

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ANDY BIGGS
CHAIRMAN 2012
PAULA A. ABOUD
OLIVIA CAJERO BEDFORD
RICH CRANDALL
LORI KLEIN
RICK MURPHY
STEVEN B. YARBROUGH
VACANT

1716 WEST ADAMS
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HOUSE OF
REPRESENTATIVES

JOHN KAVANAGH
CHAIRMAN 2011
LELA ALSTON
STEVE COURT
JOHN M. FILLMORE
JACK W. HARPER
MATT HEINZ
RUSS JONES
ANNA TOVAR

JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, June 9, 2011

9:30 A.M.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of April 14, 2011.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
 - A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
 - B. Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee and Retiree Health Plans as Required under A.R.S. § 38-658A.
- 1. [REVIEW OF REQUESTED EXCHANGE OF FUND TRANSFERS.](#)
- 2. [AHCCCS - Review of Revised Acute Care Capitation Rate Changes - Agency Request.](#)
- 3. [ATTORNEY GENERAL - Review of Allocation of Settlement Monies.](#)

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

5/31/11

sls

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

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

April 14, 2011

The Chairman called the meeting to order at 9:00 a.m., Thursday, April 14, 2011, in House Hearing Room 4. The following were present:

| | | |
|----------|-----------------------------------|------------------------------|
| Members: | Representative Kavanagh, Chairman | Senator Biggs, Vice-Chairman |
| | Representative Alston | Senator Aboud |
| | Representative Fillmore | Senator Cajero Bedford |
| | Representative Harper | Senator Crandall |
| | Representative Jones | Senator Klein |
| | Representative Tobin | Senator Murphy |
| | | Senator Yarbrough |

Absent: Representative Heinz
Representative Tovar

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of December 14, 2010, Chairman John Kavanagh stated that the minutes would stand approved.

EXECUTIVE SESSION

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

At 9:05 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 9:38 a.m. the Committee reconvened into open session.

Senator Biggs moved that the Committee approve the recommended settlement proposals by the Attorney General's Office in the cases of:

- *Blakey v. State, et al.*
- *Valenzuela v. State*

(Continued)

The motion carried.

ADOPTION OF COMMITTEE RULES AND REGULATIONS

Mr. Richard Stavneak, JLBC Staff, stated that the rules and regulations remain the same as last session with 2 exceptions: 1) Given the difficulty of acquiring a quorum during the interim, the Committee would delete the requirement that there be a quarterly meeting although that is the ongoing intent. 2) The JLBC Staff Director's salary could be set by either the Committee or the Chairman and Vice Chairman.

Senator Biggs moved that the Committee adopt the revised JLBC Committee Rules and Regulations.
The motion carried.

STATE LAND DEPARTMENT - Review of Establishing Fees in Rule.

Mr. Ted Nelson, JLBC Staff, stated that this item is a review of the State Land Department's fee amounts. Laws 2010, 2nd Regular Session, Chapter 243 requires that the Committee review the department's fees when they are established by rule. The JLBC Staff recommended a favorable review.

Senator Biggs moved that Committee give a favorable review to the State Land Department's request to establish its current statutory fees in rule. The motion carried.

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

Mr. Jack Brown stated this item is for approval of an index for School Facilities Board (SFB) construction costs. A.R.S. § 15-2041D3(c) requires that the cost-per-square-foot factors used in SFB formulas be adjusted at least once annually for construction market conditions. Any adjustment made would have no short-term fiscal impact as the FY 2012 budget includes both the suspension of the building renewal formula and also a new school construction moratorium. The JLBC Staff presented options to the Committee.

Senator Biggs moved that the Committee approve a 0% adjustment in the cost-per-square-foot factors, based on the latest 1-year change in the Rider Levett Bucknall (RLB) national construction cost index.
The motion carried.

ATTORNEY GENERAL (AG) - Review of Allocation of Settlement Monies.

Mr. Richard Stavneak, stated this item is a review of allocation of settlement monies from 5 settlements:

- 1) A \$3,471,900 settlement resulting from an agreement with Wells Fargo Bank as a result of alleged misrepresentations in the marketing of adjustable rate mortgages, of which \$2,168,500 will be deposited into the Court Ordered Trust Fund and \$1,303,400 will go toward AG costs and investigative expenses;
- 2) A \$1,500,000 settlement from a consent judgment with Home Loan Center as a result of alleged misrepresentations in the marketing of adjustable rate mortgages, of which \$1,150,000 will be deposited into the Court Ordered Trust Fund, \$300,000 will go toward AG costs and investigative expenses, and \$50,000 will go to the Department of Financial Institutions;
- 3) A \$188,800 settlement from a consent judgment with Amerix Corp. as a result of alleged deceptive practices while offering and selling debt management services, which will be deposited into the Consumer Fraud Fund;

(Continued)

- 4) A \$861,100 settlement from a consent judgment with Dannon Co. as a result of alleged misleading product advertising, which will be deposited into the Court Ordered Trust Fund; and
- 5) A \$185,000 settlement from a consent judgment with DirecTV Inc. as a result of alleged misleading advertising, which will be deposited into the Consumer Fraud Fund.

The JLBC Staff recommended a favorable review.

Senator Biggs moved that the Committee give a favorable review to the Attorney General's allocation plans of settlement monies totaling \$6,206,800. The motion carried.

Without objection, the meeting adjourned at 9:45 a.m.

Respectfully submitted:

Sandy Schumacher, Secretary

Richard Stavneak, Director

Representative John Kavanagh, Chairman

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

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DATE: June 2, 2011

TO: Representative John Kavanagh, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Deputy Director

SUBJECT: Review of Requested Exchange of Fund Transfers

Request

The FY 2011 and FY 2012 General Appropriation Acts require the Joint Legislative Budget Committee (JLBC) to review agency requests to transfer monies between their own funds in order to comply with FY 2011 transfers required by these acts. The Arizona Department of Administration (ADOA), the Arizona Department of Education (ADE), the Department of Environmental Quality (ADEQ), the Arizona State Parks Board, and the Arizona Department of Transportation (ADOT) have requested Committee review of fund transfers pursuant to these bills.

These fund exchanges were intended to resolve situations in which a fund with insufficient cash to achieve the mandated fund transfer could get additional monies to ensure that transfer was completed and were not intended to resolve other issues.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of some or all of the proposed exchange of fund transfers.
2. An unfavorable review.

While most of the agency requests comply with statutory intent, several of the transfers may not.

- A. Transfers into ADEQ's Solid Waste Fund above \$369,500. ADEQ is seeking to transfer \$627,900 into the Solid Waste Fund, which would more than offset the fund's \$369,500 transfer to the General Fund. The statute does not envision this type of excess sweep to build up the Solid Waste Fund balance over and above its General Fund transfer.

(Continued)

- B. The Parks Board proposal to replace the State Lake Improvement Fund (SLIF) transfer with monies from the State Park Enhancement Fund (SPEF). SLIF has sufficient funds for the transfer to the General Fund. The Parks Board, however, would like to retain these non-appropriated funds for State Park capital projects, including repair and maintenance.

As an alternative, the JLBC could favorably review the transfer but request that the Parks Board submit their SLIF capital projects for review by the Joint Committee on Capital Review.

- C. The ADOT proposal to replace the Arizona Highways Magazine Fund transfer with monies from the Transportation Department Equipment Fund. ADOT has not yet answered JLBC Staff questions regarding the need for the transfer as the Arizona Highways Magazine Fund currently has a greater fund balance than the Transportation Department Equipment Fund.

Analysis

Table 2 summarizes the requested fund transfer exchanges for each agency.

Arizona Department of Environmental Quality

ADEQ has requested transferring \$627,900 of monies into the Solid Waste Fee Fund. The total amount required to be swept out of the Solid Waste Fee Fund, however, is only \$369,500. The department is trying to replenish the Solid Waste Fee Fund for reasons unrelated to their FY 2011 transfer.

Given that the statutory intent is to backfill for insufficient balances, the Committee has the option to recommend limiting the transfers to the Solid Waste Fee Fund to \$369,500.

Arizona State Parks Board

Laws 2011, Chapter 24 requires the Parks Board to transfer \$1.49 million from SLIF. SLIF generates revenue primarily from the Highway User Revenue Fund based on a formula that estimates state gasoline taxes paid for boating purposes and is used to fund projects at boating sites.

The Parks Board is instead requesting to transfer this same amount from the State Parks Enhancement Fund (SPEF). SPEF generates revenue from state parks user fees and concession sales and can be used for parks operations or capital projects.

SLIF, the source of the mandated transfer, has sufficient funds to complete the transaction without shifting the transfer onto SPEF. As displayed in *Table 1* below, the SLIF and SPEF balances would still have sufficient balances at the end of FY 2012, although the SPEF balance is larger.

| Table 1 | | |
|------------------------|----------------------------------|-------------------------------|
| FY 2012 Ending Balance | | |
| <u>Fund</u> | <u>Without Fund Exchange</u> | <u>With Fund Exchange</u> |
| SPEF | \$6,422,600 | \$4,931,500 |
| SLIF | \$1,240,300 | \$2,731,400 |

The Parks Board states a \$1.24 million SLIF balance at the end of FY 2012 without the fund exchange would be an historical low and they would like to retain more funds for maintenance and repair costs.

SLIF is a non-appropriated fund. The Parks Board appears to be seeking to place more monies in a non-appropriated account to provide additional resources for repairs within state parks. The Committee has the option to unfavorably review the SLIF transfer.

(Continued)

| Table 2 Requested FY 2011 Fund Transfer Exchanges | | | |
|--|---|---|--|
| <u>Original Fund</u> ^{1/} | <u>Original Transfer Amount</u> ^{2/} | <u>Agency Proposed Fund</u> ^{3/} | <u>Revised Transfer Amount</u> ^{4/} |
| Arizona Department of Administration | | | |
| Telecommunications Fund | <u>\$1,090,000</u> | Risk Management Fund | <u>\$1,090,000</u> |
| <i>Subtotal</i> | <i>\$1,090,000</i> | | <i>\$1,090,000</i> |
| Arizona Department of Education | | | |
| Internal Services Fund | \$ 791,900 | Special Education Fund | \$ 791,900 |
| Production Revolving Fund | 355,800 | Special Education Fund | 355,800 |
| Teacher Certification Fund | <u>372,500</u> | Special Education Fund | <u>372,500</u> |
| <i>Subtotal</i> | <i>\$1,520,200</i> | | <i>\$1,520,200</i> |
| Arizona Department of Environmental Quality | | | |
| Indirect Cost Fund | \$ 800,000 | Air Quality Fund | \$ 800,000 |
| Indirect Cost Fund | 500,000 | Underground Storage Tank Revolving | 500,000 |
| Institutional and Engineering Control Fund | 37,300 | Underground Storage Tank Revolving | 37,300 |
| Solid Waste Fee Fund | 60,600 | Underground Storage Tank Revolving | 60,600 |
| Solid Waste Fee Fund | 250,000 | Underground Storage Tank Revolving | 250,000 |
| Solid Waste Fee Fund | <u>317,300</u> | Recycling Fund | <u>317,300</u> |
| <i>Subtotal</i> | <i>\$1,965,200</i> | <i>Subtotal</i> | <i>\$1,965,200</i> |
| Arizona State Parks Board | | | |
| State Lake Improvement Fund | <u>\$1,491,100</u> | State Parks Enhancement Fund | <u>\$1,491,100</u> |
| <i>Subtotal</i> | <i>\$1,491,100</i> | | <i>\$1,491,100</i> |
| Department of Transportation | | | |
| Arizona Highways Magazine Fund | <u>\$ 851,400</u> | Transportation Department Equipment Fund | <u>\$ 851,400</u> |
| <i>Subtotal</i> | <i>\$ 851,400</i> | | <i>\$ 851,400</i> |
| ^{1/} Fund source for transfers in budget. ^{2/} Amount for transfers in budget. ^{3/} Funds from which agencies are requesting transfers in order to accommodate the mandated transfer. ^{4/} Transfer amounts proposed by agency. | | | |

Statute does require JCCR to review a SLIF expenditure plan prior to use. If the Parks Board uses funding for repair and/or maintenance, the Committee alternatively may recommend that the Parks Board submit these expenditures for review to JCCR. The Parks Board does not believe their particular projects fall under the Committee's jurisdiction.

Arizona Department of Transportation

Laws 2010, 7th Special Session, Chapter 1 requires ADOT to transfer \$851,400 from the Arizona Highways Magazine Fund to the General Fund. The department is instead requesting to transfer the same amount from the Transportation Department Equipment Fund.

ADOT has not answered JLBC Staff questions regarding the need for the transfer as the Arizona Highways Magazine Fund currently has a greater fund balance than the Transportation Department Equipment Fund. As of April 2011, the Arizona Highways Magazine Fund had a balance of \$1,927,300, and the Transportation Department Equipment Fund had a balance of \$1,557,800.

RS/SSh:mt

Janice K. Brewer
Governor



Scott A. Smith
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

GENERAL ACCOUNTING OFFICE

100 NORTH FIFTEENTH AVENUE • SUITE 302
PHOENIX, ARIZONA 85007

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

May 20, 2010

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



Dear Mr. Stavneak:

Laws 2010, 49th Legislature, 7th Special Session, Chapter 01, Section 114, HB2001 and Laws 2011, 50th Legislature, 1st Regular Session, Chapter 24, Section 109, SB1612 require the State Comptroller to coordinate all applicable activity with the Governor's Office of Strategic Planning and Budgeting (OSPB) and to notify the Joint Legislative Budget Committee (JLBC) staff of any cash transfers pursuant to these sections.

Accordingly, the transfer requests listed in the following transfer summary schedule (see reverse side) are being submitted to the JLBC for review.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "D. Clark Partridge".

D. Clark Partridge
State Comptroller

cc: John Arnold

Laws 2010, 49L, 7th SS, Ch1, Sec114
Laws 2011, 50L, 1st RS, Ch24, Sec109
Cash transfers between agency funds requests

| Agency | Amount | | Fund Name | SW Fund |
|-----------------------|-----------|------|--|---------|
| Environmental Quality | 800,000 | from | Air Quality Fund | 2226 |
| | 800,000 | to | Indirect Cost Fund | 7000 |
| | 500,000 | from | Underground Storage Tank Revolving | 2271 |
| | 500,000 | to | Indirect Cost Fund | 7000 |
| | 37,300 | from | Underground Storage Tank Revolving | 2271 |
| | 37,300 | to | Institutional and Engineering Control Fund | 2563 |
| | 60,600 | from | Underground Storage Tank Revolving | 2271 |
| | 60,600 | to | Solid Waste Fee Fund | 3110 |
| | 250,000 | from | Underground Storage Tank Revolving | 2271 |
| | 250,000 | to | Solid Waste Fee Fund | 3110 |
| | 317,300 | from | Recycling Fund | 2289 |
| | 317,300 | to | Solid Waste Fee Fund | 3110 |
| Education | 1,520,200 | from | Special Education Fund | 1009 |
| | 791,900 | to | Internal Services Fund | 4209 |
| | 355,800 | to | Production Revolving Fund | 4211 |
| | 372,500 | to | Teacher Certification Fund | 2399 |
| Transportation | 851,400 | from | Transportation Department Equipment Fund | 2071 |
| | 851,400 | to | Arizona Highways Magazine Fund | 2031 |
| Parks | 1,491,100 | from | State Parks Enhancement Fund | 2202 |
| | 1,491,100 | to | State Lake Improvement Fund | 2105 |
| Administration | 1,090,000 | from | Risk Management Fund | 4216 |
| | 1,090,000 | to | Telecommunications Fund | 4231 |



April 25, 2011



D. Clark Partridge, State Comptroller
General Accounting Office
Arizona Department of Administration
100 N. 15th Avenue, Ste. 302
Phoenix, AZ 85007

Re: Cash Transfer Request per 1st Regular Session, Laws 2011,
50th Legislature, Chapter 24, Section 109

Janice K. Brewer
Governor

**State Parks
Board Members**

Chair
Tracey Westerhausen
Phoenix

Walter D. Armer, Jr.
Vail

Reese Woodling
Tucson

Larry Landry
Phoenix

Alan Everett
Sedona

William C. Scalzo
Phoenix

Maria Baier
State Land
Commissioner

Renée E. Bahl
Executive Director

Arizona State Parks
1300 W. Washington
Phoenix, AZ 85007

Tel & TTY: 602.542.4174
AZStateParks.com

800.285.3703 from
(520 & 928) area codes

General Fax:
602.542.4180

Director's Office Fax:
602.542.4188

Dear Mr. Partridge:

Per Laws 2011, 1st Regular Session, Chapter 24, Section 109, Arizona State Parks requests permission to transfer cash of \$1,491,100 from unobligated Arizona State Parks Enhancement Funds to the State Lake Improvement Fund (SLIF). Please coordinate this request with the Governors Office of Strategic Planning and Budgeting (OSPB), and forward this request to the Joint Legislative Budget Committee (JLBC) for review. On April 22, 2011, the Arizona State Parks Board unanimously approved directing staff to request a favorable review by JLBC for this transfer.

As background, Laws 2011, Chapter 24, Section 108, swept an additional \$1,491,100 from the SLIF in FY 2011, totaling FY 2011 SLIF sweeps of \$2,451,800. This leaves an estimated FY 2011 SLIF ending cash balance of approximately \$1.5 million. This cash balance forward into FY 2012 is a record low level going into a new fiscal year for general agency operations. The current FY 2012 budget from SLIF approved by the State Parks Board is \$5.25 million for agency operations. This level provides no available funds for major park repair and replacement costs in FY 2012.

In addition, Arizona State Parks received a FY 2012 \$8.91 million appropriation to the Enhancement Fund (Chapter 24, Section 73) from its \$10 million budget request; additionally this fund must transfer a \$2.09 million sweep in FY 2012.

Further, the elimination of the State Parks Heritage Fund after June 30, 2011, the agency is left with no operating funds for park repair and replacements for FY 2012. This has been the agency's primary funding source for major park repair and replacement since its inception in 1992.

Laws 2011, Chapter 36 includes an additional \$250,000 appropriated reduction from the Law Enforcement Boating Safety Fund (LEBSF). Agency interest earnings continue to decline, and if retail gas prices remain at current elevated levels we expect that both the Enhancement Fund and SLIF will show declining revenues due to reduced consumer demand.

D. Clark Partridge, State Comptroller
April 25, 2011
Page 2

These budget actions leave a shortage of planned operating funds that include the agency's requirements for major park repair, maintenance, replacement and agency operations during FY 2012. State Parks entered into agreements with public and private partners to help operate 16 parks. The agency must have a sufficient operating budget to maintain these partnerships. This cash transfer request accomplishes this goal for FY 2012.

Enclosed are the most recent FY 2011 projected cash flow documents for both the Enhancement Fund and the SLIF, and a short cash flow summary for FY 2012 for both funds.

If you have any questions or require any further information, please contact me at (602) 542-7102 or rbahl@azstateparks.gov or Kent T. Ennis, Assistant Director of Administrative Services, at (602) 542-6920 or kennis@azstateparks.gov.

Sincerely,



Renée E. Bahl
Executive Director

cc: Richard Stavneak, Director, JLBC
John Arnold, Director, OSPB
Tracy Westerhausen, Chair, Arizona State Parks Board
Kent Ennis, Assistant Director, Administrative Services
Miryom Snyder, Acting Chief of Fiscal Services

Enclosures

Agency Name:

Fund Name:

Fund Number:

Arizona State Parks

State Lake Improvement Fund - VALUES ONLY

2106FY Ending: 6/30/11

Prepared by:

Date:

E-Mail:

Miryom Snyder

04/14/11FY11 MAR

msnyder@azstateparks.govPhone: 602 542-6938

| | | | | | | | | | | | | | | | | | |
|--------------------------------|---------------|----------------|---|-----------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|-------------------|-----------------|------------------|------------------------|-------------------|------------------------------|
| Beginning Cash Balance | OBJT Note | \$4,987,708.70 | July \$4,954,571 | Aug \$3,694,914 | Sept \$3,829,304 | Oct \$4,031,509 | Nov \$4,414,139 | Dec \$4,518,867 | Jan \$3,620,461 | Feb \$3,587,081 | March \$3,723,481 | April \$3,372,127 | May \$3,159,574 | June \$1,439,701 | 13th Month \$1,531,153 | Total \$4,954,571 | Budget |
| Revenues: | | | | | | | | | | | | | | | | | |
| Taxes | 4100 | | \$396,927 | \$370,508 | \$388,041 | \$395,887 | \$371,604 | \$386,283 | \$385,214 | \$393,919 | \$387,462 | \$410,879 | \$394,792 | \$392,428 | \$0 | \$4,675,944 | \$4,500,000 |
| Intergovernmental | 4200 | | | | | | | | | | | | | | | \$0 | |
| Sales & Charges for Services | 4300 | | | | | | | | | | | | | | | \$0 | |
| Licenses, Permits & Fees | 4400 | | \$0 | \$31,186 | \$26,919 | \$23,419 | \$20,383 | \$18,463 | \$19,049 | \$28,458 | \$21,519 | \$27,651 | \$27,651 | \$27,651 | \$27,651 | \$300,000 | \$375,000 |
| Fines, Forfeitures & Penalties | 4500 | | | | | | | | | | | | | | | \$0 | |
| Other | 4600 | | \$0 | \$2,846 | \$3,094 | \$2,397 | \$2,759 | \$2,482 | \$2,464 | \$1,855 | \$1,903 | \$2,108 | \$1,975 | \$900 | \$957 | \$25,739 | \$25,000 |
| Total Revenues | | | \$396,927 | \$404,540 | \$418,054 | \$421,703 | \$394,746 | \$409,228 | \$406,727 | \$424,232 | \$410,884 | \$440,638 | \$424,418 | \$420,979 | \$28,608 | \$5,001,683 | \$4,900,000 |
| Expenditures: | | | | | | | | | | | | | | | | | |
| Personal Services | 6000 | | \$161,969 | \$111,314 | \$112,956 | \$115,556 | \$164,114 | \$474,961 | \$145,311 | \$139,625 | \$123,726 | \$144,172 | \$144,172 | \$144,172 | \$0 | \$1,982,048 | \$1,821,000 |
| Employee Related | 6100 | | \$69,773 | \$47,694 | \$47,212 | \$47,149 | \$61,621 | \$109,147 | \$60,296 | \$58,203 | \$50,721 | \$59,230 | \$59,230 | \$59,230 | \$0 | \$789,506 | \$785,500 |
| Professional & Outside Svcs | 6200 | | \$85 | \$30 | \$6,689 | \$30 | \$30 | \$0 | \$2,230 | \$0 | \$19,961 | \$0 | \$0 | \$0 | \$0 | \$29,055 | \$13,600 |
| Travel in State | 6500 | | \$287 | \$4,696 | \$1,345 | \$3,953 | \$3,718 | \$842 | \$6,453 | \$695 | \$6,096 | \$13,038 | \$13,038 | \$13,038 | \$0 | \$67,200 | \$67,200 |
| Travel Out of State | 6600 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$1,667 | \$1,667 | \$1,667 | \$0 | \$5,000 | \$5,000 |
| Food | 6700 | | | | | | | | | | | | | | | \$0 | |
| Aid to Organizations | 6800 | | | | | | | | | | | | | | | \$0 | |
| Operating | 7000 | | \$538,056 | \$7,433 | \$27,003 | (\$132,731) | \$30,378 | \$528,496 | \$115,586 | \$77,832 | \$120,544 | \$231,277 | \$231,277 | \$231,277 | \$0 | \$2,006,429 | \$2,257,700 |
| Capital Outlay | 8100 | | \$12,914 | (\$353) | \$1,076 | \$5,072 | \$23,845 | \$63,936 | \$14,554 | (\$11,505) | \$217,516 | \$122,546 | \$122,546 | \$122,546 | \$0 | \$694,693 | \$694,693 |
| Capital Equipment | 8400 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$7,820 | \$57,400 | \$0 | \$0 | \$78,260 | \$78,260 | \$78,260 | \$0 | \$300,000 | \$300,000 |
| Non Capital Equipment | 8500 | | \$0 | \$12,136 | \$19,568 | \$44 | \$8,312 | \$2,920 | \$2,087 | \$2,831 | \$15,864 | \$3,000 | \$3,000 | \$3,000 | \$0 | \$70,762 | |
| Debt Service | 8600 | | | | | | | | | | | | | | | \$0 | |
| Cost Allocation | 9000 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$59,512 | \$36,190 | \$20,151 | \$207,810 | \$0 | \$0 | (\$323,663) | \$0 | \$0 | |
| Total Expenditures | | | \$783,084 | \$182,950 | \$215,849 | \$39,073 | \$290,018 | \$1,307,634 | \$440,107 | \$287,832 | \$762,238 | \$653,190 | \$653,190 | \$329,527 | \$0 | \$5,944,693 | \$5,944,693 |
| Transfers in | 4900 | | | | | | | | | | | | | | | \$0 | \$0 |
| Transfers Out - Backfills | 9100 | | | | | | | | | | | | | | | \$0 | \$0 |
| Transfers Out - Sweeps | 9100 | | \$873,500 | \$87,200 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$1,491,100 | \$0 | \$0 | \$2,451,800 | \$2,451,800 |
| Ending Cash Balance | | | \$3,694,914 | \$3,829,304 | \$4,031,509 | \$4,414,139 | \$4,518,867 | \$3,620,461 | \$3,587,081 | \$3,723,481 | \$3,372,127 | \$3,159,574 | \$1,439,701 | \$1,531,153 | \$1,559,761 | \$1,559,761 | |
| | | | 3,372,127 | | | | | | | | | | | | | | |
| | | | \$770,170 | \$953,473 | \$1,168,246 | \$1,202,247 | \$1,468,420 | \$2,712,118 | \$3,137,671 | \$3,437,008 | \$3,981,730 | \$4,512,374 | \$5,043,019 | \$5,250,000 | \$5,250,000 | \$5,250,000 | current FY 2011 oper. Budget |
| | | | Cumulative FY 2011 operating only exp. from above (no Aid 6800 or Cap 8100) | | | | | | | | | | | | | | |
| Beg Bal FY2011 | Fund Balance: | | JUL EOM | AUG EOM | SEP EOM | OCT EOM | NOV EOM | DEC EOM | JAN EOM | FEB EOM | MAR EOM | APR EOM | MAY EOM | JUN EOM | 13TH MO EOM | | |
| \$4,259,878 | Operating | | \$3,013,135 | \$3,147,172 | \$3,350,453 | \$3,738,155 | \$3,866,728 | \$3,032,258 | \$3,013,432 | \$3,138,327 | \$3,004,489 | \$2,914,482 | \$1,317,155 | \$1,531,153 | \$1,559,761 | | |
| \$694,693 | Capital | | \$681,779 | \$682,132 | \$681,056 | \$675,984 | \$652,139 | \$588,203 | \$573,649 | \$585,154 | \$367,638 | \$245,092 | \$122,546 | \$0 | \$0 | | |
| \$0 | Unobl | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | | |
| \$4,954,571 | Total Fund | | \$3,694,914 | \$3,829,304 | \$4,031,509 | \$4,414,139 | \$4,518,867 | \$3,620,461 | \$3,587,081 | \$3,723,481 | \$3,372,127 | \$3,159,574 | \$1,439,701 | \$1,531,153 | \$1,559,761 | | |

NOTES on State Lake Improvement Fund:

Note: Revenue projections:

Fuel Tax revenue projections (4100) - based on ADOT HURF revenue projections. Watercraft Licenses (4400) projection - based on average current receipts of 80% of prior year-to-date revenues. Interest revenue is calculated at 0.75% of prior month ending balance. June interest also includes 13th month est. receipts.

Note: Capital outlay (8100) is a projection of the currently obligated capital funds. Depending upon contractors' reimbursement requests, funds may be disbursed in any amount at any time up to the obligated allocation.

| Calculation of Remaining Capital Funds: | Obligated Bal. 7-1-10 | Obligation Adjustments | Expended YTD | Unexpended Oblig. YTD | Est. Rem FY11 Exp. | Estimated Remaining Monthly Alloc. | Estimated Obligations into FY 2011 |
|---|-----------------------|------------------------|--------------|-----------------------|--------------------|------------------------------------|------------------------------------|
| | 694,693 | 0 | 327,055 | 367,638 | 367,638 | 122,546 | 0 |

Note: Cost Allocation (9000) represents capital outlay expenditures paid from agency operating funds that will be reimbursed through the Federal LWCF grant program during the current fiscal year. This presentation is intended to separate these expenditures from true SLIF Capital Development funds, previously given favorable review by JCCR.

Note: Transfers Out - Sweeps (9100) represents cash transfer to the State General Fund in compliance with:

| | | |
|--|-------------|---|
| Spending Reduction (FRAT) and Excess Balance (EBT) Transfers | \$873,500 | 49th Leg, 7th SS, Ch1, Sec 112/113, HB 2001 |
| Spending reduction (FRAT) | \$87,200 | 49th Leg, 7th SS, Ch1, Sec 148, HB 2001 |
| Excess Balance Transfer (EBT) | \$1,491,100 | 50th Leg, 1st RS, SB 1612 |

| | | | | | | | | | | | | | | | | | |
|--|--|---|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------------------|-------------------|-------------|-------------|-------------|--------------|-----------------------------|--|
| Agency Name: | | Arizona State Parks | | | | | | | Prepared by: | | Miryom Snyder | | | | | | |
| Fund Name: | | Enhancement Fund - All Appropriations TOTAL - Values Only | | | | | | | Date: | | 04/15/11 FY11 MAR | | | | | | |
| Fund Number: | | 2202 | | FY Ending: | | 6/30/11 | | E-Mail: | | msnyder@azstateparks.gov | | | Phone: | | 602 542-6938 | | |
| OBJT | | July | Aug | Sept | Oct | Nov | Dec | Jan | Feb | March | April | May | June | 13th Month | Total | Budget | |
| Beginning Cash Balance | | \$5,333,132 | \$5,434,213 | \$5,736,078 | \$6,003,371 | \$6,321,037 | \$4,563,272 | \$4,600,301 | \$4,954,815 | \$5,354,310 | \$6,243,042 | \$6,806,637 | \$6,667,032 | \$7,059,027 | \$5,333,132 | | |
| Revenues: | | | | | | | | | | | | | | | | | |
| Taxes 4100 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Intergovernmental 4200 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Sales & Charges for Services 4300 | | \$397,182 | \$560,774 | \$384,535 | \$359,623 | \$268,295 | \$280,293 | \$357,563 | \$370,041 | \$592,474 | \$1,296,900 | \$593,700 | \$1,125,300 | \$162,100 | \$6,748,780 | \$10,000,000 | |
| Licenses, Permits & Fees 4400 | | \$244,046 | \$238,804 | \$248,501 | \$313,625 | \$299,510 | \$266,330 | \$359,531 | \$431,167 | \$664,709 | \$0 | \$0 | \$0 | \$0 | \$3,066,223 | \$0 | |
| Fines, Forfeitures & Penalties 4500 | | \$0 | \$0 | \$0 | \$50 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$50 | \$0 | |
| Other 4600 | | (\$3,599) | (\$4,317) | (\$2,835) | (\$3,053) | (\$5,148) | (\$4,672) | (\$4,434) | (\$7,669) | (\$11,131) | \$0 | \$0 | \$0 | \$0 | (\$46,858) | \$0 | |
| Total Revenues | | \$637,629 | \$795,261 | \$630,201 | \$670,245 | \$562,657 | \$541,951 | \$712,660 | \$793,539 | \$1,246,052 | \$1,296,900 | \$593,700 | \$1,125,300 | \$162,100 | \$9,768,195 | \$10,000,000 | |
| Expenditures: | | | | | | | | | | | | | | | | Orig Budget | |
| Personal Services 6000 | | \$353,949 | \$224,563 | \$227,393 | \$221,038 | \$228,122 | \$318,160 | \$211,823 | \$217,656 | \$216,831 | \$409,422 | \$409,422 | \$409,422 | \$0 | \$3,447,800 | \$3,447,800 | |
| Employee Related 6100 | | \$181,333 | \$116,673 | \$116,674 | \$113,499 | \$114,648 | \$163,195 | \$113,227 | \$114,452 | \$114,243 | \$158,585 | \$158,585 | \$158,585 | \$0 | \$1,623,700 | \$1,623,700 | |
| Professional & Outside Svcs 6200 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$33,333 | \$33,333 | \$33,333 | \$0 | \$100,000 | \$100,000 | |
| Travel In State 6500 | | \$348 | \$145 | \$0 | \$0 | \$0 | \$171 | \$0 | \$0 | \$89 | \$182 | \$182 | \$182 | \$0 | \$1,300 | \$1,300 | |
| Travel Out of State 6600 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Food 6700 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Aid to Organizations 6800 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Operating 7000 | | \$918 | \$16,815 | \$18,841 | \$18,042 | \$22,852 | \$23,396 | \$33,096 | \$61,936 | \$26,157 | \$127,716 | \$127,716 | \$127,716 | \$0 | \$605,200 | \$605,200 | |
| Capital Outlay 8100 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Capital Equipment 8400 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Non Capital Equipment 8500 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$4,067 | \$4,067 | \$4,067 | \$0 | \$12,200 | \$12,200 | |
| Debt Service 8600 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Cost Allocation 9000 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Total Expenditures | | \$536,548 | \$358,196 | \$362,908 | \$352,579 | \$365,622 | \$504,922 | \$358,146 | \$394,044 | \$357,320 | \$733,305 | \$733,305 | \$733,305 | \$0 | \$5,790,200 | \$5,790,200 | |
| Transfers In 4900 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Transfers Out 9100 | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Transfers Out - Sweeps 9100 | | \$0 | \$135,200 | \$0 | \$0 | \$1,954,800 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$2,090,000 | \$2,090,000 | |
| Ending Cash Balance | | \$5,434,213 | \$5,736,078 | \$6,003,371 | \$6,321,037 | \$4,563,272 | \$4,600,301 | \$4,954,815 | \$5,354,310 | \$6,243,042 | \$6,806,637 | \$6,667,032 | \$7,059,027 | \$7,221,127 | \$7,221,127 | | |
| 6,243,042 | | | | | | | | | | | | | | | | | |
| Quarterly allotment % | | | | 25% | | | 25% | | | 25% | | | | 25% | | | |
| Cum. max of net annual oper approp | | 7,807,000 | | 1,951,750 | | | 3,903,500 | | | 5,855,250 | | | | 7,807,000 | | | |
| Cum allot. % end of quarter | | | | 25% | | | 50% | | | 75% | | | | 100% | | | |
| Cum operating appn. expended (no cap or transfers) | | | | 1,257,652 | | | 2,480,775 | | | 3,590,285 | | | | 5,790,200 | | current FY 2011 oper budget | |
| \$ amt under/(over) cum. max appn. | | | | 694,098 | | | 1,422,725 | | | 2,264,965 | | | | 2,016,800 | | | |

Note: Revenues from user fees, annual passes, concessions, and special use permits are a (revised) estimated \$10 M annual revenue, allocated monthly as received in FY10.
Revenues from special use permits for commercial filming at San Rafael State Natural Area
may only be used for the operation, management, and development of San Rafael State Natural Area, per ARS 41-511.11 C.2. (Non-Approp)

Note: Transfers Out - Sweeps (9100) represents transfers to the State General Fund.
Cont'd. Salary & Expend. reduction (FRAT) 1,954,800 49th Leg, 7th SS, Ch 1, Sec 112, HB 2001
Salary reduction & transfer - PFP/Furlough 135,200 49th Leg, 7th SS, Ch 1, Sec 148, HB 2001

Arizona State Parks
Laws 2011, 1st Regular Session, Chapter 24, Section 110
Backfill Request/Cash Balances Analysis for SLIF and Enhancement Fund

| | SLIF | Enhancement Fund |
|---|------------------------|------------------------|
| Current Est. Cash Balance Forward into FY 2012 | \$1,562,300 | \$7,500,500 |
| Estimated FY 2012 Revenues | \$4,900,000 | \$10,000,000 |
| SB 1612 Sec 110 Legislated Sweep for FY 2012 | \$0 | (\$2,090,000) |
| Current SLIF FY 2012 Board Budget | (\$5,250,000) | \$0 |
| SB 1612 Sec 74 Appropriation Limit for FY 2012 | <u>\$0</u> | <u>(\$8,941,600)</u> |
| Current Est. Cash Balance Forward into FY 2013 | \$1,212,300 | \$6,468,900 |
| Backfill Request - Transfer Cash from EF to SLIF | <u>\$1,491,100</u> | <u>(\$1,491,100)</u> |
| Est. Cash Balance into FY 2013 with Backfill | \$2,703,400 | \$4,977,800 |

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 2, 2011

TO: Representative John Kavanagh, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Amy Upston, Principal Fiscal Analyst

SUBJECT: AHCCCS – Review of Revised Acute Care Capitation Rate Changes – Agency Request

Request

Pursuant to a footnote in the FY 2011 General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report capitation and fee-for-service inflationary rate changes with a budgetary impact to the Committee for review prior to implementation. AHCCCS proposes reducing the Acute Care, Long Term Care, and Children's Rehabilitative Services (CRS) capitation rates effective April 1, 2011.

While AHCCCS implemented the new rates on April 1, they did not submit this agenda request until April 12. Since the last Committee meeting was on April 14, there was insufficient time to place them on the April agenda.

Recommendation

The Committee has at least the following options:

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

The proposed rate structure appears to be sufficient to achieve the savings included in the FY 2012 budget.

Analysis

The FY 2011 budget allowed AHCCCS to reduce provider rates by up to (5)% during contract year ending 2011 (October 1, 2010 - September 30, 2011). The April 1 revised capitation rates provide a (5)% provider rate reduction for inpatient and outpatient hospital rates, inpatient outlier payments, dental services, physician services, dialysis centers, some transportation, and most behavioral health services.

(Continued)

Additionally, a (2.5)% rate reduction is implemented for home and community based services (home and community based service providers received a (2.5)% rate reduction in October, as well).

The FY 2012 budget incorporated \$(62.2) million in General Fund savings from the expected April 1, 2011 provider rate reduction. The AHCCCS rate structure appears to be sufficient to achieve those savings.

RS/AU:sls

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

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



Our first care is your health care

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

April 12, 2011

The Honorable John Kavanagh, Chairman
Arizona House of Representatives
1700 West Washington
Phoenix, AZ 85007



Dear Representative Kavanagh:

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

- Long Term Care Capitation Rates for the period April 1, 2011 – September 30, 2011
- Acute Care Capitation Rates for the period April 1, 2011 – September 30, 2011

As required by the Federal Balanced Budget Act of 1997, Title XIX Managed Care Programs must have actuarially sound capitation rates. Laws 2010, Seventh Special Session, Chapter 10 (HB 2010) gave AHCCCS the authority to reduce rates for all providers up to 5% for the rate year beginning October 1, 2010. On October 1st, AHCCCS was able to freeze most provider reimbursement rates and still achieve the overall FY 2011 budget goal of maintaining per member per month costs at the same amount as the prior year. However, given the current funding crisis which will be exacerbated on July 1, 2011 when increased federal matching funds revert to their original levels, AHCCCS pursued a 5% provider rate reduction that was implemented on April 1, 2011.

The proposed rate adjustments have been approved by the Centers for Medicare and Medicaid Services (CMS) for an April 1, 2011 implementation and include the following provider rate reductions for both the Acute and Long Term Care Programs:

Reduced 5%:

- Inpatient hospital rates
- Cost to Charge ratios used to qualify and pay inpatient outliers
- Outpatient hospital rates
- Dental rates
- Physician fee schedule rates
 - excluding the Physician Drug Schedule
- Dialysis center composite rates
- ADHS Transportation rates
- Non-ADHS Transportation rates
- Behavioral Health rates (including AHCCCS inpatient psychiatric tiered per diem rates and bed holds) with the exception of:
 - All other Acute Care Hospital/Level 1 Hospitalization
 - All Level 1 Sub Acute Facilities
 - All Level 1 Residential Treatment Centers

Reduced 2.5% - In-Home service rates, including Adult Day Health

Representative Kavanagh
April 12, 2011
Page 2

Long Term Care Capitation Rates

The overall rate adjustment for the ALTCS Elderly and Physically Disabled (EPD) program for the period April 1, 2011 – September 30, 2011 is a negative (1.2%).

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

Acute Care Capitation Rates

The overall weighted decrease for CYE 2011 acute care capitation rates for the period April 1, 2011 – September 30, 2011 is a negative (5.7%).

For the AHCCCS acute care population the impact of the provider rate reductions referenced above is a negative (4.0%).

In addition, AHCCCS analyzed recent data to determine the appropriateness of all CYE 2011 capitation rates. Upon review of the data, it appeared that the Acute Prior Period Coverage (PPC) rates and the prospective non-MED rates continue to remain higher than the resulting encounters (including trend and completion factors). Given these two populations are reconciled, AHCCCS feels it acceptable and appropriate to make mid-year adjustments to these rates to reflect the differential between the capitation rate and the actual experience. The impact of these capitation rate reductions is a negative (1.7%).

The Children Rehabilitative Service (CRS) rates also have been incorporated as part of the overall AHCCCS acute care capitation rates. The impact of the provider rate reductions on the CRS capitation rates is a negative (2.77%).

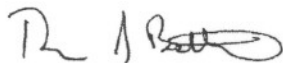
See the attached actuarial memos that have been submitted to CMS for both acute care and CRS for more information.

Policy Changes

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

Should you have any questions on any of these issues please feel free to contact Shelli Silver at (602) 417-4647.

Sincerely,



Thomas J. Betlach
Director

cc: The Honorable Andy Biggs, Arizona State Senate
John Arnold, Office of Strategic Planning & Budgeting
Richard Stavneak, Joint Legislative Budget Committee

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Budget Impact of April 1, 2011 Capitation Rate Reductions

(Rates Weighted Across All Reinsurance Deductibles)

| | Statewide Rates | | 4/1 to 9/30 | 10/1 Rates | 4/1 Rates | Change | Percent |
|--------------------------------|--------------------|-------------------|------------------|----------------------|----------------------|----------------------|---------------|
| | 10/1/10 to 3/31/11 | 4/1/11 to 9/30/11 | Population | with FY 11 Pop. | with FY 11 Pop. | Inc. (Dec.) | Impact |
| Acute | | | | | | | |
| Title XIX TANF/SOBRA | \$ 189.15 | \$ 181.12 | 5,086,151 | 962,048,000 | 921,184,900 | (40,863,100) | -4.2% |
| Title XIX SSI w/ Medicare | \$ 142.81 | \$ 136.42 | 426,928 | 60,969,600 | 58,241,500 | (2,728,100) | -4.5% |
| Title XIX SSI w/o Medicare | \$ 806.81 | \$ 778.60 | 353,824 | 285,466,700 | 275,487,400 | (9,981,300) | -3.5% |
| Title XIX AHCCCS Care | \$ 487.00 | \$ 451.34 | 1,357,425 | 661,066,000 | 612,660,200 | (48,405,800) | -7.3% |
| Title XIX MED | \$ 1,397.12 | \$ 1,336.04 | 43,299 | 60,493,900 | 57,849,200 | (2,644,700) | -4.4% |
| Title XIX Prior Period | \$ 561.33 | \$ 497.81 | 423,126 | 237,511,300 | 210,637,900 | (26,873,400) | -11.3% |
| Title XIX Other | \$ 3,353.31 | \$ 3,189.70 | 36,938 | 123,864,400 | 117,821,200 | (6,043,200) | -4.9% |
| Title XXI Children | \$ 136.18 | \$ 130.46 | 114,274 | 15,561,700 | 14,908,100 | (653,600) | -4.2% |
| Acute Subtotal | \$ 306.94 | \$ 289.31 | 7,841,965 | 2,406,983,600 | 2,268,790,400 | (138,193,200) | -5.7% |
| | | | | | | Acute State Impact | (43,426,200) |
| | | | | | | Acute Federal Impact | (94,767,000) |
| CMDP (Effective 1/1/10) | | | | | | | |
| Regular | \$ 236.14 | \$ 227.46 | 87,342 | 20,624,900 | 19,866,800 | (758,100) | -3.7% |
| PPC | \$ 440.56 | \$ 421.03 | 2,101 | 925,600 | 884,600 | (41,000) | -4.4% |
| | \$ 240.94 | \$ 232.01 | 89,443 | 21,550,500 | 20,751,400 | (799,100) | -3.7% |
| | | | | | | CMDP State Impact | (251,400) |
| | | | | | | CMDP Federal Impact | (547,700) |
| CRS | | | | | | | |
| High | \$ 791.63 | \$ 788.81 | 7,565 | 5,988,700 | 5,967,300 | (21,400) | -0.4% |
| Medium | \$ 523.65 | \$ 507.51 | 72,028 | 37,717,500 | 36,554,900 | (1,162,600) | -3.1% |
| Low | \$ 258.39 | \$ 250.79 | 56,050 | 14,482,800 | 14,056,800 | (426,000) | -2.9% |
| Title XIX | \$ 428.99 | \$ 417.12 | 135,643 | 58,189,000 | 56,579,000 | (1,610,000) | -2.8% |
| | | | | | | CRS State Impact | (506,500) |
| | | | | | | CRS Federal Impact | (1,103,500) |
| ALTCS | | | | | | | |
| ALTCS (EPD) | \$ 3,337.05 | \$ 3,295.76 | 155,232 | 518,016,900 | 511,607,400 | (6,409,500) | -1.2% |
| ALTCS (EPD) Prior Period | \$ 1,009.15 | \$ 998.65 | 5,204 | 5,251,600 | 5,186,600 | (65,000) | -1.2% |
| ALTCS Acute Only | \$ 578.00 | \$ 558.74 | 2,344 | 1,354,800 | 1,309,700 | (45,100) | -3.3% |
| ALTCS Subtotal | \$ 3,222.90 | \$ 3,182.85 | 162,780 | 524,623,300 | 518,103,700 | (6,519,600) | -1.2% |
| | | | | | | ALTCS State Impact | (2,051,100) |
| | | | | | | ALTCS Federal Impact | (4,468,500) |
| Total Budget Impact | \$ 365.91 | \$ 348.03 | 8,229,831 | 3,011,346,400 | 2,864,224,500 | (147,121,900) | -4.89% |
| | | | | | | Total State Impact | (46,235,200) |
| | | | | | | Total Federal Impact | (100,886,700) |

NOTES:

1) Population estimates are taken from the actuarial memo detail

2) Federal Share is based on the blended Title XIX FMAP for April-September 2011 based on one quarter of ARRA (71.22%) and one quarter of regular (65.85%).

The Title XXI enhanced FMAP for April-September is 76.10%.

**Arizona Long Term Care System (ALTCS),
Elderly and Physically Disabled (EPD) Updated Actuarial
Memorandum for CYE 2011**

I. Purpose

This memorandum presents a discussion of the revision to the capitation rates for the Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD) program, for the period April 1, 2011 to September 30, 2011. This update to the rates is required as a result of changes to provider reimbursement via rate reductions effective April 1, 2011.

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

II. Overview of Changes

In response to significant fiscal challenges facing the State of Arizona, AHCCCS is reducing inpatient and outpatient hospital reimbursement and other provider type fee schedules effective April 1, 2011. The provider rates impacted, and their reductions, include:

Reduced 5%:

- Inpatient hospital rates
- Cost to Charge ratios used to qualify and pay inpatient outliers
- Outpatient hospital rates
- Dental rates
- Physician fee schedule rates
 - excluding the Physician Drug Schedule
- Dialysis center composite rates
- ADHS Transportation rates
- Non-ADHS Transportation rates
- Behavioral Health rates (including AHCCCS inpatient psychiatric tiered per diem rates and bed holds) with the exception of:
 - 1) All other Acute Care Hospital/Level 1 Hospitalization
 - 2) All Level 1 Sub Acute Facilities
 - 3) All Level 1 Residential Treatment Centers

Reduced 2.5%:

- In-Home service rates, including Adult Day Health

The overall impact to the EPD program of these changes is approximately \$6.5 million.

III. Proposed Revised Capitation Rates and Their Impact

Table I below summarizes the changes from the current approved CYE11 capitation rates and the estimated budget impact, effective for the period April 1, 2011 through September 30, 2011 on a statewide basis. The adjustments impact contractors ranging from -0.9% to -1.6%. Appendix I shows EPD rates by GSA and program contractor.

Table I: Proposed Statewide Capitation Rates and Budget Impact

| Rate Cell | Projected Member Months April 1, 2011 - September 30, 2011 | CYE11 Current Rate | CYE11 Updated Rate | Projected Member Months April 1, 2011 - September 30, 2011 | | Percentage Impact on CYE11 estimated current capitation | Dollar Impact on CYE11 estimated current capitation |
|------------|--|--------------------|--------------------|--|------------------------------------|---|---|
| | | | | Estimated CYE11 Current Capitation | Estimated CYE11 Updated Capitation | | |
| EPD | 155,232 | \$ 3,337.05 | \$ 3,295.76 | \$ 518,018,355 | \$ 511,609,693 | -1.2% | \$ (6,408,662) |
| PPC | 5,204 | \$ 1,009.15 | \$ 996.65 | \$ 5,251,298 | \$ 5,186,252 | -1.2% | \$ (65,046) |
| Acute Only | 2,344 | \$ 578.00 | \$ 558.74 | \$ 1,354,772 | \$ 1,309,634 | -3.3% | \$ (45,138) |
| Total | | | | \$ 524,624,424 | \$ 518,105,578 | -1.2% | \$ (6,518,846) |

IV. Actuarial Certification of the Capitation Rates:

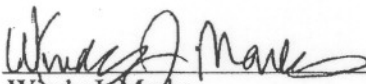
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards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

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the six month period beginning April 1, 2011.

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

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

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


Windy J. Marks

01/20/11
Date

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

APPENDIX I

| AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Pinal LTC</u> CYE 11 Rates Effective April 1, 2011 | | | |
|---|-------------------------|-------|--------------------|
| Service Category | GSA 40 (Pinal and Gila) | | |
| | Gross | MIX | Net |
| Nursing Facility | \$ 5,326.66 | 24.5% | \$ 1,307.43 |
| Share of Cost (Cap) | | | \$ (212.17) |
| Net Nursing Facility | | | \$ 1,095.26 |
| HCBS Home and Community | \$ 1,716.77 | 75.5% | \$ 1,295.39 |
| Net HCBS | | | \$ 1,295.39 |
| Acute | | | \$ 409.53 |
| Case Management | | | \$ 133.85 |
| Admin | | | \$ 245.56 |
| Risk/Contingency | | | \$ 31.80 |
| Net Capitation | | | \$ 3,211.39 |
| Premium Tax (98% of Final Cap) | | | \$ 65.54 |
| Net Cap w/ Premium Tax | | | \$ 3,276.93 |
| Rates are the same for Dual and Nondual members | | | |

APPENDIX I

AHCCCS Capitation Calculation For Rates - Pinal LTC CYE 11 Rates Effective April 1, 2011

| Rate Cells | GSA 40 (Pinal and Gila) |
|-----------------------|----------------------------|
| Acute Care Only | \$ 593.20 |
| Prior Period Coverage | \$ 983.21 |

Rates include premium tax

Rates are the same for Dual and Nondual members

APPENDIX I

| AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Bridgeway</u> CYE 11 Rates Effective April 1, 2011 | | | |
|---|-------------------------|-------|--------------------|
| Service Category | GSA 42 (LaPaz and Yuma) | | |
| | Gross | MIX | Net |
| Nursing Facility | \$ 5,078.68 | 40.7% | \$ 2,064.48 |
| Share of Cost (Cap) | | | \$ (290.22) |
| Net Nursing Facility | | | \$ 1,774.26 |
| HCBS Home and Community | \$ 1,191.44 | 59.4% | \$ 707.12 |
| Net HCBS | | | \$ 707.12 |
| Acute | | | \$ 286.59 |
| Case Management | | | \$ 121.78 |
| Admin | | | \$ 225.18 |
| Risk/Contingency | | | \$ 31.15 |
| Net Capitation | | | \$ 3,146.08 |
| Premium Tax (98% of Final Cap) | | | \$ 64.21 |
| Net Cap w/ Premium Tax | | | \$ 3,210.29 |
| Rates are the same for Dual and Nondual members | | | |

APPENIDX I

| AHCCCS Capitation Calculation For Rates - <u>Bridgeway</u> CYE 11 Rates Effective April 1, 2011 | |
|--|----------------------------|
| Rate Cells | GSA 42 (LaPaz and Yuma) |
| Acute Care Only | \$ 452.65 |
| Prior Period Coverage | \$ 983.21 |
| Rates include premium tax Rates are the same for Dual and Nondual members | |

APPENDIX I

| AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Evercare</u> CYE 11 Rates Effective April 1, 2011 | | | |
|--|---|-------|--------------------|
| Service Category | GSA 44 (Apache, Coconino, Mohave and Navajo) | | |
| | Gross | MIX | Net |
| Nursing Facility | \$ 5,183.67 | 33.3% | \$ 1,726.16 |
| Share of Cost (Cap) | | | \$ (304.75) |
| Net Nursing Facility | | | \$ 1,421.41 |
| HCBS Home and Community | \$ 1,039.67 | 66.7% | \$ 693.46 |
| Net HCBS | | | \$ 693.46 |
| Acute | | | \$ 397.69 |
| Case Management | | | \$ 134.10 |
| Admin | | | \$ 198.20 |
| Risk/Contingency | | | \$ 28.45 |
| Net Capitation | | | \$ 2,873.31 |
| Premium Tax (98% of Final Cap) | | | \$ 58.64 |
| Net Cap w/ Premium Tax | | | \$ 2,931.95 |
| Rates are the same for Dual and Nondual members | | | |

APPENDIX I

AHCCCS Capitation Calculation For Rates - Evercare CYE 11 Rates Effective April 1, 2011

| GSA 44 | GSA 44 (Apache, Coconino, Mohave and Navajo) |
|--|--|
| Acute Care Only | \$ 589.96 |
| Prior Period Coverage | \$ 983.21 |
| Rates include premium tax Rates are the same for Dual and Nondual members | |

APPENDIX I

| AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Cochise LTC</u> CYE 11 Rates Effective April 1, 2011 | | | |
|---|---------------------------------------|-------|--------------------|
| Service Category | GSA 46 (Cochise, Graham and Greenlee) | | |
| | Gross | MIX | Net |
| Nursing Facility | \$ 4,643.66 | 39.3% | \$ 1,824.96 |
| Share of Cost (Cap) | | | \$ (343.32) |
| Net Nursing Facility | | | \$ 1,481.64 |
| HCBS Home and Community | \$ 1,290.14 | 60.7% | \$ 783.11 |
| Net HCBS | | | \$ 783.11 |
| Acute | | | \$ 360.88 |
| Case Management | | | \$ 110.20 |
| Admin | | | \$ 203.74 |
| Risk/Contingency | | | \$ 29.40 |
| Net Capitation | | | \$ 2,968.97 |
| Premium Tax (98% of Final Cap) | | | \$ 60.59 |
| Net Cap w/ Premium Tax | | | \$ 3,029.56 |

Rates are the same for Dual and Nondual members

APPENDIX I

AHCCCS Capitation Calculation For Rates - Cochise LTC CYE 11 Rates Effective April 1, 2011

| Rate Cells | GSA 46 (Cochise, Graham and Greenlee) |
|--|---|
| Acute Care Only | \$ 517.87 |
| Prior Period Coverage | \$ 983.21 |
| Rates include premium tax Rates are the same for Dual and Nondual members | |

APPENDIX I

| AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Yavapai LTC</u> CYE 11 Rates Effective April 1, 2011 | | | |
|---|------------------|-------|--------------------|
| Service Category | GSA 48 (Yavapai) | | |
| | Gross | MIX | Net |
| Nursing Facility | \$ 5,189.54 | 40.1% | \$ 2,082.30 |
| Share of Cost (Cap) | | | \$ (379.10) |
| Net Nursing Facility | | | \$ 1,703.20 |
| HCBS Home and Community | \$ 1,695.47 | 59.9% | \$ 1,015.16 |
| Net HCBS | | | \$ 1,015.16 |
| Acute | | | \$ 350.80 |
| Case Management | | | \$ 97.45 |
| Admin | | | \$ 247.14 |
| Risk/Contingency | | | \$ 34.14 |
| Net Capitation | | | \$ 3,447.89 |
| Premium Tax (98% of Final Cap) | | | \$ 70.37 |
| Net Cap w/ Premium Tax | | | \$ 3,518.26 |
| Rates are the same for Dual and Nondual members | | | |

APPENDIX I

**AHCCCS Capitation
Calculation For Rates - Yavapai
LTC CYE 11 Rates Effective
April 1, 2011**

| Rate Cells | GSA 48 (Yavapai) |
|-----------------------|------------------|
| Acute Care Only | \$ 594.55 |
| Prior Period Coverage | \$ 983.21 |

Rates include premium tax
Rates are the same for Dual and Nondual members

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - Pima LTC CYE 11 Rates Effective April 1, 2011

| Service Category | GSA 50 (Pima and Santa Cruz) | | |
|---|------------------------------|-------|--------------------|
| | Gross | MIX | Net |
| Nursing Facility | \$ 5,510.43 | 33.4% | \$ 1,840.48 |
| Share of Cost (Cap) | | | \$ (265.64) |
| Net Nursing Facility | | | \$ 1,574.84 |
| HCBS Home and Community | \$ 1,834.84 | 66.6% | \$ 1,222.00 |
| Net HCBS | | | \$ 1,222.00 |
| Acute | | | \$ 382.71 |
| Case Management | | | \$ 119.49 |
| Admin | | | \$ 214.55 |
| Risk/Contingency | | | \$ 35.14 |
| Net Capitation | | | \$ 3,548.73 |
| Premium Tax (98% of Final Cap) | | | \$ 72.42 |
| Net Cap w/ Premium Tax | | | \$ 3,621.15 |
| Rates are the same for Dual and Nondual members | | | |

APPENDIX I

AHCCCS Capitation Calculation For Rates - Pima LTC CYE 11 Rates Effective April 1, 2011

| Rate Cells | GSA 50 (Pima and Santa Cruz) |
|--|------------------------------|
| Acute Care Only | \$ 545.62 |
| Prior Period Coverage | \$ 962.03 |
| Rates include premium tax Rates are the same for Dual and Nondual members | |

APPENDIX I

| AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Bridgeway</u> CYE 11 Rates Effective April 1, 2011 | | | |
|---|-------------------|-------|--------------------|
| Service Category | GSA 52 (Maricopa) | | |
| | Gross | MIX | Net |
| Nursing Facility | \$ 5,510.12 | 27.2% | \$ 1,498.75 |
| Share of Cost (Cap) | | | \$ (232.39) |
| Net Nursing Facility | | | \$ 1,266.36 |
| HCBS Home and Community | \$ 1,591.94 | 72.8% | \$ 1,158.93 |
| Net HCBS | | | \$ 1,158.93 |
| Acute | | | \$ 375.39 |
| Case Management | | | \$ 116.59 |
| Admin | | | \$ 240.24 |
| Risk/Contingency | | | \$ 31.58 |
| Net Capitation | | | \$ 3,189.09 |
| Premium Tax (98% of Final Cap) | | | \$ 65.08 |
| Net Cap w/ Premium Tax | | | \$ 3,254.17 |
| Rates are the same for Dual and Nondual members | | | |

APPENIDX I

| AHCCCS Capitation Calculation For Rates - <u>Bridgeway</u> CYE 11 Rates Effective April 1, 2011 | |
|--|--------------------------|
| Rate Cells | GSA 52 (Maricopa) |
| Acute Care Only | \$ 539.31 |
| Prior Period Coverage | \$ 1,008.65 |
| Rates include premium tax Rates are the same for Dual and Nondual members | |

APPENDIX I

| AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Evercare</u> CYE 11 Rates Effective April 1, 2011 | | | |
|--|-------------------|-------|--------------------|
| Service Category | GSA 52 (Maricopa) | | |
| | Maricopa | | |
| | Gross | MIX | Net |
| Nursing Facility | \$ 5,477.12 | 38.2% | \$ 2,091.99 |
| Share of Cost (Cap) | | | \$ (328.84) |
| Net Nursing Facility | | | \$ 1,763.15 |
| HCBS Home and Community | \$ 1,676.80 | 61.8% | \$ 1,036.35 |
| Net HCBS | | | \$ 1,036.35 |
| Acute | | | \$ 221.32 |
| Case Management | | | \$ 134.80 |
| Admin | | | \$ 238.65 |
| Risk/Contingency | | | \$ 33.94 |
| Net Capitation | | | \$ 3,428.21 |
| Premium Tax (98% of Final Cap) | | | \$ 69.96 |
| Net Cap w/ Premium Tax | | | \$ 3,498.17 |
| Rates are the same for Dual and Nondual members | | | |

APPENDIX I

| AHCCCS Capitation Calculation For Rates - Evercare CYE 11 Rates Effective April 1, 2011 | |
|--|------------------------------|
| Rate Cells | GSA 52 (Maricopa) |
| Acute Care Only | \$ 393.96 |
| Prior Period Coverage | \$ 1,008.65 |
| Rates include premium tax Rates are the same for Dual and Nondual members | |

APPENDIX I

| AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Mercy Care</u> CYE 11 Rates Effective April 1, 2011 | | | |
|--|-------------------|-------|--------------------|
| Service Category | GSA 52 (Maricopa) | | |
| | Maricopa | | |
| | Gross | MIX | Net |
| Nursing Facility | \$ 5,541.96 | 25.6% | \$ 1,417.63 |
| Share of Cost (Cap) | | | \$ (203.32) |
| Net Nursing Facility | | | \$ 1,214.31 |
| HCBS Home and Community | \$ 1,614.15 | 74.4% | \$ 1,201.25 |
| Net HCBS | | | \$ 1,201.25 |
| Acute | | | \$ 439.86 |
| Case Management | | | \$ 96.02 |
| Admin | | | \$ 147.31 |
| Risk/Contingency | | | \$ 30.99 |
| Net Capitation | | | \$ 3,129.74 |
| Premium Tax (98% of Final Cap) | | | \$ 63.87 |
| Net Cap w/ Premium Tax | | | \$ 3,193.61 |
| Rates are the same for Dual and Nondual members | | | |

APPENDIX I

Capitation Calculation For Rates - Mercy Care CYE 11 Rates Effective April 1, 2011

| Rate Cells | GSA 52 (Maricopa) |
|--|----------------------|
| Acute Care Only | \$ 574.38 |
| Prior Period Coverage | \$ 1,008.65 |
| Rates include premium tax Rates are the same for Dual and Nondual members | |

APPENDIX I

| AHCCCS Capitation Calculation For Rates - <u>SCAN</u> CYE 11 Rates Effective April 1, 2011 | | | |
|---|-------------------|-------|--------------------|
| Service Category | GSA 52 (Maricopa) | | |
| | Maricopa | | |
| | Gross | MIX | Net |
| Nursing Facility | \$ 5,617.47 | 24.7% | \$ 1,387.52 |
| Share of Cost (Cap) | | | \$ (226.31) |
| Net Nursing Facility | | | \$ 1,161.21 |
| HCBS Home and Community | \$ 1,633.39 | 75.3% | \$ 1,229.94 |
| Net HCBS | | | \$ 1,229.94 |
| Acute | | | \$ 418.66 |
| Case Management | | | \$ 132.43 |
| Admin | | | \$ 242.51 |
| Risk/Contingency | | | \$ 31.85 |
| Net Capitation | | | \$ 3,216.60 |
| Premium Tax (98% of Final Cap) | | | \$ 65.64 |
| Net Cap w/ Premium Tax | | | \$ 3,282.24 |
| Rates are the same for Dual and Nondual members | | | |

APPENDIX I

AHCCCS Capitation Calculation For Rates - SCAN CYE 11 Rates Effective April 1, 2011

| Rate Cells | GSA 52 (Maricopa) |
|-----------------------|-------------------|
| Acute Care Only | \$ 611.31 |
| Prior Period Coverage | \$ 1,008.65 |

Rates include premium tax
Rates are the same for Dual and Nondual members

Comprehensive Medical and Dental Program (CMDP) Updated Actuarial Memorandum for CYE 2011

I. Purpose

This memorandum presents a discussion of the revision to the capitation rates for the Comprehensive Medical and Dental Program (CMDP) program, for the period April 1, 2011 to the end of the contract year. This update to the rates is required as a result of changes to provider reimbursement via rate reductions effective April 1, 2011.

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

II. Overview of Changes

In response to significant fiscal challenges facing the State of Arizona, AHCCCS is reducing inpatient and outpatient hospital reimbursement and other provider type fee schedules effective April 1, 2011. The provider rates impacted, and their reductions, include:

Reduced 5%:

- Inpatient hospital rates
- Cost to Charge ratios used to qualify and pay inpatient outliers
- Outpatient hospital rates
- Dental rates
- Physician fee schedule rates
 - excluding the Physician Drug Schedule
- Dialysis center composite rates
- ADHS Transportation rates
- Non-ADHS Transportation rates
- Behavioral Health rates (including AHCCCS inpatient psychiatric tiered per diem rates and bed holds) with the exception of:
 - 1) All other Acute Care Hospital/Level 1 Hospitalization
 - 2) All Level 1 Sub Acute Facilities
 - 3) All Level 1 Residential Treatment Centers

Reduced 2.5%:

- In-Home service rates, including Adult Day Health

The overall impact to the CMDP program of these changes is approximately \$800,000.

III. Proposed Revised Capitation Rates and Their Impact

Table I below summarizes the changes from the current approved CYE11 capitation rates and the estimated budget impact, effective for the period April 1, 2011 through the end of the contract year on a statewide basis.

Table I: Proposed Statewide Capitation Rates and Budget Impact

| Rate Cell | Projected Member Months | CYE11 Current Rate | CYE11 Updated Rate | Estimated CYE11 Current Capitation | Estimated CYE11 Updated Capitation | Dollar Impact |
|-------------|-------------------------|--------------------|--------------------|------------------------------------|------------------------------------|---------------|
| Prospective | 87,342 | \$ 236.14 | \$ 227.46 | \$ 20,624,962 | \$ 19,866,833 | \$ (758,129) |
| PPC | 2,101 | \$ 440.56 | \$ 421.03 | \$ 925,419 | \$ 884,395 | \$ (41,024) |
| Total | | | | \$ 21,550,381 | \$ 20,751,228 | \$ (799,153) |

IV. Actuarial Certification of the Capitation Rates:

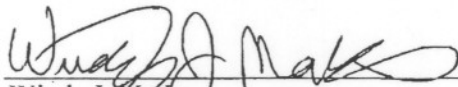
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards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

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the nine month period beginning April 1, 2011.

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

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

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


Windy J. Marks

03-10-11
Date

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

Children's Rehabilitative Services (CRS) Updated Actuarial Memorandum for CYE 2011

I. Purpose

This memorandum presents a discussion of the revision to the capitation rates for the Children's Rehabilitative Services (CRS) program, for the period April 1, 2011 to September 30, 2011. This update to the rates is required as a result of changes to provider reimbursement via rate reductions effective April 1, 2011.

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

II. Overview of Changes

In response to significant fiscal challenges facing the State of Arizona, AHCCCS is reducing inpatient and outpatient hospital reimbursement and other provider type fee schedules effective April 1, 2011. The provider rates impacted, and their reductions, include:

Reduced 5%:

- Inpatient hospital rates
- Cost to Charge ratios used to qualify and pay inpatient outliers
- Outpatient hospital rates
- Dental rates
- Physician fee schedule rates
 - excluding the Physician Drug Schedule
- Dialysis center composite rates
- ADHS Transportation rates
- Non-ADHS Transportation rates
- Behavioral Health rates (including AHCCCS inpatient psychiatric tiered per diem rates and bed holds) with the exception of:
 - 1) All other Acute Care Hospital/Level 1 Hospitalization
 - 2) All Level 1 Sub Acute Facilities
 - 3) All Level 1 Residential Treatment Centers

Reduced 2.5%:

- In-Home service rates, including Adult Day Health

The overall impact to the CRS program of these changes is approximately \$1.6 million.

III. Proposed Revised Capitation Rates and Their Impact

Table I below summarizes the changes from the current approved CYE11 capitation rates and the estimated budget impact, effective for the period April 1, 2011 through September 30, 2011 on a statewide basis.

Table I: Proposed Statewide Capitation Rates and Budget Impact

| Rate Cell | Based on Projected Member Months April 1, 2011 - September 30, 2011 | CYE11 Current Rate | CYE11 Updated Rate | Based on Projected Member Months April 1, 2011 - September 30, 2011 | | Dollar Impact | Percentage Impact |
|-----------|---|--------------------|--------------------|---|------------------------------------|----------------|-------------------|
| | | | | Estimated CYE11 Current Capitation | Estimated CYE11 Updated Capitation | | |
| High | 7,565 | \$791.63 | \$788.81 | \$ 5,988,681 | \$ 5,967,348 | \$ (21,333) | -0.36% |
| Medium | 72,028 | \$523.65 | \$507.51 | \$ 37,717,462 | \$ 36,554,930 | \$ (1,162,532) | -3.08% |
| Low | 56,050 | \$258.39 | \$250.79 | \$ 14,482,760 | \$ 14,056,780 | \$ (425,980) | -2.94% |
| Total | | | | \$ 58,188,903 | \$ 56,579,058 | \$ (1,609,845) | -2.77% |

IV. Actuarial Certification of the Capitation Rates:

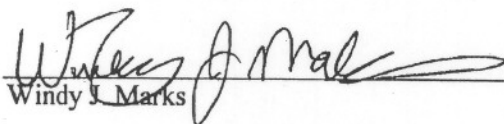
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards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

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the six month period beginning April 1, 2011.

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

In developing the actuarially sound capitation rates, I have relied upon data and information provided by ADHS and Mercer. I have accepted the data without audit and have relied upon the Mercer and ADHS employees for the accuracy of the data and the base capitation rates.

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


Windy J. Marks

01/24/11
Date

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

Acute Care Updated Actuarial Memorandum for CYE 2011

I. Purpose

This memorandum presents a discussion of the revision to the acute capitation rates for the period of April 1, 2011 to September 30, 2011. This update to the rates is required as a result of changes to provider reimbursement via rate reductions effective April 1, 2011. In addition, AHCCCS analyzed recent data to determine the appropriateness of all CYE11 capitation rates. Upon review of the data, it appears that the Acute PPC rates and the prospective non-MED rates continue to remain higher than the resulting encounters (including trend and completion factors). Given these two populations are reconciled, AHCCCS feels it acceptable and appropriate to make a mid year adjustment to these rates to reflect the differential between the capitation rate and the actual experience.

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

II. Overview of Changes

In response to significant fiscal challenges facing the State of Arizona, AHCCCS is reducing inpatient and outpatient hospital reimbursement and other provider type fee schedules effective April 1, 2011. The provider rates impacted, and their reductions, include:

Reduced 5%:

- Inpatient hospital rates
- Cost to Charge ratios used to qualify and pay inpatient outliers
- Outpatient hospital rates
- Dental rates
- Physician fee schedule rates
 - excluding the Physician Drug Schedule
- Dialysis center composite rates
- ADHS Transportation rates
- Non-ADHS Transportation rates
- Behavioral Health rates (including AHCCCS inpatient psychiatric tiered per diem rates and bed holds) with the exception of:
 - 1) All other Acute Care Hospital/Level 1 Hospitalization
 - 2) All Level 1 Sub Acute Facilities
 - 3) All Level 1 Residential Treatment Centers

Reduced 2.5%:

- In-Home service rates, including Adult Day Health

The overall impact to the Acute program of these changes is approximately \$87.5 million.

Additionally, AHCCCS is reducing PPC and prospective non-MED rates based on six more months of encounter and financial data going through 09/30/2010. The overall impact of this change is approximately \$35.8 million.

III. Proposed Revised Capitation Rates and Their Impact

Table I below summarizes the changes from the current approved CYE11 capitation rates and the estimated budget impact, effective for the period April 1, 2011 through September 30, 2011 on a statewide basis. Table I and Appendix I also includes the impact of administration, risk contingency and premium tax. The impact to contractors ranges from -4.4% to -5.9%. Individual health plan capitation rates will be impacted as shown in Section B of the contracts.

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

Table I: Proposed Statewide Capitation Rates and Budget Impact

| Rate Cell | CYE11 Projected MMs (04/01/11 - 09/30/11) | Current CYE11 Rate | Proposed CYE11 Rate | Based on CYE11 Projected Member Months (4/1/11 - 9/30/11) | | Dollar Impact on CYE11 estimated current capitation | Percentage Impact on CYE11 estimated current capitation |
|-------------|--|--------------------------|---------------------------|--|--|---|--|
| | | | | Estimated Current CYE11 Capitation | Estimated Proposed CYE11 Capitation | | |
| Prospective | 7,418,850 | \$ 292.43 | \$ 277.42 | \$ 2,169,477,834 | \$ 2,058,157,726 | \$ (111,320,109) | -5.1% |
| PPC | 423,128 | \$ 561.33 | \$ 497.82 | \$ 237,514,934 | \$ 210,641,203 | \$ (26,873,731) | -11.3% |
| Total | | | | \$ 2,406,992,768 | \$ 2,268,798,929 | \$ (138,193,840) | -5.7% |

APPENDIX I: Detail Budget

| | 04-01-11 to 09-30-11 Projected Member Months ¹ | Cap Rate- '11 (10/1) based on 4-1 to 9-30 Proj Member Months ² | Total Annual Dollars CYE '11 (10/1) based on 4/1 to 9/30 Proj MMs | Cap Rate-4/1 - 9/30 based on 4/1 - 9/30 Proj Member Months ³ | Total Annual Dollars 4/1 to 9/30 based on 4/1 to 9/30 Proj MMs | Difference | % Increase |
|-------------------------------|---|--|--|--|--|------------------|------------|
| Title XIX Waiver Group | | | | | | | |
| Prospective-MED | 43,299 \$ | 1,397.12 \$ | 60,494,013 \$ | 1,336.04 \$ | 57,849,305 \$ | (2,644,708) | -4.4% |
| PPC-MED | 11,364 \$ | 6,547.87 \$ | 74,412,968 \$ | 5,916.84 \$ | 67,241,656 \$ | (7,171,311) | -9.6% |
| Total MED | 54,664 | | \$ 134,906,981 | | \$ 125,090,962 | \$ (9,816,019) | -7.3% |
| Prospective-non-MED | 1,357,425 \$ | 487.00 \$ | 661,065,954 \$ | 451.34 \$ | 612,660,180 \$ | (48,405,774) | -7.3% |
| PPC -non-MED | 134,331 \$ | 862.68 \$ | 115,884,950 \$ | 735.05 \$ | 98,740,243 \$ | (17,144,707) | -14.8% |
| Total non-MED | 1,491,756 | | \$ 776,950,904 | | \$ 711,400,423 | \$ (65,550,481) | -8.4% |
| Total TWG | 1,546,420 | | \$ 911,857,885 | | \$ 836,491,384 | \$ (75,366,501) | -8.3% |
| TXD | | | | | | | |
| <1 | 307,455 \$ | 514.00 \$ | 158,031,729 \$ | 490.35 \$ | 150,760,424 \$ | (7,271,304) | -4.6% |
| 1-13 | 2,675,726 \$ | 110.12 \$ | 294,650,995 \$ | 105.47 \$ | 282,208,867 \$ | (12,442,128) | -4.2% |
| 14-44F | 1,340,143 \$ | 248.08 \$ | 332,462,567 \$ | 237.60 \$ | 318,417,873 \$ | (14,044,694) | -4.2% |
| 14-44M | 660,655 \$ | 157.92 \$ | 104,330,677 \$ | 151.50 \$ | 100,089,270 \$ | (4,241,407) | -4.1% |
| 45+ | 216,456 \$ | 407.19 \$ | 88,138,777 \$ | 390.94 \$ | 84,621,365 \$ | (3,517,412) | -4.0% |
| SSI w/Med | 426,928 \$ | 142.81 \$ | 60,969,658 \$ | 136.42 \$ | 58,241,585 \$ | (2,728,073) | -4.5% |
| SSI w/o Med | 353,824 \$ | 806.81 \$ | 285,468,632 \$ | 778.60 \$ | 275,487,261 \$ | (9,981,371) | -3.5% |
| SFP | 18,245 \$ | 14.70 \$ | 268,201 \$ | 14.19 \$ | 258,896 \$ | (9,305) | -3.5% |
| Delivery Supplemental Payment | 18,693 \$ | 6,611.90 \$ | 123,596,632 \$ | 6,239.11 \$ | 117,562,700 \$ | (6,033,932) | -4.9% |
| Total Prospective-non-TWG | 6,018,126 | | \$ 1,447,917,867 | | \$ 1,387,648,241 | \$ (60,269,627) | -4.2% |
| PPC<1 | 8,774 \$ | 904.95 \$ | 7,940,231 \$ | 931.21 \$ | 8,170,642 \$ | 230,411 | 2.9% |
| PPC<1-13 | 121,158 \$ | 58.14 \$ | 7,044,102 \$ | 54.67 \$ | 6,623,685 \$ | (420,417) | -6.0% |
| PPC<14-44F | 81,709 \$ | 207.52 \$ | 16,956,336 \$ | 193.80 \$ | 15,835,283 \$ | (1,121,053) | -6.6% |
| PPC<14-44M | 38,377 \$ | 171.97 \$ | 6,599,717 \$ | 155.79 \$ | 5,978,775 \$ | (620,942) | -9.4% |
| PPC<45+ | 11,409 \$ | 355.17 \$ | 4,052,282 \$ | 319.58 \$ | 3,646,221 \$ | (406,061) | -10.0% |
| PPC<SSI w/Med | 5,825 \$ | 153.94 \$ | 896,757 \$ | 130.44 \$ | 759,880 \$ | (136,896) | -15.3% |
| PPC<SSI w/o Med | 10,179 \$ | 366.21 \$ | 3,727,592 \$ | 358.08 \$ | 3,644,838 \$ | (82,754) | -2.2% |
| PPC All non-TWG rate codes | 277,432 | | \$ 47,217,016 | | \$ 44,659,304 | \$ (2,557,712) | -5.4% |
| Total Title XIX-non-TWG | 6,295,557 | | \$ 1,495,134,883 | | \$ 1,432,307,544 | \$ (62,827,339) | -4.2% |
| Grand Total Capitation | | | \$ 2,406,992,768 | | \$ 2,268,798,929 | \$ (138,193,840) | -5.7% |

Notes

- 1) DBF projected MMs from 4-1-11 to 9-30-11
- 2) Risk Adjusted Rates using CYE10 Risk Adjustment factors at 100% effective from 10-1-10 to 3-31-11
- 3) Risk Adjusted Rates using CYE10 Risk Adjustment factors at 100% effective from 4-1-11 to 9-30-11

IV. Actuarial Certification of the Capitation Rates:

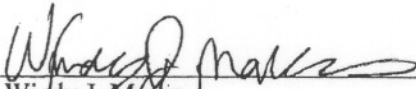
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards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

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the six month period beginning April 1, 2011.

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

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

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


Windy J. Marks

01/24/11
Date

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

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 2, 2011

TO: Representative John Kavanagh, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Senior Fiscal Analyst

SUBJECT: Attorney General – Review of Allocation of Settlement Monies

Request

The General Appropriation Act (Laws 2010, 7th Special Session, Chapter 1) contains a footnote that requires JLBC review of the expenditure plan for settlement monies over \$100,000 received by the Office of the Attorney General (AG) or any other person on behalf of the State of Arizona, prior to expenditure of the monies. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review.

This request is for review of a \$2,093,300 allocation to the AG from the AstraZeneca Pharmaceuticals settlement.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plans from the AstraZeneca settlement. The allocation plans are consistent with A.R.S. § 44-1531.01, which relates to the distribution of monies recovered as a result of enforcing consumer protection or consumer fraud statutes.

Analysis

In March 2010, the AG and 36 other states and the District of Colombia entered into a consent judgment with AstraZeneca as a result of their consumer fraud investigation of AstraZeneca's prescription drug Seroquel, which is FDA-approved for treatment of schizophrenia and bipolar mania. The complaint alleged that AstraZeneca marketed Seroquel for uses that were not FDA approved, also known as "off-label" uses. Physicians can prescribe drugs for off-label uses, but the drugs cannot be marketed as such. The FDA has not approved Seroquel for use in children, to treat symptoms rather than diagnosed conditions or to treat symptoms of anxiety, depression, sleep disorders, or post traumatic stress disorders, yet AstraZeneca marketed Seroquel for those uses.

(Continued)

The settlement requires AstraZeneca to pay \$2,093,300 to the AG. This amount will be deposited into the Consumer Fraud Revolving Fund for attorneys' fees, investigation costs, and to support consumer fraud investigations, consumer education, and enforcement of the Consumer Fraud Act.

The settlement also requires AstraZeneca to ensure that medical staff develops and approves medical references to Seroquel, that Seroquel is not promoted outside its FDA approved uses and that clinical trials of Seroquel are registered and results are submitted as required by federal law.

RS/MZ:mt



TOM HORNE
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL
PUBLIC ADVOCACY DIVISION
CONSUMER PROTECTION & ADVOCACY SECTION

DENA ROSEN EPSTEIN
SECTION CHIEF COUNSEL
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April 29, 2011

The Honorable Russell Pearce
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Andy Tobin
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

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



Re: *State ex rel Horne v. AstraZeneca Pharmaceuticals, LP and AstraZeneca, LP* C20111832 (Ariz. Sup. Ct., Pima County)

Gentlemen:

The State of Arizona recently settled a multi-state case against AstraZeneca resolving allegations that AstraZeneca violated the Arizona Consumer Fraud Act, A.R.S. § 44-1521 *et seq.*, in its promotion, sale, and provision of pharmaceuticals.

Arizona recently joined with 36 other state Attorneys General and District of Columbia to settle a multi-state action against AstraZeneca Pharmaceuticals, LP ("AstraZeneca") based on its allegedly unlawful promotion of the antipsychotic drug Seroquel®. The settlement, in the form of a Consent Judgment, resolves the States' two year investigation of AstraZeneca's promotional practices. (A copy of the signed Judgment is attached).

Seroquel® is the brand name for the prescription drug quetiapine fumarate. Before 2009, the Food and Drug Administration ("FDA") approved Seroquel® for the treatment of schizophrenia and bipolar mania. Seroquel® belongs to a class of drugs commonly referred to as "atypical antipsychotics."

When these drugs were first introduced to the market in the 1990s, experts thought atypical antipsychotics would be less likely to produce side effects seen in the first generation of antipsychotics, such as motion disorders like tardive dyskinesia, and therefore could be used in the long-term treatment of schizophrenia. While atypical antipsychotics may reduce some risks, according to the consent judgment, they also produced dangerous side effects, including a high risk of weight gain, hyperglycemia, diabetes, cardiovascular complications, and an increased risk of mortality in elderly patients with dementia. Seroquel® has allegedly been associated with each of these dangerous side effects.

As alleged in the Complaint, AstraZeneca began an aggressive marketing campaign promoting the use of Seroquel for use for a variety of conditions in children. As part of that campaign, the company marketed Seroquel® for a number of uses that were not approved by the FDA ("off-label" uses). For example, AstraZeneca marketed Seroquel® for pediatric use, for use at high dosage levels, for the treatment of anxiety, depression, sleep disorders, and post traumatic stress disorders. While a physician is allowed to prescribe drugs for off-label uses (*off-label prescribing*), the law prohibits pharmaceutical manufacturers from marketing their products for off-label uses (*off-label marketing*). The FDA has never approved Seroquel® for use in children, for use to treat symptoms rather than diagnosed conditions, or for the treatment of symptoms listed above.

The Consent Judgment contains a number of restrictions to ensure that AstraZeneca does not promote Seroquel® for off-label uses and that it markets Seroquel® in compliance with law. Among other things, under the Judgment AstraZeneca shall:

- Not make any false, misleading or deceptive claims regarding Seroquel®;
- Not promote Seroquel® using selected symptoms of the FDA-approved diagnoses unless certain disclosures are made regarding the approved diagnoses;
- Require its medical staff, rather than its marketing staff, to have ultimate responsibility for developing and approving the medical content for all medical letters and medical references regarding Seroquel®, including those that may describe off-label information. This information shall not be distributed unless certain criteria are met;
- Provide specific, accurate, objective and scientifically balanced responses to unsolicited requests for off-label information from a health care provider regarding Seroquel®;
- Contractually require continuing medical education providers to disclose AstraZeneca's financial support of their programs and any financial relationship with faculty and speakers; and
- Register clinical trials and submit results as required by federal law; register Seroquel® AstraZeneca sponsored Phase II, III and IV clinical trials beginning

after July 1, 2005; and post on a publicly accessible website all AstraZeneca sponsored Phase II, III and IV clinical trials completed after July 1, 2004.

In addition, the Consent Judgment requires AstraZeneca to pay a total of \$68.5 million to the participating states. Arizona's share of the settlement is \$2,093,327.00. This recovery is to be deposited in a Consumer Fraud Trust Fund to assist with the State's effort to enforce consumer fraud statutes in order to mitigate the deceptive promotion and marketing of products and services, pursuant to the terms of the Judgment.

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

Thank you for your consideration of this matter. If you have any questions, please feel free to contact me at dena.epstein@azag.gov or (602) 542-7717.

Sincerely,



Dena Rosen Epstein
Section Chief Counsel
Consumer Protection and Advocacy Section

cc: The Honorable Andy Biggs
The Honorable Chad Campbell
The Honorable David Schapira
Mr. Richard S. Stavneak
Ms. Marge Zylla (Settlement Agreement enclosed)
Mr. Joe Kanefield
Mr. Art Harding
Mr. Michael Vargas
Ms. Vicki Salazar
Mr. John T. Stevens, Jr.

