

ARIZONA STATE SENATE

46TH LEGISLATURE
FIRST REGULAR SESSION

MINUTES OF COMMITTEE ON APPROPRIATIONS

DATE: February 5, 2003

TIME: 1:30 p.m.

ROOM: SHR 109

CHAIRMAN: Senator Burns

VICE CHAIRMAN: Senator Waring

ANALYST: Deborah Johnston
Carolyn Atwater

**COMMITTEE
SECRETARY:** Tracey Moulton

INTERNS: Benjamin Wing
Christopher Kresge

ATTENDANCE

BILLS

<u>Committee Members</u>	<u>Pr</u>	<u>Ab</u>	<u>Ex</u>	<u>Bill Number</u>	<u>Disposition</u>
Senator Anderson	X			SB 1075	DP
Senator Arzberger	X				
Senator Bee	X				
Senator Cannell R.	X				
Senator Giffords	X				
Senator Harper	X				
Senator Martin	X				
Senator Mead	X				
Senator Rios	X				
Senator Soltero V.			X		
Senator Verschoor	X				
Senator Waring, Vice Chairman	X				
Senator Burns, Chairman	X				

GOVERNOR'S APPOINTMENTS

Chairman Burns called the meeting to order at 1:36 p.m. and attendance was taken.

APPROVAL OF MINUTES

Without objection, the minutes of the Appropriations Committee dated January 29, 2003 were approved as distributed.

CONSIDERATION OF BILLS

SB 1075 – election reform; federal monies; fund – DO PASS

Michelle Morales, Judiciary Committee Research Intern, explained SB 1075 is an emergency measure that establishes the election systems improvement fund (ESI fund), which shall be used to implement the Help America Vote Act (HAVA). She stated that HAVA is a federal program, which provides funds for assistance to states and localities to improve election technology and the administration of federal elections.

In response to Senator Mead, **Carolyn Atwater, Research Analyst** stated that there is a large sum of federal dollars available for this purpose and the State would be required to match the federal dollars. SB 1075 has no other components other than creating the ESI fund. She stated that she would report back to him with the exact amount of federal dollars available.

Jan Brewer, Secretary of State, testified in support of the bill and remarked that SB 1075 is a mechanism to receive federal match dollars and the first step in the process to allow the State to be in compliance with HAVA. She explained that HAVA requires that this mechanism be established first in order to receive federal money, and noted that if the fund is not established by the time the federal dollars are distributed, Arizona could be passed over and not receive any federal aid. Additionally, she stated that it has been discussed at the federal level that if the full federal funding is not appropriated to cover the cost of HAVA, the money could be distributed to each state on a first come, first served basis. The HAVA bill is federal legislation that designates exactly how the states will accomplish election systems improvement and will include optical scanning, the consolidation of elections, and poll worker training. She noted that she has created a 23-member planning committee, which is meeting this Friday, that will establish the rules that the State will be following.

Senator Rios asked how many federal matching dollars are anticipated. Secretary Brewer remarked that the estimated share is \$58 million for the State of Arizona.

Senator Rios asked if surplus funds could be used for voter education. Ms. Brewer stated the funds left over from conversions could be used for this purpose.

In response to Senator Rios, Secretary Brewer stated that the federal government outlines how to utilize the federal monies. Secretary Brewer noted that this issue was considered when creating the planning committee. She stated that the members of the planning committee represent a cross-section of the State.

Senator Rios commented that in rural areas, such as on the Navajo Reservation, there is a need to encourage people to register and participate in the electoral process. He remarked that having multiple languages, such as Navajo, Spanish or French would assist in this effort.

Senator Burns announced the individuals who registered their position on the bill (Attachment B).

Donna Kruck, Arizona Bridge to Independent Living, testified in support of the bill and remarked that she is happy that Arizona is preparing to receive federal dollars to implement HAVA and make all polling sites accessible to all people regardless of physical or sensory ability.

Senator Waring moved SB 1075 be returned with a DO PASS recommendation. The motion CARRIED with a roll call vote of 11-0-2 (Attachment 1).

APPOINTMENT TO ASSETS SUBCOMMITTEE

Senator Burns noted the appointment of Senator Soltero to the Assets Subcommittee to replace Senator Guenther.

REPORT OF SUBCOMMITTEE TO DEVELOP A TAX PACKAGE

Senator Rios distributed a handout entitled Removal of Medicaid Exclusion (Attachment B). He explained the subcommittee is charged with developing fiscal measures that are sufficient to support the level of spending proposed by the Executive Branch. He noted that the subcommittee met prior to the standing committee meeting and proposes that the Medicaid special exclusion that is currently in place as the premium tax be removed, which would raise \$47.3 million to the general fund. With the removal of this exclusion, the State could generate enough revenues to hopefully reinstate the following programs: KidsCare, KidsCare for the parents, Emergency Adult Dental Care and Health Care Group Subsidy. He asked staff to outline the removal of the Medicaid special exclusion for the members of the Committee.

Senator Burns remarked that the full Committee or subcommittee would address the reinstatement of programs at a later date. He stated that the information obtained by the subcommittee would be retained for examination at a later date.

Julie Keane, Heath Committee Research Analyst, explained that the Insurance Premium Tax is levied on insurance companies who do business in this state. All insurers, health care organizations, prepaid dental plans, prepaid legal insurance corporations and hospital, medical, dental and optometry service corporations are subject to the tax. The tax is levied on the net premium income received by insurance companies during the previous calendar year. The tax rate is 2% for premiums. Because AHCCCS is not subject to the insurance codes, AHCCCS is excluded from having to pay the premium tax.

Since Arizona is a capitated managed care state, the premium tax on AHCCCS and the Arizona Long-Term Care System (ALTCS) would be part of doing business and would be included in the capitation rates, which are subject to approval by the Center for Medical Services (CMS). The health plans would receive increased reimbursement from the state to pay the premium tax in the form of increased capitation payments. Since the increased reimbursement exactly offsets the amount of the premium tax, there is no cost to the health plan.

The way this practice results in a net gain to the State is the following: AHCCCS is funded 1/3 by the State and 2/3 by the federal government. Therefore, the increased capitation rates paid to the health plans is only 1/3-state funds; the other 2/3 comes from the federal government. When the 2% premium is paid by the health plan to the State, the State's share is only 1/3, but it gets back

the other 2/3 of the premium in the form of revenue. Thus, the federal match is a net revenue gain to the State.

Hypothetically speaking, for a full year cost of the premium tax, the health plans would be required to pay an estimated \$70.9 million. They would receive \$70.9 million in increased capitation payments, for a net impact of \$0 to the health plans. The state would then appropriate \$70.9 million to the plans in increased capitation payments, which consists of \$23.6 million from the general fund and \$47.3 million in federal funds. The state general fund would receive \$70.9 million in insurance premium tax revenue, that would be offset by the \$23.6 million state appropriation, leaving a net gain to the general fund of \$47.3 million, which is equivalent to the federal funds.

Senator Burns asked if this proposal creates a Proposition 108 situation. Ms. Keane remarked that it would.

Senator Burns commented that although other states have adopted this action, not all states are set up the same as Arizona, because of the AHCCCS program. He stated that there is some question as to whether the federal government would approve this. Ms. Keane deferred to a representative from AHCCCS.

Lynn Dunton, Assistant Director, Policy Office, AHCCCS, remarked that the premium tax is permissible in Arizona's managed care program as long as it meets certain federal requirements. These requirements are that the tax must be uniform and it can not be explicitly linked with an increase in capitation rates. She noted that there is always a delay in receiving funds from CMS and Arizona would have to submit a methodology, which was reviewed last year and was permissible.

In response to Senator Verschoor, Ms. Dunton explained that any money received from CMS has to be spent on services to Medicaid eligible people.

Senator Rios commented that this recommendation is revenue enhancement that does not harm anyone. AHCCCS providers will be reimbursed for the tax by an increase in their capitation rates, so long as the increase is not linked to the tax and the remainder will be paid by the federal government via the federal match. More importantly, other states have successfully initiated this idea. He recommended that the Committee consider this proposal.

Senator Mead commented that he wanted to know from those Legislators who took "no tax" pledges, if this proposal would be considered a tax increase, even though it does not cost anyone any money, but brings money into the State.

Senator Burns remarked that each member has to make up his or her own mind. He stated that if the subcommittee's recommendation has a Proposition 108, it would be viewed as a tax increase.

He noted his concern that the Governor's proposal is considerably larger than the Legislative proposal. He stated that those people in support of the Governor's proposal have to realize that there is nothing there to cover the increased spending as of July 1, 2004. At that time, the State will be \$1- \$1.5 billion "in the hole" if there are not resources available. He opined that the only type of revenue that can be found is likely the creation of tax revenue, as there does not appear to be any other form of revenue available. He remarked that he wanted the public to be aware of this situation. He stated that because of the "borrowing" and "sweeping" of funds and everything that has been done to date, the State will be facing "a cliff" come July 1, 2004. He commented that is

why he wanted the subcommittee to create a tax package that will support that level of spending in the event that this Legislature and Governor decide upon her proposal. He encouraged the subcommittee to continue to bring recommendations to the Committee.

Senator Verschoor asked if the matching funds being drawn with this recommendation could be used in programs that would draw down other matching funds. **Tom Betlach, Deputy Director, AHCCCS**, remarked that the monies that would be drawn down to pay out to the health plans to pay the 2% premium insurance tax would go to the Department of Insurance. These monies would be collected into the general fund and could be spent by the State for the purposes of any and all programs within the general fund.

APPOINTMENT OF COMMITTEE OF REFERENCE

Senator Burns appointed the following members to the Committee of Reference: Senator Waring, Chairman; Senator Anderson; Senator Arzberger; Senator Burns and Senator Soltero.

BUDGET PRESENTATIONS

ARIZONA HEALTH CARE CONTAINMENT SYSTEM (AHCCCS)

Beth Kohler, Fiscal Analyst, Joint Legislative Budget Committee (JLBC), distributed a handout entitled AHCCCS Total Funds FY 2001– FY 2004 (Attachment C).

Highlights from the presentation:

Referring to the graphics on page 1 of the handout, Ms. Kohler explained that the AHCCCS fund has increased from approximately \$2.5 billion in FY 2001 to almost \$4 billion in FY 2004. Under the JLBC proposal, total funding for the agency will increase by over \$250 million. A large component of this is the federal funds increase. She stated that as a result of federal caseload increases, federal funds will be increasing by about \$400 million. She noted that there are some decreases in federal funding as a result of the chairmen's proposal, but it nets out to be an increase of approximately \$250 million in federal funds.

Ms. Kohler, referring to the graphics shown on page 2 of the handout entitled FY 2004 Tobacco Tax Revenue, explained the original tobacco tax for health care passed in the mid 1990s at approximately 40 cents per pack, which went to three main accounts: 1) the Medically Needy Account, to be used to pay for health care services for indigent and needy individuals; 2) the Health Education Account to be used for tobacco education and prevention administered by the Department of Health Services; and 3) the Health Research Account, to be used for both general research and tobacco related research. The new tax passed with Proposition 303 goes to the same three accounts, and also added two new accounts: the Proposition 204 Protection Account to be used exclusively on the "AHCCCS 204 population," i.e. individuals that were not covered by the traditional Title XIX program; and the Emergency Health Services Account used for primary care services, emergency health care services and trauma centers. She noted that both the JLBC and Executive proposals use the monies in these accounts to offset general fund spending on the Proposition 204 population as well.

Ms. Kohler, referring to the graphics on page 3 of the handout entitled Medically Needy Account Structural Shortfall, explained that the graph demonstrates the ongoing structural shortfall in this account.

Referring to page 4 of the handout entitled FY 2003 Proposition 303 Medically Needy Account Monies: JLBC V. OSPB, Ms. Kohler explained that this graph demonstrates the funds anticipated in FY 2003 and the difference between the JLBC and OSPB proposals.

Senator Arzberger asked where community health centers were placed. Ms. Kohler explained that the community health centers are funded in the DHS budget. Where DHS programs are shown to have \$29 million, approximately \$10 million goes to community health centers.

In response to Senator Verschoor, Ms. Kohler explained the reason structural shortfalls exist is due to decisions made by previous Legislatures to obligate monies for certain programs. In some cases, there were surplus funds, which enabled spending to be above annual revenues, on a temporary basis. Once these monies had been spent, structural shortfall began. She stated that the constitutional mandate to balance the budget does not apply to specific accounts.

Senator Arzberger stated that in Proposition 202 and Proposition 303 there were references to monies going to community health centers. She asked if the propositions are being disregarded with “zero based” or eliminated programs. Ms. Kohler stated that it is the belief of JLBC that its proposal is consistent with the propositions.

Senator Verschoor remarked that the Governor’s proposal has an approximate \$20 million structural shortfall from what is being collected in the new and old tobacco taxes. He asked where that money is going to come from to fund this shortfall. Ms. Kohler stated that the Governor is proposing to carry forward part of the new monies from the tobacco tax into FY 2004 so the money would be available for expenditure in FY 2004. This is how the Governor’s proposal can maintain expenditures above the annual revenue level. She noted that if expenditures were to be maintained at that level, funding would also have to be added from another source.

Tim Sweeney, Fiscal Analyst, JLBC, distributed a handout entitled Comparison of Major Policy Issues, AHCCCS (Attachment D). The handout specifically outlined the differences in the Legislative and Executive proposals with regard to the following:

Total Budget	JLBC \$703M GF	EXECUTIVE \$796.6M
	\$18.2M set aside	\$16.1M GF supplemental
	A 3% FY 2003 lump sum reduction of \$88,000	
Caseload	JLBC	EXECUTIVE
<ul style="list-style-type: none"> • Regular Acute Care Population and Inflationary Growth 	\$61.6M GF and \$140.3M FF	\$48.2M GF
	Increase Member Months	

<ul style="list-style-type: none"> Proposition 204, Population and Inflationary Growth 	<p>\$85.9 M GF and \$159.1M FF</p> <p>Increase Member Months</p>	<p>\$101.1M GF</p>
<p>Offsets and Fill-ins</p> <ul style="list-style-type: none"> Increased Medically Needy Account Offset Emergency Health Services Account Offset 	<p>JLBC</p> <p>\$(20.5)M GF</p> <p>\$(26.2)M GF</p> <p>\$26.2M OF</p> <p>\$15.0 M offset GF costs</p>	<p>EXECUTIVE</p> <p>\$12.1M GF</p> <p>\$31.1M GF</p> <p>not formally appropriated</p> <p>reverts \$16.7M GF</p>
<ul style="list-style-type: none"> Proposition 204 Protection Account Budget Neutrality Compliance Fund Tobacco Settlement 	<p>\$(17.2)M</p> <p>\$28.1M GF</p> <p>\$13.8M GF</p>	<p>\$(24.7)M GF</p> <p>same proposal</p> <p>\$20.8M GF</p>
<p>Tobacco Tax</p> <ul style="list-style-type: none"> Children’s Health Insurance Program (CHIP) Services and Administration CHIP – Parents Premium Sharing Program Health Care Group-Insurance 	<p>JLBC</p> <p>\$(23.6) M Medical Needy Acct.</p> <p>\$(79.3)M FF</p> <p>\$(7.9)M Medical Needy Acct.</p> <p>Eliminated</p> <p>\$(5.0)M OF</p>	<p>EXECUTIVE</p> <p>\$(4.3)M Medical Needy Acct.</p> <p>\$7.4M Medical Needy Acct.</p> <p>\$20.8M FF</p> <p>Cont. current funding</p> <p>Cont. current funding</p>
<p>Program Eliminations</p> <ul style="list-style-type: none"> Critical Access – Hospitals Program Breast and Cervical Cancer Ticket to Work Young Adult Transitional Insurance Adult Emergency Dental Care State Emergency Services (SES) Dr./Clinic Reimbursement SES – Kidney Dialysis 	<p>JLBC</p> <p>\$(591,900) GF And \$(1.0)M FF</p> <p>\$(1.3)M GF and \$(1.0)M FF</p> <p>\$(500,000) GF and \$(346,400) FF</p> <p>\$(140,500) GF and \$(288,600) FF</p> <p>\$(1.2)M GF and \$(205)M FF</p> <p>Does not address</p> <p>\$(4.8)M GF</p>	<p>EXECUTIVE</p> <p>Cont. current funding</p> <p>\$1.8M GF</p> <p>Cont. current funding</p>
<p>Long Term Care</p> <ul style="list-style-type: none"> ALTCS Growth Shift ALTCS Growth to Counties 	<p>JLBC</p> <p>\$11.4M GF And \$64.9M FF</p> <p>\$(11.4)M GF</p>	<p>EXECUTIVE</p> <p>\$14.0M GF</p> <p>\$(9.3)M GF</p>

Administration and Other General AHCCCS**JLBC****EXECUTIVE**

• Shorten Re-determination Period	\$(7.8)M GF and \$(16.0) M FF	Does not address
• Expand Costs-Sharing Measures	\$(10.5)M GF and \$(21.5)M FF	Does not address
• Hospital Reimbursement Pilot Program	Cost avoidance \$4.2 M GF	Cont. Pilot Program
• Decreased Disproportionate Share availability	\$(21.1) M GF and \$(10.5)M FF	\$(19.1) M GF
• Proposition 204-County Hold Harmless	\$(4.8)M GF	Maintains funding
• DES eligibility funding	Does not address	\$4.0M GF and \$4.0M FF
• Health Insurance Profitability and Accountability Act	Does not address	\$672,900 GF

Senator Rios noted that the shortening of the re-determination period from 12 months to 6 months appears to double the caseload, with no additional administrative costs added in. Mr. Sweeney replied that there had been no cost savings associated with the lengthening of the re-determination period so this returns the work load to the same ratio it was two years ago.

Senator Rios, referring to SES for dialysis, asked if the State was under a federal court order to continue funding the program. Mr. Sweeney commented that there have been rulings establishing that this is an emergency service and noted that this treatment would be eligible under the federal emergency services program that receives a federal match, which could be incorporated into the fee for service budget. Although if no increase were given, he noted that it would not preclude the agency from covering these services if they are required.

Senator Rios asked what happens to the 50,000 children being dropped from the children’s health insurance program, once they are no longer covered. Mr. Sweeney remarked that they would need to find insurance elsewhere. He noted that it is possible that some of them would qualify under the regular AHCCCS program if their family income dropped below the current thresholds. Senator Rios commented that if insurance is taken away from these children, inevitably they will be treated in emergency rooms and trauma centers, which defeats the purpose of cutting costs. He opined that solutions such as this, as well as many of the JLBC budget solutions are “just asking for a lot of trouble.”

Senator Cannell commented that he had requested that JLBC include data with comparisons of savings versus the loss of federal funds. He stated that data that he obtained from another source illustrates that for an approximate \$44 million savings with the JLBC cuts, the State is losing approximately \$162 million of federal funds. He stated that he would like to know what was the effect of the 3% lump sum reduction through the AHCCCS budget.

Richard Stavneak, Director, JLBC, remarked that AHCCCS can describe the effects of the \$88,000 cut to their budget under the 3% lump sum and noted that it excludes most of Title XIX, so the lump sum ends up being very small for the agency. In response to Senator Cannell’s request for data regarding lost federal matching funds, he commented that JLBC placed a request for data from all the agencies by Friday. This will afford the agencies the opportunity to supply the information on an individual basis and avoid any future discrepancies.

Senator Arzberger commented that part of the intent of Proposition 303 was to provide funds for trauma centers and emergency health care. She remarked that the critical AHCCCS hospital, for

rural areas, is the nearest emergency/trauma center. She stated that the critical AHCCCS hospital is a federal program that provides additional money in order to keep hospitals in rural areas open and operating. The elimination of this program would give the State \$591,900 out of the general fund, but the State would lose \$1.1 million in federal matching funds. She noted that although rural areas are not high in population, Arizona's general population travels to rural areas for recreation and through rural areas on the interstate highway.

Derek Leavitt, Analyst, Governor's Office of Strategic Planning and Budget (OSPB), distributed a handout entitled AHCCCS, FY 2003 Supplemental Recommendation and FY 2004 Budget Recommendation, Select Policy Issues (Attachment E).

Highlights of the presentation:

	Executive	JLBC
AHCCCS FY 2003 Supplemental	\$57.9 M	\$51.7 M
Lump Sum General Fund Reductions	\$-	\$(88,200)
Elimination of CHIP – KidsCare	\$84.1 M	\$-
Elimination of CHIP Parents – KidsCare Parents	\$75.2	\$-
Elimination of Healthcare Group Subsidy	\$5.0	\$-
Shortening the Re-determination Period	\$-	\$(7.8 M)
Expansion of Cost Sharing (Long-Term Care)	\$-	\$(1.8 M)
Program Elimination	\$-	\$(8.5 M)

Senator Verschoor noted that in the Executive proposal there is no money going into the Emergency Health Services Account Offset and asked for an explanation. Mr. Leavitt stated that in the Executive proposal, the money is realized as savings in increased revertments to the General Fund. He remarked that is the only account in Proposition 303 that is appropriated by the Legislature. At the end of the FY, those monies revert into the Proposition 204 Protection Account. The Executive proposal will have those funds revert and will take those savings out of the General Fund requirement for Proposition 204.

Phyllis Biedess, Director, AHCCCS, distributed a handout entitled Arizona Health Care Containment System Fiscal Year 2004 Senate Appropriations Committee Presentation, February 5, 2003 (Attachment F).

Highlights from the presentation:

AHCCCS Issues with the JLBC Recommendations for the FY 2003 and FY 2004 Budget

FY 2004

- KidsCare – The Executive Budget provides \$84.2 million in total funds for health care for children up to the age of 19. This includes \$19.3 million in Tobacco Tax funds and \$64.9 million from the federal government. The JLBC Budget provides no funding for this program.
- Parents of KidsCare eligible children (HIFA parents) – The Executive Budget provides \$66.8 million in total funds for HIFA parents. This includes \$15.3 million in Tobacco Tax funds and \$51.5 million in federal funds. The JLBC Budget proposes eliminating the HIFA parents program.

- Administration – The JLBC Budget includes a 10% cut to the administrative budget for AHCCCS in FY 04. The reduction totals \$5.8 million and includes \$2.9 million in federal funds and \$2.9 million in state funds.
- The JLBC Budget eliminates a \$5 million subsidy to Healthcare Group that had been provided in FY 2003 and prior years.
- Medicaid in the Public Schools (MIPS) – the JLBC budget transfers \$1.8 million in federal Medicaid funds from local schools to the General Fund.
- Reduction in coverage period. The JLBC Budget saves \$7.8 million by changing the length of eligibility from 12 months to 6 months in the acute care program.
- Higher Cost Sharing for AHCCCS enrollees. The JLBC Budget assumes \$10.4 million in savings to the State.
- JLBC Budget identified several optional programs that could be eliminated and save the State \$9.1 million.
- AHCCCS requests that the Legislature give DES the authority to use an additional \$2.3 million in federal funds for eligibility functions. This is an administrative adjustment and does not require any State funds.
- Supplemental Appropriation for FY 2003
- AHCCCS Medicaid in the Public Schools Program
- AHCCCS Title XIX and State-Only JLBC Program Eliminations FY 2004
- AHCCCS FY 2001 MNM1 Expenditures vs. FY 2002-FY 2004 Proposition 204
- 100% Federal Poverty Limit – Household Size
- Eligibility Levels

Senator Verschoor stated that the Executive proposal has approximately \$177 million going into KidsCare, with much of this being matching funds. He noted that there are approximately 149,000 children enrolled. He asked how much money per child the taxpayer is paying out. Ms. Biedess commented that AHCCCS pays capitated rates to health plans, which are based on age and sex of the child. The cost for a young child is approximately \$80 per month. If the child is older, actuarial charts demonstrate that they cost more due to their increased activity level, and they are paid at a higher rate. The cost for an older active child is approximately \$110 per month.

Senator Verschoor remarked that these figures do not add up and asked where the rest of the \$177 million is going. Mr. Betlach explained that the budget for the KidsCare portion of Title XXI is actually \$84 million. He referred to the first page in the handout. The amount identified in the Executive proposal is \$84.2 million, of which \$19.3 million is State funds and \$64.4 is Federal funds. He stated that the population that is estimated in FY 2004 is 60,000 children with the cost per member, per month of \$116.

In response to Senator Mead, Mr. Sweeney opined that the justification for some of the “sweeping” is because, although the school district put up the federal match, the State actually pays for a portion of this through general school aid. The federal money that the districts receive is offsetting the cost that they would normally pay themselves. This idea came from other states.

Donna Kruck, Arizona Bridge to Independent Living, testified in opposition to the JLBC budget cuts in Health Care. Eliminating funds for HIV, SMI and treatment for kidney disease is a death sentence for thousands of Arizonans. Repealing the Ticket to Work, though a little program, is the door to self-sufficiency for individuals with significant disabilities, so that they do not have to remain unemployed in order to get vital health care services. This program is just starting and works with many other federal initiatives to remove barriers to employment for people with disabilities (currently the poorest of the poor of legal U.S. Citizens). The other work incentives will be compromised without this program.

Fernando Cruz, representing himself, testified that he would be graduating from Arizona State University - West this May and is looking forward to working. He commented that he is currently collecting Social Security benefits, section 8 housing assistance and food stamps, but noted that once he has procured a job these benefits will be discontinued. He stated that he would be happy to work and utilize the premium-share program to pay for the personal assistant that he needs twice a day to get in and out of bed, bathed, dressed and placed in his wheelchair. He remarked that it has been an insult to hear comments about people using the system because they are not willing to work and take responsibility for themselves. He stated that he is looking forward to being a productive member of society. He urged the Committee not to discontinue or cut funding for the Ticket to Work and Premium-share programs.

David Carsey, representing himself, testified that he is not on AHCCCS and is covered under his own insurance. He noted that people with his disability would not be able to afford to hire personal assistants with the average hourly wage of \$10.00 per hour, expensive medications and equipment, such as his wheelchair, which costs \$14,500. He urged the Committee to be aware of how cutting programs for people with severe disabilities will be affected by cutting agency budgets.

Michelle Pabis, Government Relations Director, American Cancer Society, testified in support of the AHCCCS Breast and Cervical Treatment Program. Since the early 1990s, the Cancer Society has been receiving over \$2 million from the Centers for Disease Control (CDC) to screen and diagnose low income, uninsured women for breast and cervical cancer. This population is known to likely forgo health screenings and face more late stage cancer diagnosis, and treatment options are sparse as are survival rates. This is a federal program that is operating in all 50 states. Congress realized that the Cancer Society was screening and diagnosing women and leaving them to find treatment elsewhere. Consequently, in 2000, Congress passed the Breast and Cervical Treatment Act, which offers federal funds to States to offer treatment to these women. This program began in Arizona in January of 2002, with an appropriated \$1.3 million a year and receives three to one matching federal funds for treatment. She stated that the appropriated \$1.3 million is not just for treatment, but to expand screening to rural counties, that are currently not covered under the CDC. JLBC has recommended that the budget for this program be eliminated because it is being under utilized. She opined that the 26 women that have been diagnosed and are currently in the program would not agree. She urged the Committee not to eliminate this program.

In response to Senator Cannell, Ms. Pabis remarked that 55 women have been diagnosed by the health check, but have not entered the treatment program through AHCCCS for one reason or another. With the appropriation, it was only expected to treat approximately 70 women per year. She remarked that half-way through the year, the number is already 26.

Raymond Adelman, MD, testified in opposition to budget cuts to AHCCCS, DHS and CHIPS programs. He commented that he has been a Pediatrician for 30 years. He stated that the AHCCCS CHIPS program provides appropriate medical coverage for 50,000 children in the State that otherwise would be ineligible for AHCCCS coverage. He stated that this program has been adopted throughout the United States. He stated that there are clear-cut benefits to be able to provide health care to this population. He opined that it is every citizen’s obligation to provide health care and education to the children of the State. The cost of this program to the State is approximately 20 cents on the dollar, which means the vast majority of the costs come from the federal government. He commented that the following is what will happen if these kids do not get care: some will never get care and will have to suffer quietly, some will get well, and some will not and may have long-term disabilities, and may even have a life threatening illness. Many others will go to emergency rooms, which will impact many patients. He stated that the increase of patients in emergency rooms may defer or delay the care of people who are in critical need emergency care and will be a tremendous waste of resources and undoubtedly will mean additional substantial unreimbursed health costs for hospital facilities that are already reeling under huge amounts of unreimbursed health care. He urged the Committee to continue KidsCare.

Senator Burns announced the following people were present in opposition to the JLBC budget proposal: **Barbara Burkholder, Arizona Public Health Association; David Miller, Arizona Council of Human Service Providers; Max Dine; Tara Plese, Arizona Association of Community Health Centers; Elsie Eyer, Arizona Public Health Association; Sue Grace; Mark Venuti, Northern Arizona EMS Council; Shelly Patton, Greenlee County Health Department; Greg Fahey, University of Arizona; and Michael Puthoff, Excel Group, RBHA and Provider.**

DEPARTMENT OF HEALTH SERVICES (DHS)

Gina Guarascio, Analyst, JLBC, distributed a handout entitled Comparison of Major Policy Issues, Department of Health Services (Attachment G).

Highlights from the presentation:

Total Budget	JLBC \$257.1M GF	EXECUTIVE \$345.7M GF
	A 2% FY 2003 lump sum reduction of \$2M	
Behavioral Health		
• Behavioral Health Title XIX Inflation and Enrollment	Does not include	\$15.6M GF; \$3.1M GF
	\$8.1M GF; \$30.4 FF	\$35.4M GF; \$72.7M FF

	\$17.4M; \$27.9M FF	\$16.3M GF; \$2.7 M OF; \$58M FF
	Increase member years	
• General Fund Offset from Tobacco Tax	\$(29.4)M GF replaced with \$29.4M from Medical Needy Acct of the Tobacco Tax and Health Care Fund. This option zero-bases (\$12.8)M in Tobacco Tax Programs appropriated to DHS, As well as \$(16.6)M in DHS allocations	Does not include
• Zero-Based Non-Title XIX Substance and Abuse Services	\$(12.1)M GF \$(3.4)M OF	Does not include
• Non-Title XIX Service Reductions	\$(4.5)M GF	Does not include DHS may include \$(1.5)M GF reduction
• Suicide Prevention	\$(120,000) GF	Does not include DHS may include Elimination in FY 03 reduction
• Court Monitor	\$(198,000) GF	Does not include
• State Hospital	\$120,000 GF	Same proposal
• Restoration to Competency	\$(1.9)M GF	Cont. current funding
• SVP Pretrial Costs	Require counties to Pay – est. revenue \$3.4M	Does not include
• ASH Fund	\$(394,000) GF	Does not include
• Shall v. May Changes	Recommends changing Portions of statute from 'shall' to 'may'	Does not include
Public Health	JLBC	EXECUTIVE
• Loan Repayment Program	\$(100,000) GF	Does not include
• Tuberculosis Provider Care and Control	\$(1.1)M GF	Does not include

• EMS Fund Offsets	\$(1.2)M GF	Does not include
• Vital Records Offset	\$(1.4)M GF	Does not include
• Vaccines	\$(848,000) GF	\$1.6M GF
• Poison Control Center Consolidation	\$(463,000) OF	Does not include
• Children's Rehabilitative Services	\$210,000 GF	Does not include
• Nutrition Services	\$(367,000)	Does not include
• County Prenatal Services	\$(1.2)M	Does not include
• High Risk Perinatal Program	\$(3.2)M GF	Does not include
• Health Start	Does not include	\$2.2 M GF
• Alzheimer's Research	\$(1)M reduction in Disease Control Research and increase \$1M Health Research Fund for Alzheimer's	\$(1)M reduction in Disease Control Research
• Laboratory Lease Payment	\$2.4M GF	\$2.4M OF
• FTE Changes	Adds \$0 OF and 5 FTE	Adds \$0 OF and 17 FTE
• Assurance and Licensure	Does not include	\$248,000

Christine Sato, Analyst, OSPB, distributed a handout entitled Department of Health Services FY 2003 Supplemental Recommendation & FY 2004 Budget Recommendation, Select Policy Review (Attachment H).

Highlights from the presentation:

	Executive	JLBC
Vaccinations	\$1.6 M GF	\$(847,700) GF
Vital Records	No change GF	Fund shift VR
High Risk Perinatal & Prenatal Services	No change GF No change GF	\$\$\$(4.4) M GF \$(450,000) EMS
Emergency Medical Services	No change GF No change EMS	\$(1.2) M GF 450,000 EMS
HIV/AIDS	No change TT	\$(1.0) M TT

Primary Care & Community Health Centers	No change TT	\$(10.4) M TT
Renal & Non-Renal Disease Management	No change TT	\$(468,000) TT
Lump Sum Reduction	\$0 GF	\$92.5)M GF
Seriously Mentally Ill	No change TT No change GF	\$(10.8) M TT \$(3.0) M SASF
Substance Abuse Services	No change GF No change SASF	\$(12.1) M GF \$(3.4) M SASF
General Mental Health	No change TT	\$(3.1) M TT
Rural Detoxification Services	No change TT	\$(390,000) TT
Title XIX Behavioral Health	FY 03 \$18.7 M GF FY 04 \$51.7M GF	\$0 GF \$25.5M GF

Senator Burns commented that when a Regional Behavioral Health Authority (RBHA) reaches a certain point, if there is in fact a profit, that profit falls back into the Department. He asked if it is a statutory directive that causes this to happen. Ms. Sato opined that it is a contractual directive, that DHS purposely placed within the contract to prevent such occurrences.

Senator Burns recessed the meeting at 4:50 p.m.

The meeting was reconvened at 5:01 p.m.

Cathy Eden, Director, DHS, testified in support of the Governor's budget and stated that DHS has taken some serious cuts within the last two years, in the amount of \$18 million. Additionally, there is the \$10.4 million in the delayed renovation for the Arizona State Hospital. She complimented the analysts' explanation of the budget and noted she had a few areas that she wanted to discuss.

Ms. Eden remarked that the loss of the \$1 million in AIDS funding, will have to be renegotiated and there will be a serious loss of federal funds, approximately \$6.8 million. She stated that the loss of \$10.4 million for Primary Care and Community Health Centers would eliminate the only source of Primary Care services in a number of rural and under-served communities. She commented that the loss of \$4.8 million for Perinatal and Prenatal Care Service programs would affect the federal block grant monies. Referencing Behavioral Health, she opined that in the current FY without the \$18.7 million in funding, the agency will be forced to shut down in May or June. She stated that the agency also needs an additional \$26.7 million in 2004 to keep Behavioral Health from being cut.

Ms. Eden stated that the agency does not own the RBHAs, but rather only contracts with them. She said the idea that the agency has access to their funds is incorrect. She remarked that the RBHAs return money to the agency that is over the contractual amount, but the agency can not go after profits from them.

Ms. Eden commented that the loss of the \$10.8 million for psychotropic drugs would in effect cause 5,400 people with serious mental illness to lose their medications. She stated that these medications keep people out of hospitals, jails and enable people to live in home situations and be productive members of society. She remarked that the advancement of psychotropic drugs is the biggest event in the 20th century with the changes they have brought to the treatment of mental illness.

Senator Bee asked for an estimate of what the costs would be if these people were institutionalized versus taking the medication. Ms. Eden stated that there is a \$409 per day cost associated with hospitalization. She stated that there are lower costs associated with patients living in a home environment.

Ms. Eden remarked that absorbing the increase for retirement and insurance, a crippling \$2.4 million lump sum budget cut across the board, as well as not annualizing the surveyors in licensure, is extremely difficult to deal with. She reminded the Committee that some of the cuts proposed could cost millions of lost federal dollars and increases in hospitalization, homelessness, and unemployment and leave many with the loss of hope.

Senator Burns stated that there are a number of programs that are zero-based as opposed to being eliminated. He stated that this status does not mean that the programs are eliminated, but rather an attempt to “keep the door open.” He remarked that the Legislature must establish some priorities, as there is not enough money to fund everything. He commented that agencies with programs that are zero-based will have the opportunity to come forward and explain the importance of the programs. He stated that the funding will have to be found somewhere else. He remarked that this is not going to be easy and there is much more work that needs to be done.

In response to Ms. Eden, Senator Burns explained that the Committee is not just looking at one department to shift money into, but rather the members are looking at the entire budget. He stated that the Chairmen’s budget proposal has a cap that keeps the budget at \$6.1 billion, which is the current funding level plus approximately \$50 million. He stated that the Chairmen are hoping to be able to be flexible within those parameters.

Sue Davis, Executive Director, Arizona Alliance for the Mentally Ill, testified that she represents 2,500 families in Arizona who are affected by serious mental illness. She noted that she has over 20 years experiences as a volunteer in the Arizona health system and was present in opposition to JLBC cuts to both AHCCCS and DHS budgets. She stated that over 130,000 people of all ages, within the State could expect to have a mental illness in any one year. Her son, while at MIT, developed schizophrenia and therefore has seen what a serious mental illness can do to a family and the individual that is affected. She explained that the insurance company that her son had been paying into for over 20 years, disenrolled him because his diagnosis was not included in the benefits package. She stated that he is on psychotropic drugs and now lives independently in a home of his own in the community. He has a part-time job and drives to and from work daily. She stated that although he is getting his life together, it took 20 years. She urged the Committee to not cut the programs that help families within the State.

Deborah Elliott, Co-chair Arizona AIDS Policy Alliance/Vice President for Client Services of the Area Agency on Aging, testified that as part of her position, she performs case management for HIV positive individuals of all ages. She stated that she was present to speak for the continued funding for the AIDS Drug Assistance Program that is scheduled for zero-based funding in the JLBC Budget. She commented that with a zero-based budget, the medications that are currently

being offered would no longer be available to HIV positive individuals from any other funding source. Eligibility for this program requires that individuals have no coverage from any other source. She stated that this program is the “real bottom safety net” for terminally ill individuals. Additionally, zero-basing this program’s budget will potentially lose approximately \$6.8 million of federal funds, as well as cause the deterioration of these individuals’ health and ultimately their death. She commented that these people have nowhere else to turn for these life-sustaining medications.

In response to Senator Giffords, Ms. Elliot stated that the current Arizona population with HIV is between 7,000 – 10,000 individuals, the majority living in Maricopa County. The projection of this population is growing in certain sections of society.

Tina Wilcox, Legislative and Legal Liaison, Arizona Medical Board (AMB), distributed a handout entitled Arizona Medical Board, Overall Effect of Shifting Funds as Proposed by JLBC for FY 2004 and FY 2005 (Attachment I).

Highlights from the presentation:

- **JLBC Proposed Shifts from AMB Funds**
- **Five Year Projected Fund Condition At February 1, 2003, Based on JLBC FYs 2004-2005 Recommendation**
- **AMB Use of Reserve Funds**
- **DHS Rural Loan Repayment Program**
- **U of A College of Medicine Temporary Enhancements**
- **Board of Medical Student Loans**
- **Arizona Medical Board**

Glenna Shapiro, Chief Executive Officer, Arizona Kidney Foundation, testified that renal disease is the only major catastrophic chronic disease that is funded federally to those people who are not Medicare eligible. She stated that the Foundation works hard to raise money from the communities to help approximately 6,000 families that are affected with chronic renal disease. The funds that have been allocated by the State have been spent frugally. She remarked that federal funds require social workers, dieticians and renal technicians that do the case studies on these patients. She remarked that approximately 800 patients are funded in one year and therefore are kept off of AHCCCS and save the State money. She asked the Committee to re-evaluate the funding for the agency.

John Weisbuch, Director, Maricopa County Department of Public Health, testified in opposition of the JLBC budget for DHS and remarked that the costs of the programs that the Committee is proposing to cut will not be saving money for the State. He commented that these cuts will cost the State much more money in the future, reduce public safety, place everyone at risk for communicable diseases and will lead to disabilities and greater incidents of disease and death.

Greg Fahey, University of Arizona, distributed a letter written by Dr. Ronald Weinstein, Director, Arizona Telemedicine Program (Attachment J), which reflects his concerns about what would happen to pilot programs should the tobacco money be cut back (Attachment K). He introduced **Leslie Boyer, MD, Medical Director, Arizona Poison Center**.

Dr. Boyer commented that studies commissioned by the CDC a few years ago, demonstrated that for every \$1 that states spend on poison centers there is approximately \$8 saved from

unnecessary emergency room and ambulance costs. She posed the following three items for the Committee to reflect upon: 1) Regarding the consolidation of two poison centers into one, both of the host organizations, Banner and the U of A provide 100% of the overhead costs, nearly all of the administrative costs and nearly all of the physician costs of 24 hour coverage for both facilities. She stated the majority of the budget that is allocated through DHS, is spent on the salaries of the poison information specialists' salaries for actually answering the calls, and a small additional amount goes to telephone and computer support costs for the data bases. 2) There is a risk of losing federal funds that although are not matching funds, are grants equaling \$250,000 out of a federal stabilization fund for poison control centers. And 3) There are other income streams that enter into both centers as a consequence of they're being the locations of all kinds of medical activity, education, readiness for bio-terrorism activities and grants that come in from federal and private sources.

Senator Burns remarked that the proposal is to look at the possibility of closing one center. He asked if the risk of losing the \$250,000 would be present if one of the centers remained open. Dr. Boyer opined that if the amount is cut to any one center, the remaining center is also in jeopardy.

Senator Burns asked if one center could serve the entire State. Dr. Boyer stated that technically that was correct, but remarked the value added services to the metropolitan areas would be lost. She explained that in both Phoenix and in Tucson the bio-terrorism preparedness activities have included a tremendous amount of participation from the respective poison centers. In both communities, graduate medical education relies on toxicologists that are associated with the poison centers for teaching emergency residents, fellows in toxicology, pediatricians, pathologist, pharmacy students and medical students who all count on poison center teachers as part of curriculum.

Donna Kruck, Arizona Bridge to Independent Living, testified in opposition to the JLBC budget cuts to DHS. She commented that her organization serves people with all kinds of disabilities and until two years ago she had nowhere to send people that had mental health issues that were low income. She remarked that reducing the funding to vital programs, community health care facilities and poison control centers does not make sense when in the long run, financially the burden for services will fall back on the State through emergency rooms.

Michael Puthoff, Excel Group, RBHA and Provider serving Yuma and La Paz Counties, testified in support of the Executive budget and remarked that there are over 500 employees serving this population. He remarked that without the supplemental support that has already been discussed, his organization will shut down at the end of May. This will mean 500 people will be unemployed and over 5,000 people will not receive services, which will impact communities' economies that already have had some of the highest unemployment rates in the nation. He urged the Committee to consider the Executive proposal.

Barbara Burkholder, Arizona Public Health Association, testified in support of the Executive proposals for both AHCCCS and DHS. She commented that her main concern is that there are systems that interlock and that affect so many other departments, such as law enforcement, schools, DES, AHCCCS and others. She stated that the JLBC budget proposal would be pulling apart systems that have been developed over the years.

Mark Venuti, Northern Arizona EMS Council, testified in support of the Executive budget proposal and noted that he supports Dr. Eaton and her presentation and the impacts that the JLBC budget cuts will have across the board.

Senator Cannel expressed his concern with the lack of funding for immunizing children over the age of 24 months and what will happen when they reach school age.

Senator Burns announced the following people were present in opposition to the JLBC budget proposal: **David Miller, Arizona Council of Human Service Providers; Max Dine; Tara Plese, Arizona Association of Community Health Centers; Elsie Eyer, Arizona Public Health Association; Sue Grace; Shelly Patton, Greenlee County Health Department; Philip Carll, Patient Services Director, Arizona Kidney Foundation; Charlie Thomas, Social Worker, Arizona Kidney Foundation; Raymond Adelman MD, Pediatrician; Rod Reed; Jake Barlow, Secretary/Treasurer, Colorado City Fire District/ WACEMS; and Charles Wunder.**

Without objection, the meeting adjourned at 6:01 p.m.

Respectfully submitted,

Tracey Moulton
Committee Secretary

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