STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

DON SHOOTER
CHAIRMAN 2014
OLIVIA CAJERO BEDFORD
GAIL GRIFFIN
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1716 WEST ADAMS PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

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** R E V I S E D **

JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, April 10, 2014
8:30 A.M.
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of December 17, 2013.
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION Arizona Department of Administration, Risk Management Services Consideration of Proposed Settlements under Rule 14.
- 1. ARIZONA DEPARTMENT OF ADMINISTRATION
 - A. Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.
 - B. Consider Approval of Employer Sanctions Enforcement Distributions.
- 2. DEPARTMENT OF ECONOMIC SECURITY
 - A. Review of Contingency Funding Expenditure Plan.
 - B. Review of Intensive Family Services Implementation.
- 3. ARIZONA DEPARTMENT OF EDUCATION Review of Sunnyside Unified Payments.
- 4. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY Review of Vehicle Emissions Contract Modifications.

5.	AHCCCS/DEPARTMENT OF HEALTH SERVICES - Review of Revised Capitation Rate Changes for Acute Care and Behavioral Health Services.
The Ch	airman reserves the right to set the order of the agenda.
4/7/14 4/8/14	manual reserves are right to set the order of the agonati
4/8/14 lm	

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

December 17, 2013

The Chairman called the meeting to order at 1:07 p.m., Tuesday, December 17, 2013, in House Hearing Room 4. The following were present:

Members: Representative Kavanagh, Chairman Senator Shooter, Vice-Chairman

Representative Alston
Representative Gowan
Representative Lesko
Representative Mach
Representative Ugenti
Senator McComish
Senator Melvin
Senator Pancrazi
Senator Yarbrough

Absent: Representative Olson Senator Cajero Bedford

Representative Kwasman Senator Tovar

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of October 29, 2013, Chairman John Kavanagh stated that the minutes would stand approved.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)

A. ADOA - Review of Automation Projects Fund Expenditures.

Mr. Ben Henderson, JLBC Staff, stated that this item is for review of a \$3.4 million expenditure plan from the Automation Projects Fund for information technology (IT) projects for the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. The JLBC Staff presented options to the Committee.

Mr. Aaron Sandeen, Deputy Director and State Chief Information Officer, ADOA, responded to member questions.

<u>Senator Shooter moved</u> that the Committee give a favorable review of \$3.4 million in FY 2014 expenditures from the Automation Projects Fund for IT projects for the ASET Office in ADOA, with the following provisions:

- 1. As a result of further planning and implementation efforts, should there be significant changes in the proposed costs, technology approach, scope of work, or implementation schedule, ADOA-ASET must amend the Project Investment Justification (PIJ) to reflect the changes and submit the updated PIJ to the ADOA-ASET Strategic Oversight team for review, and approval as necessary.
- 2. ADOA-ASET must ensure that the appropriate levels of security controls are in place prior to the migration of any service offerings that may involve sensitive, confidential or Personally Identifiable Information (PII) data to the cloud.

The motion carried.

B. ADOA - Review of Requested Exchange of Automation Project Fund Transfers and Report on AFIS Charge.

Mr. Matt Gress, JLBC Staff, stated that this item is for review of agency requests to transfer monies between their own funds in order to comply with Automation Project transfers required by the FY 2014 General Appropriation Act. Arizona Department of Administration (ADOA), the Arizona Criminal Justice Commission (ACJC), Department of Health Services, State Mine Inspector, Supreme Court, and the Arizona Department of Transportation (ADOT) have requested Committee review of fund transfers. The JLBC Staff presented options to the Committee.

The second part of this item is a follow-up to the March 26, 2013 Committee meeting, where the Committee required ADOA to report on all agencies, excluding the Universities, who are not participating in the new Arizona Financial Information System (AFIS). In response to that request, ADOA reports that the following agencies have elected not to use the new AFIS system in any way and reported their concerns: Arizona Power Authority, Arizona Commerce Authority, the Public Safety Personnel Retirement System, the Arizona State Retirement System and the Early Childhood Development and Health Board.

Mr. Aaron Sandeen, Deputy Director and State CIO, ADOA, responded to member questions.

Mr. D. Clark Partridge, State Comptroller, General Accounting Office, ADOA, responded to member questions.

<u>Senator Shooter moved</u> that the Committee give a favorable review of all of the requested transfers as shown in Table 1. The motion carried.

ATTORNEY GENERAL - Review of Plan to Transition Capital Postconviction Prosecution Responsibility to Maricopa County.

Mr. Matt Gress, JLBC Staff, stated that this item is for review of a report detailing its plan for transitioning Maricopa County capital postconviction prosecution responsibilities to the county over the next 4 years. The JLBC Staff presented options to the Committee.

Mr. Jeff Zick, Section Chief Counsel, Attorney General's Office, responded to member questions.

Ms. Rebecca Baker, Deputy County Attorney, Maricopa County Attorney Office, responded to member questions.

<u>Senator Shooter moved</u> that the Committee table this item to be reviewed further during budget negotiations. The motion carried.

Table 1 Requested F	Y 2014 Fund Transfer Exchanges	
Original Fund ^{1/}	Agency Fund 2/	Transfer <u>Amount</u> ^{3/}
Arizona Department of Administration Stimulus Statewide Administration Fund Subtotal	Capital Outlay Stabilization Fund Subtotal	\$ 2,400 \$ 2,400
Arizona Criminal Justice Commission Drug and Gang Enforcement Fund Victim Compensation and Assistance Fund	State Aid to Indigent Defense Fund State Aid to Indigent Defense Fund	\$ 43,000 27,300
State Aid to County Attorneys Fund Criminal Justice Enhancement Fund Drug and Gang Prevention Resource Center Fund	State Aid to Indigent Defense Fund State Aid to Indigent Defense Fund State Aid to Indigent Defense Fund	7,000 4,500
Subtotal	Subtotal	\$ 83,500
Department of Health Services Nursing Care Institution Resident Protection Revolving Fund	Health Services Licensing Fund	\$ 300 \$ 300
Subtotal State Mine Ingrestor	Subtotal	\$ 300
State Mine Inspector Abandoned Mines Safety Fund Subtotal	Aggregate Mining Reclamation Fund Subtotal	\$ 600 \$ 600
Supreme Court Grants and Special Revenue Fund Grants and Special Revenue Fund Subtotal	Juvenile Probation Services Fund Arizona Lengthy Trial Fund Subtotal	\$ 11,700 <u>171,900</u> <i>\$183,600</i>
Arizona Department of Transportation Railroad Review Fund Subtotal	Railroad Corridor Acquisition Fund Subtotal	\$ 1,000 \$ 1,000
1/ Fund Source for transfers in budget. 2/ Funds from which agencies are requesting transfers. 3/ Transfer amounts proposed by agency.	ers in order to accommodate the mandated transfer.	

JLBC STAFF - Consider Approval of Index for School Facilities Board Construction Costs.

Mr. Ben Henderson, JLBC Staff, stated that this item requires the Committee's approval of adjustment to the cost-per-square-foot factors used in the School Facilities Board (SFB) new school construction financing. The JLBC Staff presented 2 options to the Committee, in addition to a 3rd option presented by SFB.

Mr. Dean T. Gray, Executive Director, School Facilities Board, responded to member questions.

Senator Shooter moved that the Committee approve a 0% adjustment in the cost-per-square-foot factors. The adjustment is based on longitudinal inflation data, by measuring the change in the Rider Levett Bucknall construction cost index for the Phoenix area since the last JLBC cost-per-square-foot adjustment was made in November 2008. The motion carried.

SECRETARY OF STATE - Review of FY 2009 Records Services Fund Spending Plan.

Ms. Krista MacGahan, JLBC Staff, stated that this item is for review of expenditures from the Records Services Fund as authorized by a non-lapsing appropriation made in FY 2009. The JLBC Staff presented options to the Committee.

Mr. Jim Drake, Assistant Secretary of State, Office of the Secretary of State, responded to member questions.

Mr. Ted Hale, Deputy Director, Library, Archives and Public Records, Office of the Secretary of State responded to member questions.

Senator Shooter moved that the Committee give a favorable review of the total expenditure plan of \$228,700: 1) \$109,300 for 12 repair projects to bring the Records Services Center to current building codes and protect records stored in the building, 2) \$28,000 for costs associated with the transportation of a statue of John C. Greenway from the U.S. Capitol's Statutory Hall to Arizona, and 3) \$91,400 for building renovations with the following provision: The Secretary of State shall use the \$91,400 contingency amount for building renovation and code compliance projects. The Secretary of State shall notify the JLBC Chairman and the JLBC Staff of the specific projects funded with the \$91,400 amount prior to expenditure to determine whether the projects are within the intended scope of the Committee's review. If the Chairman believes the project is outside the intended scope, the Secretary of State will be notified to seek Committee review. The motion carried.

EXECUTIVE SESSION

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

At 2:26 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 3:05 p.m. the Committee reconvened into open session.

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

<u>Senator Shooter moved</u> that the Committee approve the recommended settlements proposed by the Attorney General's office in the cases of:

- Henderson/Palmer v. State of Arizona
- Claim of Richard Arriola
- Diane Parker v. Arizona Department of Agriculture

The motion carried.

B. JLBC - Annual Performance Review per Rule 7.

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

Without objection, the meeting adjourned at 3:11 p.m.

Respectfully submitted:

Kristy Paddack, Secretary

Richard Stayneak, Director

Representative John Kavanagh, Chairman



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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JOHN KAVANAGH CHAIRMAN 2013 LELA ALSTON DAVID GOWAN, SR. ADAM KWASMAN DEBBIE LESKO STEFANIE MACH JUSTIN OLSON MICHELLE UGENTI

DATE:

March 18, 2014

TO:

Senator Don Shooter, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director 125

FROM:

Ben Henderson, Fiscal Analyst

SUBJECT:

Arizona Department of Administration - Review of Emergency Telecommunication Services

Revolving Fund Expenditure Plan

Request

Laws 1998, 4th Special Session, Chapter 6 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 Committee has at least the following 2 options:

- A favorable review of the \$5.7 million wireless portion of the ETSF expenditure plan.
- An unfavorable review of the \$5.7 million wireless services expenditure plan.

In FY 2014, ADOA expects to distribute \$19.1 million from the ETSF. Of the \$19.1 million, \$12.5 million is for wire services, \$5.7 million is for wireless services, and \$0.9 million is for administrative costs. Over the past 5 years, expenditures averaged \$19.8 million.

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.

(Continued)

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 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

In 1996, the FCC issued Report and Order 96-204, which ordered the development and implementation of 911 services for wireless telecommunications systems in 2 phases. Before a service area achieves *Phase I*, 911 calls consist of the call being directed to a public safety answering point (PSAP), but the call is delivered without location or call back information (shown below as *Phase 0/.5*). *Phase I* requires local public safety answering facilities to be able to identify the phone number of the caller, in addition to the nearest cellular tower to the caller and to relay calls to the nearest emergency response center. *Phase II* requires local public safety answering facilities to be able to identify the specific location of the caller. Geographic Information System (GIS) Standards must be met before a 911 system deploys wireless Phase II. Mobile service carriers were required to upgrade their systems for Phase II capability by December 2005. The status of Arizona's wireless 911 availability as of August 30, 2013, is listed below:

	Phase 0/.5	
Hopi Reservation	Gila County	Apache County
Navajo Reservation	Grand Canyon	City of Williams
San Carlos Reservation	La Paz County	
Flagstaff/Coconino County	Navajo County	
	Phase I City of Winslow	
	Phase II	
Cochise County	City of Page	Yavapai Region
Colorado City	Pinal County	Yuma County
Gila River Tribal Community	City of Prescott	Greenlee County
Graham County	Pima County	City of Clifton
Maricopa County	Santa Cruz County	
Mohave County	City of Wilcox	

The \$5.7 million wireless portion of the ETSF expenditure plan would assist these local governments in achieving *Phase II* capabilities. Wireless *Phase II* services are now available on the major thoroughfares from Nogales through Yavapai County. Although Gila County was scheduled for completion in FY 2013, this project is still in progress. Areas that have not yet completed *Phase I* are being encouraged to move directly to *Phase II*. Approximately 90% of the state's population lives in *Phase II* areas, where the location of a 911 caller can be identified.

Funding Mechanism

A.R.S. § 42-5252 authorizes a \$0.20 per month tax on each wire and wireless telecommunication service account. In addition to the tax on wire and wireless phone accounts, Laws 2012, Chapter 198 established the prepaid wireless telecommunications 911 excise tax. The tax is equal to 0.8% of the gross income derived from the retail sale of prepaid wireless telecommunications services. The tax became effective as of January 1, 2014. Although Arizona statute now requires a tax on prepaid wireless accounts, there is still no requirement that recent technology, such as internet-based phones and OnStar, pay 911 taxes.

The revenue generated from these taxes is deposited into the Emergency Telecommunications Services Revolving Fund. ADOA estimates that revenues will increase from \$16.4 million in FY 2013 to \$19.3 million by FY 2015 and remain near that level until FY 2018.

FY 2014 ETSF Expenditure Plan

Localities submit copies of their invoices for emergency telecommunications services and equipment to ADOA, who subsequently distributes funds to these areas based on need. In FY 2014, ADOA expects to distribute \$19.1 million from ETSF. Of the \$19.1 million, \$5.7 million is for *Phase I* and *Phase II* wireless services. In addition, \$12.5 million is for proposed wire services expenditures, while the remaining \$900,000 is for administration costs.

Table 1 summarizes the actual ETSF distribution during the past 2 fiscal years and projected distribution during the current fiscal year.

- 2014 Expenditure P	lan	
Actual	Actual	Projected
FY 2012	FY 2013	FY 2014
\$3,980,400	\$2,129,600	\$3,436,800
16,481,700	16,425,800	17,261,500
30,200	30,500	30,200
\$20,492,300	\$18,585,900	\$20,728,500
30,100	32,700	34,200
4,129,600	4,203,900	<u>5,634,500</u>
\$ 4,159,700	\$ 4,236,600	\$ 5,668,700
\$11,193,400	\$10,132,500	\$12,555,900
\$4,159,700	\$4,236,600	\$5,668,700
\$795,900	\$780,000	\$919,100
\$16,149,000	\$15,149,100	\$19,143,700
\$2,213,700	\$0	\$124,300
\$2,129,600	\$3,436,800	\$1,460,500
	Actual FY 2012 \$3,980,400 16,481,700 30,200 \$20,492,300 \$30,100 4,129,600 \$4,159,700 \$11,193,400 \$4,159,700 \$795,900 \$16,149,000 \$2,213,700	FY 2012 FY 2013 \$3,980,400 \$2,129,600 \$16,481,700 \$16,425,800 \$30,200 \$30,500 \$20,492,300 \$18,585,900 30,100 \$2,700 \$4,129,600 \$4,203,900 \$4,159,700 \$4,236,600 \$11,193,400 \$10,132,500 \$4,159,700 \$4,236,600 \$795,900 \$780,000 \$16,149,000 \$15,149,100 \$2,213,700 \$0

Table 2 includes further detail on planned wireless services expenditure in FY 2014.

Table 2	
FY 2014 Wireless Services E	Expenditure Plan
	Total
Cochise County	\$ 317,000
Coconino County/ Page	128,500
Colorado City	2,600
Gila County	53,000
Gila River Tribal	9,500
Graham County	39,200
Greenlee County	23,800
La Paz County	91,800
Maricopa County	2,573,800
Mohave County	191,200
Navajo/Apache Counties	0
Pima County	1,222,100
Pinal County	373,500
Santa Cruz County	88,600
Winslow	129,100
Yavapai County	281,600
Yuma County	142,300
TOTAL	\$5,667,600

RS/BH:ts

Janice K. Brewer Governor



ARIZONA DEPARTMENT OF ADMINISTRATION

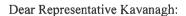
OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 400 PHOENIX, ARIZONA 85007

(602) 542-1500

December 19, 2013

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



As stipulated in Laws 1998, 4th Special Session, Chapter 6, Section 5 – <u>Emergency telecommunications fund: report of expenditure plans</u>, 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 2013
- The status of Arizona 9-1-1 and the estimated costs and deployment schedule to implement Wireless Phase II
- Arizona Deployment Map
- The 9-1-1 financial forecast for fiscal years 2014 through 2018 incorporating the fund balance transfers to the General Fund during FY2003, FY2004, FY2009, FY2010, FY2011, FY2012, FY2013 and FY2014

Please note that the financial forecast represented on page 8 of the attached report, in the table titled "FY09-FY18 Actual and Proposed Expenditures", shows a shortfall in revenue relative to needs for fiscal years 2015 through 2019 (See Funds Forward line item). These shortfalls occur despite an anticipated \$2 million in additional revenues generated through HB 2094, Prepaid Wireless Telecommunications E911 Excise Tax, which will be implemented after December 31, 2013. With additional Wireless Phase II deployments and a transition to an IP Enabled Network, costs will continue to increase. To ensure expenditures do not exceed projected revenues there will be delays in Wireless program implementation, equipment upgrades, and network transition, as well as some 9-1-1-related cost shifting throughout the State.

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,

Brian C. McNeil

Director

cc: The Honorable Don Shooter, Vice Chair, JLBC

Richard Stavneak, Director, JLBC

Ben Henderson, Fiscal Analyst, JLBC

John Arnold, Director, OSPB

Ken Matthews, Budget Analyst, OSPB

Paul Shannon, Assistant Director, ADOA

Aaron V. Sandeen, Deputy Director/State CIO, ADOA

Phil Manfredi, Chief Strategy Officer, ADOA

Michael C. Sherman, Executive Manager, ADOA

Arizona Department of Administration State 9-1-1 Office Wireless Program Report Fiscal Year 2013

The State 9-1-1 program was established through legislation in 1985 to provide a funding mechanism for the deployment and on-going costs of providing 9-1-1 services in Arizona.

Pursuant to A.R.S. Title 43, Article 6, Telecommunications Services Excise Tax, a tax is levied for each activated wireline, including Voice over Internet Protocol (VoIP) access, and wireless service account for the purpose of financing emergency telecommunications services. Beginning July 1, 2006, the tax was reduced from thirty-seven cents per month to twenty-eight cents per month and then further reduced to twenty cents per month beginning July 1, 2007.

During the Fiftieth Legislature, second regular session, HB 2094, Prepaid Wireless Telecommunications E911 Excise Tax, was passed and signed into law on April 5, 2012. The tax is scheduled to be implemented after December 31, 2013, and is estimated to collect an additional \$2 million per year.

The funds collected are administered by the Arizona Department of Administration under A.R.S. § 41-704. In addition, rules have been established that govern the allowable expenditures and funding eligibility requirements by communities and political subdivisions in the State.

Components eligible for funding include necessary and/or appropriate network, equipment and maintenance to handle the processing of 9-1-1 emergency calls. Of the revenue generated, the program statutorily distributes 95% of the fund for 9-1-1 call service delivery of wireline, wireless and VoIP services. An amount not to exceed 3% of the annual revenue is used by the Arizona Department of Administration for program oversight expenditures. An additional amount of 2% is distributed to the 9-1-1 System Coordinators for the Local Network Management of Contracts.

Accounting methodology is in place to track all expenditures by community and/or 9-1-1 system. In July 2007, the Department of Revenue transitioned their processes to collecting the tax as one entity, with the identity code of 911, no longer breaking out the wireline and wireless revenue.

All Public Safety Answering Point (PSAP) equipment used to answer and handle 9-1-1 calls are budgeted under wireline expenditures; however, it should be understood that the equipment is used to answer all wireline, wireless and VoIP 9-1-1 calls. Mapping equipment for Wireless Phase II is broken out and budgeted under Wireless Phase II equipment.

The Arizona 9-1-1 Wireless Phase II Implementation Plan has been updated to expand the program moving specified sites toward deployment of Wireless Phase II. Costs associated with legislative cost recovery are included. The Statewide System Project plan, covering each 9-1-1 System for FY14, has been updated and is also included. Due to limited funding availability, deployment of Wireless Phase II is limited to only those carriers that do not seek wireless carrier costs.

Federal Communications Commission 9-1-1 Wireless Phase I rules indicate that when a call is placed for emergency services, the address information for the cellular tower is provided along with the call to the Public Safety Answering Point (PSAP/9-1-1 Center). The delivery of 9-1-1 Wireless Phase II calls are delivered with the longitude and latitude of the caller to the PSAP, providing more defined location information.

The wireless program criteria established for rollouts stipulates that Enhanced 9-1-1 (voice, telephone number and address) has been completed for either an entire county or significant portions of a county. Each county or system must complete a Wireless 9-1-1 Service Plan, utilizing the format specified in the State guidelines, and appoint a single point of contact for each county or area. The Geographic Information System (GIS) data must be completed and meet the same 95% accuracy rate as established for Enhanced Wireline 9-1-1. Equipment mapping components will be installed prior to request for service letters being sent to the wireless carriers for Wireless Phase II service.

Wireless Deployment

Significant progress continues to be made in the deployment of Wireless Phase II. The two most populous areas in the state, the Maricopa Region and Pima County, completed their Phase II deployments, constituting approximately 80% of the state's population. Wireless Phase II has also been completed in Cochise County, Graham County, Mohave County, Pinal County, Santa Cruz County, Yavapai County, the Gila River Tribal Community and the City of Page. Completion of Wireless Phase II deployments has also occurred in Greenlee County and Yuma County, but falls under the modified designation since carriers that seek cost recovery for Wireless Phase II were not included.

During FY13, additional funds were expended from the \$1 million Public Safety Answering Point (PSAP) Readiness Fund grant to complete the Geographic Information Systems (GIS) work necessary for Greenlee County. To date, those funds have furthered the deployment of Wireless Phase II for seven counties and one municipality. Additional funds were received from the Arizona Department of Land under the State Broadband Initiative (SBI) grant for the GIS work in Apache County, Greenlee County, Navajo County and La Paz County. Page 10 displays the areas that are GIS Standards Compliant.

With the completion of these projects, Wireless Phase II service is available on the major thoroughfares from Nogales through Yavapai County. Page 11 depicts the status of Wireless Phase II deployments through fiscal year 2013.

Request for Wireless Phase II service letters have been distributed to the wireless carriers not seeking cost recovery for Gila County and the

FY13 E	xpenditures	Phase
\$	208,645	
\$	1,510	
\$	1,510	GIS
\$	2,925	transition
\$	7,510	ll l
\$	32,921	II
\$		GIS
\$	1,941	H
\$	1,742,620	- 11
\$	35,153	II
\$	201,081	GIS
\$	1,065,299	IL
\$	324,978	II
\$	77,985	II
\$	256,076	
\$	94,272	II
\$	44,498	- 11
\$	31,513	II
\$	4,130,438	
	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	\$ 1,510 \$ 1,510 \$ 2,925 \$ 7,510 \$ 32,921 \$ - \$ 1,941 \$ 1,742,620 \$ 35,153 \$ 201,081 \$ 1,065,299 \$ 324,978 \$ 77,985 \$ 256,076 \$ 94,272 \$ 44,498 \$ 31,513

projects should be completed prior to the end of fiscal year 2014. It is anticipated that following the completion of those projects, Coconino County will be ready to move to Wireless Phase II in FY14. Any special grant funds remaining from the completion of Greenlee County will be used to provide mapping equipment in the remaining counties of Apache, La Paz and Navajo.

Wireless Phase II deployment for Mohave County was completed in FY11. Due to a difference in delivery platforms, Wireless Phase II calls with location data cannot be transferred from Mohave County to the Department of Public Safety (DPS) Communications Center in Flagstaff without additional network costs of \$12,000 per year. Today those calls are transferred to DPS with voice communications only. During FY13, deployment of Wireless Phase II in Greenlee County was completed without those carriers that seek cost recovery.

Wireless Expenditures

The FY13 expenditures for Wireless Phase I & II are outlined in the table above. As indicated, the expenditures for Navajo/Apache County does not include the Navajo Nation, which has not completed a 9-1-1 Service Plan for funding eligibility.

For current Wireless Phase I and/or Wireless Phase II systems, those adding new systems, and those that are near to or have completed their GIS requirement, the FY14 wireless budget includes expenditures for network components, wireless carrier costs, selective router costs and necessary, additional equipment for receiving Phase II map data.

Additional expenditures budgeted for fiscal year 2014 includes ongoing costs associated with the frame relay network for the Enterprise Mapping System. With significant county boundary issues recognized, this system

allows updated GIS data to be distributed to the 9-1-1 centers within their county or shared with other counties. These costs are already being incurred in Cochise County, Maricopa Region, Mohave County, Pima County, Pimal County and Yavapai County. When new map data is available, that data can be distributed via the frame relay network and updated information can be published more efficiently.

Even with expected prepaid wireless revenue of \$2 million dollars annually, there will still be insufficient revenue available for the deployment and support of enterprise mapping systems for 9-1-1. Therefore, with the Wireless Phase II implementation in Yuma County, this mapping service is not available for Yuma County and subsequent deployments.

Due to limited funds with the deployment of Wireless Phase II in Yuma County and subsequent deployments for the remainder of the State, a single trunk group (a specific number of lines connected to the PSAP through a single conduit), will be installed rather than separate wireline and wireless trunk groups. Additionally, requests for Wireless Phase II will only

System	FY14	Budget	Phase
Cochise County	\$	317,040	П
Coconino County/Page	\$	128,460	GIS/II
Colorado City	\$	2,640	l!
Gila County	\$	53,040	П
Gila River Tribal	\$	9,480	
Graham County	\$	39,180	
Greenlee County	\$	23,760	11
La Paz	\$	91,800	GIS
Maricopa Region	\$	2,573,820	ll ll
Mohave County	\$	191,220	
* Navajo Co/Apache Co	\$::::::::::::::::::::::::::::::::::::	GIS
Pima County	\$	1,222,080	i II
Pinal County	\$	373,500	11
Santa Cruz County	\$	88,560	li
Winslow	\$	129,066	
Yavapai County	\$	281,580	II
Yuma County	\$	142,320	II .
	\$	5,667,546	
*Does not include the Na	avajo	Nation	

be sent to those wireless carriers that do not seek to recover carrier costs. 9-1-1 calls will still be delivered to the PSAP but only with voice capabilities.

Prior to fiscal year 2012, separate network trunk groups were installed in order to ensure that 9-1-1 calls from wireless devices would not adversely affect the delivery of wireline calls. The cost for wireline trunks falls under a separate network tariff and therefore has minimal additional costs. The network trunks used specifically for wireless calls are significantly higher. Therefore, any future deployments or changes to the existing network design will only have one network trunk group that will carry both wireline and wireless calls to the Public Safety Answering Point (PSAP). When the initial Wireless Phase II projects were implemented, there was concern that the wireless 9-1-1 calls would overwhelm the system. That is no longer the case with customers moving away from wireline technology.

In addition, as defined in State statute, the wireless carriers are entitled to seek full cost recovery for all components associated with the delivery of Wireless Phase II service. Based on the projected revenue stream, it is evident that the program can no longer support full cost recovery. However, at present, several of the wireless carriers voluntarily do not seek cost recovery and one large carrier recently made the business decision to no longer seek cost recovery. Instead, they opted to seek self-recovery from their customers.

Each 9-1-1 system will be given the option to go to a full deployment but will be financially responsible for the added costs.

With an emphasis toward Homeland Security, the 9-1-1 program continues to fund the Telecommunications Service Priority (TSP) provisioning which was added in FY07. This federal program is designed to ensure elevated network restoration to anyone who registers and pays for the service. In the event of a national disaster requiring federal intervention for network continuity, the service will ensure that Arizona's 9-1-1 systems will be restored in a timely manner.

All network components including 9-1-1 circuits, Automatic Location Identification circuits, emergency backup circuits and circuits that run to all selective routers, have been included in the service package.

The State 9-1-1 Office strives to reduce costs for network and equipment components. During FY07, negotiations with Qwest changed the billing structure for the wireless selective router charges, which has proven to reduce costs for call delivery.

The Estimated Costs and Deployment Schedule to Implement Wireless Phase II

ADOA works in concert with the political subdivisions to ensure compliance with the established requirements prior to deployment of Wireless Phase I and Phase II. PSAPs that have not completed Phase I are being encouraged to move directly to Phase II. The 9-1-1 Program Office has established a 12 month time standard for completion of a Phase I or Phase II project. Direct deployment to Wireless Phase II has cut down on the time necessary for deployment and reduced some of the costs.

The Wireless Phase II Systems Deployment Timeline and estimated implementation costs are listed below in the chart titled Wireless Phase II Implementation Costs. Projections are based on figures obtained from the Local Exchange Carrier (LEC), equipment vendors and Wireless Carriers. The information in the chart on Page 4 outlines the FY14 costs for Wireless Phase I and Phase II. These figures were obtained through the cooperative effort of the Local Exchange Carriers and the Wireless Carriers. The State 9-1-1 Office continues to negotiate with vendors to reduce the costs.

Again, it should be noted that for FY12 and on, three policy changes are in effect due to funding limitations: 1) Wireless Phase II implementations are only being requested of those carriers that do not seek cost recovery; 2) all 9-1-1 wireless calls will be delivered only on one trunk group and; 3) the deployment of enterprise mapping solutions has been suspended.

It should be noted that three Tribal Nations have not been included in the projections. The Navajo Nation, Hopi Tribe and San Carlos Tribe have not submitted 9-1-1 Service Plans for funding consideration.

The Navajo Nation continues to work on completing their 9-1-1 Service Plan in an effort to be eligible for funding. Notification was received late last year that due to budget issues the 911 Navajo Office has closed and duties have been transferred to the Division of Community Development.

The ADOA 9-1-1 Office has an outreach program in place designed to work with the other tribes to help them to address deployment issues.

Wireless Phase II Implementation Costs

				E	quipment & Misc.		
		L	EC and Wireless		Products and	To	otals (Tax
9-1-1 System	FY	Carrier Costs			Services	Included)	
Apache/Navajo	FY15	\$	26,312	\$	1,220,949	\$	1,247,261
Coconino	FY14	\$	231,000	\$	900,000	\$	1,131,000
Gila	FY14	\$	58,300	\$	264,600	\$	322,900
La Paz	FY15	\$	80,000	\$	177,908	\$	257,908
Winslow	FY15	\$	85,500	\$	107,300	\$	192,800
Total		\$	481,112	\$	2,670,757	\$	3,151,869

Revenue - FY14 Projections

The projected annual revenue for FY14 does not meet the annual anticipated expenditures for continued service of the 9-1-1 program in Arizona. Budget submittals for PSAP equipment upgrades have been denied due to limited funding and equipment is upgraded only if funds are available. The priority today is sustaining the 9-1-1 network components and the ongoing maintenance on the PSAP equipment. The projected revenue for FY14 of \$17,291,717 includes interest income from the prior year's available funds.

The budget for FY14 does take into consideration a transfer of \$124,300 for the State's Automation Fund. Under the current funding model, equipment upgrades are denied and Next Generation (NG) 9-1-1 projects cannot be initiated.

	F	Y12 Actual	F	Y13 Actual	FY	14 Projected
	Will Mile	@\$.20		@\$.20	20	@\$.20
		以外的	30			是1000年度
Excise Tax	\$	16,481,681	\$	16,425,768	\$	17,261,510
Interest	\$	30,207	\$	30,512	\$	30,207
		16,511,888		16,456,280		17,291,717
Percent Cha	nge			-0.34%		5.07%

The 9-1-1 Excise Tax revenue for FY13

was \$16.4 million, a .33% reduction in revenue over FY12. The actual revenue was down in FY13 by .336%, which includes wireline, wireless and VoIP providers.

The year-end report for FY13 indicated wireline, wireless and VoIP customers generated \$16,456,280 in revenue from the 9-1-1 Excise Tax. Revenue estimates for FY14 show an increase of \$805,230, for a total of \$17,261,510, which is expected to be generated through the collection of the pre-paid wireless tax beginning after December 31, 2013. The Cellular Telephone Industry Association (CTIA) estimates that approximately 23% of the wireless phones in service can be attributed to prepaid services.

In preparing the 9-1-1 Project Plan through FY14, the introduction of the pre-paid wireless customer base, reduced fees and limited service capabilities have been taken into consideration and indicate that the program will be unable to fully meet the needs of the 9-1-1 communities beginning in FY15.

The program can only support the legacy network and maintenance components for the 9-1-1 Systems throughout the State. The aging of 9-1-1 PSAP equipment has become a reality and the costs have to be undertaken by the PSAPs in the future.

The current administrative distribution is a total of 5%, which includes 3% for state administrative costs and 2% for local management of contracts. The 2% for local management of contracts is distributed to the 9-1-1 System Coordinators, with rules in place to define authorized expenditures.

The State 9-1-1 Office has four full-time staff members. These individuals not only have fiscal oversight, but work closely with the communities to deploy and support 9-1-1.

The Future of Wireline and Wireless 9-1-1

Next Generation 9-1-1 (NG911) is the natural progression in the move toward more robust and versatile wireline and wireless networks in coming years. The IP enabled NG911 networks are being deployed today in several areas in the country. Industry standards have been developed; however, several alternative solutions are also being deployed. NG911 is a voice and data network that provides ubiquitous wireline and wireless 9-1-1 service and will ensure that calls can be routed anywhere without current boundary restrictions. New networks with increased bandwidth will provide the ability to carry more location data as well as receive telematics calls and utilize text messaging and video streaming in future years. The current analog network, which has been in place for forty years, is unable to handle advanced technology solutions.

During FY09, a collaborative effort between the State, Qwest, Intrado and Positron 911 systems was initiated to design and implement a NG911 trial in Arizona. It was determined that Gila County would be an ideal test site. Gila County has some unique geographic and telecommunications boundaries which create call

delivery challenges. The installation of this NG911 network included the installation of soft switches that allow for reliable and time sensitive transfer of calls. The four PSAPs in Gila County were changed to a Positron Viper system designed specifically for transition to NG911 technology. During the trial, testing included digital network features for text messaging, video streaming, IP ALI (Automatic Location Identification), interconnection with the legacy networks, feature functionality, meshing and redundancy. This project was successfully completed during FY10 at a cost of \$2.7 million. It should be noted that throughout this transition, all legacy network components will require continued support. In addition, although testing components included text messaging and video streaming, those elements would not have been in production following the trial. Due to insufficient funding, the project was suspended immediately following a successful trial.

The burden of equipment upgrades are already being shifted to the local political subdivisions and any future fund transfers to the General Fund will affect the program's ability to support the maintenance on the 9-1-1 PSAP equipment.

The 9-1-1 system was designed to ensure that in an emergency, citizens have one reliable number to call for public safety assistance. The State's 9-1-1 program strives to ensure that this goal is met in the most efficient and cost-effective manner possible.

Wireless Program Report Fiscal Year 2013 Summary

The 9-1-1 Program has been in place since 1985 and, up until recent years, sufficient funding has allowed for progress in moving from Basic 9-1-1 (voice only), and Enhanced 9-1-1 (voice, telephone number and address information) to 9-1-1 Wireless Phase I and II (utilizing location technology).

Documents included in this report outline the 9-1-1 Wireless Phase II expenditures for FY13, as well as the Wireless Phase II budget for FY14.

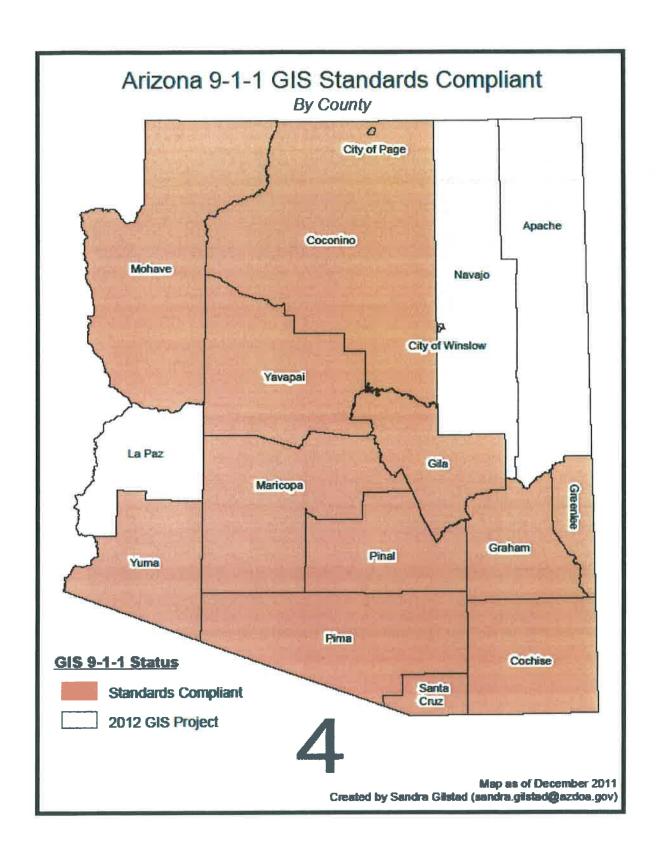
The table on page 5 identifies the implementation costs for deployments of 9-1-1 Wireless Phase II in upcoming years.

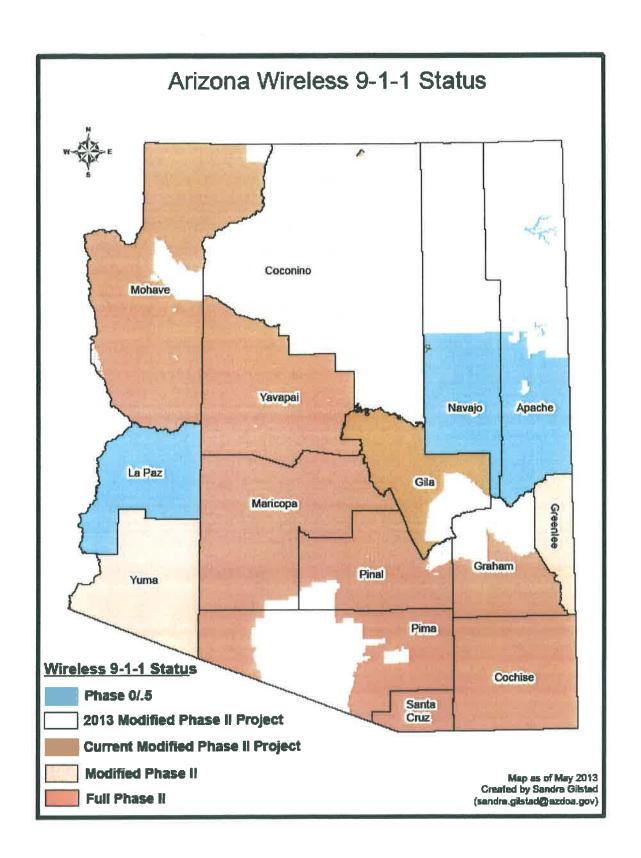
The FY09 – FY18 Actual and Proposed Expenditures spreadsheet, on page 8, provides a financial history of the program from FY09 and anticipated expenditures through FY18.

		FY09 - FY1	- FY18 Actual and Proposed Expendi Includes Capital Cost Recovery for Wireless Phase I and Phase II Assumes No Change in Tax Rates.	Lual and Proposed I Cost Recovery for Wireless Phase Assumes No Change in Tax Rates.	Sed Expe	Expenditures				
			•	As of August 23, 2012	112					
		Includes Wi	Includes Wireless & Excise Taxes at of Flat Rate of \$.20 for FY 2009-2018	tesat of Flat Rate	of \$.20 for FY 20	09-2018				
					·	ANNUAL INCRE, Tax based on available will!	4 <i>SE ASSUMPTIOI</i> tax rate, Funds no be used to upgrat	ANNUAL INCREASE ASSUMPTIONS: 5% Operations Cost from FY13 budget; 911 Excise Tax based on tax rate, Funds not available for equipment upgrades, Any funds available will be used to upgrade equipment that is manufacturer discontinued.	Cost from FY13 buipment upgrades	dget; 911 Excise
	Actual FY09	Actual FY10	Actual FY11	Actual FY12	Actual FY13	Sudgeted FY14	Budgeted FY15	Budgethd FY16	Budgeted FY17	Budgeted FY18
Administration PSAP Network Management	\$ 371,046	\$ 407,407	\$ 400,244	5,156	\$ 449,027	69 V3	\$ 578,311	9,208	\$ 579,208	\$ 579,208
Sub-Total	П		\$ 747,410	795,879		us		965,347		
Wireline - (Existing Network Technology) (PCA33200)*	\$ 16,329,038	\$22,589,210	\$9,035,733	\$11,193,469	\$10,132,525	\$12,555,890	\$23,315,708	\$13,183.685	\$13,842,869	\$14,535,012
Wireline - (Proposed transition to IP enabled network)***				9	80		S	_	28	23
Phase I Wireless - (Includes Cost Recovery) (PCA 33310) Phase II Wireless - (Includes Cost Recovery) (PCA 33320)	\$ 180,4 \$ 4,709,3	\$ 134,272 \$ 6,235,342	\$ 47,048 \$ 4,546,205		\$ 32,693 \$ 4,203,918	\$ 34,2 \$ 5,634,5	\$ 35,226	_	\$ 38,837	\$ 40,778
Mapping & Address Support TOTAL PROGRAM COSTS	\$ 21,775,323	\$ 31,302,481	\$0	\$ 16.149.046	\$ 15,149,098	\$ 19.143.724	\$ 30,284,340	\$ 20.664,550	\$ 21,639,511	\$ 22,663,219
FUNDS FROM PRIOR	\$ 55,886,505	\$ 27.553.184	\$ 4.303.498	\$ 3,980,442	\$ 2,129,584	\$ 3,436,766	\$ 1,460,459	69	69	69
WIRELESS TAX EXCISE TAX	\$ \$ 17,774,128	16	\$ \$ 16,606,135	16,481,681	\$ \$ 16,425,768		\$ 19,277,035	19,277,035	19,2	\$ 19.277.035
INTEREST INCOME Total Collections 3	\$ 772,473 s \$ 18,546,602	\$ 286,395	\$ 26,522 \$ 16,632,657	\$ 30,207	\$ 30,512	\$ 17,291,717	\$ 19,306,940	\$ 19,306,940	\$ 19,306,940	\$ 19,306,940
TOTAL FUNDS	\$ 74,433,107	\$ 44,293,079	\$ 20,936,155	\$ 20,492,330	\$ 18,585,864	\$ 20,728,483	\$ 20,767,399	\$ 19,306,940	\$ 19,306,940	\$ 19,306,940
PRIOR PERIOD ADJ OR PROJECT CARRY-FORWARD TRANSEER TO GENERAL FILIND	\$	& B E87 100	\$	- 2 243 700	ω •	5 124 300	ь	69	69	49
EXPENDITURES FUNDS FORWARD	\$ 27,75,323	m '	\$ 14,491,613		\$ 15,149,098 \$ 3,436,766	19,	\$ 30,294,340	\$ 20,664,550	\$ 21,639,511	\$ 22.663,219
Wireless Tax Rate	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
* Includes Unmet Needs										
Transition to robust IP enabled network in FY15 is pending approved standards development.	ding approved standa	rds development.								
_										

FY14 Wireless Program Plan

9-1-1 System	Basic	E/ANI	E9-1-1	Phase I	Phase II	Program Plan FY14
						Dhasa NNa Cook Bassina Casina
Clifton					X	Phase II No Cost Recovery Carriers
Cochise County					X	
Colorado City					X	0.00
Fisgstaff/Coconino County	0 11 11		Х	FY14	FY14	GIS Development/Transition to Pli
Gila County County			X	FY14	FY14	Phase II Deployment
Gila River Tribal Property					X	
Graham County					Х	
Grand Canyon			X	FY14	FY14	
Greenlee County					X	Phase II No Cost Recovery Carriers
Hopi Reservation	CALL DESCRIPTION					Suspended No Service Plan
La Paz County			Х	FY15	FY15	GIS Development
Maricopa County					Х	
Mohave County					X	
Navajo Reservation						Suspended No Service Plan
Northeastern Ariz Users Asso.(Navai	o/Apache C	0)	X	FY14	FY14	GIS Development
Page					х	
Pinal County					X	
Prescott					X	
Pima County		1-1			Х	
San Carlos Reservation						Suspended no Service Plan
Santa Cruz Co					Х	
Supai Reservation		X	FY12	FY12	FY12	
Villcox					Х	
// Mams			X	FY14	FY14	
Vinslow			EVE VE	X	FY14	
Yavapai Region					X	
Yuma County					X	Phase If No Cost Recovery Carriers
-		None			E9-1-1	1
		Basic			WPi	
		E W/ANI			WPI	
updated: 8/30/2013					WP# No Cost Recov	ani Carriare







STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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1716 WEST ADAMS PHOENIX, ARIZONA 85007

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JUSTIN OLSON
MICHELLE UGENTI

DATE:

March 18, 2014

TO:

Senator Don Shooter, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director 724

FROM:

Ben Henderson, Fiscal Analyst 3H

SUBJECT:

Arizona Department of Administration - Consider Approval of Employer Sanctions

Enforcement Distributions

Request

Pursuant to Laws 2013, 1st Special Session, Chapter 1, Section 6, the Arizona Department of Administration (ADOA) has requested that the Committee approve distribution of \$300,500 of the \$513,200 FY 2014 appropriation for the enforcement of immigration-related employer sanctions.

Recommendation

The Committee has at least the following 2 options:

- 1. Approval or disapproval of ADOA's request to distribute \$300,500 of the \$513,200.
- 2. Approval of a different allocation plan.

If the ADOA proposal is approved, the Committee may also choose to allow ADOA to distribute funding if a county attorney or sheriff subsequently decides to apply for the funds.

The Committee may also recommend whether unused funds are reverted to the General Fund or distributed to other counties.

Analysis

The FY 2014 General Appropriation Act appropriated \$1,213,200 to ADOA for the County Attorney Immigration Enforcement Special Line Item. A General Appropriation Act footnote specifies that, of this amount, \$700,000 shall be specifically allocated to Maricopa County as follows: \$200,000 to the Maricopa County Attorney and \$500,000 to the Maricopa County Sheriff. This distribution was made on December 10, 2013.

Subject to approval by this Committee, the remaining amount of \$513,200 is to be distributed by ADOA to all other county sheriffs and county attorneys for the enforcement of immigration-related employer sanctions. There is no statutory formula for the non-Maricopa distributions. This is the 7th year that funding for this purpose has been appropriated to ADOA in some form; however, this is the first year that JLBC is approving the distribution.

As required by a General Appropriation Act footnote, by October 1, 2013 county sheriffs and attorneys submitted reports to ADOA on the use of their FY 2013 funding, and on the intended use of prospective FY 2014 funds. FY 2013 funding was used in the following ways:

- 74.3% of the funds were used to investigate and enforce employer sanctions laws by funding Personal Services, employee benefits, travel expenses and other related costs.
- 14.0% of the funds were not spent or were returned to ADOA due to a lack of complaints regarding employer sanctions violations.
- 11.1% of the funds were used to purchase technological equipment such as new computers, tracking equipment and communication tools.
- Less than 1% of funds were used to educate local businesses and community members about employer sanctions laws.

ADOA is now proposing a distribution plan for the FY 2014 appropriation based on these reports. Excluding Maricopa County, whose allocation is specifically determined in the General Appropriation Act footnote, there are 28 county sheriffs' and attorneys' offices who would qualify for some portion of the FY 2014 appropriation. ADOA is utilizing a proportional distribution formula based on population to determine the amounts that each county office would qualify for.

ADOA is not, however, proposing to distribute the full FY 2014 appropriation. If a county officer had previously returned their FY 2013 funding, had reported no use for their FY 2014 funding, or had failed to report any intended use of their FY 2014 funding, ADOA does not plan to distribute their share of funds. As of now, 14 of the 28 county offices are in this category. Their share of funding, or \$212,700, would not be distributed under ADOA's current proposal. ADOA's proposal is shown in detail in *Attachment A*.

The Committee may elect to allow distribution of funds to county offices that subsequently request their proportionate share of funds from the FY 2014 appropriation. The Committee may additionally recommend whether unused funds are reverted to the General Fund for a savings of \$(212,700), or are distributed to other county offices.

RS/BHe:ts Attachment

Employer Sanct	ions Distribution	ıs		
	FY 2013 Distribution		Proposed FY 2014 Distribution	
Apache County Attorney	\$7,127		\$7,127	
Apache County Sheriff	7,127		0	<u>2</u> /
Cochise County Attorney	13,089		0	<u>2</u> /
Cochise County Sheriff	13,089	1/	0	
Coconino County Attorney	13,396		13,396	
Coconino County Sheriff	13,396		13,396	
Gila County Attorney	5,341		5,341	
Gila County Sheriff	5,341		0	<u>2</u> /
Graham County Attorney	3,709		0	<u>3</u> /
Graham County Sheriff	3,709	1/	0	<u>2</u> /
Greenlee County Attorney	841		0	<u>3</u> /
Greenlee County Sheriff	841		0	<u>2</u> /
La Paz County Attorney	2,042		2,042	
La Paz County Sheriff	2,042		0	<u>2</u> /
Mohave County Attorney	19,949		19,949	
Mohave County Sheriff	19,949	1/	0	
Navajo County Attorney	10,708		10,708	
Navajo County Sheriff	10,708		10,708	
Pima County Attorney	97,687		97,687	
Pima County Sheriff	97,687		0	<u>2</u> /
Pinal County Attorney	37,447		37,447	
Pinal County Sheriff	37,447		37,447	
Santa Cruz County Attorney	4,726		4,726	
Santa Cruz County Sheriff	4,726	1/	0	<u>2</u> /
Yavapai County Attorney	21,030		21,030	
Yavapai County Sheriff	21,030		0	<u>2</u> /
Yuma County Attorney	19,508		19,507	
Yuma County Sheriff	19,508	1/	0	<u>2</u> /
Total Allocated	513,200		300,511	
Total Unallocated	0		212,689	
Statutory Allocation - Maricopa	<u>700,000</u>		700,000	
Total Appropriation	\$1,213,200		\$1,213,200	
1/ Returned FY 2013 or declined FY 2014 funds				

Returned FY 2013 or declined FY 2014 funds Did not report intended use of FY 2014 funds Reported no use for FY 2014 funds 1/ 2/ 3/

Brian C. McNeil Director

Janice K. Brewer Governor



ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401 PHOENIX, ARIZONA 85007 (602) 542-1500

January 17, 2014

The Honorable Don Shooter, Chairman Joint Legislature Budget Committee Arizona State Senate 1700 W. Washington Street Phoenix, Arizona 85007

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



Dear Senator Shooter and Representative Kavanagh:

The Arizona Department of Administration (ADOA) is requesting to be placed on the next Joint Legislative Budget Committee agenda so that the committee can consider approval of our proposed distribution of monies to County Attorneys and County Sheriffs, for immigration enforcement, as required by Laws 2013, 1st Special Session, Chapter 1, Section 6.

The schedule of distributions is attached. ADOA distributed the monies in proportion to the population of the county as determined in the 2010 Decennial Census. In cases where the official did not report on a use for the FY 2014 monies, refused the monies in 2013 and/or 2014, or reported that they did not have a use for the 2014 monies, as reflected in the attached proposal, ADOA did not propose a distribution.

Sincerely,

Brian C. McNeil

Director

Enclosure

cc: Richard Stavneak, Director JLBC

John Arnold, Director OSPB

Ben Henderson, JLBC

Ken Matthews, OSPB Paul Shannon, ADOA

Joe Whitmer, ADOA

County	Attorney/Sheriff	Official's Name	Proposed FY 2014 Allocation	
Apache	Attorney	Michael B. Whiting	\$7,127.08	
Apache	Sheriff	Joseph Dedman, Jr.	\$0.00	*
Cochise	Attorney	Edward Rheinheimer	\$0.00	*
Cochise	Sheriff	Mark J. Dannels	\$0.00	**
Coconino	Attorney	David W. Rozema	\$13,395.64	
Coconino	Sheriff	William B. Pribil	\$13,395.64	
Gila	Attorney	Bradley D. Beauchamp	\$5,341.17	
Gila	Sheriff	Adam Shepherd	\$0.00	*
Graham	Attorney	Kenneth A. Angle	\$0.00	***
Graham	Sheriff	Preston J. Allred	\$0.00	
Greenlee	Attorney	Derek D. Rapier	\$0.00	***
Greenlee	Sheriff	Larry Avila	\$0.00	*
La Paz	Attorney	Tony Rogers	\$2,041.82	
La Paz	Sheriff	John Drum	\$0.00	*
Maricopa	Attorney	William G. Montgomery	\$200,000.00	****
Maricopa	Sheriff	Joe Arpaio	\$500,000.00	****
Mohave	Attorney	Matthew J. Smith	\$19,949.41	
Mohave	Sheriff	Tom Sheahan	\$0.00	**
Navajo	Attorney	Brad Carlyon	\$10,707.76	
Navajo	Sheriff	Kelly Clark	\$10,707.76	
Pima	Attorney	Barabara La Wall	\$97,687.47	
Pima	Sheriff	Clarence W. Dupnik	\$0.00	*
Pinal	Attorney	M. Lando Voyles	\$37,447.12	
Pinal	Sheriff	Paul Babeu	\$37,447.12	
Santa Cruz	Attorney	George E. Silva	\$4,725.61	
Santa Cruz	Sheriff	Tony Estrada	\$0.00	*
Yavapai	Attorney	Sheila Polk	\$21,030.36	
Yavapai	Sheriff	Scott Mascher	\$0.00	*
Yuma	Attorney	Jon R. Smith	\$19,507.44	
Yuma	Sheriff	Leon N. Wilmot	\$0.00	*
		Total Allocated	1,000,511.40	
		Total Unallocated	\$212,688.60	
		Total Appropriation	\$1,213,200.00	

^{*} Did not report use of FY 2014 monies

^{**} Returned FY 2013 monies or declined FY 14 monies

^{***} Reported that they had no plans for the monies

^{****}Distributed on December 10, 2013 according to the provisions of Laws 2013, 1st Special Session, Chapter 1, Section 6



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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> PHONE (602) 926-5491 FAX (602) 926-5416

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STEFANIE MACH
JUSTIN OLSON
MICHELLE UGENTI

DATE:

March 19, 2014

TO:

Senator Don Shooter, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director 24

FROM:

Benjamin Beutler, Fiscal Analyst 🐰

SUBJECT:

Department of Economic Security - Review of Contingency Funding Expenditure Plan

Request

Pursuant to a footnote in the FY 2014 General Appropriation Act, the Department of Economic Security (DES) must present a spending plan to the Committee for review prior to the expenditure of monies from the Contingency Funding line item.

Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review.
- 2. An unfavorable review.

Analysis

Through a footnote in the FY 2014 General Appropriation Act, \$10.5 million in the Contingency Funding line item was designated for unanticipated shortfalls in Child Protective Services (CPS) or in the Day Care Subsidy line item. For the purpose of addressing a shortfall in Emergency and Residential Placement, DES has submitted the required expenditure plan.

CPS Emergency and Residential Placement provides funding for 1) a short-term placement until a more permanent placement can be arranged and 2) behavioral or other therapeutic residential treatment.

In FY 2014, the department plans to use the Contingency Funding for Emergency and Residential Placement, addressing a portion of DES' projected \$14.7 million shortfall for these placements.

The Executive has recommended a supplemental appropriation of \$4.2 million from the General Fund for emergency and residential placements in FY 2014. This supplemental would make up the difference between the \$10.5 million of Contingency Funding and the \$14.7 million shortfall.

The average monthly cost of an emergency/residential placement is \$3,230, compared to \$657 for a placement in a family foster home. As of January 2014, there were 2,053 foster children residing in emergency and residential placements. DES anticipates an average of 2,157 children per month in emergency and residential placements in FY 2014, or growth of 4.6% from FY 2013.

Table 1 compares the FY 2014 appropriation for Emergency and Residential Placement to DES' FY 2014 estimate of available funding. DES overestimated the amount of expenditure authority that would be available for Emergency and Residential Placement by \$19.6 million in FY 2014. Expenditure Authority is primarily made up of Federal Funds; it also includes non-appropriated funds, surpluses in state funds from other line items, and other one-time fund sources.

Table 1 Emergency and Residential Placement Line Item				
	FY 2014	DES FY 2014		
	Appropriation	<u>Estimate</u>		
General Fund	\$24,578,700	\$29,217,400		
Contingency Funding	0	10,500,000		
TANF Block Grant	12,423,000	16,423,000		
Expenditure Authority	43,967,600	24,342,900		
Total Budget	\$80,969,300	\$80,483,300		

RS/BB:kp



Janice K. Brewer Governor Clarence H. Carter Director

MAR 0 3 2014

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



Dear Representative Kavanagh:

The Department of Economic Security requests to be placed on the Joint Legislative Budget Committee's next agenda for review of expenditure plans for the Contingency Funding and Intensive Families Services Special Line Items and to report on the Temporary Assistance for Needy Families (TANF) transfer to the Social Services Block Grant (SSBG) as required in Laws 2013, 1st Special Session, Chapter 1, Section 27.

Contingency Funding

The fiscal year 2014 General Appropriation Act established the Contingency Funding Special Line Item (SLI) and appropriated \$10.5 million from the Long Term Care System Fund to the SLI. Pursuant to the budget footnote, the funding in the SLI is to be used to address shortfalls in Child Protective Services (CPS) or in the Day Care Subsidy Special Line Item.

Before the expenditure of monies from the Contingency Funding Special Line Item in fiscal year 2014, the Department of Economic Security shall submit an expenditure plan to the Joint Legislative Budget Committee for its review. Monies in the Contingency Projects Special Line Item shall be spent only to address unanticipated shortfalls in Child Protective Services or in the Day Care Subsidy Special Line Item.

The Department plans to utilize this appropriation to meet the needs of the growing number of children in the CPS system. When CPS receives a report of abuse or neglect, a caseworker assesses what stressors and risk factors exist in the home that can jeopardize the safety of a child. Some of the most intensive placements for children who cannot reside within the home are funded by the Emergency and Residential Placement SLI. Emergency and Residential Placement provides stability for children to allow for future reunification or transition to a new home. The Department intends to spend the \$10.5 million in contingency funding on these services. These homes provide structured environments for children to grow as they often carry emotional or behavioral scars of past abuse.

Over the past several years, CPS has experienced substantial growth in reports of abuse and neglect to the CPS Hotline, leading to more CPS investigations and subsequently to more children and families requiring services funded by the Emergency and Residential Placement SLI. Currently, there are over 2,050 children residing in Emergency and Residential congregate settings. The CPS caseworker

The Honorable John Kavanagh

determines the intensity and duration of the services based on the individual assessment which results in the average cost per child per month of approximately \$3,200. At this time, the Department projects the SLI to have a \$14.7 million shortfall. The Department plans to use the \$10.5 million in contingency funding for expenditures related to congregate placements for the CPS population. These expenditures will include room and board for children who are removed from their homes and placed in emergency shelters, group homes, and behavioral health settings.

In fiscal year 2013, the Department used a one-time fund balance in the Social Security Block Grant to resolve the shortfall in Emergency and Residential Placement. That solution is no longer available.

Intensive Family Services

Additionally, the fiscal year 2014 General Appropriation Act established a \$5 million appropriation to provide intensive, time-limited services to families whose children are at imminent risk of out-of-home placement due to abuse, neglect or dependency.

Before the expenditure of monies from the intensive family services special line item in fiscal year 2013-2014, the department of economic security shall submit an expenditure plan for review by the joint legislative budget committee. The expenditure plan shall include an estimate of any comparable funding in the children support services special line item.

Until fiscal year 2011, the Department received a General Fund appropriation to provide similar services. In subsequent years, this appropriation was folded into the Children Support Services SLI in an effort to consolidate SLIs and to recognize that the Department provides a wide array of services both for reunification and to prevent removal within the Children Support Services SLI. In fiscal year 2011 and prior, when the separate SLI existed for intensive family services, the services provided were within the scope of Children Support Services.

The Department plans to use the Intensive Family Services appropriation to provide intensive in-home family services to remediate familial conditions. Intensive in-home services provide goal-oriented, time-limited, in-home crisis and supportive intervention specifically tailored to the families' needs. These services aim to address significant threats to family stability which could result in the out-of-home placement of children in the family, or to safely expedite the return of children who are in out-of-home placement back to their family.

The Department estimates total expenditures on intensive in-home services of \$13.7 million total funds within the Children Support Services service array. The fiscal year 2014 appropriation of \$5 million will fund approximately 1,000 units of these intensive in-home services.

TANF Transfer to SSBG

Finally, the Department is reporting the amount of the fiscal year 2014 transfer of TANF Block Grant funds to SSBG, as required by the 2014 General Appropriations Act. The Department plans to transfer \$20,014,100, which is ten percent of the state's base TANF Block Grant and is the maximum allowable under federal law.

Of the amounts appropriated for children support services, CPS emergency and residential placement and foster care placement, the department may transfer up to ten percent of the total amount of the federal temporary assistance for needy families block grant monies appropriated to the Department to the social services block grant for use in

The Honorable John Kavanagh

the following line items in the division of children, youth and families: children support services, CPS emergency and residential placement and foster care placement. Before transferring federal temporary assistance for needy families block grant monies to the social services block grant, the department shall report the proposed amount of the transfer to the director of the joint legislative budget committee. This report may be in the form of an expenditure plan that is submitted at the beginning of the fiscal year and updated, if necessary, throughout the fiscal year.

The total planned amount of \$20,014,100 will be initially allocated among the allowed special line items as follows. If changes are necessary to ensure the best use of the funds, the Department will notify JLBC.

Children Support Services	\$4,820,000
Emergency and Residential Placement	\$10,795,800
Foster Care Placement	\$4,398,300

The transfer of TANF funds to SSBG allows the Department to expend the funds under SSBG requirements rather than TANF requirements, which affords the Department additional flexibility in spending the funds in the child welfare system to provide for the needs, including long-term needs, of children in the state's custody. The funds will be expended in accordance with services provided in each line item.

If you have any questions please contact Debra Peterson, Chief Financial Officer, at (602) 542-3786.

Sincerely,

Clarence H. Carter

lacence H Cartes

Director

cc: Members of the Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
John Arnold, Director, Governor's Office of Strategic Planning and Budgeting



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

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DAVID GOWAN, SR.
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DEBBIE LESKO
STEFANIE MACH
JUSTIN OLSON
MICHELLE UGENTI

DATE:

April 7, 2014

TO:

Senator Don Shooter, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director 45

FROM:

Benjamin Beutler, Fiscal Analyst 38

SUBJECT:

Department of Economic Security - Review of Intensive Family Services Implementation

Request

Pursuant to a footnote in the FY 2014 General Appropriation Act, the Department of Economic Security (DES) must present an expenditure plan to the Committee for review prior to the expenditure of monies from the new Intensive Family Services line item. The Intensive Family Services line item provides monies for contracted, time-limited services to families whose children are at risk of out-of-home placement due to abuse, neglect, or dependency.

Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review of the DES approach, which is used to supplement its existing in-home services.
- 2. An unfavorable review of the DES approach, which would suggest that the department consider contracting with private vendors to provide case management of Intensive Family Services.

The proposed House and Senate FY 2015 budgets both include an additional \$3.5 million for the Intensive Family Services line item (for a total of \$8.5 million). If the Committee would like the Division of Child Safety and Family Services to pursue the contract with private vendors for case management, the JLBC Staff recommends that the division report its findings on the feasibility of this approach by August 1, 2014. The General Appropriation Act does require the JLBC to once again review the Intensive Family Services expenditure plan for FY 2015, but an August 1 report would provide an early indication of whether the transition of some services to a contracted case management model would be viable.

Analysis

The FY 2014 General Appropriation Act appropriated \$5 million from the General Fund to a new Intensive Family Services line item. During the 2013 Legislative Session, some proponents of the new funding thought that DES would contract with a specific vendor who would coordinate a package of services to high risk families to keep the children in the home. To distinguish these funds from existing DES services, the monies were placed in a new budget line item. Other proponents may have viewed the funding as a supplement to existing funding.

DES agrees with this latter approach and is using the \$5 million to supplement its existing \$15.9 million in-home services program as part of the \$155.1 million Children Support Services line item. DES does not require a single vendor to coordinate the treatment plan; rather, a CPS caseworker initially determines the level of in-home services a family receives and assigns current contracted providers to provide those individual services. This contrasts with an approach where a single vendor receives a single payment per case and delivers a range of services to that family. In the past, DES used this approach in its Family Builders program for in-home CPS cases.

In-home services are only available to households where the children remain in the home but are at risk of out-of-home placement. In-home services can include crisis intervention counseling, marital and family therapy, respite care, home management and nutrition, and linkages with community resources to serve a variety of social needs. Other services for families with at-risk children include parent aid services, transportation, child care, and substance abuse treatment. It is possible that "intact" households may receive services from more than just the in-home services allocation.

In Washington State, the CPS agency contracts with a vendor to run its Intensive Family Services Preservation program, which has goals that are very similar to DES' Intensive Family Services. The program's services are time-limited and concentrated in a period targeted at 4 weeks. Our understanding is that in Washington State's case, the CPS caseworker refers families to a vendor that administers the program, and the caseworker can recommend specific services within the scope of the Intensive Family Services Preservation program. Once the client is referred to the vendor, the vendor also does an assessment to determine the services it believes the client needs. Our understanding is that the vendor receives a set reimbursement from the state per Intensive Family Services Preservation case. It is not clear whether the risk of out-of-home placement for the families in the Washington State program is the same as the risk for families in Arizona's approach.

RS/BB:kp



Janice K. Brewer Governor Clarence H. Carter Director

MAR 0 3 2014

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



Dear Representative Kavanagh:

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The Honorable John Kavanagh

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The Honorable John Kavanagh

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If you have any questions please contact Debra Peterson, Chief Financial Officer, at (602) 542-3786.

Sincerely,

Clarence H. Carter

Macence H. Cartes

Director

cc: Members of the Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
John Arnold, Director, Governor's Office of Strategic Planning and Budgeting



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

JOHN KAVANAGH CHAIRMAN 2013 LELA ALSTON DAVID GOWAN SR. ADAM KWASMAN DEBBIE LESKO STEFANIE MACH JUSTIN OLSON MICHELLE UGENTI

DATE:

March 18, 2014

TO:

Senator Don Shooter, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director US

FROM:

Steve Schimpp, Deputy Director 💢

SUBJECT:

Arizona Department of Education - Review of Sunnyside Unified Payments

Request

Pursuant to A.R.S. § 15-915B, the Arizona Department of Education (ADE) requests a favorable review of its plan to provide the Sunnyside Unified School District in Pima County with \$1,910,800 in corrected Basic State Aid funding due to a recent settlement in the Arizona Tax Court regarding property taxes paid in prior years by the Raytheon Company.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request, as it conforms to statutory requirements regarding state aid corrections required as a result of Arizona Tax Court rulings.

Analysis

Subject to review by the JLBC, A.R.S. § 15-915B requires the Superintendent of Public Instruction to reimburse school districts for K-12 "local share" taxes that they must refund to a taxpayer due to an Arizona Tax Court ruling that reduces the taxpayer's assessed property value for prior fiscal years. In this regard, the Arizona Tax Court ruled on May 7, 2013 that the Net Assessed Value (NAV) of property owned by the Raytheon Company was set too high for Tax Years 2009 and 2010 and should be reduced retrospectively to levels prescribed by the court. The ruling has the effect under A.R.S. § 15-915B of requiring the state to reimburse Sunnyside Unified for K-12 Qualifying Tax Rate (QTR) and State Equalization Tax Rate (SETR) taxes that it must now refund to the Raytheon Company for FY 2010 and FY 2011. Those taxes equal \$847,200 for the FY 2010 (Attachment 1) and \$1,063,600 for FY 2011 (Attachment 2), for a total of \$1,910,800 (rounded).

The computed \$1,910,800 refund total does not include settlement-related interest costs or monies to reimburse Sunnyside Unified for taxes paid by the Raytheon Company for items other than the QTR and SETR, such as for overrides and bond debt service, as those costs are not addressed in A.R.S. § 15-915B.

RS/SSc:ts



State of Arizona Department of Education

TO:

Senator Don Shooter, Chairman

Joint Legislative Budget Committee

FROM:

Lyle Friesen, Deputy Associate Superintendent of School Finance

DATE:

2/27/2014

SUBJECT:

Correction of State Aid 15-915

Sunnyside Unified School District has requested state aid corrections for prior fiscal years. Pursuant to A.R.S §15-915(B), review by the JLBC is required.

A.R.S. §15-915 B: Subject to the review by the joint legislative budget committee, the superintendent of public instruction shall adjust state aid for a school district in the current year if the governing board of a school district requests the recalculation of state aid for a prior year due to a change in assessed valuation that occurred as the result of a judgment in accordance with section 42-16213.

The Maricopa County Superior Court ruled in favor of Raytheon in regards to the 2009 and 2010 assessed valuation of property owned by them. As a result, the state aid is recalculated by School Finance, \$853,861.14 for FY10, \$1,063,641.55 for FY11 will be adjusted through FY14 state aid funding to Sunnyside Unified School District.

If you have any further questions, please contact Lyle Friesen, School Finance Director at 602-542-8250 or Lyle.Friesen@azed.gov. Thank you.

c: Richard Stavneak, Director of Joint Legislative Budget Committee Steve Schimpp, Analyst of Joint Legislative Budget Committee

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STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

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JUSTIN OLSON
MICHELLE UGENTI

DATE:

April 7, 2014

TO:

Senator Don Shooter, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director

FROM:

Micaela Larkin, Fiscal Analyst

SUBJECT:

Department of Environmental Quality - Review of Vehicle Emissions Contract

Modifications

Request

Pursuant to A.R.S. § 49-545, the Department of Environmental Quality (DEQ) requests Committee review of modifications to the Vehicle Emissions Inspection (VEI) contract with a private vendor. DEQ renewed their existing contract with Gordon Darby Arizona Testing, Inc., effective July 1, 2013. Based on the vendor experience over the past year, DEQ and the vendor propose operational process and testing requirement changes to the contract.

Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review.
- 2. An unfavorable review.

There is no net fiscal impact associated with the DEQ request.

Analysis

Pursuant to federal law, DEQ has operated a VEI program in Metro Tucson and Metro Phoenix through a contract with a private vendor. A.R.S. § 49-545G states that any proposed modification or amendment to the contract is subject to prior review by the Committee. DEQ renewed their existing contract with Gordon Darby Arizona Testing, Inc., effective July 1, 2013. At the August 20, 2013 meeting, JLBC

favorably reviewed technical changes to proposed dates in the contract. The contract allows the vendor a year to conform operations to the requirements provided in the Request For Proposal (RFP). Based on their experience since July 1, 2013, Gordon Darby and DEQ have proposed modifications to the contract to streamline the testing process and eliminate requirements that will not provide significant emissions reductions.

DEQ now proposes modifying the processes and testing procedures in the contract in 8 substantive areas:

- Gas Cap Replacement: DEQ plans to offer a systemwide gas cap replacement program starting July 1, 2014. For vehicles not exhibiting a check engine light who fail the gas cap test (testing the seal on the gas cap to ensure that it does not leak), the contractor will provide a free gas cap. The savings from the elimination of the Catalyst Efficiency Test, the Special Vehicle Test lane provision, and the Liquid Leak Inspection will pay for the program. The \$2.6 million cost of the program over the life of the contract will be covered by the \$2.64 million total savings from other operational changes.
- Catalyst Efficiency Test: The proposed modification would allow for the contractor to use the onboard diagnostic (OBD) system to determine catalytic converter problems rather than a catalyst efficiency test. If the vehicle does not have a computer based system (pre-1996), other tests would be relied upon for the waiver process. DEQ estimates the change would affect 200 to 300 motorists. The savings (\$100,000) from eliminating the catalyst efficiency test would contribute to the gas cap program. This change is dependent on passage of HB 2226, and approval by the EPA.
- Special Vehicle Test Lane: The contract required the vendor to establish a special vehicle lane in each test area (Metro Phoenix and Metro Tucson) for oversize vehicles. The contract amendment removes the requirement. DEQ requests the elimination of the vehicle test change since it accounts for less than 500 vehicles; the department will pursue other methods to have the vehicles tested. The money saved (\$100,000) will be redirected to the gas cap program.
- Station Signage: The proposed amendment eliminates the requirement for the vendor to display alternative location wait time on the station signage. Since DEQ cannot guarantee the wait time will stay unchanged at the alternative location, this will minimize potential motorist frustration.
- Repair Industry Effectiveness: DEQ proposes modifying the annual report by the contractor assessing the effectiveness of the repair industry so that the cost data will be available to DEQ but not reported publicly, as DEQ does not verify repair cost data.
- Liquid Leak Inspection: The current pre-inspection to determine if a vehicle is safe to test already identifies vehicles which have material liquid leaks. DEQ believes that the pre-inspection would satisfy the statutory need for a separate liquid leak test. HB 2226, currently in the Senate, would remove the liquid leak inspection from statute. DEQ estimates the savings from the elimination of the separate test will total \$2.4 million over the life of the contract.
- Diesel Testing in Area B: The amendment would modify equipment and procedures for diesel vehicle testing in Area B (Tucson Metro area). Diesel vehicles subject to the "heavy duty lug down" test would be subjected to a snap idle test as used in Phoenix, and the amendment would allow for DEQ in the future to direct the vendor to use an OBD test if they so choose. The EPA has approved the snap idle test in Area B, but not yet approved OBD testing.
- Referee: The amendment would modify current procedures to ensure that the DEQ waiver/referee technicians and qualified Contractor Waiver/Referee inspectors conducting referee inspection on a vehicle that fails the tampering inspection are properly qualified, and allow an opportunity for any disputed decisions to be referred to a DEQ waiver/referee technician prior to final denial.



Janice K. Brewer Governor

Arizona Department of Environmental Quality

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



Henry R. Darwin Director

March 24, 2014

The Honorable John Kavanagh, Chairman Joint Legislative Budget Committee Arizona House of Representative 1700 West Washington St. Phoenix, Arizona 850007

RECEIVED
MAR. 28 ZO14

JOINT BUDGET
COMMITTEE

Re:

Review of Vehicle Emissions Contract Amendment

Dear Representative Kavanagh:

A.R.S. §49-545 requires the Arizona Department of Environmental Quality (ADEQ) to submit any proposed modification or amendment to the Vehicle Emissions Inspection (VEI) contract to the Joint Legislative Budget Committee (JLBC) for review.

As background, the VEI contract was awarded to Gordon Darby Arizona Testing, Inc. (GDAT) in early 2013. The first year of the newly awarded contract provided GDAT time to make required changes to their operations, which are required to be effective on July 1, 2014. During this time ADEQ and GDAT have agreed that certain changes should be made to the contract to streamline the testing process and eliminate certain requirements that will not provide significant emissions reductions. These changes will remove redundant or unnecessary components of the VEI program. One change to the contract that will add significant value to motorists is the Gas Cap Distribution Program. This proposed change to the contract will provide motorists whose vehicles fail due to leaking gas caps, new caps on the spot, eliminating the need to leave the station to purchase a new cap and then return to the station to be retested.

ADEQ and Gordon Darby Arizona Testing both agree that these changes make sense and that the contract should be amended.

The attached table displays the proposed changes to the Scope of Work (SOW) within the contract.

Sincerely

Henry R. Darwin

Director

cc: Richard Stavneak, JLBC

Micaela Larkin, JLBC Staff

John Arnold, OSPB Illya Riske, OSPB



CONTRACT AMENDMENT



MASTER BLANKET PURCHASE ORDER: SOLICITATION NO.: AMENDMENT NO.: TITLE:

CONTRACTOR:

ADEQ14-052318 (EV13-0003) ADEQ12-00001782

2

ARIZONA VEHICLE INSPECTION PROGRAM GORDON-DARBY ARIZONA TESTING, INC.

ADEQ PROCUREMENT 1110 W. Washington Street Phoenix, AZ 85007 602-771-4256

THE PURPOSE OF THIS AMENDMENT IS TO:

Modify Contract as described herein.

1. Order of Precedence

This Amendment takes precedence over prior Amendment(s), Gordon-Darby Arizona Testing, Inc. ("GDAT"), Best and Final Offer ("BAFO"), and the Arizona Department of Environmental Quality ("ADEQ") Request for Proposal ("RFP"). Where this Amendment alters the ADEQ RFP Statement of Work ("SOW") requirements, then references in GDAT's BAFO to address those requirements are modified by inference.

2. Catalyst Efficiency Test

Upon written ADEQ notification to GDAT, and at the sole discretion of ADEQ, the inclusion of the catalyst efficiency test as part of the waiver process shall be eliminated. ADEQ may direct GDAT to deny waivers to onboard diagnostics ("OBD")-equipped vehicles based on readiness and/or diagnostic trouble codes ("DTCs") that are related to catalyst efficiency. Upon written ADEQ notification to GDAT, the following RFP SOW sections are amended as follows:

- 2.1 SOW Section 2.6.25 is deleted in its entirety.
- 2.2 SOW Section 3.3.2.1 is amended to read: "Area A Waiver Testing Activity showing the number of failing vehicles (waiver test), I/M test emissions component levels by I/M test type, vehicle type, and model year."
- 2.3 SOW Section 4.8.2.4 is deleted in its entirety.
- 2.4 SOW Section 4.8.3.3 is amended to read: "If the vehicle is denied a waiver, a list of reasons or waiver denial shall be provided to the inspector for selection. The reasons for denial shall be printed on the VIR along with the inspection results. If the vehicle is granted a waiver, the software shall print the waiver, and shall display the provision that a onetime only waiver has been granted, and the applicable fee."
- 2.5 SOW Section 4.8.6 is deleted in its entirety.
- 2.6 RFP Exhibit 2 is amended to eliminate the Catalyst Efficiency Test, and add pertinent OBD readiness and DTC logic to determine, to the degree possible, the proper function of a vehicle's catalyst efficiency prior to granting a waiver.

3. Special Vehicle Test Lane

A special Vehicle Test Lane shall not be required in either Area A or Area B. The following SOW sections are amended:

- 3.1 SOW Section 2.3.2, first sentence, is amended to read: "All inspection facilities shall be in fully enclosed buildings to provide security and protection from inclement weather for customers and staff."
- 3.2 SOW Section 2.3.7.1 is deleted in its entirety.
- 3.3 SOW Section 2.3.10.4 is amended to read: "Contractor shall place signs at heavy duty diesel vehicle (HDDV) queue entrances advising operators that trailers are not permitted and program informational materials shall also advise of this restriction."
- 3.4 SOW Section 2.3.18.1 is amended to read: "Contractor shall provide at least two full service inspection lanes in Area A and one full service inspection lane in Area B, to be used as Waiver/Referee inspection lanes."
- 3.5 SOW Section 4.3.2.10 is deleted in its entirety.
- 3.6 SOW Section 4.3.11.3 is deleted in its entirety.
- 3.7 SOW Section 4.4.4 is deleted in its entirety.

4. Station Signage

ADEQ and GDAT agree that displaying alternate location information as part of station signage is not desirable. The following SOW sections are amended:

4.1 SOW Section 2.3.10.5 is amended to read: "The Contractor shall provide, as a part of the station signage, a programmable electronic information message display, showing current wait time, days and hours of operation and other pertinent messages. The display may be made a part of the main station sign (2.3.10) or located where it can be readily observed from the queue."

5. Repair Industry Effectiveness

ADEQ and GDAT agree that repair cost data, which cannot be verified for accuracy, should be captured but not included in the publically displayed versions of the repair effectiveness reports. The following SOW sections are amended:

- 5.1 SOW Section 3.2.14 is amended to add the following sentence at the end of the Section: "Cost data will be available for ADEQ only and public version will have cost data omitted."
- 5.2 SOW Sections 3.2.19.1 and 3.2 9.2 are amended to add the following sentence at the end of each Section: "The version of the report available to the public will have the cost data omitted."

6. Liquid Leak Inspection

Upon review, the current pre-inspection process to determine if a vehicle is safe to test inherently identifies vehicle which have material liquid leaks which would satisfy the statutory need for a liquid leak test in ARS 49-542(Z). Therefore, a separate liquid leak process is not needed. The following SOW Sections are amended as follows:

- 6.1 SOW Section 2.6.16.6 is deleted in its entirety.
- 6.2 SOW Section 3.3.2.9 is deleted in its entirety.

7. Diesel Testing in Area B

Upon written ADEQ notification to GDAT, and at the sole discretion of ADEQ, GDAT shall modify equipment and procedures in Area B for diesel testing as follows:

- 7.1 Vehicles subject to the heavy duty lug down test specified in SOW Section 2.6.15.4 shall instead be tested using the snap idle test.
- 7.2 ADEQ may additionally direct GDAT to conduct the snap idle test or OBD test (where applicable) on other diesel categories which are currently subject to a loaded mode steady state diesel test.

8. Gas Cap Replacement Program

ADEQ desires to implement a Gas Cap Replacement Program ("GCRP"). This GCRP would supply replacement caps, at the time of the inspection, to a majority of motorists whose vehicles fail the gas cap test. Subject to agreement between the parties as to the final details of the gas cap replacement program, ADEQ may direct GDAT to implement and operate the GCRP. This implementation can occur without further Contract Amendment.

9. Referee

ADEQ desires to ensure that any delegation of Referee function is to personnel that are properly qualified. As such, special consideration will be made before any contractor individual is delegated that authority. This delegation will be based on a Contractor Waiver/Referee inspector working with the ADEQ Waiver/Referee trainer until the Contractor Waiver/Referee inspector is meeting the position requirements determined by mutual agreement between ADEQ and GDAT. An ADEQ Waiver/Referee technician must perform a review on any action that is considered an Appealable Agency Action under A.R.S. 41-1092 (e.g., waiver denials, referee denials, etc.) RFP/SOW Section 2.6.24 is modified as follows:

2.6.24 Referee Action: Referee inspection is reserved for ADEQ Waiver/Referee technicians and qualified Contractor Waiver/Referee inspectors. Upon the failure of a tampering inspection of a motor vehicle, as defined in Exhibit 2, R18-2-1006.E.7, in Area A and R18-2-1006.F.7, in Area B, the motorist shall be directed to the nearest Waiver/Referee lane for Referee action. The Referee will either uphold or overturn the tampering inspection failure. The following special inspections shall be performed by ADEQ Waiver/Referee technicians at waiver lanes or other locations designated by the technician, and shall be by appointment: Alternative fuel vehicle certificates; Certification of pre-1988 heavy duty diesel conversions; Inspection of grey market vehicles, and other issues as defined by the ADEQ Program Manager. Any disputed decisions by a Contractor Waiver/Referee inspector must be referred to an ADEQ Waiver/Referee technician for review and final action.

10. All other Terms and Conditions remain unchanged.

GORDON-DARBY ARIZONA TESTING, INC.	ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY	
The Contractor hereby acknowledges receipt and understanding of the above Amendment.	The above referenced contract Amendment is hereby executed this day at Phoenix Arizona.	
Signature of Authorized Individual Date	Day of20)14.
Typed or Printed Name and Title	Teena Ziegler, CPPO, CPPB Chief Procurement Officer	

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM SOLICITATION NUMBER: ADEQ12-00001782 - (Reference Number EV13-0003)

Section Affected	Original Requirements	Revised Requirements	Comments
SOW 2.3.2 -	All inspection	Amend first sentence	Elimination of special
Inspection facilities	facilities, except the	to read, "All	vehicle test lane.
	specialty vehicle test	inspection facilities	
	lane, shall be in fully	shall be in fully	
	enclosed buildings to	enclosed buildings to	
	provide security and	provide security and	
	protection from	protection from	
	inclement weather for	inclement weather for	
	customers and staff.	customers and staff."	
SOW 2.3.7.1 –	The Contractor shall	Delete in its entirety	Elimination of special
Special Vehicle	provide at least one		vehicle test lane.
Test Lane	special vehicle test		
	lane in each program		
	area. The special		
	vehicle lane shall be as		
	centrally located as		
	possible to provide		
	access to oversize		
	vehicles such as		
	cranes, heavy-duty fire		
	equipment, etc. Each		
	special vehicle lane		
	shall be equipped with		
	a wide track		
	dynamometer and		
	other equipment		
	necessary to the		
	testing of the subject		
	vehicles. Special		
	vehicle lanes may be		
	open (without a roof)		
	to reduce the cost of		
	construction. Queue		
	lanes must be designed		
	to accommodate these		
	vehicles without		
	affecting the queue for		
	other lanes. This lane		
	may be used for the		

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

	testing of heavy-duty		
SOW 2.3.10.4 – Special Vehicle Test Lane signage	diesel vehicles. Contractor shall place signs at heavy duty diesel vehicle (HDDV) and special vehicle test (wide track) queue entrances advising operators that trailers are not permitted and program informational materials shall also	Amend to read, "Contractor shall place signs at heavy duty diesel vehicle (HDDV) queue entrances advising operators that trailers are not permitted and program informational materials shall also	Elimination of special vehicle test lane.
	advise of this restriction.	advise of this restriction."	
SOW 2.3.10.5 – Station Signage	The Contractor shall provide, as a part of the station signage, a programmable electronic information message display, showing current wait time, alternate locations, days and hours of operation and other pertinent messages. The display may be made a part of the main station sign (2.3.10) or located where it can be readily observed from the queue.	Amend to read, "The Contractor shall provide, as a part of the station signage, a programmable electronic information message display, showing current wait time, days and hours of operation and other pertinent messages. The display may be made a part of the main station sign (2.3.10) or located where it can be readily observed from the queue."	Alternate location information as part of signage is not desirable.
SOW 2.3.18.1 – Waiver/ Referee Lanes	Contractor shall provide at least two full service inspection lanes and one HDDV lane in Area A and one full service inspection lane in Area B, to be used as Waiver/Referee inspection lanes. If possible, Contractor	Amend to read: "Contractor shall provide at least two full service inspection lanes in Area A and one full service inspection lane in Area B, to be used as Waiver/Referee inspection lanes."	Elimination of special vehicle test lane.

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

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	shall locate Waiver/Referee facility at the same location as an HDDV or Special Vehicle test lane, or suggest method to best provide for the Waiver/Referee function. See, also, 2.1.2.1		
SOW 2.6 – Exhibit 2 A.A.C. R18-2-1008(C)(1)	The converter's oxidation efficiency, as measured by the Catalyst Efficiency Test Procedure in R18-2-1031(A), is less than 78%.	ADEQ shall modify SOW Exhibit 2 to reflect the elimination of the Catalyst Efficiency Test, and add pertinent OBD readiness and DTC logic to determine, to the degree possible, the proper function of a vehicle's catalyst efficiency prior to granting a waiver.	Elimination of the Catalyst Efficiency Test. The elimination of this test will be upon notification by ADEQ to GDAT. The change must be approved by EPA before it can be implemented.
SOW 2.6.15.4 – Diesel Testing in Area B	In Area B, all diesel vehicles shall be tested in accordance with the appropriate weight class loaded mode test (steady state loaded or eighty percent (80%) lug down) described in Exhibit 2, R18-2-1006.I, except that OBD compliant diesel vehicles may be subject to an OBD test.	Upon notification to GDAT by ADEQ, and at the sole discretion of ADEQ, GDAT shall modify equipment and procedures in Area B for diesel testing as follows: Vehicles subject to the heavy duty lug down test shall instead be tested using the snap idle test. ADEQ may additionally direct GDAT to conduct the snap idle test	Elimination of the Diesel Lug-down Test in Area B.

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

SOW 2.6.16.6 –	Liquid Fuel Leak Test:	or OBD test (where applicable) on other diesel categories which are subject to a loaded mode steady state diesel test currently Delete in its entirety	Elimination of the Liquid
Liquid Fuel Leak Test	A visual liquid leak inspection shall be performed on vehicles of model year 1975 and newer as described in Exhibit 2, R18-2-1006, that operate on a liquid fuel other than diesel fuel. The inspection shall consist of identifying obvious liquid fuel leaks that are dripping, pooling or causing puddles on, around or under the vehicle's engine compartment or fuel system. The liquid fuel leak test is an equipment inspection, so vehicles failing the test are not eligible for a waiver		Leak Test
SOW 2.6.24 – Referee Action	Referee Action: Referee inspection is reserved for Contractor management and ADEQ Waiver/Referee technicians. On a motor vehicle that fails the tampering inspection, as defined	Referee Action: Referee inspection is reserved for ADEQ Waiver/Referee technicians and qualified Contractor Waiver/Referee inspectors. On a motor vehicle that fails the tampering inspection, as defined in Exhibit	Ensure Contractor Wavier/Referee personnel are properly qualified. Ensure that any Waiver/Referee denials by a Contractor/Referee are not considered an Appealable Agency Action, since an appeal to an ADEQ Referee is provided prior to final denial.

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

332,311111311	NOMBER. ADEQ 12-000		
SOW 2 6 25	in Exhibit 2, R18-2- 1006.E.7, in Area A and R18-2-1006.F.7, in Area B, the motorist shall be directed to the nearest Waiver/Referee lane for a referee action. The referee will either uphold or overturn the tampering failure. The following special inspections shall be performed by ADEQ Waiver/Referee technicians at waiver lanes or other locations designated by the technician, and shall be by appointment: Alternative fuel vehicle certificates; Certification of pre- 1988 heavy duty diesel conversions; Inspection of grey market vehicles.	2, R18-2-1006.E.7, in Area A and R18-2- 1006.F.7, in Area B, the motorist shall be directed to the nearest Waiver/Referee lane for a referee action. The referee will either uphold or overturn the tampering failure. The following special inspections shall be performed by ADEQ Waiver/Referee technicians at waiver lanes or other locations designated by the technician, and shall be by appointment: Alternative fuel vehicle certificates; Certification of pre- 1988 heavy duty diesel conversions; Inspection of grey market vehicles, and other issues as defined by the ADEQ Program Manager. Any disputed decisions by a Contractor Waiver/Referee inspector must be referred to an ADEQ Waiver/Referee technician for review and final action. Delete in its entirety	Elimination of the
SOW 2.6.25 – Catalyst Efficiency	Catalyst Efficiency Test: The system shall store the information as specified in Exhibit 12. Catalyst efficiency	Delete in its entirety	Catalyst Efficiency Test. The elimination of this test will be upon notification by ADEQ to

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

	data must be entered into the Contractor's data base. Contractor is encouraged to suggest an alternative catalyst efficiency test compatible with the intent of this rule, and A.R.S. § 49.542.R. (See also 2.6.22.4)		GDAT. The change must be approved by EPA before it can be implemented
SOW 3.2.14 -	The Contractor shall	Amend to add the	Repair cost data cannot
Repair Industry Effectiveness	prepare an annual report assessing the effectiveness of the repair industry in repairing failed vehicles. The report shall include the cost of repairs, types of repairs, and other relevant information. This report shall be submitted to ADEQ on the 15 th of February of each year for the previous test year	following sentence at the end of the section: "Cost data will be available for ADEQ only and public version will have cost data omitted."	be verified for accuracy and has often not been provided after repairs.
SOW 3.2.19.1 -	The Contractor shall	Amend SOW Sections	Repair cost data cannot
Repair Industry Effectiveness	track the performance of each repair facility including, but not limited to, repair costs and the percentage of successful reinspections over the previous six months, and prepare a report for ADEQ within thirty (30) Days of the end of the reporting period. Each repair facility that has performed repairs on twelve (12) vehicles in	to add the following sentence at the end of each section: "The version of the report available to the public will have the cost data omitted."	be verified for accuracy.

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

-	NOMBER: ABERT2-000	·	
GOW 2 2 10 2	a six-month period shall be included in a printed consumer report. The Contractor shall make an electronic version of the report, in a user-friendly format, available to and accessible through the ADEQ website	Amond SOW Soctions	Renair cost data cannot
SOW 3.2.19.2 – Repair Industry Effectiveness	The consumer report shall provide the success rate of each facility and the average cost of repairs. The report shall include repairs performed on all subject vehicles. The Contractor is strongly encouraged to seek the participation of the local repair businesses in developing this report. The report shall be approved in writing by ADEQ. The Contractor shall make the consumer report available to the public, including sufficient information to be read and understood without assistance from the inspection station personnel. The Contractor shall make an electronic version of the report, in a user-friendly format, available to and accessible through the	Amend SOW Sections to add the following sentence at the end of each section: "The version of the report available to the public will have the cost data omitted."	Repair cost data cannot be verified for accuracy and has often not been provided after repairs.

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

	ADEQ website.		
SOW 3.3.2.1 – Catalyst Efficiency	Area A waiver testing activity showing the number of failing vehicles (waiver test) and number of catalyst efficiency tests, and catalyst efficiency test results (pass, fail), and I/M test emissions component levels by I/M test type, vehicle type, and model year. Equivalent data shall be reported for vehicles that have failed the catalyst test after the catalyst has been replaced.	Amend to read "Area A Waiver Testing Activities showing the number of failing vehicles (waiver test) and I/M test emissions component levels by I/M test type, vehicle type, and model year."	Elimination of the Catalyst Efficiency Test. The elimination of this test will be upon notification by ADEQ to GDAT. The change must be approved by EPA before it can be implemented
SOW 3.3.2.9 – Liquid Leak Failures	Network activity showing the number of vehicles failing the liquid leak test. Report all failures by vehicle type, make and model year; include any repeat failures.	Delete in its entirety	Removal of requirement for a separate liquid leak test. Current GDAT practice rejects vehicles that are unsafe to test (including vehicles with a liquid fuel leak).
SOW 4.3.2.10 – Heavy-Duty Wide Track Dynamometers	The chassis dynamometer shall be equipped for tandem axles and shall accommodate all vehicles with a single axle weight of twenty thousand (20,000) pounds and a multiple axle weight of thirty-four thousand (34,000) pounds. The dynamometer system shall be capable of testing vehicles with an axle width of 120".	Delete in its entirety	Elimination of special vehicle test lane.

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

	NOWBER. ADEQ12-000		
	The dynamometer		
	system shall		
	incorporate automatic		
	features that will select		
	the proper horsepower		
	for dynamometer		
	loading specified in		
	Exhibit 2. The		
	automatic selection		
	feature will be based		
	on the vehicle		
	parameters in the		
	vehicle test record or		
	entered into the test		
	system at the time of		
	the vehicle check-in.		
	The dynamometer		
	design shall provide		
	for safe testing of		
	tandem axle vehicles,		
	including any		
	restraining devices,		
	rock guards or other		
	special equipment.		
	The dynamometer		
	shall meet		
	specifications and		
	requirements of		
	Exhibit 3, Appendix		
	D(II) and the		
	speed/load		
	requirements of		
	Exhibit 2, R18-2-		
	1006(1), except as		
	noted below.		
SOW 4.3.11.3 -	HD non-diesel	Delete in its entirety	Elimination of special
Heavy-Duty Non-	vehicles tested on the		vehicle test lane.
Diesel Vehicles	wide-track HD vehicle		
	dynamometer		
	(4.3.2.10) shall use		
	emissions gas		
	analyzers and		
	emissions analysis		

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

	systems that meet the		
	Area B requirements.		
SOW 4.4.4 – Heavy Duty Wide Track Dynamometers	Area B requirements. The chassis dynamometer shall be equipped for tandem axles and shall accommodate all vehicles with a single axle weight of twenty thousand (20,000) pounds and a multiple axle weight of thirty-four thousand (34,000) pounds. The dynamometer system shall be capable of testing vehicles with an axle width of 120". The dynamometer system shall incorporate automatic features that will select the proper horsepower for dynamometer loading specified in Exhibit 2. The automatic selection feature will be based on the vehicle parameters in the vehicle test record or entered into the test system at the time of the vehicle check-in. The dynamometer design shall provide	Delete in its entirety	Elimination of special vehicle test lane.
	,		

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

SOW 4.8.2.4 -	shall meet specifications and requirements of Exhibit 3, Appendix D(II) and the speed/load requirements of Exhibit 2, R18-2- 1006(1), except as noted below. Allow Wavier/Referee	Delete in its entirety	Elimination of the
Allow Wavier/Referee staff to perform the catalyst efficiency test (Area A)	staff to perform the catalyst efficiency test (Area A)	·	Catalyst Efficiency Test. The elimination of this test will be upon notification by ADEQ to GDAT. The change must be approved by EPA before it can be implemented
SOW 4.8.3.3 – Contractor software requirements	In area A, for a vehicle equipped with a catalytic converter that fails the waiver inspection with all tailpipe emissions less than or equal to twice the applicable standard, the software shall prompt the inspector to perform a catalytic converter efficiency test. If the vehicle receives the test and the catalytic converter fails, the software shall indicate on the VIR that the vehicle is not eligible for a waiver due to an inefficient catalytic converter. If the vehicle passes the catalytic converter	Amend to read "If the vehicle is denied a waiver, a list of reasons for the waiver shall be provided to the inspector for selection. The reasons for denial shall be printed on the VIR along with the inspection results. If the vehicle is granted a waiver, the software shall print the waiver, and shall display the provision that a one time only waiver has been granted, and the applicable fee."	Elimination of the Catalyst Efficiency Test. The elimination of this test will be upon notification by ADEQ to GDAT. The change must be approved by EPA before it can be implemented

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

	HOMBEN: ABERIZ 000		
SOW 4.8.6 – Contractors software requirements	efficiency test, the software shall provide the option to grant or deny a waiver. If the vehicle is denied a waiver, a list of reasons for waiver denial shall be provided to the inspector for selection. The reasons for denial shall be printed on the VIR along with the inspection results. If the vehicle is granted a waiver, the software shall print the waiver, and shall display the provision that a one time only waiver has been granted, and the applicable fee. The contractor's software shall automatically display the catalytic converter efficiency test for any vehicle that fails a waiver inspection, and shall cause a vehicle that fails the catalyst	Delete in its entirety	Elimination of the Catalyst Efficiency Test. The elimination of this test will be upon notification by ADEQ to GDAT. The change must be approved by EPA before it can be implemented
	shall cause a vehicle		

TO THE CONTRACT BETWEEN THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY AND GORDON-DARBY ARIZONA TESTING, INC.

FOR THE ARIZONA VEHICLE EMISSIONS INSPECTION PROGRAM

	inefficient converter, if the catalyst fails the efficiency test.		
Gas Cap Replacement Program	None	"Gas Cap Replacement Program" (GCRP). This GCRP would supply replacement caps, at the time of the inspection, to a majority of motorists whose vehicles fail the gas cap test. Subject to agreement between the parties as to the final details of the gas cap replacement program, ADEQ may direct GDAT to implement and operate the GCRP. This implementation can occur without further contract amendment.	A program to enhance customer service.



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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CHAIRMAN 2014
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1716 WEST ADAMS PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

HOUSE OF REPRESENTATIVES

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DATE:

April 9, 2014

TO:

Senator Don Shooter, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director 25

FROM:

Jon Stall, Senior Fiscal Analyst

SUBJECT:

AHCCCS/Department of Health Services - Review of Revised Capitation Rate Changes

for Acute Care and Behavioral Health Services

Request

Pursuant to footnotes in the FY 2014 General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) are required to report capitation and fee-for-service inflationary rate changes to the Committee for review prior to implementation. The agencies propose revisions to the previously reviewed contract year (CYE) 2014 capitation rates (October 1, 2013 to September 30, 2014) for Acute Care and Behavioral Health Services. The proposal primarily reflects changes for integrating care of Seriously Mentally III (SMI) members residing in Maricopa County, effective April 1, 2014. AHCCCS' and DHS' proposal and related information is shown in detail in Attachment 1.

Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review.
- 2. An unfavorable review.

In either option, JLBC Staff recommends 1) DHS report to the Committee by May 1, 2014 on the reasons for not using a reinsurance program and 2) AHCCCS report to the Committee on the status of its discussions with the federal government concerning childless adult cost sharing provisions.

Relative to previously reviewed CYE 2014 rates, the JLBC Staff expects the proposed rates would increase General Fund spending for AHCCCS and DHS by approximately \$1 million in the last 3 months of FY 2014 (April through June). On a 12 month basis, the revised rates are expected to increase net General Fund costs between the 2 agencies by \$3.8 million annually.

(Continued)

Of the \$3.8 million General Fund impact, \$1.8 million is due to SMI integration rate adjustments to account for the lack of a DHS-administered reinsurance program. Another \$2 million is the result of several programmatic and technical adjustments to DHS capitation rates.

Analysis

SMI Integration

For most Medicaid populations, Acute Care capitation rates are paid by AHCCCS and Behavioral Health Service rates are paid by DHS. The capitation rate is a flat monthly payment made by the agencies to contracted health plans for each Medicaid enrollee covered under the health plan. Prior to this proposal, the Behavioral Health Service capitation rates for adult populations (such as SMIs) were spread across all enrolled adult Acute Care members.

The Executive is proposing that a single integrated capitation rate be created in DHS for most SMI members that reside in Maricopa County; the rate would combine both Acute Care and Behavioral Health Service expenses. The CYE 2014 rates previously reviewed at the Committee's October 29, 2013 meeting were not adjusted for SMI integration. The Committee reviewed an SMI Behavioral Health Services capitation rate of \$79.93 per member per month for all adult members in CYE 2014.

Beginning April 1, 2014, DHS is paying an integrated capitation rate of \$2,425 per month for 17,000 SMIs in Maricopa County rather than spread their cost across all AHCCCS adults. That latter procedure will still be used for all non-Maricopa County SMIs. With the Maricopa County population now covered by its own capitation rate, the statewide rate is being lowered from \$79.73 per member per month to \$31.89 (See Table 1). The proposal would also require that, beginning April 1, 2014, General Mental Health and Substance Abuse capitation rates are only calculated across adult members that are not receiving integrated services. While AHCCCS actuaries expect the integrated rate to be largely budget neutral, the net General Fund cost of all proposed rate revisions is \$3.8 million.

		Ra	ates			State Expenditures (\$ millions)									
	P	Previously Revised Reviewed 4/1/14		Revised	Previously			Revised							
Populations Populations	R			<u>4/1/14</u> <u>P</u>		viewed	<u>4/1/14</u>	Difference							
Non-CMDP Children	\$	36.98	\$	37.20	\$	90.4	\$	90.9	\$	0.5					
CMDP Children	\$	1,126.46	\$	1,128.01	\$	60.2	\$	60.3	\$	0.1					
GMH/ SA	\$	44.99	\$	46.61	\$	114.5	\$	115.6	\$	1.1					
Non-integrated SMI	\$	79.73	\$	31.89	\$	202.8	\$	79.1	\$	(123.8)					
Integrated SMI			\$	2,425.06			\$	157.4	\$	157.4					
DHS Total 1/					\$	467.9	\$	503.3	\$	35.3					
AHCCCS Offset 2/									\$	(31.5)					
Net Impact									\$	3.8					

1/ Amounts include General Fund monies and \$34.8 million from the Medically Needy Account of the Tobacco Tax and Health Care Fund

2/ Reflects reductions to AHCCCS rates since Maricopa County SMI Acute Care costs will now be part of the integrated rate.

The shift of Acute Care costs for approximately 17,000 integrated SMI members from AHCCCS to DHS was originally planned to begin October 1, 2013. Integration was placed on hold due to legal challenges related to the awarding of the contract, but a Superior Court Judge has since denied a stay on the award. The contract became effective April 1, 2014. The 2 agencies plan to implement integration through interagency transfers in FY 2014 and FY 2015, but may request that the cost shift be reflected in the FY 2016 budget.

Reinsurance Costs

Of the \$3.8 million net General Fund cost, \$1.8 million is due to the lack of reinsurance in DHS. AHCCCS administers a reinsurance program in which separate payments are made to health plans for patients with unusually high costs over and above capitation rates. Because DHS does not administer a reinsurance program, the capitation rate paid to the integrated health plan is actuarially increased to account for the lack of a "stop-loss" program. The JLBC Staff has asked DHS why the agency does not administer reinsurance and are awaiting a response. Most of the net \$1.8 million cost of integration should be offset by a reduction in AHCCCS reinsurance costs in future years as more costs are shifted to the flat dollar amount capitation rate. Given the lengthy reinsurance billing process, that savings may not occur for several years.

Additional Adjustments to DHS Capitation Rates

Programmatic and technical adjustments to DHS capitation rates account for the remaining \$2 million General Fund impact of the rate revisions. These adjustments include:

- Expiration of mandatory co-pays for childless adult members on December 31, 2013 is expected to increase General Fund spending by \$475,300 annually. Previously, this population was required to make co-pays of \$4 to \$10 for prescription drugs, \$5 for office visits, \$2 for taxi transport to medical appointments in Maricopa and Pima County, and \$30 for non-emergency use of emergency departments. On January 1, 2014, childless adult enrollees from 0-100% of the federal poverty level became a state plan population with greater federal restrictions on cost sharing. AHCCCS has begun discussing with the Centers for Medicare and Medicaid Services what cost sharing opportunities may exist with this population in the future.
- The DHS Division of Licensing expanded licensing requirements of some behavioral health residential facilities. Meeting these expanded requirements is expected to increase General Fund spending by \$349,200 annually.
- Given that the capitation rates are only being adjusted for the last 6 months of the contract year, the average cost per case is higher than it would be if spread over a full 12 months. This technical adjustment is expected to cost \$1.1 million.

RS/JS:lm Attachment

Janice K. Brewer, Governor Thomas J. Betlach, Director

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



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

March 18, 2014

The Honorable Don Shooter Chairman, Joint Legislative Budget Committee Arizona State Senate 1700 West Washington Phoenix, Arizona 85007



Dear Senator Shooter:

In an October 2013 letter AHCCCS submitted the capitation rates for Contract Year Ending (CYE) 2014 (October 1, 2013, through September 30, 2014) for the Arizona Department of Health Services (ADHS) for Behavioral Health Services (BHS). At that time, it was noted that the new contract for the Maricopa County Regional Behavioral Health Authority and the planned integration of physical and behavioral health services for members with Serious Mental Illness (SMI) in Maricopa County, planned for October 1, 2013, was on hold due to legal challenges. The contract is now scheduled to be implemented effective April 1, 2014.

The integration initiative results in shifting funding for physical health services for members with SMI in Maricopa County from the Acute Care program to the ADHS/BHS Contractor for the six month period remaining in CYE 14 of April 1, 2014, through September 30, 2014.

There is also an associated change to the way the cap rates are paid to ADHS/BHS. Prior to April 1, 2014, behavioral health capitation rates for SMI recipients and GMH/SA recipients were calculated and paid over the entire eligible adult population. With the implementation of the integrated RBHA contract, capitation rates for the integrated SMI population in Maricopa County will be calculated and paid specifically on the same SMI population only. The GMH/SA and SMI non-integrated population will now be paid over the entire eligible adult population less the integrated SMI population in Maricopa County. This method change is expected to be budget neutral.

Table I below displays the rate change of 9.4% which is due primarily to the shift of the physical health funding from the Acute Care rates to ADHS. Other minor adjustments were made to the statewide capitation rates. These proposed rate changes are described in the attached Actuarial Memorandum submitted to the Centers for Medicare and Medicaid Services (CMS) for required federal approval.

Table I: Proposed Capitation Rates and Budget Impact

4/1/14 - 9/30/14 Capita	tion Rates								
		Sta	itewi	de l	Rates	4/1/14-9/30/14	Projected B	xpenditures	
	Rate Category	1/1/14 F	lates	4/	1/14 Rates	Projected MMs 1	1/1/14 Rates	4/1/14 Rates	% Change
Canada de Bullondo - I	TXIX and TXXI non-CMDP Children	\$ 30	5.98	\$	37.20	3,799,592	\$ 140,508,912	\$ 141,341,841	0.6%
Statewide Behavioral Health Capitation Rates	CMDP Children	\$ 1,120	5.46	\$	1,128.01	83,153	\$ 93,668,528	\$ 93,797,796	0.1%
No Integration	TXIX GMH/SA and TXXI Adult.2	\$ 44	1.99	\$	46.61	3,855,451	\$ 173,456,740	\$ 179,688,282	3.6%
	non-integrated SMI 3	\$ 79	9.73	\$	31.89	3,854,952	\$ 307,355,323	\$ 122,935,817	-60.0%
Maricopa Integrated	Integrated SMI 4			\$	2,425.06	100,936		\$ 244,776,170	
	Total						\$ 714,989,504	\$ 782,539,906	9.4%

¹⁾ 4/1/14-9/30/14 Projected Member Months apply to both 1/1/14 and 4/1/14 Rates

The Acute Care capitation rates were appropriately adjusted by (0.08%) to reflect the change in acuity of the Acute Care membership after members with SMI are moved from the Acute Care program to the integrated Contractor. Combining this with the shift in physical health funding to ADHS/BHS, the fiscal impact to the Acute Care program is (2.3%). These rates have also been submitted to CMS and are likewise awaiting approval. The Actuarial Memorandum for the Acute Care capitation rates is attached.

Should you have any questions on any of these issues, or wish to place AHCCCS on the next Joint Legislative Budget Committee (JLBC) meeting agenda, please feel free to contact Shelli Silver, Assistant Director, at shelli.silver@azahcccs.gov or (602) 417-4647.

Sincerely,

Thomas J. Betlach

Director

cc: John Kavanagh, Arizona House of Representative Richard Stavneak, Joint Legislative Budget Committee John Arnold, Governor's Office of Strategic Planning and Budgeting Don Hughes, Office of the Governor

²⁾ Due to the integration of members with SMI in Maricopa County, the method of payment for adults has changed which results in an increased PMPM for GMH/SA population due to a decrease in members that will receive this capitation rate

³⁾ The majority of the SMI behavioral health costs for Maricopa County are now included in the Integrated SMI capitation rate

⁴⁾ Physical health costs as well as behavioral health costs are included in the Integrated SMI capitation rate

Acute Care Updated Actuarial Memorandum for Contract Year Ending 2014 (CYE 14)

Ending 2014 (CYE 14)

I. Purpose

This memorandum presents a discussion of the revision to the already approved CYE 14 acute care capitation rates. This update is required as a result of the integration of members who are seriously mentally ill (SMI) in Maricopa County effective April 1, 2014.

JOINT BUDGET

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.

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee will be allocated to health insurers based on their respective market share of premium revenue in the previous year. Due to the uncertainty of the actual fees and other unknowns, Arizona Health Cost Containment System (AHCCCS) will not be adjusting the capitation rates for this fee at this time, but intends to make a revision once the impacts are known.

II. Overview of Changes

AHCCCS contracts with the Arizona Department of Health Services/Division of Behavioral Health Services (ADHS/DBHS) for the provision of behavioral health services to AHCCCS Acute Care members. ADHS/DBHS sub-contracts with Regional Behavioral Health Authorities (RBHAs). In Maricopa County, the RBHA will be responsible for the integration of physical health and behavioral health service delivery for members who are SMI. The integration initiative was originally planned to be implemented on October 1, 2013. However, due to a challenge received by ADHS/DBHS related to their award of the integrated RBHA, the move to integrate services for members with SMI residing in Maricopa County was delayed until April 1, 2014. The Acute Care capitation rates were appropriately adjusted to reflect the change in acuity of the Acute Care membership after members with SMI are shifted from the Acute Care program to the integrated RBHA. This change only impacts the Maricopa County capitation rates and ranges by risk group from -1,65% to 2.57% impact. The six month impact of removing the SMI physical health costs and membership results in a shift of approximately \$47 million from the Acute program to ADHS/DBHS. This certification represents the Acute program effective April 1, 2014, after the members with SMI in Maricopa County, and related costs, are shifted to ADHS/DBHS. For this reason, the tables displayed in Section III and Appendix I will not reflect the cost of this shift and will only reflect the acuity changes.

Table I below is an illustration of the shifting costs for members with SMI. This table is only for Maricopa County and will not match the numbers in Appendix I which are displayed on a Statewide basis. This table only includes the risk groups impacted by this shift.

Table I: Maricopa County

GSA 12 Maricopa County	Projected 0 (04/01/14	YE 14 MMs 09/30/14)			tation Rat		地は自然	A B TABLE Market Ma Market Market Market Ma Ma Market Ma Market Ma Ma Market Ma Ma Ma Ma Ma Ma Ma Ma Ma Ma	į	rojected Dollars	Media Media	
GSAZZ Wanteba County	With SMI Integrated MMs	Without SMI Integrated MMs	· 第 第 7 回 · ·	Current	roposed	% Chg Proposed over Current	116.0	the second of the second	Service of	oposed Cap * Proj ////s wo SMI Int		Dollar Diff 5 9 roposed Less Current
Prospective TXIX		0					Г			01		
TANF 14-44F	934,784	928,639	\$	305.82	\$ 304.11	-0.56%	\$	285,874,644	\$	282,407,499	\$	(3,467,145)
TANF 14-44M	442,762	441,334	\$	147.67	\$ 147.35	-0.22%	\$	65,384,625	\$	65,031,570	\$	(353,055)
TANF 45+	149,244	147,354	\$	408.78	\$ 408.74	-0.01%	\$	61,008,480	\$	60,229,297	\$	(779,183)
SSI w/ Medicare	272,016	230,044	\$	155.84	\$ 159.85	2.57%	\$	42,391,700	\$	36,771,773	\$	(5,619,928)
SSI w/o Medicare	241,143	196,711	\$	754.02	\$ 760.12	0.81%	\$	181,826,837	\$	149,523,718	\$	(32,303,119)
AHCCCS Care	534,222	529,393	\$	428.55	\$ 425.54	-0.70%	\$	228,938,199	\$	225,277,952	\$	(3,660,248)
Newly Eligible Adults	139,378	139,137	\$	303.31	\$ 302.67	-0.21%	\$	42,274,186	\$	42,112,775	\$	(161,411)
Total Prospective TXIX	2,713,549	2,612,613					\$	907,698,671	\$	861,354,584	\$	(46,344,087)
									1.0			
PPC												
TANF 14-44F	45,769	45,585	\$	191.92	\$ 191.32	-0.31%	\$	8,783,874	\$	8,721,428	\$	(62,446)
TANF 14-44M	19,405	19,380	\$	163.21	\$ 163.29	0.05%	\$	3,167,131	\$	3,164,488	\$	(2,643)
TANF 45+	5,564	5,525	\$	438.47	\$ 438.29	-0.04%	\$	2,439,705	\$	2,421,560	\$	(18,145)
SSI w/ Medicare	5,043	4,538	\$	102.69	\$ 100.99	-1.65%	\$	517,850	\$	458,261	\$	(59,589)
SSI w/o Medicare	9,376	, 8,569	\$	516.06	\$ 529.22	2.55%	\$	4,838,535	\$	4,534,967	\$	(303,568)
AHCCCS Care	32,463	31,655	\$	683.56	\$ 682.99	-0.08%	\$	22,190,356	\$	21,619,960	\$	(570,396)
Newly Eligible Adults	6,794	6,710	\$	336.78	\$ 336,68	-0.03%	\$	2,288,087	\$	2,259,247	\$	(28,840)
Total PPC TXIX	124,414	121,962					\$	44,225,539	\$	43,179,911	\$	(1,045,627)
1		2										Australia artista (f. 1
Total Title XIX	2,837,963	2,734,574			 		\$	951,924,210	\$	904,534,495	\$	(47,389,715)

Note: TANF 14-44 F rate includes the delivery supplemental costs

Effective April 1, 2014, AHCCCS Contractors must develop a process to assign all children ages 0 to 21 years of age (Early and Periodic Screening, Diagnostic and Treatment (EPSDT) members) to a dental home by one year of age or upon assignment to the Contractor, and to communicate the assignment to the member. The Contractor must regularly notify the oral health professional which members have been assigned to the provider's dental home for routine preventative care. This provides a "panel" of patients for outreach purposes so that the oral health professional can deliver services, send reminder notifications, etc. The goal of this program is to increase utilization of EPSDT oral health services to a level/rate mandated by CMS. Due to the complexity of this initiative it will take several months before increases in utilization are realized, thus capitation rates are not being adjusted for this change at this time. AHCCCS will continue to monitor the utilization due to this change and will adjust future capitation rates, if necessary.

Effective April 1, 2014, AHCCCS is allowing PCPs (physicians, physician's assistants or nurse practitioners) to apply fluoride varnish during EPSDT visits beginning at first

tooth eruption up to age two. The frequency is limited to no more than one every six months. There is an additional payment outside the EPSDT visit fee for this application. This increase includes the PCP education and discussion with the parents of the need of oral health care referral to a dental home. AHCCCS anticipates an immaterial impact to the capitation rates, thus capitation rates are not being adjusted for this change. AHCCCS will continue to monitor the utilization due to this change and will adjust future capitation rates, if necessary.

Effective January 1, 2014, AHCCCS Contractors must provide physical therapy benefits to get and keep a level of function for members twenty one years of age and older, limited to fifteen visits per year. AHCCCS anticipates an immaterial impact to the capitation rates, thus capitation rates are not being adjusted for this change. AHCCCS will continue to monitor the utilization due to this change and will adjust future capitation rates, if necessary.

III. Proposed Revised Capitation Rates and Their Impact

Table II below summarizes the changes from the current approved CYE 14 capitation rates and the estimated budget impact, effective for the period April 1, 2014 through September 30, 2014 on a statewide basis. The impact includes the changes from Section II as well as any changes to administration, risk contingency and premium tax as a result of those changes.

The impact to Contractors' rates ranges from -0.3% to 0.0%. Individual Contractor capitation rates will be impacted as shown in Section B of the contracts.

Appendix I shows a detailed statewide budget impact by risk group.

Table II: Proposed Statewide Capitation Rates and Budget Impact

8 ×	*	Based on CYE 14 (4/1/1	4 = 9/30/14) t SMI Integ			nber Months		Net Impact (a	fter withhold)	-
Rate Cell	CYE 14 Projected MMs without SMI Integrated MMs (4/1/14 - 19/30/14)	Proposed CYE 14 (4/1/14	Cuncut C Capitation	STATE OF STA	(4/ N	posed CYE 14 1/14 - 9/30/14) let Capitation fter withhold)	CY	ference Proposed E 14 Dollars and Current CYE 14 Dollars	% Change Proposed CYE 14 over Current CYE 14	A. 1.4
Prospective	8,098,062	\$ 1,967,861,080	\$ 1,95	51,009,057	\$	1,949,272,906	\$	(1,736,152)	-0.09%	3
PPC	332,548	\$ 88,775,747	\$ 8	38,716,012	\$	88,775,747	\$	59,735	0.07%	1
State Only	36	\$ 594	\$	594	\$	594	\$		0.00%	
Total	8,430,646	\$ 2,056,637,420	\$ 2,03	39,725,663	\$	2,038,049,246	\$	(1,676,417)	-0.08%]

APPENDIX I: Detail Statewide Budget

		Projected CYE 14 MMs (04/01/14 - 09/30/14)	Current Cap Rate (after withhold) based on Proj CYE 14 MMs ²	T	otal Dollars CYE 14 before 4/1/14 changes	v	Ipd CYE 14 Net Iap Rate (after vithhold) based on Proj CYE 14 MIMs ²	1	ital Dollars Upd CYE 4 (after withhold) ased on CYE 14 Proj MMs		Difference	% Increase
TXIX	20 E											
	Prospective											
	TANF < 1 3	334,455	\$ 456,64	\$	152,725,938	\$	456.64	\$	152,725,938	\$	5#8	0.009
	TANF 1-13 ³	3,110,205	\$ 98.07	\$	305,033,024	\$	98.07	\$	305,033,024	\$, ·	0.00%
	TANF 14-44F ³	1,555,020	\$ 231.25	\$	359,599,918	\$	230.29	\$	358,106,520	\$	(1,493,397)	-0.429
1	TANF 14-44M ³	755,422	\$ 145.42	\$	109,854,766	\$	145.23	\$	109,712,577	\$	(142,190)	-0.13%
1	TANF 45+ 3	266,727	\$ 390.87	\$	104,254,830	\$	390.84	\$	104,248,089	\$	(6,741)	-0.01%
1	SSI w/ Medicare	480,616	\$ 140.07	\$	67,319,334	\$	141.99	\$	68,240,294	\$	920,960	1.37%
	SSI w/o Medicare	372,947	\$ 760.00	\$	283,440,598	\$	763.22	\$	284,640,229	\$	1,199,631	0.42%
1	AHCCCS Care	974,230	\$ 402.09	\$	391,726,571	\$	400.46	\$	390,135,678	\$	(1,590,892)	-0.419
i	Newly Eligible Adults	229,755	\$ 293.68	\$	67,475,188	\$	= 293,30	\$	67,386,866	\$	(88,323)	-0.13%
	SFPEP	0	\$	\$		\$	36	\$		\$	2.00	0.00%
	Delivery Supplemental Payment 4	18,098	\$ 5,925.72	\$	107,246,213	\$	5,896,28	\$	106,713,446	\$	(532,767)	-0.50%
	Total Prospective TXIX 5	8,079,378		Ŝ	1,948,676,380		=5	\$	1,946,942 661	\$	(1,733,719)	-0.093
	PPC											·
	TANF, < 1 3	7,144	\$ 1,059.33	\$	7,568,352	\$	1,059.33	\$	7,568,352	\$	120	0.00%
	TANF 1-13 3	114,449		\$	6,428,154		56.17	\$	6,428,154	\$	30	0.00%
	TANF 14-44F ³	74,422	\$ 194.66	\$	14,486,979	\$	194.30	\$	14,459,860	\$	(27,119)	-0.19%
	TANF 14-44M ³	32,992	\$ 165.65	\$	5,465,298	\$	165.70	\$	5,466,856	\$	1,557	0.03%
	TANF 45+ 3	9,749	\$ 405.73	\$	3,955,274	\$	405.63	\$	3,954,294	\$	(980)	-0,02%
i i	SSI w/ Medicare	8,283	\$ 92.77	\$	768,387	\$	91.84	\$	760,688	\$	(7,699)	-1.00%
l'.	SSI w/o Medicare	15,869	\$ 469.54	\$	7,451,289	\$	476.64	\$	7,564,028	\$	112,739	1.51%
	AHCCCS Care	58,686	\$ 664.18	\$	38,978,083	\$	663.87	\$	38,959,977	\$	(18,106)	-0.05%
f .	Newly Eligible Adults	10,953	\$ 329.99	\$	3,614,195	\$	329.93	\$	3,613,538	\$	(657)	-0.02%
	Total PPC TXIX	332,548		\$	88,716,012	2	9	\$	88,775,747	\$	59,735	0.07%
	Total Title XIX	8,411,926		\$	2,037,392,392)9	\$	2,035,718,408	\$	(1,673,984)	-0.08%
TXXI	· ·											
	KIdscare <1	2.73	\$ 461.25	\$	125,780	\$	461.25	\$	125,780	\$	14	0.00%
	Kidscare 1-13	14,175	\$ 99.07	\$	1,404,284	\$	99.07	\$	1,404,284	\$		0.00%
	Kidscare 14-18 F	2,079	\$ 233.60	\$	485,692	\$	232,63	\$	483,670	\$	(2,022)	-0.42%
6	Kidscare 14-18 M	2,157	\$ 146.89	\$	316,921	\$	146.70	\$	316,510	\$	(411)	-0.13%
	Total TXXI	18,685	7	\$	2,332,677		9	\$	2,330,244	\$	(2,433)	-0.10%
State Only	1:						5,		8			
	Transplants	36	\$16.50	\$	594		\$16.50	\$	594	\$		0.00%
Grand Total	Capitation ⁵	8,430,646		\$	2,039,725,663			5	2,038,049,246	Ś	(1.676.417)	-0.08%

Note:

¹Population estimates for CYE 14 are taken from DBF projections with SMI Integrated member months excluded.

² All plans are at a \$25,000 deductible level for CYE 14 reinsurance levels.

³ TANF rate cells include SOBRA and Child Expansion groups. Child Expansion are only for those children ages 6-18.

⁴ Delivery Supplemental Payment projected member months represents a count of members who are projected to receive a delivery supplemental capitation payment

⁵ The Member months total excludes the delivery supplemental payment members

IV. 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 six-month period beginning April 1, 2014.

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 the Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the Contractor's auditors and other AHCCCS employees for the accuracy of the data.

1% of the actuarially sound prospective Title XIX capitation rates will be withheld from monthly capitation payments to Contractors to fund a quality improvement incentive withhold pool. All of the withhold pool amounts will be distributed to Contractors at the time of the pool's reconciliation.

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.

This certification letter assumes the reader is familiar with the acute program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS 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.

Windy J. Marks

3/11/1

Date

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

Arizona Department of Health Services Division of Behavioral Health Services Actuarial Memorandum



I. Purpose

Arizona Health Cost Containment System (AHCCCS) is implementing a program in Maricopa County to integrate physical health and behavioral health service delivery for seriously mentally ill (SMI) recipients. This memorandum includes a description of the development of rates for the physical health component of the program and a revision to the previously approved Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) Contract Year Ending 2014 (CYE 14) behavioral health capitation rates for Maricopa County (GSA 6) and the Greater Arizona Regional Behavioral Health Authorities (RBHA) in Arizona.

The RBHA contract for integrated behavioral and physical health services was originally planned to be implemented on October 1, 2013. However, due to a challenge received by ADHS/BHS related to their award of the Maricopa County Integrated Contractor, the move to integrate services for SMI members residing in Maricopa County was delayed until April 1, 2014.

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

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee will be allocated to health insurers based on their respective market share of premium revenue in the previous year. Due to the uncertainty of the actual fees and other unknowns, AHCCCS will not be adjusting the capitation rates for this fee at this time, but intends to make a revision once the impacts are known.

II. Overview of SMI Physical Health Rate Setting Methodology

These rates cover the six month period of April 1, 2014 through September 30, 2014.

Because the provision of integrated services for SMI members is a new program and capitation rates associated with this program have not been previously developed, CYE 14 is classified as a rate development year rather than a rate update to previously approved capitation rates. Historical Medicaid managed care encounter data was used as the primary data source in developing base period experience. This encounter data was made available to AHCCCS' actuaries via an extract that provides utilization data, cost data and member month information, referred to as the "databook". The databook

included both encounter and member month data only for those members who would have met the criteria used for enrollment in the SMI integrated population effective April 1, 2014. The contract between AHCCCS and ADHS/BHS specifies that the ADHS/BHS may cover additional services not covered by Medicaid. Non-covered services were removed from the databook and excluded from the rate development.

Actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data

- a. AHCCCS historical Medicaid managed care encounter data for the population covered by these rates was used as the primary basis for developing capitation rates.
- b. Apply completion factors and adjust base data for programmatic and AHCCCS provider fee schedule changes occurring during the base period.

2. Develop actuarially sound rates

- a. Apply a trend factor to bring base period claim costs forward to the midpoint of the rating period of April 1, 2014 through September 30, 2014.
- b. Adjust base claims costs for programmatic and provider fee schedule changes occurring after the end of the base period.
- c. Add provision for administration and risk contingency.

III. SMI Physical Health Base Period Experience

AHCCCS used historical encounter data for the time period from October 1, 2009 through September 30, 2012. The base data was adjusted by application of completion factors and historical programmatic and provider rate change factors. Weights were then applied to the adjusted base data for the three periods of CYE 10 (10/01/10 - 09/30/10), CYE 11 (10/01/10 - 09/30/11) and CYE 12 (10/01/11 - 09/30/12), with higher weights applied to more recent periods.

IV. SMI Physical Health Projected Trend Adjustments

Historical trend rates by major category of service were developed from the adjusted base data. Due to the small population size the historical trend rates for the SMI integrated population were not reliable for projecting future experience. Thus, the trend rates used in the approved Acute capitation rate development for CYE14 for similar populations were reviewed and deemed to be reasonable for use in this rate development and thus were utilized. Composite prospective PMPM trends are shown below in Table I.

Table I: Composite Annual PMPM Trends

Category of Service	PMPM Trend
Hospital Inpatient	0.4%
Outpatient facility	0.5%
Emergencyfacility	5.0%
Physician	2.5%
Other Professional	8,4%
Pharmacy	2.7%
Other	3.0%
Total	2.4%

V. SMI Physical Health Programmatic and Fee Schedule Changes – Prospective Adjustments

The changes in this section describe changes that occurred after the end of the base period September 30, 2012. Estimated impacts are for the April 1, 2014 through September 30, 2014 rating period.

Provider Rate Changes

Effective October 1, 2013, AHCCCS adjusted FFS provider rates for certain providers based either on access to care needs, Medicare or ADHS fee schedule rates, legislative mandates, or cost of living adjustments. PMPM costs were adjusted for these changes. The estimated six month Maricopa County (GSA 6) impact is an increase of approximately \$78,000.

Medicare Coverage of Benzodiazepine and Barbiturate Medications

Effective January 1, 2013 for dual eligible members, Medicare will cover benzodiazepines for any condition and barbiturates used for the treatment of epilepsy, cancer or chronic mental health conditions. The estimated six month Maricopa County (GSA 6) impact is a decrease of approximately \$7,500.

Medical Management Changes

The State of Arizona's 2013 Health and Welfare Budget Reconciliation Bill (BRB) reinstated well visits, which were previously eliminated October 1, 2010, as a covered service for enrolled adults for federal fiscal year 2014. The estimated six month Maricopa County (GSA 6) impact is an increase of approximately \$173,000

Human Papillomavirus (HPV) vaccine

AHCCCS is expanding the coverage for the Human Papillomavirus (HPV) vaccine to include coverage for all adults (females and males) aged 21-26. AHCCCS has covered females aged 11-20 since December 2006 and has covered males aged 11-20 since July 1, 2010. The estimated six month Maricopa County (GSA 6) impact to expand the coverage of both the vaccine and the administrative expense for all males and females aged 21-26 is an increase of approximately \$12,000.

Primary Care Provider (PCP) Payment Increase

Section 1902(a)(13)(C) of the Social Security Act, as amended by the Affordable Care Act, requires minimum levels of Medicaid payment for certain primary care services, provided by certain physicians. The AHCCCS managed care model, with strict requirements regarding actuarially-sound capitation rates, necessitates that Contractors be funded for expected cost increases due to primary care rate parity. AHCCCS proposes to provide Contractors the necessary funds to increase primary care payments by using Model 3: Non-risk Reconciled Payments for Enhanced Rates as referenced in the Medicaid Managed Care Payment for PCP Services in 2013 and 2014, Technical Guidance and Rate Setting Practices (Technical Guidance) document released by CMS.

In summary, under Model 3, prospective capitation rates would not be adjusted for the enhanced primary care payments. Rather, AHCCCS would query actual encounter data on a quarterly basis to calculate the total payments that eligible providers were paid for eligible services in order to reach the mandated enhanced payment rates. Once the data on this report is verified, AHCCCS would pay the Contractors the calculated additional payment amounts. A more detail explanation of the process and methodology can be found in the Actuarial Certification submitted to CMS for approval of AHCCCS methodology. There is no impact to the CYE 14 capitation rates.

In-Lieu of Services

Included in the base rates is funding for "in lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. State approved FFS rates at inpatient non-specialty hospitals are approximately 93.5% more expensive than those provided in alternative inpatient settings. The proposed capitation rates allow for the provision of services in alternative inpatient settings that are licensed by ADHS/Arizona Licensing Services/Office of Behavioral Health License, in lieu of services in an inpatient non-specialty hospital, thus no increase to cap rates is included.

VI. SMI Physical Health Administration and Risk Contingency

The capitation rates include a provision for administration and risk contingency of 9% which is calculated as a percentage of the final capitation rate.

VII. Risk Corridors and Performance Incentive

A risk corridor arrangement is utilized between ADHS/BHS and the RBHAs that provides motivation to operate efficiently and generate net income, but also provides for the return of any excessive profit to the State. The risk corridor provides for gain/loss risk sharing symmetry around the service revenue portion of the capitation rates. This risk corridor model is designed to be cost neutral, with no net aggregate assumed impact across all payments. Also, as in prior years, the RBHAs' contracts provide for a potential 1% performance incentive.

VIII. Overview of Behavioral Health Rate Setting Methodology

This section presents a discussion of the revision to the already approved CYE 14 behavioral health care capitation rates. Revisions are needed to reflect a change in the method for paying residential facility providers and for the elimination of mandatory copayments. These changes apply to RBHAs in all geographical areas.

Additional revisions that only apply in Maricopa County (GSA 6) are needed to reflect changes resulting from a court decision and changes in the rating period. In addition, there is a capitation payment method change that is due to the SMI integration and impacts how the capitation rates are paid to ADHS.

IX. Behavioral Health Programmatic Changes

Residential Facility Change

Effective October 1, 2013, the Arizona Department of Health Services, Division of Licensing changed their licensing rules to facilitate licensure of integrated health programs, to provide consistency for all Health Care Institutions, to streamline the regulatory process and to focus on health and safety. These rule changes impacted behavioral health residential settings. The level two behavioral health residential facility setting was collapsed with the level three behavioral health residential facility setting from a licensing perspective as the requirements for the level three setting were expanded commensurate with the level two requirements.

The estimated six month statewide impact is an increase of approximately \$543,000.

Settlement Agreement Impact

The Arnold v. Sarn lawsuit was filed in 1981 and sought to enforce the community mental health residential treatment on behalf of persons with a serious mental illness in Maricopa County. In January 2014, Governor Jan Brewer, officials from ADHS, Maricopa County and plaintiffs signed an exit agreement detailing the specific requirements for an end to the 30-plus year old lawsuit. The exit agreement provides extensive health services for the seriously mentally ill of Maricopa County, over two years beginning July 1, 2014, including an increase of: Assertive Community Treatment (ACT) teams (eight teams), Supportive Housing (1,200 units), Supported Employment (750 slots) and Peer and Family Services (1,500 slots). Although Housing is not a Title XIX covered service, Supportive Housing includes supportive services such as living skills training, personal care, health promotion, psychosocial rehabilitation, case management and medication services which are Title XIX covered services.

This change applies only to the SMI population in Maricopa County (GSA 6).

The estimated six month impact is an increase of approximately \$209,000.

Elimination of Mandatory Copayments

Effective October 1, 2010, AHCCCS reinstated mandatory copays for adults in the AHCCCS Care population. There were a myriad of exclusions for adult copays related to both specific services and specific members as detailed in contract. Additionally, effective April 1, 2012, AHCCCS Care members in Maricopa and Pima counties became

subject to a \$2 mandatory copayment for taxi services per one-way trip. Mandatory copayments permit providers to deny services due to lack of member payment. These AHCCCS Care copays expired December 31, 2013.

The estimated six month statewide impact is an increase of approximately \$739,000.

Rating Period Change

The rating period for the previously-approved rates was January 1, 2014 through September 30, 2014 and the rating period for these rates is April 1, 2014 through September 30, 2014. There is a change in RBHA Contractors beginning April 1, 2014 in Maricopa County (GSA 6), so a trend month roll forward of 1.5 months is needed to true up the rates for the new RBHA Contractor. In Greater Arizona, the same RBHA Contractors are in place for the January 1, 2014 through September 30, 2014 period, so no adjustment is needed to the rates for those RBHA Contractors.

The estimated six month impact is an increase of approximately \$1.67 million.

Capitation Payment Method Change

Prior to April 1, 2014, behavioral health capitation rates for SMI recipients and GMH/SA recipients were calculated and paid over the entire eligible adult population. Beginning on April 1, 2014 with the implementation of the integrated RBHA contract, capitation rates for the SMI population in Maricopa County will be calculated and paid specifically on the same SMI population. This also impacts how the GMH/SA and SMI non-integrated population will be paid since they will now be paid over the entire eligible adult population less the SMI population in Maricopa County. This method change is expected to be budget neutral.

X. Tribal FFS Claims Estimate

Tribal claims data was reviewed by ADHS/BHS and an amount of approximately \$41.2 million was projected for the six month contract period.

XI. ADHS/BHS Administration and Premium Tax

AHCCCS has placed ADHS/BHS Administration at financial risk for the provision of behavioral health covered services for CYE 14. Accordingly, the capitation rates were developed to include compensation to ADHS/BHS for the cost of ensuring the delivery of all behavioral health covered services. The capitation rates paid to ADHS/BHS include an administrative load, which was negotiated between AHCCCS and ADHS/BHS. The load represents a 2% premium tax on all rate categories, a 1.273% administrative load on all non-SMI rate categories and a 1.487% administrative load on all SMI categories for the contract period. The ADHS/BHS administrative costs ensure the efficient delivery of services in a managed care environment.

XII. Proposed Revised Capitation Rates and Projection of Expenditure

Table II below summarizes the changes from the currently approved CYE 14 capitation rates and the expenditure projection, effective for the contract period on a statewide basis.

Table II: Proposed Capitation Rates and Budget Impact

		Statewi	de Rates	4/1/14-9/30/14	Projected E	xpenditures	
(0)	Rate Category	1/1/14 Rates	4/1/14 Rates	Projected MMs 1	1/1/14 Rates	4/1/14 Rates	% Chang
	TXIX and TXXI non-EMDP Children	\$ 36.98	\$ 37.20	3,799,592	\$ 140,508,912	\$ 141,341,841	0.6%
Statewide Behavioral	CMDP Children	\$ 1,126.46	\$ 1,128.01	83,153	\$ 93,668,528	\$ 93,797,796	0.1%
lealth Capitation Rates No Integration	TXIX GMH/SA and TXXI Adult 2	\$ 44.99	\$ 46.61	3,855,451	\$ 173,456,740	\$ 179,688,282	3,6%
My myebration	non-Integrated SMI	\$ 79.73	\$ 31,89	3,854,952	\$ 307,355,323	\$ 122,935,817	-60.0%
Maricopa Integrated	Integrated SMI 4	#844.d \dd	\$ 2,425.06	100,936		\$ 244,776,170	
74	Total		We come to		\$ 714,989,504	\$ 782,539,906	9.4%

^{1) 4/1/14-9/30/14} Projected Member Months apply to both 1/1/14 and 4/1/14 Rates

²⁾ Due to the integration of members with SMI in Maricopa County, the method of payment for adults has changed which results in an increased PMPM for GMH/SA population due to a decrease in members that will receive this capitation rate

³⁾ The majority of the SMI behavioral health costs for Marlcopa County are now included in the Integrated SMI capitation rate

⁴⁾ Physical health costs as well as behavioral health costs are included in the Integrated SMI capitation rate

XIII. Actuarial Certification of the Capitation Rates

I, Anthony Wittmann, 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 six-month period beginning April 1, 2014.

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 ADHS, the Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the ADHS and Contractor's 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.

RBHAs are advised that the use of these rates may not be appropriate for their particular circumstance. RBHAs considering contracting with BHS should analyze their own projected medical expense, administrative expense and other premium needs for comparison to these rates before deciding whether to contract with BHS.

This certification letter assumes the reader is familiar with the BHS program, Medicaid eligibility rules and actuarial rating techniques. It is intended for BHS 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.

Anthony Wittmann

Date

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

XIV. CMS Rate Setting Checklist

1. Overview of rate setting methodology

A.A.1.0: Overview of rate setting methodology

The RBHA contract for integrated behavioral and physical health services is new, so this is the first time rates have been developed for this program. The physical health portion of the rates was developed from AHCCCS/ADHS encounter data. The behavioral health portion of the rates was developed from previously approved rates with adjustments for programmatic and rating period changes and a denominator adjustment to reflect that these rates will apply only to the SMI-integrated population rather than the total adult population. Please refer to Section II for the physical health portion and to Section VIII for the behavioral health portion.

AA.1.1: Actuarial certification

Please refer to Section XIII.

AA.1.2: Projection of expenditure

Please refer to Section XII.

AA.1.3: Procurement, prior approval and rate setting

This is a sole source contracting method, between AHCCCS and ADHS.

AA.1.5: Risk contract

The contract is an at risk contract, however there is a provision for a risk corridor reconciliation. Please refer to Section VII.

AA.1.6: Limit on payment to other providers

AHCCCS makes no additional payment to providers, except for Disproportionate Share Hospital (DSH), Graduate Medical Education (GME) and Critical Access Hospitals. GME is paid in accordance with state plan. DSH and Critical Access Hospital payments are paid in accordance with the Waiver Special Terms and Conditions. None of the additional payments to providers were included in the capitation calculation.

AA.1.7: Rate modification

Please refer to Sections III through V and Section IX.

2. Base Year Utilization and Cost Data

AA.2.0: Base year utilization and cost data

Please refer to Section III.

AA.2.1: Medicaid eligibles under the contract

The data includes only those members eligible for managed care.

AA.2.2: Dual Eligibles (DE)

There are dual eligibles.

AA.2.3: Spenddown

Not applicable, not covered under this contract.

AA.2.4: State plan services only

Please refer to Section II.

AA.2.5: Services that can be covered by a capitated entity out of contract savings.

Same as AA.2.4.

3. Adjustments to the Base Year Data

AA.3.0 Adjustments to base year data

Please refer to Sections IV, V and IX.

AA.3.1 Benefit differences

Not applicable.

AA.3.2 Administrative cost allowance calculation

Please refer to Sections VI and XI.

AA.3.3 Special populations' adjustment

Not applicable.

AA.3.4 Eligibility Adjustments

No adjustment was made.

AA.3.5 DSH Payments

No DSH payment was included in the capitation development,

AA.3.6 Third party Liability (TPL)

This is a contractual arrangement between AHCCCS and ADHS/BHS.

AA.3.7 Copayments, coinsurance and deductible in the capitated rates

Please refer to Sections V and IX.

AA.3.8 Graduate Medical Education

The experience excludes any payment for GME.

AA.3.9 FQHC and RHC reimbursement

The experience excludes any additional payments that FQHCs may receive from the state.

AA.3.10 Medical cost/trend inflation

Please refer to Section IV.

AA.3.11 Utilization adjustment

Please refer to Section V and IX.

AA.3.12 Utilization and cost assumptions

Not applicable since actual experience was used.

AA.3.13 Post-eligibility treatment of income (PETI)

Not applicable, not required to consider PETI.

AA.3.14 Incomplete data adjustment

Please refer to Section III.

4. Establish Rate Category Groupings

AA.4.0: Establish rate category groupings

Please refer to Section XII.

AA.4.1: Age

Please refer to Section XII.

AA.4.2: Gender

Not applicable.

AA.4.3: Locality/region

Not applicable.

AA.4.4: Eligibility category

Please refer to Section XII.

5. Data Smoothing, Special Populations and Catastrophic Claims

AA.5.0: Data smoothing

Please refer to Section III.

AA.5.1: Special populations and assessment of the data for distortions

Data was not adjusted for special populations.

AA.5.2: Cost-neutral data smoothing adjustments

Please refer to Section IX.

AA.5.3: Risk-adjustment

Not applicable.

6. Stop Loss, Reinsurance, or Risk-Sharing arrangements

AA.6.1: Commercial reinsurance

There is no commercial reinsurance.

AA.6.2: Simple stop loss program

Not applicable.

AA.6.3: Risk corridor program

Please refer to Section VII.

7. Incentive Arrangements

Not applicable.