

# ARIZONA STATE SENATE

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45TH LEGISLATURE  
FIRST REGULAR SESSION

## MINUTES OF COMMITTEE ON APPROPRIATIONS

**DATE:** January 16, 2001

**TIME:** 8:00 a.m.

**ROOM:** 109

**CHAIRMAN:** Senator Solomon

**VICE CHAIRMAN:** Senator Bee

**ANALYST:** Deborah Johnston

**COMMITTEE**

**SECRETARY:** Melissa C. Upshaw

**INTERNS:** Timothy Bowers and Julie Myers

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### ATTENDANCE

### BILLS

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<u>Committee Members</u>	<u>Pr</u>	<u>Ab</u>	<u>Ex</u>	<u>Bill Number</u>	<u>Disposition</u>
Senator Arzberger	X			SB 1013	DP
Senator Cirillo	X				
Senator Guenther	X				
Senator Hamilton	X				
Senator Hellon	X				
Senator Martin	X				
Senator Mitchell	X				
Senator Nichols	X				
Senator Rios	X				
Senator Verkamp	X				
Senator Bee, Vice Chairman	X				
Senator Solomon, Chairman	X				

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### GOVERNOR'S APPOINTMENTS

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## **Tape 1, Side A**

Chairman Solomon called the meeting to order at 8:02 a.m. and attendance was noted.

Attendees Sign in sheet (Attachment A)

### **APPROVAL OF MINUTES**

The minutes from January 9, 2001 were not available for approval.

### **INTRODUCTION OF STAFF**

Senator Solomon introduced the Staff who will be assisting the Appropriations Committee for this legislative session as follows:

- Debbie Johnston, Legislative Analyst
- Carolyn Atwater, Assistant Analyst
- Timothy Bowers, Intern
- Julie Myers, Intern
- Reed Spangler, Republican Caucus Policy Advisor
- Ashley Dealey, Republican Staff Intern
- Travis Mallen, Democratic Staff Policy Advisor
- Anjali Bhasin, Democratic Staff Intern
- Melissa C. Upshaw, Committee Secretary
- Lashawna Channell, Page
- Chris Ross, Page
- Jim Savoca, Page, Education Subcommittee
- Aaron Atwater, Page, Health Subcommittee

### **ADOPTION OF THE COMMITTEE RULES**

**Without objection, Senator Solomon stated that the Appropriations Committee Rules would be adopted as distributed. (Attachment B)**

### **APPOINTMENT OF COMMITTEE OF REFERENCE**

Senator Solomon appointed the following Members to the Committee of Reference:

- Senator Bee, Chair
- Senator Arzberger
- Senator Mitchell
- Senator Nichols
- Senator Verkamp

## **S.B. 1013 - nuclear emergency appropriations and assessment - DO PASS**

Senator Solomon said Jim Keane and Gretchen Logan were both present to explain the bill if needed.

**Jim Keane, Government Committee Analyst**, explained S.B. 1013 appropriates \$924,778 from the state general fund for FY 2001-2002 and \$940,611 for FY 2002-2003 to the Nuclear Emergency Management Fund. The bill assesses the same amount, plus interest, against each consortium of public service corporations and municipal corporations engaged in constructing or operating a commercial nuclear generating station.

**Senator Bee moved S.B. 1013 be returned with a DO PASS recommendation.**

Senator Guenther questioned why this bill was introduced every year as a separate bill and not a part of the budget. Mr. Keane said he did not know of any reason other than perhaps that it was a statutory requirement.

**Debbie Johnston, Appropriations Analyst**, said she had thought about this question as well and said she would discuss this with Richard Stavneak, Director of the Joint Legislative Budget Committee, as to why the bill is not included in the budget.

Senator Solomon said if it is appropriate to include the bill as a budget line item, then she thinks that is what they should do.

Senator Nichols asked what would happen if a nuclear emergency actually occurred. He said the bill had been made light of every year at the House. He asked if someone could enlighten the Committee as to where this money goes and how it is used.

In response to Senator Nichols, Mr. Keane said there are specific distributions of the appropriations that are listed on the fact sheet. Mr. Keane indicated that approximately \$250,000 of the appropriation each fiscal year goes to the Department of Emergency and Military Affairs (DEMA) Emergency Management Division. Approximately \$200,000 in each fiscal year goes to DEMA's Emergency Management Division for disbursement to Maricopa County for its responsibilities under the generating Nuclear Emergency Response Plan. He added that the town of Buckeye receives approximately \$31,500 of the emergency disbursement. In addition, approximately \$450,000 goes to the Radiation Regulatory Agency for programs relating to offsite nuclear emergency response plans.

Mr. Keane informed the Committee that Michael Virgin, Director of the Joint Staff, Arizona National Guard, DEMA was present to give more details of the plan if needed. There were no questions for Mr. Virgin.

In response to Senator Nichols' comments, Senator Solomon said she presumed he would vote in favor of the bill. She said the members recognize the importance of this bill and that it is not made light of in the Senate. It is important that the committee is looking into creating a new permanent budget line item for this item.

Senator Nichols said he would like everyone to be informed about the Agency's procedures should a nuclear emergency occur.

Senator Solomon said that Senator Nichols raised a very good question and asked if he could meet with staff to address his concern.

**The motion to return S.B. 1013 to the full Senate with a DO PASS recommendation CARRIED by a roll call vote of 11-0-1. (Attachment #1)**

## **BUDGET PRESENTATIONS ON THE DEPARTMENT OF CORRECTIONS**

**Brad Regens, Budget Analyst, Joint Legislative Budget Committee (JLBC)**, distributed a handout entitled *FY 2002 - FY 2003 Comparison of Major Policy Issues Department of Corrections* (Attachment C) dated January 15, 2001. He explained he would be referring to these two handouts during his presentation. Mr. Regens highlighted the following six major policy issues for the Department of Corrections (DOC):

- Prison Population and Bed Capacity (DOC - 6)
- Population Growth (DOC - 2)
- Bed Capacity(DOC - 3)
- Correctional Officer Salaries (DOC - 5)
- Female Inmates (DOC - 3 & 5)
- Inmate Education (DOC - 4)

\*Note: The page numbers in parentheses refer to the page numbers listed in the *FY2002-FY2003 JLBC Recommendations* booklet.

Referring to the schedule on the last page of Attachment C, salary plans described by Mr. Regens, Senator Cirillo asked Mr. Regens if the schedule included the continuation of the large pay increase from last year and the new \$3,000 and \$1,000 increases. Mr. Regens said there are two parts of the recommendation. Currently, the starting pay for the Correctional Service Officer (CSO) is \$23,500. On the current pay plan, he said the officers that are hired on at \$23,500 would receive a "bump" of about 5 percent on the anniversary of their employment date. He notes that this has been funded. In addition, officers will also receive the \$3,000 and \$1,000 increases, therefore, some officers will receive two pay increases. In addition, he said the whole pay scale is being adjusted beginning January 1, 2003 so that a new hire would come on at \$26,500 and then a year later they would come on at \$27,500. Mr. Regens said the only information he provided in the chart is the officers' starting salary in the existing system and that he would be glad to provide a table for each year's expenditure if the members would prefer.

In response to Senator Rios' question, Mr. Regens said the Pima Detention Officers recently received a salary increase in January. Referring to the last page of Attachment C, he said the "n/a's" are listed in the column because JLBC does not know what is going to happen with Maricopa County and Pima County. In fact, he said the pay plan that was adopted for FY 2000 was intended to equalize state employees' salaries with Maricopa County. He noted that twenty years ago Maricopa County was hiring officers on at about \$23,000. He said these figures are moving targets and obviously the recommendation could be for additional monies, but that would have to be a policy decision.

Senator Rios said his point is clearly that Maricopa County and Pima County salaries will also go up in this period of time. He expressed his concern that the State was not doing enough for the CSO's in terms of trying to resolve the problem for DOC. He explained that if a potential candidate for DOC has a choice of making more money here than they would be in Florence, Winslow, Yuma or Safford, then clearly they are going to stay closer to home. He said what is not being taken into consideration is that the officers are not needed here in the urban areas and for some reason our prisons are scattered throughout the State to make those positions competitive. He stressed that the officers should be paid more than what is being proposed and does not think this will do it for DOC, in terms of trying to increase those numbers.

Mr. Regens continued with his presentation on the policy issue for the female inmates. He said the Executive concurs with both the recommendation and continuation of the previous pay plan and the increase of \$4,000.

Senator Cirillo commented that he is shocked that Mr. Regens is so accurate that he referred to the Arizona State Prison Complex (ASPC)-Perryville as being located in North Phoenix when it is actually located in his district.

Senator Solomon thanked Mr. Regens for his budget presentation.

**Bill Greeney, Budget Analyst, Office of Strategic Planning & Budgeting (OSPB)**, distributed a handout entitled *Department of Corrections, FY 2002/2003 Budget Recommendation Select Policy Issues* (Attachment D) dated January 15, 2001. Mr. Greeney explained that remarkably JLBC and OSPB this year are considerably in agreement on this budget, which has not always occurred. He said there are four basic issues that the Executive would like to have considered that are different from what the JLBC staff had recommended. His testimony is based on Attachment D.

The four select policy issues covered by Mr. Greeney are as follows:

- Rapid Growth Contingency
- Medical Costs
- Treatment of Hepatitis C
- Reallocate Arizona Center for Women Full Time Equivalent (FTE) Positions

Senator Solomon said the question is whether it is appropriate to use the Corrections Fund for purposes other than construction. She asked if it would be unreasonable, in Mr. Greeney's opinion, to do what JLBC is recommending because the Corrections Fund is not being used at this point.

Mr. Greeney said going the route of the supplemental, there probably will not be enough time for the department to move up the opening date of the first unit. He explained it would take at least 60 days for them to train staff that could not be hired until the supplemental passed, and it would then take two months to hire staff, which would probably be in June. He said the recommendation from JLBC is to open in July. The Executive's recommendation with the contingency is to open these beds in February.

Mr. Greeney said the buildings for ASPC-Lewis are there and funds are needed to open them up. He said the other beds that are in place are the 400 private DUI beds that were funded last year and 1,000 private beds that were funded this year. He said that both budget offices have recommended moving these beds back and that construction is not being talked about at this point.

Mr. Greeney clarified that the Corrections Fund in the Executive's recommendation has basically been reallocated because of the delay in growth. He said the Executive believes that the new Tucson complex can be built strictly out of the Corrections Fund and federal monies without using general fund monies, even if the contingency is used.

With respect to the Corrections Fund, Senator Nichols said we should have learned a lesson in school financing on how we have diverted the capital construction monies over the years for operational money and a very high price was paid for that. Senator Nichols suggested that they look twice before capital monies are used for operational costs.

Senator Cirillo suggested to the Committee that some sort of "trigger" language in the motion sheet should be taken into consideration. He said if 100, 125 or 150 are reached each month, tracked by the new inmate population, and if a certain number is hit for a certain number of months, the money will then be "triggered."

In response to Senator Cirillo's comments, Senator Solomon said she thinks that this is a good possibility. She said this had been discussed briefly at some of their meetings and would be an issue for his Health & Welfare Subcommittee.

Referring to the 1,000 new privately-operated beds being pushed back, Mr. Greeney clarified Senator Rios' question by stating that this facility is for the foreign nationals.

In reference to Senator Guenther's question, Mr. Greeney said his understanding is that most of the \$5 million is used for the treatment of inmates with Hepatitis C. Basically, the treatment varies in cost, approximately \$8,000 to \$16,000/per inmate depending on the type of treatment that is required. He informed the Committee that Dr. Lutz from DOC was present to give more details on Hepatitis C.

Senator Guenther said he would like to know why there is such a broad range of treatment costs, how the inmate population is sampled to determine whether or not they have Hepatitis C, and how the population is treated to successfully remove that threat from the inmate population.

Senator Solomon said she does know there is no vaccine for Hepatitis C, and the treatment protocol is very lengthy and costly. She believes approximately a year's worth of treatment is needed. If the treatment goes on for less than the specified period of time, then the treatment is not useful in the containment of Hepatitis C. She said it is her understanding that people who share needles transmit Hepatitis C, and those who received a blood transfusion prior to 1972 would be tested. She said she is sure that Dr. Lutz will enlighten the committee on this subject.

Senator Nichols said he had several questions for Dr. Lutz. Senator Arzberger questioned whether or not Hepatitis C could be transmitted by exposure to blood, and if so, if there might be some danger of contagion.

In response to Senator Arzberger's question, Mr. Greeney commented that economists should not answer medical questions and that Dr. Lutz would be able to answer her question better than he could.

Senator Solomon informed the members that she would have Dr. Lutz answer their questions shortly and asked if there were any questions for Mr. Greeney.

In reference to the rapid growth contingency in the Executive's recommendation, Senator Martin asked if there are any specific instructions for the \$5 million to \$16 million or if it can be used at their discretion.

In the contingency proposal that the Executive has produced, Mr. Greeney said the opening dates were actually determined at the rate of 100 inmates per month, which would give them some flexibility. It varies between four and six months of lead time that the beds could be opened.

Senator Martin asked if there are any instructions saying that the funds have to be used only for opening new facilities in the current language, or if there is a "trigger" mechanism applied at the moment.

Mr. Greeney said the nature of the DOC budget, unless these items are put into a special line item, they have a lump sum operating budget. JLBC staff is recommending a lump sum by program and the Executive staff is recommending by agency, so they really have the discretion to set up the monies any way they choose.

Senator Nichols said Mr. Greeney is anticipating the possibility of not hitting the target of 75 inmates per month in the JLBC budget. He asked Mr. Greeney what number he is projecting to use to get to this additional rapid growth contingency fund. Mr. Greeney said the number is 100 inmates per month.

Senator Nichols asked if there would be a return to the state general fund of unexpended funds if the target number was not hit. He said that perhaps Mr. Greeney could tell them what happened between 1999 and 2000 when we went from 96 to 19. How much was returned to the state general fund in that year by the DOC? Mr. Greeney said he would hope there is a return to the state general fund, but he could not tell them what happened between 1999 and 2000 because he does not have the numbers in front of him. He agreed to provide the numbers for him.

Senator Nichols asked if anything was returned to the state general fund in that year. Mr. Greeney said yes, he believes the number was close to \$11 million, but he was relying on his memory.

Senator Solomon thanked Mr. Greeney for his presentation.

**Terry Stewart, Director of DOC**, said there is a great deal of consensus between the Executive and JLBC recommendations. He said it is his pleasure to point out the significant differences. Mr. Stewart distributed a handout entitled *Arizona Department of Commerce Strategic Issues* (Attachment E) dated January 16, 2001. His testimony is based upon this handout. The strategic issues covered by Mr. Stewart are as follows:

- Response to Inmate Growth
- Staffing Issues
- Health Services
- Information Technology

## **Tape 1, Side B**

Senator Solomon said that Senator Cirillo had suggested a "trigger" in the motion sheet, and asked if the "trigger" would not take care of the issue.

Mr. Stewart said it is a start. He discussed one issue that he is not sure the "trigger" would have an impact on. He said with regard to the private 400 DUI beds and the private 1,000 beds, a Request for Proposal (RFP) has been put out, and they are in the negotiations process right now. He said he believes that if the funding is disconnected legally, he is going to have to stop the procurement process. If he does not legally have to do it, he is not sure if there are any providers who will say "we will bid 21 months out in the future at this price and build a prison based on a trigger mechanism." He said that would mean if the population goes "wild," then he would have to start the procurement process all over. He explained the procurement process for a private prison is at least nine months long, which will put him in a position of not having any "hard" beds at Tucson and not opening the 350 beds at ASPC-Lewis. He asked the Committee to take into consideration that he now has 1404 beds that he cannot open at ASPC-Lewis because he cannot attract corrections officers. If next year's population goes "wild" he still does not have the pay raise that will not go into effect until January. He will then be "at a loss."

In response to Mr. Stewart's comments, Senator Solomon said the Legislature does not want to put him in a position where he is going to be "at a loss," and that they certainly can work something out. They will have a subcommittee opportunity to discuss this entire issue, and she is certain that he will be working with them.

In response to Mr. Stewart's comments, Senator Rios said he has a difficult time understanding this situation. If Mr. Stewart were to get the 400 private bed facility or the 1,000 Mexican prison, he asked how he would get the CSO's to staff those facilities. He questioned the difference of why it would be easier for them, if the caliber of the people they are going to hire is less.

In response to Senator Rios' question, Mr. Stewart said frankly, he is not a private prison expert so it is difficult for him to answer his question and that he would have to defer to the private prison industry. He informed Senator Rios that the federal government does have a high turnover and a high difficulty like we do, so he certainly would not contest to that.

Senator Rios asked if there was any difficulty in finding CSO's to staff new private prison facilities. Is DOC going the private route because people are going to pay them less?

Senator Solomon said that at some point they will need some explanation as to why Mr. Stewart's annual growth rate, the growth rate per month over the years and the JLBC analysis of this growth rate are different.

Mr. Stewart said he is not taking issue with the 75 new inmates per month, that is simply a number that the Executive, JLBC and DOC agreed to because they cannot say it is going to be anything

else. He said his main concern is what if the growth rate is more than 75 and how would it be dealt with.

Senator Solomon said that she would suggest in a growing state to have more monies put into prevention and programs that will help keep people out of prison, and the prison population may go down.

Mr. Stewart said that he would agree with Senator Solomon's comment to some degree, but that he would also like to remind the members that 75 percent of the inmate population in our prison system did not come out of Arizona.

With regard to the Tucson beds, Senator Solomon said the JLBC budget removes the appropriation for FY 2002 and 2003 and leaves the monies that were not used in FY 2000 and FY 2001, approximately \$37 million. With the Joint Committee on Capital Review (JCCR) approval, she asked Mr. Stewart if he could begin to move on those beds with the \$37 million that is available to him.

Mr. Stewart said yes he could, but as she is aware, it would be limited.

Senator Solomon said they took a look at it and figured \$37 million was enough to get DOC started. She said she feels this is something the subcommittee should be discussing, and that she would like the members to understand that no monies were taken that had already been appropriated, based on the fact that there is a delay in construction.

With regard to the Hepatitis C issues, Mr. Stewart said DOC has a treatment protocol that must be followed and it is expensive and lengthy, as Senator Solomon had mentioned earlier. He said there is no escape from this disease by DOC or the State. He knows that it may "ruffle" some feathers, as it does his, but the treatment has to be done. He said he would be happy to invite Dr. Lutz to the podium to talk about Hepatitis C because Hepatitis C falls into the same category as medical inflation issues, when the inmate has been diagnosed with Hepatitis C.

There were no further questions for Mr. Stewart. Senator Solomon invited Dr. Lutz to the podium and asked if he could answer questions that were raised by Senators Arzberger and Nichols.

Senator Nichols asked about the percentage of inmates going into the prison facilities with Hepatitis C and how that compares with the growth population.

**Dr. Thomas W. Lutz, Deputy Director for DOC Inmate Health Services,** said Hepatitis C has been determined, as Senator Solomon indicated, as a blood born pathogen. He said 85 percent of the prison population are substance abusers, which is an extremely high prevalence rate. The agency ran a prevalence study on 600 prisoners, both male and female, and found Arizona's prevalence of Hepatitis C in the State's DOC is 32 percent. Of that 32 percent, 21.6 percent have what is known as chronic active Hepatitis C that is treatable. Of the 21.6 percent, roughly 5800 prisoners in the State's DOC could conceivably be treatable with two known drugs, interferon and rebetron. Both are recommended treatment and have become the community standard of care. Dr. Lutz indicated the percentages of people with diseases who have spent time behind bars: 30 percent with Hepatitis C; 15 percent with Hepatitis B; 35 percent with Tuberculosis (TB); and 17

percent with Acquired Immune Deficiency Syndrome (AIDS). Dr. Lutz gave a brief overview of Hepatitis C and DOC's treatment protocol.

To answer Senator Guenther's question, "how do we get to these phenomenal figures", Dr. Lutz said each study of this algorithm determines of those 5,700 prisoners who are actually treatable because not everyone can receive the medication. In fact, if an inmate has liver cirrhosis, a significant mental illness or any other serious disease, they are not treatable.

Senator Nichols thanked Dr. Lutz for a comprehensive answer to his question. He said that his answer was very helpful to help them understand Hepatitis C. He asked Dr. Lutz if it was fair to say that he is attempting to follow a community standard of care for all diseases including Human Immunodeficiency Virus (HIV).

Dr. Lutz answered that is correct, DOC is held to the same standard of care in the prison system, as they would be in the private sector.

Senator Nichols said Dr. Lutz may be familiar with a prison facility in Galveston, Texas that is designated primarily for medical purposes by using telemedicine to treat their patients. He said there has been representation made to this Legislature in the past that telemedicine is a way of cutting the costs of health care in the prisons because transportation, observation, and costs of CSO's having to go with the patients are avoided.

Senator Nichols asked Dr. Lutz and Mr. Stewart if they are looking toward developing the kinds of facilities, as their facilities expand, which will maximize the potential for telemedicine and minimize the need for transportation for their patients. Dr. Lutz said this subject, telemedicine in a correctional environment, is extremely dear to his heart. He said in 1995, DOC joined the Arizona telemedicine program and equipped the Eyman prison with telemedicine and it did exactly what Senator Nichols had indicated. It decreased the off-site transportation by bringing specialty services to the prison without having to remove a prison to the private sector specialist. He said in their first full fiscal year of using telemedicine just at Eyman, DOC retained costs of approximately over \$50,000, the majority of which is transportation, which on average will cost about \$856/per inmate. They have subsequently expanded their telemedicine program to 6 of their 10 prisons. In FY 2000, DOC has retained \$350,000. He said they are on the road to equipping all of their prison facilities, both rural and urban, with telemedicine, which was done without any funding from the Legislature.

Senator Nichols said he had no more questions, other than Dr. Lutz should be commended on the move toward telemedicine and maybe some savings would be found there to help cover some of the other costs.

Senator Solomon said it is important for the members to know as well that while we are taking time to review these budgets, telemedicine was a topic of conversation. She said she does believe that telemedicine is the way to go and that there can be savings there. She expressed her appreciation for raising the issue.

In response to Senator Arzberger, Dr. Lutz said the only treatment for Hepatitis C is the two drugs that he identified, which are interferon and rebetron. There is no prevention for Hepatitis C other than education and wellness programs. He said Senator Arzberger is correct, if an employee is

exposed to the bloody, bodily fluids significantly enough, it can be an acquired disorder and obviously impact medical and normal personnel tremendously.

In response to Senator Solomon's question, Dr. Lutz said she would be correct to assume that DOC staff would be trained on using universal methods as they would use with an HIV patient. Universal precautions means wearing gloves to prevent exposure to bodily fluids because no one knows who has an acquirable disorder.

In response to Senator Guenther's question of why this issue was not included as a budget item in 2002, Dr. Lutz said he would have to relinquish this question to the Director, Mr. Stewart, and to the others. He said they have brought forward the issue of their high cost disorders, HIV and mental health. In previous sessions, he said the Legislature has chosen not to fund it and he does not really know why.

In response to Senator Guenther's question about not having this as a budget item in 2002, Mr. Stewart said DOC has requested it in the biennial budget. He said it is a budget and cash flow issue with regard to where the budget analyst placed it in the biennium.

In response to Mr. Stewart's comments, Senator Guenther said if he is not treating the population based on the standards of care that are available, then his house is subject to being taken this year as well as it would next year.

Mr. Stewart said Senator Guenther is exactly right, DOC cannot treat the inmates, but they have to be treated. He said DOC would either be "pinched" elsewhere in their budget if they do not get the funds in the first year or they will be back before the Committee with a supplemental bill. Therefore, they cannot refuse to provide the treatment.

Senator Guenther jokingly commented on the number of rooms Mr. Stewart had in his house.

Senator Hellon asked if someone could address the wide range between the Executive's recommendation of \$5 million and JLBC's recommendation of \$15 million in the rapid growth contingency.

Mr. Greeney said the JLBC recommendation basically does not address it. He said the JLBC staff left it open to the legislative body to make that a policy decision. The Executive recommendation is \$5 million starting in the second year. How much money could they devote to it at any one time was the decision they had to make. He said this may not be the perfect answer to Senator Hellon's question, but that is what they used.

In reference to the private prisons, Senator Rios asked if the JLBC recommendation would delay the opening of the private facilities.

In response to Senator Rios' question, Mr. Stewart said the Governor's recommendation gives DOC, an option, \$21 million to activate those beds should he need to. The JLBC recommendation does not.

In referencing Attachment C, Bed Capacity, Senator Rios questioned the 1,000 beds delay. He asked Mr. Stewart if he was misreading the Attachment, why does it state that the Executive

concur with JLBC to delay the beds to May 2003, then it states that the Executive concurs that the same beds be delayed to June 2003.

Mr. Stewart said DOC agrees with the delays. He said if they do not need those beds then DOC will not open them. The difference is that the Executive will give DOC the \$21 million in contingency funds in case he does need them, and then he can open the facilities much earlier than what JLBC recommends.

In response to Senator Rios' question, Mr. Stewart said the \$37 million are capital funds to build the prison, and the \$21 million would be operating funds to either open the prison or to pay for the private beds.

Mr. Stewart expressed his appreciation to Senator Solomon for her recognizing the need to increase State employees' salaries across the board. More specifically the proposed increase for CSO's is needed for the safety of inmates, staff, and the public. He appreciates this greatly and hopes it will become a reality. He added that we need a 20-year retirement plan for CSO's and if Senator Solomon could see her way to vote in favor of this, it will help them immensely.

## **BUDGET PRESENTATIONS ON THE ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS)**

**Gretchen Logan, Budget Analyst, JLBC**, distributed a handout entitled *FY 2002 - FY 2003 Comparison of Major Policy Issues, Arizona Health Care Cost Containment System (AHCCCS)* (Attachment F) dated January 16, 2001. She explained she would be referring to the handout during her presentation. Attachment F reflects the bulk of her testimony. Ms. Logan highlighted the following major issues for AHCCCS:

- FY 2001 Supplemental (AHC - 3 & 16)
- Demographic and Inflationary Increases (AHC - 16 & 18)
- Cost Avoidance Measures (AHC - 19)
- Tobacco Tax Issues (AHC - 20 & 21)
- Indian Health Services (IHS) Contracted Referrals (AHC - 21)
- Arizona Long-Term Care System (ALTCS) Growth (AHC - 25 & 26)
- Increased ALTCS Reimbursement (AHC - 27)
- Member Services (AHC - 9 & 10)
- Fraud Programs (AHC - 9 & 10)
- Medicaid in Public Schools (AHC - 10)
- Information Technology (AHC - 11 & 12)
- Children's Health Insurance Program (CHIP) (AHC - 12 & 13)
- Executive Recommendation (AHC - 14)
- Proposition 204 (AHC - 23)

\*Note: The page numbers in parentheses refer to the page numbers listed in the *FY2002-FY2003 JLBC Recommendations* booklet.

Ms. Logan said that in general the bottom line is that the Executive proposal does have very little impact on the state general fund.

## **Tape 2, Side A**

Senator Nichols referenced page 2 of Attachment F, the elimination of the Tobacco Tax funding for the Federal Matching Assistance Percentage (FMAP) and FY 2000 medical inflation under the Tobacco Tax issues. He said he would assume that this is being done because it has probably been illegal to take those monies from tobacco tax over the years. As he recollects this was done last year. He asked if this was not the equivalent of sub-plantation and is that why we are no longer going to be taking those monies out of tobacco tax or is there some other reason.

Senator Solomon said she did not think what was done was illegal. However, she and Representative Knaperek both felt that it was appropriate to pay for these two items out of the state general fund.

Ms. Logan commented one reason is that the fund is declining, but because she is not a lawyer, she is hesitant to comment on this.

Senator Nichols said there was a matter of sub-plantation and non sub-plantation in the tobacco tax initiative, and now it has passed again with the protection of the Voter Protection Act under that portion of Proposition 200 that survived. He said presumably that would provide some protection against sub-plantation.

Senator Nichols referenced page 2 of Attachment F, the JLBC recommendation for the fraud programs, and asked about the \$800,000, from the state general fund, appropriation in both FY 2002 and 2003 for the Finger Imaging Program. He asked if we have an estimate as to what the amount of fraud is and how much would be saved by expending the \$800,000.

Ms. Logan said she does not have those figures, but that the agency may have them. She said this would be an appropriate question to address to them or she would be happy to look into this and report back to him with the information. Senator Nichols said he would save this question for the agency.

Referencing page 3 of Attachment F, the administrative needs under the Children's Health Insurance Program (CHIP) issue, Senator Nichols said there was considerable attention to this issue. He wondered about outreach needs because we have potentially faced the loss of \$76 million or \$77 million for lack of enrollment of children into KidsCare. He asked if there is a component in the JLBC budget for outreach and are we in fact now allowed to take some of the returning amount of money that we would have lost. Are we going to be spending some of this for outreach and does it require appropriations from this Committee to do that? He said that his question might be better for the agency to answer since it is fairly complicated and involves new federal legislation.

Ms. Logan said AHCCCS Director, Phyllis Biedess, has a new outreach plan for CHIP, and it would be best if this was addressed by AHCCCS.

**Aimee Basye, Budget Analyst, OSPB**, distributed handouts entitled *AHCCCS, FY 2002/2003 Budget Recommendation Select Policy Issues* (Attachment G) dated January 15, 2001; and

*Proposition 204* (Attachment H) dated January 15, 2001. The bulk of her testimony is based upon Attachment F. The select policy issues for AHCCCS are as follows:

- ALTCS Provider Rate Increase
- Freedom to Work
- Tobacco Tax
- Data Center Consolidation

Ms. Basye said the biggest difference between the JLBC and Executive budgets is that the Executive implements Proposition 204 in the AHCCCS budget. She said that although this is not on the handout, she does have another handout entitled *Proposition 204* dated January 15, 2001 that addresses this issue.

Senator Solomon said Proposition 204 is a very important issue that was addressed by the Health Committee as well having an effect on the appropriations process. Following the budget, whatever time remains would be for Proposition 204 until the buzzer.

In reference to the medical services stabilization fund, Senator Nichols asked Ms. Basye why the fund was not being used. Ms. Basye said she believes it is policy decision.

Senator Solomon agreed it is indeed a policy decision.

Senator Solomon thanked the Executive and JLBC staff for their budget proposals presented for AHCCCS, stating the presentations were both concise.

**Phyllis Biedess, Director of AHCCCS**, expressed her appreciation to the Executive and JLBC staff for working diligently with their budget staff in developing the AHCCCS budget. In reference to population growth, she said this is a very volatile time and growth is unpredictable. Before welfare reform she said the population decreased for about four years. Many times, people get a job and their work does not provide healthcare benefits. They have up to two years of transitional medical benefits to remain on AHCCCS. Another wide population is people coming in from Mexico. If they get sick or get into an accident, AHCCCS provides the healthcare services for them to get them back down to their own country, but the numbers are getting larger and larger. They are also seeing a lot of women come in and having their children here in this country.

The other major growth area that is very volatile is medical cost inflation. She said the State's hospitals and physician providers need to be looked at in terms of rates and rate development.

Ms. Biedess said in both of these instances their budget is highly sensitive to the population, to the number of people who are coming on board, and to what they can negotiate. The only difference in the two budgets the Director would like to address is the question of staffing in their long-term care program. Between OSPB and JLBC, both granted additional positions, JLBC 32 positions and OSPB 46.5 positions. She said the high growth program, is a very costly program. About 5 percent of the people account for about 27 percent of their budget. They need the additional staff to complete redeterminations to stay consistent with the demands from the federal government.

Ms. Biedess said she understands from Senator Solomon that the position of the Committee is that any new programs would not be considered in the budget, but would be considered separately and

that is the critical AHCCCS hospital coverage. This is a special program for very small rural hospitals that have 15 beds or less that are at least 30 miles from any other facility. She indicated additional funding is needed for the 7 or 8 such facilities in the State of Arizona.

Ms. Biedess said she understands that there may be a move in the Legislature to adopt performance measures for all agencies, and the agency supports any kind of activity along that line. She said that currently the agency has performance measures from the Executive Branch that they report on a monthly, quarterly and annual basis. Two of the areas that were talked about were the provider and member surveys as a performance measure in order to see how people are relating to them and what the reactions are to the programs. She needs to make the Committee aware that if the performance measures of AHCCCS were to include member and provider surveys on an annual basis, they do have experience with the cost of those surveys. The surveys may run from \$350,000 to \$400,000 per survey, and AHCCCS does not have either survey budgeted for this coming Spring.

Ms. Biedess said the other performance measure on prenatal care in the program is Baby Arizona, which she understands would not be considered in the budget. She said this program is focused on getting women into the system in the first trimester of their pregnancy. A research study was done on this particular project, which shows that it has been highly successful in reducing the length and amount of time women are in the hospital with sick or semi-sick children.

Senator Solomon said that she and Representative Knaperek met with Mike Braun of Legislative Council yesterday and discussed several issues: open non legal positions, what they have budgeted for these positions, and what can be provided with regard to survey and research assistance for the agency. Senator Solomon said she understands the issue and assured Ms. Biedess that the Legislature would not put her in a position where she would have to do something that she is not budgeted for.

Senator Verkamp said that the private sectors had a huge problem in the outlying areas because of the Health Maintenance Organization (HMO's) pulling out and Premier going bankrupt. He asked Ms. Biedess if she could explain what is happening in the AHCCCS area as far as HMO's and the network they are providing for AHCCCS in the outlying areas.

Ms. Biedess said that AHCCCS has health coverage within the urban and rural areas. AHCCCS has two large statewide plans, which both have complete networks in the rural areas. In each of the rural areas they are able to offer the AHCCCS enrollees a choice of two plans. She said some are provided by large organizations like Independent Physician's Association (IPA) or MercyCare and some by local organizations that are serving that particular area. Up to this point in time, she said their plans do have full rural networks and so far are able to maintain those networks.

Senator Verkamp asked Ms. Biedess what are the plans she is referring to.

Ms. Biedess names the following health care plans: Arizona Physicians, IPA, MercyCare, Life Mark, and Family Health plan of Eastern Arizona.

Senator Verkamp asked if the Flagstaff, Sedona and Kingman areas have full network health plans for AHCCCS. Ms. Biedess said that is correct.

Senator Verkamp asked if they can cover AHCCCS patients, then why can they not cover the private sector. He said they seem to want to abandon that sector, but yet they are available for AHCCCS. He asked for an explanation as to why this occurs.

Ms. Biedess said she is not sure that she could give him a full explanation. She said she thinks that some of the factors are that providers feel the responsibility to provide care to individuals who are unable to pay for it. That is to the credit of Arizona providers. AHCCCS and the health plans have tried to work very diligently with the providers to try to bring reimbursement to an acceptable level, more importantly to try to work with them in terms of issues like claims payment and prior authorization or the need for additional authorizations to provide care. Another factor is the continuing dialogue that occurs between AHCCCS and physicians throughout the State. She said from an AHCCCS perspective having a strong partnership also helps.

Senator Verkamp said a bill was introduced two years ago to set up a statewide health care pool. Right now, he said people in rural Arizona are actually paying more for their health insurance premiums than they are paying for their house payments. He opined that it is ludicrous that some State retirees are paying more for their health insurance premiums than they get in their retirement benefits. He expressed his concern that outlying areas need help, which was the purpose of that bill. AHCCCS can be used as a model, to provide benefits for the working poor, to people whose employers who cannot or do not provide health insurance coverage or for people who cannot afford the employee share of the premiums. He stated that the outlying areas have a disastrous situation going on and nobody in Maricopa or Pima counties seem to care that much. He asked Ms. Biedess if she would have any ideas as to what they could do.

Ms. Biedess said she is sorry that Senator Verkamp feels that they have not been able to be as responsive as they would like to be. She said she understands the plight of the rural areas in Arizona and is very sympathetic. She suggests that they will try to do whatever they can do to assist, but at the same time their colleagues on the private side, and the commercial side, need to be engaged in this conversation. Perhaps the dialogue has not been engaged in as forcefully as they will need to do. She said obviously in this point in time, Proposition 204 and its implementation have been their primary focus.

Senator Verkamp said he agrees with Ms. Biedess that she has been very cooperative and he is not directing his criticism at her, but the private sector has been totally unresponsive. He would like to let the Committee and Legislature know that we have a major problem and nobody is making any progress on it. People are going bankrupt and going without health care because we are not doing anything.

Senator Solomon cannot speak for her colleagues in Maricopa County, but she can tell Senator Verkamp that his Senate colleagues from Pima County are sympathetic on the issue and would like to help.

Senator Nichols said he could not agree more with what Senator Verkamp had stated. In addressing his question to Ms. Biedess, he is looking to an agency that has been somewhat successful in keeping services in rural areas as opposed to the private sector, which has been less successful. He commented that he is not into federal "bashing," but possibly one of the reasons why the private sector providers have pulled out from the Medicare cost plus contracts is because

the federal formulas have fixed the amount of reimbursement. He asked if this was a reasonable difference between the federal system of reimbursement and the State system.

Ms. Biedess said yes. She believes there are more ways to engage the State than there is with the federal government. The State has tended to be more responsive, she certainly thinks they have tried to be more responsive to what is going on and more sensitive to the issues that are here.

In response to Senator Nichols, Ms. Biedess said she does not have any knowledge at this point that their plan partners would not be responding to the next Request for Proposal (RFP). However, they are aware that their plans are continuing to look at trying to create a 1 percent to 3 percent profit line on the business that is done.

Senator Nichols asked if the mid-cycle would affect this biennial budget or does it come after this biennial budget has run its course. Ms. Biedess said that it would affect this budget cycle.

Senator Nichols believes the whole concept of AHCCCS is built upon managed care plans. If for any reason AHCCCS has similar problems as our Medicare cost plus contracts, we will have problems with budgeting for AHCCCS in this biennium.

With regard to CHIP, Senator Nichols asked Ms. Biedess if she could give the Committee some thoughts when they gave back 60 percent of the \$76 million or \$77 million. He said he was told that Arizona was the 4<sup>th</sup> highest in the country in terms of "give back", but he asked if she could tell them where she plans to go with outreach to be sure that we do not have this problem again.

Ms. Biedess said they have two RFPs. One was for the media primarily focusing on KidsCare and the level of kids that have not gotten in. They also requested that agencies respond to them to do a community based outreach organization. What are we going to do that we have not done before? She said she thinks what they have found is that one-to-one's are very intensive, whereas organizations can help in focusing on the locations that people go to. Further, they will need to be able to assist people in filling out the applications and returning them. Placing outreach-focused individuals in each of the offices has reorganized offices. They have had a huge increase in interest from parents of children. She has had the privilege of being involved with the development of any number of programs and it usually takes three years before the results of the program are seen. She thinks what we are seeing now is a much larger increase in the monthly enrollment than what there has been before. She said right now we are where we should have been by the end of this fiscal year, with about 42,000 individuals enrolled in the program. The application form and format has also been changed to simplify and streamline the process, and that has been very successful.

Senator Nichols said he knows that Senator Solomon has proposed legislation to try to correct some of these problems, for instance at the schools. He said that he would like to see those changes made.

Senator Solomon thanked Ms. Biedess for the time she spent with the Committee by stating that she has done a remarkable job.

Ms. Biedess said she would like to bring to the Committee's attention a recent study done by Robert Wood Johnson. The study indicated that Arizona was the 5<sup>th</sup> strongest program in the country in terms of enrolling children, so it is not all "bleak."

Senator Cirillo said it is not part of the problem with the lack of kids that signed up for CHIP, but the fact that a lot of them were eligible for other programs and being serviced by those programs. In his opinion, he said the \$75 million is not a good number to talk about because he thinks a lot of children were taken care of, but under a different program. He asked Director Biedess if she would agree with this.

Ms. Biedess said definitely. Currently, she said 94,000 children are insured as a result of KidsCare. The way the federal program is written, the child must be put through the standard Medicaid eligibility. If the child is eligible for the Medicaid program, they must be enrolled in the Medicaid program, and therefore cannot be enrolled in the KidsCare program. She thanked Senator Cirillo for pointing this out.

Senator Cirillo said that this is one of the reasons why Director Biedess gave them the statistics that Arizona was the 5<sup>th</sup> strongest program in the country. He said we are achieving what we want to achieve, but maybe in a different way, not that we cannot do more. He said one of the people involved with him on this project is the Director. There is a committee that was set up and is being chaired by him and Representative Carruthers. They are both looking at the possibility of restructuring the healthcare system for the State, using AHCCCS as the basic system and then using other programs that already exist in AHCCCS, which may be expandable. The committee that he is co-chairing is going to make some significant progress together with the help of the Director.

Senator Martin said that Senator Nichols addressed part of what he was going to mention regarding the problem with rural healthcare in Arizona. The federal government attempting to balance the budget by restructuring the way they pay Medicare and Medicaid.

In reference to the data center consolidation, Senator Martin said there is a difference of \$480 million and \$250 million between the Executive and JLBC budget recommendations. He asked Director Biedess what her thoughts were on this.

Ms. Biedess said a series of savings one projected as a result of some efficiency that are being developed right now. They are bringing more agencies into the data center as a result of that economy of scale. Those that are participating would see the reduction in the cost.

Senator Martin said he is familiar with what is being attempted. He asked Director Biedess if she would be shutting down the data center that she is currently running in-house.

Ms. Biedess said AHCCCS does not have a data center in place and has been on the Department of Administration's data center.

In reference to Senator Martin's inquiry about the data center, Ms. Basye said that AHCCCS will stay on the DOA data center and they will be adding DOA, Department of Revenue, and the Arizona Department of Transportation. Therefore, when you have more users there is some efficiency in the economy of scale, and actually the rates will go down. The Executive

recommendation prior to implementing the data center savings, they were actually recommending about \$850,000. By adding on the additional users, it resulted in the reduction of the rates in overall savings for AHCCCS.

Senator Martin asked if that rate had been factored into all of OSPB's recommendations across the board or is it just in these larger agencies. Ms. Basye understands that the rate has been factored into the agencies that are considered "winners" for tax savings.

Senator Solomon thanked Director Biedess for coming today and appreciates her staff being here as well. She also thanked the Executive and JLBC staff for their budget presentations.

Ms. Biedess thanked the committee for giving them the opportunity to present their budget.

Ms. Biedess said in reference to the ALTCS provider rate increase that OSPB talked about, this is an area for them that is also critical. The strength of their program in long-term care is being able to keep people in the community. In order to keep people in the community the labor force issues are overwhelming. At this point in time, one-third of nursing homes across the country is closing down because of the inability to fund themselves.

Ms. Biedess commented that she did not envy the Committee's job in having to go through the appropriations for all the state agencies.

Senator Solomon said as promised the remaining time would be used for discussion of the implementation of Proposition 204. She expressed her appreciation to Mr. Betlach of OSPB for being able to be here.

**Tom Betlach, Director of OSPB**, said Attachment H, *Proposition 204*, outlines a number of the issues, as Senator Solomon mentioned, with regard to the implementation to Proposition 204. Mr. Betlach gave a brief overview of Proposition 204.

Senator Solomon thanked Mr. Betlach for his presentation and said that the Committee recognizes that there are variables that need to be reviewed. For the members' information, Senator Solomon said she has asked JLBC to create a model for the Committee where they can plug in various presentation rates and populations to get a better example, particularly with regard to a compensated cost that hospitals may still have to bear. We do not know what that is going to be, but it will be an issue that we are going to have to address in some way. So there will be further information coming as we move through the debate on the implementation.

Senator Nichols expressed his appreciation to Mr. Betlach for his presentation in today's meeting. He said we are three days away from receiving the waiver, if it comes from this administration, but assuming that it happens on Friday, we must have a pretty good idea by now what percent will be given up. He said Mr. Betlach mentioned the figure of 85 percent that the Executive was willing to give up. He asked if this is where the numbers finally came down with the federal government.

Mr. Betlach said when the Executive presented numbers to the Health Care Financial Administration, they stated what the Executive branch would be willing to give up from a policy decision. Certainly, it is a decision that needs to be made by the Legislature as well. Essentially, under budget neutrality, they get an "x" dollar amount over a five year period and they have to

make it work. Part of it depends on what you assume in regards to presentations, overall cost, what happens to the DSH program, and how it is going to be implemented in the State of Arizona. He said he could not really answer this question without going into what the assumptions are because we are really going into a new world. We are basically going to receive an "x" dollar amount over a five-year period and they are going to have to manage those resources and stay within the budget neutrality agreement.

Senator Nichols said the State Treasurer withdrew \$20 million this year to repay the budget stabilization fund for the amount of interest that was withdrawn from the State Hospital. He said we all voted to go ahead and build the State Hospital with the interest money to be paid back from monies that come back from those monies that come in from tobacco tax if they were available. It was believed that this no longer permits the repayment of the budget stabilization fund. There was an \$8 million withdrawal for the healthcare group this year. He asked Mr. Betlach if it was his expectation, now that Proposition 204 has passed and it cannot be varied because it is protected under the Voter Protection Act, that we will pay back those monies that have been withdrawn at least for this fiscal year to the tobacco settlement fund. He also asked if Mr. Betlach's projections into the future include yet two more withdrawals of \$20 million each for the budget stabilization fund and an additional \$16 million for healthcare.

With regards to the payments from the tobacco settlement funds, prior to the November 7<sup>th</sup> election, Mr. Betlach said he is not an attorney but he would think that all of those would be valid expenditures. Otherwise, it would seem that any action by the Legislature could be undone at any point in the future. He said this would be up to the Attorney General to decide, so certainly our numbers incorporated the expenditures for both the \$20 million for the State Hospital, \$50 million for the seriously mentally ill, \$20 million for children's behavioral health, and \$8 million for healthcare group. All of OSPB numbers reflect those expenditures coming out of the tobacco settlement funds as was approved by the Legislature prior to the election.

Mr. Betlach said, with regards to the future, OSPB does reflect the \$40 million in additional funding for the State Hospital and \$8 million each year for healthcare group. He thinks it would be up to the attorneys to determine whether or not that is an appropriate expenditure.

Senator Nichols stated that there is a potential saving of \$40 million plus \$16 million for the next two years. This year the initiative was passed and certified in December. Should that amount be divided, so that the \$10 million, roughly, would be returned to the fund for the repayment of the interest on the budget stabilization fund and \$4 million for healthcare group and of course would request to fund that money somewhere else.

In reference to the AHCCCS medical inflation issue, Senator Nichols stated that many people have a concern about the administration using Proposition 204 to balance the budget with AHCCCS, instead of doing what the initiative requires, which is to extend additional services to additional people. That has also been a concern with the tobacco tax. He said he raised the issue earlier, and Senator Solomon corrected him that it may not be illegal. However, there are some people, including the Arizona Hospital Association, that suspect it was illegal to use the previous monies out of the tobacco tax for monies for inflationary adjustment on AHCCCS. He thinks they are sitting on a letter from Mr. Rivers asking that this matter be addressed quickly. He thinks that many of us are concerned that there will possibly be an effort to transfer expenses onto Proposition 204

that are not legitimately lodged there. What assurance do we have that the administration will in fact not try to do that, as at least it was alleged they did with tobacco tax?

Mr. Betlach said he would like to clarify that the Executive has never recommended that the tobacco tax be used for inflation and that it was a JLBC recommendation two years ago. He said certainly the Executive does comply with what is required in the law and is moving forward with Proposition 204 in a very rapid fashion. He said that this is a massive expansion that is being talked about, a 50 percent increase potentially in the size of the AHCCCS population. He stated the Executive is doing their "damndest," as the Governor said in her State of the State address to move forward on all these issues.

Senator Nichols said he believes there were significant savings projected in the Executive budget for this coming year. Referencing page 4 of Attachment F, Proposition 204, he asked Mr. Betlach how this total would correspond to the "gloom and doom" scenario that was presented to the group the other day. He said it would seem that at least in the first two periods, the two years of this biennium, we are doing pretty well.

Mr. Betlach said he would not consider the numbers "gloom and doom," but the numbers are lower than JLBC's recommendation. With regard to savings, he said he would be happy to spend some time with Senator Nichols to go through the numbers, but the Executive's overall AHCCCS numbers are similar to JLBC's numbers with regard to caseload growth and medical inflationary costs. Their proposal, with regards to Disproportionate Share Hospital (DSH), accounts for all of these savings, because while they are reflecting a saving in the AHCCCS budget, they are losing, in terms of revenues elsewhere in the budget, additional costs through the Department of Health Services and the Arizona State Hospital. The hospitals sent a letter to him and Director Biedess in which they raised some issues with the transfer of \$29 million from the medically needy account that was viewed as a legal transferring. He said this is another issue that needs to be discussed.

Senator Nichols said he is glad that Mr. Betlach brought up yet another issue with the tobacco tax and that he would think there are a number of those, but he would restrain himself by not bringing them up today. However, he said one concern remains, and appreciates Mr. Betlach's distinction that this was a legislative decision initially and not an administrative decision. He said that Mr. Betlach simply implemented the transfer of those funds' inflation, but he thinks the JLBC budget represents an important correction in that direction. He said he thinks that the Legislature is going to be quite different this year in the way that it approaches these issues and he would hope that the Executive would as well. He looks forward to working with Mr. Betlach and his staff. He is glad that Mr. Betlach projected these substantial savings as a result of Proposition 204 and hopes that these would be reflected in the payout for all elements of 204, which were required by the initiative on each and every fiscal year.

Mr. Betlach said he would like to clarify that the Executive is not projecting an overall saving. He said as they showed in their chart, referencing page 2 of Attachment F, the State's matching costs each year are higher as a result of the implementation of Proposition 204 than the tobacco settlement monies that are available. In fact, these savings are spent each year and into the future in implementing Proposition 204.

Senator Solomon said she appreciates Mr. Betlach clearing up the record.

Senator Guenther said he believes that Senator Nichols was leading the witness and that he would hope that Mr. Betlach is now over his withdrawal. With regard to the DSH funding, Senator Guenther asked Mr. Betlach if the counties were a part of this decision or how the counties felt about this.

Mr. Betlach said there have been preliminary discussions with the counties and they know that DSH is one of many issues that are involved. He said when you look at implementing Proposition 204, eligibility has to be looked at. The counties spend roughly \$32 million a year on providing services to the Medically Needy/Medically Indigent whether it is through eligibility or any other type of issues. He said he thinks that all of these issues are on the table with regards to the implementation of Proposition 204.

Senator Solomon said she would also like to point out that the Legislature has also had some discussions with the counties and that they would very much like to be on the same page with the Executive on this by keeping them updated on negotiations.

Senator Martin questioned what would happen if the waiver does not show up at the end of this week. Senator Solomon said that she thinks there would be at least a six-month delay.

In response to Senator Martin's question, Ms. Biedess said that AHCCCS would continue with the implementation plan. She said the way they have done the waiver is that they have attempted to use statewide plan amendments whenever they can to bring new populations in, and to bring in federal dollars. She explained that the adjustments would be made based on the waiver and that they will continue to be very optimistic about the waiver.

Ms. Biedess said that Senator Nichols raised the question of how we would know that we are balancing the AHCCCS budget based on Proposition 204. She said Mr. Betlach gave the Executive's answer and that she would second that. She would like to point out that this is not the attempt of the agency. There are extensive reporting requirements, which are in place in order to get the waiver. She thinks there should be some trust given to the agency to do what it is designed to do.

Senator Nichols said he has great trust in the Director and appreciates her comments and looks forward to a happy relationship and many savings for the State over the next five years.

**Laurie Lange, representing the Arizona Hospital and Healthcare Association**, expressed her appreciation to Senator Solomon for giving her the opportunity to speak briefly on the JLBC recommendation. She said in addition to the many things that they like in the budget this year, there is one item that she would like to bring to their attention, JLBC's proposal to reinstate the hospital payment pilot program. The program was established in FY 1998 in an effort to encourage hospitals in Maricopa and Pima Counties to contract with AHCCCS health plans. The incentive on the hospital's side in order for them to contract with health plans was that the pilot program allowed the AHCCCS health plans to pay hospitals 5 percent less than AHCCCS rates for non-contracted services primarily in the emergency departments. The reinstatement of the pilot program would represent a cost shift to hospitals in Maricopa and Pima Counties of approximately \$3.3 million in FY 2002 and \$14.1 million in FY 2003. She said that hospitals in two urban counties are already staggering under the weight of increasing emergency volume. Medicare cuts flow inadequately in HMO reimbursement, and AHCCCS rates that are already well below costs have

drained them of resources that they need to continue providing quality care to the communities. The AHCCCS payment rates, which were intended to pay them their costs, are well below cost right now. They have been adjusted at approximately 3 percent for the last several years. While they appreciate the move to 5 percent adjustment rate this coming year, she needs to share with members that hospitals are experiencing cost increases in the neighborhood of 15 percent for drugs and for staffing alone. She said encouraging hospitals and health plans to negotiate contracts is a goal that they support, but institutionalizing a 5 percent discount off of rates is not something that they can support, and they do not think the Legislature should either because it is poor public policy. She said that they would like to present the members with additional information from the hospitals on the individual impact this would have on hospitals in Maricopa County and Pima County at a later date.

Senator Solomon expressed her appreciation to Ms. Lange for her comments and mentioned that both she and Ms. Lange had discussed this yesterday. She feels that it is important that they all see the information. She and Representative Knaperek have introduced a bill that probably will be discussed in the Health Committee and there will be ample time to review the issue then.

Ms. Lange thanked Senator Solomon for the approach she is using on this issue.

There being no further business, the meeting was adjourned at 11:17 a.m.

Respectfully submitted,

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Melissa C. Upshaw, Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115.)