STATE OF ARIZONA

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, May 25, 2004
9:00 a.m.
Senate Appropriations Room 109

- R E V I S E D -
MEETING NOTICE

- Call to Order

- Approval of Minutes of March 19, 2004.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION -
  ~~A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.~~
  ~~B~~ A. Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee Health Plans as required under A.R.S. § 38-658A.

1. DEPARTMENT OF ADMINISTRATION - Review of Self-Insurance for State Employee Health Insurance.

2. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of Expenditure Plan for Workforce Investment Act Monies.
   B. Consider Approval of Requested Transfer of Appropriations for Day Care Subsidy and Transitional Child Care.
   C. Consider Approval of Requested Transfer of Appropriations for TANF Cash Benefits.
   D. JLBC Report on Additional Performance Measures for Child Protective Services.

3. ATTORNEY GENERAL - Review of Allocation of Settlement Monies.

4. ARIZONA COMMUNITY COLLEGES - Report on Dual Enrollment and Appointing Ad Hoc Committee.

5. ARIZONA DEPARTMENT OF EDUCATION - Updated Report on Estimated Fiscal Impact of Changes to Achievement Testing Program.

The Chairman reserves the right to set the order of the agenda.
05/20/04
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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

March 19, 2004

The Chairman called the meeting to order at 10:35 a.m., Friday, March 19, 2004, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Anderson	Representative Biggs
	Senator Cannell	Representative Burton Cahill
	Senator Harper	Representative Gray
	Senator Rios	Representative Lopez
Absent:	Senator Arzberger	Representative Farnsworth
	Senator Bee	Representative Huffman
	Senator Martin	Representative Huppenthal
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Kim Hohman	Stefan Shepherd
		Steve Schimpp
Others:	Cynthia Odom	Attorney General's Office
	Jim Morrow	Attorney General's Office
	Catherine Eden	Director, Dept. of Health Services
	Charles Bruen	Assessment Division, Arizona Dept. of Education

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of December 18, 2003. The motion carried.

EXECUTIVE SESSION

Representative Pearce moved that the Committee go into Executive Session. The motion carried.

At 10:37 a.m. the Joint Legislative Budget Committee went into Executive Session.

Representative Pearce moved that the Committee reconvene into open session. The motion carried.

At 11:00 a.m. the Committee reconvened into open session.

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Horvath v. State. The motion carried.

ATTORNEY GENERAL (AG) - Review of Intended Use of Monies in Antitrust Enforcement Revolving Fund.

Ms. Kim Hohman, JLBC Staff, said that this item is a review of the Attorney General's FY 2004 expenditure plan for the Antitrust Enforcement Revolving Fund. A footnote in the General Appropriation Act requires the AG to notify the Committee of its intended uses of the Antitrust Fund monies in excess of $170,500. The AG reports that Antitrust Fund monies available in 2004 will be about $400,000, and there is a breakout in the JLBC memo that shows the expenditures among the various line items. The JLBC Staff recommended that the Committee give a favorable review of the expenditure plan.

Representative Pearce moved that the Committee give a favorable review as recommended by the JLBC Staff to the Attorney General's intended expenditure plan for the Antitrust Enforcement Revolving Fund. The motion carried.

DEPARTMENT OF ECONOMIC SERVICES (DES)

A. Review of Long Term Care Capitation Rate Changes.

Mr. Stefan Shepherd, JLBC Staff, said this item is a review of capitation rates for federal fiscal year 2004 for the Title XIX Long Term Care program for developmentally disabled clients. The proposed capitation rate increase is approximately 7.8% as compared to a 5% increase assumed in the appropriation. Taking into account slightly less than projected caseloads for state FY 2004, the impact of these rates would be about $3 million General Fund above the current FY 2004 appropriation. JLBC Staff has recommended 3 options as described in the JLBC memo.

Representative Pearce moved that the Committee give a favorable review to the request by the Department of Economic Security for a capitation rate adjustment, with the caveat that the approval does not constitute an endorsement of a supplemental request. The motion carried.

B. Determine Arizona Works Caseload Reduction Savings.

Mr. Stefan Shepherd, JLBC Staff, said this item is some clean-up work associated with the Arizona Works pilot welfare program. The program is still continuing but the pilot that involved more placement activities and eligibility determination activities ended in September 2002. There is some clean-up work regarding caseload reduction savings. The JLBC Staff used caseload reduction savings methodologies that the Committee approved nearly 5 years ago and calculated those savings for the final term of the contract at $53,000.

Senator Burns asked about the privatization and future of Arizona Works.

Mr. Shepherd said there is a private vendor contracting with the state to provide job placement activities. However, the scope of those activities is reduced as compared to the original Arizona Works program.

Senator Anderson responded regarding the future of Arizona Works. It was more or less agreed upon 2 years ago where the Arizona Works program would morph into the jobs placement program in exchange for the opportunity to bid on a statewide job placement privatization of the whole JOBS program. That should have happened already, but the fact that Congress has not reauthorized the welfare reform bill has created problems.

Senator Cannell said that any changes that occurred had been with the agreement with MAXIMUS. He said the figures he sees do not show that Arizona Works is working.

Senator Anderson said the most recent information he has shows that they have achieved all of their benchmarks that were agreed to in their contract. He said Arizona is one of the highest states in the nation in terms of caseload expansion.

Representative Pearce moved that the Committee approve the JLBC Staff calculation of cash benefit savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program for calendar year 2002. The motion carried.

DEPARTMENT OF HEALTH SERVICES

A. Review of Developmental Disabilities (DD) Capitation Rates.

Mr. Stefan Shepherd, JLBC Staff, said this is a review of the Behavioral Health portion of the Title XIX capitation rates for the DD clients. The proposed rate is approximately 1% above the rate assumed in the appropriation, but the costs are minimal and as such, the JLBC Staff is recommending a favorable review of the proposed capitation rates.

Representative Pearce moved that the Committee give a favorable review as recommended by the JLBC Staff to the capitation rate increase for the Behavioral Health Title XIX Developmentally Disabled clients. The motion carried.

B. Review of Expenditure from the Vital Records Electronic Systems Fund.

Mr. Richard Stavneak, Director, JLBC Staff, said that several years ago we passed an increase in Vital Records fees for birth and death records. It was to fund an automation process of Vital Records. The Legislature put that on hold a year ago when we had a deficit and, instead, used those monies to fund DHS's operating budget of Vital Records. The Governor vetoed the Omnibus Reconciliation Bill that would have expanded the use of the fund to permit that. DHS has found other monies to fill that hole in the DHS operating budget, indirect cost monies, and therefore has freed up the $1.4 million to be spent on automation again.

The project has gone through the Government Information Technology Agency process and they favorably reviewed it, in terms of the adequacy of the technology plan. The Committee has 2 choices in terms of its favorable review. Either favorable reviewing it to the extent the expenditures are about $1.4 million. There could be further expansions in the future that would require DHS to return to the Committee. The second choice is an unfavorable review based on the fact that the Legislature originally intended these monies to be spent for the operating budget, but the veto has complicated that matter.

Representative Biggs asked where DHS found the $1.4 million and is it likely they will find more money.

Mr. Stavneak said that they found it in indirect cost charges which they receive from the federal government. The department said they were unaware of this a year ago. In cleaning up their books they have found that some of that money is available to be used to fill in the operating budget. Indirect cost charges are a constant source of money to the department, so it is possible that those monies would be available in the future. Mr. Stavneak said the total amount of indirect monies found was approximately $1 million.

Representative Pearce said that he recognized the importance of this project and that it serves the public well.

Representative Pearce moved that the Committee give a favorable review as recommended by the JLBC Staff with the condition that the Department of Health Services return to the Committee for review of expenditures from the Vital Records Electronic Systems Fund exceeding $1,397,300 in FY 2004 and $111,500 in FY 2005 and future years. The motion carried.

ARIZONA DEPARTMENT OF EDUCATION (ADE) – Report on Estimated Fiscal Impact of Changes to Achievement Testing Program.

Mr. Steve Schimpp, JLBC Staff, said there is a footnote in the General Appropriation Act that requires the Department of Education to report to the JLBC if they make changes in the Achievement Testing Program that are expected to affect the cost of the program. There have been a number of changes made that the agency had not yet reported until now.

Mr. Schimpp said there are 2 components to the achievement testing budget. One is the Stanford 9 test which is based on questions that all students in the nation take, and the AIMS test which only Arizona students take. The Stanford 9 is currently paid out of Proposition 301 funds, and is a little over $2 million. The AIMS program has been paid from 2 sources. About $3 million in the budget comes from the state and the rest has been provided through "No Child Left Behind" monies. Currently, the department is working on a proposal to combine the 2 tests into 1 unified test and that particular issue would take effect in 2005. The document handed out to the Committee (Attachment A) shows what the AIMS test would cost under the existing contract for 2005. It does not show how the cost would be affected if you combine the 2 tests. Based on recent numbers, the state would be likely to save money by combining the tests in the long-term. In the short-term, there would be one-time costs required to combine the tests into 1 test, making costs higher for 2005 and 2006.

Dr. Charles Bruen, Assessment Division, Arizona Department of Education, described the modifications on the handout that was provided to the Committee.

Representative Biggs asked when the RFP was put out in 2001 and Harcourt won, did they bid with the idea that they would have to write new items once the California Testing Bureau (CTB) items were taken out.

Dr. Bruen said that this was not the case. The contract with Harcourt required only 10% of the CTB questions to be replaced prior to FY 2006.

Representative Gray asked if a student passes the test are they required to take the test again, and if so, what are the costs for retaking the test.

Dr. Bruen said they are not required to retake the test, however, there has been a state board policy that allows them to take the test again for a better grade. The cost for retesting is approximately $1,444,000.

Without objection the Committee adjourned at 11:20 p.m.

Respectfully submitted:

_____
Cheryl Kestner, Secretary

_____
Richard Stavneak, Director

_____
Senator Bob Burns, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

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DATE: May 19, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION — REVIEW OF SELF-INSURANCE FOR STATE EMPLOYEE HEALTH INSURANCE

Request

Pursuant to A.R.S. § 38-651, the Arizona Department of Administration (ADOA) requests review of its plan to self-insure state employee health benefits. A.R.S. § 38-651 permits ADOA to self-insure health and/or dental plans upon review of the JLBC. In addition to this requirement, A.R.S. § 38-658 (A) also requires ADOA to meet with and review for the Committee in executive session the planned contribution strategy for each health plan prior to entering into contracts. As an executive session matter, the contribution strategy detail will be forwarded in a separate memorandum.

Recommendation

On the subject of the review of self-insurance, the Committee has at least the following options:

1. A favorable review.
2. A favorable review, with the stipulation that ADOA report back to the Committee on whether the actual negotiated integrated rates are lower than the current estimated rates. If the actual rates are lower, ADOA shall report on whether the state contribution strategy can be adjusted to reflect these lower rates.
3. An unfavorable review.

(Continued)

Summary

ADOA has proposed moving from a fully insured system for state employee health insurance benefits to a self-insured system, in which the state assumes the risk associated with providing health coverage to its employees. The following is a summary of the JLBC Staff analysis of this move:

1. The self-insured and fully-insured options have comparable direct costs in FY 2005. These costs will result in state General Fund agencies paying an additional $30.5 million.
2. ADOA's contracted actuaries believe that administrative costs (and therefore total costs) under self-insurance are lower than under the state's current fully insured contract (CIGNA, the company that has the current state employee health insurance contract, disputes this analysis). The lower administrative costs are offset in FY 2005 by the need to establish a $50 million reserve under self insurance.
3. While the FY 2005 costs are comparable between a self-insured and fully insured system, the state General Fund loses approximately $9 million in FY 2005 premium tax payments by moving to self-insurance.
4. In the long run, ADOA's actuaries believe that administrative costs under self-insurance will rise less quickly than administrative costs under a fully insured system (5% growth under self-insured, 14% growth under fully insured). Although future cost increases under self-insurance are lower than under a fully-insured system, these foregone costs are difficult to quantify. Based on the assumptions provided by the ADOA actuaries, the foregone costs could reach $40 million annually by FY 2009. We did not have available to us an independent means of confirming the accuracy of the ADOA assumptions.
5. ADOA is still negotiating the integrated contracts. Therefore, if the actual integrated contract rates are lower than the preliminary estimated rates, the total costs of the system could be lower than currently reported.
6. Self-insurance requires more oversight by ADOA. The FY 2005 estimated costs associated with this additional oversight are $965,300. In future years, additional administrative funding may be required, which would reduce some of the difference in cost discussed above.

Analysis

History

ADOA began the process of implementing self-insurance in the last quarter of FY 2002. Laws 2002, Chapter 328 required ADOA to self-insure by October 1, 2003. ADOA also received an appropriation of $1.5 million from the Special Employee Health Insurance Trust Fund (HITF) for consulting services that assisted in the creation of a Request for Proposal (RFP). The RFP was released in the fall of 2002. There was concern, however, that insufficient time remained to implement self-insurance by October 2003. As a result, Laws 2003, Chapter 2 removed the deadline but established permissive language allowing the department to self-insure upon review of the Committee. In addition, Laws 2003, Chapter 263, Section 89 prohibited the department from self-insuring in FY 2004.

Under self-insurance, the role of ADOA is to manage all vendor activities and to distribute the monies to pay all medical claims that are incurred by state employees. ADOA will continue its current responsibilities but also increase its financial management of the system, especially in the area of reconciliation of benefit claims and the analysis of those claims. ADOA will also be responsible for increased vendor oversight, including more reporting and performance standards associated with the contracts. To address these increased responsibilities, the Governor recommended $965,300 and 12.5 FTE Positions in FY 2005 from HITF for ADOA administrative costs related to self-insurance (a reduction from the $1.5 million appropriation in FY 2004). The Senate Engrossed budget includes this administrative funding.

Non-Integrated vs. Integrated Contracts

ADOA has identified 5 components of a self-insured system. These include medical services, pharmacy benefits management, utilization review/disease management, stop-loss insurance, and a third party administrator (TPA). The original RFP was structured so companies could bid on each of the 5 contracts separately (henceforth referred to as a "non-integrated" contract) and the companies could submit bids for certain geographic regions. ADOA believes that this structure allows the department to choose "best of class" providers that specialize in each of the 5 components of health care service. For example, the medical network contracts will include several options for the employee, based on geographic region and plan type. Because the RFPs also allow for bids to cover only part of the state (as opposed to requiring companies to provide coverage statewide), the contractors may vary based on geographic region.

In discussions with ADOA, members of the Legislature expressed concern about the lack of an integrated option. In response, ADOA issued an additional RFP in April for an integrated plan, in which one company provides the medical network, TPA, and utilization review/disease management functions. The preliminary bids were received April 23, 2004.

Self-Insured vs. Fully-Insured

In FY 2004, ADOA estimates that the total cost of state employee health insurance will be $406.4 million. The ADOA actuaries believe that the FY 2005 costs under a self-insured system would be comparable to a fully insured system in that year, and estimate that these FY 2005 costs would not exceed $465.2 million. However, because a component of the self-insured system includes building the reserve (see discussion of reserve below), the actual self-insurance costs (not including the reserve) could be lower than comparable fully insured costs.

Although the costs of a self-insured system are comparable to the fully-insured system in the first year, the actuaries estimate that future cost increases will be lower under self-insurance than under the current fully-insured system. The actuaries assume that the growth in medical costs under both fully insured and self-insured systems will be comparable. The actuaries estimate, however, that under the current fully insured system, administrative costs would grow at the same rate as medical claim costs (about 12%-14% annually), but under the self-insured system, annual growth in administrative costs would be limited to 5%. This difference in administrative costs accounts for the majority of the estimated forgone state costs associated with moving to a self-insured system. Based on the actuaries' assumptions and ADOA data, these foregone costs could reach roughly $40 million annually by FY 2009. As noted above, we did not have available to us an independent means of confirming the accuracy of the ADOA assumptions. CIGNA, the current health insurance provider for state employees, disputes these actuarial estimates and believes that these foregone costs will not materialize.

ADOA also believes that the self-insured system provides state employees with greater choice in providers and competition within the various geographic regions in the state, which should also help reduce the rate of growth in state employee health care costs. The current contract does not provide for this level of competition and choice because there is only one fully insured contractor.

Self Insurance in Other Jurisdictions

ADOA reports that 11 of Arizona's 15 counties self-insure. These include Graham, Greenlee, Santa Cruz, Apache, Gila, La Paz, Mohave, Pinal, Cochise, Yuma, and Yavapai. In addition, although Maricopa County stopped self insuring several years ago, they are now looking to move back to a self-insured system and have begun offering 1 plan that is self insured. Several cities self-insure all or part of their employee health benefits, including Flagstaff, Mesa, Prescott, and Scottsdale. In addition, some community colleges and school districts also self-insure. ADOA reports that nationwide, 36 states self-insure all or part of their employee health benefits programs.

Reserve

Under a self-insured system the state assumes the financial risk associated with providing health benefits to state employees. As a result, the ADOA actuaries recommend the accumulation of a reserve fund. These reserve monies will remain in HITF and can be used to cover any medical costs in excess of the current estimates. The employee and state contributions include funding to build up the reserve, and the initial delay in payment of claims that will occur upon implementation of the new system will also provide a one-time contribution to the reserve. The employer and employee premiums include funding for approximately $24 million of the reserve and the claims lag will result in an additional $26 million, for a total reserve of about $50 million by the end of FY 2005. The following year, the reserve will increase further by an additional $25 million, for a total of $75 million at the end of FY 2006. The exact amount of this increase in the reserve requirement is a policy decision that will be made after ADOA analyzes the experience in the first year.

Contribution Strategy and Total Costs

Although the integrated bids are still being negotiated, the actuaries have developed preliminary estimates of the costs of the integrated bids and how these costs compare to the non-integrated bids. This comparison is included in the separate contribution strategy memorandum. The actuaries report that they believe any subsequent negotiations between the integrated plans and ADOA that are necessary to finalize the integrated bids will not materially change the total costs of the system. If the negotiations with the integrated bidders do result in final bids that are less than the current actuarial estimates, the state may be paying more than if the contribution strategy had been developed subsequent to the negotiations. If the actual costs of the system after these negotiations are less than the estimates used to develop the contribution strategy, any savings will accumulate in HITF and increase the reserve.

As discussed above, the ADOA actuaries believe that the FY 2005 costs under a self-insured system will not exceed $465.2 million. Based on these estimates, the FY 2005 costs will increase by up to $58.8 million above FY 2004. Of the state contribution, approximately $201.1 million will be funded from the General Fund, with the remainder of the contribution funded from other and non-appropriated funds. The Governor is proposing a General Fund increase of $31.8 million to cover these costs and to fill-in $10 million in HITF monies that were used to offset FY 2004 General Fund costs (due to the move to self-insurance and the reserve build-up, these monies are no longer available to offset General Fund costs).

Health insurance companies with fully-insured plans must pay the state's insurance premium tax. The General Fund impact estimated above does not include the loss of General Fund revenue associated with state premium tax payments by CIGNA, which CIGNA estimates to be approximately $9 million. Under a self-insured option, the state would not pay premium taxes on state employee health insurance.

As discussed above, the Governor recommended and the Senate Engrossed budget includes $965,300 and 12.5 FTE Positions in FY 2005 for increased ADOA oversight of state employee health benefits. In future years, if this amount is insufficient, additional administrative funding may be required, which would increase the total costs of the self-insured system.

RS/BK:ck

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DATE: May 18, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – REVIEW OF EXPENDITURE PLAN FOR WORKFORCE INVESTMENT ACT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security in September submitted an expenditure plan for federal Workforce Investment Act (WIA) funds received by the state in excess of $48,004,700. The total increase in WIA appropriation authority requested by the agency in FY 2004 was $12.3 million.

At its September meeting, the JLBC favorably reviewed $10.5 million of the increase but recommended that $1.8 million that was to be spent on discretionary program expansions not be spent in order to determine if those monies are needed to solve FY 2004 budget problems within the agency.

Recommendation

The Committee has at least the following choices:

1. A favorable review of DES' plan for the $1.8 million of additional WIA monies

2. A favorable review of the expenditure plan, with the recommendation that $400,000 of the $1.8 million available for discretionary purposes be held in reserve in order to solve potential FY 2004 budget problems within the agency.

Analysis

The DES Workforce Development Administration (WDA) is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. The WIA legislation established block grants to states for workforce development. Funds are delivered to the local level to those in need of services, including job seekers, dislocated workers, youth, veterans, disabled individuals and employers. Services are provided through partnerships between various public and private sector employment and training agencies.

Federal provisions require that 85% of the monies received by WDA must be allocated to local areas, with the state receiving the other 15%.

Expenditure Plan for Discretionary Monies

The department's plan for discretionary spending (15%) included funding for programs established by the Governor's Council on Workforce Development. The Governor's Council recommended the establishment of new programs in FY 2004, designed to address workforce development issues related to women and youth and the support of the nursing profession, totaling $1.8 million. It was the expenditure of these monies that the Committee did not review at its September meeting. The $1.8 million would be allocated between the following three programs:

- Women's Issues Program - $500,000, $435,000 of which would be utilized to fund programs that focus on improving job skills for women on welfare and women exiting the corrections system. Grant monies would assist this group in entering and remaining in the workforce and to assist displaced homemakers and provide training for women in non-traditional employment. The additional $65,000 would be utilized to fund a staff person to oversee the grant process.

- Youth Programs - $800,00, which includes elimination of a $200,000 program and the establishment of 3 new programs totaling $1 million. The Council recommends eliminating the High Concentration of Youth Activities Program and establishing two new initiatives – the formation of a Youth Council and the establishment of Youth Programs. The Council would utilize $170,000 to establish and staff a State Youth Council on Youth Workforce Development. Staff would provide technical assistance to local boards in addition to establishing a statewide conference on youth workforce development activities. An additional $330,000 would be granted to organizations involved in youth-related workforce development activities. An additional $500,000 would be used for various youth programs at the local level.

- Nursing Program - $510,000 to expand registered nurse education in Arizona's public postsecondary education institutions, including Arizona State University, Northern Arizona University, the University of Arizona, Mesa Community College and Northland Pioneer Community College.

Of the $1.8 million in proposed discretionary funding mentioned above, JLBC Staff believes that $400,000 could be used to address potential shortfalls within the agency. In FY 2003, the Legislature appropriated $2 million of WIA monies to the JOBS Program in order to help address a General Fund shortfall within the agency. In order to adhere to federal requirements on how WIA monies are expended, DES established a demonstration project that targets WIA eligible women currently receiving TANF cash benefits.

DES established the demonstration project in January 2003. Through the last six months of FY 2003, the agency spent approximately $1.2 million on WIA eligible JOBS expenditures, for an annualized cost of $2.4 million. Because WIA funding in FY 2004 totals $2 million, an additional $400,000 could be utilized in FY 2004. A corresponding amount of TANF funding could be reduced from the program, freeing up that money to be spent elsewhere in the agency where there are shortfalls at the end of the fiscal year.

RS/JM:ck

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DATE: May 20, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – CONSIDER APPROVAL OF REQUESTED TRANSFER OF APPROPRIATIONS FOR DAY CARE SUBSIDY AND TRANSITIONAL CHILD CARE

Request

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) requests Committee approval of a FY 2004 transfer of $400,000 of federal Child Care and Development Fund (CCDF) Block Grant monies from the Day Care Subsidy Special Line Item (SLI) to the Transitional Child Care Special Line Item.

Recommendation

The Committee has at least the following two options:

1. Approve the request to transfer $400,000 CCDF from the Day Care Subsidy Special Line Item to the Transitional Child Care Special Line Item.

2. Utilize $400,000 in federal Temporary Assistance for Needy Families (TANF) Block Grant monies that would be freed up by the agency spending new Workforce Investment Act (WIA) monies in the department's JOBS Program.

Analysis

DES' budget contains approximately $149 million in funding for child care subsidies and quality-related expenditures in FY 2004. This funding is split between 2 special line items: Day Care Subsidy and Transitional Child Care. The Day Care Subsidy SLI provides $118.3 million in child care subsidies and quality-related expenditures to TANF clients engaged in job activities, those providing foster care services, low-income persons, and other persons meeting financial and other eligibility criteria. The Transitional Child Care SLI funds $30.5 million in subsidies and quality-related expenditures to clients no longer receiving TANF Cash Benefits due to finding employment. The program provides subsidies for up to 24 months after the client stops receiving TANF Cash Benefits.

Based on current projections, DES has forecasted a shortfall in the Transitional Child Care SLI of $400,000 by the end of FY 2004. In order to address this shortfall, and to continue to provide child care subsidies to this mandatory population, the agency has requested that monies be transferred from the Child Care Subsidy SLI to the Transitional Child Care SLI.

A FY 2004 shortfall of $(400,000) for Transitional Child Care seems reasonable based on recent trends in expenditures in the program. The Day Care Subsidy line item has enough monies for this transfer if DES does not use these monies to further reduce the waiting list.

A second option to address the shortfall in Transitional Child Care would be to utilize $400,000 in TANF dollars freed up by the agency spending new federal Workforce Investment Act (WIA) monies in the department's JOBS Program. Another memo on the Committee's agenda is the review of DES' expenditure plan of $1.8 million in discretionary WIA monies. One option in the other memo is to recommend that DES use $400,000 of WIA funding in the agency's JOBS Program, which would allow the agency to free up a like amount of TANF dollars to be spent elsewhere in the agency. These TANF dollars that would be made available could, in turn, be utilized in the Transitional Child Care SLI to address the projected shortfall. Further, the agency would be able to retain $400,000 in the Day Care Subsidy SLI to potentially further reduce the size of the waiting list for individuals seeking subsidies for day care.

RS/JM:ck

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DATE: May 19, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – CONSIDER APPROVAL OF REQUESTED TRANSFER OF APPROPRIATIONS FOR TANF CASH BENEFITS AND REVIEW OF PROPOSED USE OF APPROPRIATION AUTHORITY

Request

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) is requesting Committee approval to transfer $6,500,000 of federal Temporary Assistance for Needy Families (TANF) Block Grant monies from the JOBS Special Line Item (SLI) into the TANF Cash Benefits SLI. Pursuant to another footnote, DES is also notifying the Committee of its intent to use $1,500,000 of appropriation authority for administration of tribal benefits to pay TANF cash benefits. DES is requesting that both the transfer and the use of the appropriation authority be temporary, contingent on FY 2004 supplemental funding for the TANF Cash Benefits line in the Senate Engrossed version of the budget.

Recommendation

The Committee has at least the following options:

1. The Committee could approve the $6.5 million transfer request and favorably review the use of $1.5 million appropriation authority. This option is consistent with the Senate budget proposal. As requested by DES, these transfers would be reversed upon passage of a TANF supplemental.
2. The Committee could not approve the $6.5 million transfer request and unfavorably review the use of $1.5 million appropriation authority. This would require DES to reduce payments to clients in June. It is uncertain whether DES has the authority or ability to reduce June 1 payments with less than one week notice. We are following up with DES on this issue and will have a response by the meeting date. The House Appropriations Committee budget does not include a FY 2004 TANF supplemental.

(Continued)

Analysis

The General Appropriation Act (Laws 2003, Chapter 262), includes the following 2 footnotes:

> "Notwithstanding A.R.S. § 35-173C, any transfer to or from the $164,540,100 appropriated for Temporary Assistance for Needy Families Cash Benefits requires approval of the Joint Legislative Budget Committee."
>
> "Of the amount appropriated for Temporary Assistance for Needy Families Cash Benefits, $1,500,000 reflects appropriation authority only to ensure sufficient cashflow to administer cash benefits for tribes operating their own welfare programs. The department shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting staff before the use of any of the $1,500,000 appropriation authority."

The FY 2004 appropriation for TANF Cash Benefits is $164,540,100. This amount includes about $163.0 million for TANF cash benefits plus $1.5 million in appropriation authority associated with paying tribal benefits. (Five tribes subsequently pay the state back for benefits paid through the state's payment system.) DES has paid a total of $141.6 million through April 2004 and expects to pay $29.4 million in May and June. The amounts projected for May and June, roughly $14.7 million each month, are not unrealistic given the $14.2 million paid out monthly in FY 2004 year-to-date.

DES' projected FY 2004 total for TANF cash benefits is $171.0 million, or $8.0 million above the appropriation for cash benefits, excluding the tribal appropriation authority. Because about 80% of TANF cash benefit payments are made in the first 3 days of each month, if DES does not get additional funds by June 1, either through a transfer or supplemental funding, DES will have insufficient monies to pay benefits in June. It is uncertain whether DES has the authority or ability to reduce June 1 payments with less than one week notice. It is unclear whether the department is required by statute or by rule to notify recipients prior to a system-wide change in benefits. Additionally, according to DES, the authorization for the benefits will be "run" on May 25. We do not know how long it will take to program reduced benefit levels and whether that programming and reauthorization could be completed by June 1. We are following up with DES on these issues and will have a response by the meeting date.

To temporarily resolve the projected $8 million deficit, DES has requested that the Committee approve a transfer of $6,500,000 from the JOBS line item in DERS and is notifying the Committee that it plans to expend the $1,500,000 of expenditure authority for cash benefits. It is also requesting that the Committee approve a reversal of the $6,500,000 transfer and notifying the Committee that it plans to "undo" the use of $1,500,000 of expenditure authority.

The "30th-of-the-month" report for DES covering March expenditures reports that through March, DES had spent $10.7 million of the $22.6 million appropriated, or $1.3 million per month (excluding the first month, which has very few expenditures). This would mean that DES would spend a total of $14.6 million through June 30, leaving $8 million available to transfer (of which DES wishes to use $6.5 million temporarily). As of March 31, DES had spent $9.5 million of its $17.3 million TANF Block Grant appropriation, leaving at least $7.8 million TANF Block Grant available.

RS/SSH:jb

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DATE: May 18, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – JLBC REPORT ON ADDITIONAL PERFORMANCE MEASURES FOR CHILD PROTECTIVE SERVICES

Request

Pursuant to Laws 2003, Chapter 6, 2nd Special Session, the Department of Economic Security (DES), the Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC) are required to develop a financial and program accountability reporting system for Child Protective Services (CPS). The report is to include specific performance measures intended to evaluate the CPS system. The legislation allows DES, OSPB, and JLBC to add performance measures to the report if deemed necessary.

Recommendation

This information is for information only and no Committee action is required. The JLBC Staff has already recommended adding 5 performance measures to the financial and program accountability report (see Attachment A). These measures would be in addition to the 7 measures specifically identified in the 2nd Special Session legislation.

The additional measures are intended to evaluate employee satisfaction within the Division of Children, Youth and Families (DCYF), as well as the decision-making within Child Protective Services.

While no Committee action is required, the Committee could also add other measures as well.

Analysis

Pursuant to Laws 2003, Chapter 6, 2nd Special Session, the financial and program accountability report is due on a semi-annual basis, beginning August 1, 2004. The legislation identifies 7 performance measures

to be included in the report and specifies that additional measures may be added by DES, OSPB, and JLBC if deemed necessary. The measures are intended to evaluate the performance of the CPS system. The following 7 measures are identified in the legislation:

- Success in meeting training requirements
- Caseloads for CPS caseworkers
- The number of new cases, cases that remain open and cases that have been closed
- The ratio of CPS caseworkers to immediate supervisors
- Employee turnover, including a breakdown of employees who remain with the department and employees who leave the department
- The source and use of federal monies in CPS
- The source and use of state monies in CPS

In addition to the measures listed in the special session legislation, the JLBC Staff has recommended that the following performance measures be added to the financial and program accountability report for CPS:

Employee Satisfaction
- Employee satisfaction rating for employees completing the CPS Training Academy (Scale 1-5)
- Employee satisfaction rating for employees in DCYF (Scale 1-5)

CPS Decision-Making
- Percent of CPS original dependency cases where court denied or dismissed petition for removal
- Percent of Office of Administrative Hearings decisions where CPS case findings are affirmed
- Percent of CPS complaints reviewed by the Office of the Ombudsman where allegations are reported as valid by the Ombudsman

DES is required to report these measures by July 1, 2004 to the Governor, the chairmen of the House and Senate Appropriations Committees, and the chairmen of the House Human Services and Senate Family Services Committees. The report is to include the definition of each performance measure, as well as the methodology in determining each measure.

RS/KH:ck

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DATE: May 19, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brian Schmitz, Senior Fiscal Analyst

SUBJECT: ATTORNEY GENERAL – REVIEW OF ALLOCATION OF SETTLEMENT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has notified the Committee of the allocation of monies to be received from the Medco and Warner-Lambert settlement agreements.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for both settlements. The allocation plans are consistent with A.R.S. § 44-1531.01, which states that monies recovered by the Attorney General as a result of enforcing consumer protection or consumer fraud statutes shall be deposited in the Consumer Fraud Revolving Fund. The JLBC Staff also recommends that the Attorney General's Office report back to the Committee when it has developed a specific plan for expending another $600,000 in funds associated with the Medco settlement.

Analysis

The General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and it specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review. The Office of the Attorney General recently settled 2 cases that will result in the receipt of settlement monies over $100,000.

In the first case, Medco Health Solutions, Inc. allegedly did not provide complete and accurate information about its prescription drug interchange program, which resulted in the switching of prescription drugs to the less expensive drug. Under the settlement, the State of Arizona will receive approximately $200,000, which will be deposited in the Consumer Fraud Revolving Fund pursuant to

(Continued)

statute. Also, the state is expected to receive at least $600,000 in other funds, which will be passed on by the Attorney General to benefit low income, disabled, or elderly consumers of prescription drugs or to fund other programs targeted to benefit persons affected by this case. The Attorney General does not yet have a distribution plan for this $600,000.

In the second case, Warner-Lambert allegedly encouraged doctors to prescribe Neurontin for the treatment of bipolar disorder, although there is no evidence that Neurontin is effective in treating this condition. The settlement involves all 50 states. Under the settlement, Arizona will receive $278,000 to be deposited in the Consumer Fraud Revolving Fund pursuant to statute. There is a possibility that the state will also receive an additional payment, which would probably be $5,000 or less.

RS/BS:jb

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DATE: May 19, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: ARIZONA COMMUNITY COLLEGES – REPORT ON DUAL ENROLLMENT AND APPOINTING AD HOC COMMITTEE

Request

Pursuant to A.R.S. § 15-1821.01 the Arizona Community Colleges are reporting on dual enrollment courses offered in FY 2003 and the subsequent achievements of students dual enrolled in FY 2002.

On receipt of this report, statute requires the Committee to convene an ad hoc committee that includes community college academic officers, faculty, and other experts. The ad hoc committee shall review the manner in which dual enrollment courses are provided and may make recommendations to the full Committee regarding desirable changes to these courses.

Recommendation

Other than the appointment of the ad hoc committee, this item is for information only and no Committee action is required. The report indicates that, in FY 2003, 32,582 students were dual enrolled. Of the total, 29,504 students earned a C or better, qualifying those students for both high school and community college credit.

Analysis

<u>Dual Enrollment Courses – FY 2003</u>

A.R.S. § 15-1821.01 requires community college districts to report annually on dual enrollment courses. The report shall include the following:

1) Total enrollments listed by location, by high school grade level, by course and by whether the program was academic or occupational

(Continued)

2) Summary data on the performance of students enrolled for college credit, including completion rates and grade distribution
3) The number of freshman and sophomore students enrolled
4) Documentation of compliance with statutory guidelines for the course, course materials, and faculty qualifications

The *Attachment* provides summary data from the FY 2003 report. The full report is available upon request. Highlights include:

- 32,582 students were dual enrolled
- 836 courses were offered, of which 320 courses were classified as Academic and 516 were Occupational
- Courses were offered at 190 locations in 8 districts
- 31,379 students, or 96% of those enrolled, completed the course
- 29,504 students earned a C or better, qualifying those students for both high school and community college credit
- 2,936 freshman and sophomore students were dual enrolled (included under "Students not meeting course requirements" column)

Subsequent Achievement Tracking

A.R.S. § 15-1821.01 also requires the community colleges to report, every other year, on the subsequent achievement of students enrolled in dual enrollment courses. That portion of the report shall include the following:

1) High school graduation rate
2) Number of students continuing their studies after graduation at an Arizona community college or university
3) Performance of students in subsequent college courses in the same field as dual enrollment courses
4) Student GPA after one year at a community college or university as compared to high school GPA

Districts currently cannot track high school students after graduation if they continue their studies at a university or a different community college district. Therefore, the districts have attempted to report on the above measurements as they apply to dual enrolled high school students that continued their studies at a community college within the district. The districts may be able to track high school seniors that attend a university or a community in another district in the future with the implementation of the Student Accountability Information System (SAIS).

Within the limitations discussed above, Table 1 provides district by district information on the high school graduation rate and the number of students continuing their studies after graduation at a community college within the district. As indicated in the table, the high school graduation rate at schools where dual enrollment courses were offered ranged from approximately 70% to 80%. The percentage of high school seniors continuing their studies after graduation at a community college within the district range from 10% in Pinal to 97% in Graham.

(Continued)

Table 1

Dual Enrolled Students

District	High School Grad Rate [1/]	Number/Percentage of Students Continuing Studies [2/]
Cochise	80.7%	51 / 38%
Coconino	70.3%	4 / 15%
Graham	N/A	338 / 97%
Maricopa	79.8%	1,623 / 35%
Mohave	- -	No Dual Enrollment
Navajo	79.3%	106 / 31%
Pima	N/A	95 / 46%
Pinal	N/A	26 / 10%
Yavapai	79.2%	18 / 33%
Yuma/La Paz	- -	No Dual Enrollment

1/ Measures graduation rate of all students at a high school offering dual enrollment.
2/ Indicates the number and percentage of dual enrolled seniors that continued at a college within the district.

Table 2 provides a summary of dual enrollment student GPA after one year at a community college within the district as compared to the same student's high school GPA. As before, the data is limited to dual enrolled high school seniors that continued their studies after graduation at a community college within the district. Of the 2,214 dual enrolled seniors that attended a community college within the district, 68% had a high school GPA of 3.0 or better. A year later 54% of dual enrolled seniors that continued at a community college within the district had a GPA of 3.0 or better.

Table 2

	High School GPA	Community College GPA
3.5 – 4.0	818 / 37%	624 / 28%
3.0 – 3.49	682 / 31%	571 / 26%
2.5 – 2.99	186 / 8%	391 / 18%
2.0 – 2.49	411 / 19%	341 / 15%
1.5 – 1.99	37 / 2%	119 / 5%
1.0 – 1.49	55 / 2%	85 / 4%
< 1.0	25 / 1%	83 / 4%
TOTAL	2,214 / 100%	2,214 / 100%

JC:ss
Attachment

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DATE: May 17, 2004

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: ARIZONA DEPARTMENT OF EDUCATION – UPDATED REPORT ON ESTIMATED FISCAL IMPACT OF CHANGES TO ACHIEVEMENT TESTING PROGRAM

Request

The Chairman has requested that the Arizona Department of Education (ADE) appear to provide updated information regarding increases in achievement testing costs.

Recommendation

This item is for information only and no Committee action is required.

In March 2004, ADE estimated that a General Fund increase of about $4.2 million above FY 2004 would be required in order to fully fund the existing AIMS test in FY 2005. Since then, ADE has awarded the contract for the new "AIMS-Dual Purpose Assessment" (AIMS-DPA) and has determined, based on the new contract, that a General Fund increase of about $7.0 million instead would be required for AIMS testing for FY 2005. Both the original $4.2 million increase and the revised $7.0 million increase are relative to the current General Fund budget for AIMS for FY 2004, which equals about $3.2 million.

Analysis

A footnote in the General Appropriation Act each year states that "Before making any changes to the achievement testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the Joint Legislative Budget Committee." During the March 2004 JLBC meeting, ADE reported information regarding anticipated increases in achievement testing costs for FY 2005. As noted above, ADE has since developed updated estimates based on a newly awarded contract for the AIMS-DPA tests. ADE's revised estimates are attached ("Attachment 1").

The Senate adopted budget for FY 2005 includes a $4.2 million General Fund increase for AIMS. This amount would be $2.8 million less than the updated $7.0 million cost increase now estimated by ADE.

RS/SSc:jb
Attachment