STATE OF ARIZONA

# Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

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## MEETING NOTICE

DATE: Monday, March 20, 2000

TIME: 8:00 a.m.

PLACE: SENATE APPROPRIATIONS ROOM 109

## TENTATIVE AGENDA

- Call to Order
- Approval of Minutes of February 7, 2000.
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- DIRECTOR'S REPORT (if necessary).

1. ARIZONA DEPARTMENT OF ADMINISTRATION
   A. Approval of Rates of Reimbursement for State Travel by Motor Vehicle and Lodging and Meal and Incidental Expenses.
   B. Review Revision of Classification Maintenance Review Adjustment.
2. AUTOMOBILE THEFT AUTHORITY - Review Expenditure Plan.
3. ARIZONA STATE UNIVERSITY - Approval to Transfer Nutrition Program from Main Campus to East Campus.
4. DEPARTMENT OF ECONOMIC SECURITY
   A. Review ReDESign Contract for Phase II.
   B. Fiscal Reporting and Accountability Issues.
5. AHCCCS - Report on Request for Interest on Competitively Bidding for Developmental Disabled Services.
6. DEPARTMENT OF ENVIRONMENTAL QUALITY - Report on the Vehicle Emissions Inspection Program Contract Development Process - Information Only.

The Chairman reserves the right to set the order of the agenda.
03/14/00

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STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
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HOUSE OF REPRESENTATIVES



## MINUTES OF THE MEETING

## JOINT LEGISLATIVE BUDGET COMMITTEE

February 7, 2000

The Chairman called the meeting to order at 8:10 a.m., Monday, February 7, 2000, in Senate Appropriations Room 109. The following were present:

| | | |
|---|---|---|
| Members: | Senator Randall Gnant, Chairman | Representative Bob Burns, Vice-Chairman |
| | Senator Arzberger | Representative Blewster |
| | Senator Bowers | Representative Daniels |
| | Senator Cirillo | Representative McGrath |
| | Senator Lopez | Representative McLendon |
| | Senator Wettaw | |
| Absent: | Senator Bundgaard | Representative Gonzales |
| | Senator Jackson | Representative McGibbon |
| | | Representative Weason |
| Staff: | Richard Stavneak, Director | Cheryl Kestner, Secretary |
| | Pat Mah | Brad Regens |
| | Jim Rounds | Stefan Shepherd |
| | Lynne Smith | |
| Others: | Neal Young | Department of Economic Security |
| | Karl Matzinger | Department of Economic Security |
| | Greg Wetz | Department of Economic Security |
| | Karen McLaughlin | Department of Economic Security |
| | Mike Smarik | Department of Corrections |
| | Carl Nink | Department of Corrections |
| | Tom McClory | Attorney General's Office |
| | Mark Wilson | Attorney General's Office |
| | Debbie Spinner | Attorney General's Office |
| | Ed Boot | School Facilities Board |
| | Susan Strickler | Arizona Dept. of Administration |
| | Frank Hinds | Arizona Dept. of Administration |
| | Frank Chow | Arizona State Lottery |
| | Bill Greeney | OSPB |

**APPROVAL OF MINUTES**

Hearing no objections from the members of the Committee to the minutes of December 14, 1999, Senator Gnant stated that the minutes would be approved as submitted.

**EXECUTIVE SESSION**

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

At 8:12 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 8:18 a.m. the Committee reconvened into open session.

Representative Burns moved *that the Committee adopt the recommended settlement proposals by the Attorney General's Office in the following cases.*

1. Sarah Brown v. James Cruz, et al.
2. Jane Doe v. Cruz
3. Broderick v. State of Arizona, ADOC, et al.
4. Costello v. State of Arizona, et al.

The motion carried.

**ARIZONA LOTTERY COMMISSION - Approval of Retailer Incentive Plan**

Mr. Jim Rounds, JLBC Staff, was available for questions. There were none.

Representative Burns moved *that the Committee approve the JLBC Staff recommendation to approve the Retailer Incentive Plan and also approve that the performance based increase in retailer compensation be retroactive beginning January 1, 2000*. The motion carried.

**SCHOOL FACILITIES BOARD - Approve Index for Constructing New School Facilities**

Ms. Lynne Smith, JLBC Staff, was available for questions. There were none.

Representative Burns moved *that the Committee adopt the JLBC Staff recommendation to approve the use of the inflation index published by the Marshall Valuation Service for adjusting the cost per square foot for new school construction. As of January 1, 2000, the new school construction per square foot costs would be adjusted by the change in the comparative cost multiplier for Phoenix from July 1998 to July 1999 for construction indicator class C (masonry bearing walls).* The motion carried.

**DEPARTMENT OF CORRECTIONS - Review Private Prison Contract**

Mr. Brad Regens, JLBC Staff, was available for questions. There were none.

Representative Burns moved *that the Committee adopt the JLBC Staff recommendation to approve the Department of Correction's (DOC) private prison contract, including the purchase option. The Committee also approved the recommendation that requires DOC to seek approval from the full Legislature prior to exercising the purchase option.* The motion carried.

**DEPARTMENT OF ECONOMIC SECURITY (DES)/ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Approval of Workers' Compensation Coverage for Arizona Works**

Mr. Stefan Shepherd, JLBC Staff, was available for questions. There were none.

<u>*Representative Burns moved*</u> *that the Committee adopt the JLBC Staff recommendation to approve the request extending ADOA's authorization to provide workers' compensation coverage through DES for level 3 and 4 participants in the Arizona Works program operated by MAXIMUS through September 30, 2000. If legislation is not enacted to resolve the issue by that date, the Committee requests that DES and ADOA report to the Committee with their recommendation on a permanent solution.* The motion carried.

**DEPARTMENT OF ECONOMIC SECURITY**
**A. Review of Federal Social Services Block Grant FY 2000 Expenditure Plan**

Ms. Pat Mah, JLBC Staff, was available for questions. There were none.

<u>*Representative Burns moved*</u> *that the Committee adopt the JLBC Staff recommendation to give a favorable review of the department's expenditure plan for Federal Social Services Block Grant monies in FY 2000.* The motion carried.

**B. Review of Plan to Provide Matching Monies to Salt River Pima-Maricopa Tribe to Operate a Tribal Cash Assistance Program**

Mr. Stefan Shepherd, JLBC Staff, was available for questions. There were none.

<u>*Representative Burns moved*</u> *that the Committee adopt the JLBC Staff recommendation to give a favorable review of the department's plan to provide matching monies to the Salt River Pima-Maricopa tribe to operate a Tribal Cash Assistance Program.* The motion carried.

**C. Arizona Works Bimonthly Review**

There was no discussion on this item.

Senator Gnant concluded by noting that the Committee waited longer than we were in session. He said that he supposed that members not wanting to be on the Committee could be taken off. He further stated that he expected the rest of the members to be on time for the meeting.

Without objection, the meeting adjourned at 8:22 a.m.

Respectfully submitted:

________________________________________
Cheryl Kestner, Secretary

________________________________________
Richard Stavneak, Director

________________________________________
Senator Randall Gnant, Chairman

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

# Joint Legislative Budget Committee
# Staff Memorandum

*1716 West Adams*
*Phoenix, Arizona 85007*

*Telephone: (602) 542-5491*
*Facsimile: (602) 542-1616*

DATE: March 15, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION –APPROVAL OF RATES OF REIMBURSEMENT FOR STATE TRAVEL BY MOTOR VEHICLE AND LODGING AND MEAL AND INCIDENTAL EXPENSES

**Request**

In accordance with A.R.S. § 38-624C, the Arizona Department of Administration (ADOA) requests that the Committee approve maximum lodging, meals/incidental expense, and mileage reimbursement rates effective May 1, 2000 for Travel - In State and Travel - Out of State.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review to ADOA's request for lodging and mileage reimbursement. JLBC Staff proposes alternate rate increases for In-State and Out-of-State meals/incidental expenses. JLBC Staff recommends that the costs and savings associated with these changes be absorbed in agencies' budgets without a change in the level of appropriations. The new rates would be as follows:

| | Current Rate | ADOA Proposed Rate | JLBC Proposed Rate |
|---|---|---|---|
| Lodging per day | $50-226 | $55-215 | $55-215 |
| In-State meals per day | $28 | $30 | $29.50 |
| Out-of-State meals per day | $28-40 | $28-$46 | $28-42 |
| Mileage reimbursement | 31¢ | 32.5¢ | 32.5¢ |

**Analysis**

The net cost of the department's request is an increase of $41,370 from the General Fund (GF) and $141,137 from Other Funds (OF). This includes a reduction of In-State and Out-of-State lodging rates, an increase for In-State and Out-of State meals/incidental expenses, and an increase for mileage reimbursement. (See Table 1)

*Lodging*
In summary, the federal lodging rates reflect a decrease that is consistent with the general trend of decline in the cost of commercial lodging. The federal government periodically conducts a cost survey based on market conditions across the nation. Lodging rates are established based on this survey data. Rates vary by city, with some cities experiencing an increase and some reflecting a decrease in price. On average, however, federal lodging rates have declined (1.5%). Lodging rates were last approved by the Committee June 4, 1998 and took effect July 1, 1998. ADOA calculations show total annual savings to the GF of ($127,800) and ($352,800) to all OF of implementing the federal lodging rates for a total of ($480,600).

(Continued)

For In-State lodging, the resulting changes would range from a decrease of ($13) per day during the summer months in Phoenix/Scottsdale to an increase of $19 per day during the winter in Casa Grande. Overall, the changes would result in a decrease in In-State lodging costs of (7%), or ($118,400) GF and ($338,600) OF.

For Out-of-State lodging, changes range from a decrease of ($77) per day from July 1 to November 30 in Aspen, Colorado, to an increase of $87 per day June 1 to September 30 in Sun Valley, Idaho. ADOA calculations estimate a savings (1.1%), or ($9,400) GF and ($14,200) OF.

*Meals*
Meal/incidental expense rates were last approved by the Committee July 30, 1998 and took effect July 1, 1998.

For In-State meals, ADOA proposes adding 7%, or $2 a day to the current rate of $28 dollars per day. This would result in an increase of $69,300 in costs to the GF, and $231,900 to OF. This amount is equal to the federal minimum for meals.

For Out-of-State meals, ADOA proposes adopting January 1, 2000 federal rates, which range from $28 to $46 per day, depending upon location. In July of 1998, this Committee declined to adopt the January 1, 1998 federal rates, which would have meant a 16% increase for Out-of-State meals. Instead, the Committee approved a 5.8% increase from the April 1, 1996 federal rates for each city. ADOA estimates an 18.23% increase in costs associated with Out-of-State meals associated with the new rates. The higher percentage growth mostly reflects catching up to the current federal rates, which the Committee previously rejected. The increase would result in a $48,000 cost to the General Fund, and $89,500 from other funds.

Consumer Price Index (CPI) increases for food away from home would not indicate such significant increases in meal rates are necessary. From December 1997 to December 1999, the period since the last rate increase, the CPI increased by 4.9%. This is significantly lower than ADOA's proposed increases. JLBC Staff recommends adjusting In-State Meal/Incidental Expense rate by $1.50 or 5.4% to more closely match the CPI increase while minimizing administrative burden for ADOA by rounding to the nearest half dollar. Similarly, JLBC Staff recommends adjusting the Out-of-State Meal/Incidental Expense reimbursement rate range by approximately 4.9% to match the change in the CPI.

*Mileage Reimbursement*
ADOA proposes an increase in the mileage reimbursement rate from 31¢ to 32.5¢ per mile. This will result in an increase of $51,870 GF and $172,537 OF. At the February 5, 1999 meeting, the Committee approved the department's request to reduce the reimbursement rate from 32.5¢ per mile to 31¢ per mile in order to match a corresponding decrease in the federal rate. With the rise of the federal reimbursement rate to 32.5¢, ADOA proposes restoring the state rate to this level.

Table 1: Comparison of Proposed Changes to the General Fund and Other Funds

| | General Fund | | Other Funds | | Total | |
|---|---|---|---|---|---|---|
| | ADOA Request | JLBC Proposal | ADOA Request | JLBC Proposal | ADOA Request | JLBC Proposal |
| In-State Lodging | $(118,400) | $(118,400) | $(338,600) | $(338,600) | $(457,000) | $(457,000) |
| Out-of-State Lodging | (9,400) | (9,400) | (14,200) | (14,200) | (23,600) | (23,600) |
| **Lodging Sub-total** | **$(127,800)** | **$(127,800)** | **$(352,800)** | **$(352,800)** | **$(480,600)** | **$(480,600)** |
| In-State Meals | $ 69,300 | $ 47,530 | $ 231,900 | $ 159,162 | $ 301,200 | $ 206,692 |
| Out-of-State Meals | 48,000 | 12,912 | 89,500 | 24,035 | 137,500 | 36,947 |
| **Meals Sub-total** | **$ 117,300** | **$ 60,442** | **$ 321,400** | **$ 183,197** | **$ 438,700** | **$ 243,639** |
| Mileage Reimbursement | **$ 51,870** | **$ 51,870** | **$ 172,537** | **$ 172,537** | **$ 224,407** | **$ 224,407** |
| **Total** | **$ 41,370** | **$ (15,488)** | **$ 141,137** | **$ 2,934** | **$ 182,507** | **$ (12,554)** |

RS:GG:jb

# Joint Legislative Budget Committee
# Staff Memorandum

*1716 West Adams* *Telephone: (602) 542-5491*
*Phoenix, Arizona 85007* *Facsimile: (602) 542-1616*

DATE: March 15, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Lynne Smith, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION – REVIEW REVISION OF CLASSIFICATION MAINTENANCE REVIEW ADJUSTMENT

**Request**

The Arizona Department of Administration (ADOA) requests that the Committee give a favorable review to its proposal to expend up to $9,900 in unallocated General Fund monies remaining from the FY 2000 appropriation for Classification Maintenance Review (CMR) adjustments. After ADOA makes corrections to the CMR adjustments, remaining monies will revert to the General Fund. The department plans to spend approximately $4,600 out of the unallocated General Fund balance of $9,900.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review to the request.

**Analysis**

CMR adjustments are salary increases that affect an entire job class. Section 109 of the FY 2000 General Appropriation Act (Laws 1999, 1st Special Session, Chapter 1) appropriates monies for CMR adjustments to positions in the ADOA personnel system. As required in Section 109, at the September 16, 1999 JLBC meeting, ADOA reported to the Committee its recommendations for the job classifications to receive FY 2000 CMR adjustments. The Committee gave a favorable review to that request.

For FY 2000 CMR adjustments, $1,863,400 from the General Fund (GF) and a corresponding amount from Other Funds was available. The appropriated monies have been allocated to the selected positions, leaving an unallocated balance of approximately $9,900 GF. Section 109 provides that these unallocated monies revert to the fund from which they were appropriated on May 1, 2000, unless the JLBC determines that additional CMR adjustments are necessary.

ADOA requests that the Committee determine that additional adjustments are necessary. The department intends to use approximately $4,600 GF for the Correctional Food Service Supervisor I class. This job class was included in ADOA's original FY 2000 CMR plan. However, ADOA now proposes increasing this class's minimum salary by $665 to $22,704. The increase is intended to correct an inequity between the Correctional Food Service Supervisor I class and the Food Service Supervisor II class (both grade 15). The inequity was created by an October 1998 CMR adjustment for the other class. The proposal increases the salary of 12 employees in the Department of Juvenile Corrections by an average of $657 each per year. The CMR adjustments for an additional 10 employees would not be revised because their salaries are already above the new minimum. The revised salary range for this job class would be $22,704 to $31,394. Without a special recruitment rate, the grade 15 salary range is $20,694 to $31,394.

RS:LS:ss

**JLBC**

# Joint Legislative Budget Committee
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DATE: March 15, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Indya Kincannon, Fiscal Analyst

SUBJECT: ARIZONA AUTOMOBILE THEFT AUTHORITY - REVIEW EXPENDITURE PLAN

**Request**

The Arizona Automobile Theft Authority (ATA) requests Committee review of its expenditure plan to spend an additional $391,300 pursuant to a footnote in the General Appropriations Act (Laws 1999, 1st Special Session, Chapter 1). The footnote allows ATA increased expenditure authority from its own fund if it collects excess revenue from the insurance policy assessment. ATA must submit an expenditure plan to the Committee for review prior to expending the monies.

**Recommendation**

The JLBC Staff recommends that the Committee favorably review this request.

**Analysis**

The Legislature appropriated $2,220,400 to ATA in FY 2000. As of February 29, 2000 the ATA had collected $3,765,625 from its assessment on auto insurance policies. A footnote in the General Appropriations Act states:

> *All insurance premium fee revenues collected in excess of $2,220,400 in FY 2000 and $2,325,000 in FY 2001 are appropriated for public awareness and auto theft authority grants up to $2,611,700 in FY 2000 and $2,612,200 in FY 2001. Before the expenditure of these monies, the Authority shall submit an expenditure plan to the Joint Legislative Budget Committee for review.*

The agency has been able to collect more revenues than anticipated due to better collection efforts. Revenues in excess of the appropriation do not lapse to the General Fund and will remain in the fund absent any change in the footnote.

The agency plans to expend the additional $391,300 on a grant to the Arizona Vehicle Theft Task Force to fund its on-going operations. Administered by DPS, the task force provides technical expertise, training and investigative support to law enforcement agencies targeting vehicle theft and related crimes. Members of the task force come from various state, county and local law enforcement agencies. Since this expenditure plan follows the intent of monies appropriated to ATA, the JLBC Staff recommends favorable review.

IK:jb
xc: Richard Stavneak, Director

**JLBC**

# Joint Legislative Budget Committee
# Staff Memorandum

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DATE: March 15, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Senior Fiscal Analyst

SUBJECT: ARIZONA STATE UNIVERSITY — APPROVAL TO TRANSFER NUTRITION PROGRAM FROM MAIN CAMPUS TO EAST CAMPUS

**Request**

Arizona State University (ASU) requests Committee approval to transfer the Nutrition Program and associated resources from the ASU Main Campus to the ASU East Campus.

**Recommendation**

The JLBC Staff recommends the Committee approve the request.

**Analysis**

The ASU Main Campus currently offers a bachelor's degree in Family Resources and Human Development with concentrations in Dietetics, Human Nutrition, and Food and Nutrition in Business. The main campus also offers a masters degree with a concentration in Nutrition. With the requested transfer, these degrees would be offered at the ASU East Campus beginning in FY 2001. ASU believes the transfer supports the strategic direction of effectively managing the university's enrollment profile by further enhancing academic programming at ASU East.

The following lists the resources that would be transferred from ASU Main to ASU East effective July 1, 2000.

| | |
|---|---|
| *FTE Positions* | *11.0* |
| Personal Services | $408,700 |
| Employee Related Expenditures | 72,700 |
| All Other Operating | 22,200 |
| **TOTAL** | **$503,600** |
| Fund Sources: | |
| General Fund | $10,400 |
| University Collections Fund | 493,200 |
| **TOTAL** | **$503,600** |

(Continued)

Within one single broad appropriation to ASU, each of the 3 campuses (Main, East and West) has its own designated dollar amount. The requested transfer of expenditure authority would only affect the total amounts from the General Fund and the University Collections Fund. The individual line items are shown for information only.

RS:LM:jb

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DATE: March 15, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Pat Mah, Senior Fiscal Analyst
Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – REVIEW REDESIGN CONTRACT FOR PHASE II

**Request**

Pursuant to a provision in Laws 1997, Chapter 300, the Department of Economic Security (DES) is requesting the Committee to review the contact from its Request for Proposal (RFP) for Phase II for the welfare eligibility technology system.

**Recommendation**

The JLBC Staff recommends the Committee give the Phase II contact a favorable review. JLBC Staff also recommends that DES bring the Phase III contract to the Committee for its approval prior to its signing, but after the Government Information Technology Agency (GITA), the Information Technology Authorization Committee (ITAC), and the Governor's Office of Strategic Planning and Budgeting (OSPB) have given Phase III their approval.

**Analysis**

Laws 1997, Chapter 300 permits DES to enter into a contract with a private provider to implement a "computer-based technology system that will determine eligibility for welfare programs" and support welfare reform recipients. The goals of the system, once referred to as an "expert system," include maximizing the return of existing and potential welfare recipients to the workforce, reducing caseworker error rates, and increasing staff productivity and fraud detection. The monies to pay for the system are to come from savings generated by the system through reductions in error rates and productivity savings. This approach is also known as a "risk/benefit sharing" approach because the price paid to a vendor is dependent upon the benefits generated by the vendor's system; if benefits increase or decrease, the money paid to the vendor would increase or decrease as well.

In March 1999, the Committee gave a favorable review to Phase I of the project. In Phase I, the state asked vendors to perform a 3-month "due diligence adaption study." The purpose of the due diligence study was to give selected vendors an opportunity to work with DES in "gathering information pertinent to preparing a comprehensive proposal for the remaining 2 project phases."

(Continued)

Since the Committee met on this issue last March, the department held meetings with vendors to discuss their risk from the risk/benefit sharing approach. They also met with GITA and decided to cancel the existing due diligence contracts that the Committee reviewed last time. They believed that the budget reductions approved during the 1999 session would result in insufficient administrative savings in the system for vendors to make any profit from the project.

The department has proceeded now to Phase II of the project. Phase II requires vendors to develop a business reengineering plan that "integrates applicable eligibility determination and other relevant service delivery processes." This reengineering plan outlines a specific integrated business model DES can implement to achieve the goals of the technology system discussed above. Once the plan is complete, DES will move on to Phase III of the project. Phase III will actually integrate services by developing, implementing, and operating the new business model outlined in the business reengineering plan for Phase II. The services in Phase III were to be funded through the risk/benefit sharing approach mentioned earlier. However, under DES's new plan, the state rather than an approved vendor will pay for implementation of Phase III of the project through an appropriation.

DES issued its new RFP for Phase II of the project in October 1999. The RFP for Phase II eliminates the risk/sharing provisions as authorized by Laws 1997, Chapter 300. DES also submitted in October a revised ReDESign Project and Investment Justification to GITA for review. In December 1999, they received approval from GITA and ITAC to proceed with the Business Process Reengineering plan for the project. Based on responses to its RFP, a contract has been awarded for the business reengineering phase of the project. Execution of the contract will not occur until the Committee has completed this review. The project will be paid for from a FY 1999 $2,000,000 appropriation from the Temporary Assistance for Needy Families (TANF) Stabilization Fund authorized by Laws 1997, Chapter 300, as modified by Laws 1998, Chapter 208. We assume that DES has had its Attorney General division review its proposed contract for this phase of the project to be sure it complies with requirements under the law. We also assume that DES will have its Attorney General division review other future contracts for purchasing of equipment for the last phase of the project.

With regard to funding for Phase III of the project, the department asked for an appropriation in its supplemental request for FY 2000 and FY 2001. The Governor did not recommend the supplemental and separate legislation from the budget bills has not been pursued. We assume that DES will make another request for funding next session. The preliminary estimated total cost of the project from both appropriated and non-appropriated funds is $44.6 million over a 4- to 5-year period. The first year costs are estimated at $30,139,000. The appropriation would consist of $4,897,600 from the state General Fund, $10,548,500 from TANF Block Grant monies, $4,897,600 from other appropriated funds, and $9,795,300 from federal non-appropriated funds. The department reports that, once the reengineering plan is completed, it will be able to better estimate the actual cost for completing the project.

The winning bid for the contract is within the current budget. For this reason, the JLBC Staff recommends the Committee give the Phase II contract a favorable review. In addition, JLBC Staff recommends that DES bring the Phase III contract to the Committee for its approval prior to signing the contract but after GITA, ITAC and OSPB have provided their approval.

RS:PM:SS:ss

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# Staff Memorandum

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DATE: March 15, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst
Pat Mah, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – FISCAL REPORTING AND ACCOUNTABILITY ISSUES

**Request**

At the request of the Chairman, the JLBC Staff has placed this item on the agenda to bring to the Committee's attention issues of concern regarding the Department of Economic Security's (DES) fiscal reporting and accountability.

**Recommendation**

No Committee action is required, but the JLBC Staff recommends that DES provide the Committee with a monthly update on certain Division of Developmental Disabilities (DDD) issues, including Federal Fiscal Year (FFY) 2000 capitation rate negotiations, progress on establishing a faster FFY 2001 capitation rate negotiation progress, and the short-term and long-term methods to reduce DDD expenditures in the Long Term Care program.

**Analysis**

The JLBC Staff is concerned about the lack of fiscal controls within DES. Our concerns are two-fold. At times, the department has seemingly lacked key fiscal information we have requested or been unwilling to share it. In other circumstances, DES has appeared to implement policies without understanding their full fiscal ramifications. There are 3 items addressed in this report: 1) the failure to comply with the "25th-of-the-month report" requirement, which provides a monthly summary of DES expenditures, surpluses, and shortfalls; 2) the recent DES decision to increase payments to adoption agencies for placement of a child; and 3) the expenditures in DDD's Long Term Care program.

We would credit DES for recently taking several steps to correct these specific problems. We would suggest on-going oversight of DES and DDD issues, however, to ensure that fiscal accountability is achieved in the long run.

(Continued)

JLBC

*25th-of-the-Month Report*

Since FY 1990, each year's General Appropriation Act has included a footnote requiring DES to provide the Legislature with a monthly report on its spending, including a projection of potential surpluses and deficits. These reports are due 25 days after the end of each month. Given DES's frequent need for supplementals, this report is designed to be an early warning for policymakers with regard to the department's financial status. With the move to biennial budgeting, it is even more important that the Legislature be updated regularly on the ongoing fiscal status of agencies such as DES with large entitlement programs.

In recent years, however, DES has not complied with the law and has issued its financial reports only sporadically. At the beginning of February, the department had produced 2 reports during the previous 18 months; the latest report arrived in May 1999, covering only spending through February 1999.

On February 9, 2000, JLBC Staff sent a letter to John Clayton, DES Director, on this issue. The letter criticized the department for its failure to meet this basic fiscal reporting requirement and requested that the Director provide both an explanation for DES's noncompliance with the legal requirement, as well as the department's plans for issuing the reports every month in a timely fashion.

DES has prepared 3 reports, however, since the JLBC Staff sent the letter. The table below lists recent reports, when they should have been received, and when they were actually received. DES believes the report covering expenditures through February will be issued timely by March 25.

| *Last Month of Data in Report* | *Legal Due Date* | *Actual Date of Receipt* |
|---|---|---|
| November 1999 | December 25, 1999 | February 15, 2000 |
| December 1999 | January 25, 2000 | February 29, 2000 |
| January 2000 | February 25, 2000 | March 8, 2000 |
| February 2000 | March 25, 2000 | March 25, 2000 (expected) |

We would note that the January report received March 8 does not provide sufficient explanation of the assorted surpluses and deficits within the DES budget. JLBC Staff indicated to DES prior to receipt of the December 1999 report on February 29; that this monthly report should provide a clearer description of surpluses and deficits, reasons for those surpluses and deficits, and proposed remedies. DES has written to JLBC Staff indicating that such a description would be sent shortly as an addendum to the January report dated March 8. We hope that the February report will include this information as part of the report.

*Adoption Placement Contracts*

On February 17, we first learned from an article in the *Mesa Tribune* that DES had renegotiated its contract for paying adoption agencies for when a child is placed. Under the renegotiated contracts, the department agreed to increase its maximum allowed payment from $6,300 to $9,200, an increase of $2,900. We asked the agency to provide us with the fiscal impact of the change by February 25. We got a response on March 7 indicating the new contract was not in place for all of FY 2000 so expenditures would not exceed existing appropriations.

Our analysis of the information DES provided indicates that there are fiscal implications. For FY 2001, the department reports that it will analyze the efficacy of its new contract payments prior to renewing the contract, which is due to expire at the end of FY 2000. We think it very unlikely that providers will be willing to accept less money for services in FY 2001 than they were paid in FY 2000. If you annualize the department's estimated impact of the new contract changes in FY 2000, the cost could be an

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additional $471,744 for FY 2001. The department's response to our inquiry leads us to believe they did not look beyond FY 2000 before implementing the contract changes.

*DDD Long Term Care Program*

On February 28, our office learned that DES had instituted a hiring freeze the previous week. According to DES, a major factor in instituting such a freeze was concern over the Long Term Care program operated by DDD, particularly over the issue of the FFY 2000 capitation rate DDD receives from AHCCCS for each DD client in the Long Term Care program.

We understand that AHCCCS initially proposed a FFY 2000 capitation rate of about $2,333 per member per month for most DD clients. The FY 2000 supplemental appropriation for DES, signed by the Governor on February 24, included a JLBC-recommended increase in funding for the Long Term Care program and assumed a capitation rate of $2,351 per member per month. This capitation rate reflected an increase of 3.25% over the FFY 1999 rate. The Executive budget recommended an increase of 3% above the FFY 1999 rate.

We found out recently, however, that year-to-date FY 2000 expenditures reflect spending of approximately $2,409 per member per month, an increase of 5.8% above the FFY 1999 rate. This rate of spending is significantly higher than the increase funded in the supplemental appropriation signed by the Governor, let alone the capitation rate initially proposed by AHCCCS.

Since these percentage increases reflect per person increases, it would appear that the department is either providing significant increases in provider contracts or additional services to clients. The JLBC Staff is concerned that the department has implemented these adjustments without presenting them to the Legislature as a policy issue.

In the attached letter to John Clayton, we asked DES to respond to several questions regarding the DDD Long Term Care program. JLBC Staff did meet with DES last week on this issue. At that meeting, DES indicated that the significant increase from FY 1998 to FY 1999 in DDD per person expenditures resulted in part from contract rate negotiations (including funding for direct care staff appropriated by the Legislature). Another factor contributing to the expenditure increased reported by DES was provider agencies expanding the availability of their services into rural areas previously unserved or underserved.

DES indicated that they had presented additional information supporting their requested $2,409 capitation rate to AHCCCS after receiving AHCCCS's proposed rate of $2,333. According to AHCCCS, however, AHCCCS had made a request for additional information in November and DES provided minimal information to AHCCCS at that time.

DES has indicated that they have identified sufficient resources within their budget to match federal capitation rate revenues in excess of the $2,351 assumed in the budget and to cover expenditures in excess of whatever capitation rate they end up receiving from AHCCCS. They have also developed short-term and long-term methods of addressing the expenditure growth in the program. The short-term methods include the above-mentioned hiring freeze, a freeze on overtime, and a freeze of all Individual Service Plans at the existing unit levels except as noted for health and safety. Long-term methods include altering the method used to negotiate capitation rates, auditing a sample of current cases to determine if the level of need and level of service correspond, and improving the recruitment and retention of key positions within DDD's Business Operations office. Another long-term focus will be the new Request for Proposal

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on Room and Board and Habilitation services, which comprise over 70% of Long Term Care expenditures. Both the short-term and long-term methods could cause difficulties for DDD, its clients, and providers.

Because of the importance of this issue, JLBC Staff recommends that DES provide the Committee with a monthly update on DDD issues discussed above, including FFY 2000 capitation rate negotiations, progress on establishing a faster FFY 2001 capitation rate negotiation progress, and the short-term and long-term methods to reduce DDD expenditures in the Long Term Care program.

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attachment

# Joint Legislative Budget Committee
# Staff Memorandum

*1716 West Adams*
*Phoenix, Arizona 85007*

*Telephone: (602) 542-5491*
*Facsimile: (602) 542-1616*

DATE: March 15, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst
Gretchen Logan, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM – REPORT ON REQUEST FOR INTEREST ON COMPETITIVELY BIDDING FOR DEVELOPMENTALLY DISABLED SERVICES

**Request**

Pursuant to a request made at the Committee's August 5, 1999 meeting, the Arizona Health Care Cost Containment System (AHCCCS) is submitting this report. The report summarizes the responses to the AHCCCS Request For Interest (RFI) proposal which was distributed to determine whether there is sufficient interest to competitively bid for services to developmentally disabled (DD) clients within the current budget for these services.

**Recommendation**

No Committee action is required. Given our concerns about current Department of Economic Security (DES) / Division of Developmental Disabilities (DDD) fiscal management, however, JLBC Staff believes that this issue is worthy of further consideration. JLBC Staff recommends, therefore, that the Committee requests a formal response from the Executive Branch regarding its interest in pursuing a competitive bid for these services, particularly on a pilot basis. No action could be taken in any event until the next regular session as it would require statutory changes.

**Analysis**

A footnote in the FY 1999 General Appropriation Act was intended to explore the feasibility of competitively bidding for services to DD clients in the Arizona Long Term Care Services (ALTCS) program. DES/DDD has contracted with AHCCCS to provide services to these DD ALTCS clients since ALTCS started serving DD clients in FY 1989. Under the concept considered, the state would essentially privatize the administration of ALTCS services. The vendor could then further subcontract the actual provision of services. This structure might look similar to how the Department of Health Services contracts with Regional Behavioral Health Authorities to provide mental health services throughout the state.

The report AHCCCS submitted to the Committee this summer indicated that competitively bidding for these services to DD clients was feasible. It also noted that differences between the ALTCS program and the 100%-state-only program might make it difficult to competitively bid out all services to DD clients. In addition, a successful bid for services would require a well-constructed plan developed in collaboration with stakeholders.

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The report recommended that if the Legislature wished to pursue a competitive bid process, a Request For Interest (RFI) proposal should be issued to determine if there is sufficient interest in the project within the "allowable budget."

At its August 5, 1999 meeting, the Committee recommended that AHCCCS issue such a RFI proposal to determine if there is sufficient interest in competitively bidding for services to DD clients within the current budget. AHCCCS was to provide the Committee a report summarizing the RFI responses by February 28, 2000. That report is attached to this memorandum.

AHCCCS issued its RFI proposal on November 15, 1999. It sent approximately 200 copies of the RFI to assorted DD service agencies, advocacy groups, and current AHCCCS health plans and program contractors. It received a total of 8 responses. Of the 8 respondents, 7 do business in Arizona and have current relationships with the AHCCCS program. Of the 8, 5 are for-profit corporations, 2 are non-profit, and 1 is a government entity.

Respondents addressed a variety of issues raised in the RFI:

- Type of Individuals Served: All 8 respondents were interested in providing services to ALTCS recipients and 100%-state-only recipients.
- Geographic Configuration: Respondents believed that the bid process should be conducted either by county or grouping of counties.
- Areas Respondents are Interested in Bidding: Some respondents were interested only in serving areas where they currently conduct business. Five respondents stated they would bid by county or ALTCS Geographic Service Areas (GSA), which is a grouping of counties. Two respondents mentioned that each bid area should contain sufficient members (500+) in order to increase the potential for profit.
- Medicaid experience: All respondents had experience with Medicaid programs. Only one respondent did not have experience with ALTCS or DES/DDD.
- Managed care experience: All respondents indicated they had managed care experience. Five of the respondents have contracts with AHCCCS to provide either long term care or acute care to AHCCCS members.
- DD experience: All respondents had experience serving DD clients, although most experience was in providing acute care services, since DES/DDD is the only LTC provider for DD clients.

Based on the responses to RFI, AHCCCS could not determine whether a bid in a future Request For Proposal (RFP) would be within the current budget. Several respondents indicated they would only be interested in bidding if capitation payments would ensure profit. In addition, since neither DES/DDD nor AHCCCS has experience in capitation for services to the 100%-state-only population, it is difficult to determine whether a RFP including that population could be done within the current budget.

In addition to highlighting the uncertainty of the fiscal impact of competitively bidding for DD services, the report also discusses the need to assess the reaction of consumers and providers to the change suggested by competitively bidding for services. The report also notes that legislation would be required to permit competitive bidding for DD services since DES/DDD is the only program contractor for DD ALTCS clients permitted in statute.

Given our concerns about current DES/DDD fiscal management, JLBC Staff believes that this issue is worthy of further consideration. We recommend, therefore, that the Committee requests a formal response from the Executive Branch regarding its interest in pursuing a competitive bid for these services, particularly on a pilot basis. No action could be taken in any event until the next regular session as it would require statutory changes. We agree that if the Legislature wishes to proceed with competitively bidding for DD services, it should proceed with caution. Introducing competition into the administration of DD services could result in better services and/or cost savings. JLBC Staff recognizes, however, that the fiscal impact of competitively bidding for DD services is uncertain, especially as related to 100%-state-only clients. It may not resolve the issues of DES/DDD fiscal management. And, finally, we agree that stakeholders, especially consumers and providers, need to be included in any process looking at competitively bidding for DD services.

# Joint Legislative Budget Committee
# Staff Memorandum

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DATE: March 15, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tom Mikesell, Fiscal Analyst

SUBJECT: DEPARTMENT OF ENVIRONMENTAL QUALITY - REPORT ON THE VEHICLE EMISSIONS INSPECTION PROGRAM CONTRACT DEVELOPMENT PROCESS - INFORMATION ONLY

**Request**

Pursuant to ARS § 49 - 545.H.1., the Department of Environmental Quality (DEQ) is reporting its activities for the quarter ending December 31,1999, in developing the Request for Proposals (RFP) to be used to select a contractor to operate the Vehicle Emissions Inspection program starting January 1, 2002.

**Recommendation**

No action is required of the Committee. Preliminary work is in process. DEQ has formed a Contractor Selection Committee, looked at other states' RFPs, and is in the process of developing an initial framework. DEQ has targeted August of 2000 to select a contractor. Prior to selection, JLBC will have an opportunity to review the proposed contract.

**Analysis**

To comply with Federal Clean Air Act requirements, the Arizona Department of Environmental Quality (DEQ) contracts with a private entity who operates a Vehicle Emissions Inspection (VEI) program in Maricopa and Pima counties. The contract between DEQ and Gordon-Darby, Inc., the current contractor, began on January 2, 1989 and will expire on December 31, 2001. DEQ is currently developing a RFP that will be used to hire a contractor to operate the VEI program starting January 1, 2002. Under current law the next contract will extend through June 2009. HB 2104, which is currently undergoing legislative consideration, would change that time period to between 7 and 5 years.

So far, DEQ has taken three steps in developing a RFP. The first step was to look at the RFPs used by other states to develop a template for Arizona. Ultimately, the state of Missouri's RFP was chosen for this purpose, because of its clarity, understandability, focus on customer service, contractor performance assessment provisions, and because Missouri's program bears some similarity to Arizona's.

DEQ's next step was to form a Contractor Selection Team. The members of this group were picked according to their familiarities with the VEI program, the use of performance measures, and the state Procurement Code.

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In addition to helping develop the RFP, this group will also play a role in choosing the 'winning' proposal sent to the state. DEQ's third accomplishment was progress on the framework for the scope of work for the RFPs. The scope of work generally outlines what will be expected of the contractor, and tells the contractor what should be included in its proposal to operate Arizona's VEI program. DEQ is developing the framework for the scope of work with the assistance of the Selection Group, the Attorney General's Office, and the Department of Administration.

DEQ plans on completing the RFP in sufficient time to have a new contractor hired by August of 2000. This will provide the contractor enough preparation time to have the VEI program operating on January 1, 2002 based on DEQ's past observations of prior contractors' set-up times. Current law requires that JLBC review the RFP prior to it being used to solicit responses from potential private contractors.

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