

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

June 29, 2004

The Chairman called the meeting to order at 9:30 a.m., Tuesday, June 29, 2004, in Senate Appropriations Room 109.
The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Bee	Representative Biggs
	Senator Cannell	Representative Gray
	Senator Martin	Representative Huppenthal
	Senator Rios	Representative Lopez
Absent:	Senator Anderson	Representative Burton Cahill
	Senator Arzberger	Representative Farnsworth
	Senator Harper	Representative Huffman
Staff:	Richard Stavneak, Director	Jan Belisle, Secretary
	Beth Kohler	Kim Hohman
	John Malloy	Tony Vidale
	Bob Hull	Jake Corey
	Tim Sweeney	Stefan Shepherd
Others:	Betsey Bayless	ADOA
	Kathy Peckardt	ADOA
	Allen Ecker	ADOA
	Cathy Eden	DHS
	Pat Mah	DHS
	Leslie Schwalbe	DHS
	Rene Rebillot	Attorney General's Office
	Kristen Boilini	AZ Community Colleges Assoc.
	Chad Douwstra	Maricopa Community Colleges
	Darcy Renfio	Department of Commerce
	David Felix	DPS
	Phil Case	DPS
	Carolyn Atwater	Senate
	Mark Swenson	Senate
	Joy Hicks	House
	Gretchen Logan	DES
	Lynne Smith	DES
	Tom Betlach	AHCCCS
	Leich Cheatham	DOR

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of May 25, 2004. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) –

A. Review of FY 2004 Expenditure Plan for Workforce Investment Act Monies.

John Malloy, JLBC Staff, gave a review of the Department of Economic Security's FY 2004 expenditure plan for Workforce Investment Act (WIA) monies. At its September meeting, the JLBC favorably reviewed \$10.5 million of the increase but recommended that \$1.8 million of discretionary program expansions be postponed to determine if those monies were needed to solve DES' FY 2004 budget shortfall.

DES received a FY 2004 supplemental taking care of all shortfalls. As a result, the JLBC Staff recommends a favorable review of the expenditure plan. Additionally, the JLBC Staff recommends that DES submit performance measures for the new and expanded programs in order to ascertain whether or not the programs are producing positive outcomes.

There was no discussion on this item.

Representative Pearce moved that the Committee give a favorable review of the Department of Economic Security's Expenditure Plan of \$1.8 million of additional Workforce Investment Act monies to be used for new and expanded programs. Additionally, the Committee requested that the agency submit performance measures for the new and expanded programs (Women's Issues, Youth Programs, and the Nursing initiative). These performance measures should be submitted to the JLBC by September 1, 2004. The motion carried.

B. Review of FY 2005 Expenditure Plan for Workforce Investment Act Monies and Report on Streamlining Workforce Training.

John Malloy, JLBC Staff, presented the Department of Economic Security's request that the Committee review the FY 2005 expenditure plan for Workforce Investment Act monies and report on streamlining workforce training. The JLBC Staff recommends that the Committee give a favorable review of the expenditure plan. The programs delineated in the expenditure plan represent core functions typically funded by Workforce Investment Act monies. The Department of Economic Security has indicated they will come before the Committee at a later date with an expenditure plan for an additional \$2 million in Workforce Investment Act monies. Mr. Malloy mentioned that the Governor's Council on Workforce Policy contracted with the Morrison Institute of Public Policy for a study on streamlining workforce training activities. This report was required by a FY 2004 General Appropriation Act footnote. The report looked at the strengths and weaknesses of the state system and recommended ways in which the state could improve its effectiveness in training workers in a changing economy. The report described the workforce development system in Arizona as being "stuck in transition." This report is on file with the JLBC Staff. It is also recommended that when DES comes before the Committee with the expenditure plan for an additional \$2 million, that they provide its perspective on the Morrison Institute report.

There was no discussion on this item.

Representative Pearce moved that the Committee give a favorable review to the Department Economic Security's expenditure plan of \$2.5 million in Workforce Investment Act monies to be used for core programs. Additionally, the Committee requested that the Department of Economic Security provide its perspective on the findings of the Morrison Institute report on streamlining workforce development services. The agency's perspective on the report should be submitted to the JLBC by September 1, 2004. The motion carried.

C. Consider Approval of Requested Transfer of Appropriations for Day Care Subsidy and Transitional Child Care.

John Malloy, JLBC Staff, presented the Department of Economic Security request to approve a FY 2004 transfer of \$400,000 in Child Care from the Day Care Subsidy Special Line Item to the Transitional Child Care Special Line Item.

This is a technical transfer due to a footnote in the DES's budget that requires that JLBC review for any monies going in or out of the 2 child care subsidy line items. The JLBC Staff recommends that the Committee approve this transfer.

In response to Representative Pearce, Gretchen Logan, Financial Services, Department of Economic Security Administration stated that when the federal reports are distributed on those funding levels, they are distributed not only to the agency but they are also received by the JLBC and OSPB. There are resources for them to have knowledge of the distribution and when contacted on that issue, DES was very forthcoming, responded specifically and provided internal spreadsheets and federal reports.

Representative Pearce expressed concern over the problem of disclosure.

Senator Cannell mentioned that he had received an email from Herschella Horton during the session that indicated the numbers were going to drop.

Representative Gray asked DES about the additional \$7 million that came from the federal government for childcare subsidies for the FY 2005 budget and asked why JLBC was not given this information. Ms. Logan stated that the reason she felt that they would have known about the resources is there are federal reports that the JLBC receives.

In response to Representative Gray, Ms. Logan said the cash benefits are issued on an EBT card. She will get back to Representative Gray regarding the incident she had asked about.

Representative Pearce moved that the Committee approve the JLBC recommendation to transfer \$400,000 in Child Care and Development Fund Block Grant monies from the Day Care Subsidy Special Line Item to the Transitional Child Care Special Line Item. The motion carried.

D. JLBC Staff Report on Child Protective Services Issues.

Kim Hohman, JLBC Staff, presented the JLBC Staff report on Child Protective Services (CPS) issues related to last fall's Special Session. The Special Session required the Department of Economic Security (DES) to submit a financial and program accountability reporting system for Child Protective Services. This report is to include specific performance measures intended to evaluate the CPS system. If necessary, the legislation allows DES, the Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC) to add performance measures to the report.

The JLBC recommended adding 5 performance measures to the financial and program accountability report.

Ms. Hohman proceeded to summarize DES expenditures of the \$16.6 million supplemental appropriation which provided funding for CPS issues.

Representative Gray asked why the new positions are not completely filled. Ms. Logan stated that there is a struggle with the workers' turnover.

Representative Pearce asked how much of the \$25 million supplemental that the department received in FY 2004 CPS funding will be expended by the end of the fiscal year. Ms. Logan stated that those dollars will be fully expended in the Children Services Line Item.

Representative Pearce requested information on the amount spent to date and the expectation of spending those additional dollars.

Senator Martin asked if the staff could look at cases that have been opened or closed and later there was some civil action regarding the same individual.

Senator Rios asked how bilingual competency is tested. Ms. Logan mentioned that the competency test is a verbal test.

Senator Rios asked if the rate increases for foster homes had reduced the complaints that have been filed by foster families. Ms. Logan stated that receiving additional money helped them to prevent spending out-of-pocket. Ms. Logan will provide the statistics on complaints from the foster families to the Committee, as well as an update on the agency's foster care recruitment efforts. The agency's response should be submitted to the JLBC by August 2, 2004.

No Committee action was required.

DEPARTMENT OF PUBLIC SAFETY (DPS) – Review of the Statewide Interoperability System Design Expenditure Plan.

Tony Vidale, JLBC Staff, presented the request that the Committee review the statewide interoperability system design expenditure plan. The department was appropriated \$2 million in their FY 2005 budget and a \$3 million conditional appropriation if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast. The plan they submitted uses both of the appropriations. A footnote included in FY 2005 budget requires Committee review of the plan prior to expenditure. The JLBC Staff recommends a favorable review of the expenditure plan and also recommends that the department's quarterly reports include the cost and purpose of Professional and Outside Services contracts, as well as comments on the project from the Government Information Technology Agency (GITA). Radio interoperability allows Public Safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies.

Chairman Burns asked why we have 2 different plans. Mr. Vidale stated that the \$2 million appropriation is what the department was appropriated in FY 2005. The \$5 million includes a conditional appropriation of \$3 million that the department would receive if revenues exceed the budgeted forecast for either FY 2004 or FY 2005.

Richard Stavneak, JLBC Staff, mentioned that at the end of May which was reported in the Revenue Highlights, we were approximately \$144 million above the revenue level deficit in the budget enacted in FY 2004 and there are "triggers" that would take effect if revenues came in at \$102 million above projected amounts.

Representative Biggs asked if the additional \$3 million would shorten the timeframe for design completion. Mr. Vidale stated that the timeline will not change. The additional \$3 million, which is non-lapsing, would be spent in future fiscal years for design work.

Senator Cannell mentioned that the timeline seems to be very long. Mr. David Felix, Assistant Director, Criminal Justice Support Division of DPS said that the design cost included some of the activities that would occur from the time the design was started to the point where some types of pilot programs could be implemented to test the design. Some of the programs that will be implemented will be adjusted along the way, so this indicates that in 2008 we would complete the design but there will be work ongoing to get to that point.

Representative Gray noted that there is little money put into the equipment and asked if we were going toward a statewide digital system and does another state have a model that we could adapt and move forward on. Mr. Felix said that they have several models that the plan was built on in its initial stages. The Phoenix/Mesa is building out a very large digital radio system for the valley. There are states such as Michigan, Colorado and others that are engaged in the same type of activity. The Commission is checking on them and we really need a form of customization for Arizona.

Chairman Burns asked if there was an updated cost figure to construct the interoperable system. Mr. Felix said that over the planning process we would have a solid number when the designs are completed. The \$300 million is based on some of the other systems they have looked at. It could be less than that.

Representative Huppenthal asked how much of a problem is it going to be to bring the systems together. Mr. Felix said that much of the technology has not changed in many years. The systems that are being put in place such as Phoenix/Mesa are being based on a digital standard that is a national standard that has been developed by some various national committees. When setting the standard, the agency requires funding through their local funding agency to move a system to a new platform that they will have a standard that they can build to. Today, if they could not move to that standard, a patch would be provided so they could operate on the system. The challenge that we face is long term funding for a network and identifying the funding source.

Senator Martin asked for information regarding the DPS pay raises. Mr. Felix said he would provide the Committee with the details of the plan that was presented to the Law Enforcement Management Council.

Richard Stavneak stated that the pay raise issue would be on the next JLBC agenda.

Representative Biggs moved that the Committee approve the JLBC recommendation and give a favorable review of the Statewide Interoperability Design expenditure plan which includes design development using both a \$2 million General Fund appropriation in DPS' base budget and a \$3 million conditional appropriation if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast. The motion carried.

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

Bob Hull, JLBC Staff, presented the review of the Ladewig Expenditure Plan. The JLBC Staff recommends that the Committee give a favorable review of the Department of Revenue's (DOR) estimated administrative expenditure plan of \$3 million for the FY 2005 Ladewig project. DOR's administrative expenses are estimated to be \$1.8 million in FY 2006 and \$2.6 million in FY 2007.

The total Ladewig costs are projected to be \$125 million in FY 2005, \$65 million in FY 2006, and \$93 million in FY 2007.

In response to Chairman Burns, Ms. Leigh Cheatham, Assistant Director for External Services, Department of Revenue stated that one of the problems with the Ladewig lawsuit is that they have to calculate for each taxpayer the actual refund amount. They will have actual numbers with the exception of a few disputes by the end of the month and they will know at that point the total number of claimants, the span of the refund amounts, and the total of the payments.

Representative Biggs moved that the Committee adopt the JLBC recommendation and give a favorable review of the Department of Revenue's estimated administrative expenditure plan of \$3.0 million for the FY 2005 Ladewig project. The motion carried.

DEPARTMENT OF HEALTH SERVICES (DHS) –

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

Beth Kohler, JLBC Staff, presented the review of Children's Rehabilitative Services (CSR) capitation rate changes. The CRS program provides services for children under age 21 with chronic and disabling or potentially disabling conditions. CRS is funded through DHS with a capitated system, which pays flat monthly rates for each child enrolled in the program. A footnote in the General Appropriation Act prohibits the use of any potential savings in the CRS program for other DHS programs without prior review by the Committee. In total the proposed rates represent a 4% decrease below FY 2004, in comparison the budget had consumed a 6% increase. The costs of the rates are \$1.5 million less than the FY 2005 budgeted amounts. The actual costs of CRS in FY 2005 will depend on the enrollment in the program. The JLBC Staff recommends a favorable review of the rates.

There was no discussion on this item.

Representative Biggs moved that the Committee adopt the JLBC recommendation and give a favorable review of the Department of Health Services Children's Rehabilitative Services program capitation adjustments beginning July 1, 2004. The motion carried.

B. Review of Behavioral Health Capitation Rate Changes.

Beth Kohler, JLBC Staff, presented the Department of Health Service's (DHS) request that the Committee review the Behavioral Health Capitation rate changes. Capitation rates are the flat monthly payments made to managed care health plans for each Title XIX recipient. DHS is requesting review of rate changes for the Children's Behavioral Health (CBH), Seriously Mentally Ill (SMI), and General Mental Health/Substance Abuse (GMH/SA) Title XIX rates.

The proposed rates are based upon an actuarial study, which is required by the federal government. The proposed rates cost \$1.7 million General Fund more than the capitation adjustment assumed in the FY 2005 budget. Whether DHS will require a supplemental funding will depend on the FY 2005 enrollment trends.

Chairman Burns asked that if there is a savings realized by DES, how would that savings be identified and be reported to the JLBC.

Ms. Logan, stated that the information would be provided.

Senator Cannell expressed interest in receiving information on the growth of foster care children in behavioral health.

In response to Senator Cannell, Ms. Leslie Schwalbe, Deputy Director, Department of Health Services said that since July 2003 there were 3,055 foster care children enrolled from the health plan called Comprehensive Medical and Dental Program (CMDP). As of May the number has grown to 3,988, which is an increase of approximately 1,000 children within a year.

In response to Representative Linda Lopez, Ms. Schwalbe stated that there has not been much change in the overall population in enrollment for persons with a serious mental illness. It is the slowest growing population out of the 3 categories of populations that are served.

Representative Biggs moved that the Committee adopt the JLBC recommendation and give a favorable review to Behavioral Health Capitation Rate changes with the following stipulations:

- *The review does not constitute an endorsement of a supplemental request (even with this condition, however, a supplemental request would still be possible, depending on future enrollment trends).*
- *DHS and DES shall report by October 15, 2004 with an estimate of how much funding is freed up in the DES Children Services and Comprehensive Medical & Dental Program line items as a result of shifting treatment for children from DES to DHS.*
- *DHS and DES shall report by October 15, 2004 with an analysis of whether shifting more behavioral health services for children from DES to DHS results in an expansion of services to these children or whether DES was providing a similar level of services.*

The motion carried.

ATTORNEY GENERAL – Review of Allocation of Settlement Monies.

Kim Hohman, JLBC Staff, presented the review of settlement monies to be received from the Medco and Warner-Lambert settlement agreements in which the state will receive over \$100,000. The first settlement involved violations of Arizona Consumer Fraud laws by Medco Health Solutions. In this settlement, the company agreed to pay \$200,000 which will be deposited in the Consumer Fraud Revolving Fund pursuant to A.R.S. § 44-1531.01. The Attorney General (AG) is also expected to receive another \$600,000 which will be distributed to benefit low income, disabled or elderly consumers of prescription drugs. At the present time, the AG does not have a distribution plan for these monies. The JLBC Staff recommends that the AG report back to the Committee when they have finalized an allocation plan. The second settlement also involved violations of Arizona Consumer Fraud laws by Warner-Lambert. In the settlement the company agreed to pay \$278,000 which will also be deposited in the Consumer Fraud Revolving Fund. The JLBC Staff recommends a favorable review of the settlement monies.

Representative Biggs stated the Committee would like a copy of the report when the \$600,000 distribution is completed.

Rene Rebillot, Section Chief Counsel of the Consumer Protection Section, Attorney General stated that the AG's Office would provide the Committee with the allocation plan once it is finalized

Representative Biggs moved that the Committee adopt the JLBC recommendation and give a favorable review to the allocation plan for the Medco and Warner-Lambert settlement agreements. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Report on Implementation of Self Insurance for State Employee Health Insurance.

Beth Kohler, JLBC Staff mentioned that at the May 25 meeting, the JLBC favorably reviewed the Arizona Department of Administration's (ADOA) plan to self-insure state employee health benefits. After the meeting, ADOA awarded the contracts and we now know the names of the contractors.

Betsey Bayless, Director, Arizona Department of Administration briefly reviewed the Arizona Benefit Options Implementation Update handout. The first newsletter has been sent out and the second one will be mailed on July 3. Open Enrollment books will be mailed July 23. Open enrollment begins August 2 and ends September 10. The benefit year starts October 1.

In response to Chairman Burns, Ms. Bayless said they are still in the process of recruiting doctors. Ms. Bayless also mentioned that if your doctor is not on the list and the doctor is willing to become part of a certain network, the companies are willing to add them.

Senator Cannell asked if there would be a mail-in prescription type program. Ms. Bayless said that program would be available.

Senator Cannell mentioned that his doctor had not been approached by anyone regarding the programs and asked how close are the contractors being monitored? Ms. Bayless said that there is a great emphasis on Yuma and if you have specific doctors you are interested in they would like to know that. There is a step up effort of the vendors to enlarge the network.

Senator Martin asked what type of staff increases or decreases are projected for the future plan. Kathy Peckardt, Human Resources Director, Department of Administration stated that they are in the process of benchmarking other organizations that are self insured to assess what kind of staffing levels they currently have, what types of positions in their organizations so that they can best address their needs. They are in the process of hiring a communication specialist because of the importance of the communication in the whole process.

Chairman Burns asked what the research has shown them in the line of feedback. Ms. Peckardt stated they just completed the New Mexico research and will provide an analysis to the Committee on what they are proposing to do for their departments.

Senator Martin asked if any private self insured organizations are contacted. Ms. Peckardt stated that they were also looking at private companies. Ms. Peckardt said that the Third Party Administrator would be providing resources that they do not have to have in-house but is part of the benchmarking process and that analysis will be provided to the Committee.

No Committee action was required.

ARIZONA COMMUNITY COLLEGES – Report on Dual Enrollment and Appointing Ad Hoc Committee.

Jake Corey, JLBC Staff, presented the report on dual enrollment courses offered in FY 2003 and the subsequent achievement of students dual enrolled in FY 2002. On receipt of this report, the statute requires the Committee to convene an Ad Hoc Committee that includes Community College academic officers, faculty and other experts. In FY 2003 approximately 32,500 were dual enrolled. Of that total, 29,500, or 90%, earned a "C" or better in the course, which qualified those students for both high school and community college credit.

In response to Representative Gray, Mr. Corey said that at this time with the SAIS system still being implemented, the Community Colleges are not able to track across Community College districts. They are only able to follow students who were dual enrolled within the Community College district and then went to a Community College within that same district.

No Committee action was required.

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

Jake Corey, JLBC Staff, presented the Arizona Department of Education (ADE) report on the estimated fiscal impact of changes to the Achievement Testing Program. The Chairman had requested that ADE provide updated information on achievement testing costs. The department previously projected an additional \$4.2 million cost for the achievement testing contract in FY 2005. The current estimate is \$5.5 million. This will leave them with a funding shortfall of \$1.3 million.

In response to Representative Linda Lopez, Mr. Corey stated that he did not know how many test retakes there were and he would check with the department. The Department of Education was not available to address the Committee.

No Committee action required.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS) – Review of KidsCare Behavioral Health Capitation Rate Changes.

Tim Sweeney, JLBC Staff, presented the AHCCCS request that the Committee review the Behavioral Health capitation rates for the KidsCare (including parents) program. The proposed rates are 1.7% above FY 2004 rates, and are within budgeted levels for FY 2005.

There was no discussion on this item.

Representative Biggs moved the Committee adopt the JLBC recommendation and give a favorable review to the proposed capitation rate increase of 1.7% above FY 2004 rates. The motion carried.

Chairman Burns adjourned the meeting at 10:55 a.m. and stated that the Committee would make a written request to the Department of Education, Agenda Item 8.

Respectfully submitted:

Jan Belisle, Secretary

Richard Stavneak, Director

Senator Bob Burns, Chairman