

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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CHAIRMAN 2010
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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
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JOINT LEGISLATIVE BUDGET COMMITTEE

Tuesday, February 2, 2010

8:00 A.M.

Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order
- [Approval of Minutes of September 22, 2009](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
 - A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
 - B. State Department of Corrections - Review of Request for Proposals for 5,000 Private Prison Beds per A.R.S. § 38-431.03A2.
 - C. State Department of Corrections - Review of Request for Proposals for Privatization of Correctional Health Services per A.R.S. § 38-431.03A2.
 - D. Annual Performance Review per Rule 7.
- 1. [ARIZONA DEPARTMENT OF ADMINISTRATION, ATTORNEY GENERAL, AND JUDICIARY - Review of Requested Exchange of Fund Transfers. *](#)
- 2. [ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Emergency Telecommunication Services. *](#)
- 3. [AHCCCS - Review of Proposed Acute Care and Long Term Care \(ALTCS\) Capitation Rate Changes. *](#)
- 4. [ATTORNEY GENERAL - Review of Allocation of Settlement Monies. *](#)
- 5. [DEPARTMENT OF ECONOMIC SECURITY - Review of Long Term Care Capitation Rate Changes. *](#)
- 6. [DEPARTMENT OF ENVIRONMENTAL QUALITY - Review of Water Quality Permit Processing Times. *](#)

7. GOVERNMENT INFORMATION TECHNOLOGY AGENCY - Quarterly Review of the Arizona Public Safety Communication Advisory Commission. *
8. DEPARTMENT OF HEALTH SERVICES
 - A. Review of Requested Transfer of Appropriations. *
 - B. Review of Children's Rehabilitative Services Capitation Rate Changes. *
9. JLBC STAFF - Consider Approval of Index for School Facilities Board Construction Costs. *
10. ARIZONA BOARD OF REGENTS - Review of FY 2010 Tuition Revenues. *
11. DEPARTMENT OF REVENUE - Review of Business Reengineering/Integrated Tax System Expenditure Plan. *

* These items will be considered in one motion to adopt the JLBC Staff recommendation and testimony will not be taken.

The Chairman reserves the right to set the order of the agenda.

1/27/10

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People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 926-5491.

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

September 22, 2009

The Chairman called the meeting to order at 3:15 p.m., Tuesday, September 22, 2009, in House Hearing Room 4. The following were present:

Members:	Senator Pearce, Vice-Chairman	Representative Kavanagh, Chairman
	Senator Aboud	Representative Cajero Bedford
	Senator Aguirre	Representative McComish
	Senator Gray	Representative Murphy
	Senator Harper	Representative Williams
Absent:	Senator Pierce	Representative Biggs
	Senator Rios	Representative Campbell
	Senator Waring	Representative Heinz

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of June 23, 2009, Chairman Kavanagh stated that the minutes would stand approved.

STATE PARKS BOARD - Review of Requested Exchange of Fund Transfers.

Mr. Art Smith, JLBC Staff stated that this item is a review of requested exchange of fund transfers for the State Parks Board (SPB). The FY 2010 budget includes a number of fund transfers for the agency and as with FY 2009, there is a provision that allows agencies to come before the Committee with an alternate fund transfer proposal as long as they are neutral to the General Fund. The table below shows the list of fund transfers required in the FY 2010 budget. The JLBC Staff presented options to the Committee.

(Continued)

FY 2010 Fund Transfer Exchange				
Fund Specified in Laws 2009, Ch. 11 ^{1/}	Ch. 11 Transfer Amount ^{2/}	Transfer Type	Replacement Fund ^{3/}	Revised Transfer Amount ^{4/}
State Lake Improvement Fund	\$3,048,200	EBT ^{5/}	Arizona Heritage Fund Off-Highway Vehicle Recreation Fund	\$2,548,200 \$500,000
State Parks Enhancement Fund	\$1,901,500	EBT ^{5/}	Arizona Heritage Fund	\$1,901,500
State Parks Enhancement Fund	725,900	FRAT ^{6/}	Arizona Heritage Fund	725,900
State Parks Enhancement Fund	557,600	Salary ^{7/}	Arizona Heritage Fund	557,600
Arizona Heritage Fund	163,900	Salary ^{7/}	Arizona Heritage Fund	163,900
Reservation Surcharge Fund	54,800	FRAT ^{6/}	Arizona Heritage Fund	54,800
Reservation Surcharge Fund	41,800	Salary ^{7/}	Arizona Heritage Fund	41,800
Publications and Souvenirs Fund	22,700	Salary ^{7/}	Arizona Heritage Fund	22,700
State Parks Fund	19,700	Salary ^{7/}	Arizona Heritage Fund	19,700
Partnerships Fund	14,000	Salary ^{7/}	Arizona Heritage Fund	14,000
Total	\$6,550,100			\$6,550,100

^{1/} Fund source for reductions mandated by Laws 2009, Chapter 11.
^{2/} Amount for reductions mandated by Laws 2009, Chapter 11.
^{3/} Funds from which agencies are requesting transfers in order to accommodate the mandated reductions.
^{4/} Transfer amounts proposed by agency.
^{5/} Excess balance transfers (EBTs) sweep money from anticipated FY 2010 ending balances into the General Fund.
^{6/} Fund reduction and transfers (FRATs) reduce annual FY 2010 spending from the agency's Other Funds. An amount equal to these reductions would be swept into the General Fund. The Parks Board proposal would sweep from Arizona Heritage Fund balances.
^{7/} Salary lump sums reduce annual FY 2010 personnel spending from the agency's Other Funds. An amount equal to these reductions would be swept into the General Fund. The Parks Board proposal would sweep from Arizona Heritage Fund balances.

Mr. Jay Ziemann, Assistant Director, State Parks Board, responded to member questions.

Senator Pearce moved that the Committee give a favorable review to the Arizona State Parks Board request for the proposed exchange of fund transfers shown in the table above. The motion carried.

DEPARTMENT OF HEALTH SERVICES - Review of Behavioral Health Title XIX Capitation Rate Changes.

Mr. Art Smith, JLBC Staff, stated that this item is a review of the Department of Health Services' (DHS) capitation rate changes for behavioral health population. The proposed rates are expected to cost the General Fund approximately \$652,000 above the budgeted amount. The JLBC Staff presented options to the Committee.

Dr. Laura Nelson, Acting Deputy Director, Department of Health Services, responded to member questions.

Senator Pearce moved that the committee give an unfavorable review to the DHS' change in capitation rates for the Title XIX behavioral health programs as the capitation rate exceeds the budgeted amount by a net of \$651,000 from the General Fund due to program expansions. The motion carried.

ATTORNEY GENERAL - Review of Allocation of Settlement Monies.

Ms. Marge Zylla, JLBC Staff, stated that the Attorney General's (AG) office is requesting favorable reviews of the allocation monies received from 5 different settlements. Each has a designated amount that will be deposited into the Consumer Fraud Fund to support consumer fraud investigations, consumer education and enforcement of the Consumer Fraud Act. The total from all 5 settlements to be deposited into the fund is \$2.5 million. The JLBC Staff recommended a favorable review.

(Continued)

Senator Pearce moved that the Committee give a favorable review of \$2,547,000 from 5 settlements of the total, \$2,463,300 is to be deposited into the Consumer Protection - Consumer Fraud Revolving Fund as follows: 1) A \$845,400 allocation resulting from mediation as part of ongoing Average Wholesale Price (AWP) litigation with pharmaceutical companies (an additional \$83,700 was spent on outside counsel, 2) a \$117,000 allocation to the AG from a consent judgment with Tim's Auto Group, 3) a \$400,000 allocation to the AG from a consent judgment with Wal-Mart Stores, 4) a \$1,000,000 civil penalty from a consent judgment with Central Coast Nutraceuticals (CCN), and 5) a \$100,000 civil penalty from a consent judgment with Payless Car Rental. The motion carried.

GOVERNMENT INFORMATION TECHNOLOGY AGENCY - Quarterly Review of the Arizona Public Safety Communication Advisory Commission.

Mr. Dan Hunting, JLBC Staff, stated that this item is a review of the FY 2009 expenditures of the Arizona Public Safety Communication Advisory Commission.

Due to lack of a GITA representative to answer questions, the Chairman decided to hold this item until the next JLBC meeting.

DEPARTMENT OF EDUCATION - Review of Kinder Morgan and Xanterra Settlements.

Mr. Steve Schimpp, JLBC Staff, stated that the Department of Education (ADE) is seeking a favorable review of its plan to provide 2 school districts with funding for Basic State Aid. The JLBC Staff recommended a favorable review.

Senator Pearce moved that the Committee give a favorable review of the Arizona Department of Education's plan to provide 2 school districts with a total of \$153,900 in corrected Basic State Aid funding due to recent settlements in Arizona Tax Court regarding property taxes paid in prior years by the Xanterra and Kinder Morgan Corporations. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Risk Management Deductible.

Mr. Dan Hunting, JLBC Staff, stated that this item is a review of the deductible that the Arizona Department of Administration (ADOA) Risk Management may charge to agencies that have sustained significant losses. ADOA recommends a continuation of the current \$10,000 deductible. The JLBC Staff recommended a favorable review.

Senator Pearce moved that the Committee give a favorable review of the ADOA Risk Management deductible of \$10,000. The motion carried.

EXECUTIVE SESSION

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

At 4:15 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 5:00 p.m. the Committee reconvened into open session.

A. Arizona Department of Administration - Risk Management Services - Consideration of Proposed Settlements under Rule 14.

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

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

B. Arizona Department of Administration - Risk Management Annual Report.

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

Without objection, the meeting adjourned at 5:05 p.m.

Respectfully submitted:

Sandy Schumacher, Secretary

Richard Stavneak, Director

Representative John Kavanagh, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams.
A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.

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DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Principal Fiscal Analyst
Marge Zylla, Fiscal Analyst
Jon McAvoy, Fiscal Analyst

SUBJECT: Arizona Department of Administration, Attorney General, and Judiciary - Review of
Requested Exchange of Fund Transfers

This memo has been updated since it appeared in the cancelled December meeting packet.

Request

The FY 2010 General Appropriation Act (Laws 2009, 1st Regular Session, Chapter 11, Section 111) and the FY 2009 Budget Reduction and Transfer Bill (Laws 2009, 1st Special Session, Chapter 1, Section 29) require JLBC review of agency requests to transfer monies between their own funds in order to comply with transfers required by these acts. The Arizona Department of Administration (ADOA), the Attorney General's Office (AG), and the Arizona Judiciary have requested Committee review of a collective total of \$1,714,500 in fund transfers pursuant to these bills.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the proposed exchange of fund transfers for ADOA, the AG, and the Judiciary. These transfers do not change levels of expenditure authority for any funds in FY 2010. The FY 2011 budget baseline would be modified to assume the continuation of these exchanges in future years. The AG and the Judiciary have indicated the fund exchange authority is necessary only in FY 2010.

Analysis

Table 1 summarizes the requested fund transfer exchanges for each agency.

(Continued)

Table 1

Requested FY 2010 Fund Transfer Switches

Fund Specified in Laws 2009, 1st Regular Session, Ch. 11 ^{1/}	Ch. 11 Transfer Amount ^{2/}	Transfer Type	Agency Proposed Fund ^{3/}	Revised Transfer Amount ^{4/}
ADOA				
Special Services Revolving Fund	\$ 34,200	Salary ^{5/}	Motor Vehicle Pool Revolving Fund	\$ 34,200
Special Services Revolving Fund	216,500	FRAT ^{6/}	Motor Vehicle Pool Revolving Fund	216,500
State Surplus Materials Revolving Fund	62,200	Salary ^{5/}	Motor Vehicle Pool Revolving Fund	62,200
State Surplus Materials Revolving Fund	<u>425,800</u>	FRAT ^{6/}	Motor Vehicle Pool Revolving Fund	<u>425,800</u>
<i>Subtotal</i>	<i>\$738,700</i>			<i>\$738,700</i>
Attorney General				
Collections Enforcement Revolving Fund	\$865,500	FRAT/ Salary ^{6/}	Consumer Protection – Consumer Fraud Revolving Fund	\$865,500
Fund Specified in Laws 2009, 1st Special Session, Ch. 1 ^{7/}	Ch. 1 Transfer Amount ^{8/}	Transfer Type	Agency Proposed Fund ^{3/}	Revised Transfer Amount ^{4/}
Judiciary				
Grants and Special Revenues Fund	\$110,300	Salary ^{5/}	Criminal Justice Enhancement Fund	\$110,300
Total	\$1,714,500			\$1,714,500

^{1/} Fund source for reductions mandated by Laws 2009, 1st Regular Session, Chapter 11.

^{2/} Amount for reductions mandated by Laws 2009, 1st Regular Session, Chapter 11.

^{3/} Funds from which agencies are requesting transfers in order to accommodate the mandated reductions.

^{4/} Transfer amounts proposed by agency.

^{5/} Salary lump sums reduce annual FY 2010 personnel spending from the agency's Other Funds. An amount equal to these reductions would be swept into the General Fund.

^{6/} Fund reduction and transfers (FRATs) reduce annual FY 2010 spending from the agency's Other Funds. An amount equal to these reductions would be swept into the General Fund.

^{7/} Fund source for reductions mandated by Laws 2009, 1st Special Session, Chapter 1.

^{8/} Amount for reductions mandated by Laws 2009, 1st Special Session, Chapter 1.

ADOA

The FY 2010 General Appropriation Act requires ADOA to complete \$19,024,400 in fund transfers. These transfers are comprised of Excess Balance Transfers (EBTs), Fund Reduction and Transfers (FRATs), and salary lump sum reductions. EBTs sweep money from the anticipated FY 2010 ending balances into the General Fund. FRATs reduce the annual FY 2010 spending from the agency's other funds and sweep the savings into the General Fund. Salary lump sums reduce the annual FY 2010 spending for agency personnel costs and sweep the savings into the General Fund. *Table 1* summarizes the requested fund transfers.

The Special Services Revolving Fund receives its revenues through payments made by agencies using various centralized printing, copying, and repair services offered by ADOA. The fund is used to provide supplies, printing, copying, repair, and other office services for state agencies. ADOA states that this fund cannot meet the mandated \$34,200 salary lump sum reduction and \$216,500 FRAT because the rates for these services are set so that significant balances do not occur. According to ADOA, the balance in this fund will be negative if these monies are swept.

(Continued)

The State Surplus Materials Revolving Fund receives its revenues from the sale of state surplus property. The fund is used to collect, store, and administer the sale of state surplus property. The majority of revenues are returned to donor agencies. The department retains a service and handling fee. ADOA states that this fund cannot meet the mandated \$62,200 salary lump sum reduction and \$425,800 FRAT because much of the property they sold was purchased from constitutionally protected funds, such as the Highway User Revenue Fund, and these proceeds cannot be transferred to the General Fund. According to ADOA, the balance in this fund will be negative if these monies are swept because of the constitutionally protected funds constraint.

The Motor Vehicle Pool Revolving Fund receives its revenues from charges to agencies for the use of motor pool vehicles, and these monies are used to operate the motor vehicle pool. ADOA is requesting that the salary lump sum reductions and FRATs from the 2 funds mentioned above be swept from this fund instead. The total amount ADOA is requesting to be swept from this fund is \$738,700. This would be in addition to this fund's \$1,351,400 mandated transfers as authorized by the FY 2010 General Appropriation Act and includes a \$78,700 salary lump sum and \$1,272,700 FRAT. If the Committee favorably reviews ADOA's request, this fund's total FY 2010 transfers would be \$2,090,100, which includes \$738,700 in ADOA requested transfers and \$1,351,400 in already mandated transfers.

Attorney General

The FY 2010 General Appropriation Act requires the AG to transfer a total of \$1,365,500 from the Collections Enforcement Revolving Fund to the General Fund. These transfers are comprised of a \$1,000,000 FRAT and a \$365,500 salary lump sum reduction. The AG is requesting to transfer \$865,500 from the Consumer Protection-Consumer Fraud Revolving Fund instead of the Collections Enforcement Revolving Fund to facilitate these transfers. *Table 1* summarizes the requested fund transfer. According to the AG, the Collections Enforcement Revolving Fund does not have sufficient available funds to complete the fund transfer in FY 2010, making this fund exchange one-time in nature. The Collections Enforcement Revolving Fund receives 35% of monies from state debt recovered by the AG. The Consumer Protection-Consumer Fraud Revolving Fund consists of monies recovered from consumer fraud penalties.

Judiciary

The FY 2009 Budget Reduction and Transfer Bill requires the Judiciary to transfer a total of \$110,300 from the Grants and Special Revenues Fund to the General Fund. This transfer is one-time in nature. This amount includes a Supreme Court salary lump sum reduction of \$94,500 and a Superior Court salary lump sum reduction of \$15,800. The department is requesting to transfer \$110,300 from the Criminal Justice Enhancement Fund instead of the Grants and Special Revenues Fund to facilitate these transfers. *Table 1* summarizes the requested fund transfer. According to the Administrative Office of the Courts, the Grants and Special Revenues Fund cannot comply with the proposed transfer since the fund is made up of funding from various private grants, user fees, and federal grants to fund specific purposes.

RS/LMc/MZ/JM:sls

JANICE K. BREWER
Governor



DAVID RABER
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 N 15TH AVE, SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500

November 19, 2009

Mr. D. Clark Partridge
State Comptroller
General Accounting Office
100 N. 15th Avenue
Phoenix, Arizona 85007



Dear Mr. Partridge:

Pursuant to Laws 2009, Chapter 11, Section 111 (SB 1188), the Arizona Department of Administration (ADOA) requests authorization to transfer \$738,700 from the Motor Vehicle Pool Revolving Fund to the following funds:

Division/Section	Transfer Amount	From	To
State Surplus Property	\$488,000	Motor Vehicle Pool Revolving Fund	State Surplus Property Revolving Fund
FY 09 Administrative Adjustments	\$250,700	Motor Vehicle Pool Revolving Fund	Special Services Revolving Fund
Total	\$738,700		

The attached cash flow projections for the State Surplus Property Revolving Fund and the Special Services Revolving Fund show the current budgets without the transfer. The transfer amounts will have the effect of increasing the ending cash balance.

Please note the following:

- The biggest expenses for State Surplus are the proceeds from the auction of property that are due to the agencies that originated the property. Much of the property was purchased from constitutionally protected funds such as the Highway User Revenue Fund. Those proceeds from auctions cannot be transferred to the General Fund. The transfer proposed above keeps the fund from a negative balance while operating under those constraints.

Mr. D. Clark Partridge
November 19, 2009
Page 2 of 2

- The Special Services Revolving Fund contains monies for the State Boards Office, the Mailroom, the Print Shop and Repair Services. All of those activities derive revenues based on a cost recovery methodology. Rates are set so that significant balances do not accumulate in the fund, which keeps the service as affordable as possible to the agencies and boards. The proposed transfer keeps the balance in the fund from going negative.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to be 'PS', followed by a long horizontal line extending to the right.

Paul Shannon
Assistant Director,
Budget and Resource Planning

c. Richard Stavneak

Attachment

MSD - Business Services (Does not Include State Boards)
Revenue Projection Budget Report
Fiscal Year 2010
For the Month Ending October 31, 2009

Fund: 4208, for Index(es): 78100, 78200, 78500, 78700, 11012, and 14080

APPROPRIATION															YTD APPROP		APPROP REM
APPROPRIATION (LESS SETASIDE)																	
	ESTIMATED REVENUE	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD CASH REVENUES	FY 2010 PROJECTED REVENUE	Total Revenues
REVENUES	\$ 1,323,265	\$ 1,573	\$ 84,224	\$ 160,295	\$ 122,162	\$ 110,000	\$ 131,273	\$ 120,816	\$ 89,539	\$ 114,989	\$ 93,211	\$ 100,691	\$ 110,050	\$ 84,442	\$ 368,254	\$ 955,011	\$ 1,323,265
CHECK 63A SCREEN CUR MO & YTD EXP index 78900	\$ 1,572	\$ 84,224	\$ 160,295	\$ 122,162											\$ 246,092		
variance		(1)	(0)	(0)	1										(122,162)		
OBJECT EXPENDITURES	BUDGET	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD EXPENDITURES	FY 2010 PROJECTED EXPENDITURE	(OVER) OR UNDER ESTIMATED OPERATING BUDGET (NON APPROPRIATED)
6000 PERSONAL SERVICES	\$ 285,670	\$ 27,871	\$ 18,598	\$ 18,598	\$ 18,657	\$ 18,600	\$ 27,900	\$ 18,626	\$ 18,626	\$ 18,626	\$ 18,626	\$ 18,626	\$ 18,626	\$ -	\$ 83,724	\$ 158,256	\$ 43,690
6100 ERE	138,867	14,872	9,938	9,940	10,105	10,174	15,261	10,338	10,338	10,338	10,338	10,338	10,338	-	44,854	87,463	6,550
6200 PROFESSIONAL & OUTSIDE	24,000	-	2,934	2,334	1,865	2,375	1,900	1,900	2,375	1,900	1,900	2,375	1,900	950	7,134	17,575	(709)
6500 TRAVEL - IN STATE	13,630	-	1,868	659	(694)	919	1,123	2,292	989	975	815	522	799	780	1,833	9,213	2,584
6600 TRAVEL - OUT OF STATE	140	-	-	-	-	-	-	-	-	-	-	-	140	-	-	140	-
7000 OTHER OPERATING EXPENSES	1,483,795	15,079	20,254	58,461	100,892	174,711	86,539	96,487	78,717	73,050	99,249	76,465	129,922	8,603	194,686	823,744	465,366
8400 CAPITAL EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8500 OTHER EQUIPMENT	5,500	-	-	-	-	-	-	-	-	-	-	-	500	5,000	-	5,500	-
9000 COST ALLOCATIONS	40,000	5,826	5,385	-	7,929	(14,090)	5,490	5,490	5,490	5,490	5,490	5,490	-	5,490	19,141	24,340	(3,481)
9100 OPERATING TRANSFERS OUT	2,800	-	-	-	-	-	224	-	-	-	-	-	-	-	-	224	2,576
TOTALS	\$ 1,994,402	\$ 63,648	\$ 58,977	\$ 89,993	\$ 138,754	\$ 192,689	\$ 138,213	\$ 135,357	\$ 116,535	\$ 110,380	\$ 136,418	\$ 113,815	\$ 162,225	\$ 20,823	\$ 351,372	\$ 1,126,455	\$ 516,575
CASH OR GF APPROP LESS SETASIDE	BEGINNING CASH	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	REVENUES AND EXPENDITURES	FY10 PROJECTED REMAINING	PROJECTED PLUS ACTUAL
CASH COLLECTIONS	\$ 239,608	\$ 1,573	\$ 84,224	\$ 160,295	\$ 122,162	\$ 110,000	\$ 131,273	\$ 120,816	\$ 89,539	\$ 114,989	\$ 93,211	\$ 100,691	\$ 110,050	\$ 84,442	\$ 368,254	\$ 955,011	\$ 1,323,265
BUDGET MANAGEMENT PLAN FY10							(250,700)								\$ -	\$ -	(250,700)
CASH EXPENDITURES		(63,648)	(58,977)	(89,993)	(138,754)	(192,689)	(138,213)	(135,357)	(116,535)	(110,380)	(136,418)	(113,815)	(162,225)	(20,823)	(351,372)	(1,126,455)	(1,477,827)
NET/PROJECTED CASH FLOW FY10		\$ (62,076)	\$ 25,247	\$ 70,303	\$ (16,592)	\$ (82,689)	\$ (257,640)	\$ (14,541)	\$ (26,997)	\$ 4,610	\$ (43,207)	\$ (13,124)	\$ (52,175)	\$ 63,619	\$ 16,882	\$ (422,144)	\$ 3,040,700
Prior Yr Revenue		\$ 7,874	\$ 10,847	\$ 1,545	\$ 3,455	\$ 75	\$ 75	\$ 250	\$ 53	\$ 75	\$ -	\$ -	\$ -	\$ -	\$ 23,721	\$ 528	\$ 24,249
Prior Yr Expenditures		(18,905)	(1,556)	530	(2)	(500)	-	-	-	-	-	-	-	-	(19,933)	(500)	(20,433)
NET CASH FLOWS FROM PRIOR YEARS		\$ (11,031)	\$ 9,291	\$ 2,075	\$ 3,453	\$ (425)	\$ 75	\$ 250	\$ 53	\$ 75	\$ -	\$ -	\$ -	\$ -	\$ 3,788		
COMBINED CASH FLOW		\$ (73,107)	\$ 34,538	\$ 72,378	\$ (13,139)	\$ (83,114)	\$ (257,565)	\$ (14,291)	\$ (26,944)	\$ 4,685	\$ (43,207)	\$ (13,124)	\$ (52,175)	\$ 63,619	YTD CASH \$ 260,278	ENDING CASH \$ (161,838)	
															\$ 273,417		Balanced
															(13,139.46)		
Actual Cash at month end		\$ 166,502	\$ 201,040	\$ 273,417	\$ 260,278	\$ 177,164	\$ (80,401)	\$ (94,692)	\$ (121,636)	\$ (116,951)	\$ (160,159)	\$ (173,283)	\$ (225,458)	\$ (161,838)			
Trended Projections for FY 10		\$ 278,721	\$ 258,057	\$ 269,491	\$ (161,838)												

CC: J. Wright, S. Perica, B. St Andre, Paul S., Joe W., Bill H.

For the Month Ending October 31, 2009

APPROPRIATION		YTD APPROP	APPROP REM
APPROPRIATION (LESS SETASIDE)	\$ 284,600	\$ 80,225	\$ 204,375

	BUDGETED REVENUE	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD CASH REVENUES	FY 2010 PROJECTED REVENUE
BUDGETED REVENUES AY10	\$ 284,600	\$ 47,885	\$ 6,112	\$ 386	\$ 53,276	\$ -	\$ -	\$ 54,383	\$ -	\$ -	\$ 54,383	\$ -	\$ -	\$ -	\$ 107,658.62	\$ 108,766

OBJECT	EXPENDITURES	BUDGET	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD EXPENDITURE \$	PROJECTED EXPENDITURE \$	(OVER) OR UNDER BUDGET
6000	PERSONAL SERVICES	\$ 143,200	\$ 17,028	\$ 8,181	\$ 10,086	\$ 10,086	\$ 10,086	\$ 15,128	\$ 10,086	\$ 10,086	\$ 10,086	\$ 10,086	\$ 10,086	\$ 10,086	\$ -	\$ 45,379	\$ 85,727	\$ 12,094
6100	ERE	52,780	7,668	2,686	3,919	3,255	3,917	5,876	3,917	3,917	3,917	3,917	3,917	3,917	-	17,527	33,297	1,955
6200	PROFESSIONAL & OUTSIDE	-	-	30	30	60	30	30	30	30	30	30	30	30	-	120	240	(360)
6500	TRAVEL - IN STATE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6600	TRAVEL - OUT OF STATE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7000	OTHER OPERATING EXPENSES	88,620	955	4,089	2,692	9,461	497	1,496	4,230	352	343	4,273	1,729	4,385	1,899	17,198	19,203	52,219
8400	CAPITAL EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8500	OTHER EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9000	COST ALLOCATIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9100	OPERATING TRANSFERS OUT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	TOTALS	\$ 284,600	\$ 25,651	\$ 14,986	\$ 16,727	\$ 22,862	\$ 14,529	\$ 22,530	\$ 18,263	\$ 14,385	\$ 14,376	\$ 18,306	\$ 15,762	\$ 18,418	\$ 1,899	\$ 80,224.76	\$ 138,467	\$ 65,908

[illegible]

By: Pam Cobb 11/9/09

(0)

Management Services Division - State Surplus
Cash Expenditure Projection
Fiscal Year 2010
For the Month Ending October 31, 2009
Fund: 4214, for Index(es): 75100, 75001, 75150, 75200, 11009

		APPROPRIATION														YTD APPROP		APPROP REM	
SLI SALES PROCEEDS		\$ 2,512,000														\$ 6,125		\$ 2,505,875	
APPROPRIATION (LESS SETASIDE)		\$ 1,258,000														\$ 386,827		\$ 871,173	

	ESTIMATED REVENUE	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD CASH REVENUES	FY 2010 PROJECTED REVENUE	TOTAL PROJECTED CASH
REVENUES	\$ 1,962,666	\$ 31,945	79,493	\$ 373,761	\$ 182,933	\$ 57,403	\$ 68,117	\$ 75,241	\$ 401,662	\$ 66,361	\$ 446,268	\$ 49,969	\$ 81,446	\$ 48,069	\$ 668,131	\$ 1,294,535	\$ 1,962,666

OBJECT	BUDGET TO ACTUAL WITH PROJECTIONS EXPENDITURES Appropriation 45000	BUDGET	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD EXPENDITURES	FY 2010 PROJECTED EXPENDITURES	PROJECTION (OVER) OR UNDER
6000 PERSONAL SERVICES		\$ 616,300	\$ 45,303	30,905	\$ 32,979	\$ 35,149	\$ 31,956	\$ 47,934	\$ 31,956	\$ 31,956	\$ 31,956	\$ 31,956	\$ 31,956	\$ 31,956	\$ -	\$ 144,336	\$ 271,626	\$ 200,338
6100 ERE		292,900	20,414	13,867	14,547	16,107	15,152	22,728	15,152	15,152	15,152	15,152	15,152	15,152	0	\$ 64,936	\$ 128,792	\$ 99,172
6200 PROFESSIONAL & OUTSIDE		100,000	603	11,419	9,441	10,961	6,038	6,038	9,275	8,980	6,185	9,833	9,539	6,185	3,093	\$ 32,424	\$ 65,166	\$ 2,410
6500 TRAVEL - IN STATE		18,000	0	1,792	1,374	1,597	1,615	1,615	1,615	1,615	1,615	1,615	1,615	1,615	1,615	\$ 4,762	\$ 14,535	\$ (1,297)
6600 TRAVEL - OUT OF STATE		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
6800 AID / SALES TAX COLLECTED		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
7000 OTHER OPERATING EXPENSES		203,600	18,201	12,091	12,140	73,146	8,058	7,575	39,671	5,954	3,966	38,404	8,197	7,877	3,090	\$ 115,578	\$ 122,790	\$ (34,769)
8100 CAPITAL OUTLAY		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
8400 CAPITAL EQUIPMENT		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
8500 OTHER EQUIPMENT		3,000	0	5,361	0	0	0	0	0	0	0	0	0	0	0	\$ 5,361	\$ -	\$ (2,361)
9000 COST ALLOCATIONS		32,400	5,938	5,290	0	8,203	4,860	4,860	4,860	4,860	4,860	4,860	4,860	0	4,860	\$ 19,430	\$ 38,880	\$ (25,910)
9100 OPERATING TRANSFERS OUT		0	0	-	0	0	0	0	0	0	0	0	0	0	0	\$ -	\$ -	\$ -
TOTALS Excluding 14020 set aside		\$ 1,266,200	\$ 90,459	80,725	\$ 70,481	\$ 145,163	\$ 67,679	\$ 90,750	\$ 102,529	\$ 68,517	\$ 63,734	\$ 101,820	\$ 71,319	\$ 62,785	\$ 12,658	\$ 386,827	\$ 641,789	\$ 237,584
OBJECT EXPENDITURES Approp 45000 DOFS		\$ 2,512,000	\$ -	-	\$ 6,125	\$ -	\$ 90,750	\$ -	\$ -	\$ 325,700	\$ -	\$ 311,000	\$ -	\$ 10,000	\$ 39,000	\$ 6,125	\$ 776,450	\$ 1,729,425
COMPOBJECT EXPENDITURES FOR FUND 4214		\$ 3,778,200	\$ 90,459	80,725	\$ 76,606	\$ 145,163	\$ 158,428	\$ 90,750	\$ 102,529	\$ 394,217	\$ 63,734	\$ 412,820	\$ 71,319	\$ 72,785	\$ 51,658	\$ 392,952	\$ 1,418,239	\$ 1,967,009

	BEGINNING CASH 7/1/09 (End of 13th FY09)	ACTUAL JUL-09	ACTUAL AUG-09	ACTUAL SEPT-09	ACTUAL OCT-09	PROJECTED NOV-09	PROJECTED DEC-09	PROJECTED JAN-10	PROJECTED FEB-10	PROJECTED MAR-10	PROJECTED APR-10	PROJECTED MAY-10	PROJECTED JUN-10	PROJECTED 13th Month	YTD CASH REVENUES AND EXPENDITURES	FY 2010 PROJECTED REMAINING	YEAR TOTAL
CASH OR GF APPROP LESS SETASIDE																	
CASH COLLECTIONS	\$ 275,903	\$ 31,945	79,493	\$ 373,761	\$ 182,933	\$ 57,403	\$ 68,117	\$ 75,241	\$ 401,662	\$ 66,361	\$ 446,268	\$ 49,969	\$ 81,446	\$ 48,069	\$ 668,131	\$ 1,294,535	\$ 1,962,666
CREDIT CARD DEPOSIT only if in process		\$ -	-	\$ (17,709)	\$ 17,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BUDGET MANAGEMENT PLAN FY10 *	\$ 488,000	\$ -	-	\$ -	\$ -	\$ -	\$ (488,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (488,000)	\$ (488,000)
CASH EXPENDITURES		(90,459)	(80,725)	(76,606)	(145,163)	(158,428)	(90,750)	(102,529)	(394,217)	(63,734)	(412,820)	(71,319)	(72,785)	(51,658)	(392,952)	(1,418,239)	(1,811,191)
NET CASH FLOW FY10		\$ (58,514)	(1,232)	\$ 279,446	\$ 55,479	\$ (101,026)	\$ (510,633)	\$ (27,288)	\$ 7,445	\$ 2,627	\$ 33,448	\$ (21,350)	\$ 8,661	\$ (3,589)	\$ 275,179	\$ (611,705)	\$ (336,526)
CASH FLOWS FROM 14020	4,400	\$ -	-	\$ -	\$ -	\$ (2,600)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,600)	\$ (2,600)
Prior Years Revenue		\$ 22,418	15,002	\$ -	\$ 2,070	\$ 1,608	\$ 1,608	\$ 1,608	\$ 1,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,490	\$ 6,430	\$ 45,920
Prior Years DOF Expenditures		\$ -	-	\$ (126,396)	\$ (48,160)	\$ (90,750)	\$ (162,422)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 174,558	\$ (253,172)	\$ (78,616)
Other Prior Year Expenditures		(11,366)	(1,268)	-	(8)	-	-	-	-	-	-	-	-	-	\$ -	\$ (12,642)	\$ (12,642)
Total Prior Years Expenditures		(11,366)	(1,268)	(126,396)	(48,168)	(90,750)	(162,422)	-	-	-	-	-	-	-	\$ (187,198)	\$ (253,172)	\$ (440,370)
NET CASH FLOWS FROM PRIOR YEARS		\$ 11,052	13,734	\$ (126,396)	\$ (46,098)	\$ (89,142)	\$ (160,815)	\$ 1,608	\$ 1,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (147,708)	\$ (246,742)	\$ (394,450)
COMBINED CASH FLOWS		\$ (47,462)	12,502	\$ 153,050	\$ 9,381	\$ (192,768)	\$ (671,448)	\$ (25,681)	\$ 9,053	\$ 2,627	\$ 33,448	\$ (21,350)	\$ 8,661	\$ (3,589)	YTD CASH \$ 403,374	ENDING CASH \$ (457,672)	
		\$ 0													\$ -		
Cash end of Month/or Projected at Month End		\$ 228,441	240,943	\$ 393,993	\$ 403,374	\$ 210,606	\$ (460,842)	\$ (486,523)	\$ (477,470)	\$ (474,842)	\$ (441,394)	\$ (462,744)	\$ (454,083)	\$ (457,672)			

TRENDING	Jul-09	40,026	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	13th month
PROJECTED CASH NOW--06/30/09	\$ 245,643	249,492	\$ 311	(457,672)									

Prepared by: Pam Cobb Date: 11/10/09

Notes: Operation expenditures are projected based on current activity.

8/19/2009	9/15/2009	10/14/2009	11/10/2009										
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to: Joyce, Paul, Joe, Steve, Bill, cc: Brian
Date:
BSA

CFA test

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JANICE K. BREWER
GOVERNOR

DAVID RABER
INTERIM DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

GENERAL ACCOUNTING OFFICE

100 NORTH 15th AVENUE • SUITE 302

PHOENIX, ARIZONA 85007

Phone: (602) 542-5601 • Fax: (602) 542-5749

December 1, 2009

Mr. Richard Stavneak, Director
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007



Dear Mr. Stavneak:

Laws 2009, 49th Legislature, 1st Regular Session, Chapter 11 (SB1188), Section 111 requires the state comptroller to coordinate all activity with the Governor's Office of Strategic Planning and Budgeting (OSPB) and notify the Joint Legislative Budget Committee (JLBC) staff of any cash transfers pursuant to this section.

To date, the transfer requests listed in the following transfer summary schedule (see reverse side) have been reviewed as follows:

The first items for the Arizona State Parks have been reviewed by the JLBC and given a favorable review at its September 22, 2009 meeting. The General Accounting Office (GAO) and OSPB have also reviewed these requests and will process them as originally determined by section 111, i.e., they will be transferred to the agency fund that is required to comply with a reduction or transfer required by this act so that the reduction or transfer is consistent with this statutory authority.

The items for the Office of the Attorney General and the Department of Administration have not been reviewed by the JLBC, and are therefore requested to be placed on its meeting agenda so that the transfers can be made.

If you have any questions or need additional information, please call me at (602) 542-5405.

Sincerely,

D. Clark Partridge
State Comptroller

cc: John Arnold, Director, OSPB

Laws 2009, 49th Legislature, 1st Regular Session, Chapter 11 (SB1188)
Section 111 Transfer Summary

Agency	Amount		Fund Name
Arizona State Parks	\$ 5,886,200	from	Arizona Heritage Fund
	\$ 2,548,200	to	State Lake Improvement Fund
	\$ 3,185,000	to	State Parks Enhancement Fund
	\$ 96,600	to	Reservation Surcharge Fund
	\$ 22,700	to	Publication and Souvenirs Fund
	\$ 19,700	to	State Parks Fund
	\$ 14,000	to	Partnerships Fund
	\$ 500,000	from	Off-Highway Vehicle Recreation Fund
	\$ 500,000	to	State Lake Improvement Fund
Office of the Attorney General	\$ 865,500	from	Consumer Fraud Revolving Fund
	\$ 865,500	to	Collections Enforcement RevolvingFund
Department of Administration	\$ 738,700	from	Motor Vehicle Pool Revolving Fund
	\$ 488,000	to	State Surplus Property Revolving Fund
	\$ 250,700	to	Special Services Revolving Fund



Supreme Court

STATE OF ARIZONA

ADMINISTRATIVE OFFICE OF THE COURTS

Rebecca White Berch
Chief Justice

David K. Byers
Administrative Director
of the Courts

October 22, 2009

The Honorable Russell K. Pearce, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, Arizona 85007

The Honorable John Kavanagh, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, Arizona 85007



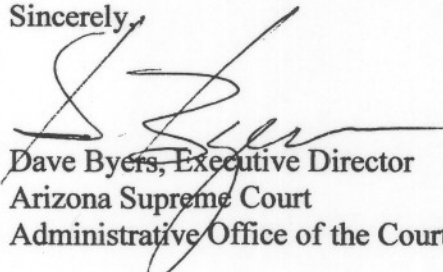
Dear Senator Pearce and Representative Kavanagh,

In accordance with Section 29 of the FY 2008 – 2009 budget reduction bill (Senate Bill 1001) the Supreme Court is requesting a fund transfer of \$110,300 from the Criminal Justice Enhancement Fund to the Grants and Special Revenue Fund.

The requested transfer is necessary to facilitate the fund transfer to the state general fund required in Section 7 of the FY 2008 – 2009 budget reduction bill allocated to the Grants and Special Revenue Fund.

The section 7 reduction included other state funds that were appropriated to state agency units in fiscal year 2008-2009 and from nonfederal non-appropriated funds for personnel expenses and related benefits costs. No program fund balance within the Grants and Special Revenue Fund is appropriate to accommodate the transfer therefore the fund can not comply without the requested transfer.

Sincerely,


Dave Byers, Executive Director
Arizona Supreme Court
Administrative Office of the Courts

Cc: Richard Stavneak, JLBC Director
Jon McAvoy, JLBC Analyst
Mike Baumstark, AOC Deputy Director
Kevin Kluge, AOC Chief Financial Officer

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUSSELL K. PEARCE
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PAULA ABOUD
AMANDA AGUIRRE
CHUCK GRAY
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STEVE PIERCE
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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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HOUSE OF
REPRESENTATIVES

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OLIVIA CAJERO BEDFORD
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JOHN MCCOMISH
RICK MURPHY
VIC WILLIAMS

DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Principal Fiscal Analyst

SUBJECT: Arizona Department of Administration - Review of Emergency Telecommunication Services
Revolving Fund Expenditure Plan

Request

Laws 1998, Chapter 6, 4th Special Session requires the Arizona Department of Administration (ADOA) to submit the wireless services portion of its Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan to the Committee for review. ADOA oversees and provides support to the communities of the state as they enhance their 911 emergency telecommunications systems. In practice, the department submits its complete expenditure plan annually, although expenditures on wire services are not subject to Committee review.

Recommendation

The JLBC Staff recommends a favorable review of the \$9.2 million wireless portion of the ETSF expenditure plan.

In FY 2010, ADOA expects to distribute \$28.9 million from the ETSF. However, based on past expenditure patterns this estimate could be high, as over the past 4 years, average expenditures averaged \$19.3 million. Of the \$28.9 million, \$18.8 million is for wire services, \$9.2 million is for wireless services, and \$0.9 million is for administrative and management costs.

Analysis

ADOA works with county/city 911 administrators to distribute monies from ETSF for Federal Communications Commission (FCC)-compliant telecommunications equipment, software, carrier services, and maintenance. The counties and cities are responsible for implementing the improvements to their 911 system. ADOA is responsible for providing centralized oversight in developing project schedules to consider the greatest needs, especially in rural areas, and for maximizing regional efficiencies and local readiness. While ADOA prefers that each county complete implementation phases as a whole, the department does make allowances for cities or areas that are behind or ahead of the county schedule. Localities must provide and

(Continued)

fully fund their own personnel, utilities, and facilities. ADOA also requires communities to submit Wireless 911 Service Plans to the agency for its approval.

Emergency 911 Wireless Service Status

The FCC Report and Order 96-204, issued in 1996, ordered the development and implementation of 911 services for wireless telecommunications systems in 2 phases. Phase I requires local public safety answering facilities to be able to identify the phone number of, and nearest cellular tower to, the caller as well as to relay calls to the nearest emergency response center. Phase II necessitates answering facilities to be able to identify the location of the caller. Mobile service carriers were required to upgrade their systems for Phase II capability by December 2005. *Table 1* highlights the status of Arizona's wireless 911 availability as of July 1, 2009.

Table 1		
Arizona Counties Emergency 911 Wireless Capability as of July 1, 2009		
<u>Phase I</u>	<u>Transition</u>	<u>Phase II</u>
Page	Cochise County	Gila River Tribal
Winslow	Colorado City	Graham County
	Flagstaff	Maricopa County
	Mohave County	Pima County
	Southern Yavapai County	Pinal County
		Northern Yavapai County
		Santa Cruz County

Wireless Phase II services are now available on the major thoroughfares from Phoenix to Nogales. Cochise and southern Yavapai Counties along with the City of Page are scheduled for completion in FY 2010. Areas that have not yet completed Phase I are being encouraged to move directly to Phase II. Currently, 80% of the state's population lives in areas where the location of a 911 caller can be identified. By 2011, the entire state will be covered.

Funding Mechanism

A.R.S. § 42-5252 authorizes a tax on wire and wireless telecommunication service accounts. On July 1, 2007, the rate dropped to \$0.20 per month for each wired and wireless phone account. The rate had been \$0.28 in FY 2007, when the tax generated \$23.1 million. Under the new rate, FY 2009 revenue was \$17.8 million. ADOA estimates that revenues will gradually increase to \$19.6 million by FY 2013. ADOA also foresees expenditures increasing from \$21.8 million to \$31.7 million during the same timeframe. ADOA projects that the fund will maintain a positive balance until FY 2011. (In FY 2009, \$25.1 million of the fund balance was transferred to the General Fund, while \$8.7 million has been transferred to the General Fund so far in FY 2010.)

FY 2010 ETSF Expenditure Plan

ADOA distributes funds to the localities upon receiving copies of their invoices for emergency telecommunications services and equipment. In FY 2010, ADOA expects to distribute \$28.9 million from ETSF. Of the \$28.9 million, \$9.2 million is for Phase I and Phase II wireless services. Of the \$18.8 million in proposed wire services expenditures, \$12.7 million is for a proposed transition to an IP enabled network. The current 911 system is based on technology not intended to support modern communications devices. The plan to build an Internet Protocol-enabled network is in line with recommendations from the National Emergency Number Association (NENA), on the future of emergency telecommunications standards. Industry standards for this next-generation 911 system are still in development, so designs cannot be finalized.

(Continued)

Table 2 summarizes the actual ETSF distribution during the past 2 fiscal years and projected distribution during the current fiscal year.

	Actual FY 2008	Actual FY 2009	Projected FY 2010
Balance Forward	\$52,933,700	\$55,345,800	\$27,012,500
Tax Revenue	17,332,300	17,774,100	18,584,400
Interest Income	<u>2,576,300</u>	<u>772,500</u>	<u>743,400</u>
Funds Available	\$72,842,300	\$73,892,400	\$46,340,300
Wireless Services			
Phase I Wireless	294,200	180,400	150,900
Phase II Wireless	<u>4,832,800</u>	<u>4,709,300</u>	<u>9,029,900</u>
Wireless Services Subtotal	\$ 5,127,100 ^{1/}	\$ 4,889,800 ^{1/}	\$ 9,180,900 ^{1/}
Wire Services	\$11,889,000	\$16,329,000	\$16,101,400
Proposed transition to IP enabled network	0	0	2,744,800
Administration	<u>\$ 474,300</u>	<u>\$ 556,500</u>	<u>\$ 872,600</u>
ETSF Expenditure Plan Total	\$17,490,400	\$21,775,300	\$28,899,700
Transfer to General Fund	6,100	25,104,600	8,686,600
Fund Balance	\$55,345,800	\$27,012,500	\$ 8,754,000

^{1/} Numbers do not add due to rounding.

In November 2008, ADOA estimated that FY 2009 expenditures would be \$28.8 million; however, actual expenditures over the course of the year were only \$21.8 million. Some of this discrepancy may be attributed to lower levels of participation by rural counties than expected.

Table 3 includes the wireless expenditure plans for FY 2010. Of the \$9.2 million projected to be spent on wireless services in FY 2010, \$6.5 million is for wireless carrier charges. Carrier charges are a subsidy provided to phone companies for providing emergency 911 services to their customers. The remaining \$2.7 million of the wireless expenditure plan is for equipment and other expenses.

(Continued)

Table 3

FY 2010 Wireless Expenditure Plan

	<u>Wireless Carrier</u>	<u>Equipment & Other</u>	<u>Total</u>
Cochise County	\$ 157,500	\$ 344,600	\$ 502,100
Coconino County	6,000	173,900	179,900
Colorado City	12,200	0	12,200
Gila County	15,000	264,600	279,600
Gila River Tribal	9,900	1,100	11,000
Graham County	67,200	1,100	68,300
Greenlee County	15,800	129,600	145,400
Maricopa County	2,878,900	716,500	3,595,300
Mohave County	189,800	369,400	559,100
Navajo/Apache Counties	1,600	0	1,600
Page	97,800	2,200	100,000
Pima County	1,453,300	13,000	1,466,200
Pinal County	393,000	5,400	398,400
Santa Cruz County	89,100	2,200	91,300
Winslow	29,100	0	29,100
Northern Yavapai County	236,400	246,300	482,700
Southern Yavapai County	354,200	65,900	420,100
Yuma County	<u>472,100</u>	<u>366,600</u>	<u>838,600</u>
TOTAL	\$6,478,900	\$2,702,400	\$9,180,900

Future Outlook

Arizona statute only requires wire and wireless telecommunication service accounts to pay a tax. Statute is unclear whether more recent technologies such as prepaid wireless accounts, internet based phones, and OnStar pay the 911 taxes.

RS/LMc:sls



JANICE K. BREWER
GOVERNOR

DAVID RABER
INTERIM DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE

100 N. 15TH AVENUE, SUITE 4001
PHOENIX, ARIZONA 85007



December 2, 2009

The Honorable John Kavanagh, Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 W. Washington Street
Phoenix, AZ 85007

Dear Representative Kavanagh:

As stipulated in the Laws of 1998, 4th Special Session, Chapter 6, Section 5 – Emergency telecommunications fund: report of expenditure plans, the Department of Administration shall report its expenditure plans to the Joint Legislative Budget Committee for review. In fulfillment of this requirement, I am enclosing:

- The Wireless Program Report for fiscal year 2009.
- The 9-1-1 financial forecast for fiscal years 2010 through 2014 incorporating the Fund Balance transfers to the General Fund during FY2003, FY2004 and FY2009.
- The Status of Arizona 9-1-1 and the Estimated Costs and Deployment Schedule to Implement Wireless Phase II.
- Arizona Deployment Map
- State Fee Comparison and Organization Structure.
- The 9-1-1 Phase II Wireless Implementation Plan.
- State of Arizona 9-1-1 Plan

Please note that the financial forecast shows a program deficit in fiscal year 2012. With additional Wireless Phase II deployments and transitioning to an IP Enabled Network, costs will continue to increase. This anticipated deficit will prevent the full implementation of the critical wireless program and may require a revenue enhancement or increase.

Should you have any questions, please contact me at 602-542-1500 or Barbara Jaeger, the State 9-1-1 Administrator at 602-542-0911.

Sincerely,

David Raber
Interim Director

c: The Honorable Russell K. Pearce, Chairman, Joint Committee on Capital Review
Mr. Richard Stavneak, Staff Director, JLBC
Ms. Jennifer Uharriet, OSPB

Enclosures (6)

STATE OF ARIZONA

Joint Legislative Budget Committee

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SENATE

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DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Amy Upston, Principal Analyst

SUBJECT: AHCCCS – Review of Proposed Acute Care and Long-Term Care (ALTCS) Capitation Rate Changes

This memo also appeared in the cancelled December meeting packet.

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report capitation and fee-for-service inflationary rate changes with a budgetary impact to the Committee for review prior to implementation.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the rates as the proposed changes are lower than budgeted. The proposed rates would cost \$(16.6) million less from the General Fund than budgeted in FY 2010, assuming budgeted caseloads. The \$16.6 million represents a surplus of \$16.0 million in Acute Care and a \$0.6 million surplus in the Long-Term Care program. Savings described in this memo take into account the enhanced federal match rate from the American Recovery and Reinvestment Act.

Analysis

Changes in capitation rates are influenced primarily by changes in utilization, provider reimbursement, and policy issues. For Contract Year Ending (CYE) 2010, AHCCCS also made changes to administration and reinsurance to lower costs during CYE 2010.

Acute Care

This population represents members who participate in the Traditional Medicaid, Proposition 204, and KidsCare programs. In most years, capitation rates are set at the beginning of the contract year (October 1) and maintained throughout the contract year. In FY 2009, AHCCCS reduced acute care capitation rates beginning May 1, 2009.

(Continued)

In FY 2010, the approved Acute Care budget estimated capitation rate growth at 1.5% over the revised CYE 2009 rates. The JLBC Staff estimates that the increase in CYE 2010 will be lower at (1.7)% below the revised CYE 2009 rates (and (2.9)% below the original CYE 2009 rates). Based on enrollment projections used in developing the FY 2010 appropriation, this would cost \$(16.0) million less than budgeted from the General Fund (\$66.5 million in Total Funds). *Table 1* shows the proposed capitation rates for each patient group.

<u>Populations</u>	<u>Current CYE 09 Rate</u>	<u>Budgeted CYE 10 Rate</u>	<u>Proposed CYE 10 Rate</u>	<u>CYE 09-CYE 10 % Change</u>
<u>Traditional Medicaid/KidsCare</u>				
Age<1	\$ 510.18	\$ 522.99	\$ 491.52	(3.7)%
Age 1 – 13	111.52	114.32	112.86	1.2
Age 14 - 44 (Female only)	240.21	246.83	245.72	2.3
Age 14 - 44 (Male only)	144.50	147.73	148.11	2.5
Age 45+	402.12	411.79	407.32	1.3
SSI with Medicare	155.01	159.29	157.25	1.4
SSI without Medicare	737.20	753.34	753.39	2.2
Family Planning	18.92	19.32	17.38	(8.1)
Deliveries	6,571.97	6,734.55	6,629.40	0.9
<u>Title XIX Waiver Group</u>				
Prop 204 – TANF	\$ 240.45	238.31	\$ 242.69	0.9
Prop 204 – SSI	195.91	213.82	195.75	(0.1)
Prop 204 – Medically Eligible	1,348.63	1332.85	1,291.47	(4.2)
Prop 204 – Conversions/Newly Eligible	556.66	535.67	523.39	(6.0)
Prop 204 – Births	6571.97	6734.55	6,629.40	0.9
Acute Care Weighted Average				(1.7)%
<u>ALTCS</u>				
Statewide Average Rate	\$3,008.04	\$3,054.34	\$3,039.21	1.0%

Long-Term Care (ALTCS)

ALTCS services are provided to the elderly and physically disabled in need of long-term care either in nursing care facilities or in home and community-based settings.

The approved FY 2010 budget provided for a 1.5% capitation rate increase, and AHCCCS' proposed amount includes a 1.0% increase. Based on enrollment projections used in developing the FY 2010 appropriation, this proposed change would cost \$(566,500) less than budgeted from the General Fund and \$(412,600) less from counties (\$3.8 million in Total Funds).

Rates for Acute Care and ALTCS are composed of adjustments in the following categories:

Utilization

Both Acute Care and ALTCS utilization rates are expected to increase over the revised CYE 2009 rates. Utilization represents the rate at which AHCCCS members use services. Overall, Acute Care members are expected to utilize 2.4% more services. Within the ALTCS program, utilization for nursing facilities is expected to increase by 1.2% and for home and community based services by 5.1%.

Provider Reimbursements

For CYE 2010, the proposed capitation rates remain the same for providers which have already received a (5)% rate reduction and reduce provider rates by (5)% for most providers which have not already received

(Continued)

a reduction. Thus, no provider would receive a rate reduction greater than (5)% from the rates that were in place on October 1, 2008.

Beginning October 1, 2009, new rate reductions would occur for ambulatory surgical centers, home and community based services, and transportation services that are regulated by the Department of Health Services (DHS). On February 1, 2009, the physician fee schedule and transportation rates not regulated by DHS were reduced by (5)%; these reductions will be fully incorporated into the capitation rate for CYE 2010. Hospital Inpatient and Outpatient rates were frozen on October 1, 2008. This rate freeze will continue and no further reductions for CYE 2010 will be made. Nursing Facility rates were not reduced in CYE 2009 and will be maintained at the current levels in CYE 2010.

In addition to the standard adjustments for utilization, and the aforementioned reimbursement rates, the following changes have been incorporated into capitation rates:

- **Outlier Methodology Revision** – The FY 2008 budget directed AHCCCS to revise the methodology used to pay hospital claims with significantly high operating costs known as “outliers.” These claims are paid by applying a cost-to-charge ratio that is used to approximate the hospital’s actual cost of providing the services. FY 2010 concludes the third year of a 3-year phase-in for the revised methodology. This revision led to an AHCCCS-estimated General Fund savings of \$(8.1) million in FY 2010 for both the Acute Care and Long-Term Care programs. The FY 2010 budget had assumed savings of \$(7.6) million for this revision.
- **H1N1 Influenza** – In response to the World Health Organization’s identification of the H1N1 flu pandemic, the AHCCCS contractor will be encouraging high-risk members to get immunized against the H1N1 flu. AHCCCS estimates this additional vaccination will cost the General Fund approximately \$3.6 million. These costs will be realized in the Acute Care program. The FY 2010 budget did not include this additional cost.
- **Pharmacy Costs** – AHCCCS analyzed the costs for the 300 most utilized generic medications, and computed potential savings if AHCCCS Acute contractors, which pay above the average cost, were able to lower their generic pharmacy costs. Based on their calculations, AHCCCS estimates a potential General Fund savings of \$(1.0) million in the Acute Care program. No savings was included in the FY 2010 budget for this item.
- **Medical Management Changes** – The following medical management changes will begin starting in CYE 2010: medical necessity criteria will be established for genetic testing, allergic immunotherapy coverage will be eliminated, medical necessity criteria for negative pressure wound therapy will be revised, and somnography will be limited to 1 per contract year unless clinical circumstances require additional studies. AHCCCS estimates these 4 changes will result in General Fund savings of \$(0.8) million for both the Acute Care and ALTCS programs. The FY 2010 budget did not incorporate savings for these items.
- **Dental Services** – Beginning in CYE 2010, AHCCCS is eliminating reimbursement for dental behavioral management, modifying coverage for some x-ray services based on age appropriateness, and establishing a maximum age limitation for dental sealants and permanent teeth. These changes lead to an AHCCCS-estimated General Fund savings of \$(0.6) million in the Acute Care program. The FY 2010 budget did not include additional savings for these items.

Administrative Changes

In addition to provider rate adjustments, AHCCCS made 2 administrative changes resulting in General Fund savings of \$22 million (\$91 million in Total Funds). The first reduced administrative funding to managed care organizations (MCO) by 5.9%. Previously, an 8.5% administrative expense had been built into the capitation rate for Acute Care MCOs and up to 8% for the ALTCS program. This reduction lowers the administrative expense to 8% and up to 7.5%, respectively.

(Continued)

Secondly, the risk contingency rate was reduced from 2% to 1%. A risk contingency is added to capitation rates to cover unforeseen circumstances and/or pricing mismatches (e.g. actual trends differ from assumptions). If this risk contingency is not necessary, or is insufficient, it is retained as profit (or loss) and there is no limit.

Reinsurance Adjustments

The Health and Welfare Budget Reconciliation Bill (Laws 2009, 3rd Special Session, Chapter 10) permitted AHCCCS to reduce reinsurance deductibles. Reinsurance represents payments made to health plans for patients with unusually high costs. After a certain deductible has been met, AHCCCS will pay 75% to 85% of the cost of service until it reaches \$650,000. After this level, AHCCCS pays 100% of the cost. Previously, health plans had a choice of setting reinsurance thresholds at \$20,000, \$35,000 or \$50,000. This policy eliminates the \$50,000 deductible option and lowers the deductible for plans which chose this option to \$35,000. Plans which previously had a \$35,000 deductible now have a \$20,000 deductible. Plans which had a \$20,000 deductible will maintain that deductible.

When health plans have a lower reinsurance deductible, they receive more payments through reinsurance. The capitation rate is adjusted downward to reflect this reinsurance deductible, but overall, total payments received by the health plans should be cost neutral. However, lowering the reinsurance deductible changes when payments are made to health plans. Typically, approximately 20% of reinsurance payments are made in the fiscal year in which they occur, 74% are made in the next fiscal year, and 6% the fiscal year following that. AHCCCS estimates that lowering the reinsurance thresholds will reduce General Fund costs by \$11 million (\$47 million Total Funds) in FY 2010. This savings, however, will increase costs by a corresponding amount over the next 2 fiscal years.

RS/AU:sls



Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

September 30, 2009

The Honorable John Kavanagh, Chairman
Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Kavanagh:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to review the following items.

- Long Term Care Capitation Rates for Contract Year Ending 2010
- Acute Care Capitation Rates for Contract Year Ending 2010

As required by the Federal Balanced Budget Act of 1997, Title XIX Managed Care Programs must have actuarially sound capitation rates. The following proposed rate adjustments are in the process of being reviewed by the Centers for Medicare and Medicaid Services (CMS) for an October 1, 2009 implementation.

Long Term Care Capitation Rates

The AHCCCS budget for State Fiscal Year 2010 assumed a 1.5% overall change in capitation rates for the Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD) program. The budget assumed that this could be accomplished with a combination of reductions to provider reimbursement rates and non-medical Managed Care Organization (MCO) payments. The overall rate adjustment for the ALTCS EPD program for Contract Year Ending (CYE) 2010 is negative (0.4%).

As detailed below the CYE 2010 rates include several different provider reimbursement rate reductions. These reductions are critical in being able to achieve a decrease in capitation rates.

In addition, the program continues to see a favorable mix change as a larger percentage of members moved into Home and Community Based Services (HCBS) rather than the more expensive Nursing Facility settings. Since 1999 the ALTCS program has seen a shift from 43% of the population in HCBS to the projection for CYE 2010 of 67.8%. As detailed in the attached graph the six year average for ALTCS EPD rates is 4.8%.

The capitation rate adjustments reflect the EPD population and do not include the Developmentally Disabled population, which is administered through the Arizona Department of Economic Security. The actuarial memo that has been submitted to CMS for approval is attached for additional information.

, Governor
Anthony D. Rodgers, Director

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
Phone 602-417-4000
www.azahcccs.gov



Acute Care Capitation Rates

The AHCCCS budget for State Fiscal Year 2010 assumed a 1.5% overall change in Acute Care capitation rates. The overall weighted decrease for CYE 2010 Acute Care capitation rates is a negative (2.1%) as compared to the current rates that became effective May 1, 2009. When compared to the capitation rates that were implemented October 1, 2008, the new capitation rates reflect a reduction of (3.0%).

Similar to ALTCS, the ability to develop negative trended capitation rates is largely driven by reductions made in provider reimbursement and non-medical MCO payments. These reductions are not a long-term strategy for managing medical costs. Medicaid requires that members have appropriate access to care and the AHCCCS model is predicated on having successful health plans to help manage utilization. Policy-makers should not anticipate an overall decrease or flat rate for the AHCCCS acute and ALTCS system can be replicated next year.

As detailed in the attached graph, the six year Acute Care annual average capitation rate has increased by 5.1%.

Provider Rate Adjustments

As described in the detail above, the Capitation rates for both Acute and ALTCS EPD incorporate a number of adjustments to the AHCCCS provider reimbursement rate schedule.

- Hospital Inpatient and Outpatient rates will be frozen at the October 1, 2008 levels pursuant to HB 2013, the Health & Welfare Budget Reconciliation Bill (BRB).
- Nursing Facility rates are not adjusted but will be maintained at current levels.
- The non-ADHS regulated rates for transportation were decreased by 5% on February 1, 2009 and these reductions were incorporated into the capitation rates.
- The ADHS regulated transportation rates are outside the scope of AHCCCS provider reimbursement rate schedules and are largely dictated by ARS 36-2232(A)(1) and ARS 36-2239(D). As a result of the limitations associated with the statutory framework, AHCCCS would have needed to incorporate an increase of 8.5% in cost trend, resulting in a cost exceeding \$5 million. However, pursuant to the Health & Welfare BRB, AHCCCS is afforded some flexibility related to these payments in CYE10, and will be reducing rates by 5%.
- The physician fee schedule was reduced by 5% on February 1, 2009 and the reductions were fully incorporated into the capitation rates.
- Rates for Home and Community Based Services will be reduced by 5% on October 1, 2009 and these reductions were incorporated into the capitation rates.
- The Ambulatory Surgical Center rates will be reduced 5% on October 1, 2009 and these reductions were incorporated into the capitation rates.
- Note that AHCCCS does not have a pharmacy fee schedule as it is the responsibility of the plans to develop contractual rates. The capitation rates recognize an increase of 4.1% in cost trend. However, AHCCCS is pursuing strategies for MCOs to reduce overall pharmacy expenditures and includes a (0.7%) reduction to the pharmacy component of the cap rate to recognize savings that MCOs can generate.

Managed Care Organization Payment Changes

As described above both the ALTCS EPD and Acute capitation rate adjustments include significant changes to non-medical MCO payments.

- Administration funding is reduced by approximately 5.9%.
- The risk contingency that has historically been established at 2% is reduced to 1%.
- These changes, combined, result in savings of \$91 million.
- The Acute Care MCO reinsurance thresholds are reduced by one level for the new contract period resulting in an estimated one-time savings of \$47 million for the contract period. It should be noted that the majority of these costs will be shifted to the next year as reinsurance payments.

Overall Fiscal Impact

Given the assumption for the FY 2010 budget was an increase of 1.5% in capitation rates and that the final rates are a decrease of (0.4%) in ALTCS EPD and a decrease of (3.0%) for Acute, the overall total fund savings for CYE 2010 (as compared to the October 1, 2008 rate) is projected to be (\$153) million, of which approximately \$37 million is State Match. If capitation rates would have increased by 1.5% on October 1, 2009 the added annual cost would have been approximately \$89.5 million for a total fund savings of \$242.5 million.

From an overall perspective it is interesting to note that if capitation rates would have increased at the historical average of approximately 6%, the estimated cost would have been approximately \$358 million for CYE 2010, a reduction of over \$500 million.

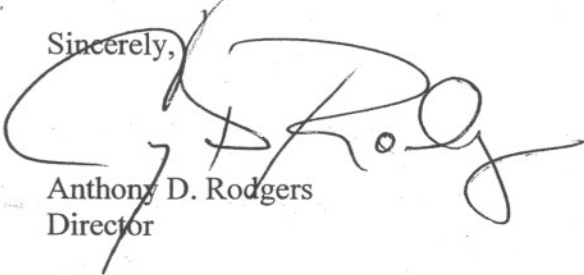
Even with capitation rates coming in below expectations, as part of the Fiscal Year 2011 budget submittal, AHCCCS has updated the current year estimate and is now anticipating a FY 2010 General Fund shortfall of almost \$100 million (assuming increased match) due to caseload growth exceeding budgeted expectations, tobacco tax shortfalls, and the timing associated with several items during the close out of FY 2009.

Policy Changes

Per the legislative mandate in ARS 36-2901.06 and 36-2941 AHCCCS has not included any changes beyond the limits that are now delineated in law.

Should you have any questions on any of these issues please feel free to contact Tom Betlach at (602) 417-4483.

Sincerely,



Anthony D. Rodgers
Director

c: Eileen Klein, Governor's Office
Richard Stavneak, JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
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VIC WILLIAMS

DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Fiscal Analyst

SUBJECT: Attorney General – Review of Allocation of Settlement Monies

This memo has been updated since it appeared in the cancelled December meeting packet.

Request

The General Appropriation Act (Laws 2009, 1st Regular Session, Chapter 11) contains a footnote that requires Joint Legislative Budget Committee (JLBC) review of the expenditure plan for settlement monies over \$100,000 received by the Office of the Attorney General (AG) or any other person on behalf of the State of Arizona, prior to expenditure of the monies. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review.

This request is for review of a total of \$1,650,000 from 4 settlements: 1) a \$900,000 allocation resulting from mediation as part of ongoing Average Wholesale Price (AWP) litigation with pharmaceutical companies, of which \$810,000 will be deposited into the Consumer Protection-Consumer Fraud Revolving Fund, 2) a \$300,000 allocation to the AG's Consumer Protection-Consumer Fraud Revolving Fund from a consent judgment with Merck & Co. Inc., 3) a \$290,000 allocation from a settlement agreement with Abbott Laboratories, of which \$84,000 will be deposited into the Antitrust Enforcement Revolving Fund, and 4) a \$160,000 settlement agreement with Amir and Sanchez Nutraceuticals, LLC, of which \$20,000 is consumer restitution and \$140,000 is a deposit into the Consumer Protection-Consumer Fraud Revolving Fund.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plans from the AWP settlement agreements with Bristol Myers Squibb Co., Oncology Therapeutics Network Corp., and Apotechon, Inc, and Amir and Sanchez Nutraceuticals, LLC, and the consent judgments with Merck & Co. Inc., et. al. and Abbott Laboratories, et.al. The allocation plans are consistent with A.R.S. § 44-1531.01, which relates to the distribution of monies recovered as a result of enforcing consumer protection or consumer fraud statutes, and A.R.S. § 41-191.02, which relates to the distribution of monies recovered as a result of antitrust enforcement.

(Continued)

Analysis

Average Wholesale Price (AWP) Litigation: Bristol Myers Squibb Co., Oncology Therapeutics Network Corp., and Apotechon, Inc.

In September 2009, the Committee favorably reviewed an allocation of \$930,000 resulting from AWP litigation, \$845,400 of which is a deposit into the Consumer Fraud Revolving Fund.

The AWP of prescription drugs was a widely used benchmark for pricing prescription drugs, determining reimbursement levels for healthcare providers under Medicare and Medicaid programs, and establishing payment amounts due from insurers and consumers under Medicare and private insurance. In December 2005, the AG filed suit against several pharmaceutical manufacturers alleging that the companies reported inaccurate prices to trade publications, which led to inflated reimbursement rates.

As a result of court-ordered mediation, the State of Arizona and some additional pharmaceutical companies (Bristol Myers Squibb Co., Oncology Therapeutics Network Corp., and Apotechon, Inc.) have reached an agreement that requires the defendants to pay \$900,000 to Arizona. Of the total, \$90,000 will go toward outside counsel attorney fees, as the case is being addressed in Massachusetts. The remaining \$810,000 will be deposited into the Consumer Protection-Consumer Fraud Revolving Fund to support consumer fraud investigations, consumer education, and enforcement of the Consumer Fraud Act. The settlement does not acknowledge any wrongdoing on the part of the pharmaceutical companies.

The lawsuit involving the remaining pharmaceutical companies is still ongoing, as are other AWP cases from different states and a nationwide class action suit that includes Arizona consumers. When the settlements receive final court approval, Arizona consumers will have the opportunity to submit claims for reimbursement.

Merck & Co. Inc., et. al.

In June 2009, the AG and 35 other states entered into an “assurance of discontinuance” with the involved companies as a result of their consumer fraud investigation of the marketing and sale of Vytorin, a cholesterol lowering drug. The investigation focused on the companies’ delay in releasing results from a clinical trial that showed that Vytorin was no more effective than the generic drug Simvastatin.

The settlement requires the companies to pay \$300,000 to the AG. This amount will be deposited into the Consumer Protection-Consumer Fraud Revolving Fund for attorneys fees, investigation costs, and to support consumer fraud investigations, consumer education, and enforcement of the Consumer Fraud Act.

The settlement also requires the companies to receive FDA approval and comply with FDA comments before running any “direct to consumer” television drug advertisements. In addition, the injunction prohibits the companies from misrepresenting data when marketing to doctors and failing to adequately disclose conflicts of interest in regard to articles, studies, speakers, and Data Safety Monitoring Boards.

Abbott Laboratories, et. al.

In March 2008, the AG and 24 other states filed an antitrust lawsuit against Abbott Laboratories as a result of their investigation of activity that limited generic competition for the cholesterol drug TriCor.

The settlement requires the companies to pay \$290,000 to Arizona. Of the total, \$206,400 was recovered on behalf of the Arizona Health Care Cost Containment System (AHCCCS), based on the utilization of TriCor by AHCCCS enrollees. AHCCCS is required to repay \$128,000 to the Centers for Medicare and Medicaid Services based on the Federal Medical Assistance Percentage as designated in the federal Social

Security Act. The remainder of the AHCCCS allocation, which is \$78,400, will be deposited into the General Fund. The other portion of the total settlement, approximately \$83,600, will be deposited into the Antitrust Enforcement Revolving Fund to support antitrust enforcement.

Amir and Sanchez Nutraceuticals, LLC

In October 2009, the AG entered into a settlement agreement with Amir and Sanchez Nutraceuticals, LLC, a Tucson-based company that sells nutritional products and related services. The settlement resolves a lawsuit alleging misrepresentations in advertising and billing practices. The lawsuit included allegations that Amir and Sanchez Nutraceuticals did not appropriately disclose all conditions of purchasing “risk-free” products and charged consumers for services they did not request.

The settlement does not acknowledge any wrongdoing on the part of Amir and Sanchez Nutraceuticals. It prohibits Amir and Sanchez Nutraceuticals from charging a consumer for a purchase unless the consumer has affirmatively consented to the purchase and requires the company to process cancellation requests within 24 hours of receipt and provide detailed disclosures of all costs, terms and conditions with each product invoice.

The settlement requires Amir and Sanchez Nutraceuticals to pay \$20,000 in consumer restitution to consumers who had filed complaints with the AG as of the date of the settlement.

The settlement also requires Amir and Sanchez Nutraceuticals to pay \$140,000 to the AG to be deposited into the Consumer Protection-Consumer Fraud Revolving Fund for attorneys’ fees, investigation costs, and to support consumer fraud investigations, consumer education, and enforcement of the Consumer Fraud Act. Of this total, \$15,000 is for attorneys’ fees and investigation costs.

RS/MZ:lm



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Dena Rosen Epstein
Consumer Protection &
Advocacy Section
Direct: (602) 542-7717
Dena.Epstein@azag.gov

October 21, 2009

The Honorable Robert L. Burns
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Kirk Adams
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

The Honorable John Kavanagh
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, AZ 85007



Re: *State ex rel Goddard v. Bristol-Myers Squibb, et al.*, CV 2005-018711 (Ariz. Sup. Ct.), removed and transferred to *In re Pharmaceutical Industry Average Wholesale Price Litigation*, MDL No. 1456

Gentlemen:

The State of Arizona recently settled a case against Bristol-Myers Squibb Company, Oncology Therapeutics Network Corporation and Apotechon, Inc. (collectively, "BMS") resolving claims asserted in the Average Wholesale Price Litigation described below.

In December 2005, our Office, through outside counsel, filed suit in Maricopa County Superior Court against several pharmaceutical manufacturers for manipulating the Average Wholesale Price ("AWP") of prescription drugs in connection with the marketing and sale of certain prescription drugs sold in Arizona. AWP has been a widely utilized benchmark for pricing prescription drugs and for reimbursing physicians and other healthcare providers for the administration of certain drugs under the Medicare and Medicaid programs. It has also been used to determine amounts paid by insurers and co-pays by consumers under the Medicare program or through private insurance.

The State's Complaint alleges that the defendants violated the Arizona Consumer Fraud Act (A.R.S. § 44-1521 et seq.) by, among other things, providing false information about their reported prices to trade publications, which in turn led to inflated reimbursement

The Honorable Robert L. Burns
The Honorable Kirk Adams
The Honorable John Kavanagh
October 21, 2009
Page 2

rates. The lawsuit seeks various forms of relief, including injunctive relief, civil penalties, restitution for Arizona consumers, costs, and attorneys' fees.¹

After the lawsuit was filed, the defendant pharmaceutical manufacturers successfully removed the case to federal district court in Massachusetts. Several other AWP cases are also pending in Massachusetts district court, including a nationwide consumer class action that includes Arizona consumers. Settlements on behalf of the consumer class have been reached with many of the defendants. Arizona consumers will have the opportunity to submit claims for reimbursement once the settlements receive final court approval.

Over the last several months, the State of Arizona and defendants have been participating in a court-ordered mediation. As a result of that mediation, Arizona previously settled with Abbot Laboratories and several other defendants, as reported to the Joint Legislative Budget Committee in August, 2009 and addressed at the Committee's September 22, 2009 meeting. The settlement against BMS discussed here is the second settlement to result from the mediation. Litigation against the remaining defendants in the AWP case -- Astra Zeneca, B. Braun, Dey, Johnson and Johnson and Schering-Plough Warrick Group -- is still on-going.

The settlement agreement requires the Settling Defendants to pay \$900,000 in exchange for a release of the claims asserted in the lawsuit. As provided in our agreement with outside counsel and as approved by the court, outside counsel received approximately \$90,000 of the settlement amount for their attorneys' fees. Pursuant to A.R.S. § 44-1531.01(B), ninety percent, or \$810,000, of the settlement funds were deposited into the Consumer Fraud Revolving Fund. In accordance with A.R.S. § 44-1531.01(C), these funds will be used for consumer fraud enforcement and education.

This settlement does not constitute an admission of liability.

Our notification of this settlement is made without prejudice to our Office's long-standing position that it is not under any legal obligation to provide notices of settlements to the Joint Legislative Budget Committee. We are providing this notification to you as a courtesy so that you will be aware of this important settlement.

If you have any questions, please feel free to contact me at (602) 542-7717 or by e-mail at dena.epstein@azag.gov.

Sincerely,



Dena Rosen Epstein
Acting Section Chief Counsel
Consumer Protection and Advocacy Section

¹ The industry has moved away from its heavy reliance on AWP as a pricing benchmark in the years since Arizona filed this lawsuit.

The Honorable Robert L. Burns
The Honorable Kirk Adams
The Honorable John Kavanagh
October 21, 2009
Page 3

cc: The Honorable Russell K. Pearce
The Honorable Jorge Luis Garcia
The Honorable David Lujan
Mr. Richard S. Stavneak
Ms. Marge Zylla (Settlement Agreement enclosed)
Mr. Joe Kanefield
Mr. Ruben Alonzo
Mr. Greg Stanton
Mr. John T. Stevens, Jr.

#593051



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

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Advocacy Section
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Dena.Epstein@azag.gov

September 10, 2009

The Honorable Robert L. Burns
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Kirk Adams
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

The Honorable John Kavanagh
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, AZ 85007



Re: *State ex rel Goddard v. Merck & Co. Inc, Schering-Plough Corporation, et. al.*

Gentlemen:

Arizona recently joined with 35 other state Attorneys General to settle a multi-state action against drug companies Merck & Co. Inc, Schering-Plough Corporation and a joint venture of the two companies, MSP Singapore Company, LLC. ("the Companies") in connection with the cholesterol lowering drugs Vytorin © and Zetia ©.

The settlement, in the form of an Assurance of Discontinuance, resolves an investigation into the companies' lengthy delay in releasing negative results from a clinical trial regarding Vytorin©. This study showed that Vytorin© -- a combination of the drugs Zetia© and Simvastatin© --- was no more effective in reducing the formation of plaque in carotid arteries than the cheaper, generically available drug Simvastatin©.

Although the clinical trial ended May 2006, a partial reporting of negative results did not occur until January 2008 and complete results were not published until the following April. Prior to release of the study's results, Vytorin© had been heavily promoted in direct-to-consumer advertisements.

The settlement in this case incorporates parts of the 2008 multi-state settlement with Merck regarding Vioxx® (a pain drug that was taken off the market). Here, Merck as well as Schering-Plough and the joint venture company MSP, agree to be bound by certain injunctive terms from the Vioxx settlement with respect to Vytorin and Zetia. Among the injunctive terms that now apply to Vytorin and Zetia are requirements to:

- Obtain pre-approval from the Federal Drug Administration for all direct-to-consumer television advertisements.
- Comply with FDA suggestions to modify drug advertising.
- Register clinical trials and post their results.
- Prohibit ghost writing of medical articles.
- Reduce conflicts of interest for members of Data Safety Monitoring Boards that ensure the safety of participants in clinical trials; and
- Comply with detailed rules prohibiting the deceptive use of clinical trials.

In addition, the settlement requires the companies to pay a total of \$5.4 million to the participating states. Arizona's share of the settlement is \$300,000. This recovery is to be deposited in the consumer fraud revolving fund in accordance with Arizona law, A.R.S. § 44-1531.01(B), as well as the Assurance, and will be used for consumer fraud enforcement and education pursuant to A.R.S. § 44-1531.01(C).

Our notification to you of this settlement is made without prejudice to this office's long-standing position that it is not under any legal obligation to provide notices of settlement to the Joint Legislative Budget Committee. We are providing this notification to you as a courtesy so that you will be aware of this important settlement.

Thank you. If you have any questions, please feel free to contact me at (602) 542-7717 or by e-mail at dena.epstein@azag.gov.

Sincerely,



Dena Rosen Epstein
Acting Section Chief Counsel
Consumer Protection and Advocacy Section

cc: The Honorable Russell K. Pearce
The Honorable Jorge Luis Garcia
The Honorable David Lujan
Mr. Richard S. Stavneak
Ms. Marge Zylla (enclosing copy of Assurance)

The Honorable Robert L. Burns
The Honorable Kirk Adams
The Honorable John Kavanagh
September 10, 2009
Page 3

Mr. Joe Kanefield
Ms. Ruben Alonzo
Mr. Greg Stanton
Mr. John T. Stevens, Jr.

#544973



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Nancy M. Bonnell
Antitrust Unit Chief

January 14, 2010



The Honorable Robert Burns
President of the Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Kirk Adams
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable Russell K. Pearce
Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Re: *State of Arizona et al. v. Abbott Laboratories et al.*

Dear Gentlemen:

In March 2008, Arizona joined 24 other States and the District of Columbia ("the States") in filing an antitrust lawsuit against Abbott Laboratories, Fournier Industrie et Sante and Laboratoires Fournier S.A. (collectively "the Defendants"). The suit alleged that the Defendants implemented an elaborate, illegal scheme to thwart generic competition for their name brand drug TriCor, which uses the active ingredient fenofibrate to regulate cholesterol and triglyceride levels. As a result, consumers and governmental entities paid monopoly prices to the Defendants instead of lower prices that generic competition would have produced.

The States have recently settled their claims against the Defendants for injunctive relief and \$22.5 million in damages, attorneys' fees and costs. A copy of the settlement agreement is enclosed for your review. Arizona's share of the settlement allocation is approximately \$290,000. Of that amount, \$206,369.72 was recovered on behalf of AHCCCS, based upon AHCCCS' enrollees' utilization of TriCor. Section 1903(d)(3)(A) of the Social Security Act requires AHCCCS to repay the Centers for Medicare and Medicaid Services the Federal Medical Assistance Percentage, which is \$127,972.07. Pursuant to A.R.S. § 41-191.01(B), the remainder of the AHCCCS recovery, \$78,397.65, will be deposited into the General Fund. Approximately \$84,000 will be deposited into

Hon. Robert Burns
Hon. Kirk Adams
Hon. Russell K. Pearce
January 14, 2010
Page 2

the Antitrust Enforcement Revolving Fund to pay for attorneys' fees and litigation costs, in accordance with A.R.S. § 41-191.01(B).

Our notification to you of this settlement is made without prejudice to our Office's long standing position that it is not under any legal obligation to provide notices of settlements to the Joint Legislative Budget Committee. We are providing this notification to you as a courtesy so that you will be aware of this important settlement.

Please call me at (602) 542-7728 if you have any questions regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Nancy M. Bonnell', with a stylized flourish at the end.

Nancy M. Bonnell
Antitrust Unit Chief

Enclosures

cc: The Honorable John Kavanagh
The Honorable Jorge Luis Garcia
The Honorable David Lujan
Mr. Richard S. Stavneak
Ms. Marge Zylla (Settlement Agreement enclosed)
Mr. Joe Kanefield
Mr. Greg Stanton
Ms. Jennifer Boucek
Mr. John T. Stevens, Jr.



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Dena Rosen Epstein
Consumer Protection &
Advocacy Section
Direct: (602) 542-7717
Dena.Epstein@azag.gov

January 15, 2010

The Honorable Robert L. Burns
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Kirk Adams
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Russell K. Pearce
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, AZ 85007



Re: State v. Larby Amirouche and Robert Thomas Norton, d/b/a Amir & Sanchez
Nutraceuticals, LLC et. al.

Gentlemen:

The State of Arizona recently settled a case against Larby Amirouche and Robert Thomas Norton, doing business as Amir & Sanchez Nutraceuticals, LLC Amirouche and Norton, LLC, an Arizona limited liability company, along with Defendant Norton, do business in Arizona as NaturesAcaiBerry.com, SimpleCleanser LLC, and Amir and Sanchez Nutraceuticals, LLC (collectively "Amir & Sanchez" or "Defendants").

Amir & Sanchez, a Tucson based company, sells nutritional supplements such as "Natures AcaiBerry" primarily through the Internet. The State's Complaint, filed concurrently with the settlement agreement, alleged that the principals of Amir & Sanchez used deceptive and misleading advertising and sales practices to charge consumers for products and services they did not request or agree to pay for, in violation of the Arizona Consumer Fraud Act (A.R.S. § 44-1521 et seq.). Their website routinely advertised a "14 day risk free trial offer," but they allegedly buried the date the 14 day period was to begin in fine print. According to the Complaint, Amir & Sanchez made it nearly impossible for consumers to cancel their order in order to avoid additional charges to their credit card.

The settlement, in the form of a Consent Judgment, does not constitute an admission of liability. It does, however, require Amir & Sanchez to comply with the Arizona Consumer Fraud Act and to clearly and conspicuously disclose all conditions that apply to the trial offer of any of their products, including the date the trial period begins to run and the date by which the consumer must act to avoid incurring any charges. The Judgment also:

- Prohibits Defendants from obtaining information about a consumer's credit or debit card, or processing any order, unless the consumer has first affirmatively consented to buy the product, service or program.
- Requires Defendants to process cancellation requests within 24 hours of receipt.
- Requires Defendants to provide with each product invoice a detailed and clear disclosure of costs, terms, limitations, restrictions and conditions that apply to the product or service purchased.

The Consent Judgment further requires the Defendants to pay \$20, 000 in consumer restitution, to be distributed to consumers who filed complaints with the Attorney General's Office as of the date of the Judgment.

Finally, Defendants will pay \$140,000 in civil penalties and \$15,000 for investigation costs and attorney's fees, which will be deposited in the consumer fraud revolving fund and will be used for consumer fraud enforcement and education, all in accordance with Arizona law. A.R.S. § 44-1531.01(B), (C).

Our notification of this settlement is made without prejudice to our Office's long-standing position that it is not under any legal obligation to provide notices of settlements to the Joint Legislative Budget Committee. We are providing this notification to you as a courtesy so that you will be aware of this important settlement.

If you have any questions, please feel free to contact me at (602) 542-7717 or by e-mail at dena.epstein@azag.gov.

Sincerely,



Dena Rosen Epstein
Acting Section Chief Counsel
Consumer Protection and Advocacy Section

The Honorable Robert L. Burns
The Honorable Kirk Adams
The Honorable Russell K. Pearce
January 15, 2010
Page 3

cc: The Honorable John Kavanagh
The Honorable Jorge Luis Garcia
The Honorable David Lujan
Mr. Richard S. Stavneak
Ms. Marge Zylla (Consent Judgment enclosed)
Mr. Joe Kanefield
Mr. Greg Stanton
Ms. Jennifer Boucek
Mr. John T. Stevens, Jr.

#654180

STATE OF ARIZONA

Joint Legislative Budget Committee

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SENATE

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AMANDA AGUIRRE
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VIC WILLIAMS

DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jay Chilton, Principal Fiscal Analyst

SUBJECT: Department of Economic Security - Review of Long Term Care Capitation Rate Changes

Request

Pursuant to a FY 2010 General Appropriation Act footnote, the Department of Economic Security (DES) is presenting its expenditure plan for proposed capitation rate adjustments in the federal Title XIX Developmental Disabilities Long Term Care program (DD LTC). The proposed capitation adjustments reflect decreases for most components, including a 10% reduction to Home and Community Based Services (HCBS) provider rates.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the request, as the proposed rates are within the amount appropriated for the program.

Analysis

DES uses actuarial staff at the Arizona Health Care Cost Containment System (AHCCCS) to determine their capitation rates. The actuaries use claims, encounter data, and projected enrollment to determine the actual costs of services and recommend changes in the capitation rates.

The revised per member per month (PMPM) rates are shown below.

(Continued)

<u>Category</u>	<u>Preliminary FY 2010 Rate</u>	<u>Revised FY 2010 Rate</u>	<u>% Change</u>
Home and Community Based Services (HCBS)	\$2,559.12	\$2,431.16	(5.0)%
Acute Care Services	376.29	376.62	0.1%
Institutional	121.88	121.88	0.0%
Case Management Services	157.83	157.83	0.0%
Administration	185.05	185.05	0.0%
Risk/Contingency	34.00	32.73	(3.7)%
Share of Cost	(6.50)	(6.51)	0.2%
Premium Tax	72.00	69.38	(3.6)%
Total - DD LTC	\$3,499.67	\$3,368.14	(3.8)%
Behavioral Health (DHS pass-through)	100.64	100.64	0.0%
Total Enrolled Rate	\$3,600.31	\$3,468.78	(3.7)%

Over the past year, all components have decreased. The HCBS component represents a 5% decrease from the current rate. The current rate also includes a 5% decrease from the previous rate. Combined, HCBS rates have decreased by 10% during the past year. DES has reduced these rates as part of its implementation of lump sum reductions to the agency's budget enacted by the Legislature in FY 2009 and FY 2010.

The change in the Acute Care Services component reflects changes in Department of Health Services-regulated transportation rates, increased utilization for members affected by the H1N1 flu virus, and overall program changes. The decreases in the HCBS and Acute Care Services components of the rates also impact the Risk/Contingency and Premium Tax components, which are each decreasing by about (3.7)%.

In a March 2009 letter to the Joint Legislative Budget Committee, DES preliminarily estimated that FY 2010 capitation rate would be essentially flat. The revised capitation rate represents a (3.8)% decrease from that estimate.

The FY 2010 budget included an estimated capitation rate of \$3,493.40 and total spending of \$934,778,700 for the program, including state General Fund money and federal matching funding. With the revised capitation rate, spending would be (2.9)% below the appropriated amount for General Fund savings of \$6,615,100. This estimate of the General Fund savings is based on the enhanced Federal Medical Assistance Percentage included in the American Recovery and Reinvestment Act of 2009. These General Fund savings are part of DES' implementation of its FY 2009 and FY 2010 lump sum reductions.

RS/JC:ss



DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Janice K. Brewer
Governor

Neal Young
Director

DEC 10 2009



Mr. Richard Stavneak
Director, Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Mr. Stavneak:

The Department of Economic Security requests to be placed on the Joint Legislative Budget Committee's agenda for review of the Division of Developmental Disabilities' (DDD) fiscal year 2010 capitation rate pursuant to Laws 2009, Chapter 12, Section 16 which includes the following footnote:

The department shall report to the joint legislative budget committee by March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum shall be not more than two per cent. Before implementation of any changes in capitation rates for the long-term care program, the department of economic security shall report for review the expenditure plan to the joint legislative budget committee. Before the department implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or greater for a given fiscal year, the department shall submit the policy changes for review by the joint legislative budget committee.

The Arizona Health Care Cost Containment System's (AHCCCS) actuary staff develops the rate using inflation and trend analysis. The originally developed capitation rate for fiscal year 2010 was \$3,499.67, a slight reduction from the fiscal year 2009 rate of \$3,502.63. Rate development included several policy changes intended to reduce costs, including a cut to the administrative component of the rate, decreasing the risk contingency, and reductions to the physician fee schedule. The rate also assumed a five percent reduction to home and community based service provider rates. However, fiscal year 2009 budget reductions necessitated a ten percent reduction, which was implemented on May 25, 2009. The fiscal year 2010 budget annualized this

Mr. Richard Stavneak

Page 2

reduction. Consequently, AHCCCS revised the rate to reflect the maintenance of the ten percent provider rate reduction and recently submitted an updated actuarial memorandum to the federal Centers for Medicare and Medicaid Services. The revised rate is \$3,368.14.

If you have any questions, please contact Michael Wisehart, Acting Chief Financial Officer, at (602) 542-3786.

Sincerely,

A handwritten signature in black ink, appearing to read "Neal Young", with a stylized flourish at the end.

Neal Young
Director

Attachment

Financial report detailing appropriations and expenditures by month and budgetary line item

cc: Members of the Joint Legislative Budget Committee
John Arnold, Director, Governor's Office of Strategic Planning and Budgeting
D. Clark Partridge, State Comptroller

Department of Economic Security/Division of Developmental Disabilities (DES/DDD) Updated Actuarial Memorandum

I. Purpose:

This memorandum presents a discussion of the revision to the capitation rates for the Developmentally Disabled (DD) population of the Arizona Long Term Care System (ALTCS) program, effective from July 1, 2009 to June 30, 2010. Arizona Health Care Cost Containment System (AHCCCS) has computed a capitation rate change due to changes in Home and Community Based Services (HCBS) provider rates, as well as legislative and program changes that have occurred since these rates were initially developed. This rate revision is effective for the period July 1, 2009 through June 30, 2010.

The purpose of this actuarial memorandum is to demonstrate that the updated capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

II. Overview of Changes

The current capitation rates were developed assuming that DDD was going to increase HCBS rates by 5% on July 1, 2009, from the provider rates that were in effect on June 30, 2009. This change did not occur, thus the HCBS provider rate trends that were built into the DDD capitation rates are overstated. The retroactive capitation adjustment is necessary to correct this overstatement. This produces a savings of approximately \$34 million.

State legislation, signed into law in 2009 after the contract year ending 2010 (CYE10) rates were implemented, mandates that "for rates effective October 1, 2009 through September 30, 2010, (AHCCCS) shall not increase the inpatient hospital per diem rates...above the rates in effect on September 30, 2009...(and) shall not increase the aggregate outpatient hospital fee schedule rates above the rates in effect on September 30, 2009..." This same law removes for one year (fiscal year 2010) a mandate regarding Arizona Department of Health Services (ADHS)-regulated transportation rates that allows AHCCCS to reduce these rates by 5%. These adjustments are expected to produce a savings of approximately \$211,000.

Starting October 1, 2009, several program changes have been implemented by AHCCCS including adjustments to minimum and maximum ages for dental services, shifts in services from Children's Rehabilitative Services (CRS), medical necessity criteria modifications, and changes to hemophilia factor administration costs. These changes produce a savings of approximately \$177,000.

A new influenza A, H1N1, was detected in the U.S. in April 2009. In June 2009, the World Health Organization signaled that a pandemic of H1N1 flu was underway. AHCCCS contractors will be urging members to get immunized against H1N1 once the vaccine becomes widely available. The CDC's Advisory Committee on Immunization Practices (ACIP) recommends that certain groups at highest risk for infection or complications be the initial targets for vaccination. Children are in the initial target group thus, because they make up a significant portion of the DDD membership, it is anticipated that vaccination-related costs will rise in CYE10. AHCCCS also expects increased utilization for those members infected with H1N1, and those who have flu-like symptoms. A review of encounter data shows increased utilization during April and May 2009. The statewide impact of H1N1-related activity in CYE10 is anticipated to be approximately \$476,000.

The behavioral health rates remain unchanged.

III. Proposed Capitation Rate Components

HCBS Component

The HCBS provider rate change impacts the HCBS component of the DDD rates; savings from this change reduces the HCBS component by \$127.96 PMPM.

Acute Component

The acute component of the DDD rates is affected by the inpatient and outpatient rate freeze, the changes in ADHS-regulated transportation rates, the program changes, and the impact of H1N1 influenza affects. These adjustments impact the acute component by \$0.33 PMPM.

Risk/Contingencies and Premium Tax Component

The changes in the above components impact the risk/contingencies and premium tax line items. The change to risk/contingencies represents a 3.74 percent decrease for DDD PMPMs, and the change to premium tax represents a 3.65 percent decrease for DDD PMPMs.

The proposed, updated PMPMs for the affected components, as well as the percentage change and dollar differences, can be found in Table I.

Table I: DDD Rate Impact

Component	CYE10 Current Rate	CYE10 Proposed Rate	Percentage Difference	Dollar Difference *	PMPM Change
HCBS	\$ 2,559.12	\$ 2,431.16	-5.00%	\$ (33,954,954)	\$(127.96)
Acute	\$ 376.29	\$ 376.62	0.09%	\$ 87,166	\$ 0.33
Risk/Contingency	\$ 34.00	\$ 32.73	-3.74%	\$ (337,002)	\$(1.27)
Premium Tax	\$ 72.01	\$ 69.38	-3.65%	\$ (697,886)	\$(2.63)

* Based on Projected MMs from 07/01/09 - 06/30/10

IV. Proposed Capitation Rates and Their Impact

The proposed capitation rates equal the sum of the CYE10 approved capitation rates plus the impact of the above changes to the rate components. Table II shows the current CYE10 and proposed updated CYE10 capitation rates and the budget impact from July 1, 2009 to June 30, 2010.

Table II: Proposed Updated Capitation Rates and Their Impact

Rate Cell	Based on Projected Member Months			Based on Projected Member Months July 1, 2009 – June 30, 2010	
	July 1, 2009 - June 30, 2010	CYE10 Current Rate	CYE10 Updated Rate	Estimated CYE10 Current Capitation	Estimated CYE10 Updated Capitation
DDD	265,356	\$ 3,499.67	\$ 3,368.14	\$ 928,659,214	\$ 893,756,537
Behavioral Health	265,356	\$ 100.64	\$ 100.64	\$ 26,705,428	\$ 26,705,428
Targeted Case Management	57,788	\$ 139.57	\$ 139.57	\$ 8,065,307	\$ 8,065,307
Total				\$ 963,429,949	\$ 928,527,272
Total impact on CY estimated updated capitation					\$ (34,902,676)
Percentage impact on CY estimated updated capitation					-3.62%

DD rate reflect full premium tax

BH does not reflect premium tax

V. Actuarial Certification of the Capitation Rates:

I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning July 1, 2009.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by DES/DDD and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the DES/DDD auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.


Windy J. Marks

10/27/09
Date

Fellow of the Society of Actuaries
Member, American Academy of Actuaries

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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HOUSE OF
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RICK MURPHY
VIC WILLIAMS

DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Aaron Galeener, Fiscal Analyst

SUBJECT: Department of Environmental Quality - Review of Water Quality Permit Processing Times

Request

Pursuant to a General Appropriation Act footnote (Laws 2009, 3rd Special Session, Chapter 11), the Department of Environmental Quality (DEQ) has submitted for review a report documenting water quality permit processing times for FY 2009 and projected estimates for FY 2010.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of DEQ's water quality permit processing times.

Analysis

Laws 2009, 3rd Special Session, Chapter 11, required DEQ to submit a report on water quality permit processing times for FY 2009 and projected totals for FY 2010. This report was also required to include the total number of staff hours and total costs to process water quality permits, and the progress made in reducing permit processing times. In FY 2010, DEQ's water programs were appropriated a total of \$12.2 million.

FY 2009

In FY 2009, the department received a total of 1,356 water quality permit applications, a decrease of (36)% from FY 2008. DEQ met the Licensing Timeframe for all 39 permit types listed. While the average processing time for all permit categories met the licensing deadlines, DEQ exceeded the deadline for at least 1 permit in 2 categories.

(Continued)

FY 2010

The department received a total of 219 applications during the period of July 1 to September 30, 2009. Last year's report show 531 permits received between July 1 and October 31, 2008. The department is projecting average time for all types of permits will be within the specified permit processing timeframe. For all of FY 2010, the department projects it will receive 192 fewer water permit applications than the previous year, a decrease of (14.2)%. Total costs of processing permits are expected to decrease by \$(1,482,200), or (25.2)%. The average cost per permit is projected to decrease (11.6)% over FY 2009. At the same time, the average number of staff hours required to process these permits is expected to decrease by (9.1)% in FY 2010. The table below contains actual permit information for FY 2009 and projected information for FY 2010.

	Water Quality Permits				
	<u>Applications</u>	<u>Staff Hours</u>	<u>Average Hours Per Permit</u>	<u>Staff Costs</u>	<u>Average Cost Per Permit</u>
FY 2009	1,356	123,375	91.0	\$ 5,891,200	\$4,300
FY 2010 (est.)	<u>1,167</u>	<u>112,136</u>	<u>96.3</u>	<u>4,409,000</u>	<u>3,800</u>
Total	2,523	235,511	93.5	\$10,300,200	\$4,100

RS/AG:ss



Janice K. Brewer
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.azdeq.gov



Benjamin H. Grumbles
Director

December 18, 2009

The Honorable Russell K. Pearce
Arizona State Senate
Chair, Senate Appropriations Committee
1700 West Washington Street
Phoenix, Arizona 85007



Re: Report on Water Quality Permitting for FY2008-2009

Mr. Chairman
Dear Honorable Pearce:

In accordance with House Bill 2006, Chapter 11, Section 6, Forty-ninth Legislature, 3rd Special Session (2009), the Department of Environmental Quality (ADEQ) is submitting a written report on the Water Quality Permitting Program for review by the Joint Legislative Budget Committee. The Report and associated attachments are enclosed. The report provides information on the water quality permit processing times, staff hours and total costs devoted to water quality permit processing for fiscal year 2008-2009 and projected figures for fiscal year 2009-2010.

Despite the recent slowdown in the real estate market throughout the state, the Department continues to process water quality permits for developments in process or in anticipation of the market turnaround. Since public reports, lots sales, construction and other development activities cannot occur without these approvals, adequate staffing and resources are critical to the Department being able to meet the demand.

If I can provide you with any further information or if you have any questions, please feel free to contact me at 602-771-2203.

Sincerely,

Thank you

BH Grumbles

Benjamin H. Grumbles
Director

cc: Honorable John Kavanagh, House
Richard Stavneak, Director, JLBC
John Arnold, Director, OSPB
Dan Hunting, Analyst, JLBC
Brandon Nee, Analyst, OSPB

Northern Regional Office
1801 W. Route 66 • Suite 117 • Flagstaff, AZ 86001
(928) 779-0313

Southern Regional Office
400 West Congress Street • Suite 433 • Tucson, AZ 85701
(520) 628-6733

Water Quality Permit Processing Times Report
December 2009



This Report is submitted to the Joint Legislative Budget Committee in accordance with House Bill 2006, Chapter 11, Section 6, Forty-ninth Legislature, Third Special Session (2009).

This Report details maximum, minimum and average water quality permit processing times for permits issued in fiscal year 2008-2009 as reflected in the Department's AZURITE database (Schedule 1). The data shows that the Department continues to improve average permit processing times over previous fiscal years. For 2008-2009, the Department reduced average processing times for 21 of 39 permit categories. Schedule 2 shows the total number of staff hours and total costs devoted to water quality permit processing in fiscal year 2008-2009 and projected hours and costs for fiscal year 2009-2010 based on figures for the first quarter of FY10. The fiscal year 2008-2009 information includes actual applications completed, hours and costs; fiscal year 2009-2010 information is projected based on actual figures for the first quarter of FY10 and comparisons to last year's numbers (see Schedule 3). The FY10 estimates show a reduction in staff hours and costs which are an expected result of the number of staff vacancies and the state hiring freeze (Schedule 2).

In the Aquifer Protection Permitting (APP) Program, the number of permits issued has remained steady over the past four years. The Department continues to reduce processing times for all APP individual permits and "significant" and "other" amendments without public hearings as well as Type 3 reuse permits. The Legislature charged the Department with reducing processing times in the APP program by 15% in FY09 and the Department met and exceeded that goal with an overall reduction of 18%.

In FY08, the AZPDES program was charged by the Legislature to reduce the time spent in processing permits 20% by June 30, 2008. The Department exceeded that goal by achieving an overall average reduction of 25% in FY08 and continues to improve its processing times in FY09 for both major and minor AZPDES permits. Performance measures are reported in the AZIPS Report (Schedule 5).

The engineering review program continues to implement process improvements resulting in improved timeframes for reviewing construction related projects. In FY08 and FY09, the Legislature charged the Department with improving the Drinking Water Plan Review (DWPR) processing times by 10% each year. The Department met and exceeded the goal both years with actual reductions of 24.7% and 22.6%, respectively (Schedule 5, page 2). The DWPR program improved processing times for drinking water treatment facility and well design and construction; and public and semi-public swimming pool construction. In the Subdivision and Wastewater Plan Review program, the Department's continued process improvements has resulted in improved review times for

subdivisions utilizing either individual wastewater treatment facilities or community wastewater treatment facilities; sewer collection system design and construction; and Type 4 general permits for onsite wastewater treatment systems.

With the slowdown in the real estate and development markets in the state, the Department processed 1,356 water quality permits subject to licensing time frames in FY09. This represents a 36% reduction over the previous fiscal year, the majority of the decrease in the engineering review program. The Department projects a slightly smaller number of licensing timeframes permitting actions for fiscal year 2010, again mostly those related to the downturn in construction.

Despite the downturn in construction and homebuilding, the workload in the individual APP and AZPDES permitting programs remains steady. Major municipal wastewater treatment facilities, mining operations, and complex industrial facilities continue to seek coverage for operations, expansions and modifications to facilities. Schedule 4 provides a summary of the nearly 7,000 permitting actions for FY09, which includes general permits, notices of intent and other actions. With the pending reissuance of the AZPDES deminimis and multi-sector general permits, total permitting actions for FY10 are expected to remain relatively constant.

Given the reduction in construction related applications (APP general permits), the Department is temporarily reassigning three technical staff from engineering review to assist the individual groundwater permitting programs (APP) to assist in the processing of applications. This move will allow the Department to process a greater number of individual permit applications within licensing time frame requirements and provide faster and efficient service to permittees.

In conclusion, in FY09 the Department improved water quality permit processing times in 21 of 39 permit categories, and achieved this improvement within the Department's appropriation authority and while complying with the statewide hiring freeze and layoffs.

**Arizona Department of Environmental Quality
Water Quality Division LTF Report for FY09
July 1, 2008- June 30, 2009**

Program	License Category	Total Applications Completed	Allowable LTF in Working Days	Max % of Timeframe Used	Min % of Timeframe Used	Avg % of Timeframe Used	
DRINKING WATER	Standard drinking water treatment facility, project, and well ATC	7	43	74.42	23.26	48.84	
	Standard drinking water treatment facility, project, and well ATC	224	53	94.34	0.00	32.79	
	Complex drinking water treatment facility, project, or well ATC	3	83	51.81	42.17	45.78	
	Standard drinking water treatment facility, project, or well AOC	1	43	95.35	95.35	95.35	
	Standard drinking water treatment facility, project, or well AOC	495	53	71.70	0.00	11.82	
	(NRO) Standard drinking water treatment facility, project, and well AOC	2	43	97.67	88.37	93.00	
	Complex drinking water treatment facility, project, and well AOC	2	52	50.00	50.00	50.00	
	Drinking water time extension approval	45	32	28.13	0.00	7.08	
	Standard public and semi-public swimming pool design approval	19	52	78.85	0.00	45.75	
	Complex public and semi-public swimming pool design approval	1	93	4.30	4.30	4.30	
	Standard public and semi-public swimming pool AOC	27	42	80.95	0.00	17.11	
	Complex public and semi-public swimming pool AOC	3	93	3.23	0.00	1.79	
GROUNDWATER	APP, Individual Permit, No public hearing	10	221	98.19	47.96	86.97	
	APP, Individual Permit, Significant Amendment, No Public Hearing	18	221	98.19	27.15	80.08	
	Complex Individual AP Permit Significant Amendment with a public hearing	1	329	81.76	81.76	81.76	
	APP, Individual Permit, Other Amendment	36	135	101.48	0.00	58.64	
	APP, Type 3 General Permit	20	81	80.25	3.70	40.99	
	Reuse, Individual Permit, No Public Hearing	3	221	94.12	47.06	74.96	
	Reuse, Type 3 General Permit	10	81	96.30	0.00	18.02	
	Biosolid applicator registration request acknowledgment	41	15	200.00	13.33	43.74	
	Subdivision Individual Facilities	20	67	77.61	0.00	20.00	
	Subdivision Community Facilities	56	58	77.59	0.00	16.41	
	APP, 4.01 General Permit, Pre-Construction 300 services or less	9	53	73.58	28.30	31.11	
	APP, 4.01 General Permit, Post-Construction 300 services or less	169	42	92.86	0.00	19.14	
	APP, 4.01 General Permit, Pre-Construction 300 services or more	1	83	29.41	8.82	17.46	
	APP, 4.01 General Permit, Post-Construction 300 services or more	10	53	71.70	35.85	26.56	
	APP, Standard Single 4.02, 4.03, 4.13, and 4.14 General Permits, Pre-Construction	3	42	19.05	19.05	22.20	
	APP, Standard Single 4.02, 4.03, 4.13, and 4.14 General Permits, Post-Construction	34	31	93.55	0.00	26.25	
	APP, Standard Combined Two or Three Type 4 General Permits, Pre-Construction	3	53	43.16	1.05	25.38	
	APP, Standard Combined Two or Three Type 4 General Permits, Post-Construction	9	42	38.10	0.00	24.06	
	APP, Complex Combined Four or more Type 4 General Permits, Pre-Construction	3	83	47.79	3.68	19.03	
	APP, Complex Combined Four or more Type 4 General Permits, Post-Construction	8	53	96.23	0.00	24.16	
	APP, 4.23 General Permit, Pre-Construction	1	83	25.74	2.21	13.97	
	APP, 4.23 General Permit, Post-Construction	2	53	24.53	24.53	19.25	
	SURFACE WATER	AZPDES, Individual Permit Stormwater/Construction Activities, No Hearing	1	161	0.00	0.00	0.00
		AZPDES, Individual Permit, Major Facility, No public hearing	13	284	99.30	9.86	57.89
		AZPDES, Individual Permit, Minor Facility, No Public hearing	13	221	83.71	11.76	49.57
		AZPDES, Individual Permit Major Modification, No Public Hearing	2	221	47.96	33.03	40.50
		CWA 401 state certification of a proposed CWA 404 permit	31	63	100.00	3.17	22.32

1.356

Water Quality Permit Processing
Staff Hours & Staff Costs

	Total Staff Hours	Total Staff Costs
July 1, 2008 to June 30, 2009	123,375	\$5,891,184
July 1, 2009 to June 30, 2010	104,722	\$4,408,998
Totals	228,097	\$10,300,182

Arizona Department of Environmental Quality
Water Quality Division Projected Applications for FY10
July 1, 2009 - June 30, 2010

Program	License Category	Actual Applications as of 9/30/09	Projected Total Applications for FY10	Allowable LTF in Working Days	Projected Average % of Timeframe Used
DRINKING WATER	<i>Standard drinking water treatment facility, project, and well ATC</i>	0	6	43.00	48.00
	Standard drinking water treatment facility, project, and well ATC	53	186	53.00	32.00
	<i>Complex drinking water treatment facility, project, or well ATC</i>	0	2	83.00	46.00
	<i>Standard drinking water treatment facility, project, or well AOC</i>	0	1	43.00	95.00
	Standard drinking water treatment facility, project, or well AOC	60	412	53.00	12.00
	<i>(NRO) Standard drinking water treatment facility, project, and well AOC</i>	0	2	43.00	93.00
	<i>Complex drinking water treatment facility, project, and well AOC</i>	0	2	52.00	50.00
	Drinking water time extension approval	7	37	32.00	8.00
	Standard public and semi-public swimming pool design approval	2	16	52.00	30.00
	<i>Complex public and semi-public swimming pool design approval</i>	0	1	93.00	50.00
	<i>Standard public and semi-public swimming pool AOC</i>	0	22	42.00	18.00
	<i>Complex public and semi-public swimming pool AOC</i>	0	2	93.00	50.00
	Monitoring frequency change approval	1	1	42.00	50.00
GROUNDWATER	APP, Individual Permit, No public hearing	4	12	221.00	50.00
	APP, Individual Permit, Significant Amendment, No Public Hearing	2	18	221.00	52.00
	<i>Complex Individual AP Permit Significant Amendment with a public hearing</i>	0	1	329.00	82.00
	APP, Individual Permit, Other Amendment	10	36	135.00	59.00
	APP, Type 3 General Permit	8	32	81.00	41.00
	Reuse, Individual Permit, No Public Hearing	1	3	221.00	55.00
	Reuse, Type 3 General Permit	3	12	81.00	18.00
	Biosolid applicator registration request acknowledgment	5	34	15.00	35.00
	<i>Subdivision Individual Facilities</i>	0	17	67.00	20.00
	Subdivision Community Facilities	4	46	58.00	17.00
	APP, 4.01 General Permit, Pre-Construction 300 services or less	4	7	53.00	30.00
	APP, 4.01 General Permit, Post-Construction 300 services or less	26	140	42.00	20.00
	APP, 4.01 General Permit, Pre-Construction 300 services or more	1	1	83.00	18.00
	APP, 4.01 General Permit, Post-Construction 300 services or more	1	8	53.00	26.00
	APP, Standard Single 4.02, 4.03, 4.13, and 4.14 General Permits, Pre-Construction	1	2	42.00	20.00
	APP, Standard Single 4.02, 4.03, 4.13, and 4.14 General Permits, Post-Construction	8	28	31.00	25.00
	APP, Standard Combined Two or Three Type 4 General Permits, Pre-Construction	1	2	53.00	15.00
	APP, Standard Combined Two or Three Type 4 General Permits, Post-Construction	1	7	42.00	13.00
	APP, Complex Combined Four or more Type 4 General Permits, Pre-Construction	1	2	83.00	20.00
	APP, Complex Combined Four or more Type 4 General Permits, Post-Construction	1	7	53.00	24.00
	<i>APP, 4.23 General Permit, Pre-Construction</i>	0	1	83.00	14.00
	APP, 4.23 General Permit, Post-Construction	1	2	53.00	11.00
SURFACE WATER	<i>AZPDES, Individual Permit Stormwater/Construction Activities, No Hearing</i>	0	6	161.00	80.00
	AZPDES, Individual Permit, Major Facility, No public hearing	2	11	284.00	45.00
	AZPDES, Individual Permit, Minor Facility, No Public hearing	5	11	221.00	50.00
	<i>AZPDES, Individual Permit Major Modification, No Public Hearing</i>	0	2	221.00	41.00
	CWA 401 state certification of a proposed CWA 404 permit	6	26	63.00	22.00
		219	1,164		

Note: *italics* means no applications in as of 9/30/09 - projection based on 83% of last years applications and year-to-date applications in-house.
Projected appl for FY09 = 1630; actual 1356 => percent difference -16.8%

Arizona Department of Environmental Quality
Water Quality Division Permitting Workload
December, 2009

GENERAL PERMITS NOT SUBJECT TO LICENSING TIMEFRAMES				
AZPDES STORMWATER PERMITS	ACTUAL FY 2007	ACTUAL FY 2008	ACTUAL FY 2009	ESTIMATED FY 2010
Construction General Permit (GP) Authorizations	2,909	4,470 ¹	2,357	2,000
Construction GP Notices of Termination	3,307	6,003 ¹	1,691	1,000 ²
Construction GP Waiver Certifications	168	142	86	125
Multi-Sector Industrial General Permit (MSGP) Authorizations	1,020	1,007	999	2,000 ³
MSGP No Exposure Certificates	76	96	98	50
DeMinimis General Permit (DMGP) Authorizations	298	254	90 ⁴	200
DMGP Notices of Termination	224	165	90 ⁴	200
APP GENERAL PERMITS & ACTIONS				
General Permits & Other Authorizations ⁵	132	151	152	151
Other Actions ⁶	26	35	24	36
Total Permits Issued Not Subject to LTF	8,160	12,323	5,587	5,762

¹ Issuance of the 2008 Construction General Permit required all continuing projects to reapply for coverage.

² Reflective of the housing market slowdown for FY2009. Many projects terminated coverage in FY2008 and do not anticipate refiling for coverage until the market picks up.

³ ADEQ anticipates that the Arizona MSGP will be issued in the 3rd quarter of FY 2010, thus all authorized facilities will be required to reapply under the new MSGP as well as all those facilities that have been unable to obtain coverage because no permit existed in which to apply. Estimates of the number of MSGP facilities in state ranges from 2,000-6,000.

⁴ These authorizations are down compared to earlier years because several areawide authorizations went into effect (eliminating single NOIs from those permittees), and the DMGP expired on 3/17/09 – so new authorizations could not be issued until the new DMGP is issued in fall, 2009.

⁵ Includes Type 2 general permits, clean closures and determinations of applicability.

⁶ Includes other action include denials, permit releases, and permits that are withdrawn.

INDIVIDUAL & GENERAL PERMITS SUBJECT TO LICENSING TIME FRAMES				
Engineering Review Program	ACTUAL FY 2007	ACTUAL FY 2008	ACTUAL FY 2009	ESTIMATED FY 2010
Drinking Water Plan Review Program	1,270	1,182	829	690
Subdivision & Wastewater Review Program	1,435	726	328	270
Aquifer Protection Permit Program	121	129	139	148
AZPDES/Surface Water Permit Programs	76	90	60	56
Total Permits Issued Subject to LTF	2,902	2,127	1,356	1,164

TOTAL PERMITTING ACTIONS	11,602	14,450	6,943	6,926
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Budget Related Performance Measures

Department of Environmental Quality

Program: 1.0 ADMINISTRATION
 Contact: Patrick J. Cunningham, Deputy Director (602) 771-2204
 2nd Contact:
 Statute: A.R.S. §§ 49-101 to 49-1106

ML	Budget	Type	Performance Measure	FY 2008 Actual	FY 2009 Estimate	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	QL	Percentage of statutorily set permit timelines met through License Time Frame rule.	99.47	99.0	99.7	100.0	100.0
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	QL	Customer satisfaction rating for citizens (scale of 1-8)	7.7	7.4	7.8	7.7	7.7

Subprogram: 2.1 AIR QUALITY MANAGEMENT AND ANALYSIS
 Contact: Nancy Wrona, Air Quality Division Director (602) 771-2308
 2nd Contact:
 Statute: A.R.S. §§ 49-401 to 49-593

ML	Budget	Type	Performance Measure	FY 2008 Actual	FY 2009 Estimate	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	OC	Number of days per year exceeding National Ambient Air Quality Standards (NAAQS) for Ozone (O3), Carbon Monoxide (CO), or Particulates (PM10).	0.0	0.0	8.0	0.0	0.0
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	OC	Number of non-attainment areas exceeding national ambient air quality standards.	5	5	4	5	5

Subprogram: 3.1 WASTE CONTROL AND MANAGEMENT
 Contact: Amanda Stone, Waste Programs Division Director (602) 771-4567
 2nd Contact:
 Statute: A.R.S. §§ 49-701 to 49-973

ML	Budget	Type	Performance Measure	FY 2008 Actual	FY 2009 Estimate	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	OC	Percent of contaminated sites in Waste Programs Division closed requiring no further action (cumulative) versus known universe of contaminated sites in the Waste Programs Division (cumulative)	84.5	82.0	86.9	84.5	84.5

Subprogram: 4.1 UNDERGROUND WATER REGULATION
 Contact: Henry Darwin, Acting Water Quality Division Director (602) 771-2306
 2nd Contact:
 Statute: A.R.S. §§ 49-201 to 49-391

ML	Budget	Type	Performance Measure	FY 2008 Actual	FY 2009 Estimate	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	EF	Percent reduction in Aquifer protection permit processing time. FY2009 Measure Only.	N/A	15.0	18.0	N/A	N/A

Subprogram: 4.2 SURFACE WATER REGULATION
 Contact: Henry Darwin, Acting Water Quality Division Director (602) 771-2306
 2nd Contact:
 Statute: A.R.S. §§ 49-201 to 49-391

ML	Budget	Type	Performance Measure	FY 2008 Actual	FY 2009 Estimate	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
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Budget Related Performance Measures

Department of Environmental Quality

<input type="checkbox"/>	<input checked="" type="checkbox"/>	EF	Percent reduction in Arizona pollutant discharge elimination system (AZDPDES) permit processing time. This Measure is applicable for FY08 and needs to be removed.	25.02	N/A	N/A	N/A	N/A
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Subprogram: 4.3 DRINKING WATER REGULATION
 Contact: Henry Darwin, Acting Water Quality Division Director (602) 771-2306
 2nd Contact:
 Statute: A.R.S. §§ 49-201 to 49-391

ML	Budget	Type	Performance Measure	FY 2008 Actual	FY 2009 Estimate	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	OC	Percentage of facilities from Drinking Water Priority Log assigned to enforcement staff.	100.0	100.0	100.0	100.0	100.0
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	EF	Percent reduction in drinking water plan review processing time. FY2008 & FY2009 Measure Only.	24.7	10.0	22.6	N/A	N/A

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Ted Nelson, Assistant Fiscal Analyst

SUBJECT: Government Information Technology Agency - Quarterly Review of the Arizona Public Safety Communication Advisory Commission

This memo also appeared in the cancelled December meeting packet.

Request

Pursuant to A.R.S. § 41-3542C, the Government Information Technology Agency (GITA) has submitted for review its FY 2010 first quarter expenditures and progress report for the statewide interoperability design project.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the agency's request. First quarter expenditures totaled \$177,400 of \$3,018,700 in FY 2010 appropriated funding. Activities in the first quarter of FY 2010 include implementation of the Arizona Interagency Radio System (AIRS) in 14 of 15 counties and revision of the Statewide Communications Interoperability Plan (SCIP).

Analysis

Background

The Arizona Public Safety Communication Advisory Commission (PSCC) was established to develop a statewide, standard-based interoperability system that allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency, as well as daily emergencies. Construction costs of a statewide interoperability communication system have been estimated to be as high as \$300 million.

Activities

In the first quarter of FY 2010, the SCIP was revised to be aligned with the National Emergency Communication Plan. The SCIP describes the current status of public safety communications in Arizona and serves as the roadmap for improving communications interoperability in the state. The final draft of

(Continued)

the SCIP will be published on December 10, 2009. After a period of public comment, a vote for formal adoption of the plan will be held at the January 19, 2010 meeting of the Public Safety Communications Advisory Commission.

In FY 2009, PSCC increased the number of AIRS user agencies to 134. This short-term solution, while allowing interagency communication, is limited to a single talk group, which is described as a single conversation between users in a geographical area. The PSCC describes this functionality as “basic interoperability” for first responders. Statewide deployment of AIRS, which includes the installation of equipment at over 40 sites, is expected by the end of the 2009 calendar year, pending installation of antenna facilities in La Paz County. Difficulty in accessing the rugged mountaintop site has delayed installation of the antenna, and PSCC is working on alternatives. At this time, AIRS provides interagency communication in all counties except for La Paz. When the La Paz antenna becomes operational, AIRS will provide coverage to all 15 counties in Arizona.

The long-term solution differs from the short-term solution in that it will allow an unlimited number of talk groups, creating a more robust interoperability solution open to more simultaneous users than AIRS. With respect to the “long-term” interoperable solution, the PSCC continues to develop the conceptual design and has identified necessary sites for the statewide system.

Expenditures

Laws 2004, Chapter 275 included a non-lapsing appropriation of \$3 million to the Department of Public Safety (DPS) in FY 2005 for the design costs of a statewide radio interoperability communication system. At the beginning of FY 2010, \$358,500 was remaining from that non-lapsing appropriation, which was reverted to the General Fund by Laws 2009, Chapter 12.

Laws 2008, Chapter 285 transferred the PSCC from DPS to GITA. The PSCC was appropriated \$896,100 from the General Fund in FY 2010. A lump sum reduction of \$(44,100) and a Personal Services reduction of \$(33,300) reduced the final PSCC appropriation to \$818,700.

In addition, a FY 2008 General Appropriation Act footnote specifies legislative intent for the PSCC to use \$2,200,000 of non-appropriated Anti-Racketeering Fund monies for the detailed design of the long-term interoperability solution. Prior to expending these monies, the PSCC is required to submit an expenditure plan to the Joint Legislative Budget Committee for review. To date, none of this funding has been spent.

In the first quarter, the PSCC expended \$177,400 for operating costs associated with personnel expenses, federal engineering costs, and data site project support. As a result, there is \$2,841,300 in funding available for the remainder of FY 2010.

Table 1 indicates funds available and expenditures for FY 2010.

Table 1			
<u>PSCC Appropriation and Expenditures</u>			
	FY 2010 Funding Available	FY 2010 1st Quarter Expenditures	Remaining Balance
Personal Services	\$ 475,000	\$ 94,000	\$ 381,000
Employee Related Expenditures	142,500	55,200	87,300
Professional & Outside Services	93,000	18,000	75,000
Travel - In State	5,000	1,200	3,800
Travel - Out of State	5,000	700	4,300
Other Operating Expenditures	89,000	8,300	80,700
Non-Lapsing Expenditure Authority	2,200,000	--	2,200,000
Equipment	9,200	0	9,200
Total Operating Expenditures	\$3,018,700	\$177,400	\$2,841,300

JANICE K. BREWER
GOVERNOR



CHAD KIRKPATRICK
DIRECTOR

STATE OF ARIZONA
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100 N. 15th Avenue, Suite 440
Phoenix AZ 85007

November 30, 2009

Dan Hunting
JLBC Analyst
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007



Dear Dan,

I am pleased to provide this quarterly report to the JLBC covering the activities of the Public Safety Interoperable Communications Office within the Government Information Technology Agency (GITA-PSIC), the Public Safety Communications Advisory Commission (PSCC) and the Statewide Interoperability Executive Committee (SIEC).

The strategic initiatives that guide the activities of GITA-PSIC are grouped into five key interoperability subject areas: Governance; Standard Operating Procedures; Technology; Training and Exercise; Usage and Outreach. These strategic initiatives are listed in Attachment A and published on the PSIC website (www.azgita.gov/psic). Key accomplishments in each area are outlined below.

Governance

During third quarter CY09, GITA-PSIC made significant progress on SCIP Initiative #1: Expanding and implementing our interoperable communications governance model. This initiative was identified as both short term and high priority, and is viewed as an essential precursor to achieving other key strategic interoperability objectives. Key advances in Governance during the third quarter CY09 are outlined below:

Annual Review and Update of the SCIP (SCIP Objective 1.1)

GITA-PSIC worked closely with stakeholders on reviewing and updating Arizona's Statewide Communications Interoperability Plan (SCIP) which is required by the Federal Government in regard to federal interoperability grants. The SCIP is our roadmap for communications interoperability initiatives in Arizona.

During the third quarter CY09 a significant rewrite of the SCIP was conducted based on revisions to our key strategic initiatives and new requirements that each State align its SCIP with the National Emergency Communication Plan (NECP) (issued after our initial SCIP was developed).

The SCIP update, still in draft form, reflects changes in Arizona's communications landscape since 2007. The goal of the update is to enhance readability, accuracy, and applicability of the document's content while maintaining conformance to National SCIP Criteria.

The SCIP changes include:

- Updating/streamlining language
- Removing outdated and inaccurate content and or relocating extraneous content to appendices
- Condensing related sections together to minimize unnecessary redundancy
- Updating strategic plan initiatives as approved by the PSCC on May 19, 2009
- Reflecting in-progress project accomplishments
- Incorporating updated information from stakeholder groups
- Documenting improved data on the current status of communications interoperability in Arizona
- Documenting the updated organizational structure of GITA-PSIC, the PSCC and the SIEC
- Facilitating the ability to secure grant funding and attendant progress on initiatives by clearly documenting alignment with the National Emergency Communications Plan (NECP)

GITA-PSIC worked closely with our contractor to develop a preliminary draft SCIP on August 15, 2009. GITA-PSIC then conducted numerous interviews with key State and local personnel and carried out additional data gathering during September 2009. An updated public draft SCIP was then circulated to the PSCC and stakeholders for public review and comment, with additional drafts and public review periods expected during the fourth quarter of CY 2009. The current draft SCIP is published on the GITA-PSIC website (www.azgita.gov/psic).

Develop Tactical Interoperable Communication Plans (TICPs) (SCIP Objective 1.3)

GITA-PSIC worked with the Federal Office of Emergency Communications (OEC) at the Department of Homeland Security (DHS) to secure a Technical Assistance (TA) award to the Yuma region for the purposes of developing a Tactical Interoperable Communication Plan (TICP) at no cost to the State. TICPs document the interoperable communications resources available within a designated area, who controls each resource and what rules of use or operational procedures exist for the activation and deactivation of these resources. Two workshops were conducted by OEC in August and September 2009 to support development of the Yuma region TICP. The TICP for this region is expected to be completed in fourth quarter of CY09. Along with the TICPs in the Phoenix and Tucson metro areas, this Yuma TICP helps build out the picture of interoperable communication assets in Arizona. As more TICPs are developed a statewide picture of such resources will become clearer.

Utilization of CASM Inventory & Analysis Tool (SCIP Objective 1.3)

The State has also been developing a project plan for populating the Communications Assets Survey and Mapping (CASM) tool. Arizona is adopting the use of national CASM tool to collect and maintain information on public safety communications statewide. CASM is a web-based tool to support interoperable communications analysis that provides:

- A single repository to facilitate information sharing
- Communication assets inventory assessment (agency, region, statewide)
- Inter-agency interoperability analysis

- Tactical Interoperability Communication Plan (TICP) interface
- Enables evaluation of an agency's "Need vs. Ability" to communicate

The CASM project is funded by an Interoperable Emergency Communications Grant Program (IECGP) award to the City of Phoenix that will be managed by GITA-PSIC through a Memorandum of Understanding (MOU) with Phoenix. The MOU for the CASM project is expected to be complete in the fourth quarter, with project implementation beginning in first quarter CY 2010.

Strengthening Arizona's Governance Model (SCIP Initiative #1)

The strengthening of Arizona's governance model has been a top priority in CY 2009.

The State completed the National Governors Association (NGA) Policy Academy on Interoperable Communications Governance during the third quarter CY09. The Final Report of our activities submitted as part of the Policy Academy is attached as Attachment B. Overall, Arizona's governance model will need periodic updates to meet the State's ever changing interoperability challenges, but the State has strengthened its governance foundation.

GITA-PSIC requested technical assistance from the Department of Homeland Security's Office of Emergency Communications – Interoperable Communications Technical Assistance Program (OEC-ICTAP), to assist with an assessment of the State's interoperable communications governance structure. The assessment report was finalized during the third quarter CY09, and presented to the Public Safety Communications Advisory Commission (PSCC) Governance Workgroup at their August 12th meeting. The report has been published on the GITA-PSIC website (www.azgita.gov/psic).

The State also conducted an internal analysis of the PSCC General Policies and Arizona State statutes impacting its operations to develop recommendations for moving its governance structure forward. Discussions of further changes to our governance structure has been deferred until early 2010 when new PSCC appointees will be seated and when the SCIP, which will inform the activities the governance structure supports, will be complete.

Technology

Technology related accomplishments during the third quarter CY09 by GITA-PSIC and our partners include:

- Project Oversight of Arizona Interagency Radio System (AIRS) projects (SCIP Initiative #4). The Wireless Systems Bureau of DPS (DPS/WSB) has not yet been able to access the planned site for installation of an AIRS suite in La Paz County. La Paz is the only remaining county without an AIRS suite. An alternate plan has been developed in an effort to provide AIRS capability to La Paz before the end of this calendar year. Other installations for expansion of AIRS are pending as well.
- GITA-PSIC continues to work closely with regional/local partners around the State, on long-term cost-effective approaches to furthering the interoperability goals of these regions (SCIP Initiative #5). Our activities are documented under the Outreach section of this report below.
- Project Oversight of DPS Microwave Project Upgrade from Analog to Digital Technology (SCIP Initiative #6). GITA-PSIC continues to work closely with DPS/WSB on interoperable communications issues, including the Digital Microwave project. Currently, there are 3 digital

paths left to be activated in order to complete Southern Loop connectivity, which DPS/WSB is committed to having in place by the end of this calendar year. DPS is prepared to brief the JLBC on the status of the Microwave project.

- Project Oversight of Arizona Division of Emergency Management (ADEM) Strategic Technology Reserve (STR) Project (SCIP Initiative #7). ADEM continued the deployment of STR equipment during the third quarter CY09, including the delivery of communications van and related equipment to the remaining counties (Pima, Navajo and Gila). The project has not meet its anticipated 10/17/09 amended completion date as ADEM continues to work out issues with deployment of the satellite phone/radio component of the STR. GITA continues to provide oversight on this project.
- A State Agency Group, led by the Arizona Department of Public Safety, is currently in formation. The Group will be responsible for advancing collective plans for operable and interoperable solutions for State agencies (SCIP Initiative #8).

Standard Operating Procedures (SOPs)

During third quarter CY09, efforts in regard to the Standard Operating Procedures (SOPs) initiative was focused on development of a SOP for the statewide Arizona Interagency Radio System (AIRS). AIRS supports VHF, UHF and 800 MHz frequencies used throughout the State, with a cross-band repeater configuration that allows communication between bands. Interoperability capabilities vary from agency to agency and county to county; however, most areas have AIRS channels programmed in their radios. The lack of a standard SOP for this system to date has been a significant impediment to its effective use in support of interoperability.

Accomplishments during the third quarter CY09 in regard to the AIRS SOP include:

- Additional outreach to AIRS monitoring and dispatching agencies and AIRS users to ascertain usage and practices
- Documentation of discussions, recommendations and items needing further consideration regarding:
 - Nomenclature & Channel Alignment
 - National Interoperable Channels
 - AIRS Testing
 - Monitoring Best Practices
 - Lead Agency Best Practices
 - Unresolved Operational Issues
 - Dispatcher/User Actions
 - Other Technical/Operational Issues
- Development and editing of additional content with the assistance of Subject Matter Experts from partner agencies and workgroup-related organizations
- Workgroup review of draft material and teleconference discussions

The AIRS SOP is expected to be complete and approved by the SIEC during the fourth quarter CY 2009. GITA-PSIC will then move forward with developing and implementing an AIRS Training program (see Training and Exercise section below). Development of the AIRS SOP has also identified AIRS-related

oversight issues that will be brought forward for the SIEC to address. Examples of identified issues include:

- Monitoring Coverage
- AIRS Testing
- Appropriate use of regional and statewide channels

Training & Exercise

Accomplishments during the third quarter CY09 by GITA-PSIC and its partners regarding Training and Exercise initiatives and objectives are as follows:

Training

Regarding SCIP Objective 10.1 – Develop and Implement AIRS Training: An MOU to transfer federal funds from a local jurisdiction to GITA-PSIC was signed to enable the creation of AIRS training materials. Development of a project plan is expected to be complete in the fourth quarter CY09, with project implementation beginning in first quarter CY10.

Regarding SCIP Objective 10.2 – Implement COM-L Training Program: GITA-PSIC is working with the Arizona Division of Emergency Management (ADEM) and regional partners, to advance communications interoperability training initiatives. Communications Unit Leader (COM-L) training is a new nationally recognized training program that provides a common level of training and credentialing for COM-Ls across the state/nation. Through the efforts of the PSIC Office and its regional partners, six COM-L trainings were offered in Arizona during CY09. Currently all COM-L class certificates are sent to the Arizona Department of Homeland Security (AZDOHS) and subsequently stored at GITA-PSIC. During the third quarter CY09, the SIEC formed a working group that will:

- Determine a plan for the credentialing of COM-L in AZ
- Create uniform tracking for COM-L certification in AZ
- Create method of credentialing COM-L task book signers
- Create process for determining that basic competency level is reached prior to task book sign-off
- Determine process for tracking COM-L completion

Exercise

GITA-PSIC continues to work with municipal, county, State, Tribal, and Federal agencies whenever possible to identify and participate in interoperable communications exercise opportunities.

The development of a high level action plan for implementing a multi-year communications-focused regional Training and Exercise Plan (TEP) and a consolidated statewide TEP is expected to be addressed during the fourth quarter of CY09.

Usage & Outreach

During the third quarter CY09, GITA-PSIC, DPS, AZDOHS and ADEM partnered to meet with regions within the state who are interested in moving forward with regional technology planning for interoperable communications (SCIP Initiative # 5). Discussion points at these meetings included updated information on interoperable communications projects and resources available to the regions for advancing interoperability efforts. The first regional meeting occurred on September 2nd when State agency representatives met with public safety agencies and stakeholders in Cochise County. Approximately 50 attendees representing 2 dozen first responder agencies participated in the two-hour program. Two additional regional meetings are scheduled during the fourth quarter with more anticipated in CY10.

Additional Usage & Outreach activities during third quarter CY09 included:

- Collaboration with technology experts, organization leaders and cross-discipline, cross-jurisdictional first responders
- PSCC, SIEC, and Stakeholder recruitment and support
- Participation in Training and Exercises
- Outreach to stakeholders regarding upcoming FCC Narrowbanding requirements, GITA-PSIC activities and AIRS
- Submission of recommendations to the Governor for appointments to the PSCC to fill vacant positions or to replace positions where initial terms are expired and members are no longer active. These recommendations reflect:
 - Legislative requirements for Commissioners to represent all five emergency response regions
 - A desire for the Commission to represent multiple disciplines, localities and organizations

GITA-PSIC staff participated in many meetings throughout the State during the third quarter CY09, including: Annual Conference of the Association of Public Safety Communications Officials; Arizona Fire Chief's Association; Cochise County Emergency Medical Services Council; Collaborative Border Regional Alliance; Interoperable Communications Policy Forum; Mohave County Fire Officer's Association; Mohave County regional outreach; National Governors Association Policy Academy; Northern Arizona Emergency Medical Services Council; PCWIN - Pima County Wireless Integrated Network; Phoenix UASI Communications Subcommittee; Phoenix UASI; Phoenix Fire Department; FEMA Region IX Regional Emergency Communications Coordination Working Group; Regional Wireless Council Board; Southwest Border Communications Working Group; Western Arizona Counties Emergency Medical Services Council; and the Western RAC. GITA-PSIC staff continues to be engaged with Federal, Tribal, border and regional interoperable communications groups as well.

Public Meetings

PSCC Meeting – July 21, 2009 – 1 to 3 PM - Agenda Items: Multi-Band Radio Pilot Project; Strategic Technology Reserve (STR); Northern Arizona Update; SIEC Update; Update on COM-L Classes; PSIC Outreach Update; Yuma OP-TTX: Final Report; U.S. Department of the Interior (DOI) State Outreach Program & SW Border Regionalization Project; and PSIC Office updates.

SIEC Meeting – August 12, 2009 – 10 AM to 12 PM - Agenda Items: Appointment of additional SIEC member; PL Changes for Nogales Hill and Childs Mountain AIRS repeaters; Formation of COM-L Workgroup; 2010 Technical Assistance Requests; and Discussion and Revisions to AIRS Standard Operating Procedures.

Governance Workgroup Meeting – August 12, 2009 – 1 to 3 PM - Agenda Items: NGA Policy Academy: Focus on Governance; Governance Assessment Report; and PSCC Charter Discussion.

PSCC Meeting – September 15, 2009 – 1 to 3 PM - Agenda Items: SIEC Status Report; AZDOHS Update; Regional Update: PCWIN; ADEM STR Update; Statewide Communications Interoperability Plan (SCIP) Update Status; and PSIC Office Updates.

Budget

For FY 2010, \$818,700 was appropriated from the General Fund to the Government Information Technology Agency for the public safety communications program. As of September 30, 2009, \$177,438.87 had been expended or encumbered. A breakdown of expenditures by category is attached as Attachment C: FY2010 Q1 GITA-PSIC Expenditures. The PSIC support office within GITA continues to realize vacancy savings and utilize federal grants whenever possible to support its goal of advancing interoperable communications in Arizona in the most fiscally responsible manner.

Remaining funding includes the \$2.2M of non-lapsing Anti-Racketeering Fund monies specified in the General Appropriation Act footnote as legislatively intended for PSCC to use for the detailed design of the long-term interoperability solution. No expenditures associated with this fund occurred during the third quarter of CY 2009. Prior to expending any of these monies, GITA-PSIC is required to submit an expenditure plan to JLBC for review.

Technical Assistance Requests

The OEC/ICTAP Technical Assistance (TA) program supports and promotes the ability of emergency responders and government officials to continue to communicate in the event of natural disasters, acts of terrorism, or other man-made disasters. The program works to ensure, accelerate, and attain operable and interoperable emergency communications nationwide through the offering of Technical Assistance grants to the States. Arizona received four TA's in CY 2009:

- GOV-ASMT: Statewide Governance Assessment
- SOP-DEV: Statewide AIRS SOP Development
- OP-TTX: Yuma Communications Focused Table Top Exercise
- TIC-PKG: Yuma Tactical Communications Enhancement Package

During the third quarter CY 2009, GITA-PSIC requested five TAs for 2010 to meet identified SCIP initiatives, one of which provides direct support to a designated Urban/Metropolitan area as required by OEC/ICTAP. The application was submitted after recommendations were circulated to the PSCC and stakeholders for public review and comment. The requested TAs and their timeline include:

1. RIC-PKG: Regional Communications Enhancement Package (Border Region) - Early 2010
2. TIC-PKG: Tactical Communications Enhancement Package - Early 2010
3. ENG-SYS: LMR System Analysis for Pinal region – June 2010
4. RIC-PKG: Regional Communications Enhancement Package – Mid 2010
5. UASI Request: GOV-ASMT: Governance Structures Assessment for PC-WIN (Pima County) - Early 2010

OEC/ICTAP is expected to announce the 2010 TA awards during the fourth quarter CY09.

Please don't hesitate to contact me with any questions you might have regarding activities of GITA-PSIC, PSCC and SIEC.

Best wishes,



Chad Kirkpatrick
State CIO & Director

Cc: Matt Morales, Director of Communications & Intergovernmental Affairs, GITA
Lisa Dee Meyerson, Manager, PSIC Office, GITA

Attachment A: Strategic Initiatives and Supporting Objectives
Attachment B: NGA Policy Academy Final Report
Attachment C: FY2010 Q1 GITA-PSIC Expenditures

Attachment A: Strategic Initiatives and Supporting Objectives

Revised Strategic Initiatives and Supporting Objectives approved by the Arizona Public Safety Communications Advisory Commission (PSCC) on May 19, 2009 after extensive statewide stakeholder input:

Continuum	#	Approved: 5/19/2009	Tracking				
		Strategic Initiative ■ Supporting Objective	Priority	Term	Target Completion Date	Lead	Status
Governance	1	Expand and implement Interoperable Communications Governance Model & Plan.	High	Short	2010	PSCC	In progress
	1.1	■ Conduct an annual SCIP review and update the plan.	High	Ongoing	Annual	PSCC	In progress
	1.2	■ Develop a Comprehensive Emergency Communications Plan addressing regional emergencies, catastrophic loss and mass evacuation/ingress.	High	Short	2010	TBD	TBD
	1.3	■ Develop TICPs and utilization of CASM.	Med.	Med.	2011	Regional Partners	In progress
	1.4	■ Strengthen SIEC.	Med.	Short	2009	PSCC/SIEC	In progress
	2	Develop Long-term Plan for Statewide Interoperability for voice and data.	Med.	Med.	2011	PSCC	In progress
	2.1	■ Develop Long-term Plan for Statewide Interoperability for voice.	Med.	Med.	2011	PSCC	In progress
	2.2	■ Develop Long-term Plan for Statewide Interoperability for data.	Med.	Med.	2011	PSCC	Not started
	3	Develop & implement Long-term Funding and Sustainability Strategy for interoperable communications.	Med.	Med.	2011	PSCC	Not started
Technology	4	Complete the Arizona Interagency Radio System (AIRS) by deploying remaining AIRS suites.	High	Short	2009	DPS/WSB	In progress
	5	Implement, enhance and promote functional Regional Systems in support of interoperable communications.	High	Ongoing	On-going	Regional Partners	In progress
	6	Upgrade the statewide Microwave (M/W) backbone infrastructure to digital technology.	High	Long	2017	DPS/WSB	In progress
	6.1	■ Complete the M/W Southern Loop Upgrade.	High	Short	2009	DPS/WSB	In progress
	6.2	■ Complete the M/W Western Loop Upgrade.	High	Med.	2012	DPS/WSB	Not started
	6.3	■ Complete the M/W Northern Loop Upgrade.	High	Long	2017	DPS/WSB	Not started
	7	Implement the State Strategic Technology Reserve (STR).	High	Short	2010	ADEM	In progress
	8	Upgrade operable communication systems for State Agencies in support of interoperable communications.	High	Long	2015	State Agency Committee	In progress
	8.1	■ Implement immediate solutions to enhance operable communication systems for State agencies in support of interoperable communications.	High	Short	2010	State Agency Committee	In progress
	8.2	■ Implement upgrades to operable communication systems for State agencies in support of interoperable communications.	Med.	Long	2015	State Agency Committee	Not started
SOPs	9	Establish Policies, Standards and Procedures (PSP) Framework, and implement PSPs, including SOPs, for interoperable communications.	High	Med.	2011	PSCC/SIEC	In progress
Training & Exercise	10	Develop and implement a Training Plan to address interoperable communications.	Med.	Med.	2011	PSCC	New
	10.1	■ Develop and implement AIRS Training.	High	Short	2010	PSCC	Not started
	10.2	■ Implement COML training program.	Med.	Med.	2010	TBD	Not started
	10.3	■ Implement COMT training program.	Med.	Med.	2011	TBD	Not started
	11	Develop and implement a strategy for exercises focused on or incorporating interoperable communications.	Med.	Med.	2011	PSCC	New
Usage & Outreach	12	Create and implement an education and outreach plan in support of interoperable communications.	Med.	Med.	2010	PSCC	In progress

STATE OF ARIZONA

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DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Art Smith, Senior Fiscal Analyst

SUBJECT: Department of Health Services - Review of Requested Transfer of Appropriations

This memo also appeared in the cancelled December meeting packet.

Request

Pursuant to a FY 2010 General Appropriation Act footnote, the Department of Health Services (DHS) requests Committee review of multiple transfers. The transfers are detailed on page 2 of the department's request.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the request.

Analysis

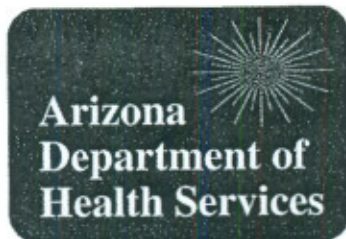
The FY 2010 budget (Laws 2009, 3rd Special Session, Chapter 11) allocated the entire \$(46,909,100) General Fund lump sum reduction against DHS' operating budget with the understanding that the department could subsequently shift a portion of the reduction against its programmatic Special Line Items (SLI). These reductions represent a combination of the midyear FY 2009 budget reductions and additional reductions enacted as part of the FY 2010 budget plan.

DHS proposes a transfer of \$332,800 in General Fund monies from its programmatic SLIs to the Breast and Cervical Cancer and Bone Density Screening SLI in order to receive enhanced federal matching monies for Title XIX services under the American Recovery and Reinvestment Act (ARRA).

(Continued)

DHS also proposes to transfer \$900,000 in Tobacco Tax and Health Care Fund Medically Needy Account monies from the Community Health Centers SLI to the Seriously Mentally Ill Non-Title XIX SLI. In addition to the proposed General Fund shift to agency operations, this would eliminate the \$1,881,400 total fund appropriation for Community Health Centers; however, the program would still receive \$11,600,000 in Fiscal Stabilization Fund monies provided under ARRA for FY 2010.

RS/AS:sls



Office of the Director

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JANICE K. BREWER, GOVERNOR
WILL HUMBLE, INTERIM DIRECTOR

November 05, 2009

The Honorable John Kavanagh, Chair
Joint Legislative Budget Committee
Arizona House of Representatives
1700 W Washington St.
Phoenix, AZ 85007

The Honorable Russell Pearce, Vice Chair
Joint Legislative Budget Committee
Arizona State Senate
1700 W Washington St.
Phoenix, AZ 85007

Gentlemen:

Pursuant to Laws 2009, Third Special Session Chapter 11, the Arizona Department of Health Services requests placement on the next meeting agenda of the Joint Legislative Budget Committee to review the transfer of \$40,899,367 General Fund and \$900,000 Tobacco Tax and Health Care Fund between appropriation line items.

The enclosed table identifies the transfers necessary to carry forward General Fund reductions made during Fiscal Year 2009 and to continue the operation of the Department and State Hospital in relation to additional General Fund reductions found in Laws 2009, Third Special Session Chapter 11.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Will Humble". The signature is fluid and cursive.

Will Humble
Interim Director

WH/dh

Enc.



**Arizona Department of Health Services
FY 2010 Appropriation Transfers Proposal**

Programs	Current Appropriation	Transfers	Requested Appropriation
General Fund			
AGENCYWIDE OPERATING	28,532,500	40,566,567	69,099,067
ATTORNEY GENERAL SERVICES	394,900	(23,694)	371,206
ASSURANCE AND LICENSURE	4,651,300	(488,560)	4,162,740
LABORATORY SERVICES	4,088,600	(337,103)	3,751,497
TB PROVIDER CARE AND CONTROL	1,210,500	(618,808)	591,692
VACCINES	6,132,900	(6,132,900)	0
AIDS REPORTING AND SURVEY	1,125,000	(125,000)	1,000,000
ASIIS	477,600	(257,215)	220,385
HEPATITIS C SURVEY	309,400	(309,400)	0
DIABETES PREVENTION	100,000	(100,000)	0
COMMUNITY HEALTH CENTERS	981,400	(981,400)	0
TELEMEDICINE	260,000	(260,000)	0
LOAN REPAYMENT	100,000	(100,000)	0
DIRECT GRANTS	460,300	(460,300)	0
REIMBURSEMENT TO COUNTIES	67,900	(67,900)	0
SCORPION ANTI VENOM	150,000	(30,000)	120,000
POISON CONTROL CENTERS	1,950,000	(960,000)	990,000
TERATOGEN	60,000	(60,000)	0
CHILDREN'S REHAB SERVICES	3,587,000	(3,587,000)	0
ADULT SICKLE CELL ANEMIA	33,000	(33,000)	0
BREAST AND CERVICAL CANCER	1,015,800	332,800	1,348,600
HIGH RISK PERINATAL	4,780,600	(2,687,238)	2,093,362
COUNTY PRENATAL SERVICES	1,033,600	(1,033,600)	0
SENIOR FOOD PROGRAM	500,000	(500,000)	0
CHILDREN'S BHS STATE ONLY	8,851,800	(531,108)	8,320,692
DUAL ELIGIBLE PART D COPAY	802,600	(802,600)	0
SERIOUS MENTAL ILL STATE ONLY	30,191,900	(4,167,002)	26,024,898
SERIOUS MENTAL ILL TXIX ST MATCH	79,165,500	(900,000)	78,265,500
SUBSTANCE ABUSE NON TXIX	11,135,400	(7,045,951)	4,089,449
MENTAL HEALTH NON TXIX	1,947,300	(700,000)	1,247,300
CONTRACT COMPLIANCE	1,856,100	(673,400)	1,182,700
ACPTC	8,480,700	(1,052,088)	7,428,612
ELECTRONIC MEDICAL RECORDS	300,000	(300,000)	0
COMMUNITY PLACEMENT TREATMENT	5,574,100	(5,574,100)	0
General Fund Total	210,307,700	-	210,307,700
Tobacco Tax - Medically Needy Account			
COMMUNITY HEALTH CENTERS	900,000	(900,000)	0
SERIOUS MENTAL ILL STATE ONLY	30,924,800	900,000	31,824,800
Tobacco Tax Total	31,824,800	0	31,824,800

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VIC WILLIAMS

DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Art Smith, Senior Fiscal Analyst

SUBJECT: Department of Health Services - Review of Children's Rehabilitative Services Capitation Rate Changes

Request

Pursuant to a footnote in the FY 2010 General Appropriation Act, the Department of Health Services (DHS) is presenting an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX Children's Rehabilitative Services (CRS) program. Including the administrative component, the proposed changes would cost the General Fund \$720,500. The FY 2010 budget assumed no additional cost to the General Fund.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the request.

Analysis

The proposed rates are based upon an actuarial study. A.R.S. § 36-2901.06 limits capitation rate adjustments to utilization and inflation unless those changes are approved by the Legislature or are specifically required by federal law or court mandate. The proposed changes do meet the guidelines outlined in statute.

The CRS program provides services for children with chronic and disabling or potentially disabling conditions. The contractor is reimbursed using a per-member/per-month (PM/PM) capitation rate that includes a high, medium and low tier, which represent varying degrees of medical acuity. *Attachment 1* displays the FY 2010 budgeted and proposed rates by medical acuity and details the changes from FY 2009.

The capitation rates include adjustments for shifting some CRS costs from AHCCCS to DHS as well as other adjustments.

(Continued)

The CRS budget presumes flat administrative funding and a services budget based on the CRS capitation rate. The proposed capitation rate would increase the services component of the capitation rate by changing the “administrative load” of the rate, at a cost of \$720,500. The remaining changes would have no net impact on the rate.

FY 2009 AHCCCS Cost Shift

In FY 2009, AHCCCS shifted the responsibility for payment of specific services to the CRS contractor when those services are directly related to a member’s CRS condition.

- Medical Devices: Beginning October 1, 2008 coverage of cochlear implants and wheelchairs related to CRS eligible conditions was transferred from AHCCCS to CRS. The General Fund cost of this change is \$393,800 in FY 2010.
- Emergency Services: Beginning in FY 2009, CRS switched from using 4 contractors to provide services in the 4 designated regions of Phoenix, Tucson, Flagstaff and Yuma, to 1 contractor that will subcontract to provide services in all 4 regions. As a result of this change, the contractor will have an expanded hospital network compared to previous contractors. Effective October 1, 2008, the contractor became financially responsible for coverage of related emergency services in those facilities that were previously covered by AHCCCS non-CRS contractors. This reflects an estimated General Fund cost of \$205,500 in FY 2010.
- CRS Related Conditions: Beginning October 1, 2008, coverage of conditions related to or caused by CRS conditions such as diabetes resulting from cystic fibrosis and complications caused by cerebral palsy will be transferred from AHCCCS to CRS. The FY 2010 General Fund impact of this change is \$16,200.
- Outpatient Emergency Services to AHCCCS: Outpatient emergency services that do not result in a hospital admission were transferred from the CRS contractor to AHCCCS on October 1, 2009. This adjustment reduces General Fund costs by \$(128,400).
- Biotech Drugs: AHCCCS transferred coverage of certain high cost drugs to CRS in FY 2009. These changes are expected to increase the capitation rates by \$428,000 in General Fund monies in FY 2010.

CRS Adjustments

- AHCCCS Inpatient Outlier Methodology Change: Beginning on October 1, 2007, AHCCCS initiated a 3-year phase-in of a new method to monitor inpatient encounters. As a result of almost 3 years of employing this methodology, the actuarial analysis has concluded that inpatient care costs should be reduced by \$(1,643,500).
- Completion of Omissions: As part of an annual AHCCCS study, it was found that there were some instances where CRS services were provided, but due to incomplete documentation, records of these services were not included in the base data used to calculate the capitation rates for the FY 2009 budgeted amount. This base adjustment to the capitation rate reflects a General Fund cost of \$650,600.
- Non-Encounterable Costs: Non-encounterable costs are considered medical costs that are not factored into the base data actuaries used to calculate capitation rates. These costs could include expenses incurred by social workers and interpreters, care coordination activities, and member/family education. This adjustment is a General Fund increase of \$239,700.
- Provider Rate Reduction: The proposed CRS rate includes a (5)% fee-for-service reduction. This adjustment is a General Fund reduction of \$(161,800).

Proposed Monthly CRS Capitation Rate Changes FY 2010				
<u>FY 2009 Actual Rate</u>	<u>FY 2010 Budgeted Rate</u>	<u>FY 2010 Proposed Rate</u>	<u>FY 2010 Change Above FY 2009</u>	<u>Anticipated State Match Cost</u>
\$376.65	\$376.65	\$384.89	2.19%	\$720,500



**Arizona
Department of
Health Services**

Office of the Director

150 N. 18th Avenue, Suite 560
Phoenix, Arizona 85007-2670
(602) 542-1025
(602) 542-1062 FAX

JANICE K. BREWER, GOVERNOR
WILL HUMBLE, INTERIM DIRECTOR



December 11, 2009

The Honorable John Kavanagh
Chairman
Joint Legislative Budget Committee
1700 West Washington Street, Suite H
Phoenix, Arizona 85007

Dear Chairman Kavanagh:


Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to review the proposed changes to the Children's Rehabilitative Services (CRS) Title XIX and Title XXI capitation rates for the contract year ending September 30, 2010 (CYE 10).

Enclosed please find the CRS Title XIX and Title XXI final report for the period October 1, 2009 to September 30, 2010.

In accordance with the Centers for Medicare & Medicaid Services and the Balanced Budget Act of 1997, the rates were developed using actuarially sound methodologies by Mercer Government Human Services Consulting. The Arizona Health Care Cost Containment System (AHCCCS) has reviewed and approved the proposed capitation rates.

If you have any questions please feel free to call Cynthia Layne, Chief Financial Officer for Children's Rehabilitative Services, at (602) 542-2879.

Sincerely,



Will Humble
Interim Director

WH/jh

- c: Senator Russell Pearce, Senate Appropriations Chairman
Richard Stavneak, Director, Joint Legislative Budget Committee
Arthur Smith, Fiscal Analyst, Joint Legislative Budget Committee
Eileen Klein, Deputy Chief of Staff, Finance/Budget, Governor's Office
John Arnold, Budget Director, Office of Strategic Planning and Budgeting
Chris Hall, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Beth Kohler Lazare, Policy Advisor for Health, Governor's Office
Laura Nelson, MD, Deputy Director, ADHS/DBHS
Joan Agostinelli, Administrator, Department of Health Service, CRS
David Reese, Chief Financial Officer, Department of Health Services, BHS
Cynthia Layne, Chief Financial Officer, Department of Health Services, CRS
Jim Humble, Assistant Director/CFO, ADHS
Duane Huffman, Legislative Liaison, ADHS
Kathy Rodham, Financial Manager, AHCCCS, Division of Health Care Management

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Gerry Smedinghoff
Senior Associate

Government Human Services Consulting
3131 East Camelback Road, Suite 300
Phoenix, AZ 85016
602 522 6500 Fax 602 957 9573

September 7, 2009

Ms. Joan Agostinelli
Office Chief
Arizona Department of Health Services
Office for Children with Special Health Care Needs
Children's Rehabilitative Services
150 N. 18th Avenue, Suite #330
Phoenix, AZ 85007-3243

Final and Confidential

Subject: Title XIX, Title XXI and Proposition 204 Capitation Rates for Contract Year 2010

Dear Ms. Agostinelli:

The Arizona Department of Health Services (ADHS), Office for Children with Special Health Care Needs (OCSHCN), Children's Rehabilitative Services (CRS) program contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC to develop capitation rates for the Title XIX, Title XXI and Proposition 204 populations. These rates are used by the Arizona Health Care Cost Containment System (AHCCCS) to compensate CRS and the CRS contractor for CRS members who are Title XIX, Title XXI or Proposition 204 eligible during the Contract Year. For the Contract Year beginning October 1, 2009, and ending September 30, 2010 (CYE 2010), Mercer has developed capitation rates following the process described in this letter.

Background

CRS is primarily a children's program for Arizona residents under the age of 21 with chronic and disabling, or potentially disabling, conditions. The program provides services through one statewide contractor. Medical services not related to a child's CRS-eligible condition are provided through the child's AHCCCS health plan.

Three capitation rates are developed for compensating the CRS contractor based upon a member's CRS enrollment diagnosis. The three rates represent compensation for providing services to members with specific diagnoses that have historically represented relatively high, medium and low costs to the CRS contractor. The High, Medium and Low capitation risk group structure includes small numbers of the Qualified Medicare Beneficiary (QMB)

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Plus, Medicaid [non-QMB and non-Specified Low-income Medicare Beneficiary (SLMB)], and SLMB Plus dual eligible populations. No other dual eligible populations are enrolled in the program. In Mercer's opinion, the High, Medium and Low capitation rate cells most appropriately match payment with risk in the CRS program, and hence provide a greater level of actuarial soundness than other approaches. The three-tier rate structure will continue to be used for CYE 2010.

CYE 2010 Capitation Rate Development Methodology – Overview

CYE 2010 marks the fifth year that contractor encounters have been used as the base data source. The CYE 2010 rates have been re-based.

Base Data

The State Fiscal Years (SFYs) 2007 and 2008 contractor encounter data were valued using a combination of contractor paid amounts and Medicaid (AHCCCS) fee schedule allowed amounts, incorporating a methodology in conjunction with Third Party Liability (TPL) cost avoidance and any pay-and-chase recoveries. SFY 2007 encounters were trended forward to a "modeled SFY 2008" level, and blended with the actual SFY 2008 encounters to further enhance the credibility of the base data.

With three years of encounter data, SFY 2006 through SFY 2008, CRS Administration and Mercer performed a thorough analysis and kept the High, Medium and Low diagnostic groupings consistent with the prior year.

The CRS program falls under Arizona's 1115 waiver. Mercer performed a review of the CRS subcontractor submitted data and determined that the data included a small amount of non-covered services which have been excluded from the base data.

Base Data Adjustments

1. Unpaid Claims Liability

The SFYs 2007 and 2008 base data consist of encounters with dates of service beginning July 1, 2006, and ending June 30, 2008. Encounters were analyzed with a run-out period of nine months beyond the June 30, 2008, endpoint, with data extracted in early April 2009.

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The next step in the base data analysis process was a review of the CRS contractors' expense component for claims incurred but unpaid, hereinafter called the unpaid claims liability (UCL). The UCL is the sum of claims incurred but not reported, plus those claims reported but not yet paid. Statutory accounting recognizes an incurred medical expense for the period as the result of the sum of claims paid in the period, plus the change in the accrued liability for the UCL between the beginning and the end of the period. This calculation pushes the correction of the estimation error of the beginning UCL into the expense recognized in the current period. However, the expense that should be recognized in base data development is calculated from claims incurred in the SFYs 2007 and 2008 experience period, both claims paid in SFYs 2007 and 2008 and the accrued liability for the UCL as of the end of SFY 2008.

A review of the contractors' SFY 2008 encounters indicated that there were outstanding claims as of the early April 2009 data extract. The overall adjustment for SFY 2008 encounters received beyond the early April 2009 data extract was approximately \$0.4 million, or 0.3 percent over the two-year base period.

2. Completion for "Omissions"

As part of its 1115 waiver provisions, AHCCCS performs annual data validation studies of encounters. AHCCCS tests for completeness, accuracy and timeliness of encounter submissions based upon statistically valid sampling of both professional and facility encounters, comparing them against medical records. Mercer used the results of the most recently completed data validation study to develop factors to apply to the base CRS data to further complete the encounters for these "omissions." Mercer and CRS Administration used (with some downward adjustment which lowered the overall impact) the factors shown by AHCCCS, which vary between facility and professional consolidated categories of service (COS). The overall rate impact of this correcting adjustment is approximately \$3.8 million, or 3.0 percent combined for both SFYs 2007 and 2008 data.

3. "Non-encounterable" Costs

In addition, the adjusted base SFYs 2007 and 2008 data reflects contractor costs not captured by encounters, but typically considered under medical service expenses rather than administrative expenses. These "non-encounterable" costs include those for such providers as social workers and interpreters, as well as telephone and tele-video interventions, counseling, care coordination activities and member/family education. The overall

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non-encounterable adjustment is approximately \$1.4 million, or 1.1 percent of the base SFYs 2007 and 2008 encounters.

4. AHCCCS Inpatient Outlier Methodology Change

Starting on October 1, 2007, AHCCCS began a three-year phase-in of a new inpatient outlier methodology (specific to the cost-to-charge ratios used to qualify and pay outliers). CYE 2010 marks Year 3 of the phase-in, so the outliers in the base SFY 2007 and SFY 2008 encounters were re-priced using the new methodology. This change reduced the two-year base data by approximately \$9.6 million, or 6.9%.

The following table summarizes the adjustments to the two-year base data.

Base Data Adjustment	Dollar Impact	Percent Impact
Unpaid Claims Liability	\$0.4 million	0.3%
Completion for "Omissions"	\$3.8 million	3.0%
"Non-Encounterable" Costs	\$1.4 million	1.1%
IP Outlier Methodology Change	(\$9.6 million)	(6.9%)

Trend to CYE 2010

The SFY 2007 trended (modeled SFY 2008) and SFY 2008 encounter cost data were trended forward 27 months to CYE 2010. The trend factors recognize changes in cost-per-service unit and utilization of health care services from the SFYs 2007 and 2008 base period to CYE 2010. Unique trends were applied separately for ten COS. Trends were developed separately for the first 15 and last 12 months of the 27-month period to account for the unit cost rate caps and reductions mandated by the State legislature effective on October 1, 2008 and 2009. Inpatient and outpatient facility unit cost were frozen at 0.0% for both CYE 2008 and 2009, while most of the COS unit cost trends reflect a -5.0 percent reduction effective October 1, 2009. The weighted annual trend adjustment for SFY 2007 and SFY 2008 to CYE 2010 was 4.7 percent (2.6 percent utilization and 2.1 percent unit cost).

Mercer relied heavily on historical CRS encounter information as well as its professional experience in working with other state Medicaid programs, outlooks in the commercial marketplace that influence Medicaid programs, regional and national economic indicators, and general price/wage inflation in developing trends. The 4.7 percent annualized weighted

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trend compares favorably (is lower than) historical experience trend. Mercer believes the final trend factors selected to be reasonable and appropriate.

Service Utilization and Technology Changes from Base Data to CYE 2010

Service utilization increases and technology changes not reflected (or not fully reflected) within the SFYs 2007 and 2008 base data will impact the CRS contractor for CYE 2010. Adjustments for CYE 2010 were made for the following items through analyzing data from CRS, the AHCCCS contractors and external sources.

1. Biotech Drugs

Effective CYE 2009, the coverage of the high-cost drugs Aldurazyme, Cerezyme, Elaprase, Fabrazyme, Myozyme and Orfadin was transferred from AHCCCS to CRS. The total impact of these changes is approximately \$2.5 million, or 1.9 percent, over the two-year base period.

2. Cochlear Implants

Effective CYE 2009, the coverage of cochlear implants and related services was transferred from AHCCCS to CRS. The total impact of this change is approximately \$1.9 million, or 1.7%, over the two-year base period.

3. Motorized Wheelchairs

Effective CYE 2009, the coverage of motorized wheelchairs related to CRS eligible conditions was transferred from AHCCCS to CRS. The total impact of this change is approximately \$0.4 million, or 0.3%, over the two-year base period.

4. CRS Related Conditions

Effective CYE 2009, the coverage of conditions related to or caused by CRS conditions (e.g., diabetes caused by cystic fibrosis and failure to thrive caused by Cerebral Palsy) was transferred from AHCCCS to CRS. The total impact of this change is approximately \$0.1 million, or 0.1%, over the two-year base period.

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5. Therapies

Effective CYE 2009, the CRS limit of 24 therapy sessions was lifted. The total impact of lifting the limit is estimated to be \$10,000, or less than 0.1 percent, over the two-year base period.

6. Emergency Services

The new CRS contractor has a significantly expanded hospital network as compared to the previous contractors which comprise the SFYs 2007 and 2008 base data. As a result of this, the Contractor is financially responsible for coverage of the related emergency services (that result in an inpatient admission) in those facilities effective CYE 2009, previously covered by AHCCCS non-CRS Contractors. The total impact of this change is \$1.2 million, or 1.0%, over the two-year base period.

7. Transfer Outpatient Emergency Services to AHCCCS

Costs for outpatient emergency services, which do not result in a hospital admission will be transferred from the CRS contractor to the AHCCCS contractors effective October 1, 2009. The total impact of this change is approximately \$0.1 million, or 0.1%, over the two-year base period.

The following table summarizes the future benefit adjustments to the two-year base data.

Benefit Adjustment	Dollar Impact	Percent Impact
Biotech Drugs	\$2.5 million	1.9%
Cochlear Implants	\$1.9 million	1.7%
Motorized Wheelchairs	\$0.4 million	0.3%
CRS Related Conditions	\$0.1 million	0.1%
Therapies	\$10,000	< 0.1%
Emergency Services	\$1.2 million	1.0%
OP ER Transfer to AHCCCS	(\$0.1 million)	(0.1%)

Loading for Contractor Administration and Underwriting Profit/Risk/Contingency

The overall CYE 2010 administrative expense load for the CRS Contractor is 9.6 percent. This is down slightly from the comparable CYE 2009 figure of 10.2 percent.

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An underwriting profit/risk/contingency loading of 1.5 percent was applied uniformly to all rates. There should be an assumed margin for contribution to entity surplus and adverse claim risk contingency. The 1.5 percent represents a 0.5% reduction from CYE 2009 and follows similar reductions applied to AHCCCS acute care contractors.

CRS Administration

AHCCCS has placed CRS Administration at risk for the provision of CRS-covered services for CYE 2010. Accordingly, the capitation rates were developed to include compensation to CRS for the cost of ensuring the delivery of all CRS covered services. The capitation rates paid to CRS include a 5.6 percent administrative load. This is down from the 7.7 percent load for CYE 2009. The administrative load represents the CRS costs of ensuring the efficient delivery of services in a managed care environment, and is based upon historical CRS costs and accounts for continued regulatory oversight cost expectations for CYE 2010.

Reinsurance Offset

CRS Administration has negotiated a reinsurance arrangement with AHCCCS for CYE 2010 that remains the same as it was in CYE 2009. The arrangement covers inpatient claims exceeding \$75,000 at 75 percent reimbursement. It also covers the high-cost biotech drugs Aldurazyme, Cerezyme, Elaprase, Fabrazyme, Kuvan, Myozyme and Orfadin at 85 percent reimbursement. Mercer estimated the value of the reinsurance through analyzing data from CRS, the CRS contractor, the AHCCCS contractors, and external sources. Reimbursement amounts were estimated for the High, Medium and Low risk groups for SFY 2007 and SFY 2008 and each was trended forward to the CYE 2010 time period. These totals were then blended using a 50-50 weighting on projected SFYs 2007 and 2008 base data.

Certification of Rates

In preparing the Title XIX, Title XXI and Proposition 204 CRS capitation rates shown below, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design, and financial data and information supplied by the State. The State is responsible for the validity and completeness of this supplied data and information. Mercer reviewed the data and information for internal consistency and reasonableness but did not audit it. In Mercer's opinion it is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report may need to be revised accordingly.

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Mercer certifies that the CYE 2010 rates, including any risk-sharing mechanisms, incentive arrangements, or other payments, were developed in accordance with generally accepted actuarial practices and principles and are appropriate for the Medicaid covered populations and services under the CRS contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Rates developed by Mercer are actuarial projections of future contingent events. Actual Health Maintenance Organization (HMO) costs will differ from these projections. Mercer has developed these rates on behalf of the State to demonstrate compliance with the Centers for Medicare and Medicaid Services (CMS) requirements under 42 CFR 438.6(c) and accordance with applicable law and regulations. Use of these rates for any purpose beyond that stated may not be appropriate.

HMOs are advised that the use of these rates may not be appropriate for their particular circumstance and Mercer disclaims any responsibility for the use of these rates by HMOs for any purpose. Mercer recommends that any HMO considering contracting with the State should analyze its own projected medical expense, administrative expense, and any other premium needs for comparison to these rates before deciding whether to contract with the State.

This certification letter assumes the reader is familiar with the CRS program, Medicaid eligibility rules, and actuarial rating techniques. It is intended for the State and CMS, and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

Risk Category	High	Medium	Low
Statewide Rates	\$933.02	\$554.01	\$207.68
AHCCCS Reinsurance	(\$100.53)	(\$17.39)	(\$1.26)
Net Rates After Reinsurance	\$832.49	\$536.62	\$206.42

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September 7, 2009
Ms. Joan Agostinelli
Arizona Department of Health Services

If you have any questions or would like to discuss this information further, please call me at 602 522 6555.

Sincerely,

A handwritten signature in cursive script, reading 'Gerry Smedinghoff', written in dark ink.

Gerry Smedinghoff, ASA, MAAA

Copy:
Cynthia Layne; David Reese – ADHS
Branch McNeal; Michael Nordstrom; Lisa Golinski; Austin Hackett – Mercer

Attachments

Statewide - High Risk Group

SFY07 and SFY08 Member Months:	23,184
CYE 2010 Member Months:	15,330

Category of Service	Base Data - SFY07 & SFY08 Encounters			Trend Factor ¹			Trended CYE10 Encounters		
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM
Inpatient	1,178.04	\$ 1,570.60	\$ 154.19	5.7%	2.4%	8.2%	1,245.34	\$ 1,607.56	\$ 166.83
Outpatient	9,448.07	\$ 39.66	\$ 31.22	3.4%	1.4%	4.9%	9,769.93	\$ 40.21	\$ 32.74
Physician	5,464.82	\$ 144.42	\$ 65.77	9.2%	-4.1%	4.7%	5,968.99	\$ 138.49	\$ 68.88
Pharmacy	5,462.43	\$ 736.78	\$ 335.39	3.4%	28.8%	33.2%	5,648.52	\$ 948.92	\$ 446.67
DME	808.28	\$ 211.13	\$ 14.22	8.6%	-4.1%	4.2%	878.08	\$ 202.46	\$ 14.81
Non-Physician Professional	761.45	\$ 90.94	\$ 5.77	4.0%	1.9%	5.9%	791.76	\$ 92.65	\$ 6.11
Lab/Radiology	358.40	\$ 40.78	\$ 1.22	6.9%	-4.1%	2.5%	383.04	\$ 39.11	\$ 1.25
Clinic	2.54	\$ 228.40	\$ 0.05	3.4%	4.7%	8.3%	2.63	\$ 239.15	\$ 0.05
Dental	67.21	\$ 80.30	\$ 0.45	11.0%	-1.7%	9.1%	74.61	\$ 78.91	\$ 0.49
Other	14,401.13	\$ 29.25	\$ 35.11	6.9%	-0.5%	6.3%	15,391.48	\$ 29.10	\$ 37.32
Non-Encounterable Expenses			\$ 6.96			3.8%			\$ 7.22
Total			\$ 650.34	2.5%	5.9%	8.6%			\$ 782.37

Administration 9.6%	\$ 84.90
Underwriting Profit / Risk / Contingency 1.5%	\$ 13.21
Contractor Capitation Rate	\$ 880.48
CRS Administration	\$ 52.54
Fully Loaded Capitation Rate	\$ 933.02
AHCCCS Covered Reinsurance	\$ (100.53)
Net Capitation to CRS	\$ 832.49

Note:

1 - Trend factor applied for full 27 months.

Statewide - Medium Risk Group

SFY07 and SFY08 Member Months:	209,922
CYE 2010 Member Months:	106,023

Category of Service	Base Data - SFY07 & SFY08 Encounters			Trend Factor ¹			Trended CYE10 Encounters		
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM
Inpatient	600.63	\$ 3,006.23	\$ 150.47	5.7%	2.4%	8.2%	634.95	\$ 3,076.97	\$ 162.81
Outpatient	7,516.65	\$ 55.41	\$ 34.71	3.4%	1.4%	4.9%	7,772.72	\$ 56.19	\$ 36.40
Physician	6,170.24	\$ 191.54	\$ 98.49	9.2%	-4.1%	4.7%	6,739.49	\$ 183.68	\$ 103.16
Pharmacy	2,617.91	\$ 283.58	\$ 61.87	3.4%	28.8%	33.2%	2,707.10	\$ 365.23	\$ 82.39
DME	2,524.77	\$ 159.66	\$ 33.59	8.6%	-4.1%	4.2%	2,742.81	\$ 153.10	\$ 34.99
Non-Physician Professional	2,834.20	\$ 80.55	\$ 19.02	4.0%	1.9%	5.9%	2,947.02	\$ 82.06	\$ 20.15
Lab/Radiology	567.67	\$ 51.49	\$ 2.44	6.9%	-4.1%	2.5%	606.71	\$ 49.38	\$ 2.50
Clinic	4.55	\$ 235.92	\$ 0.09	3.4%	4.7%	8.3%	4.71	\$ 247.03	\$ 0.10
Dental	923.57	\$ 97.42	\$ 7.50	11.0%	-1.7%	9.1%	1,025.22	\$ 95.74	\$ 8.18
Other	1,724.52	\$ 60.20	\$ 8.65	6.9%	-0.5%	6.3%	1,843.11	\$ 59.89	\$ 9.20
Non-Encounterable Expenses			\$ 4.51			3.8%			\$ 4.68
Total			\$ 421.33	2.6%	1.7%	4.4%			\$ 464.56

Administration 9.6%	\$ 50.41
Underwriting Profit / Risk / Contingency 1.5%	\$ 7.84
Contractor Capitation Rate	\$ 522.81
CRS Administration	\$ 31.20
Fully Loaded Capitation Rate	\$ 554.01
AHCCCS Covered Reinsurance	\$ (17.39)
Net Capitation to CRS	\$ 536.62

Note:

1 - Trend factor applied for full 27 months.

Statewide - Low Risk Group

SFY07 and SFY08 Member Months:	182,240
CYE 2010 Member Months:	112,429

Category of Service	Base Data - SFY07 & SFY08 Encounters			Trend Factor ¹			Trended CYE10 Encounters		
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM
Inpatient	147.23	\$ 3,288.51	\$ 40.35	5.7%	2.4%	8.2%	155.64	\$ 3,365.89	\$ 43.66
Outpatient	3,871.72	\$ 67.31	\$ 21.72	3.4%	1.4%	4.9%	4,003.62	\$ 68.26	\$ 22.77
Physician	2,576.83	\$ 209.42	\$ 44.97	9.2%	-4.1%	4.7%	2,814.56	\$ 200.82	\$ 47.10
Pharmacy	551.35	\$ 244.86	\$ 11.25	3.4%	28.8%	33.2%	570.14	\$ 315.36	\$ 14.98
DME	846.41	\$ 280.95	\$ 19.82	8.6%	-4.1%	4.2%	919.51	\$ 269.41	\$ 20.64
Non-Physician Professional	1,272.63	\$ 123.65	\$ 13.11	4.0%	1.9%	5.9%	1,323.29	\$ 125.97	\$ 13.89
Lab/Radiology	402.72	\$ 52.67	\$ 1.77	6.9%	-4.1%	2.5%	430.42	\$ 50.51	\$ 1.81
Clinic	2.83	\$ 278.41	\$ 0.07	3.4%	4.7%	8.3%	2.93	\$ 291.52	\$ 0.07
Dental	79.34	\$ 103.24	\$ 0.68	11.0%	-1.7%	9.1%	88.07	\$ 101.46	\$ 0.74
Other	492.63	\$ 153.34	\$ 6.29	6.9%	-0.5%	6.3%	526.51	\$ 152.53	\$ 6.69
Non-Encounterable Expenses			\$ 1.73			3.8%			\$ 1.80
Total			\$ 161.76	2.5%	0.8%	3.3%			\$ 174.15

Administration 9.6%	\$ 18.90
Underwriting Profit / Risk / Contingency 1.5%	\$ 2.94
Contractor Capitation Rate	\$ 195.99
CRS Administration	\$ 11.69
Fully Loaded Capitation Rate	\$ 207.68
AHCCCS Covered Reinsurance	\$ (1.26)
Net Capitation to CRS	\$ 206.42

Note:

1 - Trend factor applied for full 27 months.

Statewide - All Risk Levels (Weighted Average)¹

SFY07 and SFY08 Member Months:	415,345
CYE 2010 Member Months:	233,782

Category of Service	Base Data - SFY07 & SFY08 Encounters			Trend Factor ²			Trended CYE10 Encounters		
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM
Inpatient	420.45	\$ 3,047.84	\$ 97.75	5.7%	2.4%	8.2%	444.47	\$ 3,119.56	\$ 105.77
Outpatient	5,890.40	\$ 60.10	\$ 28.23	3.4%	1.4%	4.9%	6,091.06	\$ 60.95	\$ 29.61
Physician	4,395.86	\$ 197.05	\$ 70.61	9.2%	-4.1%	4.7%	4,801.41	\$ 188.96	\$ 73.95
Pharmacy	1,810.60	\$ 294.68	\$ 55.46	3.4%	28.8%	33.2%	1,872.28	\$ 379.52	\$ 73.86
DME	1,605.07	\$ 221.36	\$ 25.70	8.6%	-4.1%	4.2%	1,743.68	\$ 212.27	\$ 26.77
Non-Physician Professional	1,947.30	\$ 101.96	\$ 15.31	4.0%	1.9%	5.9%	2,024.82	\$ 103.87	\$ 16.22
Lab/Radiology	474.62	\$ 51.36	\$ 2.03	6.9%	-4.1%	2.5%	507.26	\$ 49.25	\$ 2.09
Clinic	3.59	\$ 255.86	\$ 0.08	3.4%	4.7%	8.3%	3.71	\$ 267.91	\$ 0.08
Dental	461.41	\$ 99.10	\$ 3.76	11.0%	-1.7%	9.1%	512.20	\$ 97.39	\$ 4.10
Other	1,963.32	\$ 102.96	\$ 9.25	6.9%	-0.5%	6.3%	2,098.34	\$ 102.42	\$ 9.84
Non-Encounterable Expenses			\$ 3.33			3.8%			\$ 3.46
Total			\$ 311.51	2.6%	2.1%	4.7%			\$ 345.73

Administration	9.6%	\$ 37.52
Underwriting Profit / Risk / Contingency	1.5%	\$ 5.84
Contractor Capitation Rate		\$ 389.09
CRS Administration		\$ 23.22
Fully Loaded Capitation Rate		\$ 412.31
AHCCCS Covered Reinsurance		\$ (15.08)
Net Capitation to CRS		\$ 397.23

Notes:

- 1 - Weighted average rate based on projected CYE 2010 member distribution.
- 2 - Trend factor applied for full 27 months.
- 3 - Subtotals may be slightly off due to rounding.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
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DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jack Brown, Fiscal Analyst

SUBJECT: JLBC Staff – Consider Approval of Index for School Facilities Board Construction Costs

Request

A.R.S. § 15-2041D.3c requires that the cost per square foot factors used in the School Facilities Board (SFB) building renewal and new school construction financing “shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee (JLBC) as necessary but not less than once each year.”

The SFB Staff is requesting 2 different adjustments, 1 for the K-8 grade levels (an increase of 4.9%), and 1 for the 9-12 grade levels (an increase of 0.8%).

Recommendation

The JLBC Staff recommends that the Committee approve a 0% adjustment in the cost per square foot factors, based on an average of the changes in 2 measures of general inflation, the Consumer Price Index (CPI) and the Gross Domestic Product implicit price deflator (GDP deflator), in the last fiscal year. Approving this adjustment would generate no change in new construction costs or the building renewal formula. The cost per square foot would remain as follows: K-6, \$136.66; 7-8, \$144.27; 9-12, \$167.05.

Analysis

Background Information

The original Students FIRST legislation (Laws 1998, 5th Special Session, Chapter 1) established funding amounts per square foot of space for new construction and building renewal (e.g., \$90 per square foot for Grades K-6). The statute requires that the funding amount per square foot “shall be adjusted annually for construction market considerations based on an index identified or developed by the JLBC as necessary but not less than once each year” (A.R.S. § 15-2041D.3c).

Prior to FY 2010, SFB funded new school construction projects above these square foot amounts if a district could not build a school within the formula amount. The FY 2010 Education Budget

(Continued)

Reconciliation Bill (BRB) (Laws 2009, 3rd Special Session, Chapter 12) removed this authority. SFB may now only adjust the formula amount based on geographic or site conditions as defined in statute.

The Committee has used a variety of different indices to establish the per square foot amounts. Last year, the Committee approved the use of the GDP deflator, for an increase of 1.98%.

New Construction Moratorium

A moratorium on new construction projects was continued from FY 2009 into FY 2010 by the FY 2010 Education BRB. Chapter 12 prohibits SFB from authorizing or awarding funding for the design or construction of any new school facility, or for school site acquisition in FY 2010, except for projects funded with proceeds from the newly authorized Qualified School Construction Bonds (QSCBs). SFB plans to only apply any new cost per square foot adjustment to FY 2011 awards.

Construction Costs

The price of construction cost inputs have declined slightly in FY 2009, which contrasts with a moderate increase in FY 2008. This decline is largely due to the slowing of construction activity, which is the result of the widespread oversupply of residential and commercial properties in Arizona. Recent analyses have estimated the Phoenix Metropolitan area has an excess supply of 50,000 housing units. This oversupply has caused a significant decline in the issuance of new housing building permits, with the U.S. Census Bureau estimating that housing starts in Arizona declined approximately (47.5)% in calendar year 2008.

However, while the housing slowdown has lessened demand for construction materials, suppliers of these goods may respond to this decrease in demand by reducing their overall production of construction materials. This decrease in production may have the effect of putting upward pressure on costs.

As a result, the JLBC Staff recommends a 0% inflation adjustment. This would be based on the combination of the following 2 indices:

Consumer Price Index

The Consumer Price Index (CPI) reports deflation of (1.4)% in FY 2009 and is published by the U.S. Department of Labor's Bureau of Labor Statistics. It measures the change in prices paid by urban consumers for a representative basket of goods and services.

Gross Domestic Produce Price Deflator

The GDP deflator reports inflation of 1.5% in FY 2009 and is published by the U.S. Department of Commerce's Bureau of Economic Analysis. It measures the change in prices of all new, domestically produced, final goods and services in an economy. Unlike the CPI, the GDP deflator is not based on a fixed basket of goods and services. The basket is allowed to change with people's consumption and investment patterns; therefore, new expenditure patterns are allowed to show up in the deflator as people respond to changing prices.

SFB Staff Request

The SFB Staff has requested 2 different adjustments, 1 for the K-8 grade levels (an increase of 4.9%), and 1 for the 9-12 grade levels (an increase of 0.8%). SFB Staff has estimated that the current per square foot amount is insufficient to build new school facilities using only state funds.

In making this calculation, SFB Staff references data produced by Rider Levett Bucknall (RLB), an international construction consulting group, which outlines construction cost estimates for the Phoenix Metropolitan area. These data show that the minimum square foot cost to build to an elementary school is \$140, while the current NSF formula amount is \$136.66. In addition, the RLB data shows the minimum cost per square foot to build a high school is \$180, while the NSF formula amount currently stands at

(Continued)

\$167.05. SFB Staff has indicated that they believe the requested adjustments would align the NSF per square foot formula amount with current market conditions.

Given the construction moratorium, these adjustments would result in no additional new construction costs in the short term.

RS/JBr:sls



Governor of Arizona
Janice K. Brewer

January 8, 2010

The Honorable Russell Pearce
Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

STATE OF ARIZONA
SCHOOL FACILITIES BOARD



Interim Executive Director
Dean T. Gray

Dear Senator Pearce,

A.R.S. 15-2041.3(C). states in part "...The cost per square foot shall be adjusted annually for construction considerations based on an index identified or developed by the joint legislative budget committee as necessary but no less than once each year."

For FY 2010, SFB staff is requesting the committee adjust the formula by 4.9% for K-6 & 7-8 grade levels. Staff is also requesting the committee to adjust the formula by .8% for 9-12 grade levels.

The current average formula for K-6 and 7-8 today is \$140.47. The current average actual construction cost is \$147.80. The current formula for 9-12 is \$167.05. The construction cost for the last high school built (construction start February 2008) was \$168.44.

For the past few years, staff has used indexes developed by the project management firm, PinnacleOne (now Arcadis) and Rider Levett Bucknall (formerly Rider-Hunt), an international construction-consulting group. The Arcadis index shows an increase of .51% in construction costs and the RLB index shows a cost of between \$140.00 and \$200.00 per square foot for elementary school construction (Please note that this index accounts for only construction bid costs. Added costs for design, permitting, furniture, etc. need to be added to this cost per square foot. This cost would add approximately 20% to the construction cost). See attachments.

Table one below shows the impact on the cost per square foot of the recommended increases.

Table One

Grade Level	Current Amount	Adjusted Amount
K-6	\$136.66	\$143.36
7-8	\$144.27	\$151.34
9-12	\$167.05	\$168.39

SFB staff believes that this amount adequately reflects FY 2010 inflation and market conditions. Excluding local impact fees, the proposed costs per square foot would have covered the construction costs for the most recent SFB new construction projects.

Fiscal Impacts

SFB staff calculates there will be no fiscal impact in FY 2010 due to the new construction moratorium. Staff also calculates that there will be no FY 2011 fiscal impact. The estimated impact for 2011 building renewal formula is \$8.4 million based on full formula funding.

If you or your staff has any questions regarding this letter, please contact me at 602-542-6143 or dgray@azsfb.gov.

Sincerely,



Dean T. Gray

Attachments//

CC: Eileen Klein, Chief of Staff, Governor's Office
Karla Phillips, Policy Advisor on Education, Governor's Office
John Arnold, Director, OSPB

Phoenix Elementary School Building Cost (\$) /SF from FY 1998 through 2009

Fiscal Year (FY) July -June	1 Inflation Rate of Increase/Decrease (Arcadis)	2 \$/SF of K through 6 in Greater Phoenix	3 ENR 20 city average Rate of Increase	4 \$/SF of K through 6 in 20 city average	5 Inflation Rate of Increase (Marshall Swift)	6 \$/SF of K through 6 in Greater Phoenix	7 Inflation Rate of Increase (JLBC Adopted)	8 \$/SF of K through 6 in Greater Phoenix	9 \$/SF of K through 6 by Rider Hunt in Greater Phoenix	10 Rate of Increase
1998		\$90.00		\$90.00		\$90.00	0.00%	\$90.00	\$90.00	
1999	1.92%	\$91.73	1.92%	\$91.73	0.00%	\$90.00	3.10%	\$92.79		
2000	2.40%	\$93.93	2.40%	\$93.93	3.10%	\$92.79	5.00%	\$97.43		
2001	0.99%	\$94.86	0.99%	\$94.86	5.00%	\$97.43	0.60%	\$98.01		
2002	1.37%	\$96.16	1.37%	\$96.16	0.60%	\$98.01	0.00%	\$98.01		
2003	1.93%	\$98.01	1.96%	\$98.04	4.80%	\$102.72	4.20%	\$102.13	\$120.00	
2004	7.88%	\$105.74	7.85%	\$105.74	1.70%	\$104.46	1.40%	\$103.56	\$120.00	0%
2005	5.55%	\$111.60	5.55%	\$111.60	8.70%	\$113.55	12.85%	\$116.87	\$120.00	0%
2006	17.30%	\$130.91	3.90%	\$115.96	6.40%	\$120.82	12.20%	\$131.13	\$150.00	25%
2007	2.66%	\$134.39	2.68%	\$119.06	3.00%	\$124.45	2.20%	\$134.01	\$155.00	3%
2008	4.93%	\$141.01	3.70%	\$123.47	Not Available	Not Available			\$160.00	5.39%
2009	0.51%	\$141.74	4.99%	\$129.63	Not Available	Not Available			\$158.95	-0.65%

Notes:

- 1 Inflation rate per year was derived using the ENR formula for computing the BCI index, and adjusted to Phoenix market. For FY 2005-2006, the inflation rate was based on the Association of General Contractors Inflation report for the Phoenix market.
FY 2008-2009, material prices such as steel dropped 18% from the high of September 2008. Wood and cement prices has an annual decreased of 5%. Prevailing wage rates of skilled labor such carpenters and iron workers had increases during the 2nd quarter of 2009.
However, general contractors have been slashing their overhead and profit to remain in business on 2009. There was an increase in the number of bidders from an average of 6 to 12 on open bid projects. This was factored in the computation of the quarterly indices.
- 2 The base construction cost for FY1998 is \$90/sf and was used as a base for all indices shown.
- 3 Column 3 is the 20 City Average BCI Inflation Rate computed by ENR.
- 4 Column 9 & 10, Rider Hunt Inflation Index.

Material Supply Prices & Indicative Construction Costs

			BOSTON	CINCINNATI	DENVER	HONOLULU	LAS VEGAS	LOS ANGELES	NASHVILLE	NEW YORK	PHOENIX	PORTLAND	SAN FRANCISCO	SEATTLE
MATERIAL SUPPLY PRICES														
Asphalt Paving	ton		76.00	51.00	46.00	110.00	72.00	72.00	62.00	65.00	46.00	54.00	79.00	33.00
Gravel 1 1/2" to 3/4"	ton		18.00	13.00	19.00	28.00	17.00	43.00	16.00	61.00	18.00	11.00	49.00	20.00
Crushed Stone Base Course	ton		20.00	13.00	9.00	30.00	11.00	27.00	11.00	27.00	12.00	12.00	30.00	14.00
Sand-Concrete	ton		28.00	9.00	15.00	63.00	20.00	53.00	11.00	29.00	18.00	11.00	54.00	24.00
Cement	ton		110.00	101.00	162.00	226.00	118.00	110.00	117.00	245.00	128.00	143.00	115.00	164.00
Concrete Ready-Mix 3,000psi	cy		120.00	91.00	109.00	159.00	97.00	97.00	80.00	148.00	96.00	102.00	110.00	103.00
4,000psi	cy		130.00	94.00	115.00	167.00	103.00	106.00	84.00	153.00	104.00	110.00	116.00	109.00
5,000psi	cy		140.00	100.00	120.00	174.00	116.00	112.00	90.00	154.00	113.00	117.00	122.00	115.00
Concrete Blocks - 8"x8"x16"	C		152.00	124.00	144.00	189.00	170.00	150.00	93.00	166.00	130.00	174.00	175.00	174.00
Standard Modular Bricks	M		735.00	341.00	432.00	623.00	670.00	595.00	290.00	754.00	480.00	540.00	720.00	543.00
Rebar	ton		1,350.00	580.00	774.00	1,779.00	775.00	840.00	710.00	1,535.00	950.00	1,080.00	940.00	900.00
Structural Steel	ton		3,000.00	2,250.00	2,135.00	3,526.00	3,000.00	2,450.00	2,300.00	3,950.00	2,050.00	1,810.00	2,750.00	1,540.00
Lumber	bft		0.95	0.45	0.46	1.11	0.38	0.30	0.46	0.91	0.60	0.52	0.30	0.47
INDICATIVE CONSTRUCTION COSTS														
Prime Office Bldg	Low	\$/sf gfa	200	140	140	200	165	180	130	205	130	165	195	125
	High	\$/sf gfa	280	220	225	355	285	280	215	290	230	195	300	180
Secondary Off. Bldg.	Low	\$/sf gfa	175	95	100	165	120	120	85	165	100	115	130	115
	High	\$/sf gfa	245	145	150	280	185	195	145	230	180	150	205	140
Shopping Center	Low	\$/sf gfa	100	85	80	140	110	110	85	120	90	120	115	65
	High	\$/sf gfa	180	130	130	335	205	195	125	180	160	195	220	140
Strip Shopping	Low	\$/sf gfa	90	65	65	115	65	90	65	115	80	115	110	70
	High	\$/sf gfa	145	120	125	305	145	140	120	160	145	155	165	120
5 Star Hotel	Low	\$/sf gfa	210	175	185	370	230	240	175	320	200	175	240	185
	High	\$/sf gfa	350	260	280	540	400	350	260	445	325	265	360	260
3 Star Hotel	Low	\$/sf gfa	150	105	105	225	145	170	100	185	130	120	190	140
	High	\$/sf gfa	220	160	165	385	225	245	160	265	185	170	260	180
Above Ground Pkg.	Low	\$/sf gfa	60	40	40	60	50	60	40	65	45	70	70	70
	High	\$/sf gfa	80	70	70	95	85	95	70	105	60	95	100	85
Basement Pkg.	Low	\$/sf gfa	75	65	60	90	60	85	65	80	65	85	90	115
	High	\$/sf gfa	100	95	95	180	100	125	95	115	80	125	130	140
General Hospital	Low	\$/sf gfa	355	270	285	340	285	325	260	380	305	325	330	320
	High	\$/sf gfa	505	350	370	540	390	405	340	515	430	390	415	485
Warehouse	Low	\$/sf gfa	70	60	60	95	50	70	60	95	55	80	80	55
	High	\$/sf gfa	100	90	90	155	90	95	90	145	85	110	105	80
Multifamily Res.	Low	\$/sf gfa	135	70	65	130	70	135	70	140	80	110	140	120
	High	\$/sf gfa	200	140	160	315	200	215	135	210	180	190	230	235
Single Family Res.	Low	\$/sf gfa	165	65	60	195	90	120	65	155	95	125	140	100
	High	\$/sf gfa	250	180	185	550	240	260	175	255	325	195	280	265
Elementary School	Low	\$/sf gfa	220	115	115	235	170	215	115	165	140	175	215	205
	High	\$/sf gfa	275	145	150	335	300	315	145	240	200	235	320	280
High School	Low	\$/sf gfa	240	130	140	245	180	280	130	220	180	200	280	250
	High	\$/sf gfa	325	160	175	345	420	410	160	290	265	250	410	360
University Building	Low	\$/sf gfa	250	160	170	280	235	295	150	240	185	235	300	265
	High	\$/sf gfa	350	240	285	515	420	410	225	360	325	335	415	395

STATE OF ARIZONA

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VIC WILLIAMS

DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kimberly Cordes-Sween, Assistant Director

SUBJECT: Arizona Board of Regents – Review of FY 2010 Tuition Revenues

This memo has been updated since it appeared in the cancelled December meeting packet.

Request

The Arizona Board of Regents (ABOR) requests Committee review of its expenditure plan for tuition revenue amounts greater than the amounts appropriated by the Legislature and all retained tuition and fee revenue expenditures for the current fiscal year.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the higher tuition expenditure amounts.

In total, appropriated FY 2010 tuition collections are estimated to be \$684.3 million. This amount is \$56.4 million above the FY 2010 budget. The universities primarily plan on using the additional \$56.4 million in their operating budgets to backfill General Fund budget reductions. To a lesser extent, these monies will also cover inflationary increases and miscellaneous academic and support planning priorities.

Non-appropriated locally retained tuition and fees for FY 2010 are estimated at \$429.3 million, \$37.9 million higher than FY 2009. Statute allows the universities to retain a portion of tuition collections for expenditures, as approved by ABOR. These “locally” retained tuition monies are considered non-appropriated. Any remaining tuition collections are then submitted as part of each university’s operating budget request and are available for appropriation by the Legislature.

(Continued)

Analysis

Appropriated Tuition

Table 1 shows ABOR changes to resident and non-resident undergraduate tuition from FY 2009 to FY 2010. ABOR policy is to set undergraduate resident tuition at the top of the bottom one-third of all senior public universities.

Table 1 Arizona University System FY 2009 to FY 2010 Undergraduate Tuition and Fees Changes ^{1/}								
	Resident ^{2/}				Non-Resident ^{3/}			
	FY 2009	FY 2010 ^{3/}	\$ Change	% Change	FY 2009	FY 2010 ^{3/}	\$ Change	% Change
ASU-Tempe/DPC	\$5,313 to \$5,659	\$6,159 to \$6,840	\$846 to \$1,181	15.9% to 20.9%	\$17,949	\$19,625	\$1,678	9.3%
ASU-East/West	\$5,099 to \$5,659	\$5,933 to \$6,840	\$834 to \$1,181	16.4% to 20.9%	\$17,945	\$19,622	\$1,677	9.3%
NAU	\$5,217 to \$5,446	\$5,681 to \$6,627	\$905 to \$1,181	17.3% to 21.7%	\$15,546 to \$16,544	\$16,631 to \$17,854	\$1,085 to \$1,310	7.0% to 7.9%
NAU-Distance Ed.	\$4,850	\$5,583	\$733	15.1%	\$15,364	\$16,289	\$925	6.0%
UofA-Main/HSC	\$5,531	\$6,842	\$1,311	23.7%	\$18,665	\$22,251	\$3,586	19.2%
UofA-South	\$4,804	\$5,963	\$1,159	24.1%	\$18,609	\$22,193	\$3,584	19.3%

^{1/} The amounts represent combined full-time tuition for fall and spring semesters, as well as mandatory fees. Undergraduates must take at least 12 credit hours to qualify for full-time status. Graduate full-time status depends upon research and teaching responsibilities. Mandatory fees include AFAT and student recreation charges, but do not include special class or program fees. A new economic recovery surcharge fee will be charged for FY 2010 only.

^{2/} These amounts represent the range of tuition and fees for continuing students enrolled prior to fall 2008 to future students planning to begin in fall 2009. Beginning in fall 2008, ASU provided a guaranteed tuition rate for each cohort of resident undergraduate students on all of its campuses and NAU provided a fixed tuition rate for each cohort of undergraduate students (both resident and non-resident) on its Flagstaff campus. UA will begin providing a guaranteed tuition rate in the fall of 2009 for all of its students.

^{3/} These amounts include the economic recovery surcharge. The following economic recovery surcharges will be charged: ASU Resident - \$510, ASU Non-Resident - \$710, NAU Resident - \$350, NAU Non-Resident - \$450, UA Resident - \$766, and UA Non-Resident - \$966.

Table 2 displays FY 2009 and FY 2010 appropriations by fund for the Arizona University System. The FY 2010 budget includes \$627.9 million in tuition, which reflects tuition growth from projected student growth and partial tuition rate increases, but not the economic recovery surcharge revenues. The higher tuition rates generated \$56.4 million more than budgeted, for a total of \$684.3 million. ABOR notes that, of the \$56.4 million in additional state collections, \$45.9 million is a result of the Economic Recovery Surcharge. Approximately \$61.9 million is estimated to be collected from Economic Recovery Surcharge revenues in FY 2010. The Economic Recovery Surcharge is a new mandatory fee which was approved by ABOR for the FY 2010 academic year and is subject to annual renewal.

Table 2 Arizona University System FY 2009 and FY 2010 Appropriations (in millions)			
	FY 2009	FY 2010 Before Tuition Increase	FY 2010 After Tuition Increase
General Fund	\$938.9	\$ 891.7	\$ 891.7
Collections Fund	538.1	627.9	684.3
Total	\$1,477.0	\$1,519.6	\$1,576.0

Table 3 presents FY 2010 appropriations estimates of ABOR's FY 2010 All Funds Operating Budget Report and resulting additional tuition revenues by campus. Of the \$56.4 million in additional tuition,

(Continued)

ASU received \$16.9 million, U of A \$28.8 million, and NAU \$10.7 million. ASU-East and ASU-West may be reflecting a decrease in tuition collections as a result of lower enrollment rates.

Table 3 Arizona University System FY 2010 Appropriations and Additional Tuition Revenues by Campus			
Campus	FY 2010 Appropriation	FY 2010 All Funds Operating Budget	Additional Tuition
ASU-Tempe/DPC	\$289,864,800	\$316,565,200	\$26,700,400
ASU-East	34,209,100	29,612,300	(4,569,800)
ASU-West	33,551,800	28,307,400	(5,244,400)
NAU	62,327,800	73,068,900	10,741,100
UofA-Main	187,458,300	215,379,200	27,920,900
UofA-Health Sciences Center	20,471,200	21,380,000	908,800
Total	\$627,883,000	\$684,313,000	\$56,430,000

Table 4 provides some information on the uses of additional appropriated tuition revenues by university. Attached, ABOR has provided further detail.

Table 4 Arizona University System Use of Additional Appropriated Tuition Revenues by Campus ^{1/}		
		<u>\$ in Millions</u>
ASU	Backfill for the General Fund	\$20.6
	College/School Support from Special Program Fees	4.5
	Employee Related Expenses Rate and Premium Increase	<u>1.6</u>
	Total	\$26.7
NAU	Backfill for the General Fund	\$10.7
UofA	Enrollment Growth and General Education Support	\$11.4
	Hiring, Retention, and Faculty Commitments	7.4
	College of Medicine Tucson Campus	1.4
	College of Medicine Phoenix Campus	1.2
	Support to Colleges from Differential Tuition Revenue	0.6
	Health Benefit Rate Increases	3.7
	Utility Rate Increases	2.1
	Operation and Maintenance	<u>1.0</u>
	Total	\$28.8

^{1/} Total spending by campus does not include the decrease in tuition collections for ASU-East and ASU-West of \$(4.6) million and \$(5.2) million, respectively.

RS/KCS:sls



Arizona Board of Regents
2020 North Central Avenue, Suite 230
Phoenix, AZ 85004-4593
602-229-2500
Fax 602-229-2555
www.azregents.edu

Arizona State University

Northern Arizona University

University of Arizona

October 6, 2009

The Honorable John Kavanagh, Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007



Dear Representative Kavanagh:

A footnote included in the General Appropriations Act requires that the Arizona Board of Regents submit an expenditure plan to the Joint Legislative Budget Committee of any tuition revenue amounts which are different from the amounts appropriated by the legislature, and all tuition and fee revenues retained locally by the universities.

Enclosed for your information is a summary report of tuition revenues that support the FY 2010 state operating budget as reported to the Board at its September 2009 meeting, and university tuition and fees expenditure plans. The increase in tuition and fees revenues can be attributed to a combination of increased student enrollments from the estimates made last fall during the budget process, and tuition and fee rate increases, including an economic recovery surcharge approved by the Board of Regents. Of the \$56.4 million in additional tuition that supports the state operating budget, \$45.9 million of that can be attributable to the economic recovery surcharge, which is subject to annual review by the Board.

If you have any questions, please do not hesitate to call me at 229-2505.

Sincerely,

Joel Sideman
Executive Director

xc: Richard Stavneak, Director, JLBC
Eileen Klein, Director, OSPB

Board Members: President Ernest Calderón, Phoenix Fred T. Boice, Tucson Robert B. Bulla, Scottsdale
Dennis DeConcini, Tucson Fred P. DuVal, Phoenix LuAnn H. Leonard, Polacca
Anne L. Mariucci, Phoenix Bob J. McLendon, Yuma
Governor Jan Brewer Superintendent of Public Instruction Tom Horne
Student Regents: Ross Meyer, ASU Jennifer Lyn Ginther, NAU
Executive Director: Joel Sideman

**ARIZONA UNIVERSITY SYSTEM
TUITION AND FEES IN SUPPORT OF THE
2009-10 STATE OPERATING BUDGET**

	STATE COLLECTIONS (1)		
	AS REPORTED IN THE 2009-10 INITIAL ALL FUNDS OPERATING BUDGET REPORT	2009-10 APPROPRIATIONS REPORT	CHANGE
Arizona State University Tempe	316,565,200	289,864,800	26,700,400
Arizona State University Polytechnic	29,612,300	34,209,100	(4,596,800)
Arizona State University West	28,307,400	33,551,800	(5,244,400)
TOTAL ASU	374,484,900	357,625,700	16,859,200
Northern Arizona University	73,068,900	62,327,800	10,741,100
University of Arizona	215,379,200	187,458,300	27,920,900
University of Arizona Health Sciences Center	21,380,000	20,471,200	908,800
TOTAL UA	236,759,200	207,929,500	28,829,700
TOTAL	684,313,000	627,883,000	56,430,000

(1) State Collections as reported in the Initial FY 2010 All Funds Operating Budget Report includes \$50M in one-time economic recovery surcharge revenue, subject to annual renewal by ABOR.

ARIZONA STATE UNIVERSITY at the TEMPE Campus
FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Initial All Funds Report	295,920,900	174,263,200
Collections As Reported in the FY10 Appropriations Report	289,864,800	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	6,056,100	174,263,200
Economic Recovery Surcharge (1)	20,644,300	5,048,300
Total Increase/(Decrease) from FY10 Appropriations Report	26,700,400	179,311,500
 Amount Reportable Including Economic Recovery Surcharge (2)	 26,700,400	 179,311,500
 ALLOCATIONS BY PROGRAM		
Instruction		
Backfill for Expenses Previously Supported with General Funds	20,644,300	
College/School Support from Special Program Fees	4,499,300	
Local Account Operating Support		12,093,400
Organized Research		
Local Account Operating Support		0
Public Service		
Local Account Operating Support		0
Academic Support		
Local Operating Budget Support		683,500
Student Services		
Local Account Operating Support		2,125,500
Institutional Support		
Unfunded ERE Rate and Premium Increases	1,556,800	
Local Account Operating Support		453,000
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		48,656,000
Other Financial Aid		66,786,700
Auxiliary Enterprises		
Auxiliary Operating Support		2,516,300
Debt Service		
Debt Service Payments		33,997,100
Plant Funds		
Minor Capital Project Set Aside		12,000,000
	<u>26,700,400</u>	<u>179,311,500</u>

NOTES:

(1) One time surcharge subject to annual renewal by ABOR.

(2) Amount reportable will partially offset the FY10 \$67,194,500 permanent General Fund budget reduction.

ARIZONA STATE UNIVERSITY at the POLYTECHNIC Campus
 FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
 INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Initial All Funds Report	27,698,700	8,954,200
Collections As Reported in the FY10 Appropriations Report	34,209,100	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	(6,510,400)	8,954,200
Economic Recovery Surcharge (1)	1,913,600	553,400
Total Increase/(Decrease) from FY10 Appropriations Report	(4,596,800)	9,507,600
Amount Reportable Including Economic Recovery Surcharge (2)	0	9,507,600

ALLOCATIONS BY PROGRAM

Instruction		
Local Account Operating Support		150,700
Organized Research		
n/a		0
Public Service		
n/a		0
Academic Support		
Local Account Operating Support		0
Student Services		
Local Account Operating Support		1,215,200
Institutional Support		
Local Account Operating Support		36,000
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		5,321,600
Other Financial Aid		2,784,100
Auxiliary Enterprises		
Auxiliary Operating Support		0
Debt Service		
Debt Service Payments		0
Plant Funds		
Minor Capital Project Set Aside		0
	<u>0</u>	<u>9,507,600</u>

NOTES:

(1) One time surcharge subject to annual renewal by ABOR.

(2) Amount not reportable. All Funds Budget tuition revenue amount including the Surcharge is less than the appropriated amount.

ARIZONA STATE UNIVERSITY at the WEST Campus

FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES

INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Initial All Funds Report	25,932,200	18,258,100
Collections As Reported in the FY10 Appropriations Report	33,551,800	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	(7,619,600)	18,258,100
Economic Recovery Surcharge (1)	2,375,200	743,500
Total Increase/(Decrease) from FY10 Appropriations Report	(5,244,400)	19,001,600
Amount Reportable Including Economic Recovery Surcharge (2)	0	19,001,600

ALLOCATIONS BY PROGRAM

Instruction		
Local Account Operating Support		83,200
Organized Research		
n/a		0
Public Service		
n/a		0
Academic Support		
Local Account Operating Support		0
Student Services		
Local Account Operating Support		65,000
Institutional Support		
Local Account Operating Support		24,800
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		6,044,600
Economic Recovery Surcharge Financial Aid Set Aside		743,500
Other Financial Aid		11,040,500
Auxiliary Enterprises		
Auxiliary Operating Support		0
Debt Service		
Debt Service Payments		0
Plant Funds		
Minor Capital Project Set Aside		1,000,000
	0	19,001,600

NOTES:

(1) One time surcharge subject to annual renewal by ABOR.

(2) Amount not reportable. All Funds Budget tuition revenue amount including the Surcharge is less than the appropriated amount.

NORTHERN ARIZONA UNIVERSITY
FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	<u>STATE</u> <u>COLLECTIONS</u>	<u>TOTAL LOCAL</u> <u>RETAINED</u> <u>COLLECTIONS</u>
Base Collections as Reported in the FY10 Initial All Funds Report (1)	69,278,100	60,748,200
Collections as Reported in the FY10 JLBC Appropriations Report	62,327,800	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	6,950,300	60,748,200
Economic Recovery Surcharge (1)	3,790,800	947,500
Total Increase/(Decrease) from FY10 Appropriations Report	10,741,100	61,695,700
 Amount Reportable Including Economic Recovery Surcharge	 10,741,100	 61,695,700
 STATE COLLECTIONS INCREASE ALLOCATION BY PROGRAM		
Instruction		
State Budget Reduction Backfill	7,219,800	
Public Service		
State Budget Reduction Backfill	1,826,500	
Academic Support		
State Budget Reduction Backfill	1,694,800	
 LOCAL RETAINED COLLECTIONS		
Local Funds Student Operating Support		7,802,400
Scholarships/Fellowships/Financial Aid		
Regent's Financial Aid Set-Aside		15,352,500
Institutional Financial Aid		20,004,700
All Other Financial Aid		1,382,200
Plant Funds		1,378,200
Debt Service Payments		15,775,700
	<u>10,741,100</u>	<u>61,695,700</u>

Notes

- 1 One-time surcharge subject to annual renewal by ABOR

UNIVERSITY OF ARIZONA
FY10 PLANNED USES OF ESTIMATED STATE COLLECTIONS
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Initial All Funds Report	219,559,200	151,083,000
Collections As Reported in the FY10 Appropriations Report	207,929,500	
Base Collections Increase/(Decrease) from FY10 Appropriations Report	11,629,700	151,083,000
Economic Recovery Surcharge (1)	17,200,000	8,700,000
Total Increase/(Decrease) from FY10 Appropriations Report	28,829,700	159,783,000
Amount Reportable Including Economic Recovery Surcharge	28,829,700	159,783,000
ALLOCATION BY PROGRAM		
Instruction		
Enrollment Growth and General Education Support	11,350,600	
Hiring, Retention and Faculty Investments	7,400,000	
College of Medicine Tucson Marginal Tuition	1,433,900	
College of Medicine Phoenix Marginal Tuition	1,221,500	
Support to Colleges from Differential Tuition Revenue	623,700	
Local Account Operating Support		3,195,900
Organized Research		
n/a		
Public Service		
n/a		
Academic Support		
Local Account Operating Support		514,500
Student Services		
Local Account Operating Support		6,821,100
Institutional Support		
Shortfall in State Funding for Health Benefit Rate Increases	3,700,000	
Shortfall in State Funding for Utility Rate Increases	2,100,000	
Shortfall in State Funding for Operation and Maintenance	1,000,000	
Local Account Operating Support		4,907,800
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		27,140,400
Student Aid Awards (formerly waivers)		74,913,900
Graduate Assistant Tuition Remission		6,393,400
All Other Financial Aid		7,699,700
Auxiliary Enterprises		
n/a		
Debt Service		
Debt Service Payments		26,072,400
Plant Funds		
Minor Capital Project Set Aside		2,123,900
	28,829,700	159,783,000

NOTES:

(1) One time surcharge subject to annual renewal by ABOR.

STATE OF ARIZONA

Joint Legislative Budget Committee

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VIC WILLIAMS

DATE: January 26, 2010

TO: Senator Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Juan Beltran, Senior Fiscal Analyst

SUBJECT: Department of Revenue – Review of Business Reengineering/Integrated Tax System
Expenditure Plan

Request

Pursuant to the FY 2010 Revenues Budget Reconciliation Bill (BRB) (Laws 2009, 4th Special Session, Chapter 3), the Department of Revenue (DOR) requests Committee review of an expenditure plan for internal operational support of implemented Business Reengineering/Integrated Tax System (BRITS) through June 2010. DOR may utilize up to \$2 million of General Fund revenues in FY 2010 to pay for BRITS operational support. The FY 2010 Revenues BRB requires DOR to seek Committee review of the expenditure plan prior to any expenditure.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of DOR's BRITS expenditure plan. The expenditure plan is consistent with the requirements of the FY 2010 Revenues BRB.

Analysis

BRITS is the computer system being implemented by DOR to further automate and integrate their separate tax systems, including the transaction privilege tax, and corporate and individual income taxes. BRITS was designed to improve enforcement and ultimately increase revenues to the state. BRITS has been paid for through a gain-sharing arrangement, which pays the vendor 85% of tax enforcement revenues above an established baseline amount until the project is paid for. The state receives the remaining 15%. Enforcement revenue represents collections received through the tax audit and collection processes.

The FY 2010 Revenues BRB allows DOR to utilize up to \$2 million of General Fund revenues to pay internal BRITS operational support after review of an expenditure plan by the Committee. This expenditure plan allows DOR to replace existing contractual staff with lower cost departmental staff. The cost of contracted BRITS operational support was approximately \$4.1 million in FY 2009.

(Continued)

The expenditure plan would allow DOR to hire up to 22 FTE Positions at an estimated total cost of \$2.3 million in FY 2010. DOR reports that 17 of these 22 FTE Positions have already been filled and they are currently being paid out of DOR's operating budget. Since the FY 2010 Revenues BRB only allows DOR to expend up to \$2 million in General Fund revenues, the difference would be absorbed by their operating budget.

The BRITS project has cost approximately \$162.1 million. DOR notes that BRITS has generated new revenues above the BRITS baseline sufficient to offset the costs of the proposed \$2 million expenditure plan. It is difficult, however, to evaluate how much in additional revenues can be directly attributed to BRITS, as other factors unrelated to BRITS affect collection levels.

RS/JB:sls

STATE OF ARIZONA

Department of Revenue
Office of the Director
(602) 716-6090



December 8, 2008

The Honorable John Kavanagh
Chairman - Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Janice K. Brewer
Governor

Gale Garriott
Director



Dear Representative Kavanagh:

The Department of Revenue respectfully requests to be placed on the next Joint Legislative Budget Committee's agenda.

Laws 2009, 4th Special Session, Chapter 3, Section 31, Subsection B states, "Notwithstanding any other law, the department of revenue may use up to \$2,000,000 of state general fund revenue deposits in fiscal year 2009-2010 to pay business reengineering/intergrated tax system operational support costs after review of an expenditure plan by the joint legislative budget committee."

Based on the need to complete the transition from Accenture contracted support of BRITS to the Department of Revenue's internal support for BRITS, on 7/27/09, the Department provided to JLBC staff an expenditure plan. To date, the Department has filled 17 of the 22 positions identified in the expenditure plan. Please refer to Attachment A for the Department's current expenditure plan, as updated to reflect the BRITS positions that have been filled.

I hope this information has been helpful and if you have any questions regarding this response, please contact Reed Spangler at 716-6883.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gale Garriott".

Gale Garriott
Director

cc: Senator Russell Pearce
Richard Stavneak – Director JLBC
John Arnold – Director OSPB
Juan Beltran – JLBC
Illya Riske – OSPB

IT Area	Position Title	PS + ERE	Job Description
Applications Support	Senior Oracle Developer	105,334	Senior Oracle Developers provide expertise in maintaining Oracle based systems and interfaces to other systems. This position provides support for on-going operations of BRITS and associated feeder systems. This support includes researching reported problems, fixing software defects, correcting data errors, monitoring system processes, and improving system performance.
Applications Support	Senior Oracle Developer	111,576	Senior Oracle Developers provide expertise in maintaining Oracle based systems and interfaces to other systems. This position provides support for on-going operations of BRITS and associated feeder systems. This support includes researching reported problems, fixing software defects, correcting data errors, monitoring system processes, and improving system performance.
Applications Support	Senior Microsoft Developer	114,811	Senior Microsoft Developers provide expertise in maintaining systems built with Microsoft based tools. This position provides support for ongoing operation of critical BRITS feeder systems such as AZTaxes.gov, electronic tax return filing, payment processing, and data entry of tax forms. This support includes researching reported problems, fixing software defects, correcting data errors, monitoring system processes, and improving system performance.
Business Analysis & Testing	Senior Business Analyst	86,608	Senior Business Analysts provide expertise in analysis of automated solutions and serve as a bridge between the DOR business community and Information Technology. This position manages other Business Analysts, captures and interprets user requirements, provides support to on-going operations, and provide specialized system training to users.
Business Analysis & Testing	Quality Assurance Engineer	94,156	Quality Assurance Engineers provide expertise in quality assurance testing of computer systems and system interfaces. This position will provide quality assurance testing for BRITS and all associated interfaces and feeder systems and also helps to coordinate testing by the user community.
Business Analysis & Testing	Senior Business Analyst	97,801	Senior Business Analysts provide expertise in analysis of automated solutions and serve a vital role as liaison between the DOR business community and information Technology. This position manages other Business Analysts, captures and interprets user requirements, provides support to on-going operations, and provide specialized system training to users.
Customer Service Center	Server Administrator	92,850	Server Administrators provide expertise in the configuration, operation, and maintenance of Windows and Unix servers required to operate BRITS and associated feeder systems. This position monitors and troubleshoots system problems, maintains mandatory technical and security related updates to servers, and manages data backup and recovery.
Customer Service Center	Production Control Manager	92,850	Production Control Manager provides expertise in the production operation of BRITS and associated feeder systems. This position manages a team of production support technicians who manage library of system data, execute and monitor critical BRITS offline processes and data warehouse updates.
Customer Service Center	Network Engineer (LAN/WAN Administrator) - Currently Vacant	98,400	Network Engineers provide expertise in the support of the data communication network required for BRITS, associated feeder systems, and all other systems operated at DOR. This position provides network maintenance and administration and applies system changes required to manage system capacity (disk storage, processing capacity, additional servers).
Customer Service Center	Database Administrator Manager	121,563	The Database Administrator Manager provides expertise in the management of complex databases in Oracle or Microsoft SQL Server environments. This position manages a team that provides database support for BRITS and associated feeder systems by monitoring and tuning database performance, ensuring efficient and secure database access by appropriate systems, and providing database designs for new or modified databases.
Customer Service Center	Database Administrator (DBA)	112,381	Database Administrators provide expertise in the management of complex databases in Oracle or Microsoft SQL Server environments. This position provides database support for BRITS and associated feeder systems by monitoring and tuning database performance, ensuring efficient and secure database access by appropriate systems, and providing database designs for new or modified databases.

IT Area	Position Title	PS + ERE	Job Description
Customer Service Center	Senior Systems Engineer	102,837	Senior Systems Engineers provide expertise in the management of middle-tier software tools that facilitate the exchange of data between systems operating on similar or different technical environments. This position provides support to BRITS and all associated feeder systems.
Customer Service Center	Systems Engineer	90,511	Systems Engineers provide expertise in the management of middle-tier software tools that facilitate the exchange of data between systems operating on similar or different technical environments. This position provides support to BRITS and all associated feeder systems.
Application Development	Systems Analyst Manager	120,886	The Systems Analysis Manager provides expertise in the design of business solutions for BRITS, feeder systems, and for the DOR data warehouse. This position will manage a team of Systems Analysts who are responsible for identifying alternative solutions, creating cost estimates for potential projects, and creating technical designs to facilitate coding by the software development team.
Application Development	Senior Systems Analyst - Currently Vacant	110,550	Senior Systems Analysts provide expertise in the design of business solutions for BRITS, feeder systems, and for the DOR data warehouse. This position is responsible for identifying alternative solutions, creating cost estimates for potential projects, and creating technical designs to facilitate coding by the software development team.
Application Development	Application Developer	118,456	The Application Developer provides expertise in the software development for BRITS systems, feeder systems, and the DOR data warehouse. This position is responsible for enforcing sound software development practices, and will manage a team of Oracle and Microsoft software developers who are responsible for software coding, system performance, initial software testing, and creating cost estimates for potential projects.
Application Development	Systems Analyst - Currently Vacant	110,550	Systems Analysts provides expertise in the design of business solutions for BRITS, feeder systems, and for the DOR data warehouse. This position is responsible for identifying alternative solutions, creating cost estimates for potential projects, and creating technical designs to facilitate coding by the software development team.
Application Development	Systems Analyst	110,550	Systems Analysts provides expertise in the design of business solutions for BRITS, feeder systems, and for the DOR data warehouse. This position is responsible for identifying alternative solutions, creating cost estimates for potential projects, and creating technical designs to facilitate coding by the software development team.
Customer Service Center	Technical & Desktop Support Analyst - Currently Vacant	98,400	Desktop Support provides expertise in the support of computing equipment including workstations, laptop computers, printers, and document scanners. This support includes hardware and software installation, mandatory software and operating system security updates, supporting all equipment users, and troubleshooting equipment problems.
Information Security	Information Security Engineer	92,941	Information Security Engineers provide expertise in establishing and monitoring data security for all DOR systems. This position helps maintains data security by establishing controls and on-going monitoring of data access privileges.
Information Security	Information Security Analyst - Currently Vacant	92,325	Information Security Analysts provide expertise in managing and monitoring data security for all DOR systems. This position helps maintains data security by enforcing controls and on-going monitoring of data access privileges.
Customer Service Center	Network Engineer (LAN/WAN Administrator)	79,576	Network Engineers provide expertise in the support of the data communication network required for BRITS, associated feeder systems, and all other systems operated at DOR. This position provides network maintenance and administration and applies system changes required to manage system capacity (disk storage, processing capacity, additional servers).
Subtotal	FTE Count of 22 (17 of 22 Positions are Filled)	2,255,912	Salary & ERE Total