

ARIZONA STATE SENATE

48TH LEGISLATURE
FIRST REGULAR SESSION

MINUTES OF COMMITTEE ON APPROPRIATIONS

DATE: February 26, 2007

TIME: Upon Adjournment of FIIR, **ROOM:** SHR109
GOV and JUD

CHAIRMAN: Senator Burns

VICE CHAIRMAN: Senator Allen

ANALYST: Timothy Grubbs

INTERN: John Dennis

**COMMITTEE
SECRETARY:** Jordan Drackett

ATTENDANCE

BILLS

<u>Committee Members</u>	<u>Pr</u>	<u>Ab</u>	<u>Ex</u>	<u>Bill Number</u>	<u>Disposition</u>
Senator Aboud	X				
Senator Aguirre	X				
Senator Flake	X				
Senator Garcia	X				
Senator Hale	X				
Senator Harper	X				
Senator Huppenthal	X				
Senator Johnson	X				
Senator Waring	X				
Senator Allen, Vice Chairman	X				
Senator Burns, Chairman	X				

PRESENTATION

Budget Workshop to Consider Fiscal Year 2007-2008 Budget Issues

Chairman Burns called the meeting to order at 2:49 p.m., and attendance was taken.

BUDGET WORKSHOP DISCUSSION

Senator Burns addressed terminology the Committee used in the last Appropriations Committee meeting regarding “structural deficits,” and introduced Richard Stavneak to explain his research on the matter.

Richard Stavneak, Director, Joint Legislative Budget Committee (JLBC), explained the two attachments he distributed to the Committee. The Joint Legislative Budget Committee Staff Memorandum (Attachment A), concerned the issue of the structural deficit calculations. Mr. Stavneak addressed the concept of a “structural deficit” being recognized by other states, stating that the National Conference on State Legislatures (NCSL) surveyed the 50 states in March of 2006 to ask whether or not they had a structural deficit. In its report, NCSL noted that although most states were stable in 2006, officials in many states remained concerned about structural deficits. Mr. Stavneak quoted the study by saying, “Ongoing revenue growth does not keep pace with ongoing expenditure growth.” Mr. Stavneak’s further research on the matter demonstrated that three states, California, Maryland, and Michigan, each use the structural deficit concept in a “similar fashion.” Mr. Stavneak referred to a question posed in the previous Appropriations Committee meeting concerning a national budget official being unaware of the structural deficit model. He stated that the official’s name is Scott Pattison, the Executive Director of the National Association of Budget Officers (NASBO), and that Mr. Pattison is, in fact, aware of the model, but that his organization does not endorse any one specific method of analyzing state budgets. Mr. Stavneak then attended to the question of ongoing revenues including or excluding the prior-year fund balance, explaining that ongoing revenue estimates exclude prior-year fund balances, which is also the practice of the state-specific examples he mentioned previously.

Senator Aboud requested that Mr. Stavneak give an explanation of the practices of the remaining forty-seven states.

Mr. Stavneak responded to Senator Aboud by saying that when NCSL surveys the states, it has been their longstanding practice to advise them to exclude the prior-year fund balances in their calculations.

Senator Aboud asked Mr. Stavneak why NCSL excludes the balances.

Mr. Stavneak said that he believes the balances are excluded because they are one-time monies, and commented that it would be more helpful if the Executive Branch showed other states that included the balances.

Senator Huppenthal commented on situations where the fund balances forward are negative, and at the end of the year there are “net supplementals.” He stated that he “can’t imagine” that NCSL would be able to find a state that included fund balances forward and classified them as ongoing revenue. He mentioned that it “defies the whole analysis of why you do a structural deficit calculation.”

As a preface to the next portion of the meeting, Senator Burns announced that he and Representative Pearce met with staff members in November of 2006 to recognize proposals of a baseline budget to be presented in January of 2007. He noted that part of his instructions to staff at the time were to make sure that they funded in accordance with the formulas that were already in place, including the formulas created by initiative. He explained to the Committee that the Legislature has “very little they

can do” as far as formulas that have been created by initiative, but that they have the power to change statutory formulas. He stated that Mr. Stavneak would clarify some of the methods of adjusting these formulas.

Mr. Stavneak referred the Committee to the handout “Statutory Funding Formulas General Fund Expenditures” (Attachment B) and noted that about two-thirds of the Legislature’s general fund spending is governed by funding formulas. He indicated that the purpose of the attachment is to summarize what the programs are; the dollar amounts associated with them, and provide a simplified explanation of how the formula works. Mr. Stavneak briefly clarified a few of the formulas as an example to the Committee. He concluded by noting that the total of all the funding formulas is approximately \$7 billion for the Legislature.

Senator Burns asked Mr. Stavneak to expand on the eligibility of changing formulas if the “will” to do so was there for the Legislature.

Mr. Stavneak replied by presenting the Title 19 program on Attachment B, and explained that there is “more flexibility if you are above 100% of the poverty line.” He subsequently stated that there is more flexibility if the statutes are changed by the legislators themselves rather than having to “go back to the voters.”

Senator Waring asked Mr. Stavneak if he is correct in assuming that “everything else they do is discretionary” and that it totals about \$3 billion, and proposed that a list should be made.

Mr. Stavneak confirmed that Senator Waring is correct.

Senator Hale requested confirmation from Mr. Stavneak that the term “State Match” referred to the State funds matching the Federal funds, and requested the ratio of that, at which point Mr. Stavneak confirmed the definition of “State Match” and explained that “for every State dollar, you are bringing in two Federal dollars.”

Senator Allen expressed her opinion by stating that she thought it would be a “big mistake” to change Title 19 because “there would be a lot of ramifications.” She announced that she doesn’t see how they could change Title 19 without causing an “enormous disruption.”

Senator Huppenthal agreed with Senator Allen’s comments, but noted that “the things you can’t do in the short term, sometimes, if you think about them for a little bit, you can do them in the long term.” He then communicated a “problem” he has with Arizona Health Care Cost Containment System (AHCCCS) concerning the large percentage of people who go to emergency rooms for ailments that are more commonly associated with a doctor’s office.

Mr. Stavneak responded to Senator Huppenthal’s comment by explaining that he believes the emergency room visits are paid on a fee-for-service basis if a person does not go to his or her own individual health plan, and that the capitation rate needs to be actuarially sound. He stated that there are ways of looking at reimbursement for circumstances like emergency rooms that don’t “leave you totally locked in.” To that point, Senator Burns inquired how the Legislature should go about identifying the aforementioned options so that the Committee could make changes in those areas.

Senator Huppenthal suggested that they make some alterations to the “culture” of people that sends patients to emergency rooms. He stated that if they did it in a way that was cost-neutral to start, the Legislature would save an enormous amount of money in the long run.

Mr. Stavneak addressed Senator Burns and said he believes he has done some work in the past on the emergency room issue, and that he will see what information he has on that subject. In response to Senator Burns’ point, he stated that it is a cost-pressure in all states. He said that Congress, in their Deficit Reduction Act last year, gave the states more flexibility in how they might operate the program. However, Mr. Stavneak reminded the Committee that it is the same Act that has caused the Legislature to have to add money to the budget a number of times.

EDUCATION K-12 FUNDING DISCUSSION

Steve Schimpp, Joint Legislative Budget Committee (JLBC), referred the Committee to the handout “K-12 Equalization Funding Formula (School Districts)” (Attachment C). He briefly explained each of the five pieces of the funding formula: Base Support Level (BSL), Transportation Support Level (TSL), Capital Outlay Revenue Limit (CORL), Soft Capital, and Summary and Funding Sources. He noted that the formula would total about \$5.8 billion.

Senator Hale stated that on Indian reservations or military reservations there are no taxes, and that the Federal government “comes in” with equalization funds, and asked Mr. Schimpp how that concept fits into the Equalization Funding Formula.

Mr. Schimpp indicated that those monies are in addition to the Equalization Funding Formula, and that the Department of Education uses the formula and receives monies from the Federal government.

Mr. Schimpp referred the Committee members to the handout “K-12 Equalization Funding Formula (Charter Schools)” (Attachment C), and explained the three levels of the Charter School formula. He also outlined similarities and differences between the School Districts formula and the Charter Schools formula.

Senator Burns requested that Mr. Schimpp speak more on the topic of the Teacher Experience Index (TEI), stating that there have been proposals in the past to “fade it out.”

Mr. Schimpp responded to Senator Burns’ inquiry by stating that the TEI is a part of the formula that takes a report of the amount of experience each teacher has in all of the school districts, and that the Department of Education uses those numbers to compute the average years of experience that the teachers have in the specific district. If the district’s average is higher than the state average, they receive additional funds. If it is the state average or lower, they are unaffected. Mr. Schimpp then endorsed different ways to “phase out” the TEI formula over time.

Senator Aguirre inquired whether or not there are any research studies linking funded schools and unfunded schools, to which Mr. Schimpp responded that he is not aware of any.

Senator Burns addressed the “100-day count” concept, asking Mr. Schimpp to confirm that if a school “comes up short,” the Legislature essentially “makes up the difference” for that district,

at which point Mr. Schimpp briefly explained Proposition 301 from November 2000 involving the inflation adjustment percentages, and stated that the “base line” is set at 2%.

Senator Burns asked Mr. Schimpp to expand on the transportation formulas associated with the K-12 Equalization Funding Formula.

Mr. Schimpp simplified the transportation formulas for the Committee by explaining that the formula is based on the Transportation Support Level (TSL), and that the Transportation Revenue Control Limit (TRCL) is funded by property taxes.

Senator Burns indicated that various community colleges coordinate with K-12 education and expressed his concerns about dual enrollment. He then asked Mr. Schimpp to speak more to the Committee about Joint Technological Education Districts (JTEDs).

Mr. Schimpp briefly described statistics involving the JTED formulas and community colleges (Attachment C), and propositions for restricting “triple dipping” in community colleges.

Jake Corey, Staff Member, Joint Legislative Budget Committee (JLBC), spoke briefly about more options for stopping “triple dipping.”

Senator Burns asked the Committee if there were any more questions for Mr. Schimpp before the Committee transitioned into speaking about fund formulas for community colleges.

Senator Aguirre asked Mr. Schimpp how charter schools apply to what they have discussed about JTED, to which he reiterated the portion of the formula that deals with increased charter participation on Attachment C.

Jake Corey distributed the handout “Arizona Community Colleges General Fund Formulas” (Attachment D) and presented the goals associated with each formula. He submitted that the Operating State Aid formula would provide each community college with funds for continuing operating and maintenance expenses and went into further detail about its formula.

Senator Aboud questioned Mr. Corey about dual enrollment versus concurrent enrollment.

Mr. Corey clarified the difference between dual and concurrent enrollment. He stated that a student enrolled in high school who takes a class at that high school for both high school and community college credit is referred to as dual enrollment, whereas a student enrolled in high school for a number of hours per day, who also takes a class at a community college, is defined as concurrent enrollment.

Mr. Corey described the purpose of the Capital Outlay State Aid formula, which would be to provide each community college with funds for capital land, building and equipment needs. He added that this formula is also a part of the dual enrollment formula.

Mr. Corey then described the Equalization Aid formula’s goal to provide additional state aid to qualifying community college districts whose tax base is insufficient to provide adequate funding for continuing operations and maintenance. He also mentioned that if the property value drops a certain amount, the school receives funding from the formula.

Senator Garcia asked which four counties receive community college equalization funding, to which Mr. Corey confirmed that they are Cochise, Graham, Navajo and Yuma-La Paz.

Senator Johnson shared her concerns regarding problems in the Maricopa County community college system, speaking briefly about the possibility of inflating course enrollments.

Mr. Corey explained that if the school is not accredited, it does not receive funding, and clarified the difference between courses that are accredited and courses that are not.

Senator Burns requested a hard copy containing more information about equalization funding; what it is, why it has grown and how the Legislature can work to improve its purpose. He also discussed the concept of “career ladders” and requested a list of “potentials” that could be “phased out.”

Senator Johnson asked Mr. Stavneak about the possibility of saving money by “bringing back” the numbers regarding poverty level instead of “phasing out” the concept entirely.

Senator Burns observed the need to address the “resource issue” surrounding increased spending and added programs, noting that resources are needed to accomplish the goals in mind.

Senator Flake addressed the Equalization Aid formula, stating that while it has risen substantially over the last two years, there have also been many years where it hasn't risen at all, and the Committee needs to take the long-term effects into consideration.

Senator Burns announced that the Committee is going to “change their mode of operation” by having some small group meetings to discuss various topics that are in need of decisions.

Senator Aboud requested a list of possible options for generating revenue.

Senator Allen requested an opportunity to readdress issues that had been overlooked in a subcommittee, to which Senator Burns agreed that some items still need to be attended to.

Senator Aguirre asked Senator Burns if he is the person who will select the small group meetings, to which Senator Burns confirmed that he is.

Senator Aboud asked Senator Burns how many times the small group of members would meet, to which Senator Burns confirmed that there would be just one small group and they would meet as many times as necessary.

There being no further business, the meeting was adjourned at 4:16 p.m.

Respectfully submitted,

Jordan Drackett
Committee Secretary

(Audio recordings and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115. Audio archives are available at <http://www.azsenate.gov>)