works is currently doing or are we talking about eligibility processing. Arizona Works is already doing some things for Food Stamp and Medicaid clients, they are just not doing eligibility.

Senator Solomon thought the contract was for TANF eligible participants.

Ms. Chapman said there are a few things they do for Food Stamp and Medicaid clients that are not receiving TANF. They have the food stamp, employment and training program. If a Food Stamp participant has been found eligible for Food Stamps and is an able-bodied individual, they have a responsibility to engage in employment and training with MAXIMUS. Participants without dependents are therefore not eligible for TANF.

Senator Solomon asked how many participants fall into that category. Ms. Chapman said those participants are the FSET (food stamp, employment and training) clients and she did not have that number with her but would get it for the Committee. They do their best to assist all participants that are on federal aid, however, TANF participants are their primary function.

Ms. Chapman said they also have a post-employment program where they provide transitional child care to keep participants working.

Senator Solomon moved that the Committee adopt the JLBC Staff recommendation to approve the JLBC Staff estimate of the total direct and indirect costs of administering the EMPOWER Redesign welfare program in Mohave County for all of FY 2002. In addition, the Committee added the following: the Committee is neutral in regard to whether Food Stamps and AHCCCS administrative costs are used in the calculation of any incentive payments. The motion carried.

In response to member's concern, Mr. Stavneak said he felt the motion made it clear to the Board, that it is their choice in terms of how they structure the incentive payment and the Committee action leans in neither direction.

Representative Pickens said she feels neutrality indicates it is OK and she hopes that the message gets to them that they need to justify the inclusion of administrative costs of programs that they are not going to implement.

D. Bimonthly Report on Arizona Works.

Mr. Shepherd said this item was for information only and no Committee action was required. The Arizona Works vendor is required to report bimonthly, as is DES, pursuant to a General Appropriation Act footnote, on the pilot welfare program. Mr. Shepherd noted that a memo had been handed out to members that JLBC Staff had sent to the Arizona Works subcommittee members, which has answers to some demographics questions that were raised at the last JLBC meeting.

C. Bimonthly Report on Children Services Program.

Mr. Shepherd said this item was for information only and no Committee action was required. This item relates to a new bimonthly report on Children Services Program, which was added in a footnote in this year's General Appropriation Act. He stated that this should help in better tracking children services.

JOINT LEGISLATIVE BUDGET COMMITTEE STAFF - Report on Joint Student Enrollment Forms.

Mr. Steve Schimpp, JLBC Staff, said this item deals with Laws 2001, Chapter 251 which related to the dual enrollment issue, whereby some students are in the Arizona Department of Education count for K-12 and may also be in the count for community colleges. There has been a lot of discussion but very little data. There was a bill passed this past year that requires a new report, at least for the East Valley Institute of Technology (EVIT) and the Northern Arizona Vocational Institute of Technology (NAVIT). JLBC Staff is required to design the form for that report and this is to show the Committee what form the Staff came up with. The 2 institutions are currently working on the reports and have a deadline of September 7 to get the information back to JLBC Staff.

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

DEPARTMENT OF HEALTH SERVICES - Review of Capitation Rate Changes.

Ms. Gina Guarascio, JLBC Staff, said that the Department of Health Services (DHS) is requesting a review of the capitation rate changes for the Title XIX portion of the Children's Rehabilitative Services (CRS) program. During FY 2001, the Title XIX portion of CRS moved from a fixed price contract to a capitated system. The FY 2002 budget projected an increase in the capitation rate of 5%. As shown in the JLBC memo the actual change in the capitation rate is less than 1%. JLBC Staff projects about \$1.5 million in total fund savings associated with this capitation rate change. Also, the Staff has included in this item a report from Behavioral Health. They are reporting minor changes in their capitation rate for FY 2002. At the June JLBC meeting, the Committee approved capitation rate changes, however, those rates have decreased slightly and the administrative percentage for Behavioral Health has also decreased. These 2 changes cancel each other out and the JLBC Staff and DHS do not anticipate any sort of financial impact associated with these changes.

Senator Solomon moved that the Committee give a favorable review to the Department of Health Services request to implement a change in capitation rates for the Title XIX Children's Rehabilitative Services program. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Retiree Accumulated Sick Leave Rate (RASL).

Ms. Rebecca Hecksel, JLBC Staff, said that the RASL program was established to pay retirees for their unused sick leave. This program is funded by a rate that is assessed on certain agencies and is reviewed once a year. For FY 2002, the JLBC Staff recommends a favorable review for a rate of 0.4%. This rate will provide sufficient funding for the program. Each agency has already received a sufficient appropriation to cover those assessments. In addition, Ms. Hecksel said this rate is

generating a sizable fund balance. They estimate at the end of FY 2002, approximately \$5.4 million in that fund. Of that amount approximately \$3.5 million may be available to be transferred back to the General Fund as a potential budget reduction.

Representative Knaperek noted that Ms. Hecksel said the savings would be available. She asked if that meant they are collecting more money than they need, and if so should they be collecting less. Ms. Hecksel said that if you reduce the rate and do not collect as much, the money will stay with the agency. They have already received the appropriation.

Senator Solomon moved that the Committee recommend a favorable review to the FY 2002 Retiree Accumulated Sick Leave Rate of 0.4%. The motion carried.

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

Mr. Tom Mikesell, JLBC Staff, said that this item deals with Committee consideration of the proposed revisions to the Lottery Retailer Incentive Plan. The background about the Lottery and its relationship with retailers is that the Lottery pays a standard commission to retailers that sell lottery tickets. That commission is 6.5% of lottery sales. In addition to that amount, retailers can qualify for 0.5% based on participation in a retailer incentive plan. The purpose of the Retailer Incentive Plan is to maximize lottery ticket sales revenues. The current plan which was approved by JLBC in January 2000, awards the 0.5% increase based on a 6-month sales performance increase of 5% over the prior 6 months, as well as engaging in specific promotional and point-of-sale activities. The provision that the Lottery proposed today deletes the promotional point-of-sale requirements and solely uses the 5% sales increase.

There are a few issues that the JLBC Staff identified in the analysis of this issue. Based on information presented by the Lottery there was not clear evidence supporting that the additional requirements had a positive impact on sales. The intentions of the additional requirements were originally in the plan as a way to measure if retailers were actually taking actions to generate sales increases and that these sales increases were not solely as a result of locational issues or large jackpot fluctuations. The Lottery reports that the additional requirements have been burdensome to sales representatives, as well as potentially penalizing those retailers that did not receive the incentive, based merely on not adhering to promotional requirements. Basing the incentives entirely on a 5% sales increase could lead to commissions for retailers that took no action to increase sales and solely earned those incentives based on jackpot or demographic issues.

This presents a policy issue with 2 options. The first option would be to remove the additional requirements, essentially allowing incentives to be paid for these elements directly outside the control of retailers, such as large jackpots. The second option would be to retain additional measures as a way to ensure that additional retailer activity is taking place in order to earn incentives, even though it's unclear whether those additional measures are actually leading to increased sales. The JLBC Staff is forwarding this item to the Committee as a policy issue.

Representative Pickens asked if we go to a 5% increase, what are the retailers doing to promote sales of the lottery. Mr. Mikesell said that one thing that is in the current agreement between the Lottery and the retailers is that they have a minimum of 3 materials which would be like posters or pins that employees could wear, or something to give as advertisement at point-of-sales about the lottery game and what the jackpot is. The additional funds in the Retailer Incentive Plan provide for additional 2 point-of-sale materials, that is what we would be deleting.

Senator Cirillo said there is a 3rd alternative which is to go back to retailers getting a 6.7% commission. He said he has not seen any real statistics to show that either one of these does anything for us. He said he does not see some retailers doing anything special so he would like to see the 3rd alternative of just giving them the 6.7% of the sales.

Mr. Mikesell believed that alternative would take a change of law, as session law states that the Lottery Commission come with a plan to distribute that additional 5%.

In response to Representative Knaperek's question, Mr. Mikesell said in order to delete the part of law that refers to the retailer incentive program, the Committee would have to change the law, which took effect in 1997. She asked if there was anything they could do under the current law that would look similar to the old way of doing business. Mr. Mikesell said it would be difficult because the law says that this additional one-half percent be given to retailers who successfully participate in the Retailer Incentive Plan, and there is no option for a lower percentage incentive.

Mr. Stavneak said that the only way would be to restructure the plan so you only give incentives to retailers who have a particularly high percentage of sales compared to everybody else. At this point once a retailer hits the 5% they get the incentive payments whether or not you are the only one or whether everyone is doing it. Another alternative would be to restructure it differently so that only the top percentage increases received incentive payments.

Representative Pearce said he did not feel it was a good idea to be giving incentives and that the government should not be involved in the promotion of gambling. If the Lottery Commission wants to promote it, that is fine, but the retailers should not be forced to do it.

Mr. Geoffrey Gonsher, Executive Director, Arizona Lottery Commission, said this has been a successful program for the last 18 months that it has been in effect. The revision comes from the Retailer Advisory Committee and endorsed by the Lottery Commission. One point of clarification, sales in recent years have not reflected jackpot increases but rather increases in the Scratchers category. On-line sales, which are the jackpot sales, have been somewhat slack over the years, not only in Arizona, but throughout the nation. Over the last 4 years the Scratchers sales have gone up about 30%. That is where the retailers are making an effort to promote games and sell tickets. That leads to the effort on the part of the retailer to display the tickets, keep the dispensers clean, keep those dispensers in front of the players and also to do the promotions and the point-of-sale material. The recommendation today, by way of our Commission and our Retailer Advisory Committee, was not to eliminate advertising and point-of-sale material at the retailer, but to rely upon the retailer rules figure which is a minimum of 3 point-of-sale material at all times.

Senator Cirillo stated that the proposal seems to be that the retailer would get an increase of 5% on total sales. He asked if that includes Powerball. Mr. Gonsher said that the 5% increase does include total sales for that period of time. He noted that retailers have to bring on more clerks during sales with large jackpots. Mr. Gonsher said that the Lottery takes the position that when you sell one lottery product you sell them all. It is an obligation of the retailer not to pick and choose the games they sell.

Senator Solomon moved that the Committee recommend that the Lottery Commission return to the Committee with a proposal for a restructured incentive plan that would provide incentive payments based on performance relative to other retailers. The motion carried.

ATTORNEY GENERAL – Review Allocation of Settlement Monies.

Ms. Kim Hohman, JLBC Staff, said that this item is a review of 2 Attorney General settlement agreement deposits. The Attorney General is required to come before JLBC when it collects a settlement of over \$100,000. The JLBC Staff recommends a favorable review of these items. There is detailed information on the settlements in the JLBC memo.

Senator Solomon moved that the Committee recommend a favorable review to the Attorney General's allocation plan for monies from the 2 settlement agreements. The motion carried.

ARIZONA BOARD OF REGENTS - Report on FY 2002 Tuition Revenues.

Mr. Lorenzo Martinez, JLBC Staff, said that this item is a report from the Arizona Board of Regents on tuition revenue collections for FY 2002 that are greater than the amount of tuition collections appropriated by the Legislature. This item is for information only and no Committee action is required. In total the university system anticipates collecting approximately \$16.4 million more in tuition collections than was appropriated by the Legislature. The individual breakouts are shown in the JLBC memo. Also in the memo is a table showing what the additional tuition amounts will be used for.

Senator Cirillo said it appears the Committee has given the universities the option that if they get more tuition than they thought, they can spend it. The Committee gets the information after the fact and the money does not come back where it could be used in next year's consideration of the budget. Mr. Martinez said there is a footnote in the General Appropriation Act that allows the universities to expend the additional revenues collected above what is appropriated. This report states that the majority of these additional collections comes from increases in tuition that the Board approved in April. This is about the same timeframe that the Legislature is finalizing agency budgets.

Representative Knaperek questioned the timing of this. If the Legislature knew that tuition was going to be increased earlier, they probably would not give them as much money in their budget. From a budgetary standpoint they need to know where the money is going.

Representative Pearce felt the universities should not be allowed to spend the additional revenues, especially in a tight budget.

Senator Solomon said the universities have taken a hit in the past, such as monies for Classification Maintenance Reviews being cut and no building renewal this year. They do what they have to do to operate as best they can.

Representative Pearce disagreed with that, they have not taken a hit. In the proposition that the voters passed, there were millions of dollars for education and universities. Certainly they have more money than they have ever had, and this money is in addition to what they are appropriated and the universities should not be spending it.

Senator Solomon said that the university money is earmarked, for things such as technology and there are many other needs to be met.

Representative Knaperek asked if there were a way for the Committee to be notified that the Board is considering a tuition increase and where they plan to spend the additional money. Mr. Stavneak responded that since we have the report, the next step would be to ask the Board to submit their expenditure plan for review prior to any expenditures taking place. Representative Knaperek said she felt that was a reasonable request.

REPORT ON RECENT AGENCY SUBMISSIONS

There was no discussion on these items and no Committee action was required.

- A. Department of Health Services - Report on Health Crisis Fund.**
- B. Department of Transportation - MVD Wait Times Report.**
- C. Attorney General - Report on Model Court.**
- D. Attorney General - Report on Incarceration Costs Offset by Monetary Judgements.**
- E. Department of Economic Security - Report on Placements into State-Owned ICF-MR or the Arizona Training Program at Coolidge Campus.**
- F. Department of Emergency and Military Affairs - Report on Camp Navajo Fund.**

Without objection, the meeting adjourned at 4:20 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Laura Knaperek, Chairman

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF
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CHRISTINE WEASON

DATE: September 27, 2001

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

THRU: Richard Stavneak, Director

FROM: Gretchen Logan, Senior Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM – REVIEW OF
CAPITATION AND FEE-FOR-SERVICE RATES

Request

Pursuant to General Appropriation Act footnotes in both Acute and Long-Term Care, 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 its review prior to implementation.

Recommendation

The JLBC Staff is deferring a recommendation, as the proposed inflationary increases represent a policy consideration for the Committee. The proposed General Fund increases exceed the budgeted inflation assumptions by \$3,200,600. Beginning October 1, 2001, AHCCCS proposes increasing the Acute Care capitation rates on average by 7.3%, compared to the budgeted increase of 5.4%. The proposed Acute Fee-For-Service (FFS) rate increase is 4.0%, compared to the budgeted increase of 3.4%. The proposed Arizona Long-Term Care System (ALTCS) capitation rates increase is 5.4% (while budgeted at 7.2%) and the proposed ALTCS FFS rate increase is 7.8% (while budgeted at 7.2%). Budgeted inflation for these programs totals \$32,576,700, however, with the implementation of the proposed rate changes, inflationary funding totals \$35,777,300, which is \$3,200,600 higher than budgeted amounts.

Analysis

Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound. The increases proposed by AHCCCS are based on an actuarial analysis. An actuarial analysis is based on a variety of assumptions, which usually include some range of outcomes. AHCCCS contracts with an actuarial firm, which uses claims, expenditure, and encounter data to determine the actual cost of services and thereby, recommends increases or decreases in

capitation and FFS rates. New capitation rates and the FFS rates reviewed today generally become effective on October 1 because that is the beginning of both the federal fiscal year (FFY) and the contract year with health plans.

As mentioned above, footnotes in the General Appropriation Act require AHCCCS to submit capitation and FFS rate changes that have a budgetary impact to the Committee for review prior to the implementation of the increases. In the past, capitation changes were implemented without notification of the Legislature. The footnotes were added so that legislators would be made aware of these changes and the potential budget impacts before the new rates are implemented.

Acute Care - Capitation

AHCCCS has two sets of capitation rates for Acute Care. The first set of rates covers the period prior to enrollment in a health plan. This is called “prior period coverage” (PPC) and includes some amount of retroactivity coverage depending on eligibility. The second set of rates, referred to as “regular” capitation, take effect after enrollment in the health plan. The following table shows the rate changes for regular capitation only. PPC rates stayed at the previous year’s level, however, the adopted budget assumed that PPC rates would increase by 5.4%. Therefore, this will generate savings to offset a portion of the regular capitation increase. The rates shown reflect a weighted average of the rates paid per member per month to the health plan. In addition, the table shows the JLBC Staff cost estimate of the impact of these changes above the FY 2002 appropriation based on the enrollment projections used in developing the FY 2002 appropriation. Final costs based on the new capitation rates may be higher or lower, depending upon the actual number of people that are eligible for services.

Monthly Regular Capitation Rates			
<u>Populations</u>	<u>Previous Rate</u>	<u>Proposed Rate</u>	<u>%</u>
Age <1	\$325.77	\$345.52	6.1%
Age 1 – 13	72.79	79.34	9.0%
Age 14 – 44 (Female only)	121.59	136.83	12.5%
Age 14 – 44 (Male only)	97.08	103.47	6.6%
Age 45+	247.22	287.51	16.3%
SSI with Medicare	184.01	195.85	6.4%
SSI without Medicare	339.09	386.14	13.9%
Family Planning	20.53	20.51	-0.1%
Deliveries	5170.28	4908.67	-5.1%
Proposed Rate Increase			7.3%
Anticipated Additional Cost Associated with New Rate		\$4,879,800	GF
		\$13,616,500	TF

The average regular capitation rate increase across all populations equates to 7.3%, however, the budget provided for only a 5.4% increase. As shown in the table, the majority of rates experienced increases. The general reasons cited by the agency and its actuaries for these increases include:

- Pharmacy costs ranging from 12-20%.
- Rising cost and utilization of technology in the provision of health care.
- Increased dental utilization.
- Increased reimbursement for providers, particularly specialists.
- Increases to offset a budget reduction included in the adopted budget, which was associated with implementing the hospital pilot program. The adopted budget assumed that health plans

would be able to renegotiate contracts at the historical level (5% reduction). However, in recent contract negotiations the average has been a 2% reduction “due to the current climate.” The implemented capitation rates assume that health plans will only renegotiate contracts with a 2% reduction.

Based on enrollment projections used in developing the FY 2002 appropriation, the capitation rate change will result in an increase of \$4,879,800 GF and \$13,616,500 TF in the Acute Care Program above budgeted levels.

Acute – Fee-For-Service

AHCCCS operates the following 4 Fee-For-Service programs, in which providers are reimbursed based on the established FFS rates.

- Regular FFS - Provides payment for services received by AHCCCS eligible applicants who receive services for less than 30 days and do not enroll in a health plan (33% state funding).
- Indian Health Services (IHS) Referrals - Provide payment for services received by Native Americans who are referred off-reservation to receive care (33% state funding).
- IHS Facilities - Provides payment for services received by Native Americans provided by reservation facilities (100% federally funded).
- Federal Emergency Services (FES) - provides payment for services received by people that would have qualified for Title XIX coverage except for the fact that they are not a U.S. citizen (33% state funding).

In addition, the State Emergency Services (SES) program recently reinstated in the September Special Session is also a fee-for-service program, which is 100% state funded. The enabling legislation capped expenditures for this program at \$20,000,000 per year, and therefore, the cost impact of the FFS rate change cited below does not incorporate the SES program.

The following table shows the Acute Care FFS inflationary change, which is the basis for FFS rate adjustments. In addition, the table shows the JLBC Staff estimates for cost impact above the FY 2002 appropriation based on the enrollment projections used in developing the FY 2002 appropriation. Final costs based on the new FFS rates may be higher or lower, depending upon the actual number of people that are eligible for services.

Acute Fee-For-Service		
Budgeted Inflationary <u>Adjustment</u>	Proposed Inflationary <u>Adjustment</u>	<u>%</u>
3.4%	4.0%	0.6%
Anticipated Additional Cost Associated with New Rate		
	\$331,300 GF	
	\$944,500 TF	

The FFS rate increase is 4.0%, however, the budget provided for a 3.4% increase. The agency bases the FFS rate increases on the Data Resources Incorporated (DRI) Health Care Financing Administration Hospital Prospective Reimbursement Market Basket. The percentage increase used at the time of budget development was based on the FFY 2001 amount of 3.4%, however, since that time, the DRI has been updated.

Based on enrollment projections used in developing the FY 2002 appropriation, FFS rate change will result in a increase of \$331,300 GF and \$944,500 TF in the Acute Care FFS Program above budgeted levels.

Long-Term Care-Capitation

ALTCS services are provided through a system of 8 program contractors who competitively bid to provide long-term care services to eligible individuals. In all counties, except Maricopa, there is one program contractor that is responsible for coordinating and managing all of the clients long-term and acute care needs. In Maricopa County there are 3 program contractors, and therefore, Maricopa residents are given an enrollment choice. The following table shows the ALTCS capitation rate change. The rate reflects a weighted average of the rate paid per member per month to the program contractors. In addition, the table shows the JLBC Staff estimates for cost impact above the FY 2002 appropriation based on the enrollment projections used in developing the FY 2002 appropriation. Final costs based on the new capitation rate may be higher or lower, depending upon the actual number of people that are eligible for services.

Monthly ALTCS Capitation Rates		
<u>Previous Rate</u>	<u>Proposed Rate</u>	<u>%</u>
\$2,307	\$2,432	5.4%
Anticipated Additional Cost Associated with New Rate		
	\$ (2,029,600) GF	
	\$ (10,332,500) TF	

The average capitation rate increase is 5.4%, however, the budget provided for a 7.2% increase. The agency and its actuaries cite the competitive bidding process and the increased placement of members into home and community based settings (HCBS) as cost containing factors, which have enabled the negotiated increase to be less than the budgeted amount.

Based on enrollment projections used in developing the FY 2002 appropriation, the capitation rate change will result in a decrease of \$ (2,029,600) GF and \$ (10,332,500) TF in the ALTCS Program below budget levels.

Long-Term Care – Fee-For-Service

ALTCS FFS rates are used to reimburse providers for the costs associated with providing services to Native Americans. The expenditures for this population approximate 6.6% of total ALTCS expenditures. The following table shows the ALTCS FFS inflationary change, which is the basis for FFS rate adjustments. The inflation amounts reflect a weighted average of the nursing facility (NF) and home and community based services (HCBS) rates. In addition, the table shows the JLBC Staff estimates for the cost impact above the FY 2002 appropriation based on the enrollment projections used in developing the FY 2002 appropriation. Final costs based on the new FFS rate may be higher or lower, depending upon the actual number of people that are eligible for services.

ALTCS Fee-For-Service		
<u>Budgeted Inflationary Adjustment</u>	<u>Proposed Inflationary Adjustment</u>	<u>%</u>
7.2%	7.8%	0.6%
Anticipated Additional Cost Associated with New Rate		
	\$19,100 GF	
	\$249,100 TF	

The average ALTCS FFS rate increase is 7.8%, however, the budget provided for a 7.2% increase. The actual FFS increase for NF rates will be 5.6% and the actual increase for HCBS will be 16.8%. The large increase associated with HCBS rates is a reflection of increased HCBS utilization and the historically low-wages paid in the HCBS industry. Rates for HCBS services, such as attendant care, received a substantial increase—going from approximately \$10.50 to \$13.50 per hour. Nursing facility rate increases were lower than budgeted amounts due to the competitive bid process and cost containment measures. For example, in areas where it was determined that the program contractors were making a significant profit, reimbursement rates were reduced to a point where the contractor could continue to reimburse the provider at current rates, without making a significant profit.

Based on 6.6% of the FY 2002 ALTCS appropriation, the ALTCS FFS rate change will result in an increase of \$91,100 GF and \$249,100 TF in the ALTCS Program above budgeted levels.

In sum, the various changes to the Acute Care and ALTCS capitation and FFS rates are based on actuarial analysis, which is a requirement for participation in the Title XIX program. The General Appropriation Act footnotes were added to increase legislative awareness of these changes and their potential budget impacts. The budget impacts presented are based on the enrollment projections used in developing the FY 2002 appropriation, and therefore, the final FY 2002 shortfall may be higher or lower, depending upon the actual number of people that are eligible for services. However, it is important to note that in the first quarter of FY 2002, actual enrollment has been above the projections used in the FY 2002 appropriation.

The table below shows: 1) the funding included in the FY 2002 appropriated budget for inflation; 2) the proposed AHCCCS funding that will be required in FY 2002 for inflation with the implementation of the new rates; and 3) the difference between the budgeted inflation and the proposed dollars required based upon the new rates.

Funding for Inflation			
	Included in Budget	AHCCCS Proposal	Difference
	<u>General Fund</u>	<u>General Fund</u>	<u>Increase/(Decrease)</u>
Acute Capitation	\$18,644,200	\$23,524,000	\$4,879,800
Acute FFS	5,356,600	5,687,900	331,300
ALTCS Capitation	8,044,900	6,015,300	(2,029,600)
ALTCS FFS	<u>531,000</u>	<u>550,100</u>	<u>19,100</u>
Total	\$32,576,700	\$35,777,300	\$3,200,600

RS/GL:ag



Jane Dee Hull
Governor

Phyllis Biedess
Director

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
Committed to Excellence in Health Care

September 20, 2001

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



Dear Representative Knaperek:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda for the October 4, 2001 Joint Legislative Budget Committee meeting for the purpose of reviewing increases to Fee For Service (FFS) rates, acute care capitation rates, and ALTCS rates for state fiscal year 2002. This review is required in the footnotes to the General Appropriation Act. Also required is a review of the implementation plan for the provider rate adjustment appropriated in HB 2631.

Fee For Service rate increases

Before, making fee-for-service program or rate changes that pertain to hospital, nursing facility, or home and community based services rates or for any of the other fee-for-service program or rate changes that, in the aggregate, are 2% above and \$1,500,000 from the state General Fund greater than budgeted medical inflation in FY 2002 and FY 2003, the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review.

For SFY 2002, AHCCCS was appropriated a 3.4% increase in general fund monies for acute care FFS rate increases. The actual FFS increase for inpatient hospital will be 4.0%. This percentage is based on the Data Resources Incorporated (DRI) HCFA Hospital Prospective Reimbursement Market Basket weighted average forecasted inflation thru the midpoint of the rate year (March 31, 2002), pursuant to Arizona Revised Statute §36-2903.01.

For SFY 2002, AHCCCS was appropriated 7.2% (3.5% plus an additional 3.7%) increase in general fund monies for FFS nursing facility (NF) and home and community based services (HCBS) rate increases. The actual FFS increase for NF rates will be 5.6%, and the actual FFS increase for HCBS will be 16.8%. The weighted average of the increases for both NF and HCBS is 7.8%. As requested by the NF industry, AHCCCS is reviewing the assumptions included in the rebasing of the NF rates, which may result in an additional increase.

No other FFS rate changes in the aggregate meet the criteria for JLBC review.

Acute care capitation rate increases

Before implementation of capitation rate changes that have a budgetary impact, the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review.

1. *Title XIX Rates (excluding the Title XIX Waiver Group):* For SFY 2002, AHCCCS was appropriated a 5.4% increase in general fund monies for Title XIX capitation rate increases; the

actual rate increase will be 7.2%. The increase in excess of the appropriation is attributable to several reasons, including:

- ☐ Pharmacy cost and utilization trends are approaching national trends. The pharmacy component was increased 12-20%, depending on the category of aid. This had an overall 1.73% statewide impact to the rate.
 - ☐ Increase in the incidence of cesarean births, which are more expensive than vaginal births.
 - ☐ Increase to provider reimbursement in rural counties. AHCCCS health plans are under mounting pressure to contract in excess of Medicare's fee schedule in order to maintain adequate provider networks in rural counties. Therefore, additional funding was included in the rural capitation rates to enhance contracting.
 - ☐ Increase to dental reimbursement. The capitation rates for children were increased an additional 1.7% to meet the costs of increased utilization of dental services for the 1-13 year old population.
 - ☐ Substantial increases to the SSI Without Medicare rate category were due to higher costs and utilization trends.
2. *S-Chip (Title XXI)*: The KidsCare (Title XXI) appropriation in Tobacco Tax funds is 3.5%; the actual rate increase will be 0%. Cost and utilization data does not support an increase for SFY 2002.
3. *Title XIX Waiver Group*: New rates and rate setting methodologies were developed for this new group of members to be added October 1, 2001. The estimated impact to the Tobacco Tax Litigation Settlement Fund for capitation rates for non-categorically linked Title XIX Waiver eligibles is approximately \$105,500,000 for SFY 2002.

It should be noted that although the Joint Legislative Budget Committee reduced the AHCCCS budget by reinstating the hospital pilot program in Maricopa and Pima counties, due to the current climate, it is unrealistic to believe that AHCCCS health plans will be able to renegotiate current hospital contracts to meet the budget reduction. Therefore, AHCCCS and its consulting actuaries determined that it is appropriate to reduce the inpatient component of the capitation rates two percent, rather than five percent.

ALTCS capitation rate increases

Before implementation of capitation rate changes that have a budgetary impact, the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review.

For SFY 2002, the ALTCS program was appropriated a 7.2% increase. This increase is composed of two elements, 3.5% for general medical inflation, and 3.7% for provider rate increases. The actual total increase in the ALTCS budget is 5.4%. This increase includes the special appropriation for provider rate increases. The actual increase fell short of the budgeted amount due to the competitive bidding

Representative Laura Knaperak
September 20, 2001
Page 3

process in counties other than Maricopa County, and the increased placement of members into home and community based settings.

Provider rate increases implementation plan

The administration shall provide the Joint Legislative Budget Committee staff an implementation plan for the provider rate adjustment.

Please find attached Attachment A. This attachment is a summary of the Administration's implementation plan for the nursing facility and home and community based services provider increases. The implementation plan addresses additional expectations in the General Appropriation Act footnotes, including, the intent that 100% of the provider rate increase appropriation be distributed to contracted community treatment providers via increases to contracted rates.

Deviations from the budgeted appropriations, and details of the provider increase implementation plan will be addressed in more detail at the Joint Legislative Budget Committee meeting on October 4, 2001. Please note at this time, the actual increases listed above do not factor in growth in membership. Please feel free to contact Kari Price, Assistant Director, Office of Managed Care, at (602) 417-4625 if you have any questions.

Sincerely,


Branch McNeal
Deputy Director

Attachments

- c. Tom Betlach, Director, Governor's Office of Strategic Planning and Budgeting
- Richard Stavneak, Director, Joint Legislative Budget Committee Staff
- Kari Price, Assistant Director, Office of Managed Care, AHCCCS
- Jim Cockerham, Assistant Director, Vision of Business and Finance, AHCCCS
- Gretchen Logan, Joint Legislative Budget Committee Staff
- Aimee Basye, Governor's Office of Strategic Planning and Budgeting
- Anne Winter, Finance Manager, Office of Managed Care, AHCCCS



ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
MEMORANDUM

ATTACHMENT A

Discussion Paper on the ALTCS CYE '02 NF and HCBS Provider Rate Increase

1. Provider Rate Increase Legislation

As part of HB 2631, Chapter 236, the ALTCS program received an additional budget appropriation for SFY 2002 and 2003 to increase the Home and Community Based Services (HCBS) and Nursing Facility (NF) rate components of the ALTCS capitation rates. This provider increase will be required to be passed through to the community providers. In addition, AHCCCSA will be required to provide an implementation plan to the Joint Legislative Budget Committee (JLBC). AHCCCSA is also required to summarize reports received by the program contractors on how the increase was used and report this information to the JLBC by June 1, 2002.

2. Determination of the Provider Increase Amounts

• **CYE '02 AHCCCS Fee For Service (FFS) Rate Increases**

For CYE 2002, AHCCCS contracted with EP&P Consulting, Inc. to rebase the AHCCCS HCBS and NF Fee For Service (FFS) rates. After the rates were rebased, OMC Research calculated the impact that the FFS rate increases, effective October 1, 2001, will have to the ALTCS program contractors based on program contractors submitted encounters.

Nursing Facility	5.5% increase
HCBS	15.3% increase

• **Determination of the Pass Through Contractor Rate Changes**

Actuarially sound rate ranges for CYE 2002 were developed by William M Mercer. These base rates were determined by using actual experience and encounter data from the program contractors. After the methodology for calculating the pass through was determined, these rate ranges were adjusted to include the pass through amounts.

The pass through amounts were derived in three parts:

A. Inflationary Increases:

Inflation trends were 3.1% and 3.6% for NF and HCBS respectively.

B. Additional Pass Through Amounts:

Since the total increase in the FFS rates was 5.5% and 15.3% and at this point we had only included an inflationary trend, Mercer now added the difference between the inflation trend and the total FFS rate increase. The Additional impact to the ALTCS capitation rate was 2.4% and 11.7% for NF and HCBS respectively. The

pass through was applied differently for Maricopa County and the counties that were competitively bid for CYE '02.

- Non-Maricopa Counties: The pass through increases were applied to the midpoints of the rate ranges for the NF and HCBS components. Each county's awarded NF and HCBS components were increased by that flat dollar amount.
- Maricopa County PC's: After the NF and HCBS components were increased for inflation trends, they were increased by the amount of the additional pass through net of inflation.

C. Additional NF Amount:

In addition to the 5.5% NF pass through, another 0.5% increase to the NF rate was passed on by AHCCCSA to the program contractors to help cover additional rate increases. Although the total increases to capitation rates are 6.0% and 15.3% for NF and HCBS respectively, AHCCCSA is only requiring that the program contractors provide us with proof of how they passed on 5.5% of the NF and 11.7% of the HCBS increases. The 5.5% and 11.7% are the percentages related to the special funding.

3. Contract Language Regarding the Pass Through

AHCCCSA has included language in all ALTCS/EPD contracts requiring the program contractors to pass through the 5.5% NF and 11.7% HCBS increases to their subcontractors for direct care wages. They are also required to monitor the subcontractors regarding the pass through and to report to AHCCCSA on how they passed through the increases to direct care service providers. We are encouraging the program contractors to add language in their subcontracts with providers that they must be able to show that the increases went to the direct care provider level.

4. Reporting Requirements

- **AHCCCSA Requirements**
 - By September 1, 2001 AHCCCS is to report on how the legislated pass through was implemented. This plan will include a description of the calculation of the pass through amounts and the pass through and reporting requirements imposed on the program contractors.
 - By June 1, 2002, AHCCCS is to provide a summarized report to the JLBC on how the program contractors are using the pass through amounts.
- **ALTCS Program Contractor Requirements**
 - Each program contractor is to report to AHCCCS by May 1, 2002 on how the pass through was implemented. This report is to include a description of the methodology used to distribute and monitor the pass through dollars they received as part of the capitation rate.

5. OMC Reporting and Monitoring Tools

A standardized reporting tool, developed by OMC, will be used by the program contractors to report on the pass through dollars received. This report will allow AHCCCS to collect and summarize standardized information on the pass through for reporting results to the JLBC.

This reporting tool will include:

- Description of the methodology used by the program contractors to distribute the pass through to subcontractors and ultimately the direct care workers. (ie. flat increase to all providers, a greater proportion to targeted services that need a larger increase, increases based on quality indicators, or any combination of the above.)
- Work papers outlining rates paid to subcontracted providers prior to and after receipt of the pass through along with utilization statistics.
- Description of any contract language program contractors put in their subcontracted providers contracts requiring them to pass on the increases to direct care workers.
- Description of the process used by the program contractors in monitoring their subcontractors adherence to the pass through requirements.
- Policies and procedures used to correct subcontractors actions if they are found out of compliance with the pass through requirements. This will include policies and procedures for recoupment of pass through dollars intended for direct care workers that were not passed through to them.
- Additional monitoring tools will be used by OMC to verify information received by the program contractors. The monitoring tools will include:
 - Review of new subcontractor rates vs. prior rates, as well as utilization, through encounter validation.
 - Review of medical expenses through financial statement reviews.
 - Conducting sample reviews of subcontractors direct care wages.

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: September 28, 2001

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM – REPORT ON
PROVIDER RATE ADJUSTMENT IMPLEMENTATION PLAN

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System must present its proposed implementation plan for the provider rate adjustment in the Arizona Long-Term Care System (ALTCS) to the JLBC Staff. AHCCCS has calculated the increases to the ALTCS capitation rates for Nursing Facilities and Home and Community Based Services (HCBS) that are necessary to provide for increases for direct care workers. The program contractors are required to pass these increases to the providers.

Recommendation

This report is for information only and no Committee action is required. The plan is in accordance with the intent of the provider rate increase, as outlined by the General Appropriation Act. The allocation plan for the provider rate adjustment falls within the amounts budgeted for the increase.

Analysis

The FY 2002 and FY 2003 approved budgets for ALTCS included an increase of 3.7% above the standard medical inflation adjustment (equal to 3.5%) to increase the ALTCS capitation rates for Nursing Facilities and HCBS. The intent of this increase is to provide salary increases to direct care staff earning less than \$13 per hour. The General Appropriation Act, as amended by Laws 2001, Chapter 385, included several footnotes which outline details for the implementation of the provider rate adjustment.

The footnotes specify that it is the intent of the Legislature that:

- AHCCCS shall provide an implementation plan to the JLBC Staff by September 1, 2001.
- 100% of the increase be distributed to providers.
- The increases be incorporated into contracted rates.
- Independent providers are eligible for the increases.
- The monies shall be passed through to direct care staff who provide direct care services for more than 80% of their time weekly and who earn less than \$13 per hour.
- The monies shall be used for ongoing pay adjustments and Employee Related Expenditures.
- The monies shall be directed towards providers who are receiving lower reimbursement than other providers for similar levels and types of services.
- Each provider receiving an increase shall report to AHCCCS by June 1, 2002 on how the increases are being used. AHCCCS shall then summarize and report this information to the Committee by July 1, 2002.

Pursuant to the footnote, the ALTCS program contractors will receive an increase in capitation rates for both medical inflation and the provider rate adjustment. AHCCCS estimates that Nursing Facility program contractors will receive a 6.0% increase. Of this amount, 2.4% is for the provider rate adjustment, and 3.6% is for general medical inflation and other adjustments. HCBS contractors will receive a 15.3% increase. Of this increase, 11.7% is for the provider rate adjustment and 3.6% is for general medical inflation. AHCCCS has included language in the program contracts requiring the provider rate increases be passed directly through to the providers for direct care wages. The remainder of the increases are for general medical inflation.

The amounts presented here differ somewhat from the rates discussed in the Capitation and Fee-for-Service (FFS) agenda item. The Nursing Facility and HCBS rates are presented separately here in order to illustrate the pass-through amounts for each type of facility. However, in the Capitation and FFS agenda item, the rates are presented as a weighted average of both Nursing Facility and HCBS rates because contractors receive a single blended rate for both types of facility.

Because the nursing care industry is reporting financial difficulties, AHCCCS will require that 3.1% of the 3.6% calculated for general medical inflation also be passed directly to providers. Without this provision, the amount of general medical inflation passed on the providers is at the program contractors' discretion. Thus, including the 2.4% for the provider rate adjustment, a total of 5.5% of the 6.0% increase is being passed to Nursing Facility providers. The remainder of the increase may be retained by the contractors or distributed at the contractors' discretion.

Program contractors are also required to monitor the providers to ensure the monies reach the direct care workers. Contractors shall report to AHCCCS by May 1, 2002 on the methodology used to distribute and monitor the provider rate adjustment. AHCCCS will then summarize the results of these reports for the Committee by July 1, 2002.

RS:BK:ck



Jane Dee Hull
Governor

Phyllis Biedess
Director

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
Committed to Excellence in Health Care

September 20, 2001

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



Dear Representative Knaperek:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda for the October 4, 2001 Joint Legislative Budget Committee meeting for the purpose of reviewing increases to Fee For Service (FFS) rates, acute care capitation rates, and ALTCS rates for state fiscal year 2002. This review is required in the footnotes to the General Appropriation Act. Also required is a review of the implementation plan for the provider rate adjustment appropriated in HB 2631.

Fee For Service rate increases

Before, making fee-for-service program or rate changes that pertain to hospital, nursing facility, or home and community based services rates or for any of the other fee-for-service program or rate changes that, in the aggregate, are 2% above and \$1,500,000 from the state General Fund greater than budgeted medical inflation in FY 2002 and FY 2003, the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review.

For SFY 2002, AHCCCS was appropriated a 3.4% increase in general fund monies for acute care FFS rate increases. The actual FFS increase for inpatient hospital will be 4.0%. This percentage is based on the Data Resources Incorporated (DRI) HCFA Hospital Prospective Reimbursement Market Basket weighted average forecasted inflation thru the midpoint of the rate year (March 31, 2002), pursuant to Arizona Revised Statute §36-2903.01.

For SFY 2002, AHCCCS was appropriated 7.2% (3.5% plus an additional 3.7%) increase in general fund monies for FFS nursing facility (NF) and home and community based services (HCBS) rate increases. The actual FFS increase for NF rates will be 5.6%, and the actual FFS increase for HCBS will be 16.8%. The weighted average of the increases for both NF and HCBS is 7.8%. As requested by the NF industry, AHCCCS is reviewing the assumptions included in the rebasing of the NF rates, which may result in an additional increase.

No other FFS rate changes in the aggregate meet the criteria for JLBC review.

Acute care capitation rate increases

Before implementation of capitation rate changes that have a budgetary impact, the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review.

1. *Title XIX Rates (excluding the Title XIX Waiver Group):* For SFY 2002, AHCCCS was appropriated a 5.4% increase in general fund monies for Title XIX capitation rate increases; the

actual rate increase will be 7.2%. The increase in excess of the appropriation is attributable to several reasons, including:

- ☐ Pharmacy cost and utilization trends are approaching national trends. The pharmacy component was increased 12-20%, depending on the category of aid. This had an overall 1.73% statewide impact to the rate.
 - ☐ Increase in the incidence of cesarean births, which are more expensive than vaginal births.
 - ☐ Increase to provider reimbursement in rural counties. AHCCCS health plans are under mounting pressure to contract in excess of Medicare's fee schedule in order to maintain adequate provider networks in rural counties. Therefore, additional funding was included in the rural capitation rates to enhance contracting.
 - ☐ Increase to dental reimbursement. The capitation rates for children were increased an additional 1.7% to meet the costs of increased utilization of dental services for the 1-13 year old population.
 - ☐ Substantial increases to the SSI Without Medicare rate category were due to higher costs and utilization trends.
2. *S-Chip (Title XXI)*: The KidsCare (Title XXI) appropriation in Tobacco Tax funds is 3.5%; the actual rate increase will be 0%. Cost and utilization data does not support an increase for SFY 2002.
3. *Title XIX Waiver Group*: New rates and rate setting methodologies were developed for this new group of members to be added October 1, 2001. The estimated impact to the Tobacco Tax Litigation Settlement Fund for capitation rates for non-categorically linked Title XIX Waiver eligibles is approximately \$105,500,000 for SFY 2002.

It should be noted that although the Joint Legislative Budget Committee reduced the AHCCCS budget by reinstating the hospital pilot program in Maricopa and Pima counties, due to the current climate, it is unrealistic to believe that AHCCCS health plans will be able to renegotiate current hospital contracts to meet the budget reduction. Therefore, AHCCCS and its consulting actuaries determined that it is appropriate to reduce the inpatient component of the capitation rates two percent, rather than five percent.

ALTCS capitation rate increases

Before implementation of capitation rate changes that have a budgetary impact, the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review.

For SFY 2002, the ALTCS program was appropriated a 7.2% increase. This increase is composed of two elements, 3.5% for general medical inflation, and 3.7% for provider rate increases. The actual total increase in the ALTCS budget is 5.4%. This increase includes the special appropriation for provider rate increases. The actual increase fell short of the budgeted amount due to the competitive bidding

Representative Laura Knaperak
September 20, 2001
Page 3

process in counties other than Maricopa County, and the increased placement of members into home and community based settings.

Provider rate increases implementation plan

The administration shall provide the Joint Legislative Budget Committee staff an implementation plan for the provider rate adjustment.

Please find attached Attachment A. This attachment is a summary of the Administration's implementation plan for the nursing facility and home and community based services provider increases. The implementation plan addresses additional expectations in the General Appropriation Act footnotes, including, the intent that 100% of the provider rate increase appropriation be distributed to contracted community treatment providers via increases to contracted rates.

Deviations from the budgeted appropriations, and details of the provider increase implementation plan will be addressed in more detail at the Joint Legislative Budget Committee meeting on October 4, 2001. Please note at this time, the actual increases listed above do not factor in growth in membership. Please feel free to contact Kari Price, Assistant Director, Office of Managed Care, at (602) 417-4625 if you have any questions.

Sincerely,


Branch McNeal
Deputy Director

Attachments

- c. Tom Betlach, Director, Governor's Office of Strategic Planning and Budgeting
- Richard Stavneak, Director, Joint Legislative Budget Committee Staff
- Kari Price, Assistant Director, Office of Managed Care, AHCCCS
- Jim Cockerham, Assistant Director, Vision of Business and Finance, AHCCCS
- Gretchen Logan, Joint Legislative Budget Committee Staff
- Aimee Basye, Governor's Office of Strategic Planning and Budgeting
- Anne Winter, Finance Manager, Office of Managed Care, AHCCCS



ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
MEMORANDUM

ATTACHMENT A

Discussion Paper on the ALTCS CYE '02 NF and HCBS Provider Rate Increase

1. Provider Rate Increase Legislation

As part of HB 2631, Chapter 236, the ALTCS program received an additional budget appropriation for SFY 2002 and 2003 to increase the Home and Community Based Services (HCBS) and Nursing Facility (NF) rate components of the ALTCS capitation rates. This provider increase will be required to be passed through to the community providers. In addition, AHCCCSA will be required to provide an implementation plan to the Joint Legislative Budget Committee (JLBC). AHCCCSA is also required to summarize reports received by the program contractors on how the increase was used and report this information to the JLBC by June 1, 2002.

2. Determination of the Provider Increase Amounts

• **CYE '02 AHCCCS Fee For Service (FFS) Rate Increases**

For CYE 2002, AHCCCS contracted with EP&P Consulting, Inc. to rebase the AHCCCS HCBS and NF Fee For Service (FFS) rates. After the rates were rebased, OMC Research calculated the impact that the FFS rate increases, effective October 1, 2001, will have to the ALTCS program contractors based on program contractors submitted encounters.

Nursing Facility	5.5% increase
HCBS	15.3% increase

• **Determination of the Pass Through Contractor Rate Changes**

Actuarially sound rate ranges for CYE 2002 were developed by William M Mercer. These base rates were determined by using actual experience and encounter data from the program contractors. After the methodology for calculating the pass through was determined, these rate ranges were adjusted to include the pass through amounts.

The pass through amounts were derived in three parts:

A. Inflationary Increases:

Inflation trends were 3.1% and 3.6% for NF and HCBS respectively.

B. Additional Pass Through Amounts:

Since the total increase in the FFS rates was 5.5% and 15.3% and at this point we had only included an inflationary trend, Mercer now added the difference between the inflation trend and the total FFS rate increase. The Additional impact to the ALTCS capitation rate was 2.4% and 11.7% for NF and HCBS respectively. The

pass through was applied differently for Maricopa County and the counties that were competitively bid for CYE '02.

- Non-Maricopa Counties: The pass through increases were applied to the midpoints of the rate ranges for the NF and HCBS components. Each county's awarded NF and HCBS components were increased by that flat dollar amount.
- Maricopa County PC's: After the NF and HCBS components were increased for inflation trends, they were increased by the amount of the additional pass through net of inflation.

C. Additional NF Amount:

In addition to the 5.5% NF pass through, another 0.5% increase to the NF rate was passed on by AHCCCSA to the program contractors to help cover additional rate increases. Although the total increases to capitation rates are 6.0% and 15.3% for NF and HCBS respectively, AHCCCSA is only requiring that the program contractors provide us with proof of how they passed on 5.5% of the NF and 11.7% of the HCBS increases. The 5.5% and 11.7% are the percentages related to the special funding.

3. Contract Language Regarding the Pass Through

AHCCCSA has included language in all ALTCS/EPD contracts requiring the program contractors to pass through the 5.5% NF and 11.7% HCBS increases to their subcontractors for direct care wages. They are also required to monitor the subcontractors regarding the pass through and to report to AHCCCSA on how they passed through the increases to direct care service providers. We are encouraging the program contractors to add language in their subcontracts with providers that they must be able to show that the increases went to the direct care provider level.

4. Reporting Requirements

- **AHCCCSA Requirements**
 - By September 1, 2001 AHCCCS is to report on how the legislated pass through was implemented. This plan will include a description of the calculation of the pass through amounts and the pass through and reporting requirements imposed on the program contractors.
 - By June 1, 2002, AHCCCS is to provide a summarized report to the JLBC on how the program contractors are using the pass through amounts.
- **ALTCS Program Contractor Requirements**
 - Each program contractor is to report to AHCCCS by May 1, 2002 on how the pass through was implemented. This report is to include a description of the methodology used to distribute and monitor the pass through dollars they received as part of the capitation rate.

5. OMC Reporting and Monitoring Tools

A standardized reporting tool, developed by OMC, will be used by the program contractors to report on the pass through dollars received. This report will allow AHCCCS to collect and summarize standardized information on the pass through for reporting results to the JLBC.

This reporting tool will include:

- Description of the methodology used by the program contractors to distribute the pass through to subcontractors and ultimately the direct care workers. (ie. flat increase to all providers, a greater proportion to targeted services that need a larger increase, increases based on quality indicators, or any combination of the above.)
- Work papers outlining rates paid to subcontracted providers prior to and after receipt of the pass through along with utilization statistics.
- Description of any contract language program contractors put in their subcontracted providers contracts requiring them to pass on the increases to direct care workers.
- Description of the process used by the program contractors in monitoring their subcontractors adherence to the pass through requirements.
- Policies and procedures used to correct subcontractors actions if they are found out of compliance with the pass through requirements. This will include policies and procedures for recoupment of pass through dollars intended for direct care workers that were not passed through to them.
- Additional monitoring tools will be used by OMC to verify information received by the program contractors. The monitoring tools will include:
 - Review of new subcontractor rates vs. prior rates, as well as utilization, through encounter validation.
 - Review of medical expenses through financial statement reviews.
 - Conducting sample reviews of subcontractors direct care wages.

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: September 27, 2001

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

THRU: Richard Stavneak, Director

FROM: Jill Young, Fiscal Analyst
Lorenzo Martinez, Senior Fiscal Analyst
Steve Grunig, Research/Fiscal Analyst

SUBJECT: ARIZONA BOARD OF REGENTS – REPORT ON TECHNOLOGY AND
RESEARCH INITIATIVE FUND AWARD PROGRAM (PROPOSITION 301)

Request

Pursuant to A.R.S. § 15-1648D, the Arizona Board of Regents (ABOR) issued the FY 2001 report on the Technology and Research Award Program. The Chairman of the Committee requested that this item be placed on the agenda.

Recommendation

This item is for information only and no Committee action is required. In FY 2002, ABOR estimates that between \$45.6 million and \$54.8 million will be distributed to the three Arizona Universities and ABOR through the Technology and Research Award Program. Arizona State University (ASU) will receive between \$18.2 million and \$22.0 million. Northern Arizona University (NAU) will receive between \$8.1 million and \$9.7 million. The University of Arizona (UA) will receive between \$16.3 million and \$20.1 million. ABOR will receive \$3 million.

Analysis

The Technology and Research Initiative (TRI) Fund was established to fund new economy technology and research initiatives by Education 2000 (Proposition 301), which voters enacted into law during the November 2000 General Election. Education 2000 increased the state Transaction Privilege Tax (TPT) (“sales tax”) rate from 5% to 5.6% and dedicated the new revenues from that rate increase to various programs in public education. These monies are deposited into a dedicated Proposition 301 portion of the

(Continued)

General Fund and continuously appropriated. The TRI Fund receives 12% of these collections after debt service on state school facilities revenue bonds is allocated. Up to 20% of TRI Fund monies may also be used for capital projects, including debt service related to new economy initiatives.

A.R.S. § 15-1648C established the following criteria for awards:

1. The award must be related to one of the following:
 - (a) A specific academic or research field.
 - (b) Designated to expand access to baccalaureate or post-baccalaureate education for time-bound and place-bound students.
 - (c) To implement recommendations of the Arizona Partnership for the New Economy or the Governor's Task Force on Higher Education.
2. The award may be used to develop new and existing programs that will prepare students to contribute in high technology industries located in this state.
3. The award may be used in conjunction with matching financial assistance from private industry.
4. ABOR shall give preference to requests that are developed in conjunction with private industry, private entities, or federal agencies.

Pursuant to A.R.S. § 15-1648D, ABOR is required to submit a report on the Technology and Research Award Program to the Governor, the President of the Senate, and the Speaker of the House of Representatives by September 1 of each year. The report is to include a description of the amount and duration of each new award distributed and a description of the purpose and goals for each award. For existing awards, ABOR is also required to develop a detailed set of performance measures to determine the overall effectiveness of each award.

The following table shows the distribution of TRI Fund revenues for FY 2002 – FY 2006 to the Arizona University System.

Technology and Research Initiative Projects (in Millions)										
	<u>FY 2002</u>		<u>FY 2003</u>		<u>FY 2004</u>		<u>FY 2005</u>		<u>FY 2006</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
ABOR	\$ 3.0	\$ 3.0	\$ 3.1	\$ 3.1	\$ 3.2	\$ 3.2	\$ 3.3	\$ 3.3	\$ 3.4	\$ 3.4
ASU	18.2	22.0	19.1	23.0	19.9	23.8	20.9	25.1	22.2	26.2
NAU	8.1	9.7	8.5	10.2	8.9	10.7	9.4	11.2	9.8	11.8
U/A	<u>16.3</u>	<u>20.1</u>	<u>17.2</u>	<u>21.1</u>	<u>18.2</u>	<u>22.2</u>	<u>19.2</u>	<u>23.3</u>	<u>20.2</u>	<u>24.4</u>
Total	\$45.6	\$54.8	\$47.9	\$57.4	\$50.2	\$59.9	\$52.8	\$62.9	\$55.6	\$65.8

Attachment A lists the funding for individual projects at each university. Attachment B lists the performance measures associated with each project. The 58-page report is available upon request.

RS:JY:LM:SG:ss
Attachments

**Board Members**

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Public Instruction

Executive Director
Linda J. Blessing

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July 10, 2001

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

Dear Representative Knaperek:

A footnote included in the General Appropriations Act requires that the Arizona Board of Regents inform the Joint Legislative Budget Committee of any tuition revenue amounts which are different from the amounts appropriated by the Legislature. Attached for your information is a summary report of tuition revenues reported to the Board of Regents at its June 29, 2001 meeting. The change in tuition revenue is primarily due to an increase in resident and nonresident tuition approved by the Board in April 2001.

If you have any questions, please do not hesitate to call me at 229-2505.

Sincerely,


Linda J. Blessing
Executive Director

xc: Senator Ruth Solomon
Richard Stavneak, Director, JLBC
Tom Betlach, Director, OSPB

Arizona State University

Northern Arizona University

University of Arizona

**ARIZONA UNIVERSITY SYSTEM
TUITION AND FEES IN SUPPORT OF THE
2001-02 STATE OPERATING BUDGET**

	STATE COLLECTIONS			USE OF INCREASED TUITION REVENUES
	AS REPORTED IN THE 2001-02 ALL FUNDS OPERATING BUDGET REPORT	AS APPROPRIATED BY THE LEGISLATURE	CHANGE	
Arizona State University Main	109,040,100	101,478,800	7,561,300	Support current services and limited program enhancements such as technology assisted courses and classrooms, library acquisitions, on-line registration, and increased academic advising opportunities. Includes \$1.4 million from special program fees to support program enhancements in the College of Business.
Arizona State University East	5,526,100	5,167,400	358,700	Support for current services, additional academic and student services, and a transfer of the Exercise and Wellness program from the main campus.
Arizona State University West	3,940,800	2,979,300	961,500	Support for current services and program enhancements that include the acceleration of the Applied Computing Program and Learning Enhancement Center, and the expansion of academic support including student advising.
Northern Arizona University	30,202,500	27,264,100	2,938,400	Support utility cost increases, and the new student administration system (SOLAR).
University of Arizona	83,166,400	78,791,200	4,375,200	Support current services, and limited program enhancements such as academic advising and information technology.
University of Arizona Health Sciences Center	7,032,900	6,871,500	161,400	Support for instructional programs and academic support.
TOTAL	238,908,800	222,552,300	16,356,500	

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CHRISTINE WEASON

DATE: September 28, 2001

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

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

Request

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

Recommendation

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

Reports

A) State Board of Directors for Community Colleges - Report on Arizona Learning Systems (ALS).

Laws 1998, 4th Special Session, Chapter 1 requires the State Board of Directors for Community Colleges (State Board) to submit an enrollment and financial report to the Joint Legislative Budget Committee on the activities of ALS by September 15th of each year. We received the report for FY 2001 on August 23, 2001.

ALS is a consortium of Arizona's 10 community college districts under the auspices of the State Board created to promote distance learning across district boundaries using Internet, interactive video-conferencing, and other technologies. ALS development is planned for 3 phases. The first phase to establish connectivity for distance learning to one site in each of the state's 10 college districts has been implemented.

Initial pilot offerings of classes began in the Spring 2001 semester with limited success. Of the 60 classes initially offered, only 4 students enrolled in 4 classes. Attributing the poor enrollment to insufficient marketing and student awareness, lack of course integration with specific certificate or degree programs, and inadequate staffing, ALS has taken the following specific measures to mitigate these problems:

- Hired an additional professional to coordinate student and academic affairs, curriculum, and course offerings with the college districts.
- Contracted with a marketing consultant to develop a marketing plan, increase student and faculty awareness, and to work with ALS staff and the districts to implement the plan.
- Articulate and direct course offerings toward certificate programs that offer greater value to students and address statewide needs.

B) Department of Economic Security - Report on Annual Child Care Expenditures.

A.R.S. § 46-810 requires the Department of Economic Security (DES) to report child care data to the Committee by October 1 yearly. DES submitted its report for FY 2001 on September 11. The report shows that the average number of children served increased to 40,092, or 4.9% above FY 2000; the number of families served increased by 3.5%. This growth was uneven across categories, however, as the number of children served in the Low Income Working category increased by 10.6% above FY 2000 while the number of TANF-related children grew by just 1.5% and the number of children receiving transitional child care declined by (4.6)%. Since April 1997, there has been no waiting list for child care subsidies.

The amount spent on child care subsidies increased to \$118,683,800, or 5.0% above FY 2000. The average monthly subsidy paid per child increased just 0.2% to \$246.69. Co-payment levels for child care programs were not changed except for adjusting the income limits slightly upwards for new federal poverty level figures. The total amount of co-payments collected increased 25% above FY 2000 to \$14,133,800.

C) Department of Corrections - Report on Inmate Utility Fees.

Pursuant to A.R.S. § 31-239, the Department of Corrections shall annually report on monies collected from inmates who use electrical appliances. The report shall also include information on the expenditure of any monies collected. Statute requires the department to charge a fee, not to exceed \$2.00 per month, to inmates possessing at least one electrical appliance. For FY 2001, the department assessed a monthly utility fee of \$1.00 and collected \$128,800. The department reports that the monies collected were utilized to reduce the General Fund cost for electrical consumption at state prison complexes.

D) Dental Board - Report on Unprofessional Conduct Definitions.

Pursuant to a General Appropriation Act footnote, the Board of Dental Examiners is required to report to the JLBC on how the Board has implemented the provisions of Laws 2000, Chapter 87, Section 1 relating to the definition of unprofessional conduct. Their report is also to include written standards outlining licensure requirements and grounds for disciplinary action and how the board has communicated these standards to licensees.

The report by the Dental Board states how they have implemented these changes, and how they are communicating these changes to their licensees. The changes in the definition of unprofessional conduct contained in Laws 2000, Chapter 87, Section 1 were published in the Board's November 2000 newsletter. This newsletter article reflected that the definition of unprofessional conduct had been changed to include the failure to inform patients regarding the different types of dental filling material and the reasons for their use. The Board also offered licensees a copy of the Board's Substantive Policy Statements free of charge, and started distributing this to all new licensees. This publication includes the grounds for disciplinary action, and these policies are revised through the Board's newsletter. Finally, the Board published a Special Edition Newsletter in August 2001, which reminded licensees of the new definition of unprofessional conduct, and included a dental materials fact sheet, obtained from the Dental Board of California. The Board is also planning to publish this information on their Web site, upon the Web site's development.

To further comply with the second requirement of the footnote, the Board distributes a cover letter with licensure applications that state the licensure requirements. This information is distributed to those applying for licensure as a dentist or as a dental hygienist. The Board also provides applicants with a free copy of the Dental Practice Act, which includes the licensure requirements. Copies were also provided to all licensees in 1999.

E) Arizona Department of Transportation - Report on Highway Maintenance Levels of Service.

The Arizona Department of Transportation (ADOT) reported an overall statewide highway maintenance level of service of 86% for FY 2001, the same as for FY 2000, with 6 measures improving (pavement, traffic safety, shoulders, roadside, drainage, and rest areas) and 3 measures decreasing (urban landscape, rural vegetation, and snow and ice). These levels of service measure the percentage of roads statewide that meet ADOT's minimum acceptable standards for 9 categories of Highway Maintenance. ADOT projects spending \$2,105,000 of their \$2,200,000 appropriation for FY 2002 to improve safety related measures (snow and ice \$1,145,000, rural vegetation \$600,000, and shoulders \$360,000), and the remaining \$95,000 for smaller specific items (urban landscape \$75,000, and drainage \$20,000).

ADOT hired a consultant to assess public perception of Arizona's highway maintenance program in July 2001, which repeated a survey initially conducted in July 1998. The results were similar to the July 1998 survey, indicating that Arizona residents are generally satisfied with current maintenance efforts, and rating ADOT maintenance as better than maintenance by local jurisdictions and equal to or better than maintenance by other states. ADOT has hired a consultant to improve their data collection, and to try to begin tying highway maintenance funding levels to their levels of service by the end of June 2002.

F) Arizona Department of Transportation - Report on Ports of Entry.

This is the third and final follow-up report resulting from the ports of entry Strategic Program Area Review (SPAR) which was conducted during the summer of 1999. The Arizona Department of Transportation (ADOT) reported on how they have improved their collection, analysis and use of 4 performance measures for their ports of entry as required by Laws 2000, Chapter 343 on September 6, 2001. Prior to this report ADOT had not yet established baseline data in FY 2001 for 3 of the 4 performance measures specified in Chapter 343 (the number of vehicles weighed, the number of overweight vehicles, and the operating budget expenditures for both fixed ports and mobile units). ADOT's results are shown in the following table.

<u>Performance Measures</u>	<u>FY 2001</u>		<u>Total</u>
	<u>Fixed Ports</u>	<u>Mobile Units</u>	
Vehicles Weighed	3,686,096	20,667	3,706,763
Overweight Vehicles	21,099	675	21,774
Revenues Collected	\$14,127,300	\$ 20,800	\$14,148,100
Direct Operating Budget Expenditures	\$ 6,222,700	\$276,700	\$ 6,499,400

From this data we can conclude that for FY 2001 mobile units weighed only 0.6% of the total vehicles weighed, but spent 4.3% of the total direct operating budget expenditures for the 2 groups. Mobile units had a 3.3% overweight rate for vehicles that they weighed versus a 0.6% overweight rate for fixed ports. However, fixed ports collected \$2.27 of revenues, while mobile units collected \$0.08 of revenues, for each \$1 of each group's respective direct operating budget expenditures.

The JLBC Staff believes that this data helps to present a useful picture of the respective strengths and weaknesses of fixed ports versus mobile units. The JLBC Staff further believes that the optimal level of resources for mobile units and for fixed ports needs to be carefully evaluated, considering items such as mobile units' likely deterrence to overweight vehicles not caught by the fixed ports versus mobile units' limited application and their relative costs.

G) Department of Emergency and Military Affairs - Report on Declared Emergencies.

Pursuant to A.R.S. § 26-303, the Governor declared a State of Emergency effective August 16, 2001 in Maricopa and Pima Counties due to a major monsoon storm. Pursuant to A.R.S. § 35-192, the Governor directed that \$200,000 from the General Fund be made available for expenditure by the Director of the State Division of Emergency Management - a branch of the Department of Emergency and Military Affairs (DEMA). The storm caused loss of electrical power in parts of Maricopa County and Pima County, with particularly severe damage in the Gila Bend area.

Pursuant to A.R.S. § 26-303, the Governor declared a State of Emergency effective September 11, 2001 in the State of Arizona due to the terrorist attacks across the country. Pursuant to A.R.S. § 35-192, the Governor directed that \$40,000 from the General Fund be made available for expenditure by the Director of the State Division of Emergency Management. The attacks led to the activation of the State Emergency Operations Center and the activation of state resources to monitor and respond to the situation.

Under A.R.S. § 35-192, the Governor is authorized to approve the expenditure of \$200,000 or less for any single disaster or emergency. Authorization of larger expenditures cannot be made without consent of a majority of the members of the State Emergency Council. The total amount of all expenditures for States of Emergency cannot exceed \$4,000,000 for any fiscal year. These are the first two emergency declarations of FY 2002. In FY 2001, \$2,483,800 from the General Fund was spent for eight States of Emergency.

H) Department of Health Services - Report on SMI Services Distribution Plan.

At its October 2000 meeting, JLBC reviewed a distribution plan for \$50 million in one-time funding for the Seriously Mentally Ill from the Tobacco Settlement. At that time, JLBC asked Department of Health Services (DHS) to report additional information in January 2001 when we anticipated more complete information regarding the number of housing units to be purchased with the funds, types of housing that will be provided, and exact numbers of clients to be served would be available. DHS provided updated but incomplete information regarding these questions in January of 2001. JLBC Staff and DHS agreed to meet again in September to obtain this information.

At the September meeting, DHS reported that many Regional Behavioral Health Authorities (RBHAs) are still in the process of locating properties to purchase, and only a few RBHAs have actually purchased properties using Tobacco Settlement monies. It may be as much as 9-12 months before it is clear exactly how many properties will be purchased using these monies and exactly how many clients will be served. JLBC Staff and DHS have agreed to revisit the issue in February of 2002. Through August of 2001, DHS has expended \$17,102,200 of these Tobacco Settlement monies.

I) Boxing Commission - Report on Boxing Events and Revenue.

Pursuant to a General Appropriation Act footnote, the Boxing Commission is required to report semiannually on the number of boxing events, gross receipts, state revenues, and licensing fee collections. The Commission submitted its latest report on July 5.

As of July 5, 2001, 20 events have been held in Arizona with the total for gross receipts and license fees equaling \$56,700. The total receipts represent 74% of the Commission's FY 2001 General Fund appropriation of \$76,200.

RS:lm