STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2004
MARK ANDERSON
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL, M.D.
JACK W. HARPER
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HOUSE OF REPRESENTATIVES

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JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, October 14, 2004
9:30 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of September 21, 2004.
- DIRECTOR'S REPORT (if necessary).

1. ADOPTION OF REVISED COMMITTEE RULES AND REGULATIONS.
2. ARIZONA BOARD OF REGENTS - Review of FY 2005 Tuition Revenues and Report on University Pay Plan.
3. ARIZONA STATE PARKS BOARD - Review of Additional FY 2005 Reservation Surcharge Fund Expenditures.
4. ARIZONA DEPARTMENT OF TRANSPORTATION -- Review of Ports of Entry Report.
5. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - Report on Homeland Security.
6. DEPARTMENT OF CORRECTIONS - Report on New Beds and Projects.
7. DEPARTMENT OF ECONOMIC SECURITY - Report on Child Protective Services Issues.
8. JLBC STAFF/ARIZONA SCHOOLS FOR THE DEAF AND THE BLIND - Report on Additional Classroom Site Fund Monies.
9. DEPARTMENT OF JUVENILE CORRECTIONS - Report on Federal Audit Issues.
10. DEPARTMENT OF HEALTH SERVICES/AHCCCS - Report on Health Crisis Fund.

The Chairman reserves the right to set the order of the agenda.
10/06/04

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

September 21, 2004

The Chairman called the meeting to order at 9:40 a.m., Tuesday, September 21, 2004, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Anderson	Representative Biggs
	Senator Bee	Representative Burton Cahill
	Senator Cannell	Representative Gray
	Senator Harper	Representative Lopez
	Senator Martin	
	Senator Rios	
Absent:	Senator Arzberger	Representative Farnsworth
		Representative Huffman
		Representative Huppenthal

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of August 17, 2004. The motion carried.

DIRECTOR'S REPORT

Mr. Richard Stavneak, Director, JLBC Staff, said that the Chairman has discussed appointing a few JLBC members to serve on a Retirement Subcommittee to learn about potential increases in state retirement rates. The current state rate is 5.2% plus 0.5% for disability. We have seen some preliminary figures that suggest that rate could go up by approximately 2.5%.

EXECUTIVE SESSION

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

At 9:50 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 10:25 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 Richerson v. State of Arizona, et al. The motion carried.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS) – Review of Capitation Rate Changes.

Mr. Tim Sweeney, JLBC Staff, said AHCCCS is proposing a 2005 capitation rate increase of approximately 5.7%, while the 2005 budget assumed rate increases of about 6%.

Senator Harper asked if they still had a co-pay.

Mr. Sweeney said that for Proposition 204 some of the population that did have co-pays, however, the courts said that they cannot charge mandatory co-pays.

Senator Harper asked if the utilization has gone up or down based on the timeframe of when there were and were not co-pays.

Mr. Tom Betlach, Deputy Director, AHCCCS, said that they are getting preliminary information in terms of utilization when the co-pay was in effect from October 1 through April. They do not have good data from April on, once the federal court placed an injunction. There is usually a 6-month lag in the reports.

Representative Huppenthal asked what percentage is of the total marketplace that AHCCCS is covering relative to private sector plans, and has anyone been tracking AHCCCS' coverage of the population.

Mr. Betlach said that AHCCCS covers approximately 18% of Arizona.

Representative Huppenthal asked how much incentive payments are costing.

Mr. Betlach said the incentive payments are $1.5 million.

Senator Burns noted that AHCCCS is making some policy decisions and they indicated in one case that it is not discretionary. There are costs involved in making decisions on these policy changes.

Mr. Betlach said they identified costs that were built in to the capitation rates and contract associated with the 3 issues, as they were asked to do in the General Appropriation Act. They felt it was necessary to try to do something in the obesity program to get data from members so they would have it to report back to CMS. Also to help provide incentives for health plans to deal with 4 strategic areas that they feel are important.

Senator Burns said the main job of the legislative body is to set policy and he questioned whether AHCCCS intends to come back before the Committee in the next cycle with requests for funding to give the Committee time to review the policies they are proposing.

Mr. Betlach said they have submitted a budget to OSPB and JLBC Staff. In the budget they outlined what they felt was necessary to operate the program in FY 2006.

Senator Burns said that especially in the area of the obesity program, when these issues come back through the legislative process, as far as the policy issue is concerned, they certainly get more exposure and debate than they do in the conference room at AHCCCS.

Senator Cannell said that the Legislature has been involved in the obesity program. There have been presentations to the Health Committee on both sides and several members are involved with Department of Health Services (DHS) in trying to address this problem.

Representative Biggs asked Mr. Betlach to explain an item called family planning in the proposed capitation rate increases.

Mr. Betlach and Ms. Kari Price, AHCCCS, provided an explanation.

Representative Biggs requested a copy of the requirements for the Family Planning program. Ms. Price said she would forward that to him.

There was further discussion of the policy changes in the capitation rate.

Representative Huppenthal asked on the supplemental issue, how membership and known capitation rates compare with what was projected for the budget.

Mr. Betlach said that they submitted a budget on September 1 that identified a shortfall of about $30 million. To put that in perspective, when they submitted last year at the same time, they identified a shortfall of about $25 million.

Senator Cannell commented that AHCCCS is trying to save money just as the Legislature is. We lose money when we cut people out of basic health care.

Representative Pearce said that we need to have honest debate before we expand these programs, as well intended as they are. We need to make sure people are eligible and not defrauding the program.

Senator Rios said that the programs AHCCCS is promoting, helps our taxpayers with preventative programs. He said he commends the agency for helping people and the quality of life.

Representative Burton Cahill said that in some ways we penalize employers that provide good insurance for their employees. It is a cost to the businesses and is a responsible thing to do. There are businesses that are not providing insurance to their employees and asked if there is any data of the number of businesses that provide affordable insurance to employees. She asked staff for more information on this issue.

Representative Pearce moved that the Committee give a favorable review with the provision that AHCCCS should seek approval of its 3 discretionary policy changes, with a General Fund cost of $1.2 million, through the regular FY 2006 budget process rather than incorporate them into the FY 2005 capitation rate. The motion carried.

Senator Rios moved a substitute motion that the Committee give a favorable review of AHCCCS' proposed capitation rates as requested. The motion failed.

A vote was taken on the original motion by Representative Pearce. The motion carried

JLBC STAFF – Consider Approval of Index for Construction Costs.

Mr. Jake Corey, JLBC Staff, said that this item is to consider approval of the index for construction costs.

Representative Pearce asked how often costs are above or below the current formula.

Mr. Corey said currently SFB is able to build almost all schools within the current formula amounts.

Mr. John Arnold, Deputy Director for Finance, SFB, said he would obtain that data for the Committee, but he remembers that 1 school over the last 12 months was not built within the formula, a very small school in Yavapai County. Generally, the districts design the schools to use up all of the formula.

Mr. Arnold responded to Representative Pearce that the SFB does have the authority to fund the school above the formula.

Representative Pearce said that the Arizona Department of Education said there is a lower than projected enrollment in K-12. He asked if that means fewer schools will be built.

Mr. Arnold said they look at enrollment on a district-by-district basis as opposed to a statewide basis. Typically high schools costs more to build than K-12 schools. The overall costs depends on which population growth is shrinking or growing.

Representative Pearce moved that the Committee approve an increase in the cost-per-square-foot factors for the School Facilities Board based on the U.S. Department of Commerce: Bureau of Economic Analysis (BEA) index for "State and Local Government Investment – Structures." The motion carried.

ARIZONA COMMISSION ON THE ARTS – Review of the Arizona Arts Endowment Fund and Private Contributions.

Mr. Nick Klingerman, JLBC Staff, said each year the Committee reviews the Commission on the Arts records regarding private monies donated for use in conjunction with public monies in the Arizona Arts Endowment Fund.

Ms. Shelley Cohn, Executive Director, Arizona Commission on the Arts, said that they have prepared a report that they will distribute to the Committee (Attachment 1). She said when the Arts Endowment was created in 1996 the expectation was that an equal amount of money would be raised by the private sector. They report over the course of the bill that over $28 million has been raised by the private sector. That is equal to what their goal was at the end of 10 years when the state's portion would equal $20 million. Currently, there is $9 million from the state portion in the Endowment Fund. There was an understanding that in some years the economy would be at such a level that fundraising would be much easier than it has been in the last couple of years. In aggregate, over the period of the Endowment, they have far surpassed the goals that were set out when it was established.

Representative Pearce asked what the Commission has done to raise private donations.

Ms. Cohn said that they work jointly with the arts community and arts organizations to identify both current opportunities for funding for endowments. They use the idea that the state is contributing to an endowment as leverage when they go to private donors to stimulate and solicit money.

Representative Pearce said recently private donations has declined and he asked why the state should not go to a dollar-for-dollar match on this fund.

Ms. Cohn said the understanding that she has of when the bill was passed was that there would be a good-faith effort. It is not a requirement in the bill that there be private donations. Ms. Cohn said that a dollar-for-dollar match would be something for the Legislature to determine.

Representative Burton Cahill asked where Arizona stands with other states with regards to arts funding from the state.

Ms. Cohn said their national association does a study every year to look at an on-per-capita basis the standing of states and their per capita support of funding for the arts, and we are at 31 this year. She said they did a study on corporations but its very out-of-date and the environment has changed. There has been a regional Arts and Culture Task Force that has just released a report that talks about the business case for the arts and why funding from all sources is important to create an environment where business wants to locate.

Representative Burton Cahill asked for a copy of that report for the Committee members.

Senator Harper asked what article of the State Constitution calls for funding for the Arts.

Ms. Cohn said that they were created as a state agency in 1969 and their enabling legislation establishes them as an agency of state government.

Representative Pearce moved that the Committee give a favorable review of the report by the Commission for the Arts on private monies that are donated for use in conjunction with public monies from the Arizona Arts Endowment Fund with the provision that the Arts Commission provides a report on its efforts to increase future private donations. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) – Report on Workforce Investment Act (WIA) Issues.

Mr. John Malloy, JLBC Staff said this item is for information only and no Committee action is required. DES has submitted performance measures and JLBC Staff believes they are a good start for evaluating programs success. While DES has indicated they will provide more detailed information to the Committee on November 1, Staff recommends that

when the Committee selects strategic program area reviews (SPAR) later in the year, it may want to include workforce development at a topic in order to gain a better perspective.

Ms. Herschella Horton, Legislative Services, DES said the report from DES, in conjunction with the Department of Commerce, and Department of Education including community colleges and the private sector will provide complete answers when submitted on November 1.

In response to Senator Burns, Ms. Horton said they look at every report they can to gain insight.

Representative Pearce said that DES has a surplus in the federal childcare administration funding that can be used for childcare workers for training and yet they are using DES workforce monies. He questioned why not use that surplus money to train the workers.

Ms. Gretchen Logan, Financial Services Administrator, DES, said that there is a surplus and that each year they meet or exceed the federally required quality expenditures. Exceed is key because what is going to happen is in time they are going to hit a cliff. They are trying to push out that cliff as far as possible.

Representative Pearce said that his concern is that we continue to pump more and more money into this and in addition, we do not know how DES is spending federal dollars. This seems to be an opportunity to use federal dollars where it's appropriate and save state dollars.

Ms. Logan said the WIA monies are also federal dollars so DES is not tapping into any state dollars to do this childcare training.

Mr. Stavneak explained that there is a surplus of quality set-aside money and the department is concerned that those will disappear and what will happen once they do. He said that the JLBC Staff and DES will need to have more discussions on what their plans are to expend those monies.

Ms. Horton said that perhaps that is something that could be explained in more depth in the November 1 report.

DEPARTMENT OF PUBLIC SAFETY – Report on DPS Plan for Sworn Officer Salary Increases.

Mr. Tony Vidale, JLBC Staff, said that this item is a report for information only and no Committee action is required. Laws 2004, Chapter 274 appropriates $4.3 million to the department for sworn officer salary increases and pursuant to a footnote the department was allowed to determine its distribution, and this is a report on that.

Senator Burns asked for the definition of market value.

Mr. Vidale said that the market value is the average salary of DPS officers.

Representative Pearce asked if the market comparison takes into account benefits, such as DPS take-home cars. He also asked if there is data as to why they are leaving. He asked for an analysis on that.

Mr. Vidale said it does not take into account any other benefits or compensation. They looked strictly at base salary. He said that this year 65 sworn officers have left, (23 retired, 37 resigned, and 5 were terminated) through the end of July. Ten of the 37 who resigned transferred to other agencies, and it is unknown where the remaining 27 went.

Senator Anderson asked why some DPS Officers got $1,000 and others got $5,000.

Mr. Dennis Garrett, Director, DPS, said some officers who were closer to market got a lower amount than those that were further behind the market.

Representative Pearce asked if they used performance standards or treated everyone the same. He said the Legislature has worked hard to treat everyone with a performance standard where employees can be paid for good performance.

Mr. Garrett said that they do factor in performance standards.

Representative Huppenthal said that as a general rule to a certain degree all the salaries are artificial because there is no marketplace. It is a concern to him when one group gets $1,000 and another gets $5,000, because it can damage morale and performance.

Mr. Garrett noted that all employee organizations agreed to the plan up until the end when a small group of officers went in with another plan but DPS did not have time to discuss that prior to approval.

JLBC STAFF/ARIZONA STATE PARKS BOARD – Report on Parks Fees.

Mr. Tim Sweeney, JLBC Staff, said this report is for information only and no Committee action is required. In July the Parks Board adopted new fees that will take effect on October 1, 2004. The changes to the fee schedule are listed in the JLBC memo in the Agenda Book.

Senator Anderson asked how much total revenue is generated from all the fees, and if there are any states that do not charge fees for entry into state parks.

Mr. Sweeney said at this point it is approximately $10 million, including the revenue at Kartchner Caverns.

Mr. Jay Ziemann, Assistant Director, Arizona State Parks, said that every state charges different prices for different things. It appears that there are a couple of states that may not charge a fee into state parks.

Senator Anderson said it would be nice to not charge a fee for entry.

Senator Harper said there are a lot of costs to maintaining and operating a state park and if its not through fees then it would have to be through taxpayers.

Senator Anderson asked if there was a study to see how much the state is spending to collect those fees.

Mr. Ziemann said collecting fees is only a small part of what a park ranger does.

Senator Cannell asked if Parks is heading for a shortfall and whether there are other means of support.

Mr. Ziemann said their budget has become precarious in the last few years, more so than other state agencies. Enhancement Fund revenues for years were divided between capital projects and operations. For the last 2 years all of this money is being used for operation. This coming year, the State Lake Improvement Fund (SLIF) portion of capital money for state parks is being used for operations.

Representative Pearce said that there are SLIF and Heritage Fund dollars that we may need to set some priorities on and move some dollars around. If the public is not using parks because of high fees, then there is the decision of whether to close it down or not.

Senator Burns asked how the agency normally communicates changes in fees to the Legislature.

Mr. Ziemann said that no fee change occurs without several public hearings, which are held throughout the state. As far as communicating with the Legislature, there is no formal means of doing that.

Senator Harper said the Heritage Fund gives all their grants to cities for new parks, and he asked if they ever give funds to Parks.

Mr. Ziemann said that the Heritage Fund is governed by statute and there are only small portions given to the agency for the acquisition of open space or natural areas. About two-thirds of the Heritage Fund money is granted to communities to develop their own parks.

Senator Harper said if they are giving money to cities for state parks, why cannot the money be used for capital improvements that the Parks Department does not have money for in our existing parks.

Mr. Ziemann said the language in statute is very particular as to what those monies can be used for.

Senator Harper said that he was referring to money that is being diverted from the State Lottery to the Heritage Fund, now it is being used to give money to cities so they can build state parks.

Representative Pearce said that one of the things that has happened over the years with the SLIF dollars is that we are diverting dollars to city projects that was meant for major lakes and major parks in the state. He said there are some funds that are being misused.

Chairman Burns adjourned the meeting at 12:07 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: October 6, 2004

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

FROM: Richard Stavneak, Director

SUBJECT: Adoption of Revised Committee Rules and Regulations

The Chairman proposes the following changes in the Committee rules:

Rule 7

- add a new requirement for an annual review of the JLBC Staff Director's performance by the Committee.

- require the full Committee, rather than the Chairman and Vice-Chairman, to set the Director's salary.

- permit the Chairman to name a subcommittee to make recommendations on the Director's salary.

Rule 8

- revise the timeline for agencies to submit a request to appear on the JLBC agenda. A request must now be made 2 weeks prior to the meeting. The revision would require agencies to make the request 3 weeks in advance of the meeting. The rules would retain the existing language that allows the Chairman to place an item on the agenda if an agency has not met the submission deadline.

Please see the attachment for the revised rule language.

RS:lm
Attachment

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DATE: October 6, 2004

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

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst
Lorenzo Martinez, Assistant Director

SUBJECT: Arizona Board of Regents – Review of FY 2005 Tuition Revenues and Report on University Pay Plan

Request

The Arizona Board of Regents (ABOR) requests Committee review of its expenditure plan for tuition revenue amounts greater than the amounts appropriated by the Legislature. The footnotes for Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UofA) in the FY 2005 General Appropriation Act appropriate all tuition collections for operating expenditures, capital outlay, and fixed charges and mandate the Committee's review. ABOR is also reporting, for informational purposes, on locally retained tuition and fees.

Pursuant to a footnote in the FY 2005 General Appropriation Act, ABOR has also submitted a report to the director of the JLBC Staff on the distribution of $16,100,000 appropriated for a university pay plan.

Recommendation

JLBC Staff recommends that the Committee give a favorable review to the ABOR expenditure plan for tuition amounts above previously appropriated amounts. JLBC also recommends that UofA report on its pay plan allocations when all components of the plan are finalized.

ABOR estimates overall FY 2005 tuition collections applied to university operating budgets will reach $39.7 million above the tuition amounts appropriated by the Legislature. The higher revenue is due primarily to increases in tuition approved by ABOR in March 2004. The universities plan on using the additional $39.1 million in the operating budgets to cover unfunded health and retirement premium increases, operating inflationary increases, and unfunded enrollment from prior years, including the hiring of adjunct faculty.

The ABOR locally retained tuition and fee report requires no Committee action. Based on a comparison of retained tuition and fee amounts reported in the FY 2005 and FY 2006 budget requests, retained tuition

and fees increased by $12.1 million above original FY 2005 budgeted amounts. Of the $12.1 million, $7.4 million was allocated for financial aid and $5.6 million was allocated for debt service.

Of the $16,100,000 appropriated to ABOR for university pay plans, ABOR allocated $7,528,000 to ASU (all campuses), $6,441,900 to UofA, $2,098,200 to NAU, and $31,900 to the ABOR Central Office. Distributions to the universities were based on $1,000 per FTE Position, however, each university has developed its own distribution plan.

Analysis

Tuition Revenue Changes

Table 1 displays FY 2004 and FY 2005 appropriations by fund for the Arizona University System, including revised appropriations for FY 2005 additional tuition collections.

Table 1

Arizona University System
FY 2004 and FY 2005 Appropriations (in millions)

	FY 2004	FY 2005 Before Tuition Adjustments	FY 2005 After Tuition Adjustments
General Fund	$ 746.9	$ 787.0	$ 787.0
Collections Fund	312.3	308.9	348.7
TOTAL	**$1,059.2**	**$1,095.9**	**$1,135.7**

Table 2 shows ABOR changes to resident and non-resident undergraduate tuition from FY 2004 to FY 2005.

Table 2

Arizona University System
FY 2004 to FY 2005 Undergraduate Tuition Changes

	Resident				**Non-Resident**			
	FY 2004	FY 2005	$ Change	% Change	FY 2004	FY 2005	$ Change	% Change
ASU	$3,593	$4,008	$415	11.6%	$12,113	$12,863	$750	6.2%
NAU	3,593	4,068	475	13.2%	12,113	12,588	475	3.9%
UofA	3,593	4,083	490	13.6%	12,363	13,063	700	5.7%

Table 3 presents FY 2005 appropriations, estimates of the ABOR FY 2005 All Funds Operating Budget Report, and resulting additional tuition revenues by campus.

Table 3

Arizona University System
FY 2005 Appropriations and Additional Tuition Revenues by Campus

Campus	FY 2005 Appropriation	FY 2005 All Funds Operating Budget Report	Additional Tuition
ASU–Main	$140,200,000	$167,563,100	$27,363,100
ASU–East	8,872,600	10,352,800	1,480,200
ASU–West	11,936,500	15,858,800	3,922,300
NAU	34,144,700	35,861,400	1,716,700
UofA–Main	102,874,500	106,862,700	3,988,200
UofA–Health Sciences Center	10,884,600	12,160,300	1,275,700
TOTAL	**$308,912,900**	**$348,659,100**	**$39,746,200**

Table 4 provides some information on the uses of additional tuition revenues by campus. Attached, ABOR has provided further detail, including an expenditure breakdown.

Table 4

Arizona University System
Uses of Additional Tuition Revenues by Campus

ASU–Main	Student enrollment growth, including hiring adjunct faculty; operations and utilities cost increases; library and other student service improvements; new facilities support; computing mainframe maintenance; security enhancements; health insurance, risk management, and salary adjustments; faculty recruitment; K-12 partnerships
ASU–East	Student enrollment growth, including hiring faculty associates; program support to golf management, aeronautical management, and business; health insurance and salary adjustments
ASU–West	Student enrollment growth, including new class sections; operations and utilities cost increases; health insurance, risk management, and salary adjustments; faculty recruitment; student services
NAU	Student activities; marketing; advising; enrollment services; diversity initiatives; employee training initiatives
UofA–All	Student enrollment growth for the Colleges of Law, Medicine, and Management, as well as for UofA South; health insurance, retirement, and salary adjustments

Locally Retained Tuition and Fees Report

ABOR reports that ASU and UofA have changed the way they manage financial aid, starting in FY 2005. Rather than awarding tuition waivers, the universities have chosen to offer cash scholarships. Such monetary grants are more attractive to potential students than waivers. Additionally, national financial aid statistics include cash scholarships, but not tuition waivers, in ranking universities around the country. Therefore, the change will reflect positively on the universities. This modification does not alter the universities' accounting records. Based on amounts reported in the FY 2006 university requests, cash scholarships in FY 2005 totaled $41.1 million for ASU and $43.6 million for UofA.

Systemwide, locally retained tuition and fees increased $12.1 million above originally budgeted amounts. Of the $12.1 million, $7.4 million was allocated for financial aid and $5.7 million was allocated for debt service. The following table shows the allocation of retained tuition and fees reported in FY 2006 university requests.

Arizona University System
Locally Retained Tuition and Fees

	Original FY 2005	Revised FY 2005	FY 2005 Change	Estimated FY 2006
Programs	$ 26,038,000	$ 25,057,100	$ (980,900)	$ 27,400,400
Financial Aid	50,876,800	58,290,800	7,414,000	57,998,500
New Cash Waivers	84,718,400	84,718,400	0	84,718,400
Plant Fund	6,931,600	6,959,800	28,200	9,081,600
Debt Service	55,572,700	61,222,800	5,650,100	63,827,700
Total Retention	$224,137,500	$ 236,248,900	$12,111,400	$ 243,026,600

University Pay Plan Distributions Report

The FY 2005 budget included a statewide $1,000 per FTE Position salary adjustment. In consideration of this salary increase, ABOR was appropriated $16,100,000 for distribution to the universities in accordance with pay plans developed by the president of each university.

Arizona State University:
ABOR allocated $6,470,000 to ASU-Main, $310,300 to ASU-East, and $747,700 to ASU-West. ASU plans to provide a $1,000 salary increase to benefits eligible staff making less than $30,000. Remaining employees will participate in merit adjustments from remaining available monies. ASU will also use locally retained tuition collections to supplement available monies. The following table shows detail on how ASU plans to distribute monies among various employee categories.

Arizona State University Pay Allocations

Employee Category	# of FTE in Category	# of FTE Receiving Adjustment	Adjustment Start Date	Amount from ABOR Allocation	Total Annualized Requirement	Difference	Fund Sources for Difference
Classified Staff	2,877.1	2,148.2	7/1/04	$2,576,600	$2,758,700	$182,100	Tuition
Service Professional	479.4	338.0	7/1/04	$ 665,300	$ 714,000	$ 48,700	Tuition
Administrator	129.5	89.3	7/1/04	$ 374,600	$ 404,000	$ 29,400	Tuition
Administrative Faculty	98.6	69.3	7/1/04	$ 246,100	$ 265,800	$ 19,700	Tuition
Faculty	2,493.7	1,497.1	7/1/04	$3,335,500	$3,578,500	$243,000	Tuition
Academic Professional	291.4	216.6	7/1/04	$ 329,900	$ 354,700	$ 24,800	Tuition
TOTAL	6,369.7	4,358.5		$7,528,000	$8,075,700	$547,700	

University of Arizona:
ABOR allocated $5,736,000 to UofA-Main and $705,900 to UofA-HSC. UofA plans to provide a $1,000 salary increase to Classified Staff and Service Professionals. All other employees will participate in merit adjustments from remaining available monies. UofA also received a FY 2005 appropriation of $4,301,800 for faculty retention. The university has not finalized all of the components of their plan. JLBC Staff recommends that UofA report on the allocation when finalized. The following table shows detail for the known components of the UofA planned distributions among various employee categories.

University of Arizona Pay Allocations

Employee Categories	# of FTE in Category	# of FTE Receiving Adjustment	Adjustment Start Date	Amount from ABOR Allocation	Total Annualized Requirement
Classified Staff	2,645.6	2,208.2	7/1/04	$2,208,200	$2,208,200
Administrative	346.4			Merit Pool	
Faculty	1,953.3			Merit Pool	
Service Professional	519.9	397.1	7/1/04	$397,100	$397,100
Academic Professional	249.1			Merit Pool	
TOTAL	5,714.3	2,605.3		$2,605,300	$2,605,300
Merit Pool Amount				$3,836,600	
Faculty Retention Funding				$4,301,800	
Total Unallocated				$8,138,400	

Northern Arizona University:
ABOR allocated $2,098,200 to NAU. NAU plans to provide a minimum of $1,000 to all employees. Faculty and Academic Professional staff will also be eligible for additional merit adjustments from available monies, which NAU will supplement with $1,498,700 from an additional FY 2005 appropriation of $1,507,600 for faculty retention. The following table shows detail on how NAU plans to distribute monies among various employee categories.

Northern Arizona University Pay Allocations

Employee Category	Total FTE in Category	Total FTE Receiving Adjustment	Adjustment Start Date	Total State Requirement 1/	Total Annualized Requirement	Difference	Fund Sources for Difference
Classified Staff	1,087.79	1,087.79	7/1/04	$ 624,942	$ 1,087,792	$462,850	Tuition/Fees/Grants
Service Professional Staff	471.92	471.92	7/1/04	$ 251,710	$ 417,920	$220,210	Tuition/Fees/Grants
Administrator (Deans,Provost,VPs)	12.00	30.50					Tuition/Fees/Grants
Administrators (below dean level)	31.25	59.72	7/1/04	$ 24,750	$ 30,500	$ 5,750	Tuition/Fees/Grants
Administrative Faculty	679.26	654.65	7/1/04	$ 229,087	$ 234,290	$ 5,203	Tuition/Fees/Grants
Faculty			7/1/04	$2,139,940	$2,220,067	$ 80,127	
Part-Time Faculty ($110/credit hr.)				$ 790,000	$ 790,000		
Academic Professional	30.00	29.00	7/1/04	$ 70,300	$ 70,300		Tuition/Fees/Grants
TOTAL	2,371.94	2,333.58		$4,130,729	$4,904,869	$774,140	

1/ Includes $2,098,200 from ABOR allocation, $1,498,700 from Faculty Retention allocation, and $1,011,628 from internal allocations. Amounts in table do not include $477,800 for associated ERE costs.

Arizona Board of Regents:
ABOR allocated $31,900 to the ABOR Central Office. The amount will be used to provide a $1,000 salary increase to all employees. The following table shows detail on how ABOR plans to distribute monies among various employee categories.

Arizona Board of Pay Allocations

Employee Category	# of FTE in Category	# of FTE Receiving Adjustment	Adjustment Start Date	Amount from ABOR Allocation
Classified Staff	7.60	7.60	7/1/04	$ 8,800
Administrative Staff	4.00	2.00	7/1/04	$ 2,200
Professional Staff	17.55	17.55	7/1/04	$20,900
TOTAL	29.15	27.15		$31,900

RS/LM/SC:jb

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DATE: October 4, 2004

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

THRU: Richard Stavneak, Director

FROM: Tim Sweeney, Fiscal Analyst

SUBJECT: Arizona State Parks Board – Review of Additional FY 2005 Reservation Surcharge Fund Expenditures

Request

Pursuant to the General Appropriation Act, the State Parks Department is seeking review of additional Reservation Surcharge Fund expenditures above the FY 2005 appropriation.

Recommendation

JLBC Staff recommends a favorable review of the State Parks request to increase the FY 2005 expenditures from the Reservation Surcharge Fund to $460,300. The FY 2005 appropriation is $309,000. The requested increase of $151,300 would be funded with $141,000 in additional revenues and $10,300 from the fund balance. These monies would fund 3 FTE positions to take reservations seven days per week to support weekend marketing efforts and 1 FTE position to manage the effort to expand the system to campgrounds at all recreational parks.

Analysis

The Reservation Surcharge Fund receives revenue from a $3 per ticket charge to visitors of Kartchner Caverns State Park who make advance reservations. Monies from the fund are then appropriated for the operations of the reservation system. A General Appropriation Act footnote appropriates funds received above the appropriation amount to the Parks Department, however, the agency is required to seek JLBC review prior to the expenditure of the additional monies.

As a result of the opening of the Big Room at Kartchner Caverns in November 2003, Reservation Surcharge Fund revenues increased to $412,600 in FY 2004, which is $193,800 (and

88.6%) above FY 2003. The FY 2004 appropriation was only $298,700, however, and the Fund was left with an ending FY 2004 balance of $126,700. Reservation Surcharge Fund statutes require year-ending balances greater than $12,500 to be reverted to the General Fund; therefore, $114,200 was reverted to the General Fund at the end of FY 2004.

In FY 2005, the Parks Department expects Reservation Surcharge Fund revenue to increase to approximately $450,000, while the FY 2005 appropriation totals $309,000. The current appropriation supports 6 FTE Positions to operate and maintain the reservation system. The agency is requesting to use the additional FY 2005 revenue for 4 FTE Positions to start taking reservations 7 days a week and to begin an effort to expand the reservation system beyond Kartchner Caverns to campgrounds at other parks. In total, the Parks request totals $151,300, which would bring total FY 2005 Reservation Surcharge Fund expenditures to $460,300.

RS/TS:ck

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DATE: October 2, 2004

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Arizona Department of Transportation – Review of Ports of Entry Report

Request

The Arizona Department of Transportation (ADOT) requests review of staffing at the ports of entry. The General Appropriation Act included an increase of $495,200 and 12 FTE Positions for increased staff at the ports of entry.

Recommendation

ADOT reports that staffing for the ports of entry increased from 152 FTE Positions in FY 2004 to 164 FTE Positions in FY 2005, with the 12 new FTE Positions distributed 3 to Ehrenberg, 2 to Sanders, 3 to San Simon, 2 to Topock, and 2 to Yuma. None of the 12 new FTE Positions have yet been filled. Thus, there has not been sufficient time to see any impact from extended hours on port operations due to the 12 new FTE Positions.

As a result, JLBC Staff recommends a favorable review of the report with the following provisions:

- ADOT report to the Committee by August 1, 2005, how many of the 12 new FTE Positions have been filled and at which ports.
- The report include the following information for each fixed port of entry in FY 2005:
  - -- Total number of authorized and filled FTE Positions.
  - -- Hours of operation before and after filling these positions.
  - -- Total number of hours open and closed.
  - -- Number of trucks processed manually, by prepass and waved through.
  - -- Amount of revenue collected.

Analysis

A General Appropriation Act footnote requires that the department report to the Joint Legislative Budget Committee by September 1, 2004 regarding how the 12 new FTE Positions were distributed among the ports of entry and certain performance data. For each fixed port of entry the report is to include the total

number of authorized and filled FTE Positions, the total number of hours open and closed, the number of trucks processed manually, by prepass and waved through, and the amount of revenue collected.

ADOT reports that staffing for the ports of entry increased from 152 FTE Positions in FY 2004 to 164 FTE Positions in FY 2005. The following table shows ADOT's distribution of FTE Positions among the ports for the 12 new FTE Positions in FY 2005, the total authorized FTE Positions in FY 2004 and FY 2005, and the filled FTE Positions in FY 2004. ADOT states that the current number and distribution of filled FTE Positions would be substantially the same as that reported for FY 2004.

ADOT's Staffing at the Ports of Entry

	FTE Positions			
Port of Entry	**FY 2004 Approved**	**FY 2005 New**	**FY 2005 Approved**	**FY 2004 Actual** [1/]
Ehrenberg	18	3	21	12
Sanders	17	2	19	19
San Simon	14	3	17	17
Topock	13	2	15	9
Yuma	16	2	18	14
Subtotal	78	12	90	71
Douglas - State	2		2	3
Douglas – Federal	7		7	8
Duncan	3		3	3
Fredonia	1		1	1
Kingman	5		5	4
Lukeville	1		1	1
Naco	1		1	2
Nogales	16		16	18
Page	3		3	2
Parker	3		3	3
Phoenix	9		9	10
San Luis	3		3	4
Sasabe [2/]	1		1	0
Springerville	2		2	2
St. George	13		13	13
Teec Nos Pos	4		4	3
Subtotal	74		74	77
Total	152		164	148

1/ ADOT states that the current number and distribution of filled FTE Positions would be substantially the same as that reported for FY 2004.
2/ Port activity is handled by staff from Nogales.

ADOT reports that none of the 12 new FTE Positions have been filled as of September 3, 2004, due to the time needed to establish new FTE Positions, advertise, recruit and conduct background investigations. ADOT is now interviewing candidates and expects to have some hired by the end of the year. ADOT also reported certain information regarding the total number of hours open and closed, the number of trucks processed manually, by prepass and waved through, and the amount of revenue collected. However, there has not been sufficient time to see any impact from extended hours on port operations due to the 12 new FTE Positions.

RS/BH:jb

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DATE: October 6, 2004

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

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst
Brad Regens, Assistant Director

SUBJECT: Department of Emergency and Military Affairs - Report on Homeland Security

Request

Laws 2004, Chapter 275 requires the Office of Homeland Security (OHS) to submit a report by August 1, 2004 on the allocation and expenditure plans for homeland security grant monies in FY 2004 and FY 2005. This report is to provide allocation and expenditure information by year, by activity and entity, and is to include state and local entities.

Recommendation

The OHS submission on allocation and expenditure plans for homeland security grant monies reported that in Federal Fiscal Year (FFY) 2003, Arizona received a total of $34.5 million in State Homeland Security Grant Program (SHSGP) funding. The report also provided the following information:

- Local governments received $22.3 million, or 65% of the total.
- $12.2 million (35%) was divided among 14 state grantees, the Arizona Counter Terrorism Information Center (which is partially staffed by the Department of Public Safety) receiving the largest subgrant of $3.5 million.
- Total expenditures have reached $7.6 million, a rate of only 22%.

While the FFY 2003 information was useful, Chapter 275 required OHS to report on FFY 2004 and 2005 expenditures. OHS reports that monies have not been distributed for FFY 2004 as they are changing the method of distributing federal funding from specific entities to a regionally based model. OHS has indicated that they will provide data for FY 2004 when monies are distributed. FFY 2005 funding amounts have not been set by Congress at this time.

(Continued)

This item is for information only and no Committee action is required. The JLBC Staff, however, recommends that the Committee request that the Arizona Office of Homeland Security submit the following:

- A periodic report (either quarterly or monthly) on the progress of in expending the remaining FFY 2003 funds.
- A periodic report (either quarterly or monthly) detailing the progress in establishing a new regionally-based funding model. This report should address the allocation of funding to state agencies which may not be subject to the regional funding model.
- A FFY 2004 expenditure plan that includes: expenditure plans for all homeland security grants received by the state and local entities; narrative describing how grantees propose to use allocated funds; and tables indicating which specific funds are being allocated to each grantee.

Analysis

Federal Grants

Homeland security grants are disbursed by the federal government through the Department of Homeland Security and the Department of Health and Human Services. The Department of Homeland Security administers the following homeland security grants:

- **State Homeland Security Grant Program (SHSGP)**
  SHSGP is provided for planning, training, equipment, exercises, and other costs associated with enhancing the capabilities at the state and local level to prevent, respond to, and recover from terrorist attacks. Each state receives .75% of the total funding available, and the remainder is distributed according to population. NCSL reports Arizona received a total of $38.6 million SHSGP funding in FFY 2003 and $31.3 million in FFY 2004. *(See Table 1)*
- **Urban Area Security Initiative (UASI)**
  UASI is a grant program intended for high-threat urban areas. This grant is awarded at the discretion of the Secretary of Homeland Security. The criteria developed by the Department of Homeland Security to rank high threat cities included a threat estimate based on likely terrorist targets, the number of critical assets in a city, and population density. According to the NCSL, Arizona cities received $11 million of UASI monies in FFY 2003 and $12.1 million in FFY 2004. *(See Table 1)*
- **Law Enforcement Terrorism Prevention Program (LETPP)**
  LETPP enables law enforcement agencies to more effectively detect, deter, disrupt, and prevent acts of terrorism, with an emphasis toward the prevention of an incident involving a weapon of mass destruction. Funds are allocated by distributing 0.75% of available monies to states, the remainder of the grant is allocated according to population. In FFY 2004, NCSL reports that Arizona was awarded a LETPP grant of $9.3 million. *(See Table 1)*
- **Assistance to Firefighter Grant Program**
  This program assists local fire departments in protecting citizens and firefighters against the effects of fire and fire-related incidents. This is a competitive grant program in which individual fire departments apply for funding. Arizona received a total FFY 2004 grant amount of $329,000. *(See Table 1)*
- **Citizen Corp Grant Program**
  Supports Citizen Corp Councils with planning, outreach, and management of Citizen Corps programs and activities. Each state receives 0.75% of the available funding, while the rest of the grant is allocated according to population. Arizona received a FFY 2004 award of $650,000. *(See Table 1)*

  The following table shows Arizona's FFY 2002 – 2004 funding from the federal Department of Homeland Security.

(Continued)

Table 1

Arizona DHS Funding History - Fiscal Year 2002-2004 1/							
Grant Program		**Allocated**	**Award Amount**	**Obligated**	**Drawndown to Date**	**Balance**	**% Amount Spent**
Fiscal Year 2002 Total Allocated:	**$ 9,370,777.00**						
State Domestic Preparedness Program		5,770,000.00	5,770,000.00	5,770,000.00	3,633,453.00	2,136,547.00	62.97%
Fire Grants		3,600,777.00	3,600,777.00				0.00%
Fiscal Year 2003 Total Allocated:	**$ 57,141,160.00**						
State Homeland Security Grant Program		10,584,000.00	10,584,000.00	10,584,000.00	2,681,646.00	7,902,354.00	25.34%
State Homeland Security Grant Program (Supp)		28,033,000.00	28,033,000.00	28,033,000.00	5,932,175.00	22,100,825.00	21.16%
Urban Areas Security Initiative Grant Program (Supp)		11,033,467.00	11,033,467.00	200,000.00	14,469.00	11,018,998.00	0.13%
Fire Grants		7,490,693.00	7,490,693.00				0.00%
Fiscal Year 2004 Total Allocated:	**$ 53,699,902.00**						
State Homeland Security Grant Program		31,304,000.00	31,304,000.00	-	-	31,304,000.00	0.00%
LE Terrorism Prevention Grant Program		9,289,000.00	9,289,000.00	-	-	9,289,000.00	0.00%
Citizen Corps		650,000.00	650,000.00	-	-	650,000.00	0.00%
Urban Area Security Initiative Grant Program (City of Phoenix, Maricopa County, the portions of Gila River Indian Community, Salt River-Pima Indian Community, and Ft. McDowell Indian Tribe lying within Maricopa County)		12,128,223.00	12,128,223.00	-	-	12,128,223.00	0.00%
Fire Grants		328,679.00	328,679.00	--	TBD	TBD	
Total	**$120,211,839.00**	**$120,211,839.00**	**$120,211,839.00**	**$44,587,000.00**	**$12,261,743.00**	**$ 96,529,947.00**	10.20%

1/ OHS submitted allocations for FFY 2003 SHSGP I, and allocation and expenditure amount for FFY 2003 SHSGP II. Any information regarding FFY 2004 grants or other FFY 2003 grant data was supplied by NCSL.

The Department of Health and Human Services administers the following grants:

- **Centers for Disease Control and Prevention (CDC)**
  This grant is intended to strengthen the ability of government and public health agencies to respond to bioterror attacks, infectious diseases, and natural disasters. NCSL reports that Arizona received $15.8 million in FFY 2003 funding and $16.5 million for FFY 2004. *(See Table 2)*
- **Health Resources and Services Administration (HRSA)**
  This grant provides funding for hospitals to improve their response to bioterror and other disasters. Arizona hospitals received $9 million in both FFY 2003 and 2004. *(See Table 2)*

Table 2

Arizona HHS Bioterrorism Fuding		
Fiscal Year 2002	**$18,659,807.00**	
CDC		$16,422,170.00
HRSA		2,237,637.00
Fiscal Year 2003	**$24,785,485.00**	
CDC		$15,755,035.00
HRSA		9,030,450.00
Fiscal Year 2004 Total Allocated:	**$25,500,764.00**	
CDC		$16,470,314.00
HRSA		9,030,450.00
Total		**$68,946,056.00**

Arizona's Allocations and Expenditures

All homeland security grant funding distributed to the State of Arizona are received by OHS, which then allocates monies to state agencies and local government units. OHS reports that in FFY 2002, the state as a whole received a total of $6.8 million and spent $5.4 million. Jurisdictions that have not spent their FFY 2002 allotted funds have received extensions from the Department of Homeland Security.

(Continued)

In FFY 2003, OHS reports that the state received a total of $10.6 million in SHSGP prime (SHSGP I) funds. An additional $23.9 million in supplemental funds (SHSGP II) was allocated later that same year. The counties share of the total was $16.2 million, cities (including the Gila River Indian community) received $6.1 million and $12.2 million was allocated to 14 Arizona state agencies. The federal government requires that a majority of homeland security funds be allocated to local governments.

Of the $12.2 million allocated to state grantees, OHS awarded $3.5 million to the Arizona Counter Terrorism Intelligence Center (ACTIC), $2 million to the Department of Emergency and Military Affairs for interoperable communications expenses, and $700,000 was allotted to the Department of Public Safety. *(See Table 3)*

Cities and counties have expended 24% of their share of FFY 2003 SHSGP I and SHSGP II funds. State agencies have spent 31% of their available SHSGP II allocation. OHS reports that delays in spending are attributable to vendor backlogs and the reimbursement requirement. To receive homeland security funds, a governmental agency must first expend their own money and then submit the item to the Federal Department of Homeland Security for reimbursement. OHS also notes that grantees have 24 months to expend awarded funds.

Table 3

STATE AGENCIES FUND BALANCES FOR FFY 2003

	Total Allocation	Disbursement Status	Remaining Amount	Remaining %
	SHSGP I			
Dept. of Emergency & Military Affairs				
Interoperable Communications	$2,000,000	1/		
Equipment	1,085,000			
Exercise	555,000			
Training	507,000			
Planning & Training	300,000			
Office of Homeland Security				
Planning	100,000			
Training	50,000			
Total	$4,597,000			
	SHSGP II			
Arizona National Guard	$621,720	$ 0.00	$ 621,720.00	100.00%
Criminal Justice Commission	200,000	0.00	200,000.00	100.00
Arizona State University	100,000	0.00	100,000.00	100.00
Capitol Police	80,000	43,487.94	36,512.06	45.64
Division of Emergency Management	465,000	0.00	465,000.00	100.00
AZ Dept. of Environmental Quality	500,000	5,841.04	494,158.96	98.83
AZ Dept. of Public Safety	700,000	583,229.87	116,770.13	16.68
AZ Dept. of Transportation	500,000	0.00	500,000.00	100.00
Northern Arizona University	100,000	26,400.85	73,599.15	73.60
AZ Radiation Regulatory Agy.	150,000	41,434.21	108,565.79	72.38
University of Arizona	12,280	0.00	12,280.00	100.00
AZ Dept. of Homeland Security	550,000	0.00	550,000.00	100.00
ACTIC Intel Center	3,500,000	1,622,654.99	1,877,345.01	53.64
Dept. of Corrections	100,000	0.00	100,000.00	100.00
Total	$7,579,000	$2,323,048.90	$5,255,951.10	69.35%

1/ Information on these expenditures is not currently available from OHS. We will attempt to provide this information to the Committee at the October 14 meeting.

(Continued)

In order to shorten the amount of time to expend homeland security grant monies, OHS is implementing a regional model, which will utilize 5 regional councils that will work directly with local governments. OHS will provide staffing for these councils.

In order to provide direction to homeland security grant recipients, OHS published the Arizona 2004 State Homeland Security Strategy (SHSS). This document outlines the state's overall security strategy of protecting all of Arizona's citizens and residents from potential terrorist attack and all other critical hazards. This is to be accomplished through 5 primary goals, which are:

- Enhance and maintain assessment and detection capabilities,
- Provide for regional interoperability and support,
- Create secure intelligence and information sharing systems,
- Bolster response and recovery capabilities and protect emergency responders, and
- Support national and state strategy for securing the border.

National Allocations and Expenditures

The Federal Department of Homeland Security reports that approximately one-third of all available 2003 national SHSGP funds has been spent to date. In 2004, the total amount of national SHSGP funds that have been expended are approximately one-quarter. In 2003, the first year of the UASI grant program, only 4% of available national funds had been spent, and in 2004, total UASI expenditures were 24% of the total *(see Table 4)*.

Table 4

Grant Program	Award Amount	Drawdown	Percentage
SHSGP	$ 574,295,000.00	$212,024,552.30	36.92%
SHSGP II	1,500,000,000.00	394,282,260.85	26.29
UASI	96,351,000.00	4,160,981.43	4.32
UASI II	500,000,000.00	118,428,752.88	23.69
Total	$2,670,646,000.00	$728,896,547.46	27.29%

Overall, in 2003 the national rate of expenditure for all homeland security grant money was 32.2% and in 2004 this rate was reported to be 25.6%. In comparison, NCSL reports all Arizona entities have spent or obligated 28.2% of their FFY 2003 allocation. The state agency expenditure rate for this same period was 30.7%.

Homeland Security Secretary Tom Ridge formed The Task Force on State and Local Homeland Security Funding to examine why local governments were unable to expend federal homeland security grant funds in a timely fashion. In its report of June 10, 2004, the task force listed several explanations, including:

- The reimbursement requirement is problematic, particularly for small municipalities.
- Ordinary cash management procedures hinder the ability to rapidly procure and deploy homeland security equipment.
- Many state and local governments lack the purchasing power to obtain goods and services in a timely manner.
- A lack of national standards guiding the distribution, tracking, and oversight of homeland security-related grant funds.
- State and local governments are not adequately staffed to manage the grants.
- Communication gaps between all levels of government.
- Equipment backlogs and vendor delays.

RS:JO:ss

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DATE: October 5, 2004

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

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Senior Fiscal Analyst

SUBJECT: Arizona Department of Corrections – Report on New Beds and Projects

Request

The JLBC Staff has been working with the Department of Corrections (ADC) to update the Committee on the status of new public and private beds, privatization of inmate stores, and the community accountability pilot program.

Recommendation

This item is for information only and no Committee action is required. ADC has been providing monthly reports to JLBC Staff updating the status of provisional beds, new public beds, and new private beds. To ensure that the Committee is kept apprised of the status of the inmate store privatization and community accountability pilot program contracts, however, the JLBC Staff recommends requesting that ADC include progress reports on these 2 items in their monthly "new bed" progress report.

The following points summarize the status of new beds and projects.

- ADC continues to utilize provisional beds in Oklahoma and Texas, filling 1,606 beds of the 2,064 available. The FY 2005 budget assumes that the number of inmates in out-of-state provisional beds will number 664 at fiscal year end.
- The private prison in Kingman opened 472 beds in August and expects another 928 beds to open in April 2005. The FY 2005 budget assumes that 1,400 beds will be open by fiscal year end.
- 1,000 in-state public beds are on-schedule for occupancy in December 2004. The FY 2005 budget assumes that 1,000 beds will be open by January 2005.
- The anticipated contract award date for the 1,000 in-state private beds of July 2004 was moved back to November 2004 to satisfy federal requirements for an environmental assessment. Vendors have estimated a construction timeline of 8 to 12 months after the contract award date. The FY 2005 budget assumes 1,000 beds will be open by June 2005.

(Continued)

- Privatization of inmate stores was scheduled to begin on January 15, 2005, but ADC now expects to award the contract mid to late January 2005 with a start-up date depending on the vendor's ability to mobilize and begin providing services.
- The Community Accountability Pilot Program is projected to begin by the end of November 2004.

Analysis

Update on Provisional, Public, and Private Beds

ADC has provided its latest monthly status report to the Legislature on beds authorized in Laws 2003, Chapter 5, 2nd Special Session. Chapter 5 authorized an unspecified number of provisional beds, 1,000 new state beds, 1,000 new private beds, and funded 138 County jail beds. In addition, the FY 2005 General Appropriation Act provided funding for a 1,400-bed private prison in Kingman.

The department contracted with private companies for 2,064 provisional beds located in Oklahoma (1,200 beds) and Texas (864 beds). ADC had all of these beds filled with level-2 and level-3 inmates until a May 14 disturbance at the Diamondback Correctional Facility in Oklahoma. As a result of this disturbance, the department has moved a total of 442 inmates back to Arizona prisons from the provisional beds. The department returned all level-2 inmates, not involved in the disturbance, and level-3 inmates who were returned for security reasons or those involved in the disturbance who no longer qualified for housing in the facility per Oklahoma statute. An investigation by ADC and Oklahoma Corrections officials is ongoing and it is unknown, at this time, if ADC will move additional inmates back to Arizona as a result of the investigation. ADC's FY 2005 budget assumes the department will return 1,400 inmates from out-of-state provisional beds, leaving 664 at the end of the fiscal year. As of September 30, there were 1,606 inmates in out-of-state provisional beds.

The private prison in Kingman opened 472 beds on August 24. The original opening date of August 9 was delayed due to construction certification problems. There are currently 324 DUI inmates occupying these beds. The department projects the final 928 beds of the 1,400-bed private prison contract will open in April 2005.

Construction work continues for the 1,000 in-state permanent public beds and is on schedule for a November 2004 completion date. The department maintains the three sites (Perryville, Tucson, and Douglas) will be open for occupancy in December 2004.

No contract, however, has been awarded for the 1,000 in-state permanent private beds. The department indicated they are awaiting federal Department of Justice (DOJ) approval to spend grant monies on the project, pending review of an environmental assessment of the proposed sites. The environmental assessments are required because the department is funding construction of the beds with federal monies from the Violent Offender/Truth-In-Sentencing (VOITIS) grant. The department has provided information to a consultant who will prepare the environmental assessment, which will be submitted to DOJ. The department's revised date for awarding the contract is the end of November 2004. The bid deadline was June 18, 2004 and there were two responders. Vendors have estimated a construction timeline of 8 to 12 months after the contract award date.

The CY 2004 year-to-date average monthly growth rate is 112 inmates and the FY 2005 year-to-date average growth rate is 111 inmates.

Privatization of Inmate Stores

Laws 2004, Chapter 281 required ADC to privatize inmates stores by January 15, 2005. The department was directed to issue a Request for Proposal (RFP) on or before September 1, 2004 and award a contract on or before November 1, 2004. Private entities, ADC, or Arizona Correctional Industries are eligible for

(Continued)

award of the contract. Proceeds from the state's portion of profits derived from inmate store privatization will be deposited into an inmate store proceeds fund and the monies may be used for inmate activities, incentive pay for correctional officers, safety equipment, or other official needs.

Based on the latest information provided by the department, the RFP has not been released and is awaiting final review and approval from the Director. ADC will not be able to meet the date established in statute to implement privatization. The department anticipates the RFP will be published by October 1, 2004, with proposals due in November. The department expects that by mid to late January 2005, an award will be made to the successful vendor. The actual start-up date will be dependent on the vendor's ability to mobilize and begin providing services. The department has informed us they cannot meet the timeline due to numerous issues that must be addressed in the RFP, such as security, product quality, logistics, pricing, and creating an electronic interface between vendor sales records and the department's automated banking system.

Chapter 281 did not require JLBC review of the RFP.

Community Accountability Pilot Program

Laws 2004, Chapter 204 required ADC to establish a Community Accountability Pilot Program. Chapter 204 authorized the department to contract with a private or non-profit entity to provide supervision and treatment services for eligible offenders who have violated the terms and conditions of community supervision. In lieu of parole or community supervision revocation that would send the inmate back to prison, the pilot program allows an inmate to remain out of prison and be monitored by a private or non-profit entity that also provides programming and counseling services outlined in statute. After an eligible inmate has been in the program for 60 days or more, the department may require the inmate to pay a supervision fee, with proceeds deposited into the Community Accountability Fund. Program participation is capped at 1,000 inmates the first year and 2,000 inmates the second year. In addition, the contracting entity must provide monthly reports to the ADC Director and the JLBC during the first year of operation and annual reports during the second year of operation. Based on the latest information provided by ADC, the department is in the process of completing the RFP, and will submit the completed proposal to the ADC Director for approval. The department expects to publish the RFP in October, evaluate the proposals in November and make an award by the end of November.

RS:TV:ss

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DATE: October 6, 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 – Report on Child Protective Services Issues

Request

Pursuant to Laws 2003, Chapter 6, 2nd Special Session, the Department of Economic Security (DES), is required to submit a financial and program accountability report for Child Protective Services (CPS) on a semi-annual basis, beginning August 1, 2004.

Recommendation

This report is for information only and no Committee action is required. The JLBC Staff does recommend, however, that the Committee request that future reports include:

- Actual CPS caseloads per investigator and ongoing case manager, as required by Chapter 6.
- Monthly employee turnover data so as to permit tracking the progress of hiring CPS staff.

The highlights of the report are:

- The number of caseworkers in training has increased significantly.
- DES did not provide caseloads of CPS caseworkers as required by Chapter 6, so we are unable to evaluate how much progress DES has been made in this regard. As a substitute, DES reports that it has a net staffing need of 101 positions, after adjusting for new positions approved for either the FY 2004 or FY 2005 budget.
- The turnover rate of CPS caseworkers is 19%. Since this data reflects a 6-month period from January to June, we are unable to evaluate progress over time.
- Measures on employee satisfaction and independent assessments of CPS actions will be available in the next 6-month report.

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 report is to include 12 measures, as identified either in statute or by the JLBC.

The 12 measures and the August 1 findings are as follows:

1) Success in meeting training requirements

DES reports a total of 83 CPS caseworkers in the CPS training academy as of June 2004, and an average monthly enrollment of 54 employees from April through June. As a point of comparison, from January through March there was an average of 16 employees enrolled in the academy each month. In January and February, all employees enrolled in the academy graduated.

2) Caseloads for CPS caseworkers

The report identifies the number of investigations, in-home cases, and out-of-home cases, as well as the number of staff required for each of these types of cases by month. It also breaks out these cases by district and delineates the number of staff required for each district for each type of workload. The report does not, however, identify the number of filled positions in these categories. As a result, it is difficult to estimate the actual caseloads experienced by CPS workers each month. The JLBC Staff therefore recommends that future reports include caseload data for investigators and ongoing case managers.

In addition, the special session legislation required DES to develop and adopt its own specific CPS caseload standards by July 1, 2004, and report these standards to the Joint Legislative Committee on Children and Family Services. In the July 1 report, DES indicated that it is consulting with the National Resource Center for Child Maltreatment to establish caseload standards, but had not yet finalized standards specific for the Arizona CPS system. DES also indicated that caseload standards will be completed in 2 phases. The first phase will establish standards for CPS investigations while the second phase will establish standards for ongoing case management. The department does not expect to have ongoing case management standards finalized until the end of FY 2005. DES did not identify a specific timeframe for the completion of caseload standards for investigations.

While actual caseloads per worker are not provided, the report indicates that in January, the Division of Children, Youth and Families (DCYF) had a net staffing need of 117 CPS caseworker positions. This number has been adjusted to include the additional 75 positions (64 General Fund, 11 Federal Funds) added in the 2004 Regular Session. At the end of June, DES still reports a net staffing need of approximately 101 caseworker positions. It appears that the staffing need decreased by 16 positions as a result of a decrease in the number of investigations.

3) The number of new cases, cases that remain open and cases that have been closed

Over the 6-month period, DES reports a slight increase in the number of in-home cases as well as the number of children in out-of-home care. The report identifies the number of closed in-home cases and the number of children leaving out-of-home care. In June 2004, DCYF had closed approximately 2,023 in-home cases and 576 children left out-of-home care. When comparing these figures over the 6-month period, no consistent pattern emerged. In addition, DES identified approximately 6,300 inactive cases in January 2004, and approximately 6,900 cases in June. Inactive CPS cases are defined as having no activity for 60 days or more, and are not included in the caseload numbers for in-home or out-of-home cases.

4) The ratio of CPS caseworkers to immediate supervisors

The report identifies the statewide ratio of CPS caseworkers to supervisors at approximately 6 caseworkers per supervisor. When this figure is broken out by type of district, the average number of caseworkers per supervisor is 4 in rural districts and 6-7 caseworkers per supervisor in urban districts (includes Phoenix and Tucson). The Child Welfare League of America recommends a ratio of 5 caseworkers per supervisor, but DES has asked for supervisors at a 6 to 1 ratio.

5) Employee turnover, including a breakdown of employees who remain with the department and employees who leave the department

DES reports an annualized statewide turnover rate of 19.2% for CPS caseworkers and 7% for CPS supervisors. The turnover rate for CPS caseworkers ranges from 16% in District 1 to 25% in District 5. For CPS supervisors, the turnover rate ranges from 3% to 15%. DES reports that a total of 94 CPS caseworker positions were vacated from January through June. Of this amount, 68 people (or 72%) left state service, 6 transferred out of DCYF but continued their employment with DES, 9 caseworkers transferred to a different district, and 11 individuals were promoted within DCYF.

DES has submitted data for each month of the 6-month period for most of the performance measures included in the report, but has not included this level of detail for this measure. Monthly data for employee turnover would be particularly useful to track the progress of hiring CPS staff as well as overall CPS staffing.

6) The source and use of federal monies in CPS

In FY 2004, DES estimates it spent approximately $180.6 million in federal funds. This number does not include end of the year administrative adjustments. Of the $180.6 million, $75.2 million represents Temporary Assistance for Needy Families Block Grant monies appropriated in the DCYF budget. The remaining $105.4 million represents non-appropriated funds and includes monies such as Social Services Block Grant, Title IV-E, and Title IV-B monies. The information provided in the report is limited to expenditure data and does not include total revenue collected from these fund sources.

7) The source and use of state monies in CPS

In FY 2004, DES estimates it spent approximately $100.5 million in state funds. This number does not include end of the year administrative adjustments. Of the $100.5 million, $98.9 million represents General Fund expenditures with the remaining $1.6 million spent from various other state funds. Of the $100.5 million in state monies, $99.8 million was spent from appropriated funds. The information provided in the report is limited to expenditure data and does not include total revenue collected from these fund sources.

The department has not yet submitted data for measures 8 through 12, listed below:

8) Employee satisfaction rating for employees completing the CPS Training Academy
9) Employee satisfaction rating for employees in the Division of Children, Youth and Families
10) Percent of CPS original dependency cases where court denied or dismissed petition for removal
11) Percent of Office of Administrative Hearings decisions where CPS case findings are affirmed
12) Percent of CPS complaints reviewed by the Office of the Ombudsman where allegations are reported as valid by the Ombudsman

DES has indicated that these measures will be included in the February 1 report.

RS/KH:ck

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DATE: October 1, 2004

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: JLBC Staff/Arizona State Schools for the Deaf and Blind – Report on Additional Classroom Site Fund Monies

Request

The JLBC Staff has been working with the Arizona State Schools for the Deaf and the Blind (ASDB) to update the Committee on how ASDB plans to spend the $1.2 million increase in Proposition 301 Classroom Site Fund monies.

Recommendation

This item is for information only and no Committee action is required. Most of the additional $1.2 million will be used for base salary and performance-based salary increases totaling $3,600 per teacher (an 8.8% increase). Remaining monies will fund class size reductions and other maintenance and operation programs.

Analysis

Each year, school districts and the ASDB receive monies from the Proposition 301 Classroom Site Fund (CSF) pursuant to A.R.S. §15-977. Until this year, only Group A weights have been used to determine CSF distributions to the ASDB. Starting in FY 2005, however, A.R.S. § 15-977(G) requires ASDB's distribution to be based on both Group A and Group B weights. This will increase ASDB's CSF allocation by an estimated $1.2 million, for a total of $1.6 million in FY 2005.

Pursuant to A.R.S. § 15-977(C), CSF distributions may only be expended on base compensation increases (20 percent), performance based compensation (40 percent) and certain maintenance and operation expenditures (40 percent), including teacher compensation, class size reduction, teacher development and AIMS intervention. ASDB proposes to spend the anticipated $1.6 million in the following manner:

Item	**$**	**%**
Teacher Base Pay Funds (salary increases to eligible staff)	$320,000	20%
Teacher Performance Pay Fund (salary increases based on meeting set requirements)	$640,000	40%
Maintenance and Operations (by priority of program)	$640,000	40%
Mentor-Protégé program incentives	75,000	
Class size reduction	430,000	
Staff development	80,000	
After school programs (including AIMS Intervention)	55,000	
Total	$1,600,000	100%

Under this proposal, approximately 260 staff would be eligible for salary increases. This would include all certified staff members who spend more then 50% of their time in regular planned instruction. (ASDB is exploring the possibility of also making teacher aides eligible for Proposition 301 performance pay, but the current proposal limits it to teachers only.) The overall salary increase would include $1,200 per teacher for a base increase and $2,400 per teacher for performance pay. Thus, the total salary increase would be approximately $3,600 per teacher. The total cost is estimated at $320,000 for base pay increases and $640,000 for performance pay. The proposal will provide an average salary increase of 8.8% per teacher.

A cost study by ASDB indicates that special education teachers at 5 public schools, with which ASDB is regularly compared, *start* at an average annual salary of $30,696 in FY 2005, not including performance pay. The proposed increase would raise ASDB teachers to an average *starting* salary of $28,504 per year, not including performance pay, which would be about 7.7% below that of the 5 comparison districts.

Based on preliminary results from an Arizona Department of Administration (ADOA) salary survey required by A.R.S § 15-1331, the overall *average* salary for special education and other specific specialized teachers at ASDB for FY 2005 is about $41,600. This is about 2.2% below the average annual FY 2005 salary of $42,500 for medium and large school districts in counties that have an ASDB campus (Maricopa and Pima counties). Full results from the ADOA survey are not yet available, but will be reported to the JLBC once completed.

The proposed expansion of the Mentor-Protégé program is designed to assist new teachers in the ASDB system. Experienced teachers mentor up to two new teachers. They are paid $1,000 for each protégé. Teachers in the first three years of teaching in the ASDB system may participate as protégés and are paid $500. Total program costs would depend on the level of participation, but is estimated at $75,000. In the 2003-2004 school year this program was also funded through the CSF allocation at $60,000.

The proposed class size reduction is expected to approach $430,000 and would include 8 to 10 new instructional staff and continued funding for staff from the previous year's allocation. These positions have been identified and are currently advertised. Up to $135,000 is budgeted to continue and expand staff development and after school programs, with an emphasis on preparing students for the AIMS tests. Any monies left over after the completion of the 4 Maintenance and Operations programs listed above will be used for further class size reduction.

RS/EJ:ck

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DATE: October 6, 2004

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

THRU: Richard Stavneak, Director

FROM: Kimberly Chelberg, Fiscal Analyst

SUBJECT: Department of Juvenile Corrections—Report on Federal Audit Issues

Request

The JLBC Staff has been working with the Department of Juvenile Corrections to update the Committee on progress made since the FY 2004 Civil Rights of Institutionalized Persons Act (CRIPA) investigation and pending lawsuit by the US Department of Justice.

Recommendation

In 2003, the Department of Justice (DOJ) conducted a federal audit, also known as the CRIPA investigation, following three youth suicides and reports of physical and sexual abuse in Arizona's juvenile correctional facilities. After audit findings were released, the Department of Justice filed a federal lawsuit against the State, and, in an effort to avoid further federal action, the Arizona Department of Juvenile Corrections (DJC) and the Department of Justice established a Memorandum of Agreement. With this Memorandum, signed by Governor Napolitano on September 15, the State vows to continue juvenile corrections reform efforts as outlined by the CRIPA report. The federal lawsuit was conditionally dismissed with the stipulation that the Department of Justice can reopen the case if the DJC does not comply to the Memorandum provisions by the September 15, 2007 expiration.

This report also contains information on the DJC population, which is currently 100 juveniles below the FY 2005 budget amount.

This report is for information only and no Committee action is required. The JLBC Staff, however, recommends that the Committee request that DJC provide:

- an estimate of the current FY 2005 savings from a lower-than-budgeted population,

- a comparison of the FY 2005 savings to the Department's projection of $1.9 million in savings from lower population in FY 2006, and

- its plan for using the population savings in FY 2005 to address some of the remaining federal audit issues.

Analysis

The Memorandum of Agreement highlighted five key areas that fell short of federal statute requirements: suicide prevention, juvenile justice, special education, medical care and mental health. The main issues and the required reforms are outlined in *Table 1*.

Table 1: Memorandum Main Issues

Issue	**Required Reforms**
Suicide Prevention	Provide suicide prevention training; Improve identification and screening of suicidal youth; Create suicide-resistant facilities; Develop supervision levels based on suicide risk; Implement intervention techniques with emergency equipment
Juvenile Justice	Create a confidential grievance system, Provide protection from harm; Increase staffing; Continue use of Investigations and Inspection Unit; Create Quality Assurance Team; Implement policies and procedures with disciplinary confinement/due process
Special Education	Meet minimum State special education standards; Create Individual Education Plans (IEPs); Design and implement training requirements/quality assurance practices
Medical Care	Provide "adequate, appropriate and timely medical, dental, and nursing care"; sufficient staff for all shifts; Provide quality assurance
Mental Health Care	Meet minimum standards for mental health treatment; Continue to develop intake screening and assessment tools

In order to ensure fulfillment of the required measures, a Consultants Committee, a team of experts selected by the parties involved, will monitor DJC compliance with all provisions of the Memorandum of Agreement during the allotted three-year period. The Memorandum, however, does not identify the amount of monies needed for complete compliance to its terms.

Prior to the Memorandum of Agreement, the Legislature allocated an additional $5.1 million General Fund monies and 73.5 FTE to provide for CRIPA reforms in FY 2005. This action increased the Department of Juvenile Corrections' total budget to $72.1 million with the new issue funding in FY 2005 distributed in the following manner:

- Suicide Prevention (including physical modifications and monitoring): added 7 Youth Programming Officers and $932,000.

- Juvenile Justice (including staffing and training with partial overlap in other allocated areas, an investigations unit, quality assurance, and a grievance system): added 48.5 FTEs, including Youth Correctional Officers, Recruiters, Investigators, and Youth Mediators, and $2,238,000.
- Special Education (including 504 compliance): added 15 FTEs, including psychologists, counselors and teachers, and $834,800.
- Medical Care: added 3 nurses/records management personnel and $118,200.
- Mental Health/Rehabilitation (including discharge planning): added 0 FTE and $992,800.

The Department of Juvenile Corrections has requested an additional $7.3 million from the General Fund in FY 2006 to continue reforms related to the CRIPA agreement. Most of this funding is to increase the number of staff such as Youth Correctional Officers (YCOs), special education teachers, behavioral health staff, and 24/7 nursing coverage. Completion of facility renovations for suicide prevention accounts for $1.1 million of the request.

Decrease in Forecasted Population
The JLBC Staff has also been working with the department to examine population trends in the juvenile corrections system. The Department of Juvenile Corrections was provided funding for 743 secure care beds in FY 2005 to reflect the steadily declining population in juvenile facilities, as seen in *Table 2*. With the population expected to drop further, the DJC proposes to eliminate three 25-bed units in FY 2006, which reduces the Department's funded beds to 668. The DJC recommends a reduction of $1.9 million in FY 2006 associated with the bed reduction.

Table 2: Decrease in Population

	Funded Secure Care Population (Beds)	Actual Secure Care Population, Monthly Average
FY 2003	818	794
FY 2004	818	697
FY 2005	743	624 (3-month average)
FY 2006 (DJC estimate)	668	--

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DATE: October 4, 2004

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: Department of Health Services/AHCCCS – Report on Health Crisis Fund

Summary

At its August meeting, the Committee heard a report from the Department of Health Services on the FY 2004 expenditures from the Health Crisis Fund, including expenditures for education and outreach for both Medicare prescription drug discount cards and the Healthcare Group program. The Chairman and Vice-Chairman had asked the Governor's Office for clarification on several of the issues related to these expenditures. We have attached both the letter from the chairmen (Attachment A) and the response from the Governor's Office (Attachment B).

AHCCCS reports that $57,056 of the Healthcare Group outreach money has been spent as of September 1, 2004, and that the remaining $142,944 will be spent by December 2004. In addition, the response from the Governor's Office indicates that AHCCCS will revert the monies authorized for Medicare drug discount card outreach because other monies have become available for this purpose. In subsequent conversations with the JLBC Staff, AHCCCS has indicated that it plans to revert the entire $230,000 authorized for this purpose.

Recommendation

This item is for information only and no Committee action is required. There is some confusion about the Healthcare Group administration budget. We originally believed that the $200,000 in Health Crisis Fund monies was supplanting an existing marketing budget of $1.1 million. AHCCCS now reports it will only spend $300,000 of its base budget for marketing and that the remainder of the base budget will be used for other administrative costs.

As a result, the JLBC Staff recommends that the Committee ask AHCCCS to report on its total FY 2004 actual and FY 2005 estimated expenditures for Healthcare Group administrative costs, including a breakdown of marketing and non-marketing expenditures. The report should include an explanation of why the FY 2005 non-marketing expenditures are expected to be higher than the previous year's spending.

Analysis

The Health Crisis Fund receives up to $1,000,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund. Pursuant to A.R.S. § 36-797, the Governor may declare a health crisis or a significant potential for a health crisis and authorize monies from the Health Crisis Fund for the emergency.

The Governor authorized FY 2004 expenditures of $795,418, including expenditures of $230,000 for outreach for Medicare prescription drug discount cards (including the CoppeRx Card) and $200,000 for Healthcare Group marketing, outreach, and education. The Committee expressed concern over these authorizations and the Chairman and Vice-Chairman asked for additional detail from the Governor's Office about why these monies were needed (see Attachment A).

Medicare Drug Card Outreach

Subsequent to the August meeting, the Centers for Medicare and Medicaid Services announced that it would provide prescription drug discount cards to all low-income Medicare beneficiaries, as well as information about how to activate the $600 federal benefit for which they qualify. Therefore, the Governor's Office reports that the $30,000 from the Health Crisis Fund that was earmarked for mailing similar information will be reverted to the Medically Needy Account.

Also at the August meeting, the Committee was presented with the expenditure plan for the recent Attorney General settlement with Medco Health Solutions. As part of the plan, $259,800 was set aside to educate Arizona consumers on cost differences of prescription drugs and the programs available to Arizona citizens using prescription drugs. The Chairman and Vice-Chairman asked the Governor's Office whether these monies were taken into account prior to authorizing the $200,000 in Health Crisis Fund monies for a similar purpose. Although the Governor's Office reports that it was not aware of this settlement prior to the authorization of the Health Crisis Fund monies, they are working with the Attorney General's Office to use the settlement monies for Medicare drug card outreach. After these monies are disbursed, the Governor's Office reports that it will direct AHCCCS to revert the remainder of the Health Crisis Fund monies to the Medically Needy Account. AHCCCS reports that it expects to revert the entire $200,000.

Healthcare Group

Healthcare Group is a program administered by AHCCCS that provides access to health insurance for small business employees and self-employed individuals. Members pay monthly premiums that cover most of the cost of the health coverage and the administrative costs of the program. Laws 2004, Chapter 332 appropriated $3.2 million of these monies for Healthcare Group administrative costs (including marketing activities) in FY 2005. This funding represents an increase of $1.4 million above the FY 2004 appropriation for administrative costs.

During the discussion of the FY 2005 Healthcare Group budget, AHCCCS had released a request for proposal (RFP) for a contract beginning January 15, 2004 to market the Healthcare Group program, with a goal of increasing enrollment to 30,000 members over the first year of the contract and to 90,000 by the end of the third year. The RFP explicitly states these i
ncreased enrollment goals and outlines a schedule of incentive payments to the marketing contractor that could reach $1.1 million in the first year of the contract.

In response to the questions from the Chairman, however, AHCCCS now reports that Healthcare Group enrollment was not expected to increase significantly until the second fiscal year of the contract and therefore only $300,000 of the FY 2005 appropriation was expected to be used for marketing (see Attachment B). Including the $200,000 in Health Crisis Fund monies, this brings total expected FY 2005 spending on marketing, outreach, and education to $500,000.

AHCCCS indicates that the remainder of the increase in administrative funding ($1.1 million) was necessary for general administrative costs that are not related to marketing. The JLBC Staff recommends that the Committee ask AHCCCS to provide more details about its administrative budget, including a breakdown of FY 2004 actual and FY 2005 estimated marketing and non-marketing expenditures. The report should also include an explanation of why an increase of $1.1 million was needed for non-marketing administrative costs from FY 2004 to FY 2005.

RS/BK:ck
Attachments