

JLBC MEETING

At its July 21st meeting, the Joint Legislative Budget Committee considered the following issues:

Department of Economic Security – Review of Expenditure Plan for Discretionary Workforce Investment Act Monies – The Committee gave a favorable review of the Department of Economic Security’s expenditure plan of \$2.3 million in discretionary Workforce Investment Act (WIA) monies. The expenditure plan represents core functions typically funded by discretionary WIA dollars.

Department of Health Services – Review of Behavioral Health Capitation Rate Changes – The Committee gave an unfavorable review to the Department of Health Service’s (DHS) behavioral health capitation rate adjustment due to its cost. The Committee further specified that 1) The Department of Economic Security (DES) and DHS report to the Committee by October 1, 2005 on the savings that will accrue as a result of shifting services from DES to DHS and 2) that the Administrative Office of the Courts (AOC), in conjunction with the counties, report to the Committee by October 1, 2005 on the savings that will accrue to AOC and the counties as a result of shifting the cost of behavioral health services to DHS.

The approved rates cost \$15.1 million General Fund more than the \$60 million capitation rate adjustment assumed in the FY 2006 budget. The three capitation rates affected include Children’s Behavioral Health (10.7% increase from FY 2005), Seriously Mentally Ill (15.4% increase from FY 2005) and General Mental Health/Substance Abuse (5.7% increase from FY 2005). These capitation rate adjustments are expected to result in a shortfall for the department in FY 2006.

Capitation rates reflect a combination of utilization and inflation adjustments as well as specific program expansions being sought by DHS, including:

- A special \$13 million General Fund adjustment to Maricopa SMI rates as part of the Executive’s proposed agreement to resolve the Arnold v. Sarn lawsuit;
- Transferring some of the Department of Economic Security’s (DES) behavioral health responsibilities for foster care children to DHS, at a cost of \$3.3 million General Fund;
- Transferring current county responsibility for behavioral health services in juvenile detention centers to DHS, at a cost of \$1.6 million General Fund.

The Maricopa SMI special rate adjustment being sought by the agency (a \$16.19 per member per month increase to the capitation rate paid to the Maricopa County RBHA) was added to fulfill the requirements of the settlement agreement and resolve the state’s lawsuit. The additional funds will be used to provide residential, emergency, hospital and crisis, treatment, rehabilitation and support services in compliance with the agreement.

Transferring services from DES to DHS will enable the state to draw down federal funds for these activities. The Committee asked both DES and DHS to report to the Committee by October 1, 2005 on the savings that will accrue as a result of the shifting of services between the two agencies.

Joint Legislative Budget Committee Staff – Report on Phoenix Medical Campus – The Committee heard a report from JLBC on the Phoenix Medical Campus (PMC). The FY 2006 Higher Education Budget Reconciliation Bill directed the University of Arizona (UA) to establish a medical campus at the former site of Phoenix Union High School. The bill appropriated \$7 million from the General Fund for this purpose. Half of this funding was made available on July 1. The other half will be made available no later than October 5 upon a review by the Joint Legislative Budget Committee (JLBC) of an operational and capital plan for the Phoenix Medical campus.

The Arizona Board of Regents (ABOR) must submit a detailed operational and capital plan for PMC by September 1, 2005. The report is required by statute to contain the following information:

- Detail on expenditures to date by the Arizona Board of Regents, its institutions, and its partners.
- Detailed 5-year operational and capital budgets, including information on the expected sources of all funds.
- A 5-year description of enrollment, capacity growth, and graduation expectations by practice area.
- A 20-year financing plan detailing each funding source, including options to maximize resources and partnerships with the Maricopa Health Care District and other health care entities. Funding sources may include federal grants monies, private donations and contributions from other public entities.
- The programs and areas of practice offered.
- All partners involved in the Phoenix Medical Campus project, their roles, and an organizational chart.
- The contributions and financing arrangements of all partners contributing to the capital plant, as well as the legal and financial relationship of the Arizona Board of Regents and its institutions to these partners.

Given the importance of this issue, and because operational and capital plan information is not yet available, the Chairmen of both the JLBC and JCCR asked JLBC Staff to provide background on this issue.

In mid-September, a joint subcommittee of the JLBC and JCCR will meet to discuss the September 1 plan. The subcommittee will report its findings to the full JLBC. The formal review as required by statute will then occur at a full JLBC meeting in late September or early October.

In advance of the ABOR submittal, JLBC Staff provided highlights on the PMC plan, including:

- Chapter 330 limited PMC to one class of 24 students, at an annual operating expense of \$7 million.
- The first class will begin in fall 2006, housed in 90,000 square feet of 3 renovated buildings on a 4.8 acre campus.
- The City of Phoenix has supplied the property for a nominal annual fee, but UA and ABOR are responsible for renovating the 3 existing buildings, as well as possibly constructing 3 additional facilities.
- UA will finance the \$19 million of renovations through lease payments of \$16.25 per square foot, or \$1.5 million per year, of which the Chapter 330 General Fund appropriation will pay \$1.0 million.
- The original UA plan for PMC called for 196 students in 4 classes within 5 years, at an annual operating expense of \$24 million. Furthermore, UA hoped to expand PMC enrollment to as many as 700 students, with possible annual operational costs upwards of \$44 million, at an unidentified future date.
- PMC resides in the larger 15.8 acre Phoenix Bioscience Center, which the city owns and envisions could hold 1 million square feet, including: the existing TGen building; a joint university research facility, scheduled to begin construction later this summer; and two additional ABOR buildings not yet scheduled for construction.
- The Phoenix Bioscience Center plan includes a treatment facility. Options for patient services range from an outpatient clinic to a full teaching and research hospital, but no firm plan exists.

The Committee also provided ABOR with additional questions to be addressed at its September 1 submission. The requests included:

- The level of UA support for the cumulative operating expenses for the hospital.
- The amount of private and federal funding that is anticipated to be received for the project.
- The status of efforts to ensure open access to clinical rotations.
- The current status of efforts to build a hospital near the medical school and if building another hospital would be detrimental to existing hospitals in the area.
- The relationship between ASU's \$1 million for a new bioinformation department and TGEN.
- Concerns that the medical school will be too geared toward research and will not add to the number of practicing doctors and how those concerns will be addressed.
- Why the start up date for classes has been delayed from July 2006 to July 2007.
- What will be done with the two years of \$7 million in annual funding before any students arrive.
- How space at the current site will be addressed.

Arizona Department of Corrections – Update on Maricopa Health Care Costs – The Committee heard testimony on the current status of the Department of Corrections health care contract with Maricopa Integrated Health Systems (MIHS). The Department of Corrections (ADC) contracts with outside

providers for major medical treatment that cannot be provided to inmates on-site at correctional facilities. MIHS is one of these providers and the department's 5-year contract with MIHS was scheduled to expire on June 30th, 2005. The department issued a Request for Proposals (RFP) and MIHS was the only bidder for the Phoenix area; however the Department of Corrections did not accept the bid.

ADC reported that they had rescinded the bid due to the fact that MIHS had not completed the new per diem cost worksheet provided in the RFP. Within the past year, the department began utilizing AHCCCS billing processing for health care contracts and the RFP process therefore has new cost requirements. MIHS plans to complete the new pricing format when the department reissues the RFP at the end of July. In the meantime, the MIHS contract has been extended by 90 days to ensure no break in service.