

STATE OF ARIZONA

Joint Legislative Budget Committee

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

June 14, 2006

The Chairman called the meeting to order at 9:18 a.m., Wednesday, June 14, 2006, in Senate Appropriations Room 109. The following were present:

Members: Representative Burton Cahill Senator Burns, Chairman
 Representative Gorman Senator Arzberger
 Representative Lopez Senator Bee
 Representative Pearce Senator Cannell
 Senator Garcia
 Senator Harper
 Senator Waring

Absent: Representative Boone, Vice-Chairman Senator Martin
 Representative Biggs
 Representative Huffman
 Representative Tully

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of May 2, 2006, Senator Burns stated the minutes would stand approved.

ARIZONA DEPARTMENT OF CORRECTIONS - Consider Approval of Requested Transfer of Appropriations.

Mr. Lorenzo Martinez, JLBC Staff, explained that earlier in the month the Arizona Department of Corrections (ADC) submitted a request to transfer monies from Personal Services and Employee Related Expenditures (ERE) to cover an estimated shortfall in overtime. Staff reviewed the request and factored in the now enacted supplemental appropriation, the requested transfer would have left a shortfall in Personal Services and a surplus in ERE by the end of the year. This was relative to the department's estimate of year-end needs at the time. Since the enactment of the supplemental, the department withdrew the request because the additional monies are sufficient to cover immediate needs for the department. This item is for information only. The department still does not know if the allocations in the line items will be sufficient by the end of the year, as they are trying to determine its year-end needs.

Representative Pearce asked about the department's year-end estimate.

Ms. Dora Schriro, Director, Department of Corrections, stated that the department started with \$18 million allocated for Overtime, the department has come before the Committee twice and requested 2 additional transfers, totaling \$34 million for Overtime. ADC now has over \$40 million to address the cash and comp time. On May 31, 2006, there

was a survey done regarding employees who have earned comp time balances and if they would request to opt out of an end of year comp time payment.

There are 3 things have caused ADC to withdraw the request:

1. The receipt of the Supplemental Appropriation.
2. The information on the amount of the comp time opted out.
3. The continuing reconciliation that is needed with the new HRIS system.

Representative Pearce asked when the Committee could have the ADC year-end estimate.

Ms. Schriro stated the department would have the year-end report by week's end.

Senator Burns stated the item was for information only.

DEPARTMENT OF ECONOMIC SECURITY

A. Review of Transfer of Appropriations from the Temporary Assistance for Needy Families Cash Benefit Special Line Item (SLI).

Mr. Eric Jorgensen, JLBC Staff, said this is a request for a transfer from Department of Economic Security (DES) Temporary Assistance for Needy Families (TANF) Cash Benefit Special Line Item and other items in the agency. The request is for \$13.5 million, of that \$9 million is General Fund and \$4.5 million is TANF monies. The surplus in the SLI is due to decreased caseloads in the TANF program. There is a shortfall of \$6.5 million in the Division of Benefits and Medical Eligibility operating budget due to increased contract costs, more intensive case management services, increased caseloads in medical eligibility and food stamps, the costs of associated FTE's and additional overtime for those programs. There is also a shortfall in the Children, Youth and Families Division. The transfer would give \$5 million to Children Support Services and \$2 million to Foster Care Placement.

The Committee has 2 options: The Committee can give a favorable review of the transfer. Based on year-to-date totals, expenditures are on course to outpace the appropriation and the magnitude of DES' projected shortfall does appear reasonable. The Committee can give an unfavorable review to the proposed transfer because part of this transfer results from administrative expansions, including additional FTE's, which would have been better authorized through the annual Appropriations process.

Representative Pearce stated that it appears the department is using program savings to increase administrative expenses. The policy seems to circumvent the Appropriations process. This is a decision that should be made by the Legislature in terms of the level of funding for administrative purposes.

Mr. Stephen Pawlowski, DES Financial Services, said these are expenses related to eligibility work. There are federal guidelines both to quality and timeliness of eligibility determinations for Medicaid and Food Stamps. From FY 2002 until the current fiscal year, the department's caseloads in both the food stamps and medical programs have grown by 60%. The cash assistance caseload is even from FY 2002, despite recent decreases over the last couple of fiscal years. With the increases in caseload and resulting workload, the department's funding has decreased by \$5 million, or 4%. The department does not believe it is an expansion of administrative functions, just meeting the additional workload as required by federal regulations.

DES has been reporting the shortfall on the program over the course of the year in the 30th of the month report. Food Stamp benefits are 100% federally funded, there are no state costs associated with the benefits themselves. Any sort of administrative or eligibility function is a cost share between the state and federal government, that is 50% state and 50% federal.

Senator Arzberger asked since the federal government is sharing in the cost, is there a number of what it costs for food stamp caseloads and does the department submit that number to the federal government and they give 50% back.

Mr. Pawlowski stated the benefits are 100% federally funded for administrative costs. As the department incurs the expenditures, the federal government pays for 50% of those expenses.

Senator Burns recommended that the Committee go with an unfavorable review on this particular item.

Representative Pearce moved to give an unfavorable review to the proposed transfer as listed in Option #2 by the JLBC Staff.

Representative Lopez moved a substitute motion to give a favorable review of the proposed transfer.

Senator Garcia spoke in support of a favorable review.

Representative Pearce stated that we have this body's Appropriation process, which has been circumvented by the moving of dollars savings out of an entitlement program for management purposes. That is not appropriate and this Committee needs to give an unfavorable review to that process in order to dignify the Appropriations process and keep the checks and balances intended by our Constitution in place.

Senator Arzberger stated that this appears to be an example of program budgeting where the expenses are applied exactly to the program that they were used for. Therefore, she spoke in favor of a favorable review.

Representative Burton-Cahill, seconded by Senator Garcia, moved to have a roll call vote on the substitute motion. The motion carried.

The substitute motion failed by a roll call vote of 5-6-0-5 (Attachment 1)

The original motion carried.

B. Review of Transfer of Appropriations Between Child Care Subsidy Line Items.

Mr. Jorgensen stated this is a transfer between the Day Care Subsidy Line Item and Transitional Child Care SLI in the amount of \$4 million. The Day Care Subsidy funds various caseloads, including the TANF-related caseloads. The program caseload is declining as the TANF caseloads are also declining, however the Transitional Child Care program is for individuals coming off TANF and they are eligible for 2 years after coming off of TANF. With the declining TANF caseloads, this population is increasing, the money would move from the Day Care Subsidy SLI to the Transitional Child Care SLI to help with the shifting of the populations. If the transfer is approved the monies cannot be further transferred without additional JLBC review.

The JLBC Staff recommends a favorable review of the request, as it will provide the same services to a more limited population.

Representative Pearce moved to accept the JLBC Staff recommendation to give a favorable review of the request to transfer \$4 million from the Day Care Subsidy SLI to the Transitional Child Care SLI. The motion carried.

ARIZONA PIONEERS' HOME – Consider Approval of Requested Transfer of Appropriations.

Ms. Kimberly Cordes-Sween, JLBC Staff, stated that this is a request for a transfer of appropriations. The Pioneers' Home has a detailed line item budget. Transfers to and from Personal Services and ERE lines require Committee approval. The agency is requesting to transfer \$257,800 into the ERE line. This total includes \$186,100 from Personal Services and \$71,700 from the Prescription Drug Special Line Item. The JLBC Staff is recommending approval of this transfer. This transfer is due to higher health insurance costs.

Representative Pearce moved the JLBC Staff recommendation to give approval to the agency request to transfer \$186,100 from Personal Services and \$71,700 from the Prescription Drug SLI to the ERE. The motion carried.

AHCCCS – Review of Rural Hospital Reimbursement Capitation Rate Change.

Mr. Carson Howell, JLBC Staff, explained the review of the Rural Hospital Reimbursement Capitation Rate Change. Last year the Legislature appropriated \$12 million for the Rural Hospital Reimbursement program. The Centers for Medicare and Medicaid Services will not allow AHCCCS to make direct supplemental payments to the hospitals. AHCCCS is requesting this temporary change in capitation rates to distribute those appropriated monies

through the health plans to the hospitals. The JLBC Staff recommends a favorable review as this change is to distribute already appropriated monies.

Senator Garcia stated that in the Analysis section of the documentation the Committee received from JLBC Staff, it states that the Rural Hospitals get reimbursed 71% of their costs. He asked if that 71% is determined by the legislative process or how that is determined.

Ms. Kari Price, Executive Consultant, AHCCCS, stated that a study was performed 2 years ago which was as a result of a legislative work group that was put together where AHCCCS worked with Arizona Hospital and Health Care Association and different hospitals to determine that amount.

Senator Arzberger stated that the report was at 51% and not 71%.

Ms. Price replied that she was not sure of the 71%, she thought the letter stated 62%.

Senator Arzberger said that original study did show 51% and there was an update a year later and she was not sure if it was completed, so the firm number is 51% until a new study is done.

Ms. Price said that she believes that there were other payments which were Critical Access Hospital payments as well as Disproportionate Share Hospital payments. When those payments were added in, it came to 62%.

Senator Arzberger said that the Legislature asked for a study, which was completed 2 years ago. That was an official and well conducted study. She asked about the tiered payment program.

Ms. Price stated that the tiered rates are required to be adjusted as they are currently on an annual basis and cannot be revised unless there is legislation proposed and passed to make that change.

Senator Arzberger stated that she approves of the capitation rate, but not the numbers that have been provided. She also suggested that another study be done with firm numbers.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of the AHCCCS capitation rate as outlined in the recommendation. The motion carried.

ATTORNEY GENERAL – Review of Allocation of Settlement Monies.

Ms. Leah Ruggieri, JLBC Staff, stated that this item is a routine request for a favorable review of the allocation of settlement monies received by the Attorney General's (AG) office over \$100,000. Recently the AG entered into a consent judgment with Liberty League International from which they would receive \$115,000 which would be deposited into their Consumer Fraud Revolving Fund. This amount is from civil penalties as well as AG costs and fees associated with the lawsuit.

Representative Pearce moved to accept the JLBC Staff recommendation to give a favorable review of the allocation plan from the Liberty League International consent judgment. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORTATION – Review of Third Party Quality Assurance Report.

Mr. Richard Stavneak, Director, JLBC Staff, stated this item is a review of the Arizona Department of Transportation (ADOT) third party quality assurance report. The Committee reviews the results of the third party program quarterly. Under this program, in the last quarter the staffing is now at 22 of their 23 available positions. They hired and trained the 3 new people last year, and filled 2 vacancies in the third quarter. At the same time, the number on the waiting list for third party transactions has increased from 106 to 118. In the Committee's last review at the end of February, the Committee gave an unfavorable review, due to concerns about the growth in the waiting list. The Committee has 2 options; a favorable or an unfavorable review.

Representative Pearce asked about the progress of the department.

Ms. Penny Martucci, ADOT, Motor Vehicle Division (MVD), responded by saying there are 3 pieces of good news.

1. The business day's backlog for third party title and registration quality assurance review improved due to the 3 positions, which are now trained, despite an increase in third party transactions.
2. In anticipation of the 2007 budget, ADOT has begun working to eliminate the waiting list. ADOT has approved 5 new sites. Of the 24 current third parties who want additional sites, ADOT is in the process of doing site visits of the remaining 19 sites.
3. ADOT was also given 5 positions last year for Commercial Driving Schools and examiners and up to 15 motorcycle dealers and examiners. ADOT has lifted the moratorium in this area.

Representative Pearce moved to give a favorable review of the third party quality assurance report. The motion carried.

DEPARTMENT OF EDUCATION – Review of Kinder Morgan Settlement.

Mr. Steve Schimpp, JLBC Staff, said this item deals with the Kinder Morgan settlement issue. Kinder Morgan, who has a gas pipeline that stretches across the state from Cochise County to Yuma County, appealed for its property valuations for recent years through Arizona Tax Court. They won that case and as a result the state now has to refund to the school districts the QTR and County Equalization Tax monies that those school districts got from Kinder Morgan. There are 5 counties that are affected; the only one that ADE currently has numbers for to make adjustments is Yuma County. The Yuma cost adjustment (Attachment 2) is about \$1 million. The state is not required under A.R.S. § 15-915 (B) to refund monies other than the formula monies that Kinder Morgan paid, in other words the QTR and Equalization money. If the school districts have override monies they got from Kinder Morgan or bond debit service monies; those are not included in the state refunding amounts. Likewise, there is no interest amount including the state monies. ADE is seeking a favorable review on their plan to distribute to the Yuma County School Districts in an amount of \$1,039,700.

Representative Pearce moved to accept the JLBC Staff recommendation to give a favorable review to provide school districts in Yuma County with \$1,039,700 in corrected Basic State Aid funding. The motion carried.

DEPARTMENT OF PUBLIC SAFETY – Quarterly Review of the Arizona Public Safety Communication Advisory Commission (PSCC).

Mr. Martin Lorenzo, JLBC Staff, explained that the item is a review of the PSCC third quarter expenditures and progress. The JLBC Staff recommends a favorable review. The third quarter expenditures total \$150,100, which is consistent with those in the first and second quarter. The PSCC has reported progress relative to the short-term and long-term interoperable solutions. With respect to the long-term project, the PSCC has issued a Request for Proposal (RFP) which they expect to award in July. The RFP consists of 2 phases. The first phase will address the conceptual design and plans for the long-term interoperability system. The second phase consists of construction documents to implement the blue print, as well as the construction of the demonstration project. The first phase is to be completed by the end of FY 2007 and the second phase to be completed by the end of FY 2008.

In response to Representative Pearce's question, Mr. Kurt Knight, Department of Public Safety and the Public Safety Communications Commission, updated the Committee on the vehicles purchased by DPS for business use.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of the third quarter expenditures and progress for the statewide interoperability design project. The motion carried.

DEPARTMENT OF REVENUE – Review of Ladewig Expenditure Plan.

Mr. Richard Stavneak, Director, JLBC Staff, stated that this item has to do with the Ladewig administrative expenses. It is contingent upon the passage and enactment of the Case Settlements Budget Reconciliation Bill. FY 2007 will be the final year of the Ladewig payments. There are estimated administrative expenses that the department will make of \$974,600. The monies will be used for personnel, postage, and unclaimed property advertising. The Department of Revenue is asking for a favorable review of the \$974,600 administrative expenses for the Ladewig lawsuit.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of DOR's estimated administrative expenditure plan of \$974,600 for the FY 2007 Ladewig project, with the condition that DOR report

back with a revised expenditure plan if the provision to eliminate the requirement for the newspaper advertising of names of individuals with unclaimed property is enacted. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Consider Approval of Requested Transfer of Appropriations

Mr. Tyler Palmer, JLBC Staff, stated A.R.S. § 35-173 requires the Committee to approve of transfer of spending authority within the Department of Administration (DOA). Due to utility rate increases, largely electricity, the department is requesting a transfer of up to \$250,000 from the Capital Outlay Stabilization Fund (COSF) lump sum appropriation to the Utilities Special Line Item. The \$250,000 represents a 4% increase from the current budget amount. The amount seems reasonable, but due to the late submission of information, the JLBC Staff has not had enough time to analyze the information or request additional information. It seems reasonable considering utilities and electricity has gone up 4%. The JLBC Staff recommends approval of the transfer.

Representative Pearce moved the JLBC Staff recommendation to approve the transfer of up to \$250,000 from the COSF lump sum appropriation to the Utilities SLI. The motion carried.

EXECUTIVE SESSION

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

At 10:05 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

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

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of *Alexander v. State of Arizona, et al.* The motion carried.

The meeting adjourned at 11:00 a.m.

Respectfully submitted:

Amanda Ruiz, Secretary

Richard Stavneak, Director

Senator Robert Burns, Chairman