

ARIZONA STATE SENATE

43RD LEGISLATURE FIRST REGULAR SESSION

MINUTES OF COMMITTEE ON APPROPRIATIONS

DATE: Wed., January 22, 1997 **TIME:** 1:30 p.m. **ROOM:** Senate Room 109

CHAIRMAN: Senator Bowers **VICE CHAIRMAN:** Senator Cirillo

ANALYST: Tami Ryall **COMMITTEE SECY:** Alice Kloppel

INTERNS: Mei Wong and Robert Hornby

ATTENDANCE

BILLS

<u>Committee Members</u>	<u>Pr</u>	<u>Ab</u>	<u>Ex</u>	<u>Bill Number</u>	<u>Disposition</u>
Senator Arzberger	X				
Senator Bundgaard	X				
Senator Cirillo	X				
Senator Conner	X				
Senator Freestone	X				
Senator Gnant	X				
Senator Henderson	X				
Senator Huppenthal	X				
Senator Lopez	X				
Senator Richardson, G.	X				
Senator Rios	X				
Senator Soltero	X				
Senator Wettaw	X				
Senator Bowers, Ch.	X				

SPECIAL PRESENTATIONS

BUDGET PRESENTATIONS:

Department of Education

Steve Schimp, Joint Legislative Budget Committee (JLBC)

Rita Sauv, Office of Strategic Planning and Budget (OSPB)

Lisa Graham Keegan, Superintendent of Public Instruction

Department of Health Services

Jennifer Vermeer, JLBC

Bob Chapko, OSPB

Jack Dillenberg, DDS, Director Arizona Department of Health Services

Chairman Bowers called the meeting to order at 1:40 p.m. and the attendance was noted.

BUDGET PRESENTATION FOR ARIZONA DEPARTMENT OF EDUCATION (ADE)

Steve Schimp, Fiscal Analyst for ADE, Joint Legislative Budget Committee (JLBC), introduced **Justin Corosi, also of JLBC**, and distributed copies of a "Comparison of Major Policy and Technical Issues" for ADE in FY 98, pie charts depicting total K-12 revenue sources projected for FY 98, expenditures by revenue source noted in the ADE annual report for 1995-96, draft Omnibus Reconciliation language for budget recommendations currently being proposed and language modifying prior year ADE footnotes (filed with original minutes) and proceeded to review the handouts in detail.

Mr. Schimp indicated he would be referring to information beginning on page ADE-1 of the members' JLBC Analysis and Recommendations notebook. He noted that 9% of K-12 education funding comes from federal sources, 3.1% from counties, 38% from local sources and 50% comes from the State, totaling \$4.1 billion, with an additional \$100 million going to charter schools. Mr. Schimp also indicated the second pie chart shows the State pays 57% of the cost of maintenance and operation for K-12 education, with local sources paying 79% of capital costs. Mr. Schimp indicated the FY 98 General Fund ADE budget recommendation is for \$2.1 billion, representing an \$89.5 million, or a five percent, increase over FY 97.

Mr. Schimp then discussed the two cost centers in the ADE budget, General Services Administration (GSA) and Assistance to Schools (ATS), as outlined on the comparison sheet. He explained 99.5 percent of all funding for K-12 education goes to ATS, with GSA funding the operations of ADE. Mr. Schimp reviewed specific JLBC funding recommendations for the State Board of Education, State Board for Charter Schools, Achievement Testing, Student Accountability Information and the recommended budget format under GSA.

Mr. Schimp confirmed Senator Wettaw's understanding the Arizona Student Assessment Program (ASAP) was suspended for the current year. Senator Wettaw suggested that if there is no recommendation for an increase in assessment funding for the next year, this means the ASAP is also suspended for another year, producing a \$1.7 million savings. Mr. Schimp explained there is \$1.7 million recommended for FY 98 and that ADE is expecting to revert about \$2 million in FY 97 due to this year's suspension.

With regard to the chart on page ADE-5 in the JLBC notebook, and related to funding for materials that would enable student attendance information to be put on the Internet, Senator Bowers asked how extra work stations and peripheral hardware can be justified. Mr. Schimp explained that JLBC, in fact, is not recommending funding due to concerns with such costs and suggested that ADE address this later. He explained ADE wishes to connect every school, not just every school district, for ease of troubleshooting by phone.

Senator Gnant requested that ADE also be prepared to justify the \$624,000 designated for consultants and temporary staff in relation to this effort.

Mr. Schimp next reviewed specific JLBC funding recommendations listed under the ATS cost center for Basic State Aid detailing amounts for its components: Student Growth, Net Assessed Valuation, Charter Schools, Increase in Endowment Revenue and Sudden Growth/Current Year Funding; the recommendation to fund Transportation on Prior Year Mileage, and the recommendation to end double funding of Bureau of Indian Affairs (BIA) Charter Schools. He summarized the JLBC recommendation is for \$2.0 billion to fund the ATS cost center; representing an \$82.2 million, or 4.5 percent, increase above FY 97. Mr. Schimp referred members to pages ADE-8 through ADE-12 of their JLBC notebooks for further information.

Senator Henderson asked for an explanation for the \$7.4 million difference in projected increases between the JLBC and OSPB recommendations for district-sponsored charter schools. Mr. Schimp expressed his wish to defer this issue to OSPB and noted that ADE agrees with the JLBC projection.

Mr. Schimp clarified that JLBC recommends limiting rapid decline and capital outlay revenue limit growth for district sponsored schools who experience a decline in student enrollment due to switching sponsors or ceasing to operate.

Ms. Schimp discussed transportation funding, noted the Auditor General issued a report highly critical of current practice and related that JLBC's recommendation to fund transportation according to route mileage count in the prior year--disallowing the choice of the highest count in the prior three years--would result in a \$4.9 million savings.

In response to Senator Huppenthal's inquiry, Mr. Schimp confirmed the State pays \$1.95 per mile for less than a one-half mile route average, \$1.59 for a one-half to one mile route average and if the average is greater than one mile, it goes back up to \$1.95 per mile. Ms. Schimp commented this is a strange feature of the mileage formula because it creates a notch group and provides an incentive for this group to drive a few extra miles to school and be funded at the higher rate.

Senator Huppenthal asked if JLBC has made a recommendation for a more sensible policy and Mr. Schimp acknowledged that JLBC intends to make a recommendation and noted that ADE is also working on one.

Senator Huppenthal asked what happens with transportation funding if a school district issues bonds and buys its own buses. Mr. Schimp surmised funding from secondary property taxes would go up due to the bond, with transportation funding coming both from local and state sources. Senator Huppenthal questioned whether this amounted to a capital-to-maintenance and operation (M&O) transfer by having the State and the local

taxpayers pay for the buses simultaneously. Mr. Schimp indicated he would research the issue further and report back.

Senator Wettaw asked for an interpretation of transportation funding projections listed in the JLBC notebook for Flagstaff Unified School District in Coconino County. Mr. Schimp expressed his understanding the figures in the column represent the base level funding plus the transportation component. He noted this would not be affected by the change being proposed in law. Senator Wettaw questioned how the projected overall cut in transportation funding would not affect Flagstaff.

Mr. Corosi explained Flagstaff does not receive a cut because its projected route mileage for FY 96 is bigger than its mileage in the previous two years.

Senator Arzberger commented that many rural school districts are adversely affected a great deal by the cut. He questioned whether contracting with private busing companies caused some of the changes in formula. Ms. Schimp explained that projections were simply based on changes in route miles. He noted that any district taking a cut has had higher route mileage in the prior two or three years.

Senator Arzberger asserted route mileage has not changed in his district, where it has remained the same for a long time due to little growth, and suggested there is something in the formula that needs to be identified. He asserted this reduction will hurt a lot of school districts and suggested the calculations may be wrong somewhere.

Mr. Schimp explained the recommended Omnibus Reconciliation Bill (ORB) would simply fund based on the prior year mileage. He acknowledged that if the analysis inaccurately depicts that, then in fact, districts shown as taking cuts, would not. However, he emphasized that if a district reports lower route mileage in FY 97 than in FY 96 or FY 95, it will take a cut.

With regard to the recommendation to end double funding of Bureau of Indian Affairs (BIA) charter schools, Mr. Schimp explained this stems from the inconsistency with which Fort Huachuca's charter school, which is the only other nondistrict charter school, besides the BIA schools, that gets federal M&O funding. He further explained that under current law, Fort Huachuca is required to deduct all federal M&O funding received for federal impact aid and that the JLBC believes that for consistency's sake, this provision should also apply to charter schools receiving BIA funding. Mr. Schimp noted this would result in a savings of \$10.2 million.

Senator Bowers noted this is a point of great concern for many of the Indian tribes.

Senator Henderson asked how Fort Huachuca, a military reservation, could be compared to an Indian reservation. Mr. Schimp explained the comparison is being made because the BIA charter schools, like the military reservation, do not have a tax base, whereas the

school districts on the reservation, do have a tax base. He expressed his understanding school districts which receive federal impact aid for M&O receive this because the district is taken up in part by federal lands which are not taxable for the purpose of bond issues and overrides. Mr. Schimp further explained that Fort Huachuca is the only public fund-receiving entity in Arizona, other than the BIA charter schools, that both receives federal M&O funding and does not have a tax base.

Senator Henderson questioned why the grants that other charter schools receive are not required to be deducted. Mr. Schimp noted that if this is the case, it represents another area for a change in law. He acknowledged that if these are outside grants for M&O, there certainly would be an argument to deduct these monies. Senator Henderson emphasized the 21 tribes are very concerned about the deduction.

Mr. Schimp next detailed recommendations for Other Programs listed in the comparison sheet to include: Additional State Aid, Adult Education, State Block Grant--Early Childhood and the FY 97 Supplemental budget funding recommendation.

Senator Huppenthal suggested that the initial shift to block grants caused some school districts that were previously receiving at-risk program monies to experience a dramatic loss. Suggesting it almost looks as if money is being taken from the poor and given to the rich, he asked for Mr. Schimp's comments on this redistribution of funding.

Mr. Schimp noted that districts which experienced a loss in FY 97 will be making up for this in FY 98. However, he noted the whole intention of the block grant was to distribute money on a more equitable basis and acknowledged that because the grants were distributed on a discretionary basis, a handful of districts were literally getting all the money, even though they did not have all the at-risk students. Mr. Schimp emphasized that because of this, the JLBC recommendation is to fund strictly on the number of students eligible for federal free and reduced lunch, as it is the most fair and equitable way to disperse the at-risk funding.

Senator Huppenthal asked if a district like Scottsdale Unified would also receive at-risk funding and Mr. Schimp confirmed it would, if it had a count of even one student eligible for free lunch. Senator Huppenthal suggested the possibility of aiming this funding at districts which have a more difficult time budgeting for all their needs. Mr. Schimp acknowledged it might be possible to institute a floor and count K-3 eligibility for free lunch for certain districts, but cautioned this type of provision may produce unintended consequences.

Senator Arzberger asked for an explanation on the JLBC county set-aside information. Mr. Schimp explained that since this funding is based on free lunch eligibility counts, under this proposal no funding would be distributed if a number was not determined. He explained that some counties have had at-risk programs but do not have "kid-counts" or count the number of students eligible for free lunch.

Mr. Schimp further clarified that the FY 97 block grant provided a \$15,000 base amount to all charter schools, all school districts and also all county school superintendents to operate the at-risk programs. He noted that some counties have at-risk programs run through the county school superintendent, so under the FY 97 block grant, each of these counties receive \$15,000, but this is not to say there is no funding for Cochise County, just not at the county level.

Senator Freestone commented there must be a simpler way to deal with the agency budgets than the current one which is too sophisticated and too much like the federal government. He suggested it is difficult to understand the many ways money is allocated and expressed his preference for delegating to the local level and holding it accountable. Senator Bowers suggested the sophistication of modern schools, urban-rural dynamics and transportation problems all affect the complexity of current budgeting methods.

Senator Freestone emphasized that because of the increased sophistication it is more important for the Legislature to understand what bottom-line monies are being appropriated and trust local governing boards to work out their own funding regarding transportation, for example, except for that which is earmarked for a specific purpose by the federal government. Senator Freestone opined that governing boards should not be sheltered, that they should stand on their own merit and voters should determine whether they want to continue them. He suggested that this opportunity is removed when the Legislature allocates funding for everything in line-items.

Mr. Schimp acknowledged the information is very complicated and noted that the amount for basic state aid is actually a huge block grant and permits local discretion. He suggested the FY 98 budget is more simple than the FY 97 budget because of block grants.

With regard to the early childhood block grant funding, Senator Rios asked if districts are being given a choice between private or federally funded preschools. Ms. Schimp explained that 50 percent goes to school-district sponsored preschools and 50 percent to either federally or privately-funded preschools. Senator Rios asked if the principle remains that the program is available only to those children who are eligible for the federal free lunch program. Mr. Schimp explained it is distributed based only on free lunch counts but anybody who is free or reduced-lunch eligible can participate.

Senator Rios asked for clarification on the footnote stipulating that at least 50 percent of the children selected for the program get to choose either services from a federal or private preschool program. He asked if this means the recipient chooses and asked what happens if more than 50 percent choose something else. Mr. Schimp acknowledged it means the parents have a choice but it does provide a base amount for the district, if more than 50 percent would choose to go outside of the district. He explained this policy is an attempt at compromise to include private providers, who say they are shut out of the process under the current plan and an attempt to establish a comfort level with districts which could, in

fact, shift all block grant monies to K-3 and not share it at all with private or federal providers.

Mr. Schimp confirmed Senator Rios's understanding that if no federal or private preschools exist in a district, the district would not commit a violation if it retained 100 percent of the funding. Mr. Schimp acknowledged this would hold true and a district would be in compliance unless a parent reported that a district was not allowing him or her to enroll a child in a private or federally funded preschool.

With regard to Vocational Education budget recommendations, Mr. Schimp noted the general trend is to link budgeting with placement of students in course-related jobs. He commented that most districts perform better under this plan, though this does not hold true for districts which have received large discretionary competitive grants.

In response to Senator Rios's request for clarification as to what is determined to be a placement, Mr. Schimp explained a student is considered "placed" if he graduates from a vocational ed program, goes into a job that directly relates to competencies learned in the program, goes on to major in a directly-related area in a community college or university or enlists in a directly-related military training program. Mr. Schimp further clarified that in the first year of the block grant, data will not be available for many of these components and it is anticipated that placement will be based upon going into a job directly related to the vocational education.

Senator Rios expressed concern that in rural areas graduates of vocational education programs may be hired by an employer outside the particular vocational education-related field and not be counted as a placement for purposes of funding. He explained that a graduate may be hired by a mine, for example, and be assigned to an entry level position outside his vocational education area before gaining enough seniority to then serve an apprenticeship as an electrician, which was his area in vocational education. Mr. Schimp explained that the block grant language does not tell ADE exactly how to count a program completer and expressed his belief input will be accepted over time as to what a completer would be.

Senator Bowers suggested a negative count, counting the number of students who did not go into any field, would be much easier to accomplish as a measure of a school's performance.

Senator Arzberger commended vocational education for motivating students who may otherwise drop out of school and suggested a school should not be penalized as long as students graduate, regardless of whether they are placed in jobs that utilize the particular vocational education-related skills gained. He recommended that JLBC increase this program rather than make it harder for schools to participate. Mr. Schimp explained total funding for vocational education is not going to be reduced if the placement rate goes down, but emphasized the allocation for this program is fixed and gets parceled out to

districts depending on the number of students in vocational education programs and the number of placements.

Senator Huppenthal asked how the new block grant system will interact with market-based demand for certain vocational skills. Mr. Schimp explained placement can be anywhere in the State, not necessarily in a student's resident area. He noted that all school districts would be in the same boat and related that Page Unified received \$28,000 for FY 97 and will receive \$52,000 under the new system. Mr. Schimp emphasized that currently a few districts are receiving the bulk of the competitive grants and that the block grant distributed per pupil will result in more funding for more districts.

Mr. Schimp related that according to JLBC projections, ADE will require a supplemental appropriation of approximately \$8.6 million for district-sponsored charter schools and sudden growth in FY 97.

INTRODUCTION OF STAFF

Senator Bowers next introduced Committee staff: Pages, Mark Borzych and Maricela Reed; Committee Secretary, Alice Kloppel; Interns, Mei Wong and Robert Hornby; Assistant Analyst, Victor Riches and Committee Analyst Tami Ryall. He also introduced Democratic Staff Analyst, Kim Baker; Democratic Staff Intern, Richard Howell and Majority Staff Intern, Chad Haarer.

ADOPTION OF COMMITTEE RULES

Senator Bowers explained the amendment rule now requires amendments be delivered to staff by noon and distributed by 5:00 p.m. the day before the meeting, with the provision that an extension may be granted by the Chairman if necessary.

Senator Cirillo moved to adopt the Appropriations Committee Rules as distributed. The motion CARRIED by a voice vote (filed with original minutes).

PRESENTATION OF BUDGET RECOMMENDATIONS (CONT.)

Rita Sauv, Governor's Office of Strategic Planning and Budget (OSPB), distributed a handout outlining FY 98 OSPB budget recommendations for ADE and a page detailing the ASAP test timeline for modifications and development (filed with original minutes). She first discussed policy differences with JLBC related to Basic State Aid.

Ms. Sauv related that OSPB recommends funding education with \$2.1 billion from the General Fund, which is about \$1 million less than the JLBC recommendation. She noted

that OSPB recommends about \$9.2 million more than JLBC for Basic State Aid related to student growth assumptions and the primary net assessed valuation growth assumptions. Ms. Sauv noted that JLBC proposed to transfer \$3.6 million to the vocational education block grant, whereas OSPB recommends this amount still be included in Basic State Aid. She further noted that JLBC proposes to change current law and fund transportation on the prior year mileage count, whereas OSPB recommends maintaining current law. Ms. Sauv explained OSPB feels current transportation law gives districts an incentive to reduce route mileage over time and that districts should be able to enjoy this temporary savings if they are able to restructure their transportation system.

Senator Huppenthal asked if there exists a process where OSPB and JLBC work out their estimations together and square up figures. Ms. Sauv explained recommendations are independently developed.

Senator Huppenthal emphasized that a \$1 million difference in Appropriations Subcommittees may necessitate big policy changes and expressed his wish to see a process whereby figures are squared up on such items.

Ms. Sauv next discussed OSPB recommendations for the Student Accountability Information System, the Permanent Special Education Institutional Voucher Fund, the FY 97 Supplemental budget recommendation and two Executive Initiatives: \$10 million funding for school vouchers and \$500,000 funding for development of an Honors Diploma/Graduation Test.

Senator Henderson questioned why the Executive makes budget recommendations for an independently elected public official like the Superintendent of Public Instruction. Ms. Sauv explained all agency heads submit their budget requests to the Governor's Office whether they are elected officials or not, and OSPB in turn makes a budget recommendation on behalf of the Executive.

In response to Senator Henderson's request to know if this is required by law, Ms. Sauv confirmed the Executive is required by law to present to the Legislature, the Executive recommendation for the agencies. Senator Henderson asked to see this law.

Peter Burns, Director, OSPB, clarified that by constitutional definition the Superintendent of Public Instruction is a member of the Executive Branch. He acknowledged the Superintendent is an independently elected public official and explained that laws governing budget require OSPB to submit a recommendation for all agencies except the Judiciary, for which OSPB is prohibited by law to make a recommendation.

Lisa Graham Keegan, Superintendent of Public Instruction, thanked her staff for working hard under the current frugal staffing configuration and distributed an ADE "Directory of Staff and Services," a "Student Finance" proposal, a packet of general

information entitled "Arizona Charter Schools," and a packet detailing ADE "Academic Standards and Performance Objectives" dated January 1997 (filed with original minutes). Ms. Keegan clarified that the ASAP test has not been suspended--it has been eliminated because it did not meet high enough standards--and expressed concern there is no allocation to develop a student assessment in the budget recommendations. She explained the State Board of Education is constitutionally required to set an academic standard for the State and indicated the "Standards" packet is the result of its work and 200 people who came together over the past several months to rewrite Arizona standards in reading, writing and mathematics. Ms. Keegan emphasized these standards are being extremely well-received inside of and outside of Arizona and it is this set of higher standards for which a test needs to be developed. She agreed with the need to administer a nationally norm-referenced test as well, which she later identified as the Stanford Achievement Test, or SAT9, as its commonly referred to.

Ms. Keegan indicated approximately \$2 million will be reverted to the General Fund due to a lengthened time schedule for developing new standards. She emphasized the number one issue besides "Student Finance" is funding to develop a new State student assessment.

Ms. Keegan next referred to the "Student Finance" proposal which asserts that funding should follow the students into the schools of their choice. She emphasized that when a student moves, the funding should follow and it should follow on a real-time, month-to-month basis. Ms. Keegan noted the reason for proposing the Accountability System was to determine where and show the public where the money goes, noting that now this is not easy to do.

Ms. Keegan emphasized the importance of developing an accurate accountability system, explaining that currently student attendance is largely tracked on paper and only counted at 40 days and at 100 days, with every other count being an estimate. She stressed the need to incentivize schools to keep students in attendance every day and not allow dropping out after the 100th day.

Ms. Keegan recollected an agreement was made last year to phase out double funding of BIA charter schools after two years and urged the Committee not to retract this commitment. She indicated she could not support the JLBC recommendation to discontinue the funding this year, though acknowledged she did not disagree with its analysis.

Ms. Keegan expressed concern the current transportation funding formula incentivizes districts to drive further and increase route mileage. She emphasized the importance of developing a better funding formula but recommended leaving the current one in place this year until this could be developed.

In response to Senator Bowers inquiry about how Ms. Keegan would disincentivize districts to run up route mileage, Ms. Keegan emphasized the answer is to fund the children--period--and allow districts to accommodate their specific transportation needs from this. Ms. Keegan acknowledged the issue is controversial, but emphasized that not all districts need to transport. She noted that in her "Student Finance" proposal there is provision for the transportation needs of special education students.

Senator Bowers asked how Ms. Keegan would address the transportation disparities between urban areas and the Navajo reservation, for example. Ms. Keegan acknowledged this should be paid for with a particular per student weight and recommended school districts be funded a proportionate lump sum to decide how to spend.

Senator Huppenthal noted also that with a mileage reimbursement, districts are incentivized to build larger and larger schools and transport students from further distances. He noted schools being built in Arizona are significantly larger than the national average and may be detrimental.

Senator Conner argued that revising transportation funding will hurt the smaller schools in outlying areas which have smaller budgets.

Ms. Keegan asserted there would be unintended consequences if the recommendation to fund prior year route mileage is adopted because it provides an incentive to drive the bus and a lump sum would allow schools to also spend this money for needs other than transportation.

Ms. Keegan acknowledged that assigning money per student ends up hurting preschool programs in the rural areas because they are so small. She recommended establishing a base level of \$10,000 and then go to per student allocation. Ms. Keegan encouraged the Legislature to be aware of this rural area issue when it moves to per student allocation.

Senator Richardson asked for an explanation of what the benefit is in administering a state assessment in addition to a national norm-referenced test. Ms. Keegan explained the norm-referenced test, in many instances, does not cover what Arizona has developed as its standards.

Senator Richardson asked if Ms. Keegan feels the state assessment would be a better test than the national norm-referenced test and she indicated she prefers to administer them both. She explained the norm-referenced test produces a cursory glance at what a student knows compared nationally, while the anticipated state assessment would go in-depth and produce accountability for the State's curriculum.

Senator Wettaw emphasized students are competing on an international level today and it would not serve students to be compared only to other Arizona students. He stressed that testing must also be administered which demonstrates how they compete nationally and

internationally. Senator Wettaw asked if the unused ASAP funding could be used for developing a state assessment. Ms. Keegan indicated the development of the test will continue to the extent the effort is funded, noting ADE is requesting \$4 million for the development and administration of a Spring 1998 test.

Senator Wettaw emphasized the importance of tying a test into graduation requirements and Ms. Keegan noted the State Board is projecting such a requirement for 2002. Senator Wettaw asked if the 12th grade would be given the state assessment and whether two high school diplomas will evolve. Ms. Keegan explained that currently grades 3,6, 8 and 10-12 will be tested. She explained the 10-12 grade test is a 12th grade level test which students can begin attempting to pass in the 10th grade. Senator Wettaw suggested a testing requirement in the 11th grade provides a chance to make some positive changes in the 12th grade.

Senator Huppenthal suggested the cluster of states, to include Iowa and the Dakotas, which perform well on national tests do not have special, or "bi-level" diplomas based on passing a 12th grade test. He suggested this produces two levels of status instead of a focused effort to develop quality education all the way through. Senator Huppenthal suggested copying the examples of states that are doing well such as Iowa and the Dakotas.

Ms. Keegan indicated that dual level diplomas are being discussed by the State Board and opined that a test at the 12th grade level must be passed at a minimum to obtain a diploma. She agreed a dual academic standard must not be developed.

Senator Lopez asserted his wish to wait another year before ending dual funding for BIA charter schools as promised and asked that clarifying information on this issue be distributed in the Subcommittee.

Senator Lopez asked if the current norm-referenced test meets the constitutional mandate to have standards. Ms. Keegan acknowledged it probably does and suggested the Constitution insures that a standard is set, but is not specific as to how.

Senator Lopez asked why a reduction in personnel is being recommended for Family Literacy programs when the Auditor General recommended more oversight of this program. Ms. Keegan explained that Family Literacy became part of a whole group and shares staff.

Senator Lopez asked if Ms. Keegan had proposed a funding recommendation to solve the school finance problem. Ms. Keegan referred to pages 2 and 3 in the "Student Finance" proposal which recommends replacing bonding with an increase of \$200 per pupil for capital purposes at a cost of \$432.5 million in the first year. She explained that the cost in the first year addresses a need to increase the per pupil amount for schools that have been harmed by the current inequitable system. Ms. Keegan further explained the cost would decline over time. She further related the proposal recommends a \$50 increase per pupil

for operations funding at a cost of \$65 million, and will produce a savings on secondary property tax after the first five years, will be more efficient and will be more equitable for the taxpayer.

Senator Lopez asked why no inflation funding for schools is requested. Ms. Keegan explained ADE first requested the standing formula be funded, noting special education is down \$35 million, with a net effect of draining the general education budget. She expressed support for Senator Grace's bill which proposes a "true cost of education study."

Ms. Keegan agreed education costs likely increase, but asserted the true cost is unknown at this time and the study would provide this information.

Senator Lopez commented on the recommendation to fund only \$1 million for adult education, the transportation funding formula and vocational education issues. He emphasized the importance of accommodating those on the waiting list for adult education as a way to put people to work, acknowledged using prior year's funding for transportation may be the best plan but argued it will hurt a lot of districts. Senator Lopez indicated there is no evidence to suggest that districts are not using all their transportation funding and noted districts that privately contract busing will also be hurt if the contractor raises its price.

With regard to vocational education funding being linked to placements, Senator Lopez asserted this is a tremendous disservice to students. He suggested incorporating the language the interim committee developed regarding considering continued education before the Subcommittee meets.

Senator Lopez asked if the \$174 per charter school student is only paid for those students who use transportation or simply per student. Ms. Keegan indicated this is paid per student.

Ms. Keegan confirmed Senator Lopez's understanding that a charter school still receives transportation funding even if it is within walking distance of its students. Ms. Keegan compared this situation to districts that receive full mileage funding for a bus that only has two students riding.

In response to Senator Lopez's request to hear comments on the same issues from JLBC, Mr. Schimp indicated that ADE would be allowed some discretion in determining placement for vocational education, that districts statewide would do better under the block grant distribution, that JLBC has recommended inflation funding for education up until the past three years, but noted it would cost \$56 million to fund 2 percent inflation and argued the rate of 2.5 percent inflation is quite low. Mr. Schimp indicated JLBC was not asked to develop a school finance plan and that is why no recommendation appears.

With regard to ending the double funding of BIA charter schools, Mr. Schimp explained that the staffer who drafted the legislation indicated the understanding was that two schools, Gray Hills Academy and Tolchico, would be grandfathered and continue to receive double funding for another couple of years, but that the eight new BIA charter schools would not.

Mr. Schimp further explained that due to this staffer's drafting error, the eight new schools were allowed in as well.

Senator Arzberger suggested that when vocational education goes to block grants after the first year, many schools will be hurt, and indicated he would present a chart in Subcommittee demonstrating this.

Senator Cirillo asked what happens to school funding based on a sales tax in the event of a recession. Ms. Keegan explained that the sales tax over the past 10 to 15 years has been much more stable, in terms of what it would produce in this regard, than the property tax. She noted this issue was reviewed by a couple of tax research organizations before the sales tax proposal was made. Ms. Keegan agreed it is just as easy to have a flat tax on property as sales to implement the proposal and related that she is not tied to using the sales tax.

Senator Soltero emphasized the importance of adult education as a low-cost way of educating parents to prepare their children to do well in school and reduce the at-risk population. Ms. Keegan stressed her support for funding adult education and agreed these programs are extremely efficient. She explained \$1.2 million will come from the U.S. Department of Education and this together with the \$1 million requested brings Arizona's total to \$2.2 million for adult education. Ms. Keegan expressed her belief that if the program is allowed to expand, it would grow beyond the waiting list.

Barry Williams, Vocational Director, Round Valley Schools, related his family's long history in Arizona, emphasized the importance of vocational education programs and especially stressed the importance of counting continued education in a job-related area as a placement. Mr. Williams also deflected criticism and dispelled myths relating to Round Valley's domed field house. He emphasized it supports six varsity sports and costs \$40,000 to maintain.

Mr. Williams further expressed concern that if Group B funding goes to a block grant and that pool of funds is not increased by the amount the local taxpayers are paying, Round Valley would be getting a double-edged sword. He expressed his belief there is a flaw in the determination of placements for vocational education and this needs to be reworked. Senator Richardson suggested that the criticism of the domed field house in Round Valley stems from how little it impacted the residential homeowner and how easy it was to raise the necessary funds because of the high tax paying power plant in the district.

Tom Bartz, Coordinator, Technical Education, Scottsdale Unified School District, representing himself, expressed his disagreement with moving Group B funding into the block grant, but suggested leaving this separate. He explained this funding for teachers of vocational education courses, in which there are fewer students and which are more expensive, would suffer.

Senator Bowers recessed the meeting at 4:25 p.m. for ten minutes and reconvened at 4:35 p.m.

BUDGET PRESENTATION FOR DEPARTMENT OF HEALTH SERVICES (DHS)

Jennifer Vermeer, JLBC, distributed a "Comparison of Major Policy Issues" and a sheet with language for recommended statutory changes relating to the DHS budget (filed with original minutes). She detailed the following JLBC recommendations on major issues as listed in the comparison: Assurance and Licensure, Disease Control Research Commission (DCRC), Emergency Medical Services, Poison Control, Health Lab format, Regional trichloroethylene (TCE) Contamination, Children's Rehabilitative Services, CRS Data System, Health Start, Title XIX programs, Managed cared and Actuarial Services Third Party Payor Costs and Arizona State Hospital (ASH) Downsizing, Contract Costs, Community Treatment and its program review.

With regard to funding construction of a new building on the ASH site and a new health lab with tobacco tax revenues, Senator Arzberger suggested there are no "surplus" funds and questioned the basis for the interpretation that it would be legal to spend these monies on something other than for health programs intended by the proposition. Ms. Vermeer acknowledged it would change Proposition 200 as passed but emphasized the projects are health related.

Senator Arzberger indicated that other attempts to access these funds for health-related projects, and not construction projects, have been unsuccessful and suggested this recommendation be revisited.

Bob Chapko, OSPB, distributed a summary of budget recommendations for the following selected policy issues: ASH Operating Budget, ASH Community Treatment and Title XIX Recoupment topics. Additional topics included: technical differences on pay and ERE, Behavioral Health actuarial studies, supportive residential living centers, Title XIX behavioral health forecast increases, TCE contamination, Attorney General interagency service agreement and the performance review recommendation for ASH.

Mr. Chapko indicated the JLBC and OSPB budget recommendations are only about \$400,000 General Fund dollars apart. He also emphasized the Executive is significantly concerned about ASH and urged the Committee to add \$2 million to JLBC's recommendation for this.

Senator Wettaw stressed the importance of receiving data from OSPB in a timely manner in order to adopt budget figures on schedule.

Mr. Chapko confirmed Senator Lopez' understanding OSPB does not recommend reducing funding for supplies and contracting costs at ASH because this reduces operations funding to \$191 per patient per day as opposed to the Executive's recommended \$200 per patient per day.

Senator Lopez suggested there must be some reduced cost to contractors during downsizing. Mr. Chapko explained that the reduction is reflected in the per patient per day cost projections. He further suggested the JLBC recommendation has "double-dipped" the reduction. In response to Senator Lopez' further inquiry, Mr. Chapko emphasized the contractor will have to be paid according to contract and will not be hurt, but the hospital's operating budget may be hurt when it is tapped to pay the contract.

Senator Lopez asked why no recommendations are being made by JLBC or OSPB for Proposition 203 programs. Mr. Chapko explained the Lottery has requested an Attorney General opinion about how these can be implemented. He deferred to Dr. Dillenberg, who would testify later, for information on teen pregnancy prevention programs.

Senator Lopez also expressed concern about using tobacco tax revenues for capital expenses. Mr. Chapko related the Executive does not support the use of tobacco tax revenue for capital projects and feels this illegal and in violation of the Proposition and the law. He stipulated that the Executive does support building a new health lab, but paying for it with Certificates of Participation.

Senator Wettaw questioned the reintroduction of lease-purchase as a valid method of paying for construction when it is supposed to be a thing of the past.

Mr. Chapko related that the Executive strongly urges the Committee to put the \$655,000 JLBC recommended reduction back in the budget for the Division of Behavioral Health Services.

Senator Wettaw asked for comments on the lack of recommendations by either budget staff for nonTitle XIX substance abuse funding. Ms. Vermeer pointed out that the federal government has provided an increase in the substance abuse block grant of about \$2 million which can be used in the State.

Senator Freestone emphasized the importance on substance abuse prevention programs and commented on the paltry amount allocated to deal with an issue that contributes to so much human misery and creates an enormous cost to the State. Ms. Vermeer noted that substance abuse funding will be reviewed in great detail next summer. Senator Freestone noted that the federal government is increasing funds in recognition of the serious nature of the problem and questioned the wisdom of cutting this funding in the State until conclusions

are drawn from the upcoming review. Ms. Vermeer allowed that a motion can be made in the Subcommittee to increase funding and clarified the amount is not being reduced, but maintained at the current amount.

Ms. Vermeer next pointed out that the real reason for the \$2 million difference between JLBC and OSPB budget recommendations for ASH is the increased funding for supervisory care placement in the community which has nothing to do with operating costs.

Senator Richardson asked for comments on what could be recommended for a one-time use of the tobacco tax surplus funds.

Jack Dillenberg, D.D.S., Director, DHS, referred to the extra as “unspent,” not “surplus.” He related that the Governor has suggested that the caps be lifted on the Health Education Fund and that a one-time \$8 million amount be provided for public health education over a three-year period to deal with a host of issues which are traditionally underfunded such as teen pregnancy prevention, lead poisoning and diabetes education. Dr. Dillenberg suggested the remaining \$10 million could be used to increase health education campaigns for items such as media expenses, school projects and local programs in all of Arizona’s counties.

In response to Senator Richardson’s inquiry, Dr. Dillenberg indicated there is approximately \$40 million in the Health Education Fund now which DHS administers and \$140 million for indigent health care services which Arizona Health Care Cost Containment System (AHCCCS) administers.

Senator Richardson asked if DHS has plans to spend all of the \$40 million it has responsibility for. Dr. Dillenberg indicated a House Bill addresses this and, if it passes, DHS would have the opportunity to spend this amount. He expressed his support for the legislation and his wish to implement the proposed programs.

Senator Richardson asked what would happen to the remaining \$22 million after the \$18 million recommended spending by the Executive. Dr. Dillenberg acknowledged that once the caps are lifted on the Health Education Fund as of July 1, 1997, DHS would have the ability to spend 90 percent of the collected funds and the \$22 million would be added to the revenue stream starting July 1. Dr. Dillenberg indicated he anticipates a decrease in these funds over time and that the proposed legislation caps spending at 90 percent compensate for fluctuation in the revenue stream.

Senator Richardson asked if Dr. Dillenberg expects to request monies from the Legislature once funds run out. Dr. Dillenberg explained campaigns, once developed, would be ongoing and it would only be left to enhance them and expand community participation. He suggested the revenue will not dwindle to zero, as some percentage of the population will always be using tobacco.

Senator Richardson asked if a reduction in expenditures is foreseen over time and Dr. Dillenberg confirmed it is, and indicated programs would be scaled back dependent upon revenues.

Dr. Dillenberg next commented on the points of difference in the JLBC and OSPB budget recommendations for DHS, first expressing opposition to the JLBC reduction to a \$191 per patient per day operating cost at ASH. He expressed opposition to the JLBC's recommendation for a \$655,000 reduction for managed care actuary studies when every year the need has been demonstrated; emphasized the need for a new state health lab with the resurgence of tuberculosis, Hantavirus and public health concerns such as clean drinking water. Dr. Dillenberg expressed support for moving ahead with the \$1.6 million, JCCR-approved architectural plans for a new lab.

Dr. Dillenberg recommended revisiting the issue of TCE contamination and public health emergencies such as meningitis with the creation of an Emergency Health Contingency Fund.

Senator Bowers related there is a much larger plume of TCE than the one in South Tucson right under the building. He suggested the link between TCE and infirmities in South Tucson may be political. Dr. Dillenberg agreed the link cannot be clearly quantified or identified. He allowed that what has occurred in South Tucson is the identification of individuals living in an area where there has been TCE contamination and the incidents of illness which have occurred there.

Dr. Dillenberg expressed support for the supportive residential living as a good alternative to long-term care as our population ages. He concurred with the Governor's recommendation to restore the base \$70,900 that was cut last year.

Dr. Dillenberg emphasized his support for funding teen pregnancy prevention programs. In response to Senator Bower's inquiry about programs to deal with the young men who impregnate teenage women, Dr. Dillenberg acknowledged there is no statewide program which addresses this issue and expressed his wish to develop one.

Senator Bowers commented that males should receive the same prevention message and until they do, nothing will work. He questioned whether tobacco tax revenues could be used to conduct a media campaign to educate young men about child support requirements.

Senator Soltero thanked Dr. Dillenberg for mentioning the TCE problem in South Tucson. He emphasized the need to continue the clinic there which provides treatment and counseling to this group who are largely low-income individuals.

Senator Lopez commented on the staff-to-client ratio at ASH and asked for assurance the ratio is sufficient and does not threaten the hospital's Medicaid certification. Dr. Dillenberg

assured the Committee that staffing ratios, though they may be lower currently than in previous months, are fluid and will fluctuate as clients are moved to the community.

Rhonda Baldwin, Assistant Director, Division of Behavioral Health Services, DHS, explained that with regard to the Medicaid certification issue, DHS is in the process of putting together a corrective action plan now to add nurses and psychiatric technicians because the ratios in these categories were lower than they should be. She expressed her belief the staff must be augmented in order to maintain certification and emphasized a \$2 million reduction in ASH budget will present difficulty in providing quality client care.

Senator Bowers announced the following were present in support of increasing the DHS budget but did not wish to speak: **Charlie Thomas, AZ Kidney Foundation; Lynne Marion, Arizonans for Prevention and Sharon Ketchum, Phoenix, AZ.**

Kenneth Mounkes, Governor's Advisory Board for ASH, related his views about ASH issues, expressing his opinion that the current hospital is a good one, the staff is great and opined that ASH does not need to be replaced, only renovated. He recommended not cutting the operating budget at ASH, but adding \$2 to \$3 million.

Maria Hoffman, Arizona Council of Centers for Children and Adults, requested that the Committee seriously look at funding \$1.5 million for Children's Behavioral Health Subvention, which has received no increase since 1990. She also expressed support for Dr. Dillenberg's recommendation to increase substance abuse and general mental health funding \$4.7 million.

Steve Carter, President, AZ Association of Behavioral Health Programs, recommended funding substance abuse programs to address this problem which correlates to domestic violence, police actions, child protective services and use of the courts. He noted that a survey of households found that a big number of adolescents and adults have substance abuse problems and also do not have health insurance. Mr. Carter also noted that nonTitle XIX dollars have been reduced 20 percent over the past three years with more and more people presenting for treatment during the same period.

Susan Madison, representing herself, Phoenix, AZ, expressed support for Dr. Dillenberg's recommendation to fund children's behavioral health services \$1.5 million and emphasized the importance of prevention programs.

Without objection the meeting was adjourned at 6:05 p.m.

Respectfully submitted,

Alice Kloppel,
Committee Secretary

(Tapes and attachments on file in the Office of the Senate Secretary)

