STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
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JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, May 16, 2000
9:00 a.m.
Senate Appropriations Room 109

AGENDA

- Call to Order

- Approval of Minutes of March 20, 2000.

- EXECUTIVE SESSION
  - Department of Administration - Report on State Employee Health Plans as required under A.R.S. § 38-658A.

- DIRECTOR'S REPORT (if necessary).

1. SCHOOL FACILITIES BOARD - Update

2. ARIZONA DEPARTMENT OF ADMINISTRATION
   A. Consider Approval of an Increase in the Settlement Authority Levels.
   B. Semi-Annual Report on Health Plan Performance Standards.

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

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

5. DEPARTMENT OF ECONOMIC SECURITY
   A. Bimonthly Report on Arizona Works.
   B. Determine Arizona Works Caseload Reduction Savings.
   C. Review Expenditure Plan for the Long Term Care System Fund and Related Appropriation Transfers.

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

7. COMMUNITY COLLEGES - Report on the Community Colleges' Arizona Learning Systems Private Vendor Contract.

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

The Chairman reserves the right to set the order of the agenda.
05/09/00

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Joint Legislative Budget Committee
Staff Memorandum

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Telephone: (602) 542-5491
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DATE: May 16, 2000

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

THRU: Richard Stavneak, Director

FROM: Tom Mikesell, Fiscal Analyst

SUBJECT: WILDLAND FIRE FIGHTING

As you know, Arizona is once again entering the fire season, brought on by a dry winter, careless campers, and prescribed burning mishaps. The largest of the recent fires affects the Coon Creek area in the Tonto National Forest. To highlight the jurisdictional and funding issues related to fighting wildfires, this memo briefly discusses the fire fighting effort at Coon Creek, and then provides an update on the status of the remaining fire emergency monies for FY 2000.

Coon Creek Fire

The Coon Creek Fire is burning on predominantly federally owned land, with only some private, and no state land involved. The State Land Department Fire Management Officer estimates that the state spent approximately $10,000 per day on the suppression effort during the height of the fire. This estimate included 4 full-time state employees (agency representative, timekeeper, ground transportation support, and a class one team member), 5 temporary state employees for support, and 8 local fire departments (4 fire engines, 4 water attenders, and crew, fuel, and supplies for each). The full-time employees are funded from the department's existing state General Fund appropriation and the federally funded Cooperative Forestry Fund; the costs of the temporary personnel and local fire departments will be paid from the non-appropriated Fire Suppression Fund.

The news media report current total costs of $4,600,000 for the Coon Creek fire. The federal government is providing the bulk of the fire suppression effort and is responsible for the majority of the cost of fighting the fire (since the fire is primarily on federal land). The federally provided and funded resources on the scene during the height of the fire included: class one team (incident commander, fire management personnel), 11 hand crews, 3 planes, 3 helicopters, and supplies, meals, maintenance, fuel, etc., according to the State Land Department Fire Management Officer.

Fire Emergency Monies

Each fiscal year the Governor can authorize up to $3,000,000 from the state General Fund to devote to the state's fire fighting and prevention effort in the event of a fire emergency. Two

million dollars of this amount can be used to pay the state's costs of fighting fires, and the remaining $1,000,000 can be used to pre-position fire fighting resources in anticipation of fires during extremely dry conditions. These monies are available upon the Governor's declaration of an emergency, and do not require an appropriation. Of the Governor's total emergency authority for FY 2000, $2,900,000 is still available ($1,000,000 in pre-positioning monies and $1,900,000 in fire fighting monies). Very little has been needed from this year's emergency authority to date, since the heavy monsoons last summer prevented the dry conditions that lead to fires.

This summer could potentially be a bad fire season due to very dry conditions this winter and spring, and in fact there are some current fires that affect state land according to the State Land Department. To pay the costs of the state's current fire fighting efforts, a small part of which is from the state involvement in the Coon Creek fire, the Governor is going to authorize $1,000,000 of the remaining $1,900,000 in fire fighting monies for FY 2000 which I mentioned above. In addition, since conditions are very dry, the Governor is going to authorize the remaining $1,000,000 in FY 2000 pre-positioning monies (also mentioned above) to put fire fighting resources in position to respond to fire emergencies quickly with the intent to minimize the spread of fires.

You will recall that H.B. 2409 was enacted with an appropriation of $360,000 from the Fire Suppression Fund in FY 2001 for the Mule Gulch Floodway channel. These monies were a portion of a $1,500,000 emergency authorization for fire fighting in FY 1999 held in the Fire Suppression Fund. Since these monies were not needed for FY 1999 fire fighting, the remaining amount over $600,000 will lapse to the state General Fund pursuant to statute (only unobligated Fire Suppression Fund balances over $600,000 lapse annually per statute). Therefore, these monies are not available to fund the FY 2000 fire fighting effort.

RS/TM:ag

Joint Legislative Budget Committee
Staff Memorandum

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Telephone: (602) 542-5491
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DATE: May 10, 2000

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

THRU: Richard Stavneak, Director

FROM: Lynne Smith, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - UPDATE

Senator Gnant has invited the School Facilities Board to appear before the Committee to provide an update on several issues concerning their agency. We have asked the board to address at least the following two issues: 1) the status of the Flex-Tech contract to evaluate school facility capital needs, and 2) the board's plans to purchase $50,000,000 in computers as part of their existing FY 2001 deficiencies correction funding.

For your background information, we have attached the minutes of the December 14th JLBC meeting on the Flex-Tech contract and the JLBC Staff analysis.

RS:LS:ss

Attachment

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

RANDALL GNANT
CHAIRMAN 2000
GUS ARZBERGER
RUSSELL W. "RUSTY" BOWERS
SCOTT BUNDGAARD
EDWARD J. CIRILLO
JACK C. JACKSON
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HOUSE OF REPRESENTATIVES

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CHAIRMAN 1999
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LORI S. DANIELS
SALLY ANN GONZALES
BILL MCGIBBON
JEAN HOUGH MCGRATH
BOB MCLENDON
CHRISTINE WEASON

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

December 14, 1999

The Chairman called the meeting to order at 9:30 a.m., Tuesday, December 14, 1999, in Senate Appropriations Room 109. Representative McLendon requested the Committee recess until the Democratic Caucus had adjourned. The meeting reconvened at 9:43 a.m. The following were present:

Members:	Representative Bob Burns, Chairman	Senator Randall Gnant, Vice-Chairman
	Representative Blewster	Senator Arzberger
	Representative Daniels	Senator Bundgaard
	Representative Gonzales	Senator Cirillo
	Representative McGibbon	Senator Jackson
	Representative McGrath	Senator Lopez
	Representative McLendon	Senator Wettaw
	Representative Weason	
Absent:		Senator Bowers
Staff:	Richard Stavneak, Director	Jennifer Vermeer, Assistant Director
	Sharon Savage, Secretary	Lynne Smith
	Steve Schimpp	Gretchen Logan
	Patrick Fearon	Paul Shannon
	Tom Mikesell	Stefan Shepherd
	Brad Regens	Rebecca Hecksel
Others:	Greg Gemson	House of Representatives
	Eileen Klein	House of Representatives
	Wendy Kim	House of Representatives
	Debbie Johnston	Senate
	Reed Spangler	Senate
	Kristine Ward	OSPB
	Philip E. Geiger	School Facilities Board
	Greg Fahey	University of Arizona
	Dick Roberts	University of Arizona
	Tim Brand	ADOA
	Art Ranney	GITA
	John Kelly	GITA

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of November 17, 1999, Representative Burns stated that the minutes would stand approved.

DIRECTOR'S REPORT

Richard Stavneak, Director, JLBC Staff, mentioned that some of the members had been involved in an issue over a number of years which has finally been resolved, regarding the constitutionality of using the Miners' Fund for the Pioneers' Home. The Arizona Enabling Act, which is a federal piece of legislation, did not allow us to use that money. That legislation has now been amended so that the Miners' Fund can now be used for issues at the Pioneers' Home.

Senator Gnant asked if any members of the Arizona delegation were partially responsible for the amendment.

Mr. Stavneak said that the Congressman Stump and Senator Kyl sponsored the legislation. He added that his office was proceeding with the thank-you letter requested by Senator Gnant.

SCHOOL FACILITIES BOARD – Review of Statewide Assessment Contract

Ms. Lynne Smith, JLBC Staff, said that this was a review of the School Facilities Board's statewide assessment contract. Updated information had been given to members of the Committee. The reason for the update was that the contract did not exist when the JLBC book was sent to the members.

Ms. Smith said that the JLBC Staff is recommending a favorable review; however, they did have several issues that they wished to bring to the Committee's attention. The Students' FIRST legislation appropriated $2 million for the contract and the State Procurement Office received proposals from six different vendors. The State Procurement Office had an RFP review committee that went through the proposals from the six vendors and awarded a $1.8 million contract to Flex-Tech Professional Service. That information was sent to the members of the Committee on Friday, December 10. Shortly thereafter, Flex-Tech called the Procurement Office and reported an error in the contract. There were two different square footage figures in the RFP. One was an old 62,628,900 square foot number for total state school space and Flex-Tech had based their price on that number. An RFP amendment clarified that another number in the RFP of 96,978,874 square feet is actually correct. The Committee is being asked to review the $1.8 million contract. If they give a favorable review to the contract, they will also be asked to review a second contract to make up the remainder of the square feet. It will be contingent upon additional funding because the total price would be $2.7 million.

Ms. Smith clarified that at today's meeting they are only being asked to review the initial contract, which is for about 2/3 of the school space. The full Legislature will be asked to look at funding for the additional square feet. The Executive is recommending that the money come from the Deficiencies Correction Fund. The JLBC Staff wanted to point out that this is basically General Fund money because any money going into the Deficiencies Correction Fund is diverted from the General Fund and will have to be made up with General Fund money.

Representative McLendon said that the summary said it would "ultimately" be made up with General Fund money. He asked what "ultimately" meant. Ms. Smith explained that any money in the Deficiencies Correction Fund comes from the General Fund. Each year the School Facilities Board is charged with reporting to the Joint Committee on Capital Review (JCCR) and then instructing the State Treasurer to transfer money into that fund. At this point, the School Facilities Board has asked for $150 million and they do not anticipate that it would change this year. If any money were instead used for the assessment contract, we assume that amount would be added to the General Fund money transferred into the Deficiencies Correction Fund next year.

Representative McLendon asked if statutory language is needed that states that this fund will be replenished in a certain way and at a certain time. Ms. Smith said that at this time there is no authority to spend the money. The Legislature would have to take action and at that time determine if any additional appropriation would come from the Deficiencies Correction Fund or the General Fund or if the assessment would not be finished. That is a policy issue that the Legislature will need to address. If the Legislature takes the Executive's proposal to use Deficiencies Correction Fund monies, they would need to decide whether it gets paid back and when. That is separate from the contract that they are reviewing at this meeting.

Representative McLendon said that he needed some assurance that this will be done. He asked if someone from JLBC Staff could see him about this issue.

Mr. Stavneak explained that he thought the board would ask for that additional amount of money from the State Treasurer at some point. They have the ability to automatically withdraw funds from sales tax revenues without an appropriation. He assumed that if they were going to take the $800,000 from the Deficiencies Correction Fund, they would adjust the request from State Treasurer by that amount. It is also something that could be specified in statute, but could also be done by the action of the board and their instructions to the State Treasurer.

Senator Cirillo said that he noticed the reluctance of the vendor to supply a performance bond. The vendor eventually said they would supply a bond at 3.5% of the total bid price. He wondered if that raised any red flags to anyone.

Ms. Smith said that she understood that when the Evaluation Committee looked at the vendor, they saw that they had done large projects but none that were educational in nature. The Evaluation Committee looked into getting a performance bond. The Procurement Office said that a bond could be procured for 3.5% of the price, which is $93,333. The vendor said they would be happy to purchase the bond if the money would not come from their profits. The reason for the performance bond was that there were questions about the timely completion of the project.

Senator Cirillo noted that the vendor is a small business with less than 100 people and less than $4 million of gross revenue. He wondered if they had the necessary competent people to do the job.

Representative McGrath expressed her concerns with the contract, the change in price, and the company's unwillingness to purchase a bond.

Mr. Stavneak said that the JLBC Staff shares some of these concerns. However, the other bids would cost anywhere from a minimum additional amount of $1 million above the $2.8 million to $2 million. The policy issue in front of the Committee is whether they want to delay the process, which may require bidding again and could cost the state from $2 million to $3 million more than was currently appropriated.

Dr. Philip Geiger, Executive Director, School Facilities Board, said that their concern when requesting a bond was that the company's bid was $3 million less than the next lowest bid and $47.5 million less than the highest bid. They also were concerned with the ability of the contractor to perform and decided that it was best to have a performance bond issued even if they had to pay for it out of the $2 million available. They plan to work with the vendor, knowing that the next vendor is $3 million higher, which is more than double the cost of the study.

Dr. Geiger explained that none of the vendors have permanent staff available to do the evaluation of all Arizona's schools. More than 100 people are needed to visit the 1,210 schools in Arizona. Any vendor would need to hire temporary employees to complete the project by April 30. Flex-Tech is basically a construction or contractor staffing company, and this is the first evaluation of this type that they will be doing. The most experienced vendor was the one that estimated the price between $40 and $50 million.

Representative McGrath expressed her concern that the contract stated that the vendor was only going to spot check the school square footage. She asked if that was the contract that was put out to all the vendors or did this vendor bid the contract on only spot-checking.

Dr. Geiger said that all vendors were asked to submit a base bid of 10% of the schools and also give them an alternative price for evaluating all the schools. The lowest price to do the actual square footage of all the schools was an additional $1 million.

Senator Gnant asked if it was worth spending $2 million if it does not get them all the way to their goal.

Dr. Geiger replied that is was worth it. He had visited and looked at the schools in all of Arizona's counties. There are deficiencies and in some instances districts simply live with the deficiencies because they have no other options available. The $2 million will help them provide a standard of measurement and enable them to evaluate the actual cost. They will be using a standard that in the construction business is used to determine what it will cost for roof repairs, plumbing, or heating changes. It will enable the state to have some sense of the magnitude of the problem.

Representative Daniels asked if they were going to primarily visit the older, rural schools and the older schools in the metropolitan areas, since they can only visit 10% of the schools.

Dr. Geiger said that the requirement is to measure 10% and if there is an error of 2% or more, they will need to measure an additional two schools until they find two consecutive schools that are accurate to 98%. If there is an inaccuracy in the first school, potentially the vendor will have to actually measure all the schools in the district. Each school will be visited and the information derived from that visit will be about the entire school and all the conditions at that school.

Representative Daniels asked if they were going to gather data from the different school boards prior to going to the schools. She knew of four or five new grade schools in her district built all within the last three years. These schools should have the architectural plans with the square footage.

Dr. Geiger explained that all school districts have received three different forms. One form contained the data that the Schools Facilities Board already had on file and asked the districts to verify the information. The second asked them to identify and define all the problems that they know of. The third document is to be completed by the inspector to create a standard report.

Senator Lopez said that he hoped they would give a favorable review to this recommendation. He noted that one reason they need the square footage for all the schools is for the Building Renewal Fund. The Capital Facilities Board has already made some estimate of this square footage and he wondered if Dr. Geiger expected that figure to change drastically as a result of the reassessment.

Dr. Geiger said that they didn't expect any substantial change in the figures. However, they are still uncertain if they are exact. They believe that with the 10% inspection they will be able to feel that the numbers are reasonably credible. It did not appear to be justified to spend an additional $1 million, however, to measure each school precisely.

Senator Lopez requested that the Capital Facilities Board keep this committee updated as they do their assessment, so that the committee will not be surprised at the findings and recommendations. If they were to get a monthly analysis, they would be in a better position to plan both financially and budget wise. The Capital Facilities Board is going to request $150 million this year, but experts suggest it is only a very small portion of what is going to be required over the next two fiscal years to accomplish this job.

Representative McGrath asked Mr. Stavneak if they were meeting all the requirements as handed down in the judges' decision. She wondered if Mr. Hogan would take the state back to court since they are only doing a small percentage of the schools.

Mr. Stavneak replied that Mr. Hogan was never shy in letting them know if something concerned him with the school facilities process. He had not heard of any concerns from Mr. Hogan.

Mr. Stavneak asked how they plan to choose the schools to be assessed and wondered if this would be done randomly across the state or were they just going to choose older schools?

Dr. Geiger said that 56 million square feet of the total 96 million square feet is located in Maricopa County, which is also the location of the most modern schools. If the schools were built after 1985 and it was verified that they were built in accordance with state requirements, they would not need to be fully examined.

Mr. Stavneak said that there is currently a plan to provide the Legislature with a sample of the results sometime if February. He asked if that sample would lean toward the most significant costs since the 32 million square feet of newer schools in Maricopa County will not be included. Dr. Geiger confirmed this.

REPRESENTATIVE DANIELS MOVED THAT THE COMMITTEE GIVE A FAVORABLE REVIEW TO THE STATEWIDE ASSESSMENT CONTRACT FOR THE SCHOOL FACILITIES BOARD. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY
A. Consideration of Requested Transfer of Appropriations

Mr. Stefan Shepherd, JLBC Staff, said that this item was a technical request by the Department of Economic Security (DES) to transfer funds in the Temporary Assistance for Needy Families (TANF) Cash Benefits Special Line Item in the Division of Benefits and Medical Eligibility. The transfers will ensure the state meets its federal TANF Block Grant maintenance of effort requirements. The transfers are as follows:

Budget Affected	General Fund	TANF Block Grant	Total
DBME Operating	$(10,000,000)	$10,000,000	$ 0
DCYF Operating	(6,220,700)	6,220,700	0
Administration Operating	(1,400,000)	1,400,000	0
DBME TANF Cash Benefits SLI	21,228,500	(21,228,500)	0
DCYF Children Services SLI	(2,607,800)	2,607,800	0
DCYF Attorney General Legal Services SLI	(1,000,000)	1,000,000	0
TOTAL	$ 0	$ 0	$ 0

REPRESENTATIVE MCGIBBON MOVED THAT THE COMMITTEE APPROVE THE REQUESTED TRANSFER OF FUNDS IN TANF CASH BENEFITS. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY
B. Arizona Work Bimonthly Review

Mr. Stefan Shepherd, JLBC Staff, explained that this item was not in the original booklet sent to the members and was for information only. The vendor for the Arizona Works Program, MAXIMUS, is required to provide the Committee a report every two months on its activities. This report covers the period of September 15 through November 15. At the last review by this Committee, Senator Lopez had requested some comparative data with DES. DES is still working out some computer issues regarding putting the requested data in the report. For example, the way DES measures job placement is not the same as how Arizona Works reports job placement. MAXIMUS and DES expect that the report to be submitted on January 15 will contain all the requested data. The MAXIMUS report also lacks some information concerning sanctions and funding issues.

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams
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Telephone: (602) 542-5491
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DATE: December 13, 1999

TO: Representative Robert "Bob" Burns
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Lynne Smith, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REVIEW OF STATEWIDE ASSESSMENT CONTRACT - ADDENDUM

Request

The School Facilities Board requests that the Joint Legislative Budget Committee (JLBC) review its proposed contract for the initial assessment of school facilities and equipment.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the contract. While we have some reservations at this point, there are no viable alternatives. The proposed contract would enable completion of approximately two-thirds of the initial assessment of school facilities and equipment. An assessment of the remainder of schools would be contingent upon additional funding.

Summary

The JLBC Staff recommends that the Committee give a favorable review to the contract so that the assessment can begin. At present, the Committee is charged only with reviewing the contract. However, the JLBC Staff has several related concerns we would like to bring to the Committee's attention: 1) there is some question of the capacity of the vendor concerning this project, given how much lower its proposal cost was compared to other vendors; 2) the contract calls for the vendor to only spot check school square footage, rather than measure every school; 3) only two-thirds of the assessment can be completed using currently available funding; and 4) the Executive proposal to use Deficiencies Correction Fund monies to complete the assessment should be viewed as having a direct General Fund impact. Monies for that fund come from Transaction Privilege Tax monies that otherwise would be deposited to the General Fund. The Executive's proposal will simply short the Deficiencies Correction Fund, which will ultimately be made up with General Fund monies.

Analysis

The Students FIRST legislation includes an appropriation to the School Facilities Board of up to $2,000,000 to contract for the initial assessment of school facilities and equipment. Language in the appropriation requires that "any contract entered into by the School Facilities Board for the initial

(Continued)

assessment of school facilities and equipment . . . is subject to prior review by the Joint Legislative Budget Committee." Background information on the assessment was distributed with the JLBC agenda book (before the contract was awarded). This memo provides information on the proposed contract.

As specified in the Request for Proposals, "the contract between the State of Arizona and the contractor shall consist of (1) the Request for Proposal (RFP) and any amendments thereto, and (2) the proposal submitted by the contractor in response to the RFP and (3) any clarifications, discussions, and best and final offers negotiated." The Scope of Work and Solicitation Amendments from the RFP were previously distributed with the background memo. The board provided an excerpt from the selected vendor's response, which is attached to this memo along with the board's request letter. The entire RFP response is available upon request.

The State Procurement Office received proposals from six vendors. Members of the RFP evaluation committee reviewed the responses, then met to make a determination. The attached letter from the board lists the committee members and briefly summarizes each of the proposals. A table on page 12 of the attachment shows the points awarded to each proposal by the RFP evaluation committee for the various components of evaluation criteria. The criteria included expertise of key personnel (30%), method of approach (30%), cost (30%), and experience of firm (10%).

The evaluation committee awarded a contract to Flex-Tech Professional Services, Incorporated, subject to JLBC review. The board plans to meet on December 16 to confirm the award. The JLBC Staff received a copy of the contract and distributed it to JLBC members on Friday, December 10. That afternoon, the vendor called to report an error that increases the total price by $866,635 to $2,666,635. The RFP incorrectly listed 62,628,900 square feet of school space on page 29 and correctly listed 96,978,874 square feet on page 41. Although an amendment to the RFP clarified that the higher figure should be listed in both locations, the vendor originally multiplied its stated price-per-square-foot by the incorrect lower figure. The corrected figure would be $666,635 higher than the appropriation.

The erroneously proposed $1.8 million contract would purchase an assessment of 62,628,900 out of 96,978,874 square feet, or approximately 64% of school space. Using its exemption from the state procurement code, the board proposes awarding the same vendor a second contract to conduct the remainder of the assessment, contingent on availability of funding. Until this point, the board has followed the procurement code. The exemption expires at the end of the 1999 calendar year.

In addition, the board plans to pay an additional $93,333 for the vendor to purchase a performance bond. As a result of the higher contract cost and performance bond, the board plans to request that the Legislature give it authority to use Deficiencies Correction Fund monies to pay the additional $759,968. The full Legislature would need to approve this proposal, as the JLBC does not have that authority. While these monies technically would be "Other Fund" monies at the time of expenditure, they would have a General Fund impact since monies for that fund come from Transaction Privilege Tax monies that otherwise would be deposited to the General Fund. Any monies spent from that fund for the assessment eventually need to be replaced with "General Fund" monies.

There is some question of the capacity of the vendor concerning this project, given how much lower its proposal cost was compared to other vendors. We would point out that this is the lowest cost option on a project that is already behind schedule. The chosen proposal lists a price of 2.849 cents per square foot, for a total of $2,666,635, including $200,000 for overall management. The next least expensive proposal was for 3.98 to 4.12 cents per square foot. The only other qualified proposal for all regions of the state was for 4.28 to 9.135 cents per square foot, for a total of $5.57 million. To alleviate some of these concerns, the board plans to expend an additional $93,333 to purchase a performance bond.

(Continued)

The board reports that the contractor has some experience with large scale projects such as this contract. The firm, however, does not have any specific education construction background. As part of its selection process, the State Procurement Office reviewed the company's financial background through a Dun and Bradstreet report. The result of that review has been described as "acceptable." Due to confidentiality concerns, the Dun and Bradstreet report is not being provided to us.

As we noted in the background memo, the board has decided to notify the State Treasurer to withdraw $135 million from the FY 2001 General Fund for deficiency corrections. The board already has a $15 million appropriation for FY 2001, so the total FY 2001 deficiencies budget would be $150 million. The biennial budget originally had a placeholder of $50 million for this item, so the board's action will result in a net cost to the budget of $100 million. Current law requires the board to notify the State Treasurer of its upcoming fiscal year requirements by January 1 preceding the beginning of the fiscal year. The basis of the board's request for the additional $100 million is not entirely clear. As noted in the background memo, it will not have the sample assessment results available until February 1, with final results by April 30, 2000. The board, however, believes that the assessment will ultimately validate its currently planned instructions to the State Treasurer.

We also are concerned that the contract calls for the vendor to only spot check school square footage, rather than measure every school, and does not call for cost estimates on prior renovations. The JLBC Staff previously has raised concerns about the validity of building renewal data reported by school districts (on renovations and square footage), with the expectation that the assessment would alleviate these concerns. The assessment will spot check the square footage reported by districts and does call for physical inspection of building renovations. The RFP states that a primary expectation is for the contractor(s) to identify renovations that were not specified in district reports. However, not all square footage will be verified and the assessment will not provide full information on the cost of prior renovations, which are components of the building renewal formula.

RS:LS:ss

Joint Legislative Budget Committee
Staff Memorandum

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DATE: May 10, 2000

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

THRU: Richard Stavneak, Director

FROM: Lynne Smith, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION - CONSIDER APPROVAL OF AN INCREASE IN THE SETTLEMENT AUTHORITY LEVELS

Request

The Arizona Department of Administration (ADOA) requests that the Committee increase the upper limit of ADOA's settlement authority with regard to liability claims against the state from $25,000 to $100,000. The department also requests an increase in the upper limit of the Attorney General's (AG) settlement authority from $150,000 to $500,000. The Joint Legislative Budget Committee would approve claims above $500,000.

Recommendation

The JLBC Staff recommends that the Committee approve an increase to ADOA's settlement authority with regard to liability claims against the state to $100,000. The JLBC Staff recommends that the Committee not approve an increase in the Attorney General's settlement authority. The JLBC would retain authority to approve settlements above $150,000. If the Committee decides to accept the proposal raising the JLBC cap, we would also be modifying the Committee's Rule 14 (see attached).

Analysis

A.R.S. § 41-621N provides levels of settlement authority for liability claims against the state and provides that JLBC can increase those levels. Currently, the ADOA Director can approve claims up to $25,000. Claims above $25,000 also require approval of the AG. Claims above $150,000 require final approval of the JLBC. These authority levels were set in statute in 1973 as $25,000 for ADOA and $50,000 for the AG. JLBC raised the AG's authority to $150,000 in 1991.

Attached is an explanatory memo (from ADOA) followed by a memo (from the AG's Office to ADOA) that provides further detail. The AG concurs with ADOA's request. The departments state that the increase in ADOA's authority would reduce legal costs by allowing the AG to focus on larger cases, reducing the need for expensive outside counsel. It also would speed up the settlement of smaller claims (that currently average 2.3 years to complete) and improve efficiency for ADOA and the AG by eliminating referrals, reporting, and negotiating between the two agencies. There were 35 cases settled

(Continued)

between June 1997 and June 1999 between $25,001 and $100,000. If ADOA's authority were increased to $100,000, AG approval would no longer be required at that level.

The departments also request an increase in the upper limit of the AG's settlement authority from $150,000 to $500,000, with the JLBC approving claims above $500,000. The departments state that this would have reduced the JLBC workload by 18 cases over the last 2 years, but still provided a sufficient number of settlements to allow for adequate oversight. They state that no settlement proposals in this range have been rejected by JLBC in the past 5 years. In discussions with the JLBC Staff, the AG's office reported that they offered this proposal simply as a workload reduction option for JLBC. JLBC reviewed a total of 42 cases between June 1997 and June 1999 (14 in FY 1998 and 28 in FY 1999). Of these, 18 were between $150,001 and $500,000. If the joint AG/ADOA authority had been $500,000 during this time period, JLBC approval would have been required for 24, rather than 42 cases in the 2-year period.

The JLBC Staff recommends that the $25,000 cap be lifted since both ADOA and the AG agree and the Committee does not currently review these cases. The JLBC Staff, however, recommends against raising the JLBC cap. We believe that the Committee review enhances its understanding and oversight of state government. These "real-life" cases provide members a better opportunity to understand the inner workings of state agencies. The JLBC can also help lend substantial support to ADOA's and the AG's existing efforts to establish state policy and procedures that minimize liability claims against the state.

RS:LS:ss
Attachment

JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

RISK MANAGEMENT SECTION
1818 WEST ADAMS
PHOENIX, ARIZONA 85007-2635
FAX 542-1943

TO: Richard Stavneak, Director, Joint Legislative Budget Committee

FROM: Frank E. Hinds, State Risk Manager

DATE: April 25, 2000

SUBJECT: PROPOSED INCREASE OF SETTLEMENT AUTHORITY LEVELS

The Director of the Department of Administration, the State Risk Manager, and the Attorney General, recommend that the Joint Legislative Budget Committee (JLBC), pursuant to ARS 41-621(N), increase the settlement authority levels with regard to liability claims against the state.

The numbers of liability claims against the State, as well as the size of those claims have increased steadily since the State self-insurance program has been in effect. There has been only one increase in the authority level of the Attorney General during that time. In 1992 the Attorney General's authority was increased from $50,000 to $150,000. Risk Management's authority has remained at $25,000 since 1973.

Based on a Consumer Price Index increase of 265% during the period 1973 to 1999, a $25,000 settlement in 1973 would be worth $91,250 now. We believe it is time the authority levels are increased.

RECOMMENDATION:

We recommend an increase in the settlement authority of the Department of Administration from $25,000 to $100,000 and the Attorney General from $150,000 to $500,000.

BENEFITS:

- Legal costs would be lowered because AG attorney caseloads would be shifted to handling larger cases, reducing the need for more expensive outside counsel. AG hours on smaller cases would also be reduced.

- Customer service would be improved by speeding up the settlement of smaller cases, that now average 839 days to complete, by eliminating the need for Attorney General approval.

- The Risk Management claims program would be more efficient by eliminating referrals, reporting and negotiating with the Attorney General.

- If the recommended settlement authority levels were in effect over the last two years, there would have been 18 fewer settlements reviewed by the JLBC. While workload is reduced, the JLBC still retains a sufficient number of settlements to allow for adequate oversight. (See statistical information below)

STATISTICAL INFORMATION:

Fiscal years 1998 and 1999 – Total number of cases settled between $25,000 - $100,000 = 35
(Would have been retained by ADOA under authority level increase)

Fiscal years 1998 and 1999 – Total number of cases settled between $150,001 - $500,000 = 18
(Would have been retained by ADOA and AG under authority level increase)
(No settlement proposals in this range have been rejected by the JLBC in the past 5 yrs)

Fiscal year 1998 and 1999 – Total number of cases settled between $500,001 & above = 24
(Would be retained by JLBC under authority level increase)

The Department of Administration, Risk Management and the Attorney General believe the proposed changes in settlement authority levels are in the best interest of the State of Arizona. These recommendations will allow for more efficient handling and settlement of liability claims against the State.

Cc: Tom Prose, Civil Division Chief Counsel, Office of the Attorney General
Elliott Hibbs, Director, Department of Administration

STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

CIVIL DIVISION

MEMO

TO: Frank Hinds, Risk Manager

FROM: Tom Prose, Division Chief Counsel

SUBJECT: Authority Levels

DATE: January 18, 2000

We support your request that The Joint Legislative Budget Committee (JLBC) increase the settlement authority level of the Department of Administration and the Attorney General with regard to liability claims against the state. You have recommended that the JLBC increase the settlement authority of ADOA to $100,000.00 and the settlement authority of the Attorney General to $200,000.00. We have reviewed this recommendation as well as the second option of increasing the authority of ADOA to $100,000.00 and the Attorney General's authority to $500,000.00.

OPTION 1: Increase the settlement authority of ADOA from *$25,000* to $100,000 and the settlement authority of ADGA and the AG from $150,001 to $200,000.

From the attached chart, you will see that over the last two years, *35* cases were submitted to the Attorney General for settlement authority between $25,001 and $100,000. Most of these cases requested $75,000 or less. Thus, if this option had been in effect for the last two years, 35 fewer cases would have been presented to the Attorney General for her review.

Increasing the settlement authority of the ADOA and the AG from $150,000 to $200,000 would not dramatically change the current evaluation process. Over the last two years, only one case fell within this range (see attached chart). In other words, adopting this option would have resulted in presenting one less case to the JLBC.

OPTION 2: Increase the settlement authority of ADOA from $25,000 to $100,000 and the settlement authority of ADOA and the AG from $150,000 to $500,000.

Increasing ADOA authority to $100,000 is discussed above.

The attached chart reflects that over the last two years, 18 cases were submitted to the JLBC for settlement authority between $150,001 and *$500,000*. Thus, if these levels had been in effect for the last two years, 18 fewer cases would have been presented to the JLBC for its review. However, JLBC approval would still be required for any settlement in excess of *$500,000*. Over the last two years, 24 cases fell within this range.

In our view it is time that the authority levels be increased. The number of claims against the state, as well as the size of those claims have increased steadily since the state self insurance program has been in effect. There has only been one increase in the authority level of the Attorney General during that time frame. In 1992 the Attorney General's authority was increased from $50,000 to $150,000. Risk Managements authority remained at $25,000.

We believe that the second option is prefen~ed and we recommend that you request the JLBC to increase the authority of ADOA to $100,000 and the settlement authority of the Attorney General to $500,000. If this settlement authority level were in effect over the last two years the number of settlements reviewed by the JLBC would be reduced by 18. This would reduce the overall work load of the JLBC while preserving the sufficient number of settlements to allow the committee to adequately fulfill their oversight function.

Finally, the number of cases will continue to increase in the corning years. Each year the number of settlements presented to the Attorney General and the JLBC increases. Of the 42 cases presented to the JLBC over the last two fiscal years, 28 of those cases were presented in fiscal year 99 and only 14 were presented in fiscal year 98.

Please let me know your views on this matter. Also, do not hesitate to contact me if you have any questions or require any further information.

cc: Mike Murphy. Risk Claims Manager
Debbie Spinner
TPP:ldr:606548vI

A. $25,001 - $100,000

TOTAL NO. OF CASES FOR FISCAL YEARS 1997-1999: 35

Case Name	IDS Number	RM Number	Amount Approved	Date Approved
1. Chapin	95-1031	95-05167	$75,000	06/06/97
2. Bond	95-1071	94-02645	$75,000	07/08/97
3. Williams	96-0890	96-11086	$75,000	08/08/97
4. Bruskay	94-0652	00828	$90,000	08/19/97
5. Dillons	93-0907	92193	$50,000	08/29/97
6. C.C.	94-0574	94-00810	$60,000	10/09/97
7. McArthur	97-0714	97-24687	$50,000	11/17/97
8. Rodriguez	96-0398	95-08836	$50,000	12/08/97
9. Gonyea	96-0977	95-07347	$50,000	12/30/97
10. Wooley-Allums / Sherwood	96-0578	95-09325	$60,000 / $-0-	03/03/98
11. Eblen	97-0415	96-15384	$60,000	03/03/98
12. Blankinship	97-0169	96-14764	$50,000	03/09/98
13. Wilhelm	97-0697	96-16189	$60,000	04/07/98
14. Lind	97-0370	96-12061	$40,000	04/20/98
15. Stovall	96-0832	96-1190	$70,000	05/21/98
16. Roberts	97-0125	96-14711	$100,000	05/28/98
17. Holland	97-0921	97-22703	$100,000	05/28/98
18. Cohen	97-0908	96-14387	$60,000	07/01/98
19. Karger	97-0304	96-15988	$100,000	09/17/98
20. Sligh	97-0055 96-0737	96-12773 96-10596	$85,000	10/05/98
21. Bihn	97-0804	97-20138	$50,000	10/15/98
22. McMillin		96-16494	$75,000	10/15/98

23. Cummins	LDD89-225	74911	$75,000	10/27/98
24. Hernandez	97-0438	97-22848	$ - 0 -	11/03/98
25. Navarra (Claim)		98-54118	$35,000	11/03/98
26. Contreras	97-0110	96-13932	$100,000	11/09/98
27. Loya (Claim)		98-51694	$100,000	12/01/98
28. Weaver (Longoria)	98-0849	98-51014	$50,000	12/24/98
29. Sheehey	96-0606	95-09642	$60,000	01/26/99
30. Lee	97-0894	95-09345	$90,000	02/16/99
31. Apodaca	96-0762	95-08419	$75,000	04/12/99
32. Williams	97-0910	97-26221	$75,000	05/09/99
33. Crossland	98-0596	97-25319	$100,000	06/05/99
34. Kraus	99-0131	98-53215	$100,000	06/05/99
35. Charles	97-0833	97-21498	$50,000	06/19/99

B. $100,001 - $150,000

TOTAL NO. OF CASES FOR FISCAL YEARS 1997-1999: 13

Case Name	IDS Number/RM Number		Amount Approved	Date Approved
1. Byers	96-0755	95-09403	$150,000	07/03/97
2. Keys	96-0538	95-06842	$125,000	07/24/97
3. Merrill	97-0253	96-14710	$150,000	08/08/97
4. Ransom	96-0337	95-05396	$150,000	01/09/98
5. Kearns	95-1131	95-06865	$150,000	01/29/98
6. Jeremy C.	95-0250	94-98668	$150,000	04/20/98
7. Woosley	96-0575	95-04608	$100,000	4/20/98
8. Cryo-Cell	96-0874	96-15322	$150,000	06/17/98
9. Roesch	97-0085	96-13465	$125,000	07/01/98
10. Kandt	98-0256	97-21751	$150,000	09/15/98
11. Klee	98-0419	97-23910	$150,000	09/22/98

12. Diaz	94-0875	94-02433	$150,000	10/05/98
13. Tobel	94-0804	94-99643	$150,000	01/13/99

C. **$150,001 - 200,000**

TOTAL NO. OF CASES FOR FISCAL YEARS 1997-1999: 1

Case Name	IDS Number/RM Number		Amount Approved	Date Approved
1. Ruzicka	97-0655	97-22576	$170,000 JLBC	03/31/98

D. **$200,001 - $500,000**

TOTAL NO. OF CASES FOR FISCAL YEARS 1997-1999: 17

Case Name	IDS Number/RM Number		Amount Approved	Date Approved
1. Whitten	94-0685	99303	$265,000 JLBC	08/21/97
2. McFadyen	96-0820	96-11358	$200,000 JLBC	11/19/97
3. Severnak	94-0111	90232	$325,000 JLBC	12/08/97
4. Benavidez	96-0629	95-09484	$450,000 JLBC	12/18/97
5. Foltz	96-0392	95-08336	$500,000 JLBC	02/13/98
6. Nunsuch	95-1251	95-05716	$250,000 JLBC	10/29/98
7. Gibson	97-0672	97-20614	$500,000 JLBC	10/29/98
8. Maldonado	98-0555	98-52436	$250,000 JLBC	01/22/99
9. Robinson (Gwin)	98-0339	97-26158	$300,000 JLBC	01/22/99
10. Roberts	97-0771	96-15202	$325,000 JLBC	01/22/99
11. EVIT		97-24425	$418,607.50 JLBC	01/22/99
12. Wigglesworth	97-0957	97-23627	$250,000 JLBC	03/30/99
13. Berens	98-0164	97-25064	$180,000 JLBC	05/03/99
14. Antone	97-0974	96-16457	$250,000 JLBC	06/22/99
15. Martinez	97-0301	96-13897	$275,000 JLBC	06/22/99

16. Elson	98-0510	98-51187	$425,000 JLBC	06/22/99
17. Dutcher	98-0078	97-26188	$250,000 JLBC	06/22/99

E. $500,001 and above

TOTAL NO. OF CASES FOR FISCAL YEARS 1997-1999: 24

Case Name	IDS Number/RM Number		Amount Approved	Date Approved
1. Ward	LDD89-210	72027	$1,000,000 JLBC	07/17/97
2. Dennison	96-0493	96-12535	$ 680,000 JLBC	08/21/97
3. Martinez	95-0928	95-06322	$ 475,000 JLBC	08/21/97
4. Georgio-Baker	97-0230	96-11338	$500,000 JLBC	08/21/97
5. Adams	92-0315	78512	$1,750,000 JLBC	09/18/97
6. Caradine	97-0276	96-11110	$2,380,000 JLBC	02/13/98
7. Poulson	92-0545	82588	$ 700,000 JLBC	02/13/98
8. Cohn	96-0304	95-05883	$1,000,000 JLBC	03/31/98
9. Capin	97-0457	96-10263	$ -0- JLBC	07/30/98
10. Bailey, et al. (Claim)		98-50679	$1,000,000 JLBC	08/27/98
11. Landers	97-0732	97-21945	$2,250,000 JLBC	08/27/98
12. Compton	95-0429	95-04610	$1,500,000 JLBC	09/24/98
13. Benitez (Claim)		98-51279	$ 900,000 JLBC	09/24/98
14. Gill	96-0817	96-10193	$ 800,000 JLBC	10/29/98
15. Carlson / Dowding	97-0398 97-0629	97-20152	$2,000,000 JLBC	10/29/98
16. Amell	97-0430	97-21205	$5,000,000 JLBC	10/29/98
17. Vega (Claim)		98-54857	$750,000 JLBC	10/29/98
18. Knochel	97-0573	96-13644	$2,500,000 JLBC	03/30/99
19. Diamond / Moodyman	97-0645 97-0646	96-15773	$550,000 JLBC	03/30/99
20. Wurtz	96-0409	95-08266	$630,000 JLBC	03/30/99

21. Thornton	97-0769	97-20822	$825,000 JLBC	06/22/99
22. Blair	98-0731	97-26020	$1,583,117 JLBC	06/22/99
23. Hillestad	98-0373	97-26624	$2,230,000 JLBC	06/22/99
24. Mains	98-0412	97-26174	$900,000 JLBC	06/22/99

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21. Thornton	97-0769	97-20822	$825,000 JLBC	06/22/99
22. Blair	98-0731	97-26020	$1,583,117 JLBC	06/22/99
23. Hillestad	98-0373	97-26624	$2,230,000 JLBC	06/22/99
24. Mains	98-0412	97-26174	$900,000 JLBC	06/22/99

603495

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams
Phoenix, Arizona 85007

Telephone: (602) 542-5491
Facsimile: (602) 542-1616

DATE: May 9, 2000

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

THRU: Richard Stavneak, Director RS

FROM: Lynne Smith, Senior Fiscal Analyst LS

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION - SEMI-ANNUAL REPORT ON HEALTH PLAN PERFORMANCE STANDARDS

Request

The Arizona Department of Administration (ADOA) is providing its report on performance standards for state employee health plans.

Recommendation/Summary

This report is for information only and no Committee action is required. ADOA reports that six of the state's nine employee health insurance carriers performed satisfactorily in FY 2000, while three were assessed damages of $160,600 in FY 1999 and $175,600 to date in FY 2000.

Analysis

Laws 1999, Chapter 262 added A.R.S. § 38-658B as follows:

> "The director of the Department of Administration shall report to the Joint Legislative Budget Committee at least semiannually on the performance standards for health plans, including indemnity health insurance, hospital and medical service plans, dental plans and health maintenance organizations."

Laws 1999, Chapter 262 also requires that ADOA report the above information to the Joint Legislative Study Committee on State Employee Compensation. ADOA has not yet reported to that committee. This is the first time this issue has been presented to the Joint Legislative Budget Committee (JLBC). The JLBC Staff suggested to the department that it time one of the two required annual reports to JLBC on health plan performance to coincide with the Committee's executive session review related to renewal of the health plan contracts. Since that executive session review will occur at the upcoming meeting, ADOA's report is attached.

(Continued)

The department primarily depends on a state employee satisfaction survey to provide performance indicators. Recent results of this survey are shown in ADOA's report (*page 3 of Attachment 1*). In the 1999 survey, respondents rated four medical insurers at 80% or above (out of 100) and two at 60%. Respondents rated the dental insurers at 66%, 67%, 73%, and 83%.

Per the state contracts, medical plans that participants rate below 80% and dental plans rated below 75% are assessed liquidated damages. Also, if the survey indicates problems with an insurer, ADOA investigates further. Recently, ADOA conducted audits in problem areas and assessed liquidated damages against three insurance carriers (*listed in Attachment 2*). In FY 1999, ADOA assessed $160,600 against one medical vendor for failing to meet claims processing standards and oversaw $142,000 in refunds to state employees. To date in FY 2000, ADOA has assessed a total $175,600 against two medical insurers and one dental insurer for failing to meet contracted standards for satisfaction survey results and claims processing.

Attachment 3 shows a full list of performance measures listed in the insurance carriers' contracts and the action that the department has taken. As noted above, the department only collects some measures if a problem appears. ADOA has stated that it is more cost effective to track only selected performance measures and use employee feedback as its primary indicator.

RS:LS:ss
attachments

Arizona Department of Administration
Health Vendor Performance
A.R.S. 38-658(B)
Report to JLBC
5/16/00

Contract Standards

- Health – 22 Standards
- Dental – 17 Standards

Strategy

- Emphasis on employee/retiree satisfaction surveys and formal monitoring based on incident reporting.
- Assessment of Liquidated damages when performance is below standard.
- Emphasis on Process improvement for all vendors
- Consumer education/information for State employees/retirees.

Fiscal year 1999/Overview

- Indemnity vendor/Health insurance

  ~ Repeatedly failed 3 claims processing standards.
  ~ Liquidated damages $161,000.

- ADOA starts re-engineering of the satisfaction survey process.

Fiscal year 2000/Overview

- Indemnity vendor/Health insurance

  ~ Continues to fail claims processing standards.
  ~ Formal monitoring and process improvement has brought the vendor closer to the performance standard.
  ~ Liquidated damages $65,000.

- Employee Satisfaction/Health insurance

  ~ 4 plans meet or exceed standard.
  ~ 2 plans fail to meet standard.
  ~ Liquidated damages $82,000 (2 plans).
  ~ All plans required to submit open enrollment transition plans and process improvement plans.

Dental insurance

- One vendor failed 3 claims processing standards.
- Liquidated damages $28,000.
- Service recovery and formal monitoring overseen by ADOA and ADOI.
- ADOA re-engineers the dental satisfaction survey process.
- One plan exceeds standard. Three plans fail to meet standard.
- All plans required to submit open enrollment transition plans and process improvement plans.

Looking Ahead

- Enhance standards.
- Establish strategies to progressively improve performance and achieve increasingly higher levels of satisfaction over the life of the contract.
- Emphasize employee/retiree communication/education.

Arizona Department of Administration
Vendor Performance
Report to JLBC
5/16/00

HEALTH CONTRACTS		
PERFORMANCE STANDARD TOPIC	**DESCRIPTION OF STANDARDS**	**OVERSIGHT EFFORTS**
Conversion/Implementation (All plans)	♦ Implementation issues which must be met in order for START-UP to proceed smoothly such as: ♦ Timing of crucial communication material to each enrollee. ♦ Identification cards, within 15 days of receipt of confirmation from the State Agency. ♦ Member handbook, booklets, directories, claim forms within 30 days of receipt of confirmation from the State Agency.	ADOA reviews annually; Audited during Open Enrollment 1999; Standards achieved
	♦ Accurate information communicated.	ADOA reviews and approves all carrier member communication. 2 letters of non-compliance issued in 1999.
	♦ Marketing and open enrollment material to be received by the liaison 2 weeks in advance prior to open enrollment at each benefit liaison location.	ADOA reviews annually; Document delays in 1999; Process improvement initiated.
	♦ Attendance and support at open enrollment meetings, etc.	ADOA reviews annually; 1999 Standards achieved.

Arizona Department of Administration
Vendor Performance
Report to JLBC
5/16/00

HEALTH CONTRACTS		
PERFORMANCE STANDARD TOPIC	**DESCRIPTION OF STANDARDS**	**OVERSIGHT EFFORTS**
*Access to PCP providers (HMO only) PCP = Primary Care Physician	♦ Elective requests/appointments available within 5-7 days. These guidelines are based upon appointment availability not patient availability (e.g. patient has to have a 4:00p.m. appointment) (Wellness = 30 days) ♦ Urgent requests/appointment available within 24 hours. ♦ Emergency requests/needs coordinated within 4 hours.	Monitored through 1999/2000 member satisfaction surveys. 1999 results: ♦ 77% of elective requests in less than 2 weeks. ♦ 61% of urgent requests within 24 hours.
Report Timeliness (All plans)	♦ Monthly or quarterly reports received by the State Agency within 45 days after the close of the month or quarter. ♦ Annual summary reports received by the State Agency within 90 days after close of the year. ♦ HEDIS reports – 270 days	ADOA receives quarterly and annually – Standards achieved.

Arizona Department of Administration
Vendor Performance
Report to JLBC
5/16/00

HEALTH CONTRACTS		
PERFORMANCE STANDARD TOPIC	**DESCRIPTION OF STANDARD**	**OVERSIGHT EFFORTS**
Staffing of Member Services Department (HMO)	♦ Maintain diversity of personnel to serve clinical, language, gender and geographic preferences of State Agency's population.	Member services/Call center staffing monitored through 1999/2000 member satisfaction surveys.1999 results - 82% of employees surveyed feel that vendors customer service representatives are responsive and understand the states benefit program.
Network (All Plans)	♦ Maintain network with adequate providers to meet State Agency's access requirement. ♦ Consider input from the State Agency regarding network expansion	♦ Audited during 1999 (Underway in 2000) 1999 Satisfaction Survey results: ♦ 62% agree that there are an adequate number of doctors in their area. ♦ During 1999 ADOA urged network expansion in Region II rural areas.
Claims Administration (Indemnity/PPO)	♦ Maintain processing accuracy of 95% (defined as the number of claims processed correctly divided by the total number of claims audited).	Vendor reported audit/Intergroup Indemnity (1999/2000) – Liquidated damages assessed. Process improvement initiated
	♦ Maintain financial payment accuracy of 99% (defined as the total number of claims paid correctly divided by the total paid claim dollars audited, expressed as a percentage).	Vendor reported audit/Intergroup Indemnity (1999/2000) – Liquidated damages assessed. Process improvement initiated
	♦ Timeliness of claims processing (turnaround time) as 90% of claims processed (pay or deny or pend for added info) within 14 business days of receipt of claim.	Vendor reported audit/Intergroup Indemnity (1999/2000) – Liquidated damages assessed. Process improvement initiated

Arizona Department of Administration
Vendor Performance
Report to JLBC
5/16/00

HEALTH CONTRACTS		
PERFORMANCE STANDARD TOPIC	**DESCRIPTION OF STANDARD**	**OVERSIGHT EFFORTS**
Customer Satisfaction (All plans)	♦ State Agency will perform satisfaction survey of plan participants at least annually. ♦ No less than 80% overall patient satisfaction on overall survey results on an annual basis.	♦ Performed Spring 1999 (Underway in 2000) ♦ 4 plans at standard or/above ♦ 2 below – Liquidated damages assessed. Process improvement initiated.
Appeals/Grievance ♦ Claims ♦ UR issues	♦ Researched and resolved within timeframe in compliance with requirements of plan by State or Federal statutes. ♦ Confer with the State Agency on potential appeals, which are upheld prior to case closure and denied claims over $5,000.	♦ ADOA communicates with and relies on ADOI to report vendor non-compliance pursuant to Federal and State statute. ♦ ADOA monitors specific appeals in conjunction with ADOI – standards achieved.

Arizona Department of Administration
Vendor Performance
Report to JLBC
5/16/00

DENTAL CONTRACTS		
PERFORMANCE STANDARD TOPIC	**DESCRIPTION OF STANDARDS**	**OVERSIGHT EFFORTS**
Conversion/Implementation (All plans)	♦ Implementation issues which must be met in order for START-UP to proceed smoothly such as: ♦ Timing of crucial communication material to each enrollee. ♦ Identification cards, within 15 days of receipt of confirmation from the State Agency. ♦ Member handbook, booklets, directories, claim forms within 30 days of receipt of confirmation from the State Agency.	♦ Audited during Open Enrollment 1999.Standards achieved. ♦ MetLife Non-compliant/Explanation of Coverage obtained 2000.
	♦ Accurate information communicated.	ADOA reviews and approves carrier member communications. Standard achieved.
	♦ Marketing and open enrollment material to be received by the liaison 2 weeks in advance prior to open enrollment at each benefit liaison location.	ADOA reviews annually. Document delays in 1999; Process improvement initiated
	♦ Attendance and support at open enrollment meetings, etc.	ADOA reviews annually; 1999 Standards achieved.
Report Timeliness (Indemnity/PPO)	♦ Monthly or quarterly reports received by the State Agency within 45 days after the close of the month or quarter. ♦ Annual summary reports received by the State Agency within 90 days after close of the year.	ADOA receives quarterly and annually. Standard achieved.

Arizona Department of Administration
Vendor Performance
Report to JLBC
5/16/00

DENTAL CONTRACTS		
PERFORMANCE STANDARD TOPIC	**DESCRIPTION OF STANDARDS**	**OVERSIGHT EFFORTS**
Staffing (All plans)	♦ Maintain diversity of personnel to serve clinical, language, gender and geographic preferences of State Agency's population.	♦ Member Services/Call center staffing monitored through member satisfaction surveys. (2000) ♦ ADOA/ADOI required weekly reporting of customer service staffing, call wait times, and call abandonment rates when employee complaints identified (Delta Dental)
Network (PPO/Prepaid)	♦ Maintain network with adequate providers to meet State Agency's access requirement. ♦ Consider input from the State Agency regarding network expansion	♦ Monitored through satisfaction surveys 2000 and complaint tracking ♦ ADOA urged network expansion 1999. (EDS/UDC)

Arizona Department of Administration
Vendor Performance
Report to JLBC
5/16/00

DENTAL CONTRACTS		
PERFORMANCE STANDARD TOPIC	**DESCRIPTION OF STANDARDS**	**OVERSIGHT EFFORTS**
Customer Satisfaction (All plans)	♦ State Agency will perform satisfaction survey of plan participants at least annually. ♦ No less than 75% overall patient satisfaction on overall survey results on an annual basis.	Performed Spring 2000. One plan at or above standard; 3 below standard; Liquidated damages and Process Improvement to be initiated.
Claims Administration (Indemnity/PPO)	♦ Maintain processing accuracy of 95% (defined as the number of claims processed correctly divided by the total number of claims audited).	Vendor reported audit Delta Dental (1999/2000) – Liquidated damages assessed. Process improvement initiated.
	♦ Maintain financial payment accuracy of 99% (defined as the total number of claims paid correctly divided by the total paid claim dollars audited, expressed as a percentage).	Vendor reported audit Delta Dental (1999/2000) – Liquidated damages assessed. Process improvement initiated.
	♦ Timeliness of claims processing (turnaround time) as 90% of claims processed (pay or deny or pend for added info) within 14 business days of receipt of claim.	Vendor reported audit Delta Dental (1999/2000) – Liquidated damages assessed. Process improvement initiated.
Appeals/Grievance (All plans)	Researched and resolved within timeframe in compliance with requirements of plan by State or Federal statutes.	♦ ADOA communicates with and relies on ADOI to report vendor non-compliance pursuant to Federal and State statutes. ♦ ADOA monitors specific appeals in conjunction with ADOI – standards achieved.

Attachment 1

JANE DEE HULL
Governor

J. ELLIOTT HIBBS
Director

ARIZONA DEPARTMENT OF ADMINISTRATION
OFFICE OF THE DIRECTOR
1700 WEST WASHINGTON • ROOM 601
PHOENIX, ARIZONA 85007

(602) 542-1500

May 1, 2000

The Honorable Randall Gnant
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007

Dear Senator Gnant:

Pursuant to ARS 38-658(B), the Arizona Department of Administration (ADOA) requests placement on the next agenda of the Joint Legislative Budget Committee (JLBC) to review performance standards for those health care vendors currently under contract.

In order to provide enhanced value and customer service to state employees, retirees, and their family members the ADOA Benefit Program has embarked on a continuous process to oversee and manage health care vendors under contract with ADOA. This has become exceedingly important in the midst of consumer and provider disillusionment with managed care, higher rates of medical inflation and a competitive labor market.

The cornerstone of this process has been to survey insured participants in each of the programs' nine (9) health and dental vendors. During 1999, the ADOA assessed the performance of all health insurance vendors. During calendar year 2000 the ADOA will once again assess the performance of all health vendors, plus all dental vendors.

To date and going forward the ADOA's strategy has been to:

1. Assess compliance with negotiated **performance guarantees** with individual vendors on a regular, systematic basis;

2. Require **process improvement** by the vendors to correct deficiencies, and;

JEH/km

3. Provide **enhanced communications with employees** about health plan performance to help employees make well informed decisions about alternative sources of health and dental care.

The following table identifies the insurance providers, the corresponding plan type, enrollment figures and satisfaction survey ratings. Please note that 100% is the highest possible rating.

The medical plan performance reported is for 1999. The medical plans will be evaluated again soon for the year 2000. The dental plan results are preliminary and for the year 2000 only.

Failure to meet a satisfaction level of 80% for medical plans and 75% for dental plans may result in an assessment of liquidated damages. Certain vendors must also meet specific claims payment performance standards associated with accuracy and timeliness. Failure to achieve these performance standards may also result in the assessment of liquidated damages.

In fiscal year 1999 the ADOA assessed $161,000 against one medical vendor for failing to meet claims processing standards. As well, the ADOA oversaw the return of $142,000 in over payments to State employees.

In fiscal year 2000 the ADOA has assessed $176,000 to date against three vendors who have failed to meet satisfaction survey and claim processing standards.

ARIZONA DEPARTMENT OF ADMINISTRATION
HEALTH CARE VENDORS

Satisfaction Survey Results

MEDICAL PLANS (1999)

Carrier & Plan	Enrollment	Responses	Rating
Cigna	18,135	919	87%
UNITED HealthCare Open Access	1,800	214	83%
UNITED HealthCare PCP	5,541	564	81%
Intergroup	24,377	889	80%
PacifiCare	1,611	205	60%
Intergroup Indemnity	3,074	574	60%

DENTAL PLANS (2000)

Carrier & Plan	Enrollment	Responses	Rating
MetLife Dental PPO	4,644	428	83%
Delta Dental PPO	36,299	1328	73%
United Dental Pre-Paid	13,600	937	67%
EDS Dental Pre-Paid	3,032	235	66%

JEH/km

The ADOA's ongoing efforts to strongly encourage vendors to improve satisfaction will continue. The ADOA will strive to improve communication processes with state employees as well as increase participation in vendor evaluation efforts.

Enclosed for your review are a series of attachments, which detail our efforts to date in overseeing vendor performance.

If you require any additional information please let me know. I look forward to discussing this information with you and the members of the JLBC.

Sincerely,

J. Elliott Hibbs
Director

JEH/km

Arizona Department of Administration

Vendor Performance

*Liquidated damages withheld by vendor; FY 1999; FY 2000; General Accounting Office.

*A.R.S 38-658(B)
5/00
ADOA

LIQUIDATED DAMAGES WITHHELD
FY 1999 and FY 2000

Carrier	FY 1999	FY 2000*	TOTAL
Intergroup	160,605.77	112,694.24	273,300.01
Delta Dental	–	28,523.15	28,523.15
PacifiCare	–	34,430.55	34,430.55
Totals	160,605.77	175,647.94	336,253.71

* Includes amount through the February 2000 premium month.

ADOA/GAO
5/00

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams *Telephone: (602) 542-5491*
Phoenix, Arizona 85007 *Facsimile: (602) 542-1616*

DATE: May 10, 2000

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

THRU: Richard Stavneak, Director

FROM: Gretchen Logan, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM — REVIEW TRANSFER OF TOBACCO TAX MEDICALLY NEEDY ACCOUNT ALLOCATIONS

Request

The Arizona Health Care Cost Containment System (AHCCCS) requests the Committee review its transfer of monies in the Medically Needy Account of the Tobacco Tax and Health Care Fund between the allocations specified in Laws 1999, Chapter 176.

Recommendation

The JLBC Staff recommends the Committee give a favorable review to the requested transfer.

Analysis

Laws 1999, Chapter 176 allocates monies from the Medically Needy Account of the Tobacco Tax and Health Care Fund for specific purposes (*see line items in table below*). In addition, the legislation allows for AHCCCS to transfer monies between allocations following a review by the Committee.

AHCCCS has determined that they will have a FY 2000 surplus of $3,521,400 in the Federal Matching Assistance Percentage (FMAP) line item due to the FMAP increasing in Federal FY 2000. In addition, there is an anticipated FY 2000 surplus of $375,000 in the HIV/AIDS Treatment line item. AHCCCS has also identified 2 line items (i.e., Maternity Length of Stay and 50% Medical Inflation) where there is excess capacity; therefore, transferring monies into these line items would allow the entire FY 2000 tobacco tax allocation to be used.

The table below summarizes the transfers proposed by AHCCCS:

Line Item	Original Allocation	Proposed Transfer	Revised Allocation
FMAP	$ 4,542,200	$(3,521,400)	$ 1,020,800
Quick Pay Discount	6,794,600	0	6,794,600
Hospital Reimbursement	10,000,000	0	10,000,000
HIV/AIDS Treatment	1,229,900	(375,000)	854,900
Maternity Length of Stay	2,485,800	700,000	3,185,800
50% Medical Inflation	5,276,000	3,196,400	8,472,400
TOTAL	**$30,328,500**	**$ 0**	**$30,328,500**

RS:GL:ck

JLBC

AHCCCS

Jane Dee Hull
Governor

Phyllis Biedess
Director

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Committed to excellence in health care

April 18, 2000

The Honorable Randall Gnant, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Senator Gnant:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda for the May 2000 Joint Legislative Budget Committee (JLBC) meeting for the purpose of obtaining a review of certain proposed transfers of monies within the Medically Needy Account of the Tobacco Tax and Health Care Fund.

Laws 1999, Chapter 176, Section 16, Subsection A, authorizes AHCCCS to withdraw during State Fiscal Year 2000 monies from the Medically Needy Account for certain purposes as defined in paragraphs 1 through 7. In addition, Subsection C authorizes AHCCCS to transfer monies between the amounts listed in Subsection A, paragraphs 1 through 7 after review by the Joint Legislative Budget Committee.

AHCCCS has determined that it will not be able to draw down all of the allocations provided in paragraphs 3 and 5 of subsection A. However, it does have excess capacity in paragraphs 4 and 7. Therefore, upon receiving a favorable review, AHCCCS will make the following transfers:

AHCCCS SFY2000 Tobacco Tax Transfer Summary

Item	SFY2000 Original Allocation	SFY2000 Proposed Transfer	SFY2000 Revised Allocation
FMAP	$ 4,542,200	$ (3,521,404)	$ 1,020,796
Prior Quick Pay Discount	6,794,600	-	6,794,600
Discontinue of $10 million discount	10,000,000	-	10,000,000
HIV/AIDS Treatment	1,229,900	(375,000)	854,900
Maternity Length of Stay	2,485,800	700,000	3,185,800
50% Medical Inflation	5,276,000	3,196,404	8,472,404
TOTAL ALLOCATION	$30,328,500	-	$30,328,500

Enclosed for your staff's review are a Summary of Tobacco Allocations and Transfer Amounts for State Fiscal Year 2000 and other supporting information for these transfers.

Please feel free to contact Jim Cockerham, Assistant Director, Division of Business and Finance, at (602) 417-4059 or Melba Davidson, Budget Administrator, at (602) 417-4224 if you have any questions.

Sincerely,

Phyllis Biedess
Director

Enclosures

c: JLBC Committee Members
Richard Stavneak, Director, JLBC Staff
Tom Betlach, Director, OSPB

AHCCCS FUND TOBACCO TAX ALLOCATION
SUMMARY OF TOBACCO TAX ALLOCATIONS AND TRANSFER AMOUNTS
For State Fiscal Year 2000

	TOTAL ALLOTMENT	ANNUAL PROJECTED EXPENDITURES	VARIANCE OVER(UNDER) ALLOTMENT	PROPOSED TRANSFER	ADJUSTED ALLOTMENT
HOSPITAL REIMBURSEMENT	$ 10,000,000	$ 10,000,000	$ -	$ -	$ 10,000,000
QUICK PAY DISCOUNT:	6,794,600	8,671,748	1,877,148	-	6,794,600
LOSS OF FEDERAL FUNDING	4,542,200	1,020,796	(3,521,404)	(3,521,404) (A)	1,020,796
MATERNITY LENGTH OF STAY	2,485,800	4,603,943	2,118,143	700,000 (B)	3,185,800
HIV/AIDS TREATMENT	1,229,900	953,277	(276,623)	(375,000) (C)	854,900
FY 2000 MEDICAL INFLATION	5,276,000	9,541,326	4,265,326	3,196,404 (D)	8,472,404
	$ 30,328,500	$ 34,791,090	$ 4,462,590	$ -	$ 30,328,500

Notes:
(A) FMAP: FMAP draw is limited to first quarter of FY2000. FFY2000 FMAP increased to 65.92%, a percentage greater than the FFY1996 base year of 65.85%.
(B) MLOS: Cost to provide coverage for an extended maternity length of stay, excess capacity
(C) HIV/AIDS Treatment SFY2000 allocation greater than estimated cost
(D) Fifty-percent cost of medical inflation: excess capacity

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

SUMMARY OF COSTS INCURRED FOR AHCCCS TOBACCO TAX ALLOCATIONS AS OF MARCH 31, 2000 AND ESTIMATES* FOR THE BALANCE OF THE YEAR

SFY 2000

											*ESTIMATES	
		CAPITATION	FEE FOR SVS		CAPITATION	FEE FOR SVS		CAPITATION	FEE FOR SVS		CAPITATION	FEE FOR SVS
1) HOSPITAL REIMBURSEMENT (DEEP DISCOUNT)												
	JULY '99	N/A	$ 3,793	OCT '99	N/A	$ 1,249,917	JAN '00	N/A	$ 1,221,979	APR '00	N/A	
	AUGUST '99	N/A	588,621	NOV '99	N/A	2,071,955	FEB '00	N/A	2,891,628	MAY '00	N/A	
	SEPT '99	N/A	1,093,711	DEC '99	N/A	2,051,680	MAR '00	N/A		JUN '00	N/A	
	TOTAL		$ 1,686,125	TOTAL		$ 5,373,552	TOTAL		$ 4,113,608	TOTAL		$ -
Allotment	10,000,000											
Amount available for transfer	10,000,000											
YTD cost	11,173,284											
YTD actual cost over allotment	1,173,284											
2) PHASE-DOWN OF QUICK PAY DISCOUNT												
A) CATEGORICAL	JULY '99	$ 725,126	$ 208,583	OCT '99	$ 701,983	$ 252,637	JAN '00	$ 717,250	$ 180,495	APR '00	$ 700,000	$ 200,000
Decrease from:	AUGUST '99	729,483	270,144	NOV '99	725,407	312,515	FEB '00	729,875	316,501	MAY '00	700,000	200,000
6% to 3% 10/01/96 to 02/28/98	SEPT '99	737,190	254,290	DEC '99	728,808	274,554	MAR '00	700,000	200,000	JUN '00	700,000	$ 200,000
6% to 1% 03/1/98 to 02/28/99	Total	$ 2,191,799	$ 733,017	Total	$ 2,156,198	$ 839,706	Total	$ 2,147,125	$ 696,996	Total	$ 2,100,000	$ 600,000
	FMAP Rate	65.50%	65.50%	FMAP Rate	65.92%	65.92%	FMAP Rate	65.92%	65.92%	FMAP Rate	65.92%	65.92%
	STATE SHARE	$ 756,171	$ 252,891	STATE SHARE	$ 734,832	$ 286,172	STATE SHARE	$ 731,740	$ 237,536	STATE SHARE	$ 715,680	$ 204,480
B) NON-CATEGORICAL	JULY '99	$ 319,526	$ 40,685	OCT '99	$ 384,079	$ 41,161	JAN '00	$ 382,855	$ 31,129	APR '00	$ 360,000	$ 30,000
Decrease from:	AUGUST '99	318,950	51,600	NOV '99	382,433	56,679	FEB '00	364,115	1,285	MAY '00	360,000	30,000
10% to 9% 03/01/97 to 2/28/98	SEPT '99	321,764	53,846	DEC '99	381,807	60,332	MAR '00	360,000	30,000	JUN '00	360,000	30,000
10% to 8% 03/01/98 to 2/28/99	TOTAL	$ 960,240	$ 146,131	TOTAL	$ 1,148,319	$ 158,172	TOTAL	$ 1,106,970	$ 62,414	TOTAL	$ 1,080,000	$ 90,000
10% to 7% 03/01/99 to 2/29/00												
Allotment	6,794,600											
Amount available for transfer	6,794,600											
YTD cost	8,671,748	$ 1,716,411	$ 399,022		$ 3,599,562	$ 843,365		$ 5,438,272	$ 1,143,316		$ 7,233,952	$ 1,437,796
YTD actual cost over allotment	1,877,148											
3) LOSS OF FEDERAL FUNDING												
From 65.85% in FFY96 to 65.5% in FFY99	1ST QUARTER	$ 1,020,796		2ND QUARTER			3RD QUARTER			4TH QUARTER		
Allotment	4,542,200											
Amount available for transfer	1,020,796											
YTD cost	1,020,796											
YTD actual cost over allotment	0											
4) MATERNITY LENGTH OF STAY	JULY '99	$ 137,061	$ 488,204	OCT '99	$ 222,533	$ 544,502	JAN '00	$ 236,779	$ 532,760	APR '00	$ 212,000	$ 525,000
	AUGUST '99	136,448	578,058	NOV '99	216,002	638,286	FEB '00	214,407	538,124	MAY '00	212,000	525,000
	SEPT '99	139,399	565,463	DEC '99	224,346	534,893	MAR '00	212,000	525,000	JUN '00	212,000	525,000
	TOTAL	$ 412,908	$ 1,631,725	TOTAL	$ 662,881	$ 1,717,680	TOTAL	$ 663,186	$ 1,595,884	TOTAL	$ 636,000	$ 1,575,000
	FMAP Rate		65.50%	FMAP Rate		65.92%	FMAP Rate		65.92%	FMAP Rate		65.92%
	STATE SHARE		$ 562,945	STATE SHARE		$ 585,385	STATE SHARE		$ 543,877	STATE SHARE		$ 536,760
Allotment	2,485,800											
Amount available for transfer	2,485,800											
YTD cost	4,603,943	$ 412,908	$ 562,945		$ 1,075,789	$ 1,148,331		$ 1,738,975	$ 1,692,208		$ 2,374,975	$ 2,228,968
YTD actual cost over allotment	2,118,143											
5) HIV/AIDS TREATMENT	1ST QUARTER	$ 254,108		2ND QUARTER	$ 244,159		3RD QUARTER	$ 230,010		4TH QUARTER	$ 225,000	
Allotment	1,229,900											
Amount available for transfer	953,277											
YTD cost	953,277											
YTD actual cost over allotment	0											
6) FY 2000 MEDICAL INFLATION	JULY '99	N/A	N/A	OCT '99	$ 1,347,886		JAN '00	$ 1,148,752		APR '00	$ 1,000,000	
	AUGUST '99	N/A	N/A	NOV '99	1,040,259		FEB '00	870,578		MAY '00	1,000,000	
	SEPT '99	N/A	N/A	DEC '99	976,241		MAR '00	1,157,610		JUN '00	1,000,000	
	TOTAL			TOTAL	$ 3,364,386	$ -	TOTAL	$ 3,176,940	$ -	TOTAL	$ 3,000,000	$ -
Allotment	5,276,000											
Amount available for transfer	5,276,000											
YTD cost	9,541,326	$ -	$ -		$ 3,364,386	$ -		$ 6,541,326	$ -		$ 9,541,326	$ -
YTD actual cost over allotment	4,265,326											
AVAILABLE ALLOTMENT	**$30,328,500**											
YTD TRANSFERRED	**$ 23,023,623**											

*** This report is a compilation of actual costs incurred for each Tobacco Tax allocation and represents the amount AHCCCS is eligible to transfer from the Medically Needy account.**

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams *Telephone: (602) 542-5491*
Phoenix, Arizona 85007 *Facsimile: (602) 542-1616*

DATE: May 9, 2000

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

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL — REVIEW ALLOCATION OF SETTLEMENT MONIES (Qwest Communications & Toys "R" Us)

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General requests review of the allocation of funds received pursuant to 2 case settlements.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the Attorney General's allocation plans.

Analysis

The FY 2000 and FY 2001 General Appropriation Act contains a footnote that requires Joint Legislative Budget Committee review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona. The Office of the Attorney General recently settled 2 cases that will result in the receipt of settlement monies over $100,000.

The first case, filed in conjunction with 44 states, involved antitrust allegations against Toys "R" Us and 4 of the country's largest toy manufacturers. The case alleged that beginning in 1989, Toys "R" Us entered into agreements with toy manufacturers to restrict the sale of popular toys to warehouse clubs, which were threatening Toys "R" Us' market share by selling the toys at prices below Toys "R" Us' prices.

The settlement requires Toys "R" Us to pay the state's attorney fees (between $10,000 and $20,000), to provide the Arizona Attorney General with approximately $213,000 in one-time monies to be used to benefit Arizona children, and to distribute approximately $600,000 in toys to Arizona children over 3 Christmas seasons.

The attorney fees received as part of the settlement will be deposited in the Attorney General's Antitrust Revolving Fund. Antitrust Settlement monies are currently used to support the on-going operations, excluding Assistant Attorneys General who are paid from the General Fund, of the Economic

(Continued)

Competition Unit within the Office of the Attorney General. For FY 1999, 9 FTE Positions were funded from the Antitrust Revolving Fund, which is subject to legislative appropriation.

The Attorney General's allocation plan for the $213,000 designated by the settlement to "be utilized to benefit children by providing them with toys, books, or other educational materials" is as follows:

- $103,850, in equal proportions, to each of the 89 children's crisis centers and domestic violence shelters in Arizona to purchase educational materials;
- $110,000 to produce and distribute new educational, anti-violence and Internet safety materials to Arizona children.

The $600,000 for toys for Arizona children will be distributed directly from Toys "R" Us and will not be allocated by the Attorney General.

The Attorney General's Office does not believe the General Appropriation Act footnote applies to these settlement monies but has supplied the JLBC with information on this settlement as a matter of courtesy. The Attorney General notes that the footnote requires review of monies received "on behalf of the state of Arizona." The Attorney General believes that these have not been received on "behalf on the state" since the monies are being distributed to third parties.

The settlement, however, does not dictate who may expend the monies. A state agency could spend them, as long as the monies are spent for the benefit of children. The Attorney General's Office has made the public policy decision to allocate these funds in a particular manner. The intent of the footnote was to allow the JLBC to provide its input on just such a distribution plan as this proposal. As a result, the JLBC Staff recommends that these types of plans be brought before the Committee.

The JLBC Staff recommends a favorable review of the Attorney General's allocation plan for monies received pursuant to the Toys "R" Us settlement.

The second case, involving consumer fraud allegations against Qwest Communications International, Inc., requires Qwest to pay the state $175,000 for deceptive practices in the switching of long distance services.

Pursuant to A.R.S. § 44-1531.01, the settlement monies will be deposited in the Attorney General's Consumer Fraud Revolving Fund to be used for on-going operation costs. The Attorney General is required to use the monies in the fund for consumer education, investigation and enforcement operations. As with the antitrust monies, these settlement monies are used to support the on-going operations, excluding Assistant Attorneys General who are paid from the General Fund, of the Consumer Protection and Advocacy Unit within the Office of the Attorney General. In FY 1999, Consumer Fraud Revolving Fund monies were used to review and respond to approximately 14,000 written consumer fraud complaints. In addition, the monies supported 4 investigators and paid for various undercover operations.

The settlement agreement also requires Qwest to contact all affected consumers and refund any costs as well as offer to switch the consumer back to their original service provider. In addition, Qwest is to devise and fund a program of public service announcements.

The JLBC Staff recommends a favorable review of the Attorney General's plan to allocate the Qwest settlement monies to the Consumer Fraud Revolving Fund, as statutorily required.

RS:BR:ck

COPY

STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

JANET NAPOLITANO
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX, AZ. 85007-2926

MAIN PHONE : (602) 542-5025
FACSIMILE : (602) 542-4085

Direct Line: 542-8302
Fax: 542-1964

April 18, 2000

The Honorable Randall Gnant
Chairman, Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

APR 24 2000
JOINT BUDGET COMMITTEE

Re: Notice of Settlement

Dear Chairman Gnant:

This letter is to notify you of the settlement agreements entered into by the Attorney General in the case of In Re: Toys "R" Us Antitrust Litigation. This litigation was brought by forty-four States, the District of Columbia, and the Commonwealth of Puerto Rico, against Toys "R" Us and four of the country's largest toy manufacturers. These settlements will result in hundreds of thousands of dollars in toys being distributed to needy children throughout Arizona over several Christmas seasons, beginning in 1998. Similar distributions are being made throughout the country.

In addition to the toy distributions, the Defendants agreed to pay a total of nearly $20 million which, after costs and fees, is to be distributed to consumers. Because it would be virtually impossible to identify the costs that individual consumers paid in higher toy prices due to the defendants' behavior, the money is directed to "be utilized to benefit children by providing them with toys, books, or other educational materials." The share of the settlement funds to be distributed to benefit Arizona children is approximately $213,000. Arizona will be receiving a share of the attorney fees, which is expected to be in the range of $10,000 to $20,000.

Although we do not believe that this notification is required by footnote 3 of the JLBC Appropriations Report, Attorney General - Department of Law, we provide it to you in a spirit of cooperation and openness.

BACKGROUND

On November 17, 1997, Arizona and thirty-seven other States, the District of Columbia, and the Commonwealth of Puerto Rico joined the State of New York in its lawsuit against Toys "R" Us ("TRU") and toy manufacturers Mattel, Hasbro Inc., Tyco Industries Inc., and Little Tikes ("Toy Manufacturers") for violating state and federal antitrust laws. Six additional States joined the

litigation as Plaintiffs on April 22, 1998. In addition, thirty-four private actions containing similar allegations were filed against TRU and several toy manufacturers in state and federal courts around the country. In February, 1998, all related federal cases were transferred to the Eastern District of New York.

The States' complaint alleges that TRU, the world's largest toy retailer, and the Toy Manufacturers and co-conspirators engaged in unlawful contracts, combinations or conspiracies unreasonably restraining trade in violation of Section 1 of the Sherman Act. The States allege that beginning as early as 1989 TRU used its considerable market power to enter into agreements with and facilitated agreements among toy manufacturers to restrict the sale of popular toys to warehouse clubs. TRU had substantial leverage over toy manufacturers since TRU purchases account for 28% to 48% of the Toy Manufacturers' toy sales. The States also alleged the following:

By the late 1980's, TRU had become the dominant toy retailer in the United States, operating more than 600 stores nationwide with its principal competition being chain discounters such as Walmart, K-Mart and Target. Beginning in approximately 1989, TRU executives became alarmed by the increasing competition from warehouse clubs, including Price Club, Costco, Sam's Club, and BJ's Wholesale Clubs. TRU found the clubs selling the same toys carried by TRU at prices as much as 25% below TRU's prices. TRU management believed that the clubs' lower prices threatened TRU's low price image and that it would be forced to lower its retail prices to compete with the clubs.

To stop this threat, and prevent downward pressure on retail toy prices, TRU, beginning as early as 1989, undertook a systematic campaign to use its market power to prevent its toy suppliers from selling certain toy products to warehouse clubs. TRU obtained vertical agreements from many competing manufacturers, including the defendant Toy Manufacturers, to withhold certain products from warehouse clubs. In addition, TRU systematically brokered horizontal agreements among manufacturers not to compete with one another.

TRU's conduct went far beyond announcing its new "club policy" and refusing to purchase products from manufacturers who did not abide by the policy. Instead, TRU engaged in a series of vertical and horizontal agreements with manufacturers with respect to the sale of toys to warehouse clubs. In implementing its club policy, TRU sought and received explicit commitments from the Toy Manufacturers that they would not sell products TRU bought from them to the warehouse clubs. TRU periodically shopped the warehouse clubs and when it found toy products that it sold in a club, TRU confronted the manufacturer with the particular products and again threatened not to buy any items that the manufacturer sold to the clubs.

After months of negotiations between the States, counsel for the private class action Plaintiffs, and the Defendants, a series of settlements were reached with the separate Defendants, with the first settlement being reached in late 1998. The goal of the settlements was to provide relief for those most affected by the anticompetitive behavior: children. Because it would be

virtually impossible to identify each person who was harmed and calculate the amount of damages, a mechanism was devised to provide benefits to children in other ways. First, the Defendants agreed to provide, collectively, more than $45 million worth of toys to be distributed to children over three Christmas seasons. Arizona's share of these toys amounts to nearly $600,000.

In addition, the Defendants agreed to pay, collectively, nearly $20 million in cash. The money must be used to benefit children by providing them with toys, books, or other educational materials. Under the settlement agreements, each State Attorney General must direct that the share of the settlement amount for the children of that State be distributed to the State, a political subdivision, a not-for-profit or charitable organization, to be spent for the benefit of children. The share of this money for Arizona children is approximately $213,000. Part of the $20 million is also designated for attorneys fees and litigation costs. Our share of attorney's fees has not yet been determined, but is expected to be in the range of $10,000 to $20,000.

The settlement agreements require court approval. In addition, each State submitted a plan for distribution of its share of the settlement proceeds, which must also be approved. Arizona's plan is to distribute $103,850, in equal proportions, to each of the 89 children's crisis centers and domestic violence shelters in Arizona to purchase educational materials for the children they serve. In addition, $110,000 is to be used to produce and distribute new educational, anti-violence and internet safety materials to children throughout the State.

The court has granted preliminary approval, and conducted a hearing in October. Final approval is pending.

Footnote 3 of the JLBC Appropriations Report, Attorney General - Department of Law, provides, in relevant part, that the Attorney General:

> shall notify the President of the Senate, the Speaker of the House of Representatives and the Joint Legislative Budget Committee before entering into a settlement of $100,000 or more that will result in the receipt of monies by the Attorney General or any other person *on behalf of the State of Arizona*. The Attorney General shall not allocate or expend these monies until the Joint Legislative Budget Committee reviews the allocation or expenditures.

We believe that this footnote does not require notification of these settlements because no money in excess of $100,000 will be received "on behalf of the State of Arizona." Rather, the settlement proceeds from the Defendants must be expended to benefit children, who are the persons most affected by Defendants' conduct. The only money to be received on behalf of the State of Arizona will be attorneys fees. Although the exact amount has not yet been determined, it will certainly be substantially less than $100,000.

This has been an important case for consumers across the country. The benefits achieved are flowing back directly to those consumers.

If you have additional questions about this matter, please contact Assistant Attorney General Paul Bullis at 602-542-7713.

Respectfully,

Tim Delaney
Chief Deputy General

cc: The Honorable Robert Burns
Richard Stavneak, JLBC
Brad Regens, JLBC
Patrick J. Cunningham
John Stevens

STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

JANET NAPOLITANO
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX, AZ. 85007-2926

MAIN PHONE : (602) 542-5025
FACSIMILE : (602) 542-4085

April 25, 2000

Senator Randall Gnant
Chairman, Joint Legislative Budget Committee
State Senate
1700 W. Washington Street
Phoenix, AZ 85007

RE: Qwest Communications International, Inc.

Dear Senator Gnant:

We are requesting that the review of the allocation of the funds received pursuant to the settlement of the consumer fraud case involving Qwest Communications International, Inc. be placed on the next agenda of the Joint Legislative Budget Committee. This review is requested in accordance with the footnote contained in the General Appropriations Act. The settlement provides for injunctive relief, refunds to affected consumers and payments of costs and fees in the amount of $175,000. Pursuant to A.R.S. §44-1531.01, this money will be allocated to the consumer fraud revolving fund to be used for consumer education, investigation and enforcement operations. The settlement also requires Qwest to cooperate with the Attorney General to fund a program of public service announcements and/or public education.

Sincerely,

Robert A. Zumoff
Acting Chief Counsel
Consumer Protection & Advocacy Section
(602) 542-7728
FAX: (602) 542-4377

RZ/jg

cc: Richard Stavneak
John Stevens

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams *Telephone: (602) 542-5491*
Phoenix, Arizona 85007 *Facsimile: (602) 542-1616*

DATE: May 10, 2000

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

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

Request

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

Recommendation

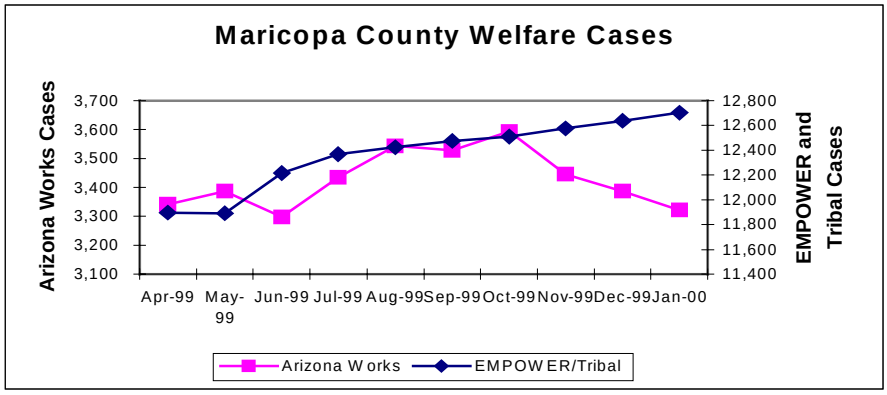
This item is for information only and no Committee action is required. Since October 1999, total caseloads in the Arizona Works pilot welfare program have shown decreases not exhibited in the remainder of Maricopa County. While Arizona Works total caseloads have declined more quickly, we do not have enough information to evaluate whether this trend holds true for the target population of employable adults. We cannot compare the performance of the two programs related to employable adults because of data definition problems. JLBC Staff will continue to work with the Department of Economic Security and the Arizona Works vendor to improve the comparability of data. We will be better able to interpret these trends once formal evaluations of Arizona Works are conducted this year and next.

Analysis

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

The following chart compares the total number of cases in the Arizona Works program with the caseload in the rest of Maricopa County. In recent months, the Arizona Works total caseload has decreased while the Maricopa County total caseload has increased slightly.

(Continued)



The results presented on the preceding chart reflect changes in the total caseload. The total caseload includes child only cases (cases in which there is no adult subject to TANF work requirements) and tribal cases. Since child-only cases comprise 40-45% of the total caseload, and tribal cases comprise another 1-2%, their presence in the above figures may skew the results for cases with employable adults subject to work requirements, especially if child-only caseloads are responding differently in each area.

The following table provides information on the total number of Arizona Works cases by type for the last six months. The table shows that there has been a decrease in the number of total cases, especially in the last three months. At the same time, the number of cases for whom no work participation is required, i.e., child-only cases, has remained relatively flat.

ARIZONA WORKS PROGRAM: TOTAL CASES BY TYPE

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

The report from DES does not use a similar definition of child only cases. As a result, this limits our ability to use the data in the report to compare Arizona Works with EMPOWER Redesign in the target population of TANF cases (cases with an employable adult subject to TANF work requirements.) JLBC Staff will continue to work with DES and MAXIMUS to improve the comparability of the data presented in the reports from both.

Related to the issue of improving data comparability, DES is still working to obtain the comparative data for months prior to October. In our discussion of the previous Arizona Works report, we had believed that we would receive that data with this report. DES now reports that they will be able to present the data by June 1. In our review of the May 15 report (likely at the next Committee meeting), we hope to provide the Committee with some comparison data reflecting trends in both programs.

We have also previously noted that the information in both reports "cannot, by itself, give an indication of the relative success of each program." This is in part because success may be measured by more than just caseload reduction; demographic differences may also affect program success. The evaluation to be

(Continued)

conducted by JLBC Staff this year and the evaluation to be conducted by an independent evaluator hired by the Arizona Works Agency Procurement Board will look into program success in greater detail.

In addition to the caseload data, the report discusses MAXIMUS' performance bonuses awarded to it by the Arizona Works Agency Procurement Board. The contract signed by the Procurement Board and MAXIMUS specifies that MAXIMUS shall receive bonuses based on whether they meet specific performance goals. For the first quarter of the program, the quarter from April through June 1999, MAXIMUS earned bonuses totaling $491,000 out of a possible $892,700. MAXIMUS met 4 of the 7 standards, including placement of participants into paid employment 30% higher than DES and a reduction in the length of stay on assistance for long-term recipients 30% higher than DES. For the quarter covering July through September 1999, MAXIMUS met 5 of the 7 standards and earned bonuses totaling $449,900 out of a possible $599,900.

The MAXIMUS report provides results of customer satisfaction surveys, which show no significant change in customer satisfaction with the program, which has ranged between "Good" and "Excellent." It also mentions that in January, the first participant was approved for the Grant Diversion program, which provides persons eligible for cash benefits a one-time upfront payment in lieu of cash benefits.

RS/SSH:ag

FOX
Systems Inc.

March 28, 2000

Chairman Bob Burns
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Chairman:

Attached is the March 15, 2000 report submitted to the Arizona Works Procurement Board by MAXIMUS, Inc.

This report contains program financial data outlining the administrative, child care and support services expenditures for December 1999 and January 2000. FOX Systems will continue to work with MAXIMUS to update and revise this report as necessary to provide requested information to JLBC.

If you need further assistance or information, please feel free to call me at (480) 423-8184 extension 204.

Thank you,

Sherry Scott

Sherry Scott
Project Analyst

cc:
Senator Randall Gnant
Mr. Stefan Shepard

4110 N. Scottsdale Road, Suite 345, Scottsdale, Arizona 85251-3920
voice **(480) 423-8184** • fax **(480) 423-8108**

March 15th, 2000

Mr. Alfredo Gutierrez, Chairman
Arizona Works Procurement Board
C/O Desh Ahuja
Fox Systems, Inc.
4110 N. Scottsdale Road, Suite 345
Scottsdale, Arizona 85251

Dear Chairman Gutierrez:

Attached is the report that JLBC has requested as an Arizona Works project deliverable due on March 15th. The report reflects progress made since the last report dated January 15th, 1999.

Should you have any questions, or if I can be of further assistance, please do not hesitate to contact me at 480.668.4998.

Sincerely,

Beth Hicks
Program Manager
Welfare Reform Division

BH/ct

MAXIMUS ARIZONA WORKS PROGRESS REPORT
FEBRUARY 15, 2000

HIGHLIGHTS

- The Arizona Works Agency Procurement Board approved 1st and 2nd quarter results for performance achieved in the Arizona Works project.
- Performance results indicate the project achieved success in exceeding contractual performance goals for the 1st and 2nd quarters of operations.
- Arizona Works earned 55% of the available performance dollars for the 1st quarter and 75% for the 2nd quarter. ***See Attachment I***
- The first Grant Diversion case was approved in January.
- MAXIMUS has begun planning for Arizona Works replication in the second pilot area.

OPERATIONS

- Support Services – Improved tracking and requests for Transportation services has been a primary focus for the Transportation Coordinator. For the month of January, the highest transportation expenses incurred were for bus ticket/passes. Bus tickets/passes have the highest usage, followed by van services.
- Facilities – The consolidation of 2 offices is being planned with DES and is expected to be completed by the end of March.

COMMUNITY OUTREACH

- We continue to expand our provider network and have over 40 contracts to provide a wide range of support services for our participants.
- New contracts that have been negotiated include services for the homeless and disabled TANF population, as well as enhancing the current engagement and retention services.
- Amendments to existing contracts are being made as needed/warranted.
- MAXIMUS has become a member of the Mesa Chamber of Commerce, which enhances our efforts in employment and community outreach.

COORDINATING COMMITTEE

- The Coordinating Committee held their first meeting during January.
- A second meeting will be scheduled for those members who were not able to attend.
- Presently, there are 10 members that have agreed to participation in the Committee.
- Discussions with additional candidates are continuing to increase membership.

CUSTOMER SATISFACTION

- Customer satisfaction surveys continue to run above average. ***See Attachment II***
- Handwritten comments from participants provide additional feedback that measures areas not specifically measured using the quantitative scoring. ***See Attachment III***
- Internal customer satisfaction remains above average for services provided by the IT and Training staff.
- All MAXIMUS offices have suggestion boxes that enable both Arizona Works staff *and* participants to provide ideas or improvements for any area.

QUALITY ASSURANCE

- 14 new requests for grievance hearings occurred during the month of December, however withdrawals are steadily increasing.
- No agency grievance decisions were reversed during January.
- There continues to be no appeals to the Office of Administrative Hearings.
- Better communication between case managers and participants is the reason for the increase in withdrawals.
- Participant Advocate calls have dropped by approximately 80% since it's inception
- In January, Case read accuracy for cash was 95.8%.
- Processes throughout the project are being reviewed and analyzed for improvement.
- QA staff is assisting Arizona Works Case Managers and Supervisors to ensure the alignment of case assignment in the three state systems: JAS, AZTECS, and AZCATS.
- As report generation becomes more available, staff are utilizing reports for overall management of cases and processes.
- Staff training and development has been enhanced.
- Monthly meetings are held to determine appropriate training needs for staff.
- Specialized training needs are being identified and addressed.
- Job shadowing has been implemented in addition to regular "classroom" training for new staff.

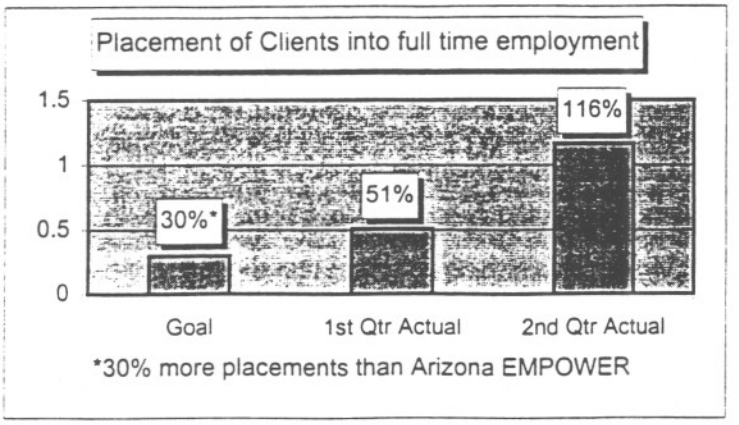
OTHER

- Arizona Works "adopted" the East Valley School, which is a school for homeless children, during the Holiday Season
- Staff, through donations and sponsored luncheons, raised a total of $1100. In total, Arizona Works sponsored twenty-two 4th through 6th graders
- Each student was provided with Christmas gifts of toys and clothes.
- Staff continue to donate much needed items to the school's clothing bank such as clothing, bedding, shoes, socks, etc. that will help both the children and other family members in the household.
- A MAXIMUS softball team has was created and represented MAXIMUS/Arizona Works in a city league.
- The MAXIMUS sponsored basketball team ended the league season with no losses.

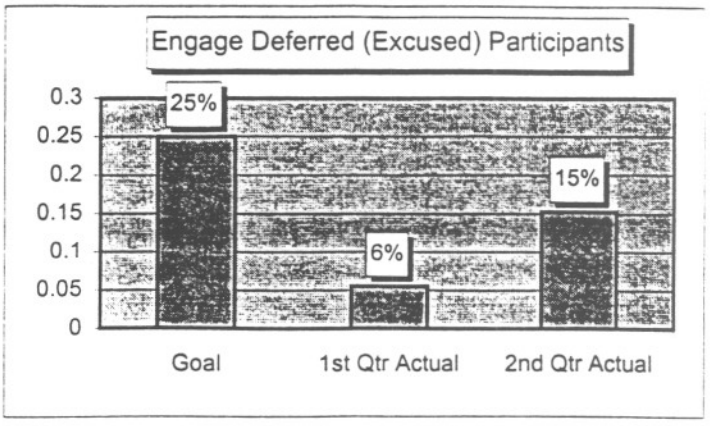
MAXIMUS - ARIZONA WORKS

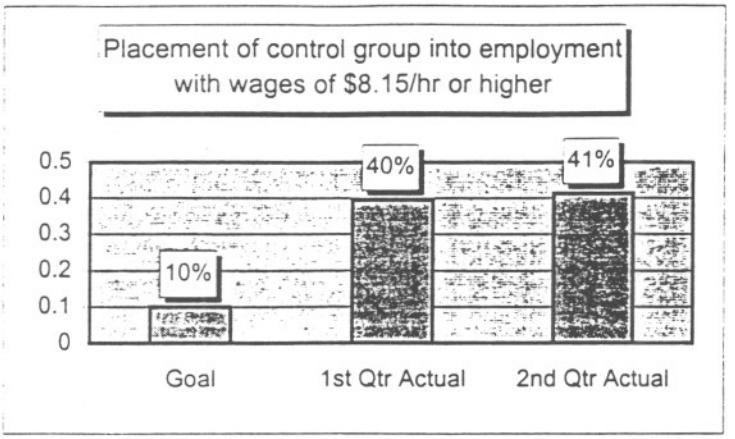
1ST and 2ND QUARTER PERFORMANCE

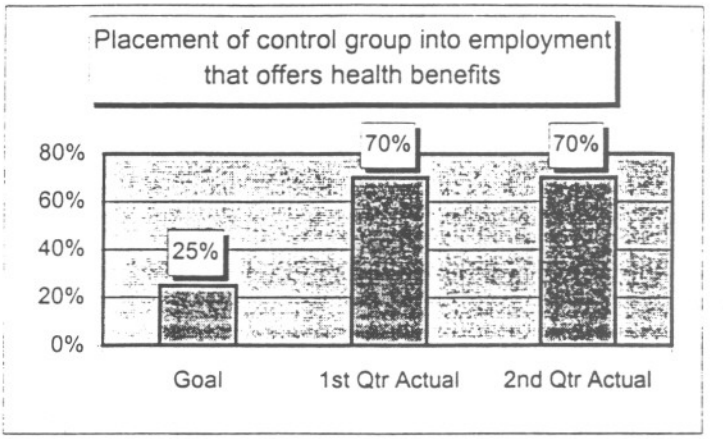
APRIL-SEPTEMBER 1999

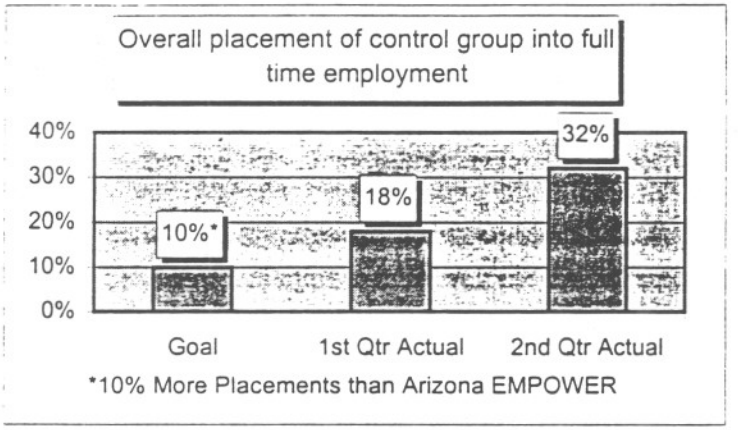


*30% more placements than Arizona EMPOWER

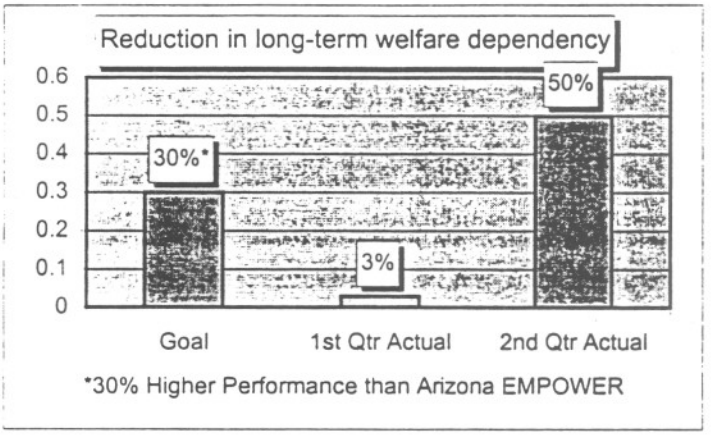




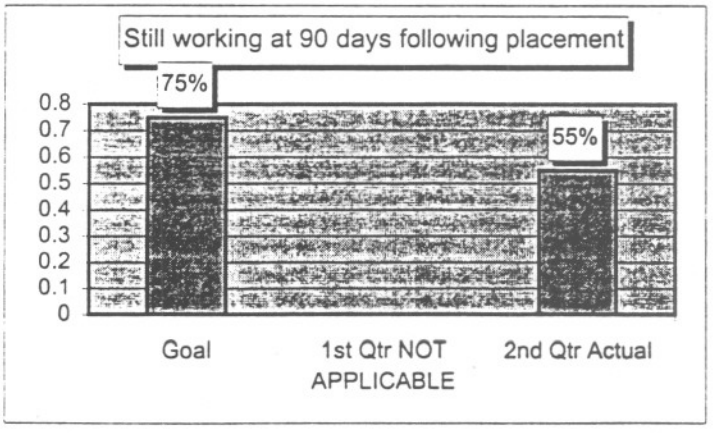




*10% More Placements than Arizona EMPOWER



*30% Higher Performance than Arizona EMPOWER



ARIZONA WORKS
PERFORMANCE MEASURES
1ST QUARTER
April-June, 1999

MAXIMUS

INCENTIVE/MEASURE	MET STANDARD	STANDARD FOR QTR	AZWORKS			DES	%OF TOTAL INCENTIVE	AVAILABLE QTRLY ADMIN	QTRLY ADMIN EARNED
			NUMER	*DENOM*	*%*	*%*			
Measure III - COMPARATIVE Placements of Participants into Paid Employment 30% Higher than DES	YES	6.15%	233	3259	7.15%	4.73%	30.0%	$267,810.00	$267,810.00
Measure IV .a Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 50% Plcmnt of Deferred Cohort	NO	12.50%	38	682	5.57%		15.0%	$133,905.00	$0.00
Measure IV.b.1 - COMPARATIVE Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 10% Higher than DES of Plcmnts of Non-def'd Cohort	YES	6.47%	85	1225	6.94%	5.88%	5.0%	$44,635.00	$44,635.00
Measure IV.b.2 Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 10% of Non-def'd Cohort Plcmnts >$8.14	YES	10.00%	36	91	39.56%		15.0%	$133,905.00	$133,905.00
Measure IV.b.3 Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 25% of Non-def'd Cohort Plcmnts w/Med.Ben.	YES	25.00%	64	91	70.33%		5.0%	$44,635.00	$44,635.00
Measure V - COMPARATIVE Reduction in Length of Stay on Assistance 30% Higher than DES in Reduction of Long Term TANF (36/60)	NO	8.46%	7	226	3.10%	6.51%	20.0%	$178,540.00	$0.00
Measure VI Reduction in Caseload	NOT MEASURED						0.0%	$0.00	
Measure VIII Paid Employment Continuing After 90 days after Placement 75% of Plcmnts	N/A						10.0%	$89,270.00	$0.00
							TOTAL=	$892,700.00	$490,985.00

ARIZONA WORKS
PERFORMANCE MEASURES
2ND QUARTER
July-September, 1999

MAXIMUS

INCENTIVE/MEASURE	MET STANDARD	STANDARD FOR QTR	AZWORKS			DES	%OF TOTAL INCENTIVE	AVAILABLE QTRLY ADMIN	QTRLY ADMIN EARNED
			NUMER	*DENOM*	*%*	*%*			
Measure III - COMPARATIVE Placements of Participants into Paid Employment 30% Higher than DES	YES	6.82%	387	3407	11.36%	5.25%	30.0%	$179,966.85	$179,966.85
Measure IV .a Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 50% Plcmnt of Deferred Cohort	NO	25.00%	104	682	15.25%		15.0%	$89,983.43	$0.00
Measure IV.b.1 - COMPARATIVE Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 10% Higher than DES of Plcmnts of Non-def'd Cohort	YES	4.81%	71	1225	5.80%	4.37%	5.0%	$29,994.48	$29,994.48
Measure IV.b.2 Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 10% of Non-def'd Cohort Plcmnts >$8.14	YES	10.00%	33	80	41.25%		15.0%	$89,983.43	$89,983.43
Measure IV.b.3 Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 25% of Non-def'd Cohort Plcmnts w/Med.Ben.	YES	25.00%	56	80	70.00%		5.0%	$29,994.48	$29,994.48
Measure V - COMPARATIVE Reduction in Length of Stay on Assistance 30% Higher than DES in Reduction of Long Term TANF (36/60)	YES	6.50%	14	187	3.10%	5.00%	20.0%	$119,977.90	$119,977.90
Measure VI Reduction in Caseload	NOT MEASURED						0.0%	$0.00	
Measure VIII Paid Employment Continuing After 90 days after Placement 75% of Plcmnts	NO	75.00%	254	462			10.0%	$59,988.95	$0.00
							TOTAL=	$599,889.50	$449,917.13

Date: Dec-99

SUMMARY OF SURVEYS

Scale Point: (1) Poor (2) Average (3) Good (4) Excellent						
Survey Forms	**1st QRT**	**2nd QRT**	**Oct-99**	**Nov-99**	**Dec-99**	**YTD ***
Orientation Participant Survey	3.60	3.60	3.63	3.59	3.52	3.61
Customer Service Survey	3.40	3.50	3.47	3.43	3.57	3.48
Case Manager Satisfaction Survey	3.90	3.80	3.82	3.75	3.87	3.78
Resource Specialist Satisfaction Survey	** N/A	** N/A	3.89	3.88	4.00	3.89
MAXAcademy Satisfaction Survey	3.60	3.80	3.86	3.83	3.86	3.88

* *Year To Date (YTD) figures are weighted averages, based on number of surveys submitted per month.*

** *No data for Survey in this time period. New Survey.*

Date: Jan-00

SUMMARY OF SURVEYS

Scale Point: (1) Poor (2) Average (3) Good (4) Excellent					
Survey Forms	**1st QRT**	**2nd QRT**	**3rd QRT**	**Jan-00**	**YTD ***
Orientation Participant Survey	3.60	3.60	3.61	3.56	3.59
Customer Service Survey	3.40	3.50	3.48	3.77***	3.77***
Case Manager Satisfaction Survey	3.90	3.80	3.78	3.80	3.78
Resource Specialist Satisfaction Survey	** N/A	** N/A	3.89	3.84	3.88
MAXAcademy Satisfaction Surveys	3.60	3.80	3.88	3.86	3.77

* *Year To Date (YTD) figures are weighted averages, based on number of surveys submitted per month.*

** *No data for Survey in this time period. New Survey.*

*** *The Customer Service Survey was restructured. New Survey format started 1/1/00.*

ORIENTATION PARTICIPANT SURVEY COMMENTS DECEMBER 1999

Comments made to the question "What did you like most about the presentation?"

o	24	32.9%	Positive comments about the Presenter, such as, made me feel confident about getting a job, knowledgeable, friendly, good speaker, cool pleasant, polite, positive attitude, happy, patient, nice, helpful, enthusiastic, positively encouraged me, honest.
o	20	27.4%	Presentation/Presenter explained the Program requirements well, direct, to the point, informative, thorough, easy to understand, precise, complete, and clarity.
o	18	24.7%	MAXIMUS Positive program, Simple to understand, helping people become more self-sufficient, help with finding jobs, help with shelter, help with training, help be functional, want to work, job search, good goals, help with transportation, useful program, willing to help, liked Case Management style, the legal rights.
o	5	6.8%	All questions were answered.
o	6	8.2%	Presentation was timely and quick.
o	**73**	**100.0%**	

Comments to question "What did you like least about the presentation?"

o	6	23.0%	Participants didn't like the time length or paper work.
o	3	11.5%	Disruptive participants/children.
o	6	23.0%	Participant didn't want to be on Welfare, and didn't like being uncertain of future,

			policy to strict, didn't think if would qualify, doesn't want a job.
o	3	11.5%	Room was to Cold/hot.
o	4	15.5%	Presenter started late.
o	3	11.5%	Didn't like separate appointments, wants one on one interview.
o	1	3.9%	Presenter talked to much on personal issues.
o	**26**	**100.0%**	

Additional Comments

o	7	33.3%	Positive comments about the presenter such as, good job, smiling face, good speaker, positive, professional, caring, accommodating, understanding.
o	10	47.5%	Positive comments about the Program such as, glad MAXIMUS is here, trying to help, about time, good information, advantages of program, helps people find work, will work well, excited about the program.
o	1	4.8%	Needs help now.
o	1	4.8%	Didn't want to be at the orientation.
o	1	4.8%	Need better front desk staff.
o	1	4.8%	Would like toys in room for kids.
o	**21**	**100.0%**	

CASE MANAGER SATIFACTION SURVEY COMMENTS DECEMBER 1999

Additional comments made on the survey.

o	25	96.2%	Positive comments made about the Case Managers such as, nice, puts in the extra effort, polite, patient, pleasant, helpful, courteous, professional, caring, real cool, awesome, honest, easy to talk to, took the extra time to make me feel important, knowledgeable, treated me like a human being, informative, excellent, and encouraging.
o	1	4.8%	Wouldn't let me do GED.
o	**26**	**100.0%**	

CUSTOMER SERVICE SURVEY DECEMBER 1999

Additional comments made on the survey.

o	57	87.7%	Positive comments made about staff, such as kind, good resource, helpful, courteous, caring, informative, fast, excellent, great smile, hospitable, sweet, fantastic, pleasant, respectful, friendly, professional, satisfied, considerate, quick, made to feel important, nice, polite, supportive, answered questions, nonjudgmental, understanding, genuine concern, wonderful, good service, patient, efficient and the best, went beyond customer service, thank you.
o	2	3.1%	CSR was disrespectful, snotty.
o	2	3.1%	Phones calls not being returned.

o	3	4.6%	Not enough help at the front desk.
o	1	1.5%	DES Staff not very friendly.
o	**65**	**100.0%**	

RESOURCE SPECIALIST SATISFACTION SURVEY
DECEMBER 1999

o	3	100.0%	Pat is a great, wonderful to be around, and helpful.
o	**.3**	**100.0%**	

MAXACADEMY SURVEYS
DECEMBER 1999

o	4	100.0%	Classes were well organized, professionally done, good information, and well done.
o	**4**	**100.0%**	

ORIENTATION PARTICIPANT SURVEY COMMENTS
JANUARY 2000

Comments made to the question "What did you like most about the presentation?"

o 36	46.8%	Positive comments about the Presenter, such as, Good attitude, willing to listen, presented well, made me feel confident about getting a job, knowledgeable, friendly, good speaker, upbeat, fast, pleasant, polite, positive attitude, direct, patient, nice, helpful, enthusiastic, no fluff, positively encouraged me, honest about expectations, well prepared.
o 24	31.2%	Presentation/Presenter explained the Program requirements well, fine details were explained, loud and clear, direct, to the point, informative, thorough, easy to understand, precise, complete, and clarity.
o 11	14.2%	MAXIMUS Positive program, Learning about the program, helping people become more self-sufficient, help with finding jobs, help with shelter, help with training, liked levels, emphasis on employment, help with transportation, useful program, liked Case Management style.
o 6	7.8%	All questions were answered.
o **77**	**100.0%**	

Comments to question "What did you like least about the presentation?"

o 20	45.5	Participants didn't like the time length, to early, started late, or paper work.
o 9	20.5%	Disruptive participants/children.
o 9	20.5%	Orientation didn't cover personal situations, not enough details, not a clear format, want to go to case manager first.

o	2	4.5%	Room was to cold/hot.
o	4	9.0%	Participant didn't like policy on time limits, to many rules, wanted higher benefits.
o	**44**	**100.0%**	

Additional Comments

o	7	53.8%	Positive comments about the presenter such as, good job, precise and to the point, great presenter, patient, very helpful, thank you for the help, keep up the good work.
o	4	30.8%	Positive comments about the Program such as, willingness to help with several issues and personal problems, educational, pleased with the direction of the program, helps people find work.
o	2	15.4%	Participant didn't like job search, didn't believe in childcare.
o	13	**100.0%**	

CASE MANAGER SATIFACTION SURVEY COMMENTS JANUARY 2000

Additional comments made on the survey.

o	21	84.0%	Positive comments made about the Case Managers such as, attentive to our needs and genuinely considerate of our situation, helpful, excellent job, we love our CM, great people skills, dependable, efficient, very thoughtful, wonderful, friendly, very pleasant, polite, understanding, honest, knowledgeable, nice, patient, pleasant, courteous, professional.

o	3	12.0%	Negative comments about the Case Manager such as, she had her own agenda, participant had to reschedule since CM was behind, participant made to feel unimportant.
o	1	4.0%	Participant wants to get job on her own.
o	**25**	**100.0%**	

CUSTOMER SERVICE SURVEY
JANUARY 2000

Additional comments made on the survey.

o	72	86.8%	Positive comments made about staff, such as, appreciate the helpfulness, excellent service, took time to help, kind, helpful, very courteous, caring, informative, fast, very thorough, excellent, great smile, hospitable, sweet, fantastic, pleasant, respectful, friendly, professional, considerate, quick, made to feel important, nice, polite, supportive, answered questions, nonjudgmental, understanding, genuine concern, wonderful, good service, patient, efficient and the best, went beyond customer service, always in a good mood, thank you, keep up the good work, great job.
o	2	2.4%	Participant wanted a sigh in sheet.
o	2	2.4%	More directional signage in the lobby.

o	2	2.4%	Not enough help at the front desk.
o	1	1.2%	Man (DES Staff) front desk had a nasty attitude.
o	1	1.2%	Participant wanted training classes in the afternoon.
o	1	1.2%	Stop letting people in after 4:30 PM.
o	1	1.2%	Please don't close the McKellips Office.
o	1	1.2%	Participant didn't want to do the paperwork, orientation, or appointments.
o	83	**100.0%**	

RESOURCESPECIALIST SATISFACTION SURVEY JANUARY 2000

o	14	93.3%	Positive comments about the Resource Specialist such as, devoted, great service, helpful, smiling, nice, good with people, liked help with resume, courteous, kind, knowledgeable, great attitude, excellent, wonderful to be around.
o	1	6.7%	Resource Specialist needs to be more polite.
o	**15**	**100.0%**	

MAXACADEMY SURVEYS
JANUARY 2000

o	42	72.4%	Positive comments about the Instructors such as, wonderful teacher, helpful, well organized, sweet, awesome, good listener. Friendly. Informative, great instructors, explains things well, very attentive, enthusiastic, the best, makes you think about things, professionally done, good information, and well done.
o	10	17.3%	Positive comments about the curriculum such as, Learned of tools needed to succeed, help with interviewing skills, help with resumes, liked the job fairs.
o	3	5.2%	All questions were answered.
o	2	3.4%	Class is a waste of time, didn't like orientation class.
o	1	1.7%	Special Speakers were not on time.
o	**58**	**100.0%**	

FOX
Systems Inc.

March 28, 2000

Chairman Bob Burns
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Chairman:

Attached is the March 15, 2000 report submitted to the Arizona Works Procurement Board by MAXIMUS, Inc.

This report contains program financial data outlining the administrative, child care and support services expenditures for December 1999 and January 2000. FOX Systems will continue to work with MAXIMUS to update and revise this report as necessary to provide requested information to JLBC.

If you need further assistance or information, please feel free to call me at (480) 423-8184 extension 204.

Thank you,

Sherry Scott

Sherry Scott
Project Analyst

cc:
Senator Randall Gnant
Mr. Stefan Shepard

4110 N. Scottsdale Road, Suite 345, Scottsdale, Arizona 85251-3920
voice **(480) 423-8184** • fax **(480) 423-8108**

March 15th, 2000

Mr. Alfredo Gutierrez, Chairman
Arizona Works Procurement Board
C/O Desh Ahuja
Fox Systems, Inc.
4110 N. Scottsdale Road, Suite 345
Scottsdale, Arizona 85251

Dear Chairman Gutierrez:

Attached is the report that JLBC has requested as an Arizona Works project deliverable due on March 15th. The report reflects progress made since the last report dated January 15th, 1999.

Should you have any questions, or if I can be of further assistance, please do not hesitate to contact me at 480.668.4998.

Sincerely,

Beth Hicks
Program Manager
Welfare Reform Division

BH/ct

MAXIMUS ARIZONA WORKS PROGRESS REPORT
FEBRUARY 15, 2000

HIGHLIGHTS

- The Arizona Works Agency Procurement Board approved 1st and 2nd quarter results for performance achieved in the Arizona Works project.
- Performance results indicate the project achieved success in exceeding contractual performance goals for the 1st and 2nd quarters of operations.
- Arizona Works earned 55% of the available performance dollars for the 1st quarter and 75% for the 2nd quarter. ***See Attachment I***
- The first Grant Diversion case was approved in January.
- MAXIMUS has begun planning for Arizona Works replication in the second pilot area.

OPERATIONS

- Support Services – Improved tracking and requests for Transportation services has been a primary focus for the Transportation Coordinator. For the month of January, the highest transportation expenses incurred were for bus ticket/passes. Bus tickets/passes have the highest usage, followed by van services.
- Facilities – The consolidation of 2 offices is being planned with DES and is expected to be completed by the end of March.

COMMUNITY OUTREACH

- We continue to expand our provider network and have over 40 contracts to provide a wide range of support services for our participants.
- New contracts that have been negotiated include services for the homeless and disabled TANF population, as well as enhancing the current engagement and retention services.
- Amendments to existing contracts are being made as needed/warranted.
- MAXIMUS has become a member of the Mesa Chamber of Commerce, which enhances our efforts in employment and community outreach.

COORDINATING COMMITTEE

- The Coordinating Committee held their first meeting during January.
- A second meeting will be scheduled for those members who were not able to attend.
- Presently, there are 10 members that have agreed to participation in the Committee.
- Discussions with additional candidates are continuing to increase membership.

CUSTOMER SATISFACTION

- Customer satisfaction surveys continue to run above average. ***See Attachment II***
- Handwritten comments from participants provide additional feedback that measures areas not specifically measured using the quantitative scoring. ***See Attachment III***
- Internal customer satisfaction remains above average for services provided by the IT and Training staff.
- All MAXIMUS offices have suggestion boxes that enable both Arizona Works staff *and* participants to provide ideas or improvements for any area.

QUALITY ASSURANCE

- 14 new requests for grievance hearings occurred during the month of December, however withdrawals are steadily increasing.
- No agency grievance decisions were reversed during January.
- There continues to be no appeals to the Office of Administrative Hearings.
- Better communication between case managers and participants is the reason for the increase in withdrawals.
- Participant Advocate calls have dropped by approximately 80% since it's inception
- In January, Case read accuracy for cash was 95.8%.
- Processes throughout the project are being reviewed and analyzed for improvement.
- QA staff is assisting Arizona Works Case Managers and Supervisors to ensure the alignment of case assignment in the three state systems: JAS, AZTECS, and AZCATS.
- As report generation becomes more available, staff are utilizing reports for overall management of cases and processes.
- Staff training and development has been enhanced.
- Monthly meetings are held to determine appropriate training needs for staff.
- Specialized training needs are being identified and addressed.
- Job shadowing has been implemented in addition to regular "classroom" training for new staff.

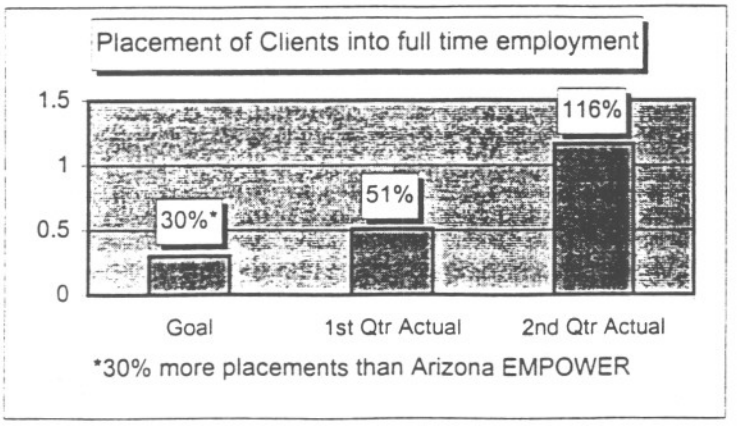
OTHER

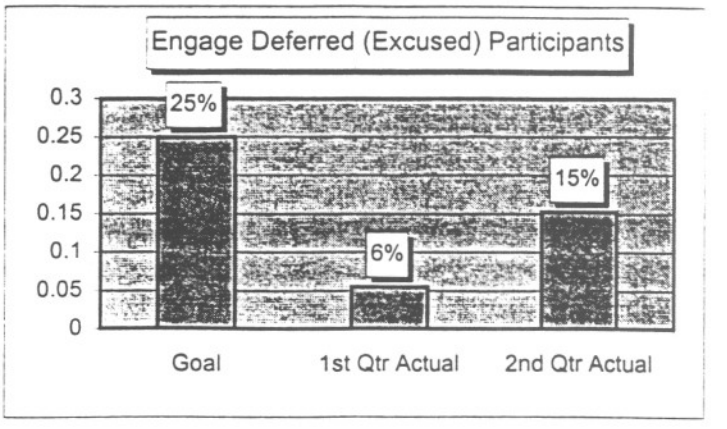
- Arizona Works "adopted" the East Valley School, which is a school for homeless children, during the Holiday Season
- Staff, through donations and sponsored luncheons, raised a total of $1100. In total, Arizona Works sponsored twenty-two 4th through 6th graders
- Each student was provided with Christmas gifts of toys and clothes.
- Staff continue to donate much needed items to the school's clothing bank such as clothing, bedding, shoes, socks, etc. that will help both the children and other family members in the household.
- A MAXIMUS softball team has was created and represented MAXIMUS/Arizona Works in a city league.
- The MAXIMUS sponsored basketball team ended the league season with no losses.

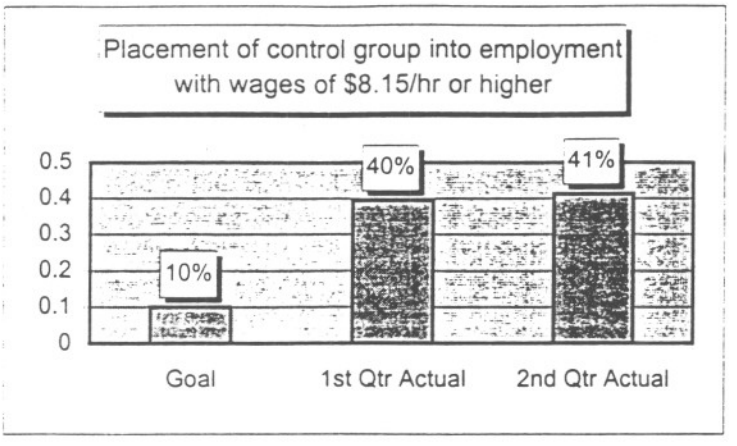
MAXIMUS - ARIZONA WORKS

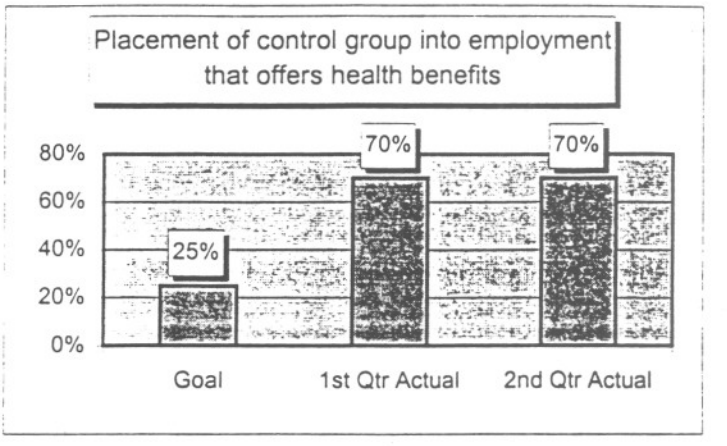
1ST and 2ND QUARTER PERFORMANCE

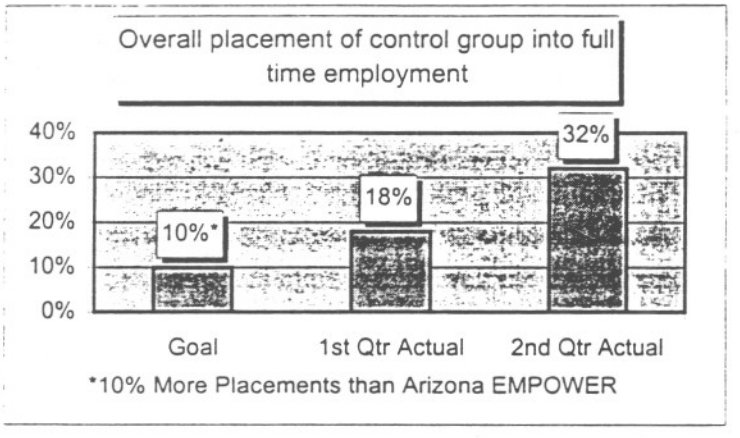
APRIL-SEPTEMBER 1999

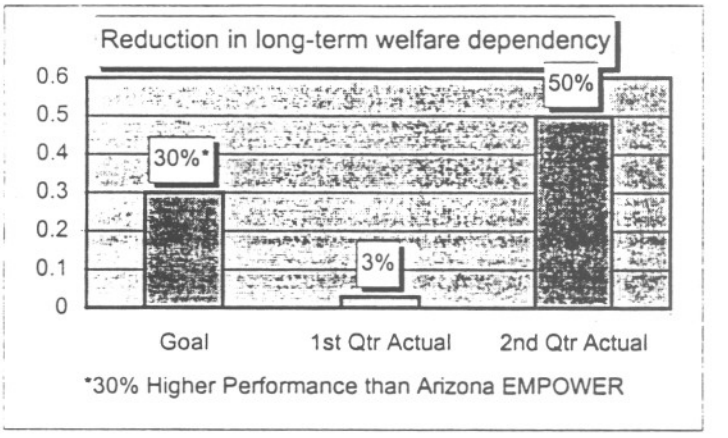


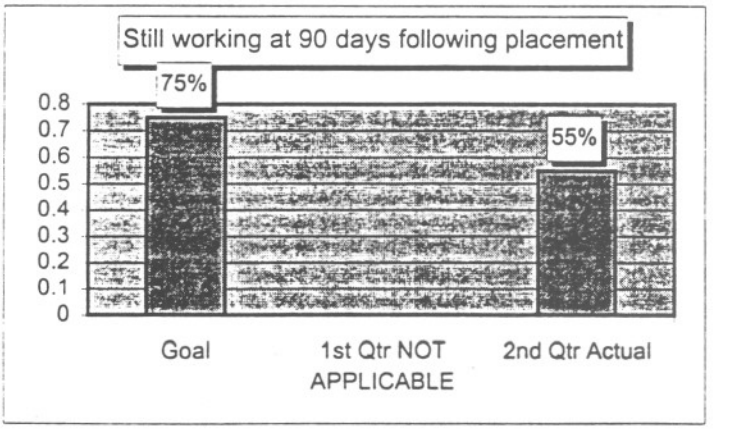












JLBC Report 03-15-00
ATTACHMENT I
4/99-9/99 Data

ARIZONA WORKS
PERFORMANCE MEASURES
1ST QUARTER
April-June, 1999

MAXIMUS

INCENTIVE/MEASURE	MET STANDARD	STANDARD FOR QTR	AZWORKS			DES	%OF TOTAL INCENTIVE	AVAILABLE QTRLY ADMIN	QTRLY ADMIN EARNED
			NUMER	*DENOM*	*%*	*%*			
Measure III - COMPARATIVE Placements of Participants into Paid Employment 30% Higher than DES	YES	6.15%	233	3259	7.15%	4.73%	30.0%	$267,810.00	$267,810.00
Measure IV .a Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 50% Plcmnt of Deferred Cohort	NO	12.50%	38	682	5.57%		15.0%	$133,905.00	$0.00
Measure IV.b.1 - COMPARATIVE Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 10% Higher than DES of Plcmnts of Non-def'd Cohort	YES	6.47%	85	1225	6.94%	5.88%	5.0%	$44,635.00	$44,635.00
Measure IV.b.2 Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 10% of Non-def'd Cohort Plcmnts >$8.14	YES	10.00%	36	91	39.56%		15.0%	$133,905.00	$133,905.00
Measure IV.b.3 Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 25% of Non-def'd Cohort Plcmnts w/Med.Ben.	YES	25.00%	64	91	70.33%		5.0%	$44,635.00	$44,635.00
Measure V - COMPARATIVE Reduction in Length of Stay on Assistance 30% Higher than DES in Reduction of Long Term TANF (36/60)	NO	8.46%	7	226	3.10%	6.51%	20.0%	$178,540.00	$0.00
Measure VI Reduction in Caseload	NOT MEASURED						0.0%	$0.00	
Measure VIII Paid Employment Continuing After 90 days after Placement 75% of Plcmnts	N/A						10.0%	$89,270.00	$0.00
							TOTAL=	$892,700.00	$490,985.00

ARIZONA WORKS
PERFORMANCE MEASURES
2ND QUARTER
July-September, 1999

MAXIMUS

INCENTIVE/MEASURE	MET STANDARD	STANDARD FOR QTR	AZWORKS			DES	%OF TOTAL INCENTIVE	AVAILABLE QTRLY ADMIN	QTRLY ADMIN EARNED
			NUMER	*DENOM*	*%*	*%*			
Measure III - COMPARATIVE Placements of Participants into Paid Employment 30% Higher than DES	YES	6.82%	387	3407	11.36%	5.25%	30.0%	$179,966.85	$179,966.85
Measure IV .a Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 50% Plcmnt of Deferred Cohort	NO	25.00%	104	682	15.25%		15.0%	$89,983.43	$0.00
Measure IV.b.1 - COMPARATIVE Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 10% Higher than DES of Plcmnts of Non-def'd Cohort	YES	4.81%	71	1225	5.80%	4.37%	5.0%	$29,994.48	$29,994.48
Measure IV.b.2 Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 10% of Non-def'd Cohort Plcmnts >$8.14	YES	10.00%	33	80	41.25%		15.0%	$89,983.43	$89,983.43
Measure IV.b.3 Placement of Individuals in Highest, Most Appro. Employment Plcmnt Level 25% of Non-def'd Cohort Plcmnts w/Med.Ben.	YES	25.00%	56	80	70.00%		5.0%	$29,994.48	$29,994.48
Measure V - COMPARATIVE Reduction in Length of Stay on Assistance 30% Higher than DES in Reduction of Long Term TANF (36/60)	YES	6.50%	14	187	3.10%	5.00%	20.0%	$119,977.90	$119,977.90
Measure VI Reduction in Caseload	NOT MEASURED						0.0%	$0.00	
Measure VIII Paid Employment Continuing After 90 days after Placement 75% of Plcmnts	NO	75.00%	254	462			10.0%	$59,988.95	$0.00
							TOTAL=	$599,889.50	$449,917.13

Date: Dec-99

SUMMARY OF SURVEYS

Scale Point: (1) Poor (2) Average (3) Good (4) Excellent						
Survey Forms	**1st QRT**	**2nd QRT**	**Oct-99**	**Nov-99**	**Dec-99**	**YTD ***
Orientation Participant Survey	3.60	3.60	3.63	3.59	3.52	3.61
Customer Service Survey	3.40	3.50	3.47	3.43	3.57	3.48
Case Manager Satisfaction Survey	3.90	3.80	3.82	3.75	3.87	3.78
Resource Specialist Satisfaction Survey	** N/A	** N/A	3.89	3.88	4.00	3.89
MAXAcademy Satisfaction Survey	3.60	3.80	3.86	3.83	3.86	3.88

* *Year To Date (YTD) figures are weighted averages, based on number of surveys submitted per month.*

** *No data for Survey in this time period. New Survey.*

Date: Jan-00

SUMMARY OF SURVEYS

Scale Point: (1) Poor (2) Average (3) Good (4) Excellent					
Survey Forms	**1st QRT**	**2nd QRT**	**3rd QRT**	**Jan-00**	**YTD ***
Orientation Participant Survey	3.60	3.60	3.61	3.56	3.59
Customer Service Survey	3.40	3.50	3.48	3.77***	3.77***
Case Manager Satisfaction Survey	3.90	3.80	3.78	3.80	3.78
Resource Specialist Satisfaction Survey	** N/A	** N/A	3.89	3.84	3.88
MAXAcademy Satisfaction Surveys	3.60	3.80	3.88	3.86	3.77

* *Year To Date (YTD) figures are weighted averages, based on number of surveys submitted per month.*

** *No data for Survey in this time period. New Survey.*

*** *The Customer Service Survey was restructured. New Survey format started 1/1/00.*

ORIENTATION PARTICIPANT SURVEY COMMENTS
DECEMBER 1999

Comments made to the question "What did you like most about the presentation?"

o	24	32.9%	Positive comments about the Presenter, such as, made me feel confident about getting a job, knowledgeable, friendly, good speaker, cool pleasant, polite, positive attitude, happy, patient, nice, helpful, enthusiastic, positively encouraged me, honest.
o	20	27.4%	Presentation/Presenter explained the Program requirements well, direct, to the point, informative, thorough, easy to understand, precise, complete, and clarity.
o	18	24.7%	MAXIMUS Positive program, Simple to understand, helping people become more self-sufficient, help with finding jobs, help with shelter, help with training, help be functional, want to work, job search, good goals, help with transportation, useful program, willing to help, liked Case Management style, the legal rights.
o	5	6.8%	All questions were answered.
o	6	8.2%	Presentation was timely and quick.
o	**73**	**100.0%**	

Comments to question "What did you like least about the presentation?"

o	6	23.0%	Participants didn't like the time length or paper work.
o	3	11.5%	Disruptive participants/children.
o	6	23.0%	Participant didn't want to be on Welfare, and didn't like being uncertain of future,

			policy to strict, didn't think if would qualify, doesn't want a job.
o	3	11.5%	Room was to Cold/hot.
o	4	15.5%	Presenter started late.
o	3	11.5%	Didn't like separate appointments, wants one on one interview.
o	1	3.9%	Presenter talked to much on personal issues.
o	**26**	**100.0%**	

Additional Comments

o	7	33.3%	Positive comments about the presenter such as, good job, smiling face, good speaker, positive, professional, caring, accommodating, understanding.
o	10	47.5%	Positive comments about the Program such as, glad MAXIMUS is here, trying to help, about time, good information, advantages of program, helps people find work, will work well, excited about the program.
o	1	4.8%	Needs help now.
o	1	4.8%	Didn't want to be at the orientation.
o	1	4.8%	Need better front desk staff.
o	1	4.8%	Would like toys in room for kids.
o	**21**	**100.0%**	

CASE MANAGER SATIFACTION SURVEY COMMENTS DECEMBER 1999

Additional comments made on the survey.

o	25	96.2%	Positive comments made about the Case Managers such as, nice, puts in the extra effort, polite, patient, pleasant, helpful, courteous, professional, caring, real cool, awesome, honest, easy to talk to, took the extra time to make me feel important, knowledgeable, treated me like a human being, informative, excellent, and encouraging.
o	1	4.8%	Wouldn't let me do GED.
o	**26**	**100.0%**	

CUSTOMER SERVICE SURVEY DECEMBER 1999

Additional comments made on the survey.

o	57	87.7%	Positive comments made about staff, such as kind, good resource, helpful, courteous, caring, informative, fast, excellent, great smile, hospitable, sweet, fantastic, pleasant, respectful, friendly, professional, satisfied, considerate, quick, made to feel important, nice, polite, supportive, answered questions, nonjudgmental, understanding, genuine concern, wonderful, good service, patient, efficient and the best, went beyond customer service, thank you.
o	2	3.1%	CSR was disrespectful, snotty.
o	2	3.1%	Phones calls not being returned.

o	3	4.6%	Not enough help at the front desk.
o	1	1.5%	DES Staff not very friendly.
o	**65**	**100.0%**	

RESOURCE SPECIALIST SATISFACTION SURVEY
DECEMBER 1999

o	3	100.0%	Pat is a great, wonderful to be around, and helpful.
o	**.3**	**100.0%**	

MAXACADEMY SURVEYS
DECEMBER 1999

o	4	100.0%	Classes were well organized, professionally done, good information, and well done.
o	**4**	**100.0%**	

ORIENTATION PARTICIPANT SURVEY COMMENTS JANUARY 2000

Comments made to the question "What did you like most about the presentation?"

o	36	46.8%	Positive comments about the Presenter, such as, Good attitude, willing to listen, presented well, made me feel confident about getting a job, knowledgeable, friendly, good speaker, upbeat, fast, pleasant, polite, positive attitude, direct, patient, nice, helpful, enthusiastic, no fluff, positively encouraged me, honest about expectations, well prepared.
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o	6	7.8%	All questions were answered.
o	**77**	**100.0%**	

Comments to question "What did you like least about the presentation?"

o	20	45.5	Participants didn't like the time length, to early, started late, or paper work.
o	9	20.5%	Disruptive participants/children.
o	9	20.5%	Orientation didn't cover personal situations, not enough details, not a clear format, want to go to case manager first.

o	2	4.5%	Room was to cold/hot.
o	4	9.0%	Participant didn't like policy on time limits, to many rules, wanted higher benefits.
o	**44**	**100.0%**	

Additional Comments

o	7	53.8%	Positive comments about the presenter such as, good job, precise and to the point, great presenter, patient, very helpful, thank you for the help, keep up the good work.
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Additional comments made on the survey.

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o	3	12.0%	Negative comments about the Case Manager such as, she had her own agenda, participant had to reschedule since CM was behind, participant made to feel unimportant.
o	1	4.0%	Participant wants to get job on her own.
o	**25**	**100.0%**	

CUSTOMER SERVICE SURVEY
JANUARY 2000

Additional comments made on the survey.

o	72	86.8%	Positive comments made about staff, such as, appreciate the helpfulness, excellent service, took time to help, kind, helpful, very courteous, caring, informative, fast, very thorough, excellent, great smile, hospitable, sweet, fantastic, pleasant, respectful, friendly, professional, considerate, quick, made to feel important, nice, polite, supportive, answered questions, nonjudgmental, understanding, genuine concern, wonderful, good service, patient, efficient and the best, went beyond customer service, always in a good mood, thank you, keep up the good work, great job.
o	2	2.4%	Participant wanted a sigh in sheet.
o	2	2.4%	More directional signage in the lobby.

o	2	2.4%	Not enough help at the front desk.
o	1	1.2%	Man (DES Staff) front desk had a nasty attitude.
o	1	1.2%	Participant wanted training classes in the afternoon.
o	1	1.2%	Stop letting people in after 4:30 PM.
o	1	1.2%	Please don't close the McKellips Office.
o	1	1.2%	Participant didn't want to do the paperwork, orientation, or appointments.
o	83	**100.0%**	

RESOURCESPECIALIST SATISFACTION SURVEY JANUARY 2000

o	14	93.3%	Positive comments about the Resource Specialist such as, devoted, great service, helpful, smiling, nice, good with people, liked help with resume, courteous, kind, knowledgeable, great attitude, excellent, wonderful to be around.
o	1	6.7%	Resource Specialist needs to be more polite.
o	**15**	**100.0%**	

MAXACADEMY SURVEYS
JANUARY 2000

o	42	72.4%	Positive comments about the Instructors such as, wonderful teacher, helpful, well organized, sweet, awesome, good listener. Friendly. Informative, great instructors, explains things well, very attentive, enthusiastic, the best, makes you think about things, professionally done, good information, and well done.
o	10	17.3%	Positive comments about the curriculum such as, Learned of tools needed to succeed, help with interviewing skills, help with resumes, liked the job fairs.
o	3	5.2%	All questions were answered.
o	2	3.4%	Class is a waste of time, didn't like orientation class.
o	1	1.7%	Special Speakers were not on time.
o	**58**	**100.0%**	

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams *Telephone: (602) 542-5491*
Phoenix, Arizona 85007 *Facsimile: (602) 542-1616*

DATE: May 10, 2000

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

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

Request

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

Recommendation

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

In the prior agenda item 5A, the latest Arizona Works bimonthly report, there is a discussion of caseload reductions in the Arizona Works program. These reductions, however, occurred relatively late in CY 1999 and did not offset early increases in CY 1999. In addition, the caseload comparison to EMPOWER Redesign in the bimonthly report used a different caseload definition than used in this calculation.

Analysis

Laws 1997, Chapter 300 created the Arizona Works pilot program. This program replaces the regular Temporary Assistance for Needy Families (TANF) assistance program, known as EMPOWER Redesign, in the Department of Economic Security's (DES) District I-E, centered around eastern Maricopa County. Laws 1998, Chapter 211 added A.R.S. § 46-342.01, which requires in part that "on or before February 15 of each year the Joint Legislative Budget Committee shall determine the cash benefit dollar amount savings attributable to caseload reduction, if any, achieved for the previous calendar year by Arizona Works." Up to 25% of these caseload reduction savings may be used by the Arizona Works Agency Procurement Board to award incentives to the vendor for satisfactory performance on several criteria. These incentives differ from the administrative bonuses discussed in agenda item 5A.

(Continued)

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

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

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

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

Because caseload information for December 1999 was not available until after February 15, 2000, we are only able now to present the Committee with our estimate. The JLBC Staff has taken the data provided for Arizona Works and the rest of Maricopa County to calculate its caseload reduction savings estimate for CY 1999. The components of the calculation are described below.

Method 1: Measure Caseloads Against Fixed April 1, 1999 Baseline: This method compares the average caseload for each calendar year against a fixed April 1, 1999 baseline. The caseload in the Arizona Works pilot area on April 1, 1999 was 1,844 cases. The average end-of-month caseload for Arizona Works during CY 1999 was 1,896 cases. This means that the average increase during CY 1999 was 52 cases. Because the average caseload did not decrease from the April 1, 1999 baseline, JLBC Staff estimates that the vendor is not eligible for any caseload reduction savings from this component.

Method 2: Measure Caseloads Against Moving Baseline: This method is similar to Method 1, but the baseline will be reset each year to the prior year's average caseload. In this first calendar year of operation, however, the baseline will be the caseload in the Arizona Works pilot area on April 1, 1999. As a result, the calculation for this method in CY 1999 is identical to that of Method 1 above. JLBC Staff estimates, therefore, that there were no CY 1999 caseload reduction savings and the vendor is not eligible for any caseload reduction savings from this component.

Method 3: Adjust Targets for Maricopa Countywide Performance: This method compares caseload performance in the Arizona Works pilot area with caseload performance in the rest of Maricopa County. The caseload in the Arizona Works pilot area on April 1, 1999 was 1,844 cases. The average end-of-month caseload for Arizona Works during CY 1999 was 1,896 cases. This means that the average increase in the Arizona Works area during CY 1999 was 52 cases, or 2.82%.

DES provided data on the caseload in the remainder of Maricopa County. Although this issue was not specified in the discussion on methodology in February 1999, JLBC Staff intent was to compare the performance of Arizona Works to DES' EMPOWER Redesign program. As a result, we have excluded participants in welfare programs operated by the Salt River Pima-Maricopa and Pascua Yaqui Indian communities in Maricopa County. These 2 communities operate their own welfare programs; they are not operated by DES. We have also used a definition of "child-only cases" in EMPOWER Redesign that matches that used by Arizona Works, that is, cases with no adult potentially subject to work requirements residing in the household.

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The caseload in the EMPOWER Redesign in Maricopa County on April 1, 1999 was 4,944 cases. The average end-of-month caseload for EMPOWER Redesign during CY 1999 was 4,906 cases. This means that the average decrease in the EMPOWER Redesign area during CY 1999 was 38 cases, or 0.77%. The caseload in the Arizona Works area reflected a slight increase in CY 1999, while the caseload in the EMPOWER Redesign area in the rest of Maricopa County showed a slight decrease in CY 1999. As a result, JLBC Staff estimates that there were no CY 1999 caseload reduction savings and the vendor is not eligible for any caseload reduction savings from this component.

Blending the Methodologies: As noted above, the approved methodology blends the 3 methods of calculating caseload reduction savings. The results of the blending are shown in the table below:

Methodology	**Bonus**	**Weighting**	**Blended Result**
Fixed Baseline	$0	25%	$0
Moving Baseline	0	25%	0
Countywide Adjustment	0	50%	0
TOTAL Performance Bonus			$0

The JLBC Staff recommends the Committee approve the JLBC Staff's estimate of cash benefit dollar amount savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program for calendar year 1999. Under the previously approved methodology, the Arizona Works vendor did not generate caseload reduction savings for CY 1999. We would note that even if the caseload reduction savings estimate was greater than $0, the amount of these funds MAXIMUS would actually receive is dependent upon their performance relative to criteria specified in the contract.

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

Jane Dee Hull
Governor

1717 West Jefferson - P.O. Box 6123
Phoenix, Arizona 85005

John L. Clayton
Director

APR 20 2000

The Honorable Randall Gnant
Chairman, Joint Legislative Budget Committee
Arizona State Senate
1700 W. Washington
Phoenix, Arizona 85007

Dear Senator Gnant:

The Department of Economic Security respectfully requests to be placed on the May JLBC meeting agenda to: (a) Pursuant to Laws 1999, Chapter 1, 44th Legislature (1st Special Session), review the Department's expenditure plan for the Long Term Care System Fund and related appropriation transfers; and (b) review caseload reduction for Arizona Works pilot program to determine incentives earned by the Arizona Works contractor.

Karen McLaughlin, Administrator, Financial Services Administration, is prepared to discuss these issues in greater detail with Pat Mah and Stefan Shepherd prior to the committee meeting.

Please contact me at 542-5678 if you have any questions.

Sincerely,

Michael Koppelman
for John L. Clayton

c:

T. Betlach	OSPB
R. Stavneak	JLBC
B. Chapko	OSPB
M. Gottheiner	OSPB
P. Mah	JLBC
S. Shepherd	JLBC
K. Matzinger	800A
K. McLaughlin	838Z
Day File	838Z

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams *Telephone: (602) 542-5491*
Phoenix, Arizona 85007 *Facsimile: (602) 542-1616*

DATE: May 9, 2000

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY -- REVIEW EXPENDITURE PLAN FOR THE LONG TERM CARE SYSTEM FUND AND RELATED APPROPRIATION TRANSFERS

Request

Pursuant to footnotes in the FY 2000 and FY 2001 General Appropriation Act, the Department of Economic Security (DES) is presenting its expenditure plan for increased capitation rates in the Long Term Care program and a proposed transfer to fund the increased capitation rates.

Recommendation

The JLBC Staff recommends a favorable review of the expenditure plan for increased capitation rates in the Long Term Care program and a favorable review of the proposed transfer of $2,605,000 from the Developmental Disabilities Home and Community Based Services line item to the Long Term Care Home and Community Based Services line item.

As part of our continuing monitoring process, JLBC Staff has incorporated our ongoing monitoring of DES fiscal control into this analysis. The department will spend $1.3 million more than the increased capitation rates, due in part to unapproved general provider increases. The total expenditure deficit of $2.4 million also includes $1.1 million to match the increased capitation rates. JLBC Staff recommends a favorable review of a transfer from the Developmental Disabilities cost center to the Long Term Care cost center since there are few options available in funding these services at this point. The department has agreed to update the Committee on August 1, 2000 and November 1, 2000 on issues related to fiscal control and future capitation rates for the Long Term Care and Developmental Disabilities program.

Analysis

Capitation Rate Increases

The Long Term Care (LTC) program is the federal portion Title XIX portion of DES' Division of Developmental Disabilities (DDD) program. The Arizona Health Care Cost Containment System (AHCCCS) contracts with DDD to provide services to developmentally disabled (DD) clients meeting specific developmental and financial eligibility requirements in AHCCCS' Arizona Long Term Care System (ALTCS). AHCCCS provides DDD a fixed capitation rate for each ALTCS client it serves; the

(Continued)

required state match is appropriated in the DES budget. Rates set by AHCCCS are required to be "actuarially sound," based on claims and encounter data.

The FY 2000 - FY 2001 General Appropriation Act includes the following footnote in the Long Term Care (LTC) budget:

> "Monies for the Long Term Care program are appropriated for the capitation rates effective on October 1, 1998. No monies may be expended for a change in these capitation rates unless an expenditure plan is reviewed by the Joint Legislative Budget Committee."

The LTC capitation rates for Federal Fiscal Year (FFY) 2000, which began on October 1, 1999, have now been finalized by AHCCCS and DES. As can be seen in the following table, these rates are higher than the rates for FFY 1999, which began on October 1, 1998. Almost all DD clients in the ALTCS program are considered "enrolled" clients.

Cap Rate Category	FFY 1999 (old)	FFY 2000 (new)	Change in $	Change in %
Enrolled	$2,277.00	$2,396.79	$119.79	5.3%
Ventilator Dependent	$8,038.14	$8,387.80	$349.66	4.4%

We would note that these increases are higher than the capitation rates assumed in the FY 2000 budget as modified by the supplemental appropriation. These rates are shown in the table below:

Cap Rate Category	FFY 1999 (old)	FFY 2000 (budgeted)	Change in $	Change in %
Enrolled	$2,277.00	$2,351.00	$74.00	3.2%
Ventilator Dependent	$8,038.14	$8,038.14	$ 0	0.0%

Current Deficit Estimate

Even with the 5.3% increase provided in the FFY 2000 capitation rate, the expenditure plan provided by the department reflects a $2.4 million deficit. The table below reflects DES' projected expenditures and revenue sources.

Long Term Care Expenditures	**Amount**
LTC Administration	$ 12,241,500
LTC Case Management	12,994,100
LTC Home and Community Based Services	215,248,700
LTC Institutional Services	11,063,400
LTC Medical Services	41,936,900
LTC ATP-Coolidge	10,245,500
Subtotal LTC Cost Center	$303,730,100
Division of Administration	6,156,000
Total - Long Term Care Expenditures	$309,886,100
Revenues	
Cap Rate - Federal Share	$203,094,200
General Fund Appropriation	104,386,900
Total - Revenues	$307,481,100
SFY 2000 Deficit	
Required State Match of Cap Rate	$(1,066,100)
Operational Deficit	(1,338,900)
Total - SFY 2000 Deficit	$(2,405,000)

(Continued)

JLBC Staff believes the department's estimate of caseload growth assumed in its expenditure plan is reasonable. JLBC Staff also believes that the department's projections of expenditures in the rest of FY 2000 are realistic.

The $2.4 million SFY 2000 deficit is composed of two parts: an $1.3 million operational deficit by which total expenditures exceed capitation rate revenues and an additional $1.1 million needed to match the federal funds for the higher capitation rate. JLBC Staff has recently expressed concern over fiscal controls in the department, especially in the LTC program. Since the Committee reviewed this issue at its March 20 meeting, DES has submitted additional information which continues to raise concerns both about fiscal controls in the LTC program as well potential difficulties in communicating the costs of increases to AHCCCS. The information showed that FY 1999 per person expenditures, were 12.7% higher than FY 1998 expenditures, broken out as follows:

Increase Component (excluding caseload, staff increase)	**Percentage Increase**
General (unauthorized) rate increase	5.0%
"Unmet need"	6.5%
Folding FY 1999 direct care increase into rates	1.2%
Total FY 1999 expenditure increase	12.7%

Unbudgeted Increases

Two components raise questions about DES' ability to control expenditures in this program. According to DES, in spring 1998 its provider contract negotiators "were instructed that the [FY 1999] budget could support rate increases of no more than 5% statewide. Any increase over 5% would have to be offset by reductions elsewhere. Negotiation team members indicate that this directive was implemented." This increase was entirely separate from the FY 1999 direct care staff increase. JLBC Staff would note there was no funding set aside in the FY 1999 budget for a general provider rate increase. Such an increase should have been presented to the Legislature for discussion through the budget and legislative process.

The component entitled "unmet need" also raises some questions about the ability to control costs in the DD program. This component refers to two types of "need." The first reflects previously authorized services that had previously gone unused, typically because of a lack of service provider. With the increased rates and staff increases, new providers entered previously unserved areas, allowing clients with authorizations to actually use those authorizations. The second type of need reflects increased services per client. DES has previously discussed potential reasons for increased services per client -- e.g., aging caregivers, the Lovass method for treating autistic clients, children with high medical needs. DES provided JLBC Staff with examples of how costs may increase under these situations, but was unable to provide data showing that these needs have increased from year to year. JLBC Staff would note that these "unmet needs" may indeed be legitimate, but that DES needs to do a better job in documenting these effects, presenting the data to AHCCCS and the Legislature, and figuring out how DES can control costs where possible. DES has indicated to JLBC Staff that they are working on capturing this data for presentation to AHCCCS and the Legislature, in addition to internal management.

Proposed Transfer

DES proposes to transfer $2,605,000 from the Home and Community Based Services line item in the state-only Developmental Disabilities budget to the LTC Home and Community Based Services line item, primarily to address the deficit discussed above. This proposed transfer is subject to the following footnote in the FY 2000 - FY 2001 General Appropriation Act:

> "It is the intent of the Legislature that any available surplus monies for developmental disability programs be applied toward the waiting list, unless there are insufficient monies to annualize

(Continued)

these costs in the subsequent year. The children's waiting list shall receive first priority. The amount appropriated for Developmental Disabilities shall be used to provide for services for non-Title XIX eligible clients. The amount shall not be used for other purposes, unless a transfer of monies is reviewed by the Joint Legislative Budget Committee."

DES is requesting a transfer of $2,605,000 from the state-only DD cost center, which serves non-Title XIX eligible clients, to the LTC cost center, which serves Title XIX-eligible clients. Of the $2,605,000, $2,405,000 would address the SFY 2000 deficit. The other $200,000 would go toward the $2,374,400 required to pay outstanding SFY 1999 LTC claims. Laws 2000, Chapter 281 permits the department to use its FY 2000 appropriation to pay outstanding SFY 1999 LTC claims. JLBC Staff believes there are sufficient monies in the DD cost center to transfer to the LTC cost center. In its 25th of the Month report for March, DES estimates a surplus of $2,801,800 General Fund monies in the DD Home and Community Based Services line item. Based on those March year-to-date expenditures, JLBC Staff agrees that a significant surplus will occur in that line item.

DES states that the primary reason for the surplus in DD Home and Community Based Services is a shift in expenditures from the state-only DD program to the LTC program and its effect on provider increases. Prior to April 1999, provider increases authorized in FY 1996 through FY 1999 were distributed as lump sum payments as identified in the original appropriations. When the provider rate increases were "rolled into" the contracts in April 1999, the ratio of units of service between DD and LTC changed, shifting more expenditures away from the DD program and onto the LTC program.

DES has stated that this transfer will not affect the $800,000 appropriated in FY 2000 for waiting list services. DES has not been able to answer, however, whether there are DD clients who are currently waiting for services for reasons of insufficient funding. It is the understanding of JLBC Staff that the current method of counting waiting list clients presents a highly inaccurate picture of how many clients may be waiting for services, why they are waiting for services, and how long they have been waiting for services.

Recommendation

The JLBC Staff recommends a favorable review of the expenditure plan for increased capitation rates in the Long Term Care program. The plan presented by the department reflects reasonable estimates for caseload and expenditure growth, though JLBC Staff continues to have concerns related to the fiscal control in DDD. JLBC Staff also recommends a favorable review of the proposed transfer of $2,605,000 from the Developmental Disabilities Home and Community Based Services line item to the Long Term Care Home and Community Based Services line item. The proposed transfer is one of the few options available which will allow the department to fund the FY 2000 deficit in the LTC program and help address outstanding FY 1999 LTC claims; JLBC Staff agrees that sufficient monies will be available for the transfer given current expenditures patterns.

At its previous meeting, the Committee requested that JLBC Staff work with the department to come up with an acceptable reporting timetable related issues of fiscal control in DDD. We have proposed the following two updates to the department:

- Update discussing the FFY 2001 capitation rate negotiation process and the short- and long-term methods to reduce DDD LTC expenditures (and results, if any), due August 1, 2000.
- Update discussing the approved FFY 2001 capitation rates and anything else related to DDD LTC expenditures, due November 1, 2000.

The department has agreed to provide the Committee with these updates, but is unsure of the likelihood of receiving a final FFY 2001 capitation rate by November 1, 2000.

RS:SSh:ss

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

Jane Dee Hull
Governor

1717 West Jefferson - P.O. Box 6123
Phoenix, Arizona 85005

John L. Clayton
Director

APR 20 2000

The Honorable Randall Gnant
Chairman, Joint Legislative Budget Committee
Arizona State Senate
1700 W. Washington
Phoenix, Arizona 85007

Dear Senator Gnant:

The Department of Economic Security respectfully requests to be placed on the May JLBC meeting agenda to: (a) Pursuant to Laws 1999, Chapter 1, 44th Legislature (1st Special Session), review the Department's expenditure plan for the Long Term Care System Fund and related appropriation transfers; and (b) review caseload reduction for Arizona Works pilot program to determine incentives earned by the Arizona Works contractor.

Karen McLaughlin, Administrator, Financial Services Administration, is prepared to discuss these issues in greater detail with Pat Mah and Stefan Shepherd prior to the committee meeting.

Please contact me at 542-5678 if you have any questions.

Sincerely,

Michael Koppelman
for John L. Clayton

c:

T. Betlach	OSPB
R. Stavneak	JLBC
B. Chapko	OSPB
M. Gottheiner	OSPB
P. Mah	JLBC
S. Shepherd	JLBC
K. Matzinger	800A
K. McLaughlin	838Z
Day File	838Z

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams *Telephone: (602) 542-5491*
Phoenix, Arizona 85007 *Facsimile: (602) 542-1616*

DATE: May 9, 2000

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY / AHCCCS - REPORT ON COMPETITIVE BID PROCESS FOR SERVICES TO THE DEVELOPMENTALLY DISABLED

Request

Pursuant to a request made by the Committee at its March 20 meeting, the Executive Branch has responded regarding its interest in pursuing a competitive bid for services to developmentally disabled (DD) clients, particularly on a pilot basis.

Recommendation

This item is for information only and no Committee action is required. Given JLBC Staff concerns related to fiscal management of DD programs, we believe competitively bidding for services to DD clients might offer improved service delivery. The Executive, however, prefers to complete certain statutory requirements before considering any competitive bid process for services to DD clients. Should fiscal management of DD programs not improve in the near future, this subject may be revisited at a later date.

Analysis

At the Committee's March 20 meeting, the Committee reviewed a summary from the Arizona Health Care Cost Containment System (AHCCCS). AHCCCS summarized the responses from potential vendors to a Request for Interest (RFI) it issued in November 1999 related to privatizing the administration of services provided to DD clients in the Arizona Long Term Care Services (ALTCS) program. The Department of Economic Security (DES) / Division of Developmental Disabilities (DDD) has contracted with AHCCCS to administer these services since ALTCS started serving DD clients in FY 1989. If privatized, the vendor could then further subcontract the actual provision of services, much as DES/DDD does for most of its services.

Based on responses to the RFI, AHCCCS could not determine whether a bid in a future Request For Proposals would be within the current budget. Given JLBC Staff concerns about DES/DDD fiscal management, the Committee on March 20 requested a formal response from the Executive Branch regarding its interest in pursuing a competitive bid for these services, particularly on a pilot basis.

(Continued)

On March 28, Tom Betlach, Director of the Governor's Office of Strategic Planning and Budgeting responded to the Committee's request (please see the Attachment.) In the letter, the Executive states that while the possibility of exploring a competitive bid process on a pilot basis "appears to be a reasonable means by which to further assess the feasibility of statewide implementation, the Executive would prefer to first complete other current statutory requirements." These requirements include a case management pilot project, the "published rate" field test, and a competitive bid for AHCCCS' Elderly and Physically Disabled ALTCS program. The letter also states that experience in behavioral health management under ValueOptions will provide an opportunity to determine if the competitive bid process is suitable for the DD program. The letter concludes by stating that while the Executive is "not opposed to the idea of pursuing the feasibility of a competitive bid process" for the DD program, the Executive is "opposed to proceeding at this time given the number of other mandated projects currently in process."

JLBC Staff agrees that the projects mentioned by the Executive could have a significant effect on the administration of DD services and could provide valuable information related to a competitive bid process for DD services. The case management pilot project is scheduled to begin on July 1, 2000 and end on July 1, 2002. The "published rate" field test was required to begin no later than December 31, 1999, but has not begun yet; we understand that the field test will begin shortly. Contracts related to competitively bidding for Elederly and Physically Disabled services will begin October 1, 2000.

Given JLBC Staff concerns related to fiscal management of DD programs, we believe competitively bidding for services to DD clients might offer improved service delivery. These concerns, raised in another memorandum for this meeting, as well as in memoranda for previous meetings, include difficulty managing expenditures within an actuarially-determined capitation rate. As noted above, the Executive prefers to complete certain statutory requirements before considering any competitive bid process for services to DD clients. Should fiscal management of DD programs not improve in the near future, however, this subject may be revisited at a later date.

Jane Dee Hull
Governor

GOVERNOR'S OFFICE OF
STRATEGIC PLANNING AND BUDGETING
1700 West Washington, Suite 500, Phoenix, Arizona 85007
(602) 542-5381 • FAX: (602) 542-0868

Thomas Betlach
Director

March 28, 2000

The Honorable Randall Gnant
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Senator Gnant:

Thank you for the opportunity to discuss our interest in pursuing a competitive bid process for the provision of services for the Developmentally Disabled program.

Richard Stavneak's letter of March 23, 2000 mentions the possibility of exploring a competitive bid process on a pilot basis. While this appears to be a reasonable means by which to further assess the feasibility of statewide implementation, the Executive would prefer to first complete other current statutory requirements:

- Laws 1999, 1st Regular Session, Chapter 292 requires the Department to implement a Case Management Pilot Project in at least two districts.
- Laws 1999, 1st Regular Session, Chapter 55 requires the Department to implement a field test for "Published rates."
- ARS 36-2940 requires AHCCCS to competitively bid for the Elderly and Physically Disabled (EPD) program effective October 1, 2000.

A final consideration in evaluating the decision is that behavioral health management under Value Options is in its infancy. While we continue to learn more about how to write contracts and manage this type of system, our experience in these programs will give us an opportunity to determine if the competitive bid process is suitable for the Developmentally Disabled program.

While we are not opposed to the idea of pursuing the feasibility of a competitive bid process for the Developmentally Disabled program, we are opposed to proceeding at this time given the number of other mandated projects currently in process.

Sincerely,

Thomas J. Betlach
Director

C: **Richard Stavneak, Director, JLBC staff**
John Clayton Director, Department of Economic Security
Phyllis Biedess, Director, AHCCCS

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams *Telephone: (602) 542-5491*
Phoenix, Arizona 85007 *Facsimile: (602) 542-1616*

DATE: April 11, 2000

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

THRU: Richard Stavneak, Director

FROM: Bruce J. Groll, Senior Research/Fiscal Analyst

SUBJECT: COMMUNITY COLLEGES – REPORT ON THE COMMUNITY COLLEGES' ARIZONA LEARNING SYSTEMS PRIVATE VENDOR CONTRACT

Request

The State Board of Directors for Community Colleges (State Board), on behalf of Arizona Learning Systems (ALS), is submitting to the Joint Legislative Budget Committee a report on the $2,427,600 private vendor contract to provide a statewide community college telecommunications infrastructure.

Recommendation

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

Analysis

ALS is an education technology alliance established between Arizona's 10 community colleges districts in future partnership with universities and K-12 systems for interconnecting and consolidating their telecommunication systems (video, voice and data) and tying individual community college districts' electronic delivery systems together. The premise of the ALS is a statewide telecommunications network that is built and owned by a common carrier who is willing to assume the capital costs, risks and amortization of the technology, and infrastructure maintenance. In exchange, each ALS institution will pay a monthly charge to the common carrier for their connection and service fees, a concept similar to that of a public utility.

Successful negotiation of a private vendor contract to procure a statewide telecommunications infrastructure for community college distance education delivery is the final requirement stipulated in the FY 1998 footnote for release of $2,427,600 previously appropriated state General Funds to implement the network. This information is presented to the JLBC as an information item only.

The full criteria specified in the General Appropriation Act footnote, as amended by Laws 1998, 4th Special Session, Chapter 1, Section 3, governing release of these monies and their completion dates in chronological order are as follows:

(Continued)

1. Presentation to the JLBC of a preliminary methodology for estimating the per-credit hour education costs (delivery and development) of ALS-delivered instruction including how ALS revenues and expenses impact Operating and Capital Outlay State Aid: Completed August 28, 1998.

2. Successful issuance of a joint request for proposal (RFP) by the ALS partnership member boards (State Board, Arizona Board of Regents, Arizona Department of Education (ADE)): Completed May 27, 1999.

3. Successful contract negotiation with a private vendor to provide the ALS infrastructure at a distance-insensitive price to ALS partners regardless of their location in Arizona: Completed March 17, 2000.

The ALS RFP review team, comprised of 17 members, included technology experts from the community colleges, the universities and K-12. Nine proposals were timely submitted. After extensive reviews, site visits and reference consultations, Management Applications Incorporated (MAI) and their telecommunication partner AT&T were unanimously selected on February 15, 2000 as the winning vendor to construct and manage the new ALS network. The ALS Presidents Council met the evening of February 16, 2000 to consider the RFP review team's recommendation to award a five-year contract to MAI and proceed with implementation. On a 9-0 vote, the ALS Presidents Council voted to approve the recommendation and forward it to the State Board for ratification at their next meeting. On March 17, 2000, the State Board unanimously ratified the Presidents Councils' recommendation.

ALS estimates that the $2,427,600 will provide full funding to bring all 10 districts' Phase I sites on-line, including infrastructure connections and video conferencing equipment, and cover operating and maintenance expenses for 2 years. In approving the contract with MAI, the community college districts unanimously agreed to use local resources to fund ALS through duration of the five-year contract.

ALS received initial Special Line Item funding of $1,100,000 for Technology Assisted Learning from the state General Fund in FY 1997. Technology Assisted Learning includes classroom computers, interactive television and distance education networks, and may also be a cost-effective means for accommodating some of Arizona's anticipated postsecondary enrollment growth. The Legislature added $1,656,000 to this amount in FY 1998, for a total appropriation of $2,756,000. A supplemental modification to the FY 1997 footnote (Laws 1998, 4th Special Session, Chapter 1, Section 3) exempted these funds from lapsing, released up to $328,400 for initial operating and system development costs, and removed the requirement of formal review by the JLBC of the vendor contract. The modified footnote reiterated that "…release of the $2,427,600 balance is dependent upon procurement of an infrastructure constructed by private industry and access to the network at a distance-insensitive price."

The contract with MAI, to facilitate construction of and manage the network is the outcome of a collaborative planning, development and RFP review process by the community colleges, public universities, ADE, and private industry. Implementation of ALS will enable new educational access in remote communities and provide educational services to college campuses and satellite centers throughout Arizona at a common rate, regardless of their location in the state.

RS:BJG:ss

STATE BOARD OF DIRECTORS FOR
COMMUNITY COLLEGES OF ARIZONA

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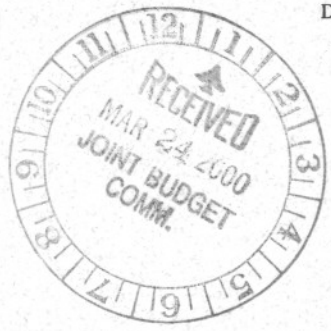

March 22, 2000

The Honorable Randall Gnant, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Senator Gnant:

At its meeting on March 17, 2000, the State Board of Directors for Community Colleges approved the award of a contract to Management Applications Incorporated (MAI) in response to the request for proposals issued on behalf of Arizona Learning Systems (ALS). A copy of the report to the State Board is attached.

This completes the criteria for releasing the $2.4 million appropriated to ALS, and we respectfully request that the funds be released and made available to Arizona Learning Systems through the State Board.

We are very pleased with the outcome of this procurement effort. The cooperation of each of the community college districts as well as representatives from State Government, the universities and public education in developing the RFP and in the evaluation of the responses is acknowledged and gratefully appreciated.

Sincerely,

Donald E. Puyear

Enclosure

cc: Representative Robert Burns, JLBC Co-Chairman
✓Mr. Richard Stavneak, JLBC Director
Dr. Bruce Groll, JLBC Fiscal Research Analyst

00-03-22-JLBC re ALS

ALS RFP
Report to the State Board
February 29, 2000

In 1999, ALS released a Request for Proposal (RFP) for a statewide telecommunications network. The RFP outlined 3 main criteria for the network:

1) Allow the combination of voice, video, and data to support distance learning
2) Capable of connecting community colleges , K-12 schools, and universities.
3) Be priced at a distance-insensitive rate (i.e. a single rate for any site in the entire state)

Criteria #2 and #3 were also requirements of the Joint Legislative Budget Committee which had appropriated $2.4 million to ALS contingent upon their completion.

On February 15, the ALS RFP Review Team recommended the award of the contract to Management Applications Incorporated (MAI), a systems integrator which has developed state and nationwide networks for both government and business. The MAI proposal meets all 3 of the above criteria at a lower cost than estimated in the RFP. On February 16, the ALS Presidents Council unanimously approved the recommendation and forwarded it to the State Board for its approval at the March meeting.

ALS and MAI

In serving as the company charged with implementing the ALS network, MAI will perform several different services:

1) Work with the telecommunications company to ensure smooth deployment of the network circuits
2) Procure and install all network and video conferencing equipment
3) Provide ongoing monitoring and management of the network

In order to perform these services, MAI has partnered with the necessary equipment (Cisco, VTEL) and telecommunications (AT&T) companies. Despite the diversity of these partnerships, MAI will act as the "single point of contact" in that it will be solely responsible for the implementation and performance of the network.

ALS is proposing a 5-year contract with MAI.

Network Architecture

The ALS network is based on a technology called Asynchronous Transfer Mode (ATM) which allows the combining of voice, video, and Internet onto a single network. ALS is recommending the initial use of a single T1 line for Internet and videoconferencing. As more capacity is needed, additional T1 lines can be added.

ALS will deploy the network in a "star typology" where one or two ALS sites in the metro areas serve as collection points or "hubs" in order to provide a gateway to the Internet or to combine, "bridge", video endpoints into one single state-wide class. All other ALS sites would connect virtually through the AT&T ATM network to one of these hubs.

ALS has divided the ALS Network project into three phases:

> *Phase I:* 10 sites, one from each community college district. This phase will serve as a pilot project and will be deployed immediately upon the signing of the contract. Using the funds currently held by JLBC, ALS will pay for all necessary network and video equipment as well as pay for circuit lease costs for 2 years. (see attached Figure 1).
>
> *Phase II:* Remaining community college sites (67) as selected by the individual districts. These sites may be deployed upon signing of the contract. Barring future state appropriations, these sites must use local dollars to connect. (See attached Figure 2).
>
> *Phase III:* K-12 districts, charter schools, and university sites. These sites may be deployed upon signing of the contract. Barring future state appropriations, these sites must use local dollars to connect.

MAI has recommended building an initial hub site in Phoenix for Phase I with a second hub site in Tucson during Phase II to handle the increased network load.

Network Performance

MAI will guarantee network performance through both service level agreements (SLA) and on-going network management. These SLAs take the form of the following criteria:

> *On-Time Provisioning:* If AT&T fails to meet or delays a Due Date for a Port or PVC, including delays related to the provisioning of AT&T provided access lines, but not including delays related or caused by the Customer, the Customer may: (1) cancel the order at no charge or (2) after the installation or

change is completed AT&T will credit the Customer's bill in an amount equal to one month's Monthly Charge.

Network Availability (NA): A Customer's AT&T ATM network will be available at least 99.99% of the time each calendar month.

Time to Restore (TTR): If AT&T fails to restore an outage of a PVC or Port within 4 hours after a Customer has reported the trouble, or within 8 hours if a technician is required to be dispatched to the Customer's premise, you will be entitled to a credit for such PVC or Port.

Transfer Delay (TD): The Transfer Delay performance objective for PVCs is no more than 120 Milliseconds of delay, measured round trip.

Data Delivery Ratio (DDR): For AT&T's ATM CBR, 99.99% of the frames received from the Customer's ingress Port will be delivered to the Customer's egress Port.

MAI will manage the ALS network and monitor these SLAs remotely through their Network Operations Center (NOC). This center is based in Virginia and is staffed 24 hours a day, 7 days a week. ALS will pay MAI a monthly fee based on the number of sites. In return, MAI will proactively monitor and manage the network and report outages in either the network or equipment in a matter of minutes. This will eliminate the need for either the instructor or local site to diagnose and fix any problems with the network.

Financials

The cost of the network is broken down by operating and startup costs.

Startup Costs: The startup costs for Phase I (see attached Table 1) are $787,845 in order to pay for site, network management, and hub equipment. Beyond Phase I, ALS estimates a per site startup cost of $55,000 (see attached Table 3). This will include a 15 seat videoconference room, network equipment, and added capacity at the video bridge.

In addition to these per site start-up costs, ALS expects an additional cost of $440,000 (see attached Table 4) to expand central operations both at the Phoenix and Tucson hubs in order to fully implement Phase II.

Operating Cost: The operating cost of the network on a per site basis decreases as deployment progresses from Phase I through II. In Phase I, the annual operating cost for each Phase I site is $55,309 (see attached Table 2). This amount includes both local costs and a prorated share of keeping the central/hub sites going.

Assuming full implementation of Phase II by the start of year 3, the annual per site operating cost falls to $35,024. This price drop is due to lower circuit costs to each district (a fall in the cost per T1 from $1,539 to $608 due to second hub site in the Tucson LATA) and greater distribution of central operating costs.

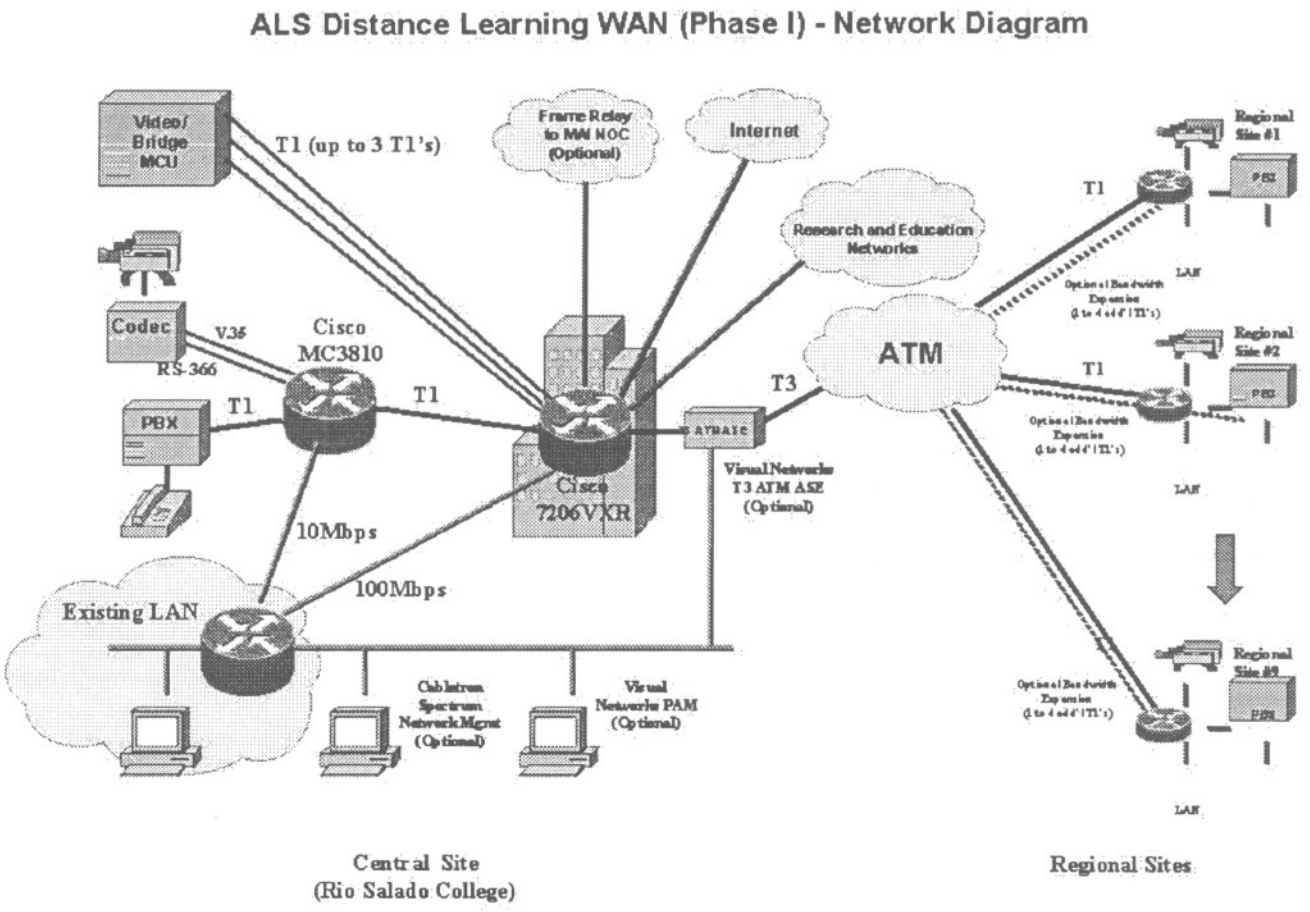
ALS Distance Learning WAN (Phase I) - Network Diagram
Video/ Bridge MCU
T1 (up to 3 T1's)
Frame Relay to MAN NOC (Optional)
Internet
Research and Education Networks
ATM
Codec
V.35
RS-366
Cisco MC3810
T1
PBX
T1
T1
T3
Cisco 7206VXR
ATM AIP
Virtual Networks T3 ATM ASE (Optional)
10Mbps
100Mbps
Existing LAN
Cabletron Spectrum Network Mgmt (Optional)
Virtual Networks PAM (Optional)
Regional Site #1
Regional Site #2
Regional Site #9
T1
T1
LAN
LAN
LAN
Central Site
(Rio Salado College)
Regional Sites

Figure 1

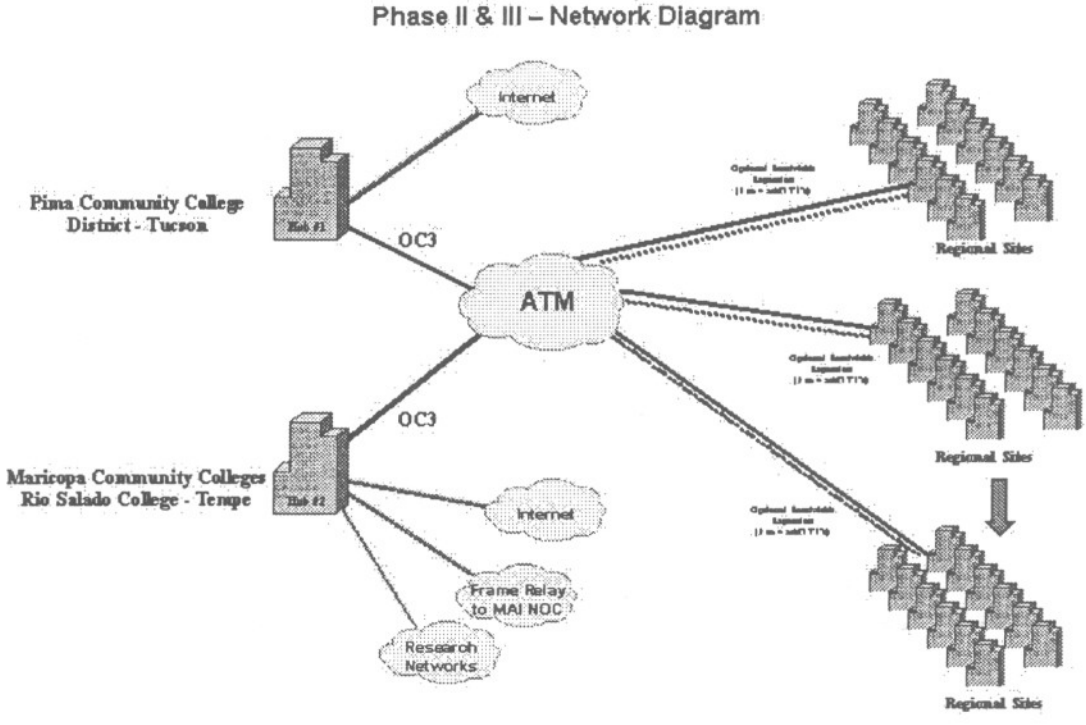
Phase II & III – Network Diagram
Internet
Pima Community College
District - Tucson
OC3
ATM
Regional Sites
Regional Sites
OC3
Maricopa Community Colleges
Rio Salado College - Tempe
Internet
Frame Relay
to MAI NOC
Research
Networks
Regional Sites

Figure 2

Table 1

5-Year Total Cost of Ownership for Phase I Sites (10)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Startup Costs	$787,845	$0	$0	$0	$0	$787,845
Recurring Costs	$553,093	$553,093	$553,093	$553,093	$553,093	$2,765,465
5 Year Total =						$3,553,310

Notes:

1) Startup Costs include: hub and edge routers, video room equipment and install, MCU, NOC set-up
2) Recurring Costs include: hub and edge circuit lease cost, management services, maintenance, Internet

Table 2

Yearly Operational Expenses for Phase I Sites

Phase I, II

	Year 1	Year 2	Year 3	Year 4	Year 5
District Circuit Lease	$18,468	$18,468	$7,308	$7,308	$7,308
District Equipment Maint.	$4,386	$4,386	$4,386	$4,386	$4,386
Central Network Costs	$16,932	$16,932	$10,111	$10,111	$10,111
Network Management	$3,600	$3,600	$3,000	$3,000	$3,000
Internet Service	$11,923	$11,923	$10,219	$10,219	$10,219
Total =	$55,309	$55,309	$35,024	$35,024	$35,024

Assumptions

1) Phase II is implemented in year 3
2) ALS will pay costs for first two years
3) Districts will share the direct costs of maintaining central equipment and circuits

Notes

1) District circuit lease costs assume single T1 per site over 5 year period
2) Central network costs are shared evenly among the ten districts

Table 3

Startup Costs for Additional Sites

Network Equipment	
Cisco 3810	$5,666
Video Equipment (est.)	
VTEL codec	$25,000
Assorted equipment	$15,000
Room install	$10,000
Total =	$55,666

Table 4

Phase II Central Startup Costs

	ea.	#	Total Cost
Network Equipment			
Cisco Lightstream 0101 (est.)	$80,000	2	$160,000
Cisco 7206	$34,193	1	$34,193
Video Equipment (est.)			
MCU/Bridge	$246,382	1	$246,382
			$440,575

Total =

Joint Legislative Budget Committee
Staff Memorandum

1716 West Adams *Telephone: (602) 542-5491*
Phoenix, Arizona 85007 *Facsimile: (602) 542-1616*

DATE: May 8, 2000

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

THRU: Richard Stavneak, Director

FROM: Tom Mikesell, Fiscal Analyst

SUBJECT: DEPARTMENT OF ENVIRONMENTAL QUALITY — REPORT ON THE VEHICLE EMISSIONS INSPECTION PROGRAM CONTRACT DEVELOPMENT PROCESS

Request

Pursuant to A.R.S. § 49-545H1, the Department of Environmental Quality (ADEQ) is reporting its activities for the quarter ending March 31, 2000, in developing the Request for Proposals (RFP) to select a contractor to operate the Vehicle Emissions Inspection program starting January 1, 2002.

Recommendation/Summary

This report is for information only and no action is required of the Committee. Development of the RFP's Scope of Work, Special Provisions Section, and Special Instructions to Offerors section has been completed. ADEQ is seeking a financial expert to evaluate the cost and pricing structures in the RFP and subsequent proposals from contractors. ADEQ is ensuring that testing times and throughput requirements in the RFP will be based on currently available data from implementation of the new IM 147 test procedure. Prior to selection, JLBC will have an opportunity to review the proposed contract.

Analysis

In March, ADEQ reported to the Committee on its progress in developing the RFP to be used in hiring a contractor to run the emissions testing program beginning January 1, 2002. At that time, ADEQ reported its preliminary work for the quarter ending December 31, 1999 included forming a Contractor Selection Committee, reviewing other states' RFPs, developing a framework for the Scope of Work, and establishing a tentative August 2000 target date for hiring a contractor.

(Continued)

In the quarter ending March 31, 2000, ADEQ continued the RFP development process. Development of the Scope of Work and Special Provisions section was completed in this quarter. The Scope of Work outlines what will be expected of the contractor, and tells the contractor what should be included in its proposal. The Special Provisions section includes a mechanism by which the contractor will provide real-time emissions testing data to the Motor Vehicle Division (MVD) to facilitate MVD's on-line registration process.

ADEQ also developed a Special Instructions to Offerors section, which tells potential contractors what data to include in their proposals to aid ADEQ's evaluation of each potential contractor's ability to provide an adequate testing network with attention to customer service, convenience, and cost. Also, ADEQ is taking steps to provide information to offerors on how the newly implemented IM 147 test affects motorist wait-times and station throughput. This will let contractors know what assumptions to use in developing a proposed testing network.

In addition to the efforts outlined above relating to the sections of the RFP, ADEQ is in the process of hiring a financial analyst who will aid in evaluating the cost and pricing structure of the RFP and subsequent proposals from potential contractors.

RS/TM:ag

REPORT OF THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY TO THE JOINT LEGISLATIVE BUDGET COMMITTEE ON THE VEHICLE EMISSIONS INSPECTION PROGRAM CONTRACT DEVELOPMENT PROCESS

For the Period of January 1, 2000 to March 31, 2000

During this period, ADEQ made substantial progress on the development of the Request for Proposals (RFP) for a new Vehicle Emissions Inspection Program contract to operate the vehicle inspection portion of the Program beginning January 1, 2002. Activities and issues addressed during this quarter are defined below.

ADEQ maintained working relationships in support of the contract development process with both the Attorney General's Office and the Department of Administration. Laurie Woodall, Assistant Attorney General has provided guidance to ADEQ in the contract development process. ADEQ has continued to inform the Department of Administration, State Procurement Office, representative, John Adler, Professional Services Unit Administrator, of our progress.

Contractor Selection Team

The contractor selection team continued to meet during this quarter, but on a less frequent basis. As discussed in the last report, during this quarter, the selection committee member from the Western State Petroleum Association retired. A replacement member is being sought to serve during the proposal evaluation phase.

Financial Analysis

The ADEQ determined that the services of a financial analyst are needed to evaluate the cost and pricing structure of the RFP and to assist in the evaluation of the proposals. ADEQ is currently in the process of securing an expert to assist in the evaluation of these portions of the RFP.

Scope of Work and Special Provision

The team completed development of the scope of work and special provisions sections of the RFP.

With the assistance of representatives from the Motor Vehicle Division (MVD) a provision for the contractor to provide a real time data exchange with MVD was developed. Under the existing contract, emissions compliance data is transmitted to MVD four time daily via batch processing. A real time exchange will improve customer service and facilitate MVD's on line registration process, Service Arizona. As a result of ADEQ's proactive approach with MVD, MVD has indicated that, "In our opinion, the need for our participation has greatly diminished. Consequently, from here on out we'll plan to participate, upon request. Please, feel free to involve us on issues you feel we can assist with."

The development team also worked with the ADEQ Office of Information Technology to define the contract responsibilities in coordinating websites to preclude duplication of effort, and insure the accuracy of program information and data.

Special Instructions to Offerers and Evaluation Strategies

During the quarter a section of the RFP titled Special Instructions to Offerors was developed. The section provides guidance to bidders about the evaluation process and the specific requirements for submission of proposals. ADEQ determined what information and data are necessary for the committee to determine the adequacy of a proposal. Of primary concern is that offerors provide information that will allow a determination of the adequacy of the proposed network of inspection stations, that stations are conveniently located, and that overall and individual station capacities are sufficient to insure convenient customer service through the term of the contract. Additionally, the committee needs to be assured that bidders are capable of operating a program of this size. Once a bidder is determined to be adequate, cost becomes a very high consideration.

IM147 Implementation and Performance Issues

The new transient emissions test, IM147, was implemented in January, 2000. The IM147 allowed the ADEQ to initiate more stringent vehicle emission standards, to further improve air quality. Incorporation of the pre-conditioning feature of IM147 increases test time, resulting in lower throughput from that of IM240. Test time and throughput is critical to the design of an adequate network of inspection stations. Initial analysis of the January IM147 test data showed that the failure rate was below expectations. Further analysis indicated that revisions to the standards, particularly for Hydrocarbons and Oxides of Nitrogen, would be necessary. The RFP has been revised to make available up to date information on actual field performance of IM147. As additional data on the actual performance of IM147 becomes available, offers will be advised. Offerors can then be prepared to design an inspection network based on acceptable test time and throughput data.

Compliance with Statutory Requirements

In drafting the RFP, it was important to ADEQ to assure that the RFP is in compliance with the specific requirements of A.R.S. 49-545, Agreement with the independent contractor; qualifications of the contractor; agreement provisions. ADEQ developed a list of the requirements and a list of the part of the RFP that met the requirement. We refer to this as a "statutory crosswalk" and it is attached to this report.

Statutory Crosswalk - A.R.S. § 49-545

Section	Requirement	Where RFP meets the requirement (Section number references refer to the current draft of the RFP - this numbering may be changed)
(A) 1st sentence, 1st clause	Can enter into emissions inspection agreement subject to public bidding	This is met through the RFP process
(A) 1st sentence, 2nd clause, 1st part	Provide for the construction, establishment, maintenance and operation of stations...	I/M Program Requirements, Data Management Requirements, and Equipment Requirements Sections of the Scope of Work (Sections 2, 3, and 4)
(A) 1st sentence, 2nd clause, 2nd part	...in such numbers and locations as may be required for reasonably convenient access to inspection stations	Network Design (Section 2.1 of the Scope of Work). See also the Method of Approach to the Scope of Work(Section 3.6 of the Special Instructions to Offerors)
(A) 2nd sentence	Agreement may provide for fixed or mobile stations	Opted for fixed stations in I/M Program Requirements (Section 2 of the Scope of Work).
(B)(1)	Prohibits us from entering into contract with vehicle manufacturers, sellers, and repairers from being the contractor	Certification regarding Offerors Business (Section 3.4 of the Special Instructions to Offerors). See also Prohibition on Engaging in Certain Businesses (Section 17.9 of the Special Terms and Conditions)
(B)(2)	Cannot contract with party that would not be able to adequately perform	Evaluation (Section 5 of Special Instructions to Offerors).
(C) 1st sentence	Employees of contractor not state employees	Employees of Contractor (Section 4.2 of the Special Terms and Conditions). See also Relationship of Parties (Section 2.4 of Uniform Terms and Conditions).
(C) 2nd sentence	No badges, insignia, etc. that would indicate that contractor employees are State employees.	Personnel Attire (See Section 2.5.14 of the Scope of Work)
(D)(1) 1st clause	Contract term of 7 ½ years	Term of Contract (Section 17.4 of the Special Terms and Conditions)
(D)(1) 2d clause	Reasonable compensation if VEI program repealed	Termination or Repeal of Car Care Program (Section 13 of the Special Terms and Conditions)
(D)(2)	Nothing in Contract requires State to purchase assets or assume liabilities	Provision for Assignment of Contractor's Rights (Section 11.3 of Special Terms and Conditions)

Statutory Crosswalk - A.R.S. § 49-545

(D)(3)	Minimum requirements for staff, equipment, management, and hours and place of operation	Staff - Car Care Program Operation (Section 2.5 of the Scope of Work) Equipment - Equipment Requirements and Acceptance Test Procedure (Section 4 and 5 of the Scope of Work) Mgmt - Car Care Program Operation (Section 2.5 of the Scope of Work) Hours - Car Care Program Operation (Section 2.5 of the Scope of Work) Place - Network Design (Section 2.1 of the Scope of Work).
(D)(4)	Submission of Reports	Data Management Reporting Requirements (Section 3.2 of the Scope of Work)
(D)(5)	Surveillance by ADEQ and Office of the Auditor General	Car Care Program Operation (Section 2.5.8 of the Scope of Work)
(D)(6)	Right to terminate program to allow State to run program	Supplantation (Section 12 of Special Terms and Conditions)
(D)(7)	Right of state on termination of Contract term or on assumption of operation to have transfer of rights for reasonable compensation from Contractor	Termination or Repeal of Car Care Program (Section 13 of Special Terms and Conditions)
(D)(8)	Right of State on termination of Contract term or on assumption of operation to have Contractor obligations transferred	Provisions for Assignment of Contractor's Rights (Section 11 of Special Terms)
(D)(9)	Contractor to have certain terms in their agreements to allow for transfer to State	Provisions for Assignment of Contractor's Rights (Section 11 of Special Terms)
(D)(10)	Amount of liquidated damages payable to Contractor if State terminates Contract in 1st-4th year of Contract under (D)(6). Amount of damages limited to liquidated damages	Termination or Repeal of Car Care Program (Section 13 of Special Terms and Conditions)
(D)(11)	Any other necessary provisions	Those portions of Scope of Work and Special Terms and Conditions not specifically mandated by statute
(E) Tot clause	Establish bid specs or contract terms in conjunction with AGO and DOA	Done, but no specific reference
Section	Requirement	Where RFP meets the requirement

Statutory Crosswalk - A.R.S. § 49-545

(E) 2nd & 3d clauses	Evaluate and negotiate in conjunction with AGO and DOA	Will do, but no specific reference
(F)	No additional consideration in evaluation solely on basis of conditioning mode proposed in bid	Evaluation (Section 5 of the Special Instructions)
(G) 1st sentence	ADEQ to inquire into market and select best contractor.	Will be done through RFP process
(G) 2nd and 3rd sentences	ADEQ may modify contract after award to make compliance feasible. Modifications exempt from public bidding.	Contract Amendment (Section 17.7 of the Special Terms and Conditions)
(G) 4th sentence	May modify Contract term after award, with certain restrictions for existing Contracts	Contract Amendment (Section 17.7 of the Special Terms and Conditions)
(G) 5th sentence	Contract modifications subject to JLBC review	Will comply
(G) 6th sentence	May terminate Contract if ADEQ cannot negotiate acceptable changes	Contract Amendment (Section 17.7 of the Special Terms and Conditions)
(H)(1)	ADEQ must report to JLBC	Have complied and will continue to comply
(H)(2)	Contract terms must be reviewed by JLBC before advertising RFP	Will comply
(H)(3)	Modification or amendment to Contract needs JLBC review	Contract Amendment (Section 17.7 of the Special Terms and Conditions)

Joint Legislative Budget Committee

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

March 20, 2000

The Chairman called the meeting to order at 8:00 a.m., Monday, March 20, 2000, in Senate Appropriations Room 109. The following were present:

Members:	Senator Randall Gnant, Chairman	Representative Bob Burns, Vice-Chairman
	Senator Arzberger	Representative Blewster
	Senator Bowers	Representative Daniels
	Senator Cirillo	Representative McGrath
	Senator Lopez	Representative McLendon
	Senator Wettaw	Representative Weason
Absent:	Senator Bundgaard	Representative Gonzales
	Senator Jackson	Representative McGibbon
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Chris Earnest	Gina Guarascio
	Indya Kincannon	Pat Mah
	Lorenzo Martinez	Tom Mikesell
	Stefan Shepherd	Lynne Smith
Others:	Debbie Spinner	Attorney General's Office
	John Wolfinger	Attorney General's Office
	Chuck Pyle	Attorney General's Office
	Frank Hinds	ADOA, Risk Management
	Andy Genualdi	Department of Economic Security
	John Clayton	Department of Economic Security
	Bob Rocha	AZ Department of Administration
	Clark Partridge	AZ Department of Administration
	Cecilia Dahl	AZ Department of Administration
	Carolyn Friedman	AZ Department of Administration
	Nancy Wrona	AZ Department of Environmental Quality
	Tom Betlach	OSPB

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of February 7, 2000, Senator Gnant stated that the minutes would be approved as submitted.

EXECUTIVE SESSION

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

At 8:05 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 8:28 a.m. the Committee reconvened into open session.

Representative Burns moved that the Committee approve the recommended settlement proposals by the Attorney General's Office in the following cases.

1. Sergio B. (Bogutz) v. Ellis
2. Kavoosi v. State; ABOR; UOA

The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)
A. Approval of Rates of Reimbursement for State Travel by Motor Vehicle and Lodging and Meal and Incidental Expenses

Richard Stavneak, Director, JLBC, said that a new JLBC Staff member, Gina Guarascio, was available for detailed questions, however, this is a case where the JLBC Staff does not have the same recommendation as ADOA. It is a lower dollar rate for in- and out-of-state meals. The JLBC Staff has adjusted the rate for the rate of inflation.

Senator Gnant asked what ADOA's response was to the suggestion.

Gina Guarascio, JLBC Staff, said that she believes the department concurs for the most part. They have some hesitation about the JLBC Staff out-of-state meal recommendation. She indicated that ADOA was available to address their concern.

Bob Rocha, State Comptroller, ADOA, said that ADOA would prefer to use the federal rate structure for out-of-state meal reimbursement. A 4.9% increase such as the JLBC Staff is recommending is difficult to administer because the federal rates vary by city. There are a large number of cities that the state really does not travel to, and an increase in rates to those cities would not have much effect. On the other hand, there are several cities that are well traveled by state employees, and an adjustment that does not equal the federal rate may mean that the reimbursement rate will not be adequate for those travelers. This is why ADOA would rather have a more standard, more efficient way of administering this reimbursement rate.

Senator Cirillo asked how you would equate going from 31¢ to 32.5¢ when the price of gas has gone up almost a dollar. Mr. Rocha said that it is the federal rate and if they went higher than the federal rate it would become a tax issue for the traveler. He said they do not want to burden themselves or the traveler with additional administration. If the federal government increases the rate accordingly then ADOA would be back before the JLBC to seek an additional increase.

Representative Burns moved that the Committee accept the JLBC Staff recommendation to approve the maximum lodging, meals/incidental expense and mileage reimbursement rates effective May 1, 2000 for Travel - In State and Travel - Out of State as shown below. The motion carried.

Lodging	$55-215
In-State meals per day	$29.50
Out-of-State meals per day	$28-42
Mileage reimbursement	32.5¢

B. Review Revision of Classification Maintenance Review (CMR) Adjustment.

Richard Stavneak said that this issue was a technical matter of $4,600.

Representative Burns moved that the Committee accept the JLBC Staff recommendation to give a favorable review to ADOA's request to expend up to $9,900 in unallocated General Fund monies remaining from the FY 2000 appropriation of CMR adjustments. After ADOA makes corrections to the CMR adjustments, remaining monies will revert to the General Fund. The motion carried.

AUTOMOBILE THEFT AUTHORITY - Review Expenditure Plan

Indya Kincannon, JLBC Staff, was available for questions. There were none.

Representative Burns moved that the Committee accept the JLBC Staff recommendation to give a favorable review to the agency's expenditure plan to spend an additional $391,300 on a grant to the Arizona Vehicle Theft Task Force to fund its ongoing operations. The motion carried.

ARIZONA STATE UNIVERSITY (ASU) - Approval to Transfer Nutrition Program from Main Campus to East Campus

Lorenzo Martinez, JLBC Staff, was available for questions.

Representative McGrath commented that ASU wants money for expansion of their campuses both at ASU East and West and this year they purchased the most expensive piece of real estate in the state, the Mercado. They paid $8.2 million for it, and they plan to spend a little over $2 million renovating it. If they would sell the Mercado, there would not be any worries about their building and expansion.

Representative Burns moved that the Committee accept the JLBC Staff recommendation to approve ASU's request to transfer the Nutrition Program and associated resources from the ASU Main Campus to the ASU East Campus effective July 1, 2000. The motion carried.

FTE Positions	**11.0**
Personal Services	$408,700
Employee Related Expenditures	72,700
All Other Operating	22,200
TOTAL	**$503,600**
Fund Sources:	
General Fund	$10,400
University Collections Fund	493,200
TOTAL	**$503,600**

DEPARTMENT OF ECONOMIC SECURITY (DES) -
A. Review ReDESign Contract for Phase II

Pat Mah and Stefan Shepherd, JLBC Staff, were available for questions. There were none.

Representative Burns moved that the Committee accept the JLBC Staff recommendation to give a favorable review to the ReDESign contract for Phase II. The Committee also requested that DES bring the Phase III contract before the Committee for its approval prior to its signing, but after the Government Information Technology Agency, the Information Technology Authorization Committee, and the Governor's Office of Strategic Planning and Budgeting have given Phase III their approval. The motion carried.

B. Fiscal Reporting and Accountability Issues

Mr. Stavneak said that this item was brought to the agenda at the Chairman's request because of fiscal accountability issues regarding DES. He stated that JLBC Staff summarized some of the issues in their memo and invited Mr. John Clayton, Director of DES, to address the Committee.

Senator Wettaw said he was glad that this issue had come up. He said that DDD provided increases which ignored the Legislature's action. He indicated that some of the increases should have been given, but that they should come through the appropriation process. He also mentioned that there should be a look at non-essential spending, not just a hiring freeze.

Senator Gnant asked Mr. Clayton if he has had time to form any conclusions as to the nature and the amount of reporting DES has to do.

Mr. John Clayton, Director, DES responded that he believes DES does a great deal of reporting. He would like to look at the reports they provide and see if consolidation is possible. Mr. Clayton said that reporting was not actually the issue, it is accountability. He stated that they have to be more accountable for the way in which they spend their money. As Director, he would like to advocate for the budget needed to serve their clients, then have the Legislature make the decision as to how much DES will be appropriated. Once that decision is made, they can go back and look at the level of service they are going to provide. If they cannot provide the services within the appropriation, DES should put programs in place to spend within the appropriation. Mr. Clayton stated that it is irresponsible to keep spending, knowing they will have to come back before the Legislature to ask for more money. He wants to vigorously analyze what DES needs to run the programs and request a budget that is responsible, but that actually meets the needs of the people. Once the Legislature decides on how much they are going to get, he will adjust those programs to make them fit within the budget.

In terms of reporting, the 25th of the month report seems reasonable. The timing has been an issue in the past but he said the Committee would see a change, that the reports would come in on time.

Senator Gnant said that on an ongoing basis, the Committee can assume that reports due on certain dates will be received on those dates. Senator Gnant asked Mr. Clayton to communicate to the Committee if he feels some consolidation should take place or if the timing schedule or the frequency could change. He said the Committee will listen carefully as to what Mr. Clayton has to say. All of the members would rather see Mr. Clayton dealing with the problems at hand rather than dealing with reports, understanding a certain amount of reporting is necessary. Mr. Clayton said he would like to be able to report back at the next meeting on what reports could be consolidated.

Mr. Clayton stated that one issue that they have to deal with in DDD is negotiating capitation rates. He felt they have not done very well in negotiating those rates. He felt they need to get the information to the decision makers early enough so they know, going into the budget cycle, exactly what expenditures the capitation rate is going to be based on. Mr. Clayton said they do not have a capitation rate for the current

fiscal year at this point in time. He said they need to do a better job to make sure they have the right people managing their budget. He does feel they have some good people in place. They recently hired Mr. Andy Genualdi to help with DDD. He has a stellar reputation in terms of helping to run the department and will be assisting until they can recruit someone on a full-time basis.

Senator Gnant asked Mr. Clayton to address the adoption issue. Mr. Clayton said they put out an RFP. The people that responded to the RFP put some information in that the Attorney General's office determined to be non-responsive so they had to essentially re-issue the RFP. At the time that it was re-issued, DES had additional money. Because of the long list of children needing to be adopted, they decided to try a new method on an experimental basis to see if they could get more children adopted. DES will issue an RFP for the next fiscal year that falls within the budget that DES will have allocated to them. They will make sure that they meet the budget this fiscal year also. They will not be asking for more General Fund money for any of these issues that they are dealing with.

Senator Wettaw commended the Director for working to make some positive changes within the Department. However, he expressed concerns about the department's decision to expend the additional money that Mr. Clayton said was for adoption.

Senator Bowers asked about the relationship between DDD per person expenditures and the contract rate negotiations which were affected by the direct care staff appropriation. Mr. Stavneak said that DES receives a capitation rate through the AHCCCS program for each client. They negotiate that rate with AHCCCS, who works on behalf of the feds. There is this capitation rate that is negotiated with AHCCCS and at the same time DES is negotiating with providers for direct care staff to determine its expenditures. The capitation rate you receive from the feds has to equal total expenditures, but they are actually two separate transactions.

Senator Bowers asked if there were things that kind of bounce around that the Committee never hears about that might in fact affect the total budget picture. Mr. Stavneak said that that is correct. When you give them a direct care appropriation increase, that means that the capitation rate that is negotiated with the feds has to be adjusted accordingly so that the dollars are there to pay for it. This ensures that the federal government is ending up paying for its share of any direct care staff pay increase.

Mr. Andy Genualdi, Acting Administrator, Business Operations, DES, stated that in talking with providers, he found that turnover has dropped for some direct care staff. Therefore people that had been waiting for services before are now receiving those services, leading to increased expenditures. However, there are still a number of people who have requested services that are not able to receive them because of turnover in the lighter agencies.

Senator Gnant stated that he looks forward to working out the whole relationship between the staff and the Legislature so that the staff can get their work done and be comfortable that it is being done right. He also does not want the requirements of the Committee to be too cumbersome.

Mr. Stavneak noted that no Committee action is required, but relative to the comments made by Senator Gnant, the JLBC Staff is recommending that DES, at least for the next several months, provide the Committee with an update in regards to what is happening is this area. The significance of that is they are trying to negotiate a capitation rate. If they do not get that capitation rate, there is going to be some element of disruption in the DD system and DES overall.

Senator Gnant said that rather than setting up a reporting schedule with specific dates and times, he would like JLBC Staff to work with the department to set up mutually agreed upon dates and times.

AHCCCS - Report on Request for Interest (RFI) on Competitively Bidding for Developmentally Disabled Services

Mr. Stavneak said that this item is connected with the last item. There has been an ongoing issue of whether or not we should contract out the services of DDD. Last August the Committee reviewed this issue and a Request for Information (RFI) was released. There were some bidders who were interested. There is no action required, however, the JLBC Staff suggests that the Committee ask the Executive what their formal position is with regard to the prospect of contracting out the DDD operations.

Representative Burns brought up a matter of clarification stating that we already contract with providers to provide the actual service. He asked if this issue was only the administrative function. Mr. Stavneak said that that was correct.

Senator Arzberger commented that he thought this had been done before with ComCare and it did not work. He felt the Committee needed more oversight.

There was discussion on how the Committee should proceed with this issue. Senator Gnant thought it appropriate to ask the Executive what their plans were.

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

Richard Stavneak stated that this is solely a report and that no action is required.

Senator Cirillo said that he is still waiting for feedback from the Vehicle Emissions Study Committee. Almost a year ago the Legislature, in Special Session, established this committee to look at the effectiveness of vehicle emissions from a purely technical point of view. He has never heard anything from that committee. Senator Wettaw asked if there were any minutes from that committee. Representative McGrath asked if there had been any thought into having a decentralized testing program, testing at service stations and garages. She understood that quite a few states use that kind of program and it works quite well.

Chris Earnest, JLBC Staff, said that was one of several options the study committee, that Senator Cirillo referred to, looked at this summer. He said that this proposal does not include that; it would be a proposal to continue the program as it is.

Senator Bowers said that the state status with Environmental Protection Agency would have to change to consider the decentralized option.

Representative Blewster commented that she hates to see new programs added and would like to make this program more attainable by everybody. With the improvements that are being made, she stated that she would like to see the program done away with, if that was possible.

Without objection, the meeting adjourned at 9:00 a.m.

Respectfully submitted:

_____
Cheryl Kestner, Secretary

_____
Richard Stavneak, Director

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Senator Randall Gnant, Chairman

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