STATE OF ARIZONA

Joint Legislative Budget Committee

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- R E V I S E D -

JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, December 18, 2003
9:30 a.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order
- Approval of Minutes of November 6, 2003.
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. ATTORNEY GENERAL - Review Allocation of Settlement Monies (Buspirone Antitrust, Cardizem CD Antitrust, Taxol Antitrust, Richard and Rochelle DeGrenier).

2. AHCCCS
   A. Review of Comprehensive Medical Dental Program (CMDP) Capitation Rate Changes.
   B. Report on Cost Sharing Measures.
   C. Report on Health Care Group Branding and Marketing Services Request for Proposals.

The Chairman reserves the right to set the order of the agenda.
12/15/03

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HOUSE OF
REPRESENTATIVES

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

November 6, 2003

The Chairman called the meeting to order at 9:40 a.m., Thursday, November 6, 2003, in House Hearing Room 4. The following were present:

Members:	Senator Burns, Vice-Chairman	Representative Pearce, Chairman
	Senator Anderson	Representative Biggs
	Senator Cannell	Representative Burton Cahill
	Senator Harper	Representative Farnsworth
	Senator Rios	Representative Gray
		Representative Huffman
		Representative Lopez
Absent:	Senator Arzberger	Representative Huppenthal
	Senator Bee	
	Senator Martin	
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Jason Hampton	Kim Hohman
	Bob Hull	Lorenzo Martinez
Others:	Cynthia Odom	Attorney General's Office
	Elliott Talenfeld	Attorney General's Office
	Lynette States	BRITS Project Manager, Department of Revenue
	Steve Miller	ASU
	Gale Tebeau	Arizona Board of Regents
	Cathy McGonigle	Arizona Board of Regents
	Kathy Bedard	Arizona Board of Regents

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of September 25, 2003. The motion carried.

DIRECTOR'S REPORT

Mr. Richard Stavneak, JLBC Staff Director, stated that each year the JLBC Staff informs the Committee of their statutory responsibilities. The Committee itself has 148 separate statutory responsibilities. The JLBC Staff has 85 statutory responsibilities. The Staff keeps track of all the footnotes and the items that are put into the General Appropriation Act, in terms of whether or not agencies have responded, and that is available on-line.

In addition, the *Tax Handbook* has been put on-line. This is a revenue companion to our *Appropriation Report* and describes each of our major tax categories. It is a technical document but it gives you the specifics of how each major tax works, and recent history of tax law changes that have been made.

You will also be receiving recommendations on eliminating funds in the state's accounting system or suggestions of funds to be transferred to appropriated status. There are 22 funds that we believe can be eliminated from the accounting system, and the state agencies concur with that. These are funds that no longer have a use. In terms of moving funds to appropriated status, we will provide you with a list of the 28 largest funds, and they constitute 93% of all non-appropriated funds.

EXECUTIVE SESSION

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

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

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

At 9:50 a.m. the Committee reconvened into open session.

Senator Burns moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Williams v. State. The motion carried.

ATTORNEY GENERAL - Review of Allocation of Settlement Monies (Tabacos de Canarias S.L. Regarding Master Settlement Agreement Payment.)

Mr. Jason Hampton, JLBC Staff, said that the JLBC Staff recommends giving a favorable review to Tabacos de Canarias's S.L. expenditure plan. The state will receive a total of $682,700 over the next 18 years for deposit into the Arizona Tobacco Litigation Settlement Fund.

Senator Burns moved that the Committee give a favorable review as recommended by the JLBC Staff to the Tabacos de Canarias's S.L. expenditure plan. The motion carried.

ARIZONA BOARD OF REGENTS - Review of FY 2004 Tuition Revenues and Report on Technology and Research Initiative Fund (Proposition 301).

Mr. Lorenzo Martinez, JLBC Staff, said that this item is a review of the expenditure plan for tuition amounts above the appropriated FY 2004 levels and the report on the Technology and Research Initiative Fund is for information only. The Universities report that they will be collecting a little over $36 million more than was appropriated in the FY 2004 budget in tuition revenue. The Universities said that the funds will be used to fund items such as enrollment growth and some increases in employee related benefits. There is a footnote in the Appropriations Bill that requires the Universities to report these amounts to the Committee for review. In the past the Committee has noted that they would like to see more detail on the information provided and the JLBC Staff would recommend that the Committee request additional information in future reports, if it so desires.

In addition, included in the JLBC memo is an informational item that does not require Committee action. The Technology and Research Initiative (TRI) Fund, which is part of Proposition 301 which increased the sales tax for education purposes, receives 12% of monies from that tax after payment is made on bonds related to school deficiencies correction. The table on the last page of the memo shows the allocation for the funds. The Universities report that there will be an allocation of approximately $63 million from this fund in FY 2004.

Representative Biggs asked what it means when they say they are going to use some of the revenues from tuition for student enrollment growth. Mr. Martinez said that university budgets are technically funded from a formula for enrollment growth. In FY 2004 that formula was not funded. What they are doing with these monies is funding some of the growth that was not funded.

Representative Biggs asked if there was information on the number of FTEs that would be hired. Mr. Martinez responded that we do not have anymore detail of the expenditures other than what they provided.

Representative Biggs said he too would like to request a higher level of detail when the Universities provide information on enrollment growth. He also asked about money going to biotechnology related from the TRI Fund. Mr. Martinez said he knows there are monies being allocated to bio-science activity and it will primarily fund operational costs as opposed to capital expenditures.

Senator Rios asked if these revenue numbers included the $1,000 tuition increase and whether financial aid was increased as promised when the tuition was adjusted. Mr. Martinez said that it does and that is the primary reason for the additional amounts. He also said they have increased the amount that is being allocated for financial aid. That amount is not included in what is shown on the table. The way tuition works in the university budgets is the Board of Regents, by statute, is allowed to allocate a certain amount of tuition off the top for certain programs. One of those programs is financial aid. Typically, what is left over is what is available for the Legislature to appropriate. The $36 million submitted for Committee review is from the appropriated area and does not include the financial aid component, which is part of the non-appropriated area. In going back and looking at the total from appropriated and non-appropriated areas, the total expected additional amount from tuition collections in FY 2004 is $72 million.

Senator Burns moved that the Committee give a favorable review as recommended by the JLBC Staff to the Arizona Board of Regents expenditure plan of approximately $36 million for tuition amounts over the appropriated amounts. The motion carried.

DEPARTMENT OF REVENUE (DOR) - Report on Credit Card Payments.

Mr. Bob Hull, JLBC Staff, said this item is a report on DOR's plan to begin accepting credit card payments for transaction privilege and withholding taxes beginning January 2004. The department would begin accepting credit card payments for corporate income tax in September 2004 and individual income tax in September 2006, as these additional taxes are brought on line as part of their Business Reengineering/Integrated Tax System (BRITS) project. DOR would receive payment of the full amount of the tax, and there would be no cost to the General Fund. The taxpayer would pay the full cost of the convenience fee, which DOR estimates to be from 2% to 4% of the tax charged to the credit card.

Representative Pearce asked if statute specifies what is able to be charged by credit card companies.

Mr. Stavneak said there is not a percentage in statute.

Mr. Hull said that the department does not yet have a specific percentage as they have not issued a formal RFP.

Representative Pearce said the taxpayers should get the benefit of what is being done in other areas, such as Service Arizona in registering vehicles with fees that were negotiated at about 1.7%. The fees need to be reasonable enough for taxpayers to participate in it.

Senator Burns asked if the 2% to 4% represents the actual cost to the state for servicing of the credit card sales. Mr. Hull said there is supposed to be no cost to the state or the General Fund.

Ms. Lynette States, BRITS Project Manager, DOR, said because of the law, the department is not allowed to use General Fund monies so it went out for a service contractor so that any entities that provide this kind of service could also provide it to the taxpayers of Arizona. DOR is still in the process of getting information from those companies and the estimates of the 2% to 4% are estimates. At this point they are not sure where those percentages will end up.

Representative Pearce asked if we are leveraging the other activities to bring that convenience fee down so that we have a greater likelihood of the public using the system.

Senator Burns said that when you renew your plates at MVD there is no charge. He said he has had the opportunity, if he wished, to pay his property taxes by credit card and decided not to do it because the fees were too high. He asked if they have checked with Maricopa County to see how they are running their program.

Ms. States said they have had some interaction with Maricopa County. They actually have found the same thing we have because they also cannot absorb the fees. As far as utilizing some existing services, they are working through the statewide portal so that when the taxpayers sign on to the statewide portal it will be linked to a site to which they can apply for a license and pay and file their taxes. The reason why they could not work through the contracts that are already in place for the credit card service is because the taxpayer needs to pay the fee. She said she would try to see what could be done about the fees when they are talking to the credit card companies.

Representative Biggs said that the timetable for personal income tax to come on line is 3 years. Is there anyway this can be moved up.

Ms. States said that it will be the last one to come on line for the reason of volume and it is much more complicated.

Mr. Hull noted that the JLBC Staff recommends that the DOR report back once fees are set.

DEPARTMENT OF REVENUE - Report on Ladewig Expenditures.

Mr. Stavneak said that this item has to do with the Ladewig settlement. We are about to distribute $300 million in tax refunds to individuals as part of a court settlement. The administrative costs, originally in FY 2004, were estimated at $7.3 million. That money was made available as part of the $75 million set-aside that the state had for the Ladewig lawsuit when the Public Finance ORB was passed last spring. The Governor vetoed that provision, and along with it the $7.3 million was vetoed at the same time. There are administrative costs that DOR needs to expend in this current year. DOR has reduced the $7.3 million by about $2 million by getting the Risk Management Fund to pay for the plaintiffs attorney's costs. Another $2.5 million in costs was reduced by DOR by using some old computers left over from the BRITS project and a number of other different items. That leaves a remaining cost for Ladewig administration of about $2.8 million in FY 2004.

There is a proposal for a revenue generating plan that the Governor has brought forward as a Second Special Session item. The revenue generating plan had $3.8 million in the requested appropriation and in return DOR estimated that they could generate $15 million in revenues to the state General Fund through increased compliance, auditing and licensing. Upon further examination, the $2.8 million for the Ladewig costs appears to be part of the $3.8 million that the department has requested for the revenue generating plan.

Representative Huffman asked, in discussions with DOR, have they identified what they are going to cut out of their existing budget to get the money and what the impact will be.

Mr. Stavneak said DOR has provided a chart that shows by various areas what they have said would be to restore reductions associated with Ladewig. DOR has not yet specified what the impact would be to take those cuts out of their existing budget.

Representative Huffman said that in meetings he attended with DOR, it was represented that these cuts have not taken place yet. If this revenue enhancement proposal goes forward the $2.8 million would be a direct supplemental appropriation for Ladewig expenses.

MARICOPA COUNTY - Report on Performance Measures for Adult Probation.

Ms. Kim Hohman, JLBC Staff, said this item is for information only. As part of the FY 2004 budget solution, Maricopa County agreed to pay for adult probation programs in that county without state or General Fund assistance. A provision in the Public Finance ORB requires the county to submit a monthly report on various performance measures related to these programs. Maricopa County has submitted all the required data and appears to be maintaining the 2002 caseload level.

Representative Pearce said Maricopa County agreed to provide the same service or better and he understood that they have added some additional money to improve probation services in Maricopa County. Ms. Hohman said that at the September Board of Supervisors meeting they approved hiring 17 intensive probation teams. Each team consists of 1 probation officer and 1 surveillance officer.

Without objection the Committee adjourned at 10:25 a.m.

Respectfully submitted:

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Cheryl Kestner, Secretary

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Richard Stavneak, Director

____
Representative Russell Pearce, Chairman

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

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JOHN HUPPENTHAL
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DATE: December 9, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brian Schmitz, Senior Fiscal Analyst

SUBJECT: ATTORNEY GENERAL – REVIEW ALLOCATION OF SETTLEMENT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has notified the Committee of the allocation of monies to be received from 4 settlement agreements.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for all 4 settlements.

Analysis

The General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and it specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review. The Office of the Attorney General recently settled 4 cases that will result in the receipt of settlement monies over $100,000.

The first settlement (the Buspirone case) involved 3 pharmaceutical companies that were alleged to have unlawfully extended the copyright period for their drugs. The settlement provides $100 million to 55 states, commonwealths, and territories. The State of Arizona will receive $1,351,222 for AHCCCS, another $71,735 will be distributed among several state agencies, and $142,678 will be deposited in the Anti-Trust Enforcement Revolving Fund.

The second settlement (the Cardizem CD Antitrust Litigation case), also involving pharmaceutical companies, involved alleged monopolization and restraint of trade for the Cardizem CD drug. Pursuant to the settlement, Arizona will receive $191,122 to be distributed to various state agencies, $377,741 for Arizona consumers, and $50,000 will be deposited in the Anti-Trust Enforcement Revolving Fund.

The third settlement (the Taxol Antitrust Litigation case) involved Bristol-Myers Squibb, which allegedly monopolized a market for anti-cancer drugs. According to the settlement, Arizona anticipates receiving $296,817 for AHCCCS, $67,442 for the Department of Administration, and $23,147 for the Anti-Trust Enforcement Revolving Fund.

The fourth settlement (the DeGrenier case) involved individuals who allegedly engaged in various deceptive practices in the sales and advertisements of medical billing business opportunities. It is likely that the state will not receive any money from this settlement. The DeGreniers are expected to make a payment of $140,000 that will used for restitution of victims.

RS/BS:ck

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HOUSE OF
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DATE: December 11, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM – REVIEW OF COMPREHENSIVE MEDICAL DENTAL PROGRAM (CMDP) CAPITATION RATE CHANGES

Request

Pursuant to a General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) is required to report federal Title XIX Acute Care capitation rate changes to the Committee for its review prior to implementation. AHCCCS is recommending an 18.7% increase to the Comprehensive Medical Dental Program (CMDP) capitation rates, retroactive to October 1, 2003 and effective through December 31, 2004. The federal government requires that capitation rates be actuarially sound.

Summary

The proposed rates are based upon an actuarial study. The proposed rates represent an increase above the current rates of approximately 18.7%. In comparison, the FY 2004 budget assumed capitation rate increases of approximately 7.1% and the Executive recommended a 5.6% increase. The proposed rates would result in unbudgeted FY 2004 General Fund costs of approximately $593,100.

The Committee has at least the following choices:

1. A favorable review of the CMDP capitation rate adjustments with no conditions. AHCCCS would likely view this option as an endorsement of any future supplemental need resulting from this rate increase.

2. A favorable review with the stipulation that it does not endorse any potential supplemental request.

3. An unfavorable review. Given the federal guidelines that the capitation rates be actuarially sound, AHCCCS would most likely implement these rates even with an unfavorable review.

At the September meeting, the Committee gave an unfavorable review to the capitation rate increase AHCCCS requested for the regular AHCCCS populations.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. AHCCCS contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. CMDP provides medical and dental services to children in foster care, and is administered by the Department of Economic Security. AHCCCS estimates that this increase will have a state match cost of $593,100 (with $1,397,400 in corresponding federal matching monies) above the current costs of the CMDP program.

The 18.7% capitation rate increase recommended by the actuaries includes a 14.2% increase for medical costs. The medical cost increase is in large part fueled by increased utilization and a greater percent of services being provided in rural settings. The overall rate increase also includes a 2.5% increase for additional administrative costs and a 2% increase to reflect the elimination of the insurance premium tax exemption. Additional funding for the premium tax was provided in the FY 2004 budget; this funding will be built into the capitation rates.

RS/TS:ck

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DATE: December 11, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM - REPORT ON COST SHARING MEASURES

Request

In response to direction from the Committee at its September meeting, AHCCCS is providing information on the implementation of cost-sharing measures and the expected savings relative to the savings assumed in the original FY 2004 budget. The Committee had expressed interest in this subject as AHCCCS is not planning to implement the full cost sharing plan in the FY 2004 budget.

Recommendation

This report is for information only and no Committee action is required. Under the latest AHCCCS plan, approximately $4.8 million in state savings will occur in FY 2004, as opposed to the $12.6 million assumed in the FY 2004 budget. This difference of $(7.8) million is attributed to: 1) federal Centers for Medicare and Medicaid Services (CMS) restrictions, $(3.2) million; 2) lower than expected KidsCare (parents and children) enrollment, $(1.6) million; and 3) a revised implementation schedule, $(3.0) million. Additional provisions will be implemented throughout FY 2004, therefore FY 2005 savings could be approximately $2-4 million above the estimated FY 2004 savings.

Analysis

AHCCCS originally submitted a report on cost sharing in November 2002 in which they identified $12-15 million in potential state savings (excluding ALTCS) that could be achieved by implementing various cost sharing strategies. The proposed cost-sharing measures included the establishment of increased and mandatory co-payments, new and increased monthly premium amounts, and the establishment of one-time enrollment fees for some populations. Based on the estimates in the AHCCCS report, approximately $12.6 million in savings were included in the original FY 2004 AHCCCS appropriation, and ORB language was added to allow AHCCCS to implement these measures.

The language added in the Health ORB permitted AHCCCS to implement cost sharing measures, but did not require specific measures to be implemented on a specific timeline. AHCCCS has since indicated that not all of the assumed strategies have been implemented, and several will not be implemented. (Attachment 1 compares the cost sharing measures in place prior to FY 2004 and the measures proposed in the original report with the revised cost-sharing plan and implementation schedule.)

Federal Issues

The CMS issues cited by AHCCCS primarily include the limiting of the co-payments AHCCCS is able to charge to categorically eligible persons in both the traditional Title XIX program and the Proposition 204 population. The original AHCCCS proposal was predicated on the ability to deny services to members who would not pay the new co-pays. CMS, however, is restricting that ability to only the former Medically Needy / Medically Indigent (MN/MI) population. Therefore, higher co-pays cannot be enforced for the regular Title XIX population and for approximately 40% of the Proposition 204 population. The higher co-pays were implemented for the former MN/MI population, and are reflected in the capitation rates for this population as of October 1, 2003. Additionally, AHCCCS is currently seeking guidance from CMS on the implementation of some cost sharing measures for the KidsCare children's population between 100-150% FPL.

Enrollment Issues

Lower than expected growth in the KidsCare populations (children and parents) have also led AHCCCS to estimate less cost-sharing savings than assumed in the original FY 2004 AHCCCS appropriation. Specifically, AHCCCS estimates that savings in the KidsCare parents population will be approximately $(1.2) million below the original estimate of $1.8 million, and lower enrollment in the children's population will lessen the estimated savings of $1.8 million by approximately $(0.4) million. The lower cost-sharing savings estimate for these populations, however, should not result in a KidsCare supplemental need for FY 2004, as enrollment will likely remain below budgeted levels.

Implementation Issues

Policy decisions on the part of executive, including revised implementation schedules, are also resulting in approximately $(3.0) million less in FY 2004 savings than originally assumed. Monthly premium increases, co-payment increases, and the establishment of enrollment fees for the KidsCare children's population are being implemented incrementally over the next 10 months. AHCCCS is implementing these strategies on an incremental basis so as to monitor the effects on enrollment and the acuity of the population. In addition, enrollment fees and co-payment increases are not being implemented for the KidsCare parents population, as coverage for this population will expire on June 30, 2004. Finally, citing several administrative and implementation concerns, AHCCCS has chosen not to enact a proposed enrollment fee for the Proposition 204 program.

In total, AHCCCS reports that approximately $4.8 million in General Fund savings will be generated in FY 2004 as a result of expanded cost sharing measures. Further implementation of the strategies outlined in the original AHCCCS report could generate additional savings in FY 2005 of $2-4 million. Additionally, the expiration of the KidsCare parents population will reduce the savings amount by approximately $500,000. In total, expanded cost sharing measures could produce FY 2005 savings of approximately $6-8 million.

RS/TS:ck
Attachment

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HOUSE OF
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DATE: December 16, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM — REPORT ON HEALTHCARE GROUP BRANDING AND MARKETING SERVICES

The Chairman has asked the Arizona Health Care Cost Containment System (AHCCCS) to report to the Committee on the Request for Proposal (RFP) issued by the agency for Healthcare Group Branding and Marketing Services.

AHCCCS has issued an RFP in an attempt to secure a contract with a consulting firm to perform branding and marketing services. (See attachment for relevant portion of RFP.) AHCCCS is soliciting this RFP as part of a plan to increase Healthcare Group enrollment from its current level of approximately 11,250 to 100,000 members in three years. To accomplish this goal, AHCCCS is seeking an outside consultant to develop a "brand name" for Healthcare Group separate from AHCCCS and Medicaid. (Healthcare Group is administered by AHCCCS, but is not a Medicaid program.) AHCCCS specifies in the RFP that the goal of the Healthcare Group expansion is to target the currently uninsured, and that they are not interested in targeting competitor market share.

Healthcare Group is a health insurance plan that is available only to employees of small businesses (1-50 employees), self-employed persons, and employees of political subdivisions of the state. Members of Healthcare Group pay monthly premiums, and cannot be disqualified due to medical condition. The premium amounts vary with the age of the member and the member's location in Arizona. Because members cannot be denied enrollment based on medical condition, Healthcare Group is adversely selected by higher-risk members, while younger, healthier employees are less likely to select it because they can qualify for lower cost coverage. In part due to this adversely high selection of Healthcare Group by higher-risk individuals, the FY 2004 budget included a $4,000,000 appropriation from the General Fund for reinsurance costs resulting from catastrophic cases. All other funding for this program is provided by the premiums paid by members.

RS/TS:ck
Attachment