STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RANDALL GNANT
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RUSSELL W. "RUSTY" BOWERS
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JOE EDDIE LOPEZ
JOHN WETTAW

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

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JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, June 20, 2000
8:00 a.m.
Senate Appropriations Room 109

AGENDA

- Call to Order

- Approval of Minutes of May 16, 2000.

- EXECUTIVE SESSION
  A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
  B. Arizona Department of Administration, Risk Management Services - Annual Report.

- DIRECTOR'S REPORT (if necessary).

1. SCHOOL FACILITIES BOARD - Report on Status of Deficiencies Corrections Assessment.

2. DEPARTMENT OF HEALTH SERVICES
   A. Consider Approval of Transfer of Appropriations.
   B. Review Capitation Rate Changes for Behavioral Health Services.

3. ARIZONA HISTORICAL SOCIETY - Consider Approval of Transfer of Appropriations.

4. ARIZONA PIONEERS' HOME - Consider Approval of Transfer of Appropriations.

5. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of Federal Social Services Block Grant FY 2001 Expenditure Plan.
   B. Consider Approval of Transfer of Appropriations.
   C. Bimonthly Report on Arizona Works.

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

7. DEPARTMENT OF CORRECTIONS - Review Private Prison Contract.

(Continued)

8. DEPARTMENT OF TRANSPORTATION
   A. Report on Grand Canyon Airport Funding.
   B. Report on Highway Maintenance Levels of Service for Snow & Ice

9. ATTORNEY GENERAL - Report on Collection Enforcement Revolving Fund.

10. JLBC STAFF - REPORT ON JLBC RULES.

The Chairman reserves the right to set the order of the agenda.
06/14/00

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

May 16, 2000

The Chairman called the meeting to order at 9:17 a.m., Tuesday, May 16, 2000, in Senate Appropriations Room 109. The following were present:

Members:	Senator Randall Gnant, Chairman	Representative Bob Burns, Vice-Chairman
	Senator Arzberger	Representative Blewster
	Senator Bowers	Representative McGrath
	Senator Cirillo	Representative McLendon
	Senator Lopez	Representative Weason
Absent:	Senator Bundgaard	Representative Daniels
	Senator Jackson	Representative Gonzales
	Senator Wettaw	Representative McGibbon
Staff:	Richard Stavneak, Director	Sharon Savage, Secretary
	Chris Earnest	Gina Guarascio
	Gretchen Logan	Bruce Groll
	Tom Mikesell	Brad Regens
	Stefan Shepherd	Paul Shannon
	Lynne Smith	
Others:	Kim Baker	Senate
	Debbie Johnston	Senate
	Chad Norris	House of Representatives
	Greg Gemson	House of Representatives
	Philip E. Geiger	School Facilities Board
	Tom Prose	Attorney General's Office
	Patrick Cunningham	Attorney General's Office
	Elliott Hibbs	ADOA
	Frank Hinds	ADOA, Risk Management
	Mike Schaiberger	ADOA, Benefits
	Clark Partridge	ADOA, General Accounting Office

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of March 20, 2000, Senator Gnant stated that the minutes would be approved as submitted.

Senator Gnant explained to the members that they were given a handout on health vendor performance. He asked if any of the members wished to hear about it before they adjourned into Executive Session. There were no requests.

EXECUTIVE SESSION

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

At 9:20 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 9:45 a.m. the Committee reconvened into open session.

DIRECTOR'S REPORT

Mr. Richard Stavneak, Director, JLBC, explained a memo given to the members describing wildland fire fighting. This was to update the members, especially with what was happening with the Coon Creek Fire. Most of the fires in the state so far have been on federal land. The federal government reimburses most of the cost of fighting those fires. The state also has $3,000,000 in funds to fight fires if they occur on state or private land. The Governor is tapping into these funds for pre-positioning and using another $1,000,000 for actually fighting fires. The newspaper said that the Coon Creek Fire has cost about $4.6 million. Most all of that will be paid by the federal government.

Representative McGrath asked if pre-positioning meant taking fire fighting equipment out of the National Guard Armory and positioning it around the state.

Mr. Stavneak explained that it was a more active effort at having equipment and personnel ready at a moment's notice than a long-term mobilization effort. Equipment and personnel are positioned in different areas of the state to respond more rapidly when a fire does start. The state only has a small fire fighting force and this allows it to contract staff on a seasonal basis, ready to respond in a quicker fashion than normal.

SCHOOL FACILITIES BOARD - Update

Senator Gnant said that he had requested Dr. Geiger spend a few minutes with them to answer a number of questions from the Committee.

Representative McGrath asked why information of Flex-Tech's financial condition was withheld from the Committee at the December meeting.

Dr. Phil E. Geiger, Director, School Facilities Board, explained that the contract was awarded through the normal procurement process. The Procurement Office received the typically provided credit information, and Flex-Tech did receive a $1.8 million bond, which is in full force. The bonding company is supporting Flex-Tech financially to ensure that the project is completed.

Senator Bowers said that it is presumed that the company is back on the job and that the job will be completed. He asked what was meant by completed, because the question of accuracy is important when it comes down to the bottom line of financing.

Dr. Geiger said that their goal is to complete the evaluation with a level of integrity and reliability so as to use the data correctly in the future. Flex-Tech could have provided them with initial reports, but that would not have given them satisfactory information. They have been very stringent when looking at the quality and comprehensiveness of the reports and the completeness of the data. The board has their own employees monitoring Flex-Tech and they have identified every area of on-site violations that were unsatisfactory or incomplete. Flex-Tech has been required to go back and recollect that information. The bonding company has agreed to support them in that process so there is no financial concern. The study was to be completed by the end of April, but now the estimate is that it will be completed by September or October.

Representative Blewster asked why the square footage of school space was so much more than what was originally estimated.

Dr. Geiger said that initially the state did not know how many square feet of school space there was in Arizona. The first estimate was about 64 million square feet. Over the last few years, the board has received more data on actual square footage and now believes the number to be 96 million square feet. When Flex-Tech first bid on the project there were two

documents—one that said 64 million square feet and the other was adjusted to say 96 million square feet. However, the bid was on a square foot basis. When they compared all the bids, Flex-Tech was approximately $3 million lower that the next highest bid.

Representative Blewster asked if there was a schedule when the schools would start being built or refurbished.

Dr. Geiger said that schools with immediate needs can apply for Deficiencies Correction Fund monies for work over the summer months. If school districts are prepared to fund those projects from local funds and have the projects approved by the School Facilities Board as deficiency corrections, schools will be reimbursed some time in the future when that project would normally have been completed. The funds would not be paid to school districts until all deficiencies projects are funded so that poorer districts would not be punished because wealthier communities are able to pre-fund school projects. In October, the board expects to approve all the projects and the years in which they are to be completed, based on current regulations. The board is suggesting that they award some funding for districts to start the design for the subsequent years work. Dr. Geiger said that they have also made a special effort to look at statewide contracts for some services. They estimate that at least a half million dollars alone will be spent on roofing repairs. If each district were to go out and bid their own roofing projects, the cost would escalate dramatically.

Senator Cirillo asked how the $50 million to purchase computers relates to the minimum acceptable standards required for computers in schools.

Dr. Geiger said that there are approximately 868,000 students in the state and normally 100,000 computers would be required. They estimate that 50% of the school districts already meet their requirements and that the 50,000 computers will bring every school district to the 1 to 8 ratio.

Senator Lopez asked if there was some assurance that the employees of Flex-Tech would be paid either by Flex-Tech, the bonding company, or the state, even if Flex-Tech were to go under.

Dr. Geiger said that the bonding company did provide the funding for the most recent payrolls. The board had withheld payment of the last invoice because the work was unsatisfactory. The board in the future will continue to make payments upon completed satisfactory work.

In response to further questions from Senator Lopez, Dr. Geiger explained that the law stipulates that by the year 2003 these projects will be underway and implemented. The board plans to award everything in a timely fashion and even exceed the obligation of the year 2001 award date. The board is preparing E-Rate applications so that districts can receive federal dollars for E-Rate networking. The federal government will give districts between 25% and 90% of the cost of networking. If these applications are not completed, the state could lose millions of dollars because it is obligated to pay for the networking under the current law.

Dr. Geiger said that they expect to issue the July 15th stratified report even if they have to use fewer districts in the sample. After the board receives the field assessments, the estimates and scope of the work is reviewed by the board and an independent consultant. Superintendents from the school districts then go over the assessment with the board. This will take about two hours for each school district and some of the larger districts will take longer.

Dr. Geiger said that they had advised all the investigators that when they leave a school district, to be sure that the district has given them everything they thought was a problem. The goal is to get all the data and then assess that data to make sure that it is the state's responsibility. Final decisions will be made by the School Facilities Board. He added that there are also priorities as to what gets done when. They have met with school personnel over this past year and have found them very appreciative of the fact that they are trying to collect comprehensive data. The districts are concerned, however, that they will not get everything they want.

In regard to the $150 million available for use this summer, Dr. Geiger said approximately $50 million will be distributed to school districts for the technology acquisition. All emergency issues from the districts have been addressed and much of that work is done. Some districts do not have adequate electrical circuitry for computers in all of their classrooms. In many cases, districts are working with teachers to make sure they understand how to use the technology in the classroom. Dr. Geiger said they have decided to delay the networking piece until the spring of 2001. Wireless networking would prevent drilling through the walls. With wireless networking, schools may be able to use battery-powered technology and also avoid the problem of having to install more electrical systems. On May 24, there is a conference with all the school districts and

one of the presentations is on wireless networking. They also want to have the schools complete all E-Rate applications and have even hired a person to submit the applications for the districts if need be.

In response to questions from Representative McLendon, Dr. Geiger explained that the performance bond had cost the State of Arizona $63,000 so far. So far, Flex-Tech has been paid $800,000 of the $2 million contract and over 300 schools had to be re-inspected. The inspections are expected to be completed by the end of September or the early part of October. He added that he was not sure how long it would take the districts to comply with the court ruling; the state, however, will have complied by the year 2003.

Representative McLendon said that there was talk of a special session and part of that session will be education funding and a four-year extension from the year 2003. School districts feel that the need for new schools is being taken care of while they're still waiting for their repairs.

Dr. Geiger said the new schools are based on a formula and demographic studies. They are also funded from a funding source for new construction. Deficiencies Correction projects require a long process; and even though it has taken longer than expected, districts will be pleased when they are completed.

Senator Gnant asked if all schools were going to undergo this survey, even those that opened last September. He asked if the schools that do not want to be inspected waive their rights to receive any funds for the period of the Deficiencies Correction program.

Dr. Geiger said that some schools that have opened since 1989 indicated they do not wish to be evaluated and would not receive any funding. There are, however, some districts that built schools last year and want them assessed. This is required.

Senator Gnant thanked Dr. Geiger for coming and answering the many questions.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)
A. Consider Approval of an Increase in the Settlement Authority Levels.

Ms. Lynne Smith, JLBC Staff, said that this item was to increase the settlement authority for liability claims. Currently there are two different levels. The first would increase ADOA's settlement authority to $100,000. The second would increase the Attorney General's authority to $500,000. The JLBC Staff recommends approving the increase to ADOA's settlement authority, but does not recommend increasing that of the Attorney General. The JLBC Staff recommends retaining authority to approve settlements above $150,000. If the Committee decides to accept the proposed increase, they would need to modify the Committee's Rule 14.

In reply to a question from Senator Cirillo, Ms. Smith explained that the Committee could set any limit they wished. However, over the last few years there have not been any claims settled between $150,000 and $200,000, so that limit would not affect much of a change.

Mr. Tom Prose, Assistant Attorney General, Office of the Attorney General, said that the request to raise ADOA's level to $100,000 and the Attorney General's level to $200,000 came initially from Risk Management. He had analyzed the request based upon the cases that came before the JLBC and agrees with the $100,000 for ADOA. In the past, two hurdles had to be passed to settle a case. The plaintiffs could settle for Risk Management's authority of up to $25,000 and not go to trial. There were also a number of cases settled at $150,000 or less because the plaintiffs did not want to take the cases before the JLBC. If they wanted more than that, they would have to go to trial. Out of the 13 cases that settled for between $100,000 and $150,000, 10 were settled for exactly $150,000. Mr. Prose explained that when he was making his recommendation to the Committee he wished to keep some space between Risk Management's authority and the Attorney General's so that there still will be two hurdles for plaintiffs to jump. He recommended $500,000 because there were 30 cases that fell between $100,000 and $500,000. This would give them plenty of room to negotiate with plaintiffs. If they reduce that amount down to $250,000, there would still be 20 cases that fell within that category. If they were to leave the settle authority at $150,000, there would only be 13 cases. Mr. Prose explained that over the last two years, the Committee has seen a total of 35 cases. Increasing the settlement authority to $250,000 would have resulted in the Committee seeing seven fewer cases. If they increased it to $500,000, they would have seen 17 fewer cases.

Representative Weason asked if they had the number of cases that were settled for between $150,000 and $500,000 for the two prior years and if there were data available on the oversight the legislative committees in other states had regarding settlements.

Mr. Prose said that there were 18 cases settled within those amounts in FY 1996 and FY 1997. He explained that no other state has a system like Arizona's when it comes to oversight of settlements. Most states allow agencies to settle their own cases; and a number of western states have a cap, but the cap is so low that it does not go to oversight by the Legislature.

Senator Lopez asked how many cases in the last five years has the Committee changed from the recommendation proposed by the Attorney General Office or Risk Management.

Mr. Prose said that he recalled only one case where the Attorney General's Office recommended settlement and the Committee rejected that settlement. After going to trial, the award was more than the Attorney General's settlement recommendation. There have not been any changes to the Attorney General's recommendations by the JLBC for cases below $500,000. Most of the serious cases seen by this Committee fall into two categories. They are either custody (pardons, parole, DJC, and DPS cases) or highway cases.

Senator Lopez said that it would be prudent of this Committee to adopt both settlement increases. While it is a good idea to review these cases to make sure that the state's interests are being protected, not raising the limit may cost the state more money in lawyers fees, etc. If there was any evidence of negligence on the part of the Attorney General's Office or Risk Management, he would recommend that they continue to review the cases.

Representative Weason asked if the Attorney General's Office would be working with Risk Management to oversee settlements if the cap were raised to $100,000.

Mr. Frank Hinds, Risk Management Manager, ADOA, said they would be working with the Attorney General's Office to a lesser degree unless there is a lawsuit. Risk Management does not have an attorney on staff; however, the Attorney General's Office is available for advice anytime, whether or not there is a lawsuit. For the most part they get small claims, under $100,000, that involve property damage, medical payments, or loss of wages resulting from a state driver that may be at fault in an accident. These cases would settle for more than $25,000 but less than $100,000. There could also be some small claims from inmates.

Representative Burns moved that the Committee approve the JLBC Staff recommendation to increase ADOA's settlement authority with regard to liability claims against the state to $100,000. The motion carried.

Senator Lopez recommended that the Committee increase the settlement authority of the Attorney General's Office from $150,000 to $500,000.

Senator Cirillo felt $500,000 was too high and recommended raising the Attorney General's settlement authority to $250,000.

Representative McGrath said they should leave the limits where they are. Committee review enhances the understanding and oversight of state government. These real life cases provide members with a better opportunity to understand the inner workings of state agencies. The JLBC also lends substantial support to the efforts of ADOA and the Attorney General's Office to establish state policy and procedures that minimize liability claims against the state.

Representative Weason said she supported increasing the cap to $500,000. The Attorney General's Office has highly qualified and experienced attorneys. Legal costs would be lower and customer service would be increased. The experience that legislators receive by reviewing these settlements would not be hindered because they would have oversight in the larger cases.

Senator Lopez moved that the Committee increase the settlement authority for the Attorney General's Office from $150,000 to $500,000. The motion failed.

Senator Cirillo moved that the Committee authorize an increase in the Attorney General's approval of settlement authority from $150,000 to $250,000. By a show of hands, the motion carried.

B. Semi-Annual Report on Health Plan Performance Standards.

Ms. Lynne Smith, JLBC Staff, was available for questions. Members had received a separate handout at the beginning of the meeting with additional information (Attachment 1). This was for information only and there were no questions.

AHCCCS - Review Transfer of Tobacco Tax Medically Needy Account Allocations.

Ms. Gretchen Logan, JLBC Staff, was available for questions. There were none.

Representative Burns moved that the Committee give a favorable review to the requested transfer of monies in the Medically Needy Account of the Tobacco Tax and Health Care Fund between the allocations specified in Laws 1999, Chapter 176. The motion carried.

ATTORNEY GENERAL - Review Allocation of Settlement Monies (QWEST Communications & Toys "R" Us).

Mr. Brad Regens, JLBC Staff, was available for questions. There were none.

Representative Burns moved that the Committee give a favorable review to the Attorney General's allocation plan for settlement monies received pursuant to cases against Qwest Communications and Toys "R" Us. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY
A. Bimonthly Report on Arizona Works.

Mr. Stefan Shepherd, JLBC Staff, was available for questions. There were none.

B. Determine Arizona Works Caseload Reduction Savings

Mr. Stefan Shepherd, JLBC Staff, was available for questions. There were none.

Representative Burns moved that the Committee approve the JLBC Staff's estimate of cash benefit dollar amount savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program for calendar year 1999. Under the previously approved methodology, the Arizona Works vendor did not generate caseload reduction savings for calendar year 1999. The motion carried.

C. Review Expenditure Plan for the Long Term Care System Fund and Related Appropriation Transfers.

Mr. Stefan Shepherd, JLBC Staff, was available for questions. There were none.

Representative Burns moved that the Committee give a favorable review of the expenditure plan for increased capitation rates in the Long Term Care program and a favorable review of the proposed transfer of $2,605,000 from the Developmental Disabilities Home and Community Based Services line item to the Long Term Care Home and Community Based Services line item. The motion carried.

Mr. Stavneak explained that the last three items were for information only and no Committee action was required. As a point of clarification on an earlier agenda item, he noted that the Committee rules include the dollar level for the Risk Management settlements. By its earlier action, Mr. Stavneak wanted to clarify for members that the Committee rules would be revised to increase the level from $150,000 to $250,000.

DEPARTMENT OF ECONOMIC SECURITY/AHCCCS - Report on Competitive Bid Process for Services to the Developmentally Disabled.

This item was for information only and no Committee action was required. Senator Gnant asked if there were any questions. There were none.

COMMUNITY COLLEGES - Report on the Community College's Arizona Learning Systems Private Vendor Contract.

This item was for information only and no Committee action was required. Senator Gnant asked if there were any questions. There were none.

DEPARTMENT OF ENVIRONMENTAL QUALITY - Report on the Vehicle Emission Inspection Program Contract Development Process.

This item was for information only and no Committee action was required. Senator Gnant asked if there were any questions. There were none.

Without objection, the meeting adjourned at 11:10 a.m.

Respectfully submitted:

_____
Sharon Savage, Secretary

_____
Richard Stavneak, Director

_____
Senator Randall Gnant, Chairman

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

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DATE: June 14, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Lynne Smith, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REPORT ON STATUS OF DEFICIENCIES CORRECTION ASSESSMENT

We invited the School Facilities Board to update the Committee on the deficiencies correction process, including the statewide assessment and purchase of computers. Attached is a letter from the board that we received today.

RS:LS:ss

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DATE: June 14, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – CONSIDER APPROVAL OF REQUESTED TRANSFER OF APPROPRIATIONS

Request

Pursuant to A.R.S. § 35-173(c) and footnotes contained in the General Appropriation bills, the Department of Health Services (DHS) requests approval of transfers of appropriations for FY 2000 to increase funds available for the Seriously Mentally Ill (SMI) Title XIX State Match Special Line Item and the General Mental Health/Substance Abuse (GMH/SA) Title XIX State Match Special Line Item. Specifically, DHS requests to transfer monies from the Children's Behavioral Health (CBH) Title XIX State Match to the Seriously Mentally Ill Title XIX State Match and the General Mental Health/Substance Abuse Title XIX State Match as shown below. The request is for both General Fund (GF) and Total Funds (TF). The latter includes the matching federal funds.

TRANSFER FROM:		TRANSFER TO:	
Children's Behavioral Health	$(340,000) GF	Seriously Mentally Ill	$225,000 GF
Title XIX State Match	(994,400) TF	Title XIX State Match	$658,100 TF
		General Mental Health/	
		Substance Abuse	115,000 GF
		Title XIX State Match	336,400 TF
TOTAL	$(340,000) GF	TOTAL	$340,000 GF
	(994,400) TF		$994,400 TF

Recommendation

The JLBC Staff recommends that the Committee approve the requested transfers. As you will see in the agency letter attached at the end of this memorandum, DHS has provided the Committee members with minimal explanation and rationale for their request. We received most of our

(Continued)

information through phone conversations and e-mail. In the future, we suggest that DHS provide more information in its formal submission so as to permit the members to review the agency request first-hand, if they so desire.

Analysis

The Behavioral Health Title XIX programs, which are funded by state and federal matching funds, are budgeted based on enrollment in the Arizona Health Care Cost Containment System (AHCCCS) program. Only a small subset of those enrolled in AHCCCS actually utilize behavioral health services. Laws 2000, Chapter 3 provided a supplemental increase in appropriations for the Title XIX State Match Special Line Items for Children's Behavioral Health (CBH), General Mental Health/Substance Abuse (GMH/SA), and Seriously Mentally Ill based in part on expected increases in AHCCCS enrollment. The legislation anticipated growth in Children's enrollment of 12.3% for FY 2000, along with 2.2% enrollment growth in the SMI and General Mental Health Special Line Items. Title XIX enrollment growth, however, has actually been 10.2% in the Children's program versus the projected 12.3% growth. The SMI and General Mental Health programs have experienced 3% growth, compared to the 2.2% projection. Consequently, the SMI and General Mental Health Title XIX State Match Special Line Items are experiencing a shortfall, while a surplus exists in the Children's Special Line Item.

DHS is required by Federal law to provide funding for each person enrolled in Title XIX. As a result, DHS is requesting this transfer to provide the correct amount in each line item. Since this transfer will allow DHS to comply with Federal law and since the requested transfer amounts are consistent with AHCCCS enrollment, the JLBC Staff recommends a favorable review.

DHS provides Title XIX funding (discussed above) and Non-Title XIX funding (100% state funding) to its contractors, the Regional Behavioral Health Authorities (RBHAs), which manage services for the clients. DHS requires RBHAs to separately track expenditures according to the line item allocations. At the end of the fiscal year, however, the contract allows the RBHAs to offset losses in line items with surpluses achieved in other line items. RBHAs' profits are limited to 10% for all Title XIX programs combined and 4% overall (Title XIX and Non-Title XIX).

Recent newspaper articles have highlighted the RBHAs' use of surpluses in Children's programs (both Title XIX and Non-Title XIX) to cover shortfalls in the SMI programs (both Title XIX and Non-Title XIX). While RBHA profit margins in total are within the contract limits, surpluses and deficits in individual programs have been significantly larger. The articles discussed concerns that the surpluses have been caused by children receiving inadequate levels of service. Another perspective notes that RBHAs do not receive enough funding to comply with the Arnold vs. Sarn lawsuit, creating deficits. Under that line of thinking, if the SMI programs received more funding, RBHAs would not need to restrict services to children to cover the shortfall in SMI. Yet another perspective in Maricopa County is that the number of children receiving services is low due to a lingering perception among clients and providers that due to the large cuts implemented by ComCare several years ago, services still are not available.

As mentioned above, these concerns relate to the quality of services and the capitation rates provided at the RBHA level. It is a complex issue that the Committee may wish to further review. To clarify, however, DHS's current transfer request relates to adjusting the Title XIX state match amount to account for changes in the number of persons enrolled in AHCCCS. In addition, the state is required by Federal law to provide the appropriate state match.

RS/GG:ss

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DATE: June 14, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – REVIEW CAPITATION RATE CHANGES FOR BEHAVIORAL HEALTH SERVICES

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX behavioral health programs.

DHS has received approval from the Arizona Health Care Cost Containment System (AHCCCS) to change the capitation rates for the Children's Behavioral Health (CBH), Seriously Mentally Ill (SMI) and General Mental Health/Substance Abuse (GMH/SA) line items beginning July 1, 2000 and has submitted a plan showing the estimated cost of the rate changes for the Committee's review. DHS also received approval from AHCCCS to change the capitation rate for the DES-Developmental Disabilities (DD) population. This rate change, which will be retroactive to October 1, 1999, became effective April 1, 2000. The following table shows the budgeted and new capitation rates and the JLBC Staff estimates for the General Fund (GF) cost impact by program:

Program	FY 00 Rate	FY 01 Budgeted Rate	FY 01 Actual Rate	% Change	FY 2001 GF Cost/ (Savings)
CBH	$23.60	$24.43	$24.15	(1.2)%	$ (77,500)
SMI	50.71	52.48	51.83	(1.8)%	(1,994,900)
GMH/SA	12.88	13.33	13.36	0.2%	70,600
DES-DD	25.81	25.81	26.33	2.0%	25,000
TOTAL					$(1,976,800)

Recommendation

The JLBC Staff recommends that the DHS plan receive favorable review. The proposed capitated rate changes are based upon an actuarial review, and may result in savings for the General Fund. Enrollment growth, however, may outweigh these savings in FY 2001. As you will see in the agency letter attached at the end of this memorandum, DHS has provided the Committee members with minimal explanation and rationale for their request. We received most of our information through phone conversations and e-mail. In the future, we suggest that DHS provide more information in its formal submission so as to permit the members to review the agency request first-hand, if they so desire.

(Continued)

Analysis

CBH, SMI, and GMH/SA Rates
Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims and encounter data and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DHS requests a change in rates, the new rates must be approved by AHCCCS. AHCCCS generally consults with their own actuaries to evaluate DHS's requests.

As mentioned above, a footnote in the General Appropriation Act requires DHS to submit an expenditure plan to the Committee prior to implementing any change in capitation rates in the Title XIX behavioral health programs. In the past, capitation rate changes were implemented without notification of the Legislature. The footnote was added so that legislators would be made aware of these changes and the potential budget impacts before the new rates are implemented.

DHS has completed the actuarial process and has received AHCCCS's approval for new rates beginning July 1, 2000. These rates include costs associated with renewing contracts with all of the Regional Behavioral Health Authorities (RBHAs) except Value Options. DHS establishes different capitated rates for each RBHA within a pre-determined range, depending upon the price the RBHA bids to provide services. DHS anticipates that we may see further adjustment to the capitated rates when Value Options' contract is renewed October 1, 2000.

Based on enrollment projections used in developing the FY 2001 appropriations, the capitation rate changes will create a savings of $(77,500) GF associated with the children's program, $(1,994,900) GF associated with the SMI program, and an increase of $70,600 GF associated with the general mental health program. These savings are relative to the FY 2001 supplemental General Fund set-asides of $4,903,100 for the children's program, $3,499,000 for the SMI program, and $1,432,200 for general mental health. (We did not formally appropriate a FY 2001 supplemental to DHS, but sets aside General Fund monies to cover their anticipated costs.) Set-aside estimates for the children's and SMI programs were based on a higher projected capitation rate than is being requested. Thus, while the FY 2001 rates are higher than FY 2000 rates, they are less than the set-aside, resulting in a net savings.

The Behavioral Health Title XIX programs are budgeted based on enrollment in the AHCCCS program. Only a small subset of those enrolled in AHCCCS actually utilize behavioral health services. Title XIX enrollment growth, however, has actually been much less than anticipated in the children's program, while greater growth has been experienced in the SMI and general mental health program. The savings in the SMI and general mental health programs due to the capitation rate changes may be outweighed by increased costs due to higher than expected enrollment. Conversely, because enrollment in the children's program has been less than expected, the children's program may realize greater savings than projected by the change in capitation rate. The savings in CBH may offset some of the increased costs in SMI and GMH/SA.

Since the rates are based upon an actuarial calculation required by federal law, the JLBC Staff recommends that the Committee give the rates a favorable review.

Developmentally Disabled
The Department of Economic Security (DES) contracts with DHS to provide behavioral health care for its developmentally disabled Title XIX population. DES negotiates the capitation rate that DHS will pay to its contracted RBHAs for the behavioral health needs of the developmentally disabled Title XIX population with AHCCCS. The proposed rate change would increase the capitation rate for behavioral health services to the developmentally disabled population, which includes children and adults, from $25.81 to $26.33, or 2%. The rate change, which will be retroactive to October 1, 1999, became effective April 1, 2000.

JLBC Staff anticipates minimal fiscal impact as a result of the proposed change in the DD capitation rate. For FY 2000, the fiscal impact to the GF would be less than $100,000. For FY 2001, the fiscal impact to the GF would be less than $25,000.

RS/GG:ag

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

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DATE: June 13, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Indya Kincannon, Fiscal Analyst

SUBJECT: ARIZONA HISTORICAL SOCIETY – CONSIDER APPROVAL OF TRANSFER OF APPROPRIATIONS

Request

The Arizona Historical Society requests Committee approval to transfer appropriations in FY 2000. Specifically, the Society requests to transfer $45,000 in General Fund monies as shown below:

TRANSFER FROM:		TRANSFER TO:	
Personal Services	$39,400	Other Operating Expenditures	$26,000
Employee Related Expenditures	5,600	Professional and Outside Services	19,000
TOTAL	$45,000	TOTAL	$45,000

Recommendation

The JLBC Staff recommends that the Committee approve the transfer request.

Analysis

A.R.S. § 35-173(E) requires the Committee to approve any transfer to or from Personal Services and Employee Related Expenditures (ERE) if those line items are separately delineated for an agency in the General Appropriation Act. The Arizona Historical Society's FY 2000 budget includes Personal Services and ERE as separate line items. The agency is proposing to transfer Personal Services and ERE funds to cover higher than expected utility and security costs.

(Continued)

The Society opens its facilities after hours for exhibits, meetings and special events throughout the year. In FY 2000 the Society estimates that its facilities have been open to the public for 1,800 non-traditional hours. This extended programming has caused security expenses, as funded from the Professional and Outside Services line item, to exceed the budget by $19,000. The Society contracts with an approved provider for security services.

The extended programming has also resulted in higher than expected utility costs. In order to preserve the historical collections of artifacts, maps, manuscripts, photographs and other archival materials, the facilities must maintain constant climate controls of 70 degrees and 50 percent humidity. It takes more energy to maintain appropriate climate controls when the building is open to the public. As such, the Society's utility expenses have exceeded the budgeted amount for Other Operating Expenditures by $26,000.

RS/IK:ag

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CHRISTINE WEASON

DATE: June 14, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Indya Kincannon, Fiscal Analyst

SUBJECT: ARIZONA PIONEERS'HOME – CONSIDER APPROVAL OF TRANSFER OF APPROPRIATIONS

Request

The Arizona Pioneers'Home requests Committee approval to transfer appropriations in FY 2000. Specifically, the Home requests to transfer $45,000 in General Fund monies from Personal Services to Other Operating Expenditures to cover higher than expected maintenance and drug costs.

Recommendation

The JLBC Staff recommends that the Committee approve the transfer request.

Analysis

A.R.S. § 35-173(E) requires the Committee to approve any transfer to or from Personal Services and Employee Related Expenditures (ERE) if those line items are separately delineated for an agency in the General Appropriation Act. The Arizona Pioneers'Home's FY 2000 budget includes Personal Services and ERE as separate line items. The agency is proposing to transfer Personal Services funds to cover higher than expected maintenance and drug costs.

A 1997 report by the Auditor General identified numerous fire and life safety deficiencies at the Home. In response to this report, and in conjunction with the Arizona Department of Administration (ADOA), the Home has completed several repair and improvement projects throughout the facility. ADOA's Risk Management and Building Renewal Funds covered the bulk of these costs. However, the Home incurred some unexpected costs that it now proposes to

(Continued)

cover via a transfer from the Personal Services line item. Of the $45,000 transfer, approximately $35,000 would pay for repairs to the fire alarm and sprinkler system, new insulation to replace asbestos insulation, replacement of dilapidated pipes and repainting one wing of the 2nd story. These items would normally be paid from the Capital Outlay Bill Building Renewal Funds, but there is not always a clear distinction between allowable uses of General Appropriation Act operating monies and Capital Outlay funds. Of the remaining transfer, approximately $10,000 would also be used to pay increased drug costs.

The Home has approximately $100,000 in surplus funds due to vacancy savings. After inspectors noted significant deterioration of the asbestos tiles on the 2nd floor, ADOA began an asbestos abatement project. During this project one wing of the Home could not be occupied. Accordingly, the Home had about 20% fewer residents than usual and did not need as many staff. Additionally, the Home has had some difficulty hiring nurse assistants and food service workers.

In completing the various fire and life safety upgrades, and in facing increased drug costs, Other Operating Expenditures are $45,000 greater than appropriated. The Home requests a transfer of $45,000 from the surplus in Personal Services to the Other Operating Expenditures line item to cover the shortfall. The Home plans to revert the $55,000 remaining unused vacancy savings. The JLBC Staff recommends the Committee approve this request.

RS/IK:ss

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DATE: June 14, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Pat Mah, Senior Fiscal Analyst
Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF FEDERAL SOCIAL SERVICES BLOCK GRANT FY 2001 EXPENDITURE PLAN

Request

Pursuant to a footnote in the FY 2000 and FY 2001 General Appropriation Act, the Department of Economic Security (DES) wishes to report to the Committee a preliminary distribution of federal Social Services Block Grant (SSBG) monies for FY 2001.

Recommendation

JLBC Staff recommends that the Committee defer its review of this FY 2001 SSBG Expenditure Plan report since the federal government has not yet finalized its SSBG allocations for federal fiscal year (FFY) 2001. JLBC Staff also recommends that the agency provide an updated report to the Committee within 30 days of Congressional approval of SSBG funding.

In its preliminary plan, DES proposes across-the-board cuts to reduce spending because of federal reductions in SSBG funding. Reductions to administration for the department would be about the same as reductions for state-planned and locally-planned service providers. This proposed plan is inconsistent with legislative intent as stated in the General Appropriation Act. The legislative intent was to minimize reductions for state and locally-planned service providers.

Analysis

The 1999 Legislature approved a transfer of monies from the federal TANF Block Grant to offset expected federal cuts in SSBG funding. The SSBG is a federal grant given to states to provide a variety of social services intended, in part, to maintain self-sufficiency, reduce and prevent dependency, and prevent and remedy neglect and abuse. In 1998, Congress and the President reduced SSBG funding for FFY 1999. The Legislature responded by approving the transfer of money from the TANF Block Grant

(Continued)

to the SSBG in FY 1999, FY 2000, and FY 2001. The additional funding was intended to cushion the impact of the federal reductions, making up 100% of the cut in FY1999, 67% of the expected cut in FY 2000, and 33% of the expected cut in FY 2001. The Legislature also directed the department to use the funding in a manner that minimizes the overall reduction in funding to local and state service providers.

The Legislature included a footnote in the General Appropriation Act so that it could review DES' plans if the actual SSBG allocation differed from that assumed in the budget. Table 1 shows the FY 2001 approved funding, along with the actual federal allocations for FY 1999 and FY 2000. It also shows the amount reflected in the department's preliminary FY 2001 SSBG planned expenditures.

Table 1

	Approved FY 1999	Approved FY 2000	Approved FY 2001	Preliminary * SSBG Plan FY 2001
Federal SSBG allocation	$32,939,500	$30,452,000	$29,508,800	$29,361,500
TANF/SSBG appropriation	3,990,100	4,186,600	2,581,300	2,581,300
Expected Surplus TANF	0	2,291,000	0	1,612,700
Total Funding Level	$36,929,600	$36,929,600	$32,090,100	$33,555,500

* Assumes no changes to the anticipated federal allocation of $1.7 billion.

The Committee reviewed and approved the FY 2000 SSBG Expenditure Plan during its January 2000 meeting. The plan included the approved funding of $4,186,600 from TANF/SSBG to offset 67% of the federal cut in SSBG funding. It also included another $2,291,000 transferred from a surplus TANF appropriation for job training and job search services. The reason for the surplus TANF funds in the JOBS Special Line Item was because the number of clients was lower and their stay in the JOBS program shorter than anticipated. Use of the $2,291,000 in surplus TANF funds allowed FY 2000 SSBG funding to remain at the FY 1999 funding level of $36,929,600.

The department also reported in January that it planned to transfer surplus TANF JOBS funding for FY 2001 to SSBG. The amount of surplus TANF was dropped from the $2,291,000 inFY 2000 to $1,612,700 in FY 2001 based on the expectation that there will be fewer SSBG clients eligible to use TANF funding instead of SSBG funding. The department's latest report continues to show use of the $1,612,700 in surplus TANF for FY 2001. Use of this surplus TANF, however, could exceed the estimated $1,612,700 if the TANF eligible caseload is higher than expected. (Please see Attachment 1 for the department's FY 2001 SSBG Reduction Plan.)

To meet the footnote requirement, DES has submitted a preliminary SSBG plan that assumes Arizona will receive a FY 2001 SSBG allocation of $29,361,500. Combined with the $2,581,300 of TANF-transferred SSBG to offset 33% of the federal cut in SSBG funding and $1,612,700 of anticipated surplus TANF appropriated for FY 2001, this produces a FY 2001 total funding level of $33,555,500. The amount assumed by DES for FY 2001, $33,555,500, exceeds the amount assumed in the budget, $32,090,100, by $1,465,400 because of the proposed use of surplus TANF. Instead of a reduction of $(4,839,500) in FY 2001 from FY 2000 because of the previous federal cuts to SSBG funding, the reduction in funding would be $(3,374,100).

(Continued)

Under the department's plan, this ($3,374,100) or 9.1% reduction in funding for FY 2001 would be spread equally between the department for its administrative costs and the local and state providers for services. However, the department reports that it will attempt to minimize SSBG reductions to service providers by using surplus TANF funds to pay for services whenever appropriate. The department also indicates that it is too early to submit a final plan to the Committee for its SSBG funding since the Congressional budget is not yet finalized and the department is still in the process of considering adjustments between its various programs to minimize SSBG reductions.

The department's preliminary plan, however, does not follow legislative intent in that it does not use the $2,581,300 of TANF-transferred SSBG in a manner that minimizes the overall reduction in funding to local and state service providers. A footnote in the General Appropriation Act provides that "the $2,581,300 allocated for use in restoring federal reductions shall be expended by the Department of Economic Security in a manner that minimizes the overall reductions in funding to state planned and local planned providers."

Table 2 compares reductions proposed by DES to reductions when the appropriated TANF/SSBG monies are used entirely for offsetting reductions to local and state service providers. The reductions for service providers would be much less or approximately half the amount proposed by the department if the TANF/SSBG funds were used as intended.

Table 2

	DES Proposed Plan		Legislative Intent-TANF/SSBG	
	Reductions	% Change from FY 2000	Reductions	% Change from FY 2000
Administration	$(1,257,564)	(8.7)	$(2,330,913)	(16.1)
Service Providers - Contracted	(1,015,758)	(9.2)	(491,423)	(4.4)
Local Councils of Government	(1,100,778)	(9.6)	(551,764)	(4.8)
Total Adjustment	$(3,374,100)	(9.1)	$(3,374,100)	(9.1)

The department reports that it would have to reduce existing staff if required to implement higher reductions in administration. JLBC Staff has not yet seen the detail needed to evaluate the department's position. JLBC Staff agrees it is too early to know what Arizona's SSBG allocation will be, since federal appropriations are still undetermined and there is an ongoing discussion in Congress for further reductions in SSBG funding. As a result of the uncertainty, we recommend deferring a review of the SSBG report until the FY 2001 SSBG allocation is set. JLBC Staff recommends that the agency provide an updated report to the Committee within 30 days of congressional approval of SSBG funding.

RS/PM/SSh:ss
Attachment

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

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DATE: June 13, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - CONSIDER APPROVAL OF TRANSFER OF APPROPRIATIONS

Request

Pursuant to a footnote in the FY 2000 - FY 2001 General Appropriation Act, the Department of Economic Security (DES) requests that the Committee approve a transfer of funds for FY 2001 in the Temporary Assistance for Needy Families (TANF) Cash Benefits Special Line Item (SLI) and other line items to ensure the state meets its federal maintenance of effort requirements.

Recommendation

JLBC Staff recommends the Committee approve the requested FY 2001 transfers. They represent technical adjustments to ensure compliance with federal regulations. The transfers are as follows:

Budget Affected	General Fund	TANF Block Grant	Total
Div. of Benefits & Medical Eligibility (DBME) Operating	$(10,000,000)	$10,000,000	$0
Div. of Children, Youth & Families (DCYF) Operating	(7,828,500)	7,828,500	0
Administration Operating	(1,400,000)	1,400,000	0
DBME TANF Cash Benefits SLI	21,228,500	(21,228,500)	0
DCYF Family Builders SLI	(1,000,000)	1,000,000	0
DCYF Attorney General Legal Services SLI	(1,000,000)	1,000,000	0
TOTAL	$ 0	$ 0	$0

(Continued)

Analysis

The FY 2000 - FY 2001 General Appropriation Act (Laws 1999, Chapter 1, 1st Special Session) contains the following footnote in the DES budget:

> "Notwithstanding A.R.S. § 35-175C, any transfer to or from the $125,957,200 appropriated for Temporary Assistance for Needy Families Cash Benefits in FY 2000 and FY 2001 requires approval of the Joint Legislative Budget Committee."

DES is requesting a series of transfer into and out of the TANF Cash Benefits line item that results in no change in overall funding. The requested transfers are shown in the above table.

The 1996 federal welfare reform legislation creating the TANF Block Grant established a "maintenance of effort" (MOE) level for each state based on historical state welfare expenditures prior to the 1996 federal welfare reform legislation. The original federal TANF legislation instituted a 15% cap on administrative expenditures, both for TANF Block Grant expenditures as well as state General Fund (GF) expenditures counting toward the state's required MOE spending. Administrative expenditures in excess of that 15% cap cannot be claimed as part of the state's MOE. Previously, eligibility determinations were not considered as "administrative" expenditures and all GF monies spent on eligibility determination counted as MOE. The final TANF regulations, issued last summer by the federal government, changed the definition of administrative expenditures, however, to include eligibility determinations. This change places the state in excess of its 15% cap for administrative expenditures, reducing state MOE expenditures, which puts the state at risk of losing federal TANF Block Grant monies because it is below its minimum MOE level.

In addition, federal law prohibits counting monies spent on Children Services and associated case management as part of the state's MOE. DES used to count these monies as MOE until it made a correction in FY 1999. This change in the federal regulations also puts the state at risk of losing federal TANF Block Grant monies for being below its minimum MOE level.

The requested FY 2001 transfers address these 2 issues by shifting $21,228,500 GF out of budget areas where GF expenditures can no longer be counted as MOE and into TANF Cash Benefits where it can be counted as MOE. An equivalent amount of TANF Block Grant monies would also be transferred out of TANF Cash Benefits and shifted into the other budget areas.

At its December 1999 meeting, the Committee approved a similar set of FY 2000 transfers, shifting $21,228,500 GF out of certain budget areas into TANF Cash Benefits and shifting $21,228,500 TANF into those budget areas. The only difference between the approved FY 2000 transfers and the requested FY 2001 transfers is the amount of GF monies shifted out of Family Builders is decreased by $(1,607,800), from $(2,607,800) to $(1,000,000) and the amount of GF monies shifted out of DCYF's operating budget is increased by $1,607,800, from $(6,220,700) to $(7,828,500). These changes are due to changes in the level of qualifying expenditures in the programs.

JLBC Staff recommends the Committee approve the requested transfers. If these transfers are not made, the state would be at risk of losing a portion of its TANF Block Grant. Since these transfers would not affect the levels of services provided by DES, we recommend the approval of these transfers.

RS:SSh:ss

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CHRISTINE WEASON

DATE: June 13, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - BIMONTHLY REPORT ON ARIZONA WORKS

Request

Pursuant to a provision in A.R.S. § 46-344, the vendor for the Arizona Works pilot welfare program is providing its bimonthly report on the Arizona Works program.

Recommendation

This item is for information only and no Committee action is required. Recent total Arizona Works caseloads continue to decline faster than participation in the remainder of Maricopa County.

Analysis

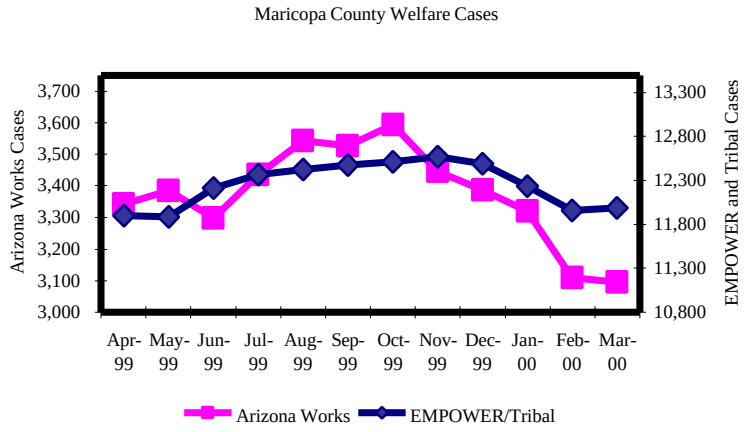
The Arizona Works pilot program, which replaces the Department of Economic Security (DES) EMPOWER Redesign welfare program in DES District I-E (eastern Maricopa County), is operated by the private vendor MAXIMUS. The attached report covers caseload data through the end of March.

The chart on the following page compares the total number of cases in the Arizona Works program with the caseload in the rest of Maricopa County. In recent months, the Arizona Works total caseload has decreased while the Maricopa County total caseload has remained flat, though it, too, has decreased in the past few months. JLBC Staff would note that the chart in our May

(Continued)

memo discussing December and January data was incorrect and reflected a slight increase in EMPOWER cases when cases, in fact, decreased slightly. Overall, however, since October 1999, decreases in the Arizona Works total caseload have been larger than those in EMPOWER and tribal areas, especially in early 2000.

The results presented on the chart below reflect changes in the total caseload. The total caseload includes child only cases (cases in which there is no adult subject to TANF work requirements) and tribal cases. As we noted in our review of the last bimonthly report in May, since child-only cases comprise 40-45% of the total caseload, and tribal cases comprise another 1-2%, their presence in the above figures may skew the results for cases with employable adults subject to work requirements, especially if child-only caseloads are responding differently in each area. JLBC Staff continues to work with DES and the Arizona Works vendor to improve the comparability of data, particularly regarding employable adults subject to work requirements.



The following table provides information on the total number of Arizona Works cases by type for the last 8 months. The table shows that the number of total cases continues to decrease a total of 12.6% in 7 months. This decrease has occurred almost entirely in the TANF population, while the number of cases for whom no work participation is required, i.e., child-only cases, has remained relatively flat. In fact, in March the number of those child-only cases exceeded the number of TANF cases.

ARIZONA WORKS PROGRAM: TOTAL CASES BY TYPE

Month	TANF	No Work Participation	New Transfer In	Total
August	2,011	1,473	59	3,543
September	1,994	1,483	51	3,528
October	2,027	1,516	50	3,593
November	1,848	1,542	56	3,446
December	1,798	1,536	53	3,387
January	1,708	1,518	95	3,321
February	1,564	1,501	46	3,111
March	1,513	1,515	68	3,096

(Continued)

In our last bimonthly review, we noted that DES was working to obtain comparative data for months prior to October 1999 and hoped to present that information by June 1. Although we now have that data from DES, MAXIMUS is still working on obtaining some of that pre-October 1999 data. A representative of FOX Systems, the Procurement Board's technical contractor, has indicated that MAXIMUS should be submitting that data within the next week. As we noted above, however, the reports from DES are not perfectly comparable to those from MAXIMUS, especially regarding employable adults subject to work requirements. JLBC Staff will work with DES and the Arizona Works vendor to improve data comparability.

The MAXIMUS report notes that MAXIMUS attended the public hearings conducted by the Arizona Works Agency Procurement Board in Mohave, Cochise, and Pinal related to the requirement that the Procurement Board select a second, rural Arizona Works pilot site. The report also provides results of customer satisfaction surveys, which show no significant change from prior months in customer satisfaction with the program, ranging between "Good" and "Excellent."

We would continue to note that the information in both reports cannot, by itself, give an indication of the relative success of each program. This is in part because success may be measured by more than just caseload reduction; demographic differences may also affect program success. The evaluation conducted by JLBC Staff this year and the evaluation to be conducted by an independent evaluator hired by the Arizona Works Agency Procurement Board will look into program success in greater detail.

A.R.S. § 46-344 requires JLBC to conduct an evaluation of the Arizona Works program within one year after the first year of operation of Arizona Works. JLBC Staff intends to work on this evaluation during this summer and early fall and to present its results to the Committee before the end of calendar year 2000. The statutory requirements of the evaluation include determining the following:

- If the outside vendor has met the requirements of the contract
- If the vendor has met the goals of the Arizona Works program
- If the vendor has met the requirements of the performance bond
- The fiscal impact of Arizona Works implementation
- The impact of Arizona Works on:
  - Placement of recipients in paid employment
  - Caseload reduction
  - Development of community partnerships
  - Placement of individuals who were previously exempt under the job opportunities and basic skills program
  - Placement of individuals with higher than average lengths of stay on the program

JLBC Staff intends to use available data to evaluate the Arizona Works program as outlined in statute. Should members of the Committee have particular questions, or areas of interest regarding the evaluation, JLBC Staff recommends that the Committee convey those questions and areas of interest soon after this meeting so that we can integrate those concerns into our evaluation.

RS:SSh:ss

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1716 WEST ADAMS
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DATE: June 14, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Indya Kincannon, Fiscal Analyst

SUBJECT: ARIZONA COMMISSION ON THE ARTS – REVIEW OF THE ARIZONA ARTS ENDOWMENT FUND AND PRIVATE CONTRIBUTIONS

Request

Pursuant to A.R.S. § 41-986(F), the Committee shall annually review the Arizona Commission on the Arts' records regarding private monies that are donated for use in conjunction with public monies from the Arizona Arts Endowment Fund.

Recommendation

The JLBC Staff recommends the Committee give a favorable review of the agency's report.

Analysis

The Arizona Arts Endowment Fund was created by Laws 1996, Chapter 186. The legislation was intended to encourage the establishment of arts endowments supported by public and private funds. The public component of the legislation began in FY 1998 and consists of an annual appropriation of up to $2 million from FY 1998 through FY 2007 to the Arizona Arts Endowment Fund. These monies are then invested by the State Treasurer, who distributes the interest income to the Arts Commission to fund arts programs across the state. To date the fund has earned approximately $238,600 in interest, $67,000 of which has been expended in the form of grants.

(Continued)

The private component of the legislation allows the Arts Commission to partner with non-profits such that the non-profit may receive, invest and manage private donations 1) to its own endowment, 2) to the endowment of other arts organizations or 3) to the non-designated portion of the Arizona Arts Endowment Fund. Donors who wish to support endowments of a specific arts organization, such as the Phoenix Symphony, may do so. Such donations are administered by the individual arts organization, but must conform to the rules adopted by the Arts Commission to qualify as a contribution to the Arizona Arts Endowment Fund. Several smaller arts organizations have arranged for the Arizona Community Foundation to administer endowments on their behalf. For example, donors who wish to endow the Orpheum Theatre may do so via a designated fund administered by the Arizona Community Foundation. Donors who wish to endow the arts generally, without designating a particular arts organization, may do so by giving to the private non-designated portion of the Arizona Arts Endowment Fund. Such donations are invested and managed by the Arizona Community Foundation and not commingled with the public monies. The Arts Commission receives the interest income from these donations and distributes the earnings according to its rules.

The table below summarizes private contributions that have been collected since the establishment of the Arizona Arts Endowment Fund. As of December 1999, private contributions total approximately $14 million. The public monies appropriated to the Arizona Arts Endowment Fund total $4 million for FY 1998 and FY 1999, with another $2 million in July 2000 for FY 2000. There is no statutory requirement that private donations match public appropriations for the Arizona Arts Endowment Fund.

Private Donations to the Arizona Arts Endowment Fund, by Calendar Year

	1996*	1997	1998	1999	Total
Designated Donations	$ 1,357,034	$3,282,856	$6,425,990	$1,824,559	$12,890,439
Non-Designated Donations	0	76,481	545,336	475,921	1,097,738
Total Private Donations	$ 1,357,034	$ 3,359,337	$6,971,326	$2,300,480	$13,988,177

*The 1996 reporting period begins on April 15 when the legislation was passed.

Although private donors have contributed approximately $14 million to arts endowments since 1996, the agency estimates that only about 40% of that total has actually been transferred from the donor to the recipient. Federal accounting laws require non-profit organizations to count all money in the year it was pledged, even if the pledged amount is to be transferred in several allotments over future years. This law allows donors to count their pledge as a tax deduction all in one year.

The impact of the Arizona Arts Endowment Fund may also be measured by the increase in the number of arts endowments. Prior to the legislation only 2 of the participating arts organizations had endowments, now all of them do. While it is clear that private support of arts endowments has grown significantly, it is difficult to determine how much of the growth is attributable to this legislation. Nevertheless, the records indicate that the Arizona Arts Endowment Fund is technically operating as the Legislature intended.

RS/IK:ck

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PHOENIX, ARIZONA 85007

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DATE: June 13, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF CORRECTIONS - REVIEW PRIVATE PRISON CONTRACT

Request

The Department of Corrections (DOC) requests Committee review of a Request for Proposal (RFP) issued by the department for 400 privately-operated minimum-security DWI beds.

Recommendation

The JLBC Staff recommends a favorable review of the DOC private prison RFP. A favorable review is recommended as the RFP meets the intent of the appropriation for 400 private DWI beds and statutes related to privatized prison beds.

Analysis

DOC's FY 2000 and FY 2001 appropriations include General Fund monies to enable the department to contract for 400 privately-operated DWI beds. The current contract for those beds terminates on April 10, 2001. On May 23, 2000, DOC published a RFP to solicit bids for a private entity to provide 400 DWI beds once the current contract expires. A.R.S. § 41-1609.01 requires that any RFP issued by DOC pertaining to an adult incarceration contract be provided to the Joint Legislative Budget Committee for review.

The most significant change between the current contract and the RFP is the inclusion of a purchase option. As part of any bid, the department has requested that a schedule be included that displays the amount of monies from the per diem that will be applied to a purchase price

(Continued)

should the department wish to purchase the private prison facility. Pursuant to A.R.S. § 41-1609.01, the private prison contractor must provide at least the same quality of services as the state at a lower cost or superior quality of service at the same cost. In addition, the RFP requires the provider to meet the staff, treatment, health care, education and security standards established by the department for all Arizona prisons, both state-operated and privately-operated.

While the contract for the 400 privately-operated beds would include a purchase option, we do not believe that a favorable review of the RFP by the Committee would constitute an approval for any purchase. Pursuant to A.R.S. § 41-791.02, the department, in conjunction with the Arizona Department of Administration, may not purchase the facility without prior approval of the Joint Committee on Capital Review and an appropriation of monies by the full Legislature for such an acquisition.

The Committee has given a favorable review to previous private prison RFP's that include purchase options. The table of contents of the RFP is attached. The entire RFP is available upon request.

RS/BR:ck

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DATE: June 14, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF TRANSPORTATION – REPORT ON GRAND CANYON AIRPORT FUNDING

Request

The Arizona Department of Transportation (ADOT) Report requests that the Committee release $397,500 (7½ months) of the FY 2001 appropriation to operate the Grand Canyon Airport until it is leased to a non-profit corporation.

Recommendation

The report is for information only and no Committee action is requested. The JLBC Staff recommends that ADOT report back to the Committee by December 1, 2000, regarding the status of the lease, if ADOT has not leased the airport by then.

Analysis

The ownership and management of the Grand Canyon Airport was transferred from ADOT to the then newly established Grand Canyon Airport Authority on October 1, 1999, in accordance with Laws 1999, Chapter 213. The Authority was envisioned as having more local control, more freedom from the state bureaucracy, and with the ability to borrow funds for capital needs. However, ADOT subsequently determined that the Authority was a semi-autonomous state entity, instead of an independent municipal corporation, which still had to use the state accounting system, personnel system, and administrative rule making process. To remedy these

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shortcomings, Laws 2000, Chapter 99 was enacted. Chapter 99 eliminates the Grand Canyon Airport Authority, reverts any unexpended and unencumbered monies previously appropriated to the Authority to the State Aviation Fund, and returns the operation of the Grand Canyon National Park Airport to ADOT, effective July 18, 2000. ADOT must lease the airport to a nonprofit corporation, to operate and develop the airport as provided in the lease, by March 1, 2001.

Prior to the passage of Chapter 213, the General Appropriation Act included $626,200 in FY 2000, and $636,200 in FY 2001, for the operation of the Grand Canyon Airport. As a result, the airport had double funding in FY 2000 and FY 2001, with one appropriation from Chapter 213 and another from the General Appropriation Act. ADOT reports that all of the $208,700 for FY 2000, which the Committee released at its June, 1999 meeting, has been expended. This leaves $417,500 remaining for FY 2000, and $636,200 for FY 2001, in the Grand Canyon Airport Special Line Item of ADOT's operating budget. A General Appropriation Act footnote requires that before the expenditure of any of these monies for the Grand Canyon Airport, the department must report to the Joint Legislative Budget Committee on the status and projected date of the privatization of the airport.

ADOT could potentially operate the airport for a maximum of 7½ months in FY 2001, from July 18, 2000 until March 1, 2001, before leasing it to a nonprofit corporation, per Chapter 99. To the extent that a lessee operates the airport from its own separate funding sources in FY 2001, ADOT has received double funding to run the airport in FY 2001. ADOT had originally intended to lease the airport effective July 18, 2000, and thus not have to operate the airport itself during this changeover. However, ADOT reports as of June 8, that it is still working internally on a draft of the proposed lease. After that, the lease must be reviewed by the Attorney General, and then it must be negotiated with the non-profit corporation. Finally, Chapter 99 requires ADOT to submit the lease for review by the JLBC at least 30 days before it intends to execute the lease. ADOT may not execute the lease until the JLBC submits a report summarizing the terms of the lease, within 30 days of receipt from ADOT, to the Speaker of the House of Representatives and the President of the Senate. Thus, ADOT reports that it is unlikely to execute the lease by July 18.

The JLBC Staff does not recommend that the Committee raise any concerns with regard to the expenditure of $397,500 for 7½ months of funding in FY 2001 from the Grand Canyon Airport Special Line. The JLBC Staff further recommends that ADOT report back to the Committee by December 1, 2000, regarding the status of the lease, if ADOT has not leased the airport by then.

RS/BH:ag

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PHOENIX, ARIZONA 85007

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DATE: June 14, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF TRANSPORTATION - REPORT HIGHWAY MAINTENANCE LEVELS OF SERVICE FOR SNOW & ICE

Request

The Arizona Department of Transportation (ADOT) is due to present its determination of Highway Maintenance's level of service for Snow & Ice.

Recommendation

This report is for information only and no Committee action is required. ADOT reports that its level of service for Snow & Ice is that roads are open to traffic without restrictions 65% of the time during a snowfall.

Analysis

At its meeting held on November 17, 1999, the Committee received the department's report on Highway Maintenance levels of service. At that time, ADOT still needed to establish the percentage of roads statewide that meets minimum acceptable standards for Snow & Ice. Following that meeting, we sent a memo to ADOT dated November 29, 1999 requesting that they provide us with the subject information, when these figures are determined following this (past) winter. ADOT now reports that roads are open to traffic without restrictions (e.g., chains required, roads closed) 65% of the time during a snowfall.

(Continued)

The following table summarizes ADOT's current level of service for their 9 categories, their distribution of the $1,000,000 appropriated to improve Highway Maintenance levels of service in FY 2000, and their respective percentage goals for these categories. Note that ADOT did not establish a percent goal for its $50,000 of additional spending for Snow & Ice in FY 2000. ADOT spent its $50,000 for increased effort on a stretch of State Highway 73 near Whiteriver, in an attempt to determine how much this would improve its level of service for that stretch of highway. ADOT reports that it still needs to analyze the data, and then to attempt to apply it statewide for future use.

Highway Maintenance Levels of Service

Category	Current % Meeting Minimum Standards	Distribution of $1,000,000	% Goal for FY 2000
Pavements	93.0%		
Traffic & Safety	64.9%	$ 750,000	84.0%
Shoulders	90.6%	$ 100,000	91.0%
Roadside	97.2%		
Drainage	94.4%		
Landscape	58.2%	$ 100,000	64.0%
Snow & Ice	65.0%	$50,000	----
Vegetation	77.1%		
Rest Areas	96.7%		
Total		**$1,000,000**	

ADOT previously reported that they chose to use the $1,000,000 appropriated to improve Highway Maintenance levels of service in FY 2000 in 2 areas. These include improving safety ($750,000 for highway striping and $100,000 to reduce pavement drop-off), and in areas where the results can be easily seen ($100,000 for landscaping appearance and plant health and $50,000 to reduce snow clearance time in a pilot project test section).

During the summer of 1998, ADOT began attempting to develop performance measures for Highway Maintenance, which would directly tie different funding levels to the quantities and quality of maintenance to be delivered. At that time, ADOT contracted with a private vendor to assess public perception of Arizona's highway maintenance program. The analysis indicated that Arizona residents are generally satisfied with current maintenance efforts and rated ADOT maintenance as better than maintenance by local jurisdictions and equal to or better than maintenance by other states. On a scale of 5 for "very poorly maintained" to 1 for "very well maintained," the public's rating for 9 categories averaged 2.3 (paved surfaces, roadside, traffic control, drainage, snow and ice, shoulder, rest area, vegetation, and landscape), while the public's desired level of maintenance averaged 1.7.

To encourage ADOT to continue working to make level of service a truly viable budgetary performance measure and to begin increasing the level of service of Highway Maintenance statewide, the department was appropriated $1,000,000 from the State Highway Fund in FY 2000 and an additional $1,000,000 in FY 2001. A 1999 General Appropriation Act footnote

(Continued)

requires that the department report by August 31, 1999, 2000 and 2001 to the Joint Legislative Budget Committee on the current levels of service for each of the 9 categories of Highway Maintenance. The reports shall explain the department's progress in improving its assessment of levels of service and of assigning costs to different levels of service. The department has not yet determined when or how often it will reassess public perception of Arizona's highway maintenance program, but thinks that they should wait a year or two to allow the public time to notice measurable improvement.

ADOT's ability to meet its goals for FY 2000 has no impact on its FY 2001 funding for level of service. However, we will consider their results when developing our budget recommendations for FY 2002 and FY 2003.

No Committee action is required.

RS/BH:ag

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PHOENIX, ARIZONA 85007

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DATE: June 14, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL - REPORT ON COLLECTION ENFORCEMENT REVOLVING FUND

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has submitted a report on the revenues and expenditures of the Collection Enforcement Revolving Fund (CERF). The report was intended to assess the cost-effectiveness of 8 new collection enforcement positions added to the FY 2000 budget.

Recommendation

This item is for information only and no Committee action is required. The Attorney General's Office reports that fiscal year to date its Collection Enforcement unit has expended $1,464,800 for operations of the unit and collected $8,966,000 in outstanding debt owed to the state. The report shows that the unit's operating expenditures are below the statutorily allowable limit of 35% of collections. While the report details the performance of the unit as a whole, it does not address the marginal benefits gained from the additional FTE Positions.

Analysis

The Office of the Attorney General operates a Collection Enforcement unit that functions as a collection service for past due debts owed to state agencies, boards, or commissions. The unit returns collected monies to the client agency, except that the Collection Enforcement Revolving Fund may retain up to 35% of the amounts collected to support the unit's operations.

For FY 2000, the unit was appropriated 35 FTE Positions and $2,042,400 from CERF. The appropriated FY 2000 amount included an additional 8 FTE Positions and $493,300 to increase

the unit's collection level. The Office of the Attorney General reports that, as of May 19, 2000, 31 FTE Positions were utilized with operating expenditures of $1,464,800. The unit represented 49 client agencies and collected $8,966,000 in debt. Fiscal year to date, the unit's operating expenditures constitute 16% of collections.

The reporting requirement was included in the General Appropriation Act as additional monies and FTE Positions were appropriated for FY 2000. The intent of the footnote was to determine the performance of the Collection Enforcement unit with the additional appropriation. The footnote requests that the Attorney General provide data that demonstrates "the changes to the Collection Enforcement Revolving Fund resulting from the additional FTE and expenditure authority." The Attorney General report details the performance of the unit as a whole but does not address the marginal benefit from adding the additional resources. It does not appear that the fiscal year to date collections of $8,966,000 will match or exceed FY 1999 collections of approximately $11,670,900 even though additional resources were added in FY 2000.

The report also states that $550,000 was transferred to the Model Court program. Laws 1999, Chapter 6, 1st Special Session enabled the Attorney General to transfer monies from CERF to the Model Court program to be used to eliminate a backlog of child abuse cases and to meet new child dependency case processing time lines. The backlog of pending child abuse cases has dropped from approximately 6,000 in FY 1999 to 3,000 in FY 2000. The Attorney General's Office anticipates that a majority of the remaining pending cases will be resolved by the end of FY 2001.

The reporting requirement was not continued for FY 2001, as no additional FTE Positions were added to the unit. No further reports are required for this program at this time.

RS/BR:ck

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CHRISTINE WEASON

DATE: June 9, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON JLBC RULES

At is meeting on May 16, 2000, the Committee agreed to raise the dollar limit for its consideration of risk management settlements to $250,000. At that time, the Committee also agreed to make the corresponding change to its Committee Rule 14. For your information, we also are enclosing the new Committee Rules with a Revised Rule 14.

RS:lm