STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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CHAIRMAN 2004
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HOUSE OF REPRESENTATIVES

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JOINT LEGISLATIVE BUDGET COMMITTEE
Friday, March 19, 2004
10:30 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of December 18, 2003.

- DIRECTOR'S REPORT (if necessary).

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

1. ATTORNEY GENERAL - Review of Intended Use of Monies in Antitrust Enforcement Revolving Fund.

2. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of Long-Term Care Capitation Rate Changes.
   B. Determine Arizona Works Caseload Reduction Savings.

3. DEPARTMENT OF HEALTH SERVICES
   A. Review of Developmental Disabilities Capitation Rates.
   B. Review of Expenditure from the Vital Records Electronic Systems Fund.

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

The Chairman reserves the right to set the order of the agenda.
03/12/04

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) 542-5491.

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****R E V I S E D****

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

December 18, 2003

The Chairman called the meeting to order at 9:45 a.m., Thursday, December 18, 2003, in House Hearing Room 4. The following were present:

Members:	Senator Burns, Vice-Chairman	Representative Pearce, Chairman
	Senator Arzberger	Representative Biggs
	Senator Bee	Representative Burton Cahill
	Senator Cannell	Representative Gray
	Senator Harper	Representative Huppenthal
	Senator Martin	Representative Lopez
	Senator Rios	
Absent:	Senator Anderson	Representative Farnsworth
		Representative Huffman
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Brian Schmidt	Tim Sweeney
Others:	Frank Hinds	State Risk Management, ADOA
	Gary A. Fadell	Outside Counsel
	James Walsh	Attorney General
	Tom Betlach	Deputy Director, AHCCCS
	Michal Goforth	AHCCCS
	Chuck Bassett	Blue Cross/Blue Shield
	David Longo	Department of Economic Security

EXECUTIVE SESSION

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

At 9:46 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 10:10 a.m. the Committee reconvened into open session.

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

APPROVAL OF MINUTES

Senator Burns moved *that the Committee approve the minutes of November 6, 2003.* The motion carried.

ATTORNEY GENERAL - Review of Allocation of Settlement Monies (Buspirone Antitrust, Cardizem CD Antitrust, Taxol Antitrust, Richard and Rochelle DeGrenier).

Mr. Brian Schmitz, JLBC Staff, said that this item concerns the proposed allocation of monies received from 4 settlement agreements. The JLBC Staff recommends giving a favorable review to the allocation plan for all 4 settlements. According to law, the Office of the Attorney General must appear before the Committee for review on settlement plans that involve over $100,000. They currently have 4 cases that meet this criteria.

Representative Biggs asked what state agencies will receive monies as a result of these settlements.

Representative Pearce asked who determines what agencies will receive money.

Mr. James P. Walsh, Chief Assistant Attorney General, responded that in the Buspirone case several state agencies purchased drugs under what is called the Minnesota Multi-State Contract for the Acquisition of Pharmaceuticals (MMCAP). The entities in Arizona who purchased drugs through MMCAP are the Department of Corrections, Arizona State University, Pima County Adult Detention Center, Northern Arizona University, and Arizona State Hospital. The determination of who receives the money has been resolved by way of settlement, as opposed to litigation. The settlements are determined by the involved states preparing damages, by going back to the agencies and finding out what kind of drugs they purchased in the areas where there has been some type of violation of the antitrust laws. That information is submitted to the court and it becomes part of the approved settlement by the court. It is the agencies that submitted information that will receive monies from the settlements.

Representative Pearce noted that since all of these are public entities, why would there be a list showing who paid for pharmaceuticals. He questioned why the settlement does not come back to the Legislature since it has been spent and really gives the agency an appropriation for the future year that is not discussed in the budget process.

Mr. Walsh said that there are 2 parts to the answer. The first is statutory, meaning when the information is submitted as part of the settlement package, it is submitted in terms of what agencies were damaged. It is not submitted as if it is general damage to the state. The court approves the settlement based on the information provided. According to statute, A.R.S. § 41-191.01B, when the money is recovered on behalf of a specific agency then the money has to be deposited into that agency's account with the Treasurer. If it is not designated then it would go into the General Fund. Secondly, when you appropriate money for an agency it is appropriated as a lump sum, or at least not specifically to purchase a particular drug.

Representative Pearce said that it is actually the taxpayer that is damaged. He would like to see it structured so that it comes back to the Legislature so it could be taken into consideration during the budget process.

Mr. Walsh said he believed it was inappropriate to ask the court to direct the money to the General Fund since the settlement was with certain agencies.

Representative Pearce said he felt it was appropriate since it was the taxpayers' money. The Legislature should decide where that money goes since it was from a previous year.

Senator Burns moved *that the Committee give a favorable review as recommended by the JLBC Staff to the Attorney General's allocation plan for the settlement monies from Buspirone Antitrust, Cardizem CD Antitrust, Taxol Antitrust, Richard and Rochelle DeGrenier.* The motion carried.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS)

A. Review of Comprehensive Medical Dental Program (CMDP) Capitation Rate Changes.

Mr. Tim Sweeney, JLBC Staff, said this is the medical insurance program for children in foster care. AHCCCS is requesting an 18.7% increase to the capitation rate. They estimate this increase would cost approximately $593,100 above the FY 2004 appropriation. Similar to the overall AHCCCS capitation rate increases, the Committee has multiple options as outlined in the JLBC recommendation memo.

Senator Cannell commented that foster kids are usually medically high maintenance kids. They come into the system with no medical care for a period of time and have underlying problems. One problem is that it is hard to get primary care doctors to accept these children under AHCCCS because of the rates for the physicians. These kids take quite a bit of time to see as patients. He asked if these increased rates are going to be reflected in the capitation rates for the providers.

Mr. Tom Betlach, Deputy Director, AHCCCS, said it is his understanding that these rates increased due to utilization and for the most part, CMDP relies on the AHCCCS reimbursement rates. For physicians the rates have been held flat for this contract period.

Senator Cannell said he could understand that from a cost point of view, but believes there are problems getting those kids seen by a physician.

Mr. David Longo, Department of Economic Security (DES), said that DES is continuing to work on a network of physicians. They do have open enrollment in terms of physicians and encourages them to work with DES. He noted that there has not been a problem getting children seen in a timely fashion.

In response to Senator Arzberger, Mr. Betlach said that the capitation rates are what is required for CMDP and the program includes medical costs for inpatient, doctors, and pharmacy as well as the administration of the program. It also includes increased utilization for hospital inpatient and outpatient services.

Representative Biggs asked how likely it is that AHCCCS would go ahead and implement these capitation rates if the Committee gives an unfavorable review.

Mr. Betlach said it would be 100% since they are required by federal law to implement actuarially sound capitation rates. When AHCCCS received an unfavorable review at the September JLBC meeting, they still had to implement those rates in which their health plans contracted with them. Since CMDP is a program that is run by the state, if there are losses in the program it is up to the General Fund to make up for those losses on the Title XIX side. The state has the incentive to draw down the Title XIX dollars to cover the full cost associated with the program or else the General Fund has to make up the difference.

Senator Burns moved that the Committee give a favorable review to the AHCCCS request for a capitation rate increase with the stipulation that it does not endorse any potential supplemental to the capitation rate increase of 18.7% for the Comprehensive Medical Dental Program. The motion carried.

B. Report on Cost Sharing Measures.

Mr. Tim Sweeney, JLBC Staff, said this item is a report on the cost sharing plan that was included in the FY 2004 budget. At the September JLBC Meeting, the Committee directed AHCCCS to report back to the Committee on implementation of these measures. The FY 2004 budget assumed approximately $12.6 million in savings due to increased monthly premiums, co-payments and enrollments fees in the regular AHCCCS, KidsCare, and the Proposition 204 programs. As a result of federal restrictions, lower KidsCare enrollment, and a revised implementation schedule, AHCCCS now estimates that the FY 2004 savings would be about $4.8 million. A table in the JLBC recommendation memo for this item depicts the previous cost sharing, proposed cost sharing and revised cost sharing measures.

Representative Pearce said that there were 50 recommendations proposed by the Committee and he understands that only 12 were implemented.

Mr. Betlach said that he had not broken it down into each of the cost sharing measures. What they tried to do was look at the major components of cost sharing. He said so far they have implemented $4.8 million. Due to restrictions by the Centers for Medicare and Medicaid Services (CMS), $3.2 million is not able to be achieved because of things beyond their control. Lower than expected enrollment reduces the amount that is generated in cost sharing by $1.6 million. Finally, we were not able to implement $3 million because of a revised timeline. This is due in part to the fact that health plans were leaving the system and it did not make sense to do co-pays. In addition, the budget was not finalized and co-pays could not be done July 1 but October 1 instead ($1.7 million of the $3 million). The remaining portion is the delays they have had in KidsCare. One of the limitations of the cost sharing report was the lack of identification of ramifications associated with the KidsCare premiums. There has since been a study that looked at premiums in other states and found that Arizona could lose up to 10,000 kids as a result of higher premiums. That was brought to the attention of AHCCCS by the actuaries when they were determining the actuarial rates that were going to be used. They were looking at increasing the cost by $3 million state match in developing those capitation rates because of higher acuity levels in the overall program.

Mr. Betlach said they are still working on issues with CMS regarding the DES Developmentally Disabled deductible.

In response to Representative Pearce, Mr. Betlach said the proposals were based partly on what other states have done. However, as they looked back on other states, their populations were different from what AHCCCS was doing. Another impact is that CMS will not give you a definitive answer until they have a formal proposal. While there might have been some verbal discussion, they did not have a specific proposal to do cost sharing and higher co-pays on Proposition 204 until they sent them a letter, before the legislation was passed in May, indicating what they wanted to do. After CMS did further research, they came back and said we believe you cannot implement higher co-pays on anyone who is considered categorical. Proposition 204 included a large categorical population (meaning parents). The TANF population that was included in AHCCCS could not have co-pays applied to them. While there was dialogue with CMS, they did not provide clear guidance on several of the issues as they relate to cost sharing.

Representative Pearce asked if there was any information in the proposal taken from other states regarding cost sharing.

Mr. Betlach said when they were putting together the cost sharing report, they looked at cost sharing proposals that other states had either proposed or were in the process of implementing. However, their populations were different from what they were doing in Arizona.

Representative Huppenthal said he would like to see an analysis of how Arizona's requests are being treated compared to other states. He also mentioned that you cannot separate quality from health care. The quality issues of what Proposition 204 is doing to our health care, have not been engaged by the State Legislature the way they should. There are very serious issues in the health care system.

Discussion continued on cost sharing.

C. Report on Health Care Group Branding and Marketing Services Request for Proposals.

Mr. Betlach gave a presentation on the Health Care Group (HCG) using a handout (Attachment 1). He said they are at a crossroads as it relates to HCG. Given the fiscal conditions of the state, the Legislature has provided ongoing support to this program in terms of a General Fund subsidy to keep it going.

Mr. Betlach continued going through his handout.

Senator Martin asked why they were hiring a marketing firm as opposed to using independent agents or brokers.

<u>Michal Goforth, Administrator of the Health Care Group Program, AHCCCS</u>, said there are 2 answers to that. The first is that going forward with the premium, the new rates, we are building in a percentage for brokers because we want to include the broker community. In the past they used them but their experience in the 1990's caused them to sever those relationships because the health plans were getting all adverse collections. Only sick people were coming to HCG. The state does not have sales and marketing expertise so it was necessary to have someone help with those areas.

The second area is branding. People just do not know about HCG. The target market that we were trying to hit are the uninsured, lower income businesses that are not able to provide insurance.

Senator Martin asked if they eventually intend to use brokers, and if so, what is the timeline for that.

Ms. Goforth said they would like to be able to start in March or April of 2004. She noted that they have an HMO package out, but have not been promoting it.

Representative Pearce asked if anyone ever consulted with staff or the Legislature while developing the RFP. It appears that no one knew about this. There are legislative subcommittees and health care groups working on this and they were not consulted.

Mr. Betlach said he did not know of any specific groups they consulted with. He said they talked about Health Care Group targeting very small employers, and the fact that there is a high uninsured rate among small employers. If the legislative expectation, as discussed in the last session and driven by the state's financial circumstances, exists where the subsidy is not available for this program, there are 2 options: shut it down or try to grow the population base to bring in new premiums. While AHCCCS did not contact anyone regarding the RFP, the fact is discussions have been ongoing in terms of what to do with HCG.

Representative Huppenthal asked if the annual premium of $237, shown on page 3 of the handout, is the actual annual premium.

Mr. Betlach said that it is the current annual blended premium, which is weighted based on current population. It looks at family and individual premiums, and when weighted all together it comes to $237 per month.

Representative Harper and Representative Huppenthal expressed their concern at the idea of expanding the program and at the loss of money per unit and then trying to make it up in volume.

Senator Cannell noted that it is important to have a large healthy group of people enrolled in the health program to make it work.

Senator Martin said that if you don't want a state subsidy you have to make changes. Growing the base to a point where it is actuarially viable is their only option without a state subsidy.

Discussion continued on Health Care Group.

Without objection the Committee adjourned at 12:00 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman

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

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Joint Legislative Budget Committee

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SENATE

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HOUSE OF
REPRESENTATIVES

DATE: March 12, 2004

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

THRU: Richard Stavneak, Director

FROM: Brian Schmitz, Senior Fiscal Analyst

SUBJECT: ATTORNEY GENERAL – REVIEW OF INTENDED USE OF MONIES IN ANTITRUST ENFORCEMENT REVOLVING FUND

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has notified the Committee of its intended uses of Antitrust Enforcement Revolving Fund monies in excess of $170,500.

Recommendation

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

Analysis

The General Appropriation Act contains a footnote that states that all revenues received by the Antitrust Enforcement Revolving Fund in excess of $170,500 are appropriated, but expenditures are not to exceed $750,000 in FY 2004. The footnote requires the Office of Attorney General to submit the intended uses of monies in excess of $170,500 for review by the JLBC.

The agency reports that available monies in FY 2004 from the Antitrust Enforcement Revolving Fund will be $402,000. This amount will be used for the following purposes:

- $272,500 for personnel costs. This includes Personal Services and Employee Related Expenditures for 6 existing employees.

- $45,000 for multi-state cases. This represents Arizona's share of the investigative and court costs associated with participating in multi-state antitrust cases.

- $34,200 for an automotive report. This report is an annual subscription to purchase the data necessary for compliance with A.R.S. § 41-191.02 (D). This statute requires the Attorney

General to collect, compile, and save data on rack fuel prices for the Phoenix and Tucson petroleum pipeline terminals and dealer tank wagon prices for Phoenix and Tucson.

- $50,300 for operating costs. These costs are for support of the Antitrust Unit and include filing fees, travel, telephone services, rent, record storage, software and hardware maintenance, office supplies, postage, and indirect costs.

RS/BS:ck

OFFICE OF THE ATTORNEY GENERAL
STATE OF ARIZONA

TERRY GODDARD
ATTORNEY GENERAL

RECEIVED
DEC 31 2003
JOINT BUDGET COMMITTEE

December 31, 2003

The Honorable Russell Pearce
Chair, Joint Legislative Budget Committee
1700 W Washington
Phoenix, AZ 85007

Dear Representative Pearce:

This letter is written to report the intended use of expenditures from the Antitrust Enforcement Revolving Fund (ATRF). All revenues received by the ATRF are appropriated. However, a footnote to the general appropriations act states, "Before the expenditure of any Antitrust Enforcement Revolving Fund receipts in excess of $170,500 in FY 2004, the Attorney General shall submit the intended uses of the monies for review by the Joint Legislative Budget Committee."

With the recent settlement agreements in the Cardizem CD, Taxol, and Buspirone antitrust litigation, the estimated funds available for FY04 will exceed $402,000. The Office of the Attorney General estimates that the FY 2004 expenditures will be $402,000 for the following purposes:

- Personnel costs - $272,500
- Multi-state cases - $45,000
- Automotive report (legislatively mandated) - $34,200
- Operating costs - $50,300

These expenses represent the costs allowed by § 41-191.02. They include such items as filing fees, court costs, travel, depositions, transcripts, reproduction costs, expert witness fees, and investigations expenses.

If additional information would be helpful, please let me know.

Sincerely,

Terry Goddard
Attorney General

cc: The Honorable Robert Burns, Vice Chair, Joint Legislative Budget Committee
Richard Stavneak, JLBC
David Jankofsky, OSPB

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DATE: March 12, 2004

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF LONG TERM CARE CAPITATION RATE CHANGES

Request

Pursuant to a footnote in the FY 2004 General Appropriation Act, the Department of Economic Security (DES) is presenting to the Committee its expenditure plan for the federal Title XIX Long Term Care (LTC) program as a result of an increase in capitation rates. The plan indicates that this year's capitation rate for most clients in DES' LTC program will increase 7.77% from last year's capitation rate. The federal government requires that capitation rates be actuarially sound.

Summary

The proposed rates are based upon an actuarial study, which is required by the federal government. The proposed increases would cost approximately $3 million General Fund more than the capitation adjustment assumed in the FY 2004 budget. The average rate increase for the main capitation rate is 7.77% above FY 2003. In comparison, the FY 2004 budget assumed a 5% capitation rate increase, and the Executive recommended a 4.5% increase. All the rates include the Medicaid insurance premium tax adjustment.

The Executive has recommended a FY 2004 supplemental of $4.2 million to address capitation rate and caseload changes.

The Committee has at least the following choices:

1. A favorable review of DES' capitation adjustments with no conditions. DES would view this option as an endorsement of its supplemental request.

2. A favorable review with the caveat that the review does not constitute an endorsement of a supplemental request.

(Continued)

3. An unfavorable review. Given the federal actuarial study requirement, DES is likely to proceed with the proposed increases.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DES contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and, thereby, recommends increases or decreases in the capitation rates. Once DES requests a change in rates, the new rates must be approved by the Arizona Health Care Cost Containment System (AHCCCS).

DES provides services to developmentally-disabled (DD) clients eligible for the Arizona Long Term Care System (ALTCS). AHCCCS passes through federal funding to DES to provide ALTCS services to these DD clients. DES matches those federal funds with General Fund monies appropriated in its budget. DES receives money based on a capitation rate; that is, AHCCCS provides DES with a set amount of funds for each ALTCS client that DES serves. AHCCCS is required to set these capitation rates at actuarially sound levels.

The FY 2004 General Appropriation Act includes the following footnote:

> "Before implementation of any changes in capitation rates for the Long Term Care program, the Department of Economic Security shall report its plan to the Joint Legislative Budget Committee for its review."

In an October 28, 2003 letter to DES, AHCCCS recommended capitation rates for Federal Fiscal Year (FFY) 2004, which started on October 1, 2003. The revised monthly rates are shown in the table below. Almost all clients served by DES in the LTC program are categorized as enrolled.

Category	FFY 2003 Rate	FFY 2004 Rate	% Change
Enrolled (Non-Ventilator Dependent)	$ 2,623.04	$ 2,759.26	7.77%
Ventilator Dependent	$10,403.36	$11,091.40	6.94%

The increases in the Enrolled category are allocated as follows:

Category	FFY 2003 rate	FFY 2004 rate	% Change
Aid to Individuals	$1,883.11	$1,987.84	5.56%
Acute Care Services	320.39	340.28	6.21%
Case Management Services	108.58	121.00	11.44%
Administration	210.49	213.68	1.52%
Risk/Profit	37.84	39.94	5.56%
Premium Tax	N/A	56.52	N/A
Total - DES LTC	**$2,560.41**	**$2,759.26**	**7.77%**
Behavioral Health (DHS pass-through)	62.63	66.52	6.21%
Total Enrolled Rate	$2,623.03	$2,825.78	7.73%

As the table shows, DES' LTC program received an increase of approximately 7.77% in its portion of the capitation rate. (The Behavioral Health increase is addressed in another agenda item.) According to AHCCCS' actuary, the 5.56% increase in the Aid to Individuals line item reflects SFY 2003 actual expenditures and updates to FFY 2003 programmatic changes. These programmatic changes included the provider rate increase, the transfer of rehabilitative services from Rehabilitative Services Administration,

(Continued)

the community protection program, and enhanced autism services. The Acute Care line's 6.21% increase and the Case Management Services line's 11.44% increase reflect actual costs and trended costs as projected by the actuary. The comparatively low Administration increase of 1.52% includes removing some one-time FFY 2003 Health Insurance Portability and Accountability Act (HIPAA) adjustments.

The original SFY 2003 budget assumed DES would receive an average SFY 2003 capitation rate of $2,662 including the premium tax adjustment but excluding equipment retention and cost sharing. The capitation rate requested for SFY 2004 will average about $2,710. If caseloads stay at levels assumed in the original FY 2004 appropriation, additional monies would be required to fully fund the capitation rate.

RS/SSh:ss
Attachment

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano
Governor

David A. Berns
Director

DEC 03 2003

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
1700 West Washington
State Capitol – House Wing
Phoenix, Arizona 85007

Dear Representative Pearce:

Pursuant to the footnote in Laws 2002, Chapter 327, the Arizona Department of Economic Security (DES) requests to be placed on the meeting agenda for the next Joint Legislative Budget Committee meeting. The purpose of the request is to review the proposed changes for the Contract Year 2004 capitation rates for the Long-Term Care Program for the Division of Developmental Disabilities (DDD).

For the contract period of October 1, 2003 through December 31, 2004, the capitation rate for the regular clients is increased from $2,560.40 to $2,702.75, an increase of 5.56%. The monthly capitation rate for ventilator-dependent clients increased from $10,371.70 to $10,868.90, an increase of 4.79%. These rates exclude the behavioral health component, which DES passes through to the Arizona Department of Health Services, Division of Behavioral Health Services.

The above rate changes are the result of reviews by the AHCCCS consulting actuary, William M. Mercer, and are based upon actual encounter data provided by DES. The analysis for each component of the new rates is attached. Please contact Lynne Smith, Assistant Director, Division of Business and Finance, at (602) 542-7166 if you have any questions.

Sincerely,

David A. Berns

David A. Berns

Attachments

c: Senator Robert Burns, Vice Chairman
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Matt Gottheiner, Analyst, Governor's Office of Strategic Planning and Budgeting

Janet Napolitano, Governor
Anthony D. Rodgers, Director

AHCCCS

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

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us

October 28, 2003

David Berns, Director
Arizona Department of Economic Security
Division of Developmental Disabilities
1789 W. Jefferson
Phoenix, AZ 85005

Dear Mr. Berns:

This correspondence is to acknowledge acceptance of the capitation rates developed by Mercer for the period of October 1, 2003 through December 31, 2004. While the new certification of the rates is for a 15-month period, it is the intent of AHCCCS to start the next formal rate setting process September 1, 2004 and work toward developing the new rates by mid-November 2004. This of course is dependent upon getting the required information from DES. The formal rate setting process will take place using encounter data and/or the final audited financial statements for a January 1, 2005 implementation date. In addition, AHCCCS and DES will immediately begin work to resolve issues regarding reinsurance methodology.

The attached rate sheets show a 5.56% increase in the overall non-ventilator dependent rate and a 4.79% overall increase in the ventilator dependent rates, before behavioral health and premium tax adjustments. Please feel free to call either Pat Spencer, at 602-417-4107 or me, at 602-417-4625.

Sincerely,

Kari Price

Kari Price, Assistant Deputy Director
Division of Health Care Management

C Mary Gill
Rick Zaharia
Ed Rappaport
Jack Wagner
Tony Rodgers
Alan Schafer
Tom Betlach
Kate Aurelius
Pat Spencer
C J Hindman, MD

10/30/03
DH

Arizona Health Care Cost Containment System (AHCCCS)
Department of Economic Security / Department of Developmental Disabilities
Contract Period 10/1/2003 - 12/31/2004 Capitation Rate Development
Non-Ventilator Dependent

Base Period: 10/1/2002 - 9/30/2003
Contract Period: 10/1/2003 - 12/31/2004
Trend Months: 13.5
Projected Member Months[1]: 236,325

	YR XXI Rate PMPM	Midpoint Rate Development: PMPM Trend	Adjustments	Final Rate	% Rate Change
Aid To Individual Services					
Institutional Services					
Institutional - Coolidge	$ 59.90	4.25%		$ 62.77	
Institutional - Provider Services	$ 42.84	4.25%		$ 44.89	
Total Institutional Services	$ 102.74			$ 107.67	4.79%
Home and Community Based Services					
HCBS	$ 1,676.92	4.58%		$ 1,763.48	
Sub-Total Home and Community Based S	$ 1,676.92			$ 1,763.48	5.16%
HCBS New Program PMPMs					
Community Protection Program[2]	$ 10.11	4.25%	0.60%	$ 10.60	4.79%
Provider Increase (Non-Vent Deper	$ 87.42	4.25%	5.20%	$ 91.61	4.79%
RSA Employment Services[3]	$ 2.64	4.25%	0.63%	$ 11.05	319.18%
Early Intervention Program	$ 3.28	4.25%	0.19%	$ 3.44	4.79%
Total New Programs PMPM	$ 103.45			$ 116.70	
Grand Total Home and Community Based Servi	$ 1,780.37			$ 1,880.17	5.61%
Total Aid to Individual PMPM *(Institutional + HC*	$ 1,883.11			$ 1,987.84	5.56%
Acute Care Services					
Total Acute Care Services	$ 320.39	5.50%		$ 340.28	6.21%
Case Management Services	$ 108.58	10.11%		$ 121.00	11.44%
Administration[4]					
Administration Load	$ 191.90		8.300%	$ 203.28	5.93%
Behavioral Health	$ 1.83		0.079%	$ 1.94	5.93%
HIPAA - Administration	$ 16.75		0.346%	$ 8.46	-49.48%
Total Administration	$ 210.49		8.725%	$ 213.68	1.52%
Calculated using (Total Aid To Individual + Acute Care + Case Mgmt)					
Risk / Contingency	$ 37.84		1.50%	$ 39.94	5.56%
Calculated using (Total Aid To Individual + Acute Care + Case Mgmt + Administration)					
Total DES/DDD Non-Ventilator Rate	$ 2,560.41			$ 2,702.75	5.56%
Behavioral Health Services					
Behavioral Health Pass Through PMPM	$ 56.78	5.50%		$ 60.31	6.21%
Behavioral Health Administration[5]					
Administration Load	$ 1.87		3.30%	$ 1.99	6.21%
RBHS	$ 2.27		4.00%	$ 2.41	6.21%
Risk / Contingency	$ 1.70		3.00%	$ 1.81	6.21%
Total Administration	$ 5.85		10.30%	$ 6.21	6.21%
Total Behavioral Health Rate	$ 62.63			$ 66.52	6.21%
Total Non-Ventilator and Behavioral Health Rat	$ 2,623.04			$ 2,769.27	5.57%
Premium Tax			2.04%	$ 56.52	
Grand Total Non-Ventilator and Behavioral Hea	$ 2,623.04			$ 2,825.78	7.73%
Grand Total DES/DDD Non-Ventilator Rate[6]	$ 2,560.41			$ 2,759.26	7.77%
Grand Total Behavioral Health Rate	$ 62.63			$ 66.52	6.21%

1 - Projected Member Months represents the 15 month period from 10/1/2003 to 12/31/2004.
2 - Community Protection Program (CPP) additional enrollment terminated June 30, 2003.
3 - Rehabilitative Services Administration (RSA) represents the additional expense of eligibles currently on the waiting list (implemented July 1, 2003).
4 - Administration includes: 8.300% for general administration, 0.079% for BHS Codes ($1.94 PMPM), and 0.346% for HIPAA expenses ($2,000,000).
5 - Behavioral Health Services Administration includes: 3.3% for general administration, 4.0% for RBHS administration, and 3.0% for risk / contingency.
6 - Grand Total DES/DD Non-Ventilator Rate reflects the full premium tax.

Arizona Health Care Cost Containment System (AHCCCS)
Department of Economic Security / Department of Developmental Disabilities
Contract Period 10/1/2003 - 12/31/2004 Capitation Rate Development
Ventilator Dependent

Base Period: 10/1/2002 - 9/30/2003
Contract Period: 10/1/2003 - 12/31/2004
Trend Months: 13.5
Projected Member Months[1]: 1,470

		Midpoint Rate Development			
	YR XXI Rate PMPM	PMPM Trend	Adjustments	Final Rate	% Rate Change
Ventilator Dependent Health Care Services					
Ventilator Dependent Services	$ 10,000.17	4.25%		$ 10,479.56	
Provider Rate Increase	$ 218.26	4.25%	2.18%	$ 228.72	
Total Ventilator Services PMPM	$ 10,218.43			$ 10,708.28	4.79%
Risk / Contingency[2]	$ 153.28		1.50%	$ 160.62	4.79%
Total DES/DDD Ventilator Rate	$ 10,371.70			$ 10,868.90	4.79%
Behavioral Health Services					
Behavioral Health Pass Through PMPM	$ 28.70	5.50%		$ 30.48	6.21%
Behavioral Health Administration	$ 2.96		10.30%	$ 3.14	6.21%
Total Behavioral Health Rate	$ 31.65			$ 33.62	6.21%
Total Ventilator and Behavioral Health Rate	$ 10,403.36			$ 10,902.52	4.80%
Premium Tax			2.04%	$ 222.50	
Grand Total Ventilator and Behavioral Health Rate	$ 10,403.36			$ 11,125.02	6.94%
Grand Total DES/DDD Ventilator Rate[3]	$ 10,371.70			$ 11,091.40	6.94%
Grand Total Behavioral Health Rate	$ 31.65			$ 33.62	6.21%

1 - Projected Member Months represents the 15 month period from 10/1/2003 to 12/31/2004.
2 - Risk / Contingency calculated by multiplying 1.50% to the Total Ventilator Services PMPM.
3 - Grand Total Ventilator Rate reflects the full premium tax.

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http://www.azleg.state.az.us/jlbc.htm

DATE: March 12, 2004

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY – DETERMINE ARIZONA WORKS CASELOAD REDUCTION SAVINGS

Request

Pursuant to A.R.S. § 46-342.01(B), the Joint Legislative Budget Committee each year shall determine the cash benefit dollar amount savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program. Up to 25% of the savings calculation may be awarded by the Arizona Works Agency Procurement Board to the Arizona Works vendor as performance-based incentives. The JLBC Staff is presenting the Committee with its estimate of savings for calendar year (CY) 2002 based on methodology reviewed by the Committee at a February 1999 meeting.

Recommendation

The JLBC Staff recommends the Committee approve a calculation of cash benefit savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program for calendar year 2002. The Committee originally approved a calculation methodology in 1999. If the Committee continues to use that methodology, the Arizona Works vendor generated $53,300 in caseload reduction savings in District I-E (eastern Maricopa County) for CY 2002. Additionally, using that methodology, the vendor did not earn any caseload reduction savings in its Greenlee County pilot for CY 2002.

Current statute allows up to 25% of these savings (or $13,325 of the $53,300 in District I-E savings, in this circumstance) to be awarded by the Arizona Works Agency Procurement Board if the Arizona Works vendor meets performance-based incentives specified in its contract.

Analysis

Laws 1997, Chapter 300 created the Arizona Works pilot program. This program replaced the regular Temporary Assistance for Needy Families (TANF) assistance program, known as EMPOWER Redesign, in

(Continued)

the Department of Economic Security's (DES) District I-E, centered around eastern Maricopa County. This pilot was later expanded to Greenlee County. Both pilots ended pursuant to statute on September 30, 2002.

Laws 1998, Chapter 211 added A.R.S. § 46-342.01, which requires in part that "on or before February 15 of each year the Joint Legislative Budget Committee shall determine the cash benefit dollar amount savings attributable to caseload reduction, if any, achieved for the previous calendar year by Arizona Works." Up to 25% of these caseload reduction savings may be used by the Arizona Works Agency Procurement Board to award incentives to the vendor for satisfactory performance on several criteria.

The Procurement Board selected MAXIMUS as the vendor for the Arizona Works program, which began operation on April 1, 1999. The contract signed by MAXIMUS includes performance incentives using these caseload reduction savings based on MAXIMUS' success in meeting certain performance criteria.

At its February 1999 meeting, the Committee gave a favorable review to the JLBC Staff's blended caseload reduction methodology. This blended methodology combined 3 different options for calculating caseload reduction savings:

- Measuring caseloads against a fixed April 1, 1999 baseline
- Measuring caseloads against a moving baseline
- Adjusting caseloads for Maricopa countywide performance

Because each option had its own merits and because the statutory language gave little guidance to the Committee on how to calculate these savings, the reviewed methodology incorporated each option into its methodology. Measuring caseloads against a fixed baseline and a moving baseline were given a 25% weight, and adjusting caseloads for countywide performance were given a 50% weight. "Caseload" was defined as the unduplicated caseload in the Regular and Unemployed Parent programs, excluding child-only cases.

The JLBC has previously approved the JLBC Staff's estimate of caseload reduction savings attributable to the Arizona Works vendor for CY 1999 ($0), CY 2000 ($727,600), and CY 2001 ($1,083,300). All estimates were based on the previously approved methodology discussed above.

The JLBC Staff has taken the data provided for Arizona Works and District I-E and Greenlee County to calculate its caseload reduction savings estimate for CY 2002. It has taken our staff and DES longer than expected to obtain the correct data for the calculation.

Because these Arizona Works pilots ended pursuant to statute on September 30, 2002, this is the final calculation of caseload reduction savings required of the Committee.

RS:SSH:ck

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson, - Phoenix, AZ 85007

Janet Napolitano
Governor

David A. Berns
Director

RECEIVED
JAN 5 2004
JOINT BUDGET COMMITTEE

DEC 29 2003

The Honorable Robert Burns, Chairman
Joint Legislative Budget Committee
Arizona State Senate
Phoenix, AZ 85007

Dear Senator Burns:

Pursuant to A.R.S. §46-342-01 (B), the Joint Legislative Budget Committee (JLBC) each year shall determine the cash benefit dollar amount savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program. Up to 25% of the savings calculated may be awarded by the Arizona Works Agency to the Arizona Works vendor as performance-based incentives. Although Senate Bill 1037 deleted this section of the statute, effective October 1, 2002, the savings amount for the calendar year up to October 1, 2002 still requires calculation and approval by the JLBC. In response to correspondence from JLBC staff, the Department requests the JLBC calculate the caseload reduction savings for this period. Data concerning this calculation has been previously provided by the Department to JLBC staff.

Please contact Lynne Smith, Assistant Director, Division of Business and Finance, at (602) 542-7166 or me at (602) 542-5678 if you have any questions.

Sincerely,

David A. Berns

David A. Berns

DAB:LS:mj

c
The Honorable Russell K. Pearce, Vice-Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Clark Partridge, State Comptroller, Arizona Department of Administration
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: March 12, 2004

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – REVIEW OF DEVELOPMENTAL DISABILITIES CAPITATION RATES

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for Title XIX Behavioral Health programs. DHS is requesting a 6.1% change in the Developmental Disabilities (DD) Title XIX Behavioral Health rates. These rate changes will affect the Children's Behavioral Health (CBH) and Seriously Mentally Ill (SMI) Special Line Items. DHS has received approval from the Arizona Health Care Cost Containment System (AHCCCS) to change the capitation rates for the DD component retroactive to October 1, 2003.

Summary

The proposed rates are based upon an actuarial study, which is required by the federal government. The rates include the Medicaid insurance premium tax adjustment. The proposed 6.1% increase would have minimal cost compared to the current JLBC FY 2004 supplemental estimates, and no cost compared to the JLBC FY 2005 estimate for the behavioral health budget.

Given that the proposed adjustment is within the budget, the JLBC Staff recommends a favorable review.

Analysis

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

(Continued)

DHS has received approval from AHCCCS to change the DD Title XIX Behavioral Health rate from $62.48 to $66.32 per member month, an increase of 6.1%. The effective date for these changes is October 1, 2003 and the rates will be in effect until December 31, 2004.

The increases were developed using FY 2003 claims and enrollment data DD population, as well as other national and regional sources, such as other states' programs. DHS acknowledges that typical components of rate increases include "changes in population, technology, plan design, service delivery, service costs, and utilization." However, they are not able to provide us a breakdown of the components of the increases, such as how much of the increase is related to increased utilization of services, how much is related to increases in the cost of the service, and how much is related to policy changes.

RS/BH:jb

Arizona Department of Health Services

Office of the Director

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JANET NAPOLITANO, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

NOV 21 2003

RECEIVED
NOV 26 2003
JOINT BUDGET COMMITTEE

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

Dear Representative Pearce:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services (ADHS) requests placement on the next Joint Legislative Budget Committee's agenda to review proposed changes in Developmental Disabilities Title XIX Behavioral Health Services (BHS) capitation rates for FY 2004. The effective date for this change is October 1, 2003.

The Federal government requires states to review their capitation rates annually to assure that the rates are actuarially sound and sufficient to properly support the Title XIX program. As a result, the capitation rate for the behavioral health component is increasing from $62.48 to $66.32 per member month. The Arizona Health Care Cost Containment System (AHCCCS), along with Mercer Consulting, reviewed the contractor financial statements, encounter data submitted, and medical trend data provided by ADHS/BHS and recommended adjusting the capitation rate by blending the rates for ventilator dependent and non-ventilator dependent members. The ADHS estimates the Total Fund authority needed to implement this change is $530,000 and the General Fund amount is $158,000.

Enclosed is a copy of a memorandum from AHCCCS (with the enclosed schedule developed by Mercer Consulting, Inc.) outlining the method used to develop the new rate.

If you need additional information, please contact Chris Petkiewicz at 364-4699.

Sincerely,

Cathy Eden

Catherine R. Eden
Director

CRE:pm

Enclosure

Janet Napolitano, Governor
Anthony D. Rodgers, Director

AHCCCS

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us

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

RECEIVED NOV 1 ADHS DBHS/BFO

DATE: November 10, 2003

TO: Chris Petkiewicz

FROM: Pat Spencer

SUBJECT: DDD Behavioral Health rates for 10-1-03 through 12-31-04

The attached information is excerpted from the DDD capitation rate development produced by Mercer. The Behavioral Health capitation is a component of the entire DDD rate and therefore only the information related to the Behavioral Health rate is presented below.

Behavioral Health Component

The Behavioral Health rate component is a blended rate for both Non-Ventilator and Ventilator DES/DDD enrollees. The blended rate was developed by separately developing Behavioral Health rates for the Non-Ventilator and Ventilator populations and blending the two rates together based on member months.

- The Non-Ventilator rate component was trended by 5.5 percent from the CYE03 rate, based on cost information provided by Behavioral Health Services (BHS) to AHCCCS, and similar trends utilized in the AHCCCS acute care CYE04 rate. Overall, the administration applied was 10.3 percent. Including administration the total Behavioral Health capitation rate for CYE04 is $66.52, which represents a 5.5 percent annual increase from the CYE03 Behavioral Health rate.

- The Ventilator rate component was trended 5.5 percent from the CYE03 rate, based on data provided by BHS to AHCCCS. Overall, the administration applied was 10.3 percent. Including administration the total Behavioral Health capitation rate is $33.62, which represents a 5.5 percent annual increase from the CYE03 Behavioral Health rate.

The CYE04 blended component rate including administration is $66.32, which is a 5.5 percent annual increase from the blended CYE03 rate after normalizing the CYE03 and CYE04 composite rates.

The attached schedule illustrates the Blended Behavioral Health Rates

Please feel free to contact me with any questions.

C Alan Schafer
Ed Rappaport

Blended Midpoints

Rate Group	CYE03 BH Rate			CYE04 BH Rate			CYE04 BH Rate		
	CYE03 MMs	CYE03 PMPM[1]		CYE03 MMs	CYE04 PMPM[2]		CYE04 MMs	CYE04 PMPM[2]	
Non-Ventilator	171,466	$	62.63	171,466	$	66.52	236,325	$	66.52
Ventilator Dependent	919	$	31.65	919	$	33.62	1,470	$	33.62
Blended	**172,385**	**$**	**62.47**	**172,385**	**$**	**66.35**	**237,795**	**$**	**66.32**

Normalized Annual Rate Increase **5.50%**

1 - CYE03 Rate includes BH Component and BH Administration.

2 - CYE04 Rate includes BH Component and BH Administration.

STATE OF ARIZONA

Joint Legislative Budget Committee

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LINDA J. LOPEZ

DATE: March 12, 2004

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – REVIEW OF EXPENDITURE FROM THE VITAL RECORDS ELECTRONIC SYSTEMS FUND

Request

Pursuant to A.R.S. § 36-342.01, the Department of Health Services (DHS) requests review of a $1.4 million plan to spend monies from the Vital Records Electronic Systems Fund to automate functions related to birth and death certificates. Statute requires that prior to expenditure of monies from this fund for the purchase of new information technology, a detailed expenditure plan be submitted to JLBC for its review. At its October 2002 meeting, the Committee favorably reviewed the expenditure of $94,000 for a consultant to develop the plan for the new system requirements. DHS is returning for further review of that plan, asking to spend $1,397,300 from the fund.

Recommendation

The Committee has at least the following choices:

1. A favorable review with the condition that DHS return to the committee for review of expenditures from the Vital Records Electronic Systems Fund exceeding $1,397,300 in FY 2004 and $111,500 in FY 2005 and future years.

2. An unfavorable review. As described below, the Legislature did not intend for these monies to be spent on automation in FY 2004 and the FY 2005 JLBC budget continues that policy.

Analysis

Laws 2002, Chapter 160 authorized the creation of a non-appropriated Vital Records Electronic Systems Fund for the purpose of funding a new vital records information system. The fund receives revenues from a fee increase of $4 on requests for birth and death records. The chapter specifies that DHS must submit a detailed expenditure plan to Committee for its review after it receives approval from the Government Information Technology Agency (GITA). The department received approval for this phase of the project from both GITA and the Information Technology Authorization Committee (ITAC) in June 2003.

DHS is proposing to spend $1,397,300 in FY 2004 from the Vital Records Electronic Systems Fund for new hardware, software, and related costs of automating the state's birth and death certificates. In addition to the expenditures from the Vital Records Electronic Systems Fund, the department will also use $242,700 in base information technology funding, for total FY 2004 spending of $1,640,000. Ongoing annual costs to operate the new system starting in FY 2005 are estimated to be $336,100. Of this amount, $111,500 would be funded from the Vital Records Electronic Systems Fund and $224,600 would be from base funds.

This project will affect the vital records registry, customer service, and digital document imaging and archiving. The new system will include a standard application for certificates that will enhance data collection and monitoring and will improve the application process for hospitals and other users. Automation of the customer service system will reduce delays and improve information tracking. In addition to these automation projects, DHS will study the feasibility and cost of converting to a digital imaging and archiving system for vital records. If DHS chooses to implement a digital imaging and archiving system, the department would return to the Committee for review of the expenditures for that system.

The FY 2004 General Appropriation Act, as originally passed, used $1.4 million from the Vital Records Electronic Systems Fund to offset General Funds costs in the Public Health operating budget. The effect of this would have been to delay the automation project until at least FY 2005. Laws 2003, Chapter 265 (the Health ORB) also include a statutory provision allowing the expenditure of these monies for operating costs. The Governor line item vetoed the ORB provision but left the appropriation intact. Therefore, the FY 2004 and FY 2005 JLBC budgets continue to use these monies for operating costs. If they are used instead for the new automation system, other monies will need to be added to the operating budget to offset the loss of these funds. In FY 2004, DHS has identified $1 million in indirect cost charges and $341,000 from the High-Risk Perinatal Program that will be shifted to the operating budget so that the Vital Records Electronic Systems Fund may be used for the automation project.

If DHS does not proceed with the automation, there are 2 possible outcomes. First, the $1.4 million would accumulate in the fund until the issue is resolved as part of the FY 2005 budget. The second option is that DHS would expend the automation funds for operating expenses. In that circumstance, DHS would not use the $1 million in indirect cost charges for operating expenses and these monies would be freed up to reduce the FY 2004 DHS supplemental request of $7-8 million. DHS, however, may be reluctant to pursue this second option since the explicit legislative authority to use automation monies for operating purposes was vetoed.

RS/BK:ck

Arizona Department of Health Services

Office of the Director

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JANET NAPOLITANO, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

RECEIVED
JAN 15 2004
JOINT BUDGET COMMITTEE

January 15, 2004

The Honorable Robert Burns
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Burns:

Pursuant to A.R.S. §36-342.01, the Arizona Department of Health Services is submitting its expenditure plan to the Joint Legislative Budget Committee for its review. The expenditure plan, which was outlined in a Project and Investments Justification (PIJ), is summarized for you in an attached spreadsheet and narrative document (Attachment 1).

You also will find attached a letter, dated June 16, 2003, from the Government Information Technology agency (GITA) showing their review and approval of the PIJ (Attachment 2). This approved PIJ is attached along with a letter dated, June 25, 2003, from the Information Technology Authorization Committee at GITA showing they also reviewed and approved the PIJ (Attachment 3 and Attachment 4).

If you have any questions or need additional information, please contact Pat Mah at 542-6386 in the Central Budget Office.

Sincerely,

Cath R Eden

Catherine R. Eden
Director

CRE:pm
Attachments

Department of Health Services - Office of Vital Records (OVR)

Improving Service with Integrated Technology - Breakout by Funding Source

Description	FY 2004	FY 2005 **	FY 2006 **	FY 2007 **	FY 2008 **
Vital Records Electronic Systems Fund					
OVR FTE Positions					
Project Manager	1.00	1.00	1.00	1.00	1.00
OVR FTE (PS/ ERE)	$54,080	$54,080	$54,080	$54,080	$54,080
IT Services (Professional and Vendors, hosting)	$1,184,330 *	$21,000	$21,000	$21,000	$21,000
Hardware	$61,987	$22,800	$22,800	$22,800	$22,800
Software	$18,717	$0	$0	$0	$0
Communications	$12,000	$7,200	$7,200	$7,200	$7,200
Licensing/ Maintenance Fees	$30,718	$6,396	$6,396	$6,396	$6,396
Other - Training	$35,500	$0	$0	$0	$0
Vital Records Fund Total	***$1,397,332***	***$111,476***	***$111,476***	***$111,476***	***$111,476***
Base Funding (Other Funds)					
IT FTE Positions					
Project Leader	0.70	0.40	0.40	0.40	0.40
Technical Leader	1.00	1.00	1.00	1.00	1.00
Programmer Analyst	1.25	2.00	2.00	2.00	2.00
IT FTE Subtotal	**2.95**	**3.40**	**3.40**	**3.40**	**3.40**
OVR FTE Positions					
Office Manager	0.35	0.00	0.00	0.00	0.00
Project Manager	0.00	0.00	0.00	0.00	0.00
Subject Matter Expert	0.25	0.00	0.00	0.00	0.00
OVR FTE Subtotal	**0.60**	**0.00**	**0.00**	**0.00**	**0.00**
Total FTE Positions	***3.55***	***3.40***	***3.40***	***3.40***	***3.40***
IT FTE (PS/ ERE)	$208,000	$224,640	$224,640	$224,640	$224,640
OVR FTE (PS/ ERE)	$34,736	$0	$0	$0	$0
Other Funds Total	***$242,736***	***$224,640***	***$224,640***	***$224,640***	***$224,640***
Grand Total - All Funds	**$1,640,068**	**$336,116**	**$336,116**	**$336,116**	**$336,116**

* Includes six consultants with the required expertise for development of the project because the existing Information Technology Services (ITS) team does not have the required technical expertise.

* * PIJ does not include total projected expenditures in the fund because the first phase needs to be completed to fully assess the needs for the second phase. Approximately $1,000,000 in additional funds will be expended in the second phase for the digital imaging technology.

Prepared by: Central Budget Office
Date prepared: 01-09-2004

Office of Vital Records (OVR)
Improving Service with Integrated Technology
Plan for FY 2004 – Vital Electronic Systems Fund Only

OVR Project Manager – 1.0 FTE, $54,080

Ensures that all business processes essential to maintaining statutory requirements and customer service needs are addressed in the move to technology. Duties include:

- Assisting in project planning
- Scheduling OVR resources as needed
- Assisting in problem resolution
- Facilitating meetings for developing and approving project requirements, and resolving business process issues
- Acting as a liaison with Partners

IT Services (Professional and Vendors, hosting) - $1,184,330

IT Services will include a variety of consultants who have the required expertise to assist in the design and implementation of the Vital Records Registry System (VRRS), Customer Service System (CSS), Database Design, and a Hosting Platform. They will also assist in moving to the second phase of the project by developing a requirements analysis and a cost estimate for a Digital Records System (DRS). A brief description of each of these is listed below:

1) Vital Records Registry System (VRRS) - $743,180

The VRRS will replace the existing Birth, Death, Fetal Death, Reporting, and Utility applications through the development of an integrated application system that can be accessed using a standard Web browser such as Microsoft Internet Explorer. The browser-based applications will be provided to users through a combination of Internet and Intranet (internal Internet) access.

2) Customer Service System (CSS) – $323,020

CSS will include new hardware and software to provide faster, more cost-effective service to customers who need copies of their vital records either directly or through agents such as the counties.

CSS will include a new Point of Sale (POS) system to move from standalone systems to integrated stations with user screens, cash drawers, credit card swipes, customer displays, and receipt printers. This computerization will result in consolidated reports for better accounting and reconciliation.

3) Digital Record System (DRS) - $46,080

This is the estimated cost for the expertise necessary to provide a detailed requirements definition for the DRS system that will be the subject of a future Project & Investment Justification. The development and implementation of the system will be undertaken in future years. DRS will provide the foundation for:

- Issuing birth and death certificates from digital records and images through data entry using the VRRS and document scanning devices
- Creating microfilm records for archival purposes

4) Database Design - $46,800

This is the estimated cost for the expertise necessary to design and build a new database that will support all applications.

5) Hosting Platform - $25,250

This is the estimated cost for designing and setting up a new hosting platform. In addition, the estimated cost includes hosting the web applications by an Internet Service Provider (ISP) hosting company.

Hardware - $61,987

1) Web Application Hosting - $24,700

2) Point of Sale (POS) - $37,287

The new POS system, as mentioned above, is necessary for the CSS. It will include an estimated eleven integrated stations with user screens, cash drawers, credit card swipes, customer displays, and receipt printers.

Software - $18,717

1) *MSDN Enterprise - $8,796*
2) *Robohelp - $2,196*
3) *Class Libraries and reusable controls - $5,000*
4) *Database design software (Erwin) - $2,725*
5) *Source safe – Included at no cost*

Communications - $12,000

The development of T-1 lines will cost an estimated $600 per month for a period of eight months for a total of $4,800. In addition, there will be an ongoing annual charge estimated at $7,200 for two communication lines between the web hosting service provider and the ADHS data center.

Licensing/ Maintenance Fees - $30,718

The licensing/ maintenance fees are $24,322 for an estimated 12 POS workstations. In addition, the MSDN Enterprise (MS Visual Studio Enterprise) licensing charges are estimated at $6,396 per year.

Other (Training) - $35,500

Training will be provided to the technical lead, project manager, and the programmer analysts to ensure knowledge of all new application processes. The training classes will cover VB.NET, ASP.NET, XML, project management, and basic.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: March 12, 2004

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

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

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

Request

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

Recommendation

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

Analysis

A footnote in the General Appropriation Act each year states that "Before making any changes to the achievement testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the Joint Legislative Budget Committee." The department has not yet submitted a report on recent changes in the achievement testing program, although cost increases due to changes are anticipated.

SSc:ss