

CORRECTED
ARIZONA STATE SENATE

45TH LEGISLATURE
FIRST REGULAR SESSION
SPECIAL MEETING

**MINUTES OF COMMITTEE ON
APPROPRIATIONS**

DATE: October 12, 2001

TIME: 9:00 a.m.

ROOM: 109

CHAIRMAN: Senator Solomon

VICE CHAIRMAN: Senator Bee

ANALYST: Deborah Johnston

**COMMITTEE
SECRETARY:** Melissa C. Upshaw

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 Blanchard	X				
Senator Cirillo	X				
Senator Guenther	X				
Senator Hamilton	X				
Senator Hellon	X				
Senator Martin	X				
Senator Mitchell	X				
Senator Rios	X				
Senator Verkamp		X			
Senator Bee, Vice Chairman	X				
Senator Solomon, Chairman	X				

GOVERNOR'S APPOINTMENTS

Tape 1, Side A

Chairman Solomon called the meeting to order at 9:12 a.m. and attendance was noted.

Senator Solomon encouraged the Committee, in reviewing the 2002 and 2003 budgets, to keep in mind the impact on FY 2004.

Senator Guenther stated the Committee should only deal with the 2002 budget at this time. He stated it would be more prudent to deal with the FY 2003 budget in February, March or April of 2002, when the 2001 holiday season revenues are known and there is additional information to make reasonable decisions.

Senator Solomon agreed with Senator Guenther and said there is no way to avoid impacting portions of the 2003 budget. She and Representative Knaperek have agreed to introduce legislation next session to return to annual budgeting and to plan five years in advance, recognizing plans are flexible annually. She said biennial budgeting was tried, not knowing how well it would work, and she and Representative Knaperek both believe it has not worked.

Senator Cirillo agreed with Senator Solomon and stated that many non-refundable tax credits will be "going down" because of the economy. He suggested they cautiously look at those items during the next regular session because some have unintended consequences.

Senator Hamilton stated that the biennial budgeting process is worthwhile and should be continued. However, due to the present situation, as volatile as it is with the State's economy but showing some improvement, the Legislature should address just one year during the special session. He said in a worse case scenario, it has been discussed that the Legislature would have to make budget cuts of about \$1.5 billion, with over a third of those cuts being made in the first year, noting that the job is already half done. By observing the economy during the holiday season, they can determine the recovery. By next March in regular session when the appropriations decisions are being made, the Legislature may know how to handle the budget for FY 2003.

FY 2002 AND FY 2003 BUDGET OVERVIEWS OF SELECTED HEALTH & WELFARE BUDGET UNITS

Senator Solomon explained the FY 2002 and 2003 budget overviews were based on a document from the Joint Legislative Budget Committee (JLBC). Due to the large sums of money involved, Debbie Johnston created a document itemizing all the funds (Attachment A). Senator Solomon said she and Senator Cirillo agreed it was their preference not to detail each agency budget determining which programs, ranging from \$200,000-\$500,000 should be eliminated. If the agencies were asked for a four percent budget cut or higher, the agencies should make those decisions, not the Committee. She said if the Committee reviews the big ticket items and consider Senator Cirillo's suggestion of using one-thirds with the budget cuts, then the Committee will get there with little pain. Senator Solomon emphasized the document being reviewed was an informational document for use by the Committee.

Arizona Health Care Cost Containment System (AHCCCS)

Senator Solomon referred to information received by the legislative leadership from the Governor regarding agency recommendations for budget cuts. She had questions about the AHCCCS

reductions and if the recommendations were actually from AHCCCS or from the Department of Health Services (DHS) and the Department of Economic Security (DES).

Gretchen Logan, JLBC Staff, reviewed the adjustments to the AHCCCS budget.

Senator Cirillo referenced the Proposition 204 savings line item and said the Governor's information gave \$35 million each year as a transfer from the Medically Needy/Medically Indigent (MNMI) savings to the general fund, not the budget neutrality fund. In response to Senator Cirillo, Ms. Logan said the budget reduction option (BRO) includes approximately \$112 million in 2002 from the general fund in the budget neutrality compliance fund and \$116 million in 2003 and it would just reduce that amount. The general fund may have to kick in sooner for the Proposition 204 population if the tobacco settlement and the budget neutrality compliance fund are exceeded.

Senator Cirillo asked which budget will reflect the additional \$35 million savings to the general fund. Ms. Logan said the money is sitting in the budget neutrality compliance fund, all of which is not used each year. It is possible that as early as 2004, the general fund would begin kicking in money for the Proposition 204 population if money is taken out. Without taking that money out, it is less likely to occur in 2004 and more likely to be put off to a later time.

Senator Cirillo questioned why this line item is termed 'transfer savings to general fund' and commented if funds are transferred to the general fund it has to appear somewhere. Ms. Logan said instead of having that money go from the general fund into the budget neutrality compliance fund, it will stay in the general fund. She said it adds \$35 million to the general fund instead of putting \$35 million into the budget neutrality compliance fund. Senator Cirillo questioned who was transferring the \$35 million from the general fund and would it appear in some agency's budget or was that a below the line item for JLBC. Ms. Logan said she would obtain that information for him.

Senator Cirillo reminded the Committee to be sensitive to the Critical Access Hospitals (CAHs) line item. He referred to the \$20 million appropriation for the hospitals.

Senator Solomon informed the Committee that in the AHCCCS information provided to the Governor, the Executive Office suggested four percent be taken, amounting to \$32,000, which does not make sense to her, but it is not her choice.

Senator Guenther stated the recommendation is to take an additional \$176,000, bringing the total to \$208,100 as it will be replaced with an equivalent amount of federal expenditure authority to neutralize that cut. He does not know whether that is an anticipated volume or not, but the recommendation from AHCCCS to the Governor's Office is to cut CAHs by \$208,100 from the general fund, which then will be replaced by additional federal expenditure authority.

In response to Senator Guenther's comments, Ms. Logan stated that due to the federalization of the MNMI population under Proposition 204, the CAHs were fully State funded to pay for the MNMIs. And now that Proposition 204 is in effect, two-thirds federal funding is available, so it does not reduce the total amount to the hospitals.

Senator Guenther stated the hospitals were told it was going to be a base line amount and because of the federalization of the MNMI population, that amount would be increased. Senator Guenther questioned if they are just rolling it back to what they told the hospitals it would be. Ms. Logan said the way this option is presented the total amount that would go out to the CAHs would be the same. It would not be larger because of the implementation of Proposition 204.

Senator Martin questioned if keeping the MNMI savings in the general fund would increase or speed up the time frame to roughly 2004 when Proposition 204 would hit the general fund. Ms. Logan said enrollment is unknown at this time, but based upon JLBC's high end estimate, it could cause the general fund to kick in as soon as 2004.

Senator Martin commented that in the Committee's review of the various budgets, the cuts that are made are not really cuts that will last over time but the issues will return for consideration as soon as 2003 and 2004. The Legislature may then have to come up with \$70 million in the next two years. In response to Senator Martin's comments, Ms. Logan said it may not involve \$70 million, but it will just "trip" to where there is a negative balance in 2004. At Senator Martin's request, Ms. Logan offered to obtain more specific information for the Committee.

Senator Solomon said she had questions on the data provided by AHCCCS to the Governor. She said with regard to the DES Title XIX pass through, which is a small amount of money, the Governor's information indicates that AHCCCS will absorb that cost and the DHS Title XIX pass through. Senator Solomon questioned if this is going to be absorbed by AHCCCS. She questioned what services are not going to be provided. Ms. Logan said because of the size of the AHCCCS budget she would assume they are cutting corners within their budget but she does not know what adjustments are taking place internally. Senator Solomon said she will obtain the information from AHCCCS at a later date.

In addition, Senator Solomon questioned the need for an AHCCCS supplemental and if a supplemental would be enacted this year. Ms. Logan said it is likely a supplemental will be enacted and JLBC is working on the projections, noting it would range between \$30-\$45 million in 2002. Senator Solomon asked how much money is in the medical stabilization account. Ms. Logan said the amount is approximately \$32 million.

Department of Economic Security

Stephan Shepherd, JLBC Staff, reviewed the DES budget .

Senator Martin questioned the DES caseload numbers and asked for a breakdown. Mr. Shepherd said most of the figures include not only direct service funding but also staff funding. Mr. Shepherd said the vast majority of the figures are for client services and not for staffing. In terms of long-term care, there are indirect and accounting staff that need to be added for processing a hundred thousand more payments. Mr. Shepherd said he estimated that 90-95 percent of that is direct services and less than 10 percent is for additional staff, which is still a significant amount given the dollar amount being discussed.

Senator Martin requested more information on the type of DES services as the Committee is looking at 90 percent of that being actual services rendered not administrative overhead and a breakdown would give the Committee an idea of where the dollars are going.

Senator Cirillo commented on the shift of money between the general fund and the fund for the Temporary Assistance to Needy Families (TANF). Mr. Shepherd said DES provides services in a number of areas that can be funded from both the general fund and TANF. Since the establishment of TANF, the Legislature has had to make decisions regarding where it wants to allocate scarce general fund resources and increasingly scarce TANF resources. The shifting is based on where the State can spend its general fund and its TANF monies. Senator Cirillo

stressed the importance that the funds be handled on a consistent basis and any changes based on new information.

In response to Senator Solomon's request to review the federal legislation on TANF, Mr. Shepherd said the State receives yearly an average of \$205-\$210 million of federal TANF monies. For FY 2002 and 2003, the spending will be in excess of that amount by roughly \$30 million a year. The reason the State can spend that is due to a large balance of unspent TANF monies built up due to declining caseloads and the federal government allows states to bank unused TANF monies. As of last Spring, the estimate of unspent TANF monies for the end of FY 2003 was approximately \$30 million. Mr. Shepherd said a supplemental will be needed for TANF cash benefits which may exceed the TANF balance, due to increases in TANF cash benefits caseload above the expectations for FY 2002 and 2003 appropriations. In terms of meeting a TANF supplemental, one option is for the State to consider reducing other TANF expenditures to ensure there is enough money to pay for the TANF cash benefits.

Senator Solomon asked about the status of the federal legislation on the TANF supplemental. Mr. Shepherd said the State receives \$24 million a year of supplemental TANF grant funding. He commented that he used the word "receives" but he should say "received" because the federal legislation that established TANF eliminated that supplemental grant a year before the TANF program was scheduled for reauthorization. However, there have been efforts to reinstate the supplemental grant, which is given to Arizona and 17 other states. Mr. Sheperd said that \$24 million would go a long way towards solving whatever TANF cash supplemental need there is as well as eliminating the structural ongoing deficit in the program. However, at this point the prospects for receiving that funding in the upcoming or current federal fiscal year appear to be slim.

Senator Solomon informed the members that the reason Arizona has this supplemental along with 17 other states is because Congress recognized there were 18 states that were low benefit states and TANF is based on the 1994 level of benefit. In addition, Senator Solomon said in 1994 Arizona had a 1992 level of benefit that was one-third of the federal poverty level. Congress recognized that and enacted a TANF supplemental to assist the low benefit states in improving services. However, that is gone at this point. Senator Solomon said she has prepared a letter for the legislative leadership to send to the Congressional delegation urging them to appropriate this supplemental in the general appropriations bill and the budget bill. Arizona is up for TANF reauthorization in October 2002, which is another issue Senator Solomon hoped will interest the Legislature.

Senator Cirillo stated the federal government allows the State to bank the unspent TANF money, but he questioned if the State is allowed to spend it on anything other than what it was designated for. Mr. Shepherd said there is flexibility with the spending of TANF monies, but there are rules.

Senator Solomon said there are four TANF purposes and the State does have flexibility. She said she hopes the federal government will allow states to continue to have flexibility.

Department of Health Services

Gina Gurascio, JLBC Staff, reviewed the DHS budget.

Senator Solomon asked if a decrease in federal funding for vaccines was anticipated. Ms. Gurascio said the decrease is not expected to be of the magnitude expected last Spring.

Senator Cirillo commented that the vaccines that the State offers are the same vaccines provided by the federal government but for a different population. Senator Cirillo said his point is that the State and federal governments are all operating on the same vaccines.

Senator Solomon inquired about the Arnold appropriation and the status of the expenditure of the funds. Ms. Gurascio said she does not have the exact dollar figure, but of the \$27.5 million appropriation, there was \$19.5 million available. Another \$5 million has been committed to Title XIX Capitation Rate Increases, which leaves about \$14.5 million. Ms. Gurascia said she could provide the Committee with more specific information on the status of the remaining balance and the status of the plan at a later date.

Senator Guenther urged the Committee to not restrict services which may be necessary to maintain basic public welfare. For example, restriction of services for substance abuse and family violence. Senator Solomon agreed and emphasized that the public's safety, education, health and welfare are critical areas at all times and particularly during these times.

Senator Solomon requested Senator Cirillo explain his proposal to the Committee regarding a budget solution. Senator Cirillo said draconian cuts in the budget could have unintended consequences and was not the way to go. However, bonding is a very expensive solution. The State would be paying for the bonds forever and spend more money than was received. Senator Cirillo said he would rather see the Legislature put together a combination of budget cuts, the rainy day fund and revenue bonding. If \$600 million is the number that is agreed upon, why not make it a simple one-third cut. Cut \$200 million from the budget, take \$200 million from the rainy day fund, and not more than \$200 million in revenue bonding as the Legislature might have to address that in the following year. Senator Cirillo concluded if more than \$200 million in budget cuts can be found, that would be good and then the Legislature can take less from the rainy day fund and have less revenue bonding.

Senator Guenther agreed with Senator Cirillo's proposal as it would share the pain but minimize the impact on direct services and other programs.

Discussion was held about revenue bonding. Senator Hamilton stated this is not the time for revenue bonding. If the economy does not improve, revenue bonding makes the situation worse as not only are cuts necessary, but the bonds have to be paid back.

Senator Guenther said that revenue bonding should have been considered during the past legislative session. And currently, the Legislature is dealing with the Flores decision. He said Flores is not going to be inexpensive. Not only is the Legislature looking at a budget deficit, but at a significant expenditure based upon the decision of the court.

Senator Solomon agreed with Senator Guenther and said she does not understand why the issues are being dealt with separately because Flores is a budget issue. Senator Solomon mentioned that the Committee needs to be very mindful of the people working on the Flores issue and what is taking place at this time.

Senator Rios expressed support for Senator Cirillo's proposal of using one-thirds for the budget solution. He commented he hates to see additional cuts in programs and is primarily concerned about State employees and their cost of living. The employees are suffering consequences from the health insurance program with increased costs not only in premiums but also prescription

medication. Regarding the Flores decision, he agreed that it might cost \$150-\$200 million to satisfy the federal court judgment. He would like to propose the idea of pushing back the last payment to education K-12 until next fiscal year, noting it would give the Legislature time to watch the economy.

Regarding revenue bonding, Senator Martin stressed the importance of knowing the State's financial position. He said there is \$1.1 billion; \$111 million in new school construction costs, \$800 million of that is either bonded or about to be bonded for construction. The results are 73 percent of the new school construction or deficiency correction construction has been revenue bonded. He questioned does the State put the remaining 27 percent on credit as well. He questioned what percentage of the schools were going to be owned by the State and what percentage were going to be owned by a credit system. The State is bonding against revenues and shrinking the pool of revenue to pay the bills. In conclusion, Senator Martin said the Committee should consider taking new taxes off the table. He commented that a loophole does not mean it is not a new tax. It is just a different name for a new tax.

Senator Solomon informed the Committee that Arizona is the only State that pays for school construction with cash as there is no other state that can afford to take money from its general fund to pay for school construction. With regard to revenue bonding, Senator Solomon stated it was important to have a better understanding of exactly what debt would be incurred and the implications. She said she would have a presentation on that topic at a future meeting.

Senator Blanchard stated he supports Senator Cirillo's idea of some diversification and his approach towards the budget shortfall. He said perhaps the Legislature in paying a portion of Students First in cash like the idea of elected oversight. He explained with Students First, a board with no elected officials decides where the money is spent, similar to the Tourism and Sports Authority. He said perhaps one of the reasons the Legislature kept a portion of the money for Students First for new construction was that they wanted to have at least some oversight of that portion of the money through the general fund. If bonding takes place, the Legislature could lose their remaining authority. Senator Blanchard concluded if the Legislature were to bond entirely for Students First, he would be interested in discussing elected oversight of Students First spending.

Senator Solomon summarized that she believed the Senate's discussions were in line with the Governor's recommendations but she did hear Representative Knaperek state that in the House of Representatives, tax increases would be considered before revenue bonding.

The meeting adjourned at 10:28 a.m.

Respectfully submitted,

Melissa C. Upshaw, Committee Secretary

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