

STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE  
SENATE

RUTH SOLOMON  
CHAIRMAN 2002  
MARSHA ARZBERGER  
TIMOTHY S. BEE  
KEN BENNETT  
JACK A. BROWN  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
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HOUSE OF  
REPRESENTATIVES

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## JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, June 20, 2002

9:30 a.m.

Senate Appropriations Room 109

### AGENDA

- Call to Order
- [Approval of Minutes of May 7, 2002.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
  - A. Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee Health Plans as required under A.R.S. § 38-658A.
  - B. Department of Revenue - Consider Approval of Ladewig Expenditure Plan.\*
- 1. [DEPARTMENT OF REVENUE - Consider Approval of Ladewig Expenditure Plan.\\*](#)
- 2. [ARIZONA LOTTERY COMMISSION - Consider Approval of Revisions to Retailer Incentive Plan.](#)
- 3. [ARIZONA PIONEERS' HOME - Consider Approval of Requested Transfer of Appropriations.](#)
- 4. [AHCCCS - Review of Capitation Rates.](#)
- 5. DEPARTMENT OF HEALTH SERVICES
  - A. [Review of FY 2003 Expenditure Plan for Arnold v. Sarn Special Line Item.](#)
  - B. [Review of Children's Rehabilitative Services Capitation Rate Changes.](#)

\* Committee may need an Executive Session on this item to respond to questions on pending litigation as required under A.R.S. § 38-431.03.

(Continued)

6. DEPARTMENT OF ECONOMIC SECURITY
  - A. Review of Long Term Care Expenditure Plan.
  - B. Review of Proposed Transfer from Developmental Disabilities Programs to Children Services.
  - C. Report on Proposed Use of TANF Cash Benefits Expenditure Authority.
  - D. Update on Domestic Violence Baseline Cost-Effectiveness Measures.
7. ARIZONA STATE RETIREMENT SYSTEM - Review of FY 2003 Information Technology Expenditure Plan.
8. ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT INFORMATION TECHNOLOGY AGENCY
  - A. Report on HRMS Replacement Project.
  - B. Report on HRMS Replacement Project Agency Budget Savings.
9. ARIZONA DEPARTMENT OF TRANSPORTATION - Report on Grand Canyon Airport Funding.
10. REPORT ON RECENT AGENCY SUBMISSIONS
  - A. Arizona State Schools for the Deaf and the Blind - Report on Intended Use of Classification Salary Adjustment Monies.
  - B. Department of Emergency and Military Affairs - Report on Declared Emergencies.

The Chairman reserves the right to set the order of the agenda.  
6/13/02

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

May 7, 2002

The Chairman called the meeting to order at 9:40 a.m., Tuesday, May 7, 2002, in Senate Appropriations Room 109. The following were present:

|          |  |  |
|----------|--|--|
| Members: | Senator Solomon, Chairman<br>Senator Arzberger<br>Senator Bee<br>Senator Bennett<br>Senator Brown<br>Senator Cirillo<br>Senator Rios | Representative Knaperek, Vice-Chairman<br>Representative Burton Cahill<br>Representative Gray<br>Representative May<br>Representative Pickens<br>Representative Weason |
| Absent:  | Senator Bundgaard  | Representative Allen<br>Representative Pearce  |
| Staff:   | Richard Stavneak, Director<br>Kim Hohman<br>Stefan Shepherd  | Cheryl Kestner, Secretary<br>Beth Kohler   |
| Others:  | Cynthia Odom<br>Kathy Wieneke<br>Frank Hinds<br>Bruce Liggett  | Attorney General's Office<br>Outside Counsel for the Attorney General<br>Risk Management, ADOA<br>Deputy Director, DES   |

APPROVAL OF MINUTES

Senator Solomon moved that the minutes of February 28, 2002 be approved. The motion carried.

EXECUTIVE SESSION

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

At 9:44 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

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

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

1. Dresser/Estell v. State
2. Landis v. State

The motion carried.

## **DEPARTMENT OF HEALTH SERVICES (DHS) – Consider Approval of Transfer of Appropriations.**

Ms. Beth Kohler, JLBC Staff, stated that this item is a request to transfer monies between Special Line Items in the Behavioral Health Services budget. In the 2<sup>nd</sup> Special Session the appropriation for Non-Title XIX Mental Health Services was reduced from about \$9.9 million to about \$900,000 due to expected savings as a result of Proposition 204 expansion. However, DHS has spent about \$4 million in this line leaving a shortfall in the program. They have requested to transfer monies from the Seriously Mentally Ill Non-Title XIX Special Line Item and the Substance Abuse Non-Title XIX Special Line Item to the Mental Health Non-Title XIX Special Line Item.

Senator Solomon stated that she presumed those transfers will not affect the other 2 programs. Ms. Kohler said that that is what the Department has indicated.

Senator Bennett asked what the proportion is of the 2 accounts that they are transferring from. Ms. Kohler said she did not have that figure at hand, but that it was a reasonably small percentage.

*Representative Knaperek moved that the JLBC Staff recommendation be approved by the Committee for the Department of Health Services' request to transfer \$3,481,300 (\$2,462,700 from Seriously Mentally Ill Non-Title XIX and \$1,018,600 from Substance Abuse Non-Title XIX) to Mental Health Non-Title XIX. The motion carried.*

## **DEPARTMENT OF ECONOMIC SECURITY (DES)**

### **A. Determine Arizona Works Caseload Reduction Savings.**

Mr. Stefan Shepherd, JLBC Staff, said this item requires the Committee to approve a calculation of cash benefit savings due to caseload reductions in the Arizona Works Program for CY 2001. Under the proposed methodology, which the Committee has used in past years, the Arizona Works vendor has generated about \$1 million in caseload reduction savings. Statute permits the vendor to receive up to 25% of those savings or about \$270,000, and as a point of comparison, the Arizona Works vendor earned a total of 2% of the \$727,600 available last year.

Senator Solomon asked if Mr. Shepherd had an estimate of what he expects the performance based incentive to be for this year. Mr. Shepherd responded that he did not have an estimate, however, the vendor performance has not been significantly different this year than last year.

Senator Cirillo stated that there seems to be a lot of controversy over the methodology used for calculating this savings. He asked where this method came from originally. Mr. Shepherd said that this was originally proposed by JLBC Staff. The legislation establishing the Arizona Works Program is fairly vague on what caseload reductions means. The JLBC Staff recommended the methodology based on discussions with the bill's original sponsors back in 1997. He said that this method has been used for 3 years; it would be reasonable from that perspective. The Committee could change the methodology if it wanted to, however.

*Representative Knaperek moved the JLBC Staff recommendation for approval of the calculation of cash benefit savings attributable to caseload reduction achieved by the Arizona Works pilot welfare program for calendar year 2001. The motion carried.*

### **B. Determine Arizona Works Administrative Baseline Costs for Greenlee County.**

Mr. Shepherd said that this item requires the Committee to determine the Administrative Baseline costs for the Arizona Works Program in Greenlee County. This is the 2nd rural phase of the Arizona Works Program. The Committee had previously approved a baseline for Mohave County. Subsequent to Committee approval of that baseline, the Arizona Works Procurement Board decided to not expand into Mohave County but rather to Greenlee County. The methodology behind the JLBC Staff recommendation of the Administrative Baseline costs totaling \$189,500 duplicates the methodology used for Mohave County and the original District-1 East pilot site.

Senator Cirillo asked if this is being forced on Greenlee County or has the Board of Supervisors acquiesced to this.



Mr. Bruce Liggett, Deputy Director, DES, said that the Procurement Board made the decision to select the County and the County did not have a choice in this matter. The County was provided the opportunity to come and testify before the Board but chose not to. Mr. Liggett spoke to the County Manager of Greenlee County and they acquiesced.

Senator Arzberger asked how many people are served by Arizona Works in Greenlee County. Mr. Liggett responded that about 75 cases are served in Greenlee County.

In response to Senator Arzberger's question, Mr. Shepherd said that the MAXIMUS contract was set up for the total cost of administering all 3 programs. It is not that they are being paid on all 3 programs to administer 1 program but a component of their payment is based on the total cost of administering all 3 programs.

Representative Knaperek moved the JLBC Staff recommendation for approval of the JLBC Staff estimate of the total direct and indirect costs of administering the EMPOWER Redesign welfare program in Greenlee County for all of FY 2002. The motion carried.

#### **C. Review of Request to Expend FY 2003 Children Services Allocation in FY 2002.**

Mr. Shepherd said this item is a request from DES to spend about \$6.5 million of TANF monies transferred to the Social Services Block Grant that were allocated for use in FY 2003 but were permitted to be used in FY 2002 in the Children Services Program. The JLBC Staff is recommending a favorable review.

Representative Pickens asked where the \$6.5 million is coming from. Mr. Shepherd said that it is TANF monies that are appropriated in the TANF Deposit to SSBG line item in DES's budget for FY 2002 but a footnote actually allocated those monies for use in FY 2003. The footnote also permits DES to spend those monies in FY 2002. Mr. Shepherd said that they plan to use all of those monies.

Senator Bennett asked if Mr. Shepherd could estimate what the appropriation from the TANF Block Grant in FY 2003 will be. Mr. Shepherd said that the line item for FY 2002 is \$32 million and under the Chairmans' current plan the number would be about \$36 million in FY 2003.

Representative Knaperek moved that the Committee give a favorable review to the JLBC Staff recommendation to spend in FY 2002 a total \$6,471,000 of TANF Block Grant monies transferred to SSBG and allocated for use to the Children Services program in FY 2003. The motion carried.

#### **OFFICE OF THE ATTORNEY GENERAL (AG) – Review Allocation of Settlement Monies.**

Ms. Kim Hohman, JLBC Staff, said this item is a review of the Attorney General's allocation plan for 4 recent settlement agreements.

Representative Knaperek moved that the Committee give a favorable review to the allocation plan by the Attorney General's Office for each of the settlement agreements. They include: 1) Bridgestone/Firestone, 2) First Alliance Mortgage Company (FAMCO), 3) TNI Partners (Tucson Newspapers, Inc.), and 4) Vitamin Settlement (Richardson v. Hoffman-LaRoche, Ltd.). The motion carried.

#### **REPORT ON RECENT AGENCY SUBMISSIONS**

These are the recent reports received in the last month and no Committee action was required.

- A. Attorney General - Report on Model Court.**
- B. Boxing Commission - Report on Boxing Events and Revenue.**
- C. Arizona Criminal Justice Commission - Report on State Aid to County Attorneys Fund and the State Aid to Indigent Defense Fund.**
- D. Department of Economic Security - Bimonthly Report on Arizona Works.**
- E. Department of Economic Security - Bimonthly Report on Children Services Program.**
- F. Department of Emergency and Military Affairs - Report on Declared Emergencies.**
- G. Government Information Technology Agency/Arizona Department of Administration - Report on Statewide Technology License Agreement Account Expenditures.**
- H. Department of Health Services - Report on 317 Vaccines Program.**

- I. Arizona State Retirement System - Semi-Annual Report on Information Technology Expenditures and Project Tasks.**
- J. Supreme Court - Report on Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund.**

Without objection, the meeting adjourned at 10:25 a.m.

Respectfully submitted:

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Cheryl Kestner, Secretary

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Richard Stavneak, Director

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Senator Ruth Solomon, Chairman

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

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DATE: June 13, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF REVENUE – CONSIDER APPROVAL OF LADEWIG  
EXPENDITURE PLAN

**Request**

The Arizona Department of Revenue (DOR) requests that the Committee approve their expenditure plan for Ladewig administration costs for the first quarter of FY 2003. DOR originally requested \$1,414,000, but has now revised its estimate to \$1,196,700.

**Recommendation**

The JLBC Staff recommends that the Committee approve \$866,400 for DOR's 3-month interim expenditure plan. Any monies remaining unspent from the \$866,400 at the end of the first quarter would be available for the remainder of DOR's full year expenditure plan. If DOR needs more than \$866,400 for the first quarter, the department can submit an amended request and update their project status at a future monthly Committee meeting if necessary.

The JLBC Staff further recommends that these Personal Services monies (including overtime) only be spent on staff directly working on Ladewig, and that the next expenditure plan should include an accounting of expenditures to date, in addition to an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, as required by Laws 2002, Chapter 321.

**Analysis**

Laws 2002, Chapter 321 allocates \$75,000,000 in FY 2003 for the purposes of covering the first year settlement payments and costs of the case of Ladewig v. State of Arizona. DOR may use up to \$15,000,000 of this \$75,000,000 for administration and review of payments. Additional settlement and administrative funding may be required in future years. DOR is required to present an expenditure plan for Committee approval that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, before the expenditure of up to \$15,000,000 for administrative expenses.

(Continued)

DOR's submission indicates that many of the settlement parameters have yet to be decided by the tax court, the determination of which will impact how the department needs to process claims. For instance, DOR reports that the judge has yet to determine the respective roles of the taxpayer and the department in establishing the entitlement of a particular taxpayer to a refund and the amount of that refund. In any event, DOR will have to address issues concerning the retrieval and analysis of old taxpayer data from tax years 1986-1989. DOR reports that these tasks will be time consuming and labor intensive.

Although certain issues still need to be resolved, the department will be required to begin the process by sending notices to 600,000 class members in late June and early July 2002, and begin processing claims as settlement parameters are clarified. DOR has submitted an expenditure plan for the first quarter of FY 2003, to cover the mailing of 600,000 notices and begin processing claims. DOR will then return for Committee approval of their expenditure plan for the rest of FY 2003.

The following table summarizes DOR's interim expenditure plan and the JLBC Staff recommendation.

**DOR's Expenditure Plan For The First Quarter Of FY 2003**

| <b>Category</b>                    | <b>DOR's Estimated Expenditures</b> | <b>JLBC Recommendation</b> |
|------------------------------------|-------------------------------------|----------------------------|
| FTE Positions                      | 4                                   | 4                          |
| Personal Services                  | \$238,300                           | \$238,300                  |
| Employee Related Expenditures      | 46,600                              | 46,600                     |
| Professional & Outside Services    | 123,600                             | 123,600                    |
| Travel                             | 16,900                              | 0*                         |
| Other Operating Expenditures       |                                     |                            |
| Postage and Post Office Box Rental | 357,900                             | 357,900                    |
| Newspaper Ads                      | 30,000                              | 30,000                     |
| Printing                           | 25,000                              | 25,000                     |
| Consumable Supplies                | 75,000                              | 0*                         |
| Other                              | 0                                   | 25,000                     |
| Equipment                          | 83,400                              | 20,000                     |
| Contingency                        | <u>200,000</u>                      | <u>0*</u>                  |
| <b>Total</b>                       | <b>\$1,196,700</b>                  | <b>\$866,400</b>           |

\* Fund from "Other" \$25,000 line

The total recommended for Personal Services of \$238,300 includes, \$42,500 for 4 FTE Positions to coordinate, plan, track, and manage the project, \$87,800 for 30 employees with each working 15 hours of overtime/week for 13 weeks, and \$108,000 for 15 employees temporarily assigned to the project for the last 9 weeks of the quarter.

These figures are DOR's best estimates. They are not based on detailed work plans for the project. DOR expects to backfill for current employees temporarily assigned to the project, either by using overtime or by hiring other employees. From our perspective, the request may be overstated if staff is not immediately assigned to the project at the beginning of July. If delays occur, that money should remain available to fund subsequent quarters of work.

The total recommended for Professional and Outside Services of \$123,600 is for temporary personnel and includes, \$45,600 for people to staff phones, and to open and sort mail for 9 weeks at the start of the project, and \$78,000 for 10 audit clerks for 13 weeks.

The total recommended for Other Operating Expenditures of \$412,900 includes, DOR's estimates of \$357,000 for postage, \$30,000 for newspaper ads, \$900 for post office box rental, and \$25,000 for printing. The \$25,000 for printing is based on DOR's undocumented estimate.

(Continued)

The recommended \$25,000 for Other includes both Travel and consumable supplies. DOR requested \$16,900 for Travel to cover training, and project coordination and supervision, which seems high. DOR based their estimate on trips between Phoenix and Tucson. DOR requested \$75,000 for consumable supplies under Other Operating Expenditures, but is still working on a more detailed breakdown to justify that dollar amount.

The total recommended for Equipment is \$20,000 for a heavy duty personal computer workstation. DOR's request of \$83,400 for Equipment includes this \$20,000, plus \$63,400 for 4 laptop computers for permanent staff, 10 desktop personal computers for temporary staff, and other computer equipment such as printers. JLBC Staff believes that DOR should have sufficient personal computers and laptops available from other vacant FTE Positions in the department. JLBC Staff also believes that DOR should not buy such equipment for temporary staff.

No extra money is specifically recommended for contingencies, since the Committee meets monthly and DOR can update their project status monthly if necessary.

RS/BH:jb

# ARIZONA DEPARTMENT OF REVENUE

1600 WEST MONROE - PHOENIX, ARIZONA 85007-2650

JANE DEE HULL  
GOVERNOR



MARK W. KILLIAN  
DIRECTOR

June 6, 2002



Mr. Robert D. Hull  
Analyst  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix Az 85007

Dear Mr. Hull:

I am sending by separate letter to Chairperson Solomon (your copy attached) our Budget presentation for the Ladewig costs of administration. I wanted to take this opportunity to thank you for the assistance you have been providing to Steve Shiffrin in preparing this document. Steve tells me that you have been very understanding of and discerning about the problems we face in preparing such a document.

Very truly yours,

A handwritten signature in black ink, appearing to read "m.w. Killian".

Mark W. Killian  
Director

cc: Stephen Shiffrin, Chief Tax Advocate

Attachment

**OTHER LOCATIONS:** Tucson Government Mall – 400 W. CONGRESS - TUCSON  
East Valley – 3191 N. WASHINGTON STREET - CHANDLER  
North Valley – 2902 W. AGUA FRIA FREEWAY - PHOENIX

# ARIZONA DEPARTMENT OF REVENUE

1600 WEST MONROE - PHOENIX, ARIZONA 85007-2650

JANE DEE HULL  
GOVERNOR



MARK W. KILLIAN  
DIRECTOR

June 6, 2002

The Honorable Ruth Solomon  
Chairperson, Joint Legislative Budget Committee  
1700 West Washington, Senate Wing  
Phoenix, Arizona 85007-2890



Dear Senator Solomon:

Thank you for accommodating my request to appear at the Committee's meeting on June 20, 2002 to present the Ladewig expenditure plan required by Senate Bill 1060. The case is currently in a state of legal flux and there are many uncertainties that make it extremely difficult to predict the costs of the project. My Chief Tax Advocate, Steve Shiffrin, explained this in some detail to Bob Hull of your staff and Mr. Hull graciously agreed that we would submit a three-month plan at this time and come back and revisit the issue with you in September.

Attached is a three-month expenditure proposal and a memorandum from Mr. Shiffrin to me explaining the case, the issues and the budget. Both Mr. Shiffrin and I will be at the meeting and we will be pleased to answer any questions you may have.

Very truly yours,

Mark W. Killian  
Director

cc: The Honorable Laura Knaperak, Vice Chair  
Richard Stavneak, Director  
→ Robert D. Hull, Analyst  
Stephen Shiffrin, Chief Tax Advocate, DOR

Attachments

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# **ARIZONA DEPARTMENT OF REVENUE**

## **MEMORANDUM**

**DATE:** June 6 2002

**TO:** Mark Killian, Director

**FROM:** Stephen Shiffrin, Chief Tax Advocate

**SUBJECT:** Ladewig case budget

Pursuant to the direction in S.B. 1060 (Chapter 321E), I have prepared an expenditure plan for the first quarter of fiscal year 2002-03. For the reasons described below, I have not prepared an expenditure plan for the entire project but I anticipate preparing a more extensive plan in a couple of months for presentation to the Joint Legislative Budget Committee.

While the plan is by category, it is impossible to provide precise expenditure amounts given the many unknowns at this time. We will therefore need the ability to treat the entire expenditure plan as a lump sum plan, using the categorizations as an estimating and explanatory tool for approval purposes.

### **BACKGROUND**

In April of 1991, Mrs. Ladewig filed her claim for refund for tax years 1986-1989 based on an assertion that the Arizona statute providing a deduction for dividends received from corporations conducting more than fifty per cent of their business in Arizona violated the dormant commerce clause requirement in the United States Constitution. After approximately three years of litigation, the case was dismissed by the Tax Court for failure to pursue administrative remedies and the case began working its way through the administrative process. In 1997, the Board of Tax Appeals ruled against the estate of Mrs. Ladewig and in March of that year, having exhausted all administrative remedies, Mrs. Ladewig filed a complaint in the Tax Court.

In December of 1998 and early 1999, Judge Bernard Dougherty declared that a class existed and also ruled that the statute violated the Commerce Clause of the United States Constitution. After consultation with the Attorney General, and on the advice of the Attorney General, the Department did not challenge the determination that the statute was unconstitutional. However, there had never been a successful declaration of a class action in a non property tax case in Arizona and the Department challenged the decision of



Judge Dougherty by bringing a special action against him in the Court of Appeals. The Department's decision was vindicated when in May of 2000 the Court of Appeals declared that a person could not be a member of a class action until they had first exhausted the administrative remedies (leaving Mrs. Ladewig as the only member of the class).

The Estate of Mrs. Ladewig then asked the Arizona Supreme Court to exercise its discretion and review the decision of the Court of Appeals. The Supreme Court granted this request in January 2001, and on August 29, 2001, the Supreme Court reversed the Court of Appeals and reinstated the class. The case was then remanded back to the trial court to finish resolving the various issues. The trial court held its first proceeding in January of 2002.

### **BUDGETARY CONSIDERATIONS**

The Department's budget needs for this program depend very much on the decisions that will be made by the Tax Court. No matter what the court decides, this will be a major endeavor because the Department will be dealing with somewhere between 500,000 and 800,000 possible refund recipients. The size of this project dwarfs previous special projects such as the federal retiree program, and the likelihood that manual review and processing will be needed in some form for most if not all of these taxpayers means the project will consume immense resources. Individual Income Tax Audit management has estimated that the review of the claim documents by audit staff alone will consume approximately 1,370,000 auditor hours. Similar staffing needs, if not greater needs, exist at the support staff level. The Department desires, to the extent it can do so, to automate this process and thereby reduce the demand on staff. Whether and to what extent the Department can do this depends upon the court's direction and the concomitant requirement upon the Department to ensure that refunds go to those who are entitled in the correct amount and not more.

There will be some people who will have all the documentation and be more than willing to provide it. For those people, the Department will need to be able to process their claims, review them, and schedule payments. This means data has to be pulled, claims and tax returns reviewed, computer systems developed and checks issued. All of this will require immediate resources.

Because of these uncertainties, the Department is proposing at this time a three-month budget to layout the range of costs the Department expects it

may encounter during the first quarter of FY2002-2003. I expect to request a subsequent meeting in August before the JLBC to address continuing costs after more definition has occurred.

To this point in time, the Tax Court judge has followed up on Judge Dougherty's order that notice be sent to the class members. That notice is currently scheduled to be sent in late June and early July to more than 600,000 potential class members.

There remain a number of issues to be determined by the court and many of these issues could become the subject of further appeals if either side finds the Judge's order to be unreasonable or outside the proper limits of the law. The Judge has to determine the respective roles of the taxpayer and the Department in establishing the entitlement of a particular taxpayer to a refund and the exact amount of that refund. This is not a simple matter owing to a number of factors ranging from data limitations on the Department's part to documentation problems on the taxpayer's part.

Recently, the Department conducted an analysis of a sample of 1,200 taxpayers and found that there were many problems associated with the determination of their refund amount. Among these problems were: 1) the commingling of dividends and short term capital gains on a single 1099-DIV from mutual funds; 2) the reporting of income from funds on 1099-DIV forms that were not stock funds but were either debt funds or money market funds or hybrid funds; and 3) the reporting of all income from a brokerage house on a single 1099-DIV form no matter what the original source of the income was. The Department also saw significant problems in other areas such as the determination of, and attribution of, expenses associated with investment income that should be disallowed to the extent that they were tied to income that would no longer be subject to tax under the Ladewig case.

The Department also has problems with data that is available to it. Much of this data is very old and degraded over time. For example, the Internal Revenue Service provided computer tapes for these years to the Department containing the basic information from form 1040 and from 1099-DIVs. But the tapes that were sent to the Department were not new and over time the magnetic images on these old fashioned round reel tapes has degraded. As a result, some or all of the data and some or all of the reels are now unreadable. The most relevant 1040 information was contemporaneously converted onto microfiche but the microfiche is considerably less accessible than computer tapes. The 1040 information is not available in any other form.

In addition, all Arizona taxpayers do not appear on these tapes. The IRS sends 1040 information only for those taxpayers who filed their federal returns from an Arizona address. If they filed from an out of state address (as they may do if they had a practitioner in another state prepare their taxes), the data was never sent to Arizona. The same limitation applies to the 1099-DIVs and in addition, only some issuers of 1099-DIVs have their data sent to the various states. Finally, a 1099-DIV can be issued to someone who is not the taxpayer such as a nominee. As a result, both of these data sources, even if not degraded, are not complete and accurate.

The Department has similar problems with its own electronic data. In 1993-94 when the Department was administering the federal retiree refund program, it ran the computer tapes containing state data for 1986-1989 and discovered they had begun to degrade, especially 1986 and 1987. The Department immediately copied the tapes onto newer cartridges in order to prevent further degradation. At this time the Department renewed the retention period for these tapes for an additional five years. Unfortunately, through an oversight, the 1988 cartridge was not renewed a second time and the tape was overwritten with new, unrelated data (the Department uses up to 500 tape cartridges a day and manages a tape library of approximately 18,000 tapes and tape cartridges). While the data for all three years remains available on microfiche, it is, again, less accessible than it would be in electronic form.

The Tax Court has not yet addressed these issues or made any rulings on how the correct refund amounts will be determined. A status conference is scheduled for June 10, 2002, but these issues will probably not be addressed at that time.

I would like to initially establish four limited permanent positions to administer the program: a Program Administrator who will report to me and be responsible for the overall administration of the day to day program; a Budget Officer/Administrative Officer who will also report to me (thereby separating the operational responsibilities from the financial responsibilities); an Executive Staff Assistant; and a Clerk Typist III. I envision this as the core staff that will coordinate a large group of temporary employees, existing employees and overtime employees. This cadre will be responsible for overall coordination, planning, tracking, and project management.

### EXPENDITURE EXPLANATION

The proposed expenditure budget for the first quarter is set forth on the attached spreadsheet. An explanation of the items is set forth below:

- Permanent project staff. These will be the core people working full time for at least a couple of years managing the project, its budget, its planning, etc.
- Existing personnel. These will be current DOR employees working overtime or on temporary assignments to the project to accomplish such tasks as auditing refund claims, writing computer programs, managing temporary employees, etc.
- Temporary personnel. These will be contract personnel who will be brought in and trained to staff telephone desks, open and sort mail, research microfiche data, enter information into computer databases, etc.
- Postage. This item will cover the portion of the initial mailing of notice of class action that will occur in July and the postage required for the various letters that will be sent back and forth to claimants during the succeeding three months. The portion that will be mailed in June will be paid out of DOR's FY2001-2002 budget.
- Post Office Box Rental. The post office box used by taxpayers to correspond on this case with the Department.
- Computers. This item will include a PC workstation with massive amounts of storage to analyze and crunch the data on the class members. We expect there are more than two million tax years at issue with considerable data on each tax year that needs to be analyzed and compared, and then computed. The Department needs a modern workstation class PC to do this. The remainder of the item is for personal computers (laptops and desktops and peripherals) for the staff working on the project.
- Communications. Telephone and pager service and equipment is needed to coordinate and manage the project.
- Travel. This item will cover travel between DOR offices by staff working on the project so that personnel can be trained and coordinated.
- Consumable supplies. This item will cover paper, microfilm and fiche toner, copier toner, printer toner, envelopes, computer disks, etc.

**Ladewig Case Budget**

**June 6, 2002**

**Page 6**

- Printing. This will cover notices and the claim forms that will be used for taxpayers who do not receive notice to assert and document their claim for membership in the class and refund amounts pursuant to their membership.
- Public Notices. Pursuant to Judge Dougherty's order as reaffirmed by the Tax Court Judge, the Department is required to publish notice in various newspapers around the state for several weeks.
- Reserve for unanticipated costs. Because of the fluid nature of the case at this time, as explained above, it is impossible to anticipate fully the costs that will be incurred. The reserve is to account for unforeseen costs and the Department will report back on its usage when it prepares the September expenditure report for the Joint Legislative Budget Committee.

I plan to attend the JLBC meeting on June 20<sup>th</sup> with Chief Tax Counsel (AG's office) Mike Kempner to answer any questions from the Committee.

Attachment

Expenditure Plan for Ladewig Case  
First Quarter 2002-2003

| Category                        | 1st Qtr total   |
|---------------------------------|-----------------|
| Permanent project staff         | \$ 42,500.00    |
| Existing personnel on project   | \$ 195,750.00   |
| ERE                             | \$ 46,650.00    |
| Temporary personnel             | \$ 123,600.00   |
| Total Personnel                 | \$ 408,500.00   |
| Postage                         | \$ 357,000.00   |
| Post Office Box Rental          | \$ 900.00       |
| Computers                       | \$ 81,000.00    |
| Communications equipment        | \$ 2,400.00     |
| Travel                          | \$ 16,900.00    |
| Consummable supplies            | \$ 75,000.00    |
| Printing                        | \$ 25,000.00    |
| Newspaper ads for class notice  | \$ 30,000.00    |
| Reserve for unanticipated costs | \$ 200,000.00   |
| total non-personnel costs       | \$ 788,200.00   |
| Total first quarter costs       | \$ 1,196,700.00 |

June 6, 2002

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
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CHAIRMAN 2002  
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MARION L. PICKENS  
CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tom Mikesell, Fiscal Analyst

SUBJECT: ARIZONA LOTTERY COMMISSION — CONSIDER APPROVAL OF  
REVISIONS TO RETAILER INCENTIVE PLAN

**Request**

Pursuant to Laws 1997, Chapter 214, the Arizona Lottery Commission requests Committee approval of revisions to the Retailer Incentive Plan. The current plan allows for an additional 0.5% of Lottery ticket sales to be distributed to retailers if specified sales and promotional measures are met. This is a follow-up to a request by the Lottery to revise the plan at the Committee's August 2001 meeting. At that meeting, the Committee requested that the Lottery revise the plan to include a measure of comparative performance between retailers. The Lottery is submitting its revised plan based on this request. The revised plan awards incentives for sales growth that is greater than or equal to total Lottery sales performance.

**Recommendation**

The Lottery's proposal appears to satisfy the comparative requirement requested by the Committee last August. This plan, however, would permit incentive payments to retailers with "average" performance. A retailer can receive an incentive payment if the percentage growth in sales matches the overall Lottery performance. As a result, the JLBC Staff favors setting the growth goal above the average rate. For example, incentive payments could be limited to retailers with Lottery sales growth 5% greater than the average. Under this alternative proposal, 38% of retailers would qualify compared to 46% with the Lottery's plan.

(Continued)

## Analysis

Laws 1997, Chapter 214 increased the percentage of total ticket sales that the Lottery could return to retailers from 6% to 7%. However, the legislation required that half of this increase be based on a plan approved by the Joint Legislative Budget Committee. The law required that the plan be designed to maximize revenues received from Lottery ticket sales. The current plan, approved by the Committee in January of 2000, allows for an additional 0.5% of ticket sales to be distributed to retailers who increase their sales by at least 5%. In addition, the plan requires retailer participation in various promotional activities, and requires display of certain advertising materials in order to receive the additional 0.5% commission. In August of 2001, the Lottery proposed a revised plan that deleted the promotional activities and advertising material requirements and based the incentive entirely on a 5% sales increase. In its review of the issue, the Committee did not approve the revised plan and instead directed the Lottery to develop a plan that included a comparative element. This comparative element would serve to protect against sales increases attributable to factors outside retailers' control, such as large Powerball jackpots.

Since August of 2001, the Lottery has retained the current retailer incentive plan and developed 6 alternatives for review by its Lottery Commission. A comparison of the current and alternate proposals, including the percent of retailers that would have qualified for incentives under each proposal, and the total incentive that would have been paid for the January 2001 to June 2001 period are shown in the following table. Row 1 shows the Lottery's current plan and the row 2 shows their proposed plan for approval by the Committee.

| <u>Description of Plan</u>  | <u>% of Retailers<br/>Qualifying</u> | <u>Incentive Paid</u> <sup>1/</sup> |
|---|--------------------------------------|-------------------------------------|
| <u>Existing Plan</u>  |                                      |                                     |
| 1) Sales growth of 5% plus 5 point of sales materials and promotional activities.   | 52.2%                                | \$492,048                           |
| <u>Lottery's Current Proposal</u>   |                                      |                                     |
| 2) Meet or exceed total sales growth (at least 5% if no growth in total sales.)   | 46.1%                                | \$422,985                           |
| <u>Alternate Proposals to Lottery Commission</u>  |                                      |                                     |
| 3) Total sales growth of 10%.   | 44.2%                                | \$406,831                           |
| 4) Weighted incentive payment: 0.2% incentive for on-line sales growth that is 5% or higher; 0.3% incentive for instant ticket sales growth that is 5% or higher. | 53.8%                                | \$236,959                           |
| 5) Instant tickets sales growth of 5%.  | 54.5%                                | \$271,674                           |
| 6) Instant ticket sales growth of 10%.  | 48.9%                                | \$241,797                           |
| 7) Exceed total sales growth by at least 5%.  | 37.7%                                | \$339,613                           |

<sup>1/</sup> Incentive that would have been paid for January 2001 to June 2001 period if plan had been in effect.

As shown in the table, the different plans included options to raise the overall sales growth threshold, reduce or eliminate on-line sales from sales growth calculations, and to base incentives on growth in comparison to overall sales performance.

(Continued)



While any of these options would provide some measure of protection against sales increases driven by large Powerball jackpots, only options 2 and 7 provide a clear comparative measure. Of these two options, the Lottery Commission endorsed option 2, which would award the incentives based on sales performance that met or exceeded total Lottery sales growth. This option would have provided \$422,985 in incentive payments to 6.1% fewer retailers than the current plan during the period from January 2001 to June 2001. The other option would base the incentive on growth 5% better than total sales growth. This option would have provided \$339,613 in incentive payments to 14.3% fewer retailers than under the current plan.

Either of these two options addresses the Committee's desire for the plan to have a comparative element, however they differ in the stringency of the performance benchmark. As shown above, a higher performance threshold based on 5% growth above total sales growth will result in fewer retailers qualifying for the incentive and a lower total incentive payment. The JLBC Staff recommends this alternate proposal. However, we acknowledge that the Lottery's proposed plan satisfies the Committee's request for a retailer incentive plan based on comparative retailer performance should the Committee desire a less stringent retailer sales performance threshold.

RS/TM:ck

Jane Dee Hull  
Governor



Geoffrey E. Gonsher  
Executive Director



February 25, 2002

1999 & 2000 Award Winner



The Honorable Ruth Solomon  
Arizona State Senate  
1700 W. Washington  
Phoenix, Arizona 85007

Dear Senator Solomon:

The Arizona Lottery requests to be placed on a meeting agenda of the Joint Legislative Budget Committee to endorse a revised Retailer Incentive Plan. The proposed revisions were recommended by the Lottery's Retailer Advisory Committee and have been approved by the Lottery Commission. The information submitted to the Commission is enclosed for your review.

The Joint Legislative Budget Committee previously requested that the Lottery review and revise the criteria for the plan. Consistent with this request, the modified proposal requires all retailers to meet or exceed the Lottery's growth in sales in order to qualify for the additional 1/2% commission. Previously, retailers qualified for the commission by achieving a 5% sales increase over the same period the prior year in addition to fulfilling certain point-of-sale and promotional requirements. Lottery retailers will still have to maintain a minimum of 3 point-of-sale pieces as required by Retailer Rules. The details of the revised plan are outlined in the enclosed Lottery Commission report.

Thank you for the opportunity to submit this plan that was developed in conjunction with the retailer community. I look forward to discussing this proposal at the next Joint Legislative Budget Committee meeting. If you have any questions, please feel free to contact me at (480) 921-4514.

Sincerely,

Geoffrey E. Gonsher  
Executive Director

Enclosure

c: Tracie Andreasson, OSPB  
Tom Mikesell, JLBC

4740 East University Drive Phoenix, Arizona 85034 (480) 921-4400 FAX (480) 921-4512

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STATE OF ARIZONA

Joint Legislative Budget Committee

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MARION L. PICKENS  
CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: ARIZONA PIONEERS' HOME – CONSIDER APPROVAL OF REQUESTED  
TRANSFER OF APPROPRIATIONS

**Request**

Pursuant to A.R.S. § 35-173(E), the Arizona Pioneers' Home requests Committee approval to transfer appropriations in FY 2002 from Equipment to Personal Services and Employee Related Expenditures (ERE). Specifically, the Pioneers' Home requests to transfer \$101,607 as shown below:

|                       |                  |                               |                  |
|-----------------------|------------------|-------------------------------|------------------|
| <u>TRANSFER FROM:</u> |                  | <u>TRANSFER TO:</u>           |                  |
| Equipment             | \$101,607        | Personal Services             | \$51,175         |
|                       |                  | Employee Related Expenditures | <u>50,432</u>    |
| TOTAL                 | <u>\$101,607</u> | TOTAL                         | <u>\$101,607</u> |

**Recommendation**

The JLBC Staff recommends that the Committee approve the agency request.

**Analysis**

A.R.S. § 35-173(E) requires Committee approval of any transfer to or from Personal Services or ERE if those line items are separately delineated for an agency in the General Appropriation Act. The Pioneers' Home FY 2002 appropriation includes Personal Services and ERE as separate line items. Thus, the Pioneers' Home is requesting Committee approval of a transfer from the Equipment line item to both the Personal Services and ERE line items.

The Pioneers' Home has had difficulty hiring nurses and nursing assistants and therefore has used more seasonal employees and overtime for existing employees, resulting in higher Personal Services and ERE expenditures. Furthermore, the Home paid over \$42,000 for on-call pay as a result of *Schofield, et al. v. State of Arizona*, which concerned on-call pay for state employees

As a result, the Pioneers' Home is facing a shortfall in its Personal Services and ERE line items. The Home proposes transferring \$101,607 from the Equipment line item to cover the shortfall. The JLBC Staff recommends the Committee approve the requested transfer.

RS/BK:ck



# Arizona Pioneers' Home

Jane Dee Hull  
Governor

300 South McCormick Street  
Prescott, Arizona 86303

(928) 445-2481 FAX (928) 778-1148

Jeanine Dike  
Superintendent

June 10, 2002

To : Senator Ruth Solomon, Chair  
Joint Legislative Budget Committee

From: Carl Johnson, Deputy Superintendent



Subject: Transfer Funds for Arizona Pioneers' Home

This Memo is to request that the JLBC consider the transfer of funds from our Equipment line item to Personal Services and Employee Related Expenses.,

From  
Equipment \$51,175  
Equipment \$50,432  
Total \$101,607

To  
Personal Services  
Employee Related Expenses

During this Fiscal Year we have experienced an exceptional one time cost of for On Call, due to an agreement with the employees and the Attorney Generals office of \$42,200 and unbudgeted overtime to employees of \$32,000. We also used more seasonal employees than we anticipated. Since we are open 24-7 we use seasonal personnel to fill in for regular employees when there is vacation, sick leave or holidays. These employees are not counted separately from the regular FTE positions and therefore become a demand on our budget. There really is no vacancy savings to off set the hiring of seasonal staff, and in many cases when regular staff take vacation, holidays or sick leave we are forced to fill the position with a seasonal and in-effect pay double for the same position.

cc. Beth Kohler, JLBC Budget Specialist

STATE OF ARIZONA

Joint Legislative Budget Committee

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MARION L. PICKENS  
CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gretchen Logan, Senior Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM – REVIEW OF  
CAPITATION RATES

**Request**

Pursuant to General Appropriation Act footnotes in Acute and Long-Term Care, the Arizona Health Care Cost Containment System (AHCCCS) is required to report capitation rate changes to the Committee for its review prior to implementation.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review to the capitation rate changes. Most of the capitation rates have declined. The JLBC was informed of these changes prior to their implementation and the associated savings have been incorporated into the agencies' FY 2002 and FY 2003 budgets. Additional costs associated with the increases in the Arizona Long-Term Care System (ALTCS) and Comprehensive Medical and Dental Program (CMDP) capitation rates can currently be absorbed within the existing program budgets.

**Analysis**

Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound. The adjustments proposed by AHCCCS are based on actuarial analyses. An actuarial analysis is based on a variety of assumptions, which usually include some range of outcomes. AHCCCS contracts with an actuarial firm, which uses claims, expenditure, and encounter data to determine the actual cost of services and thereby, recommends increases or decreases in capitation rates.

As mentioned above, footnotes in the General Appropriation Act require AHCCCS to submit capitation rate changes that have a budgetary impact to the Committee for review prior to the implementation of the increases. In the past, capitation rate changes were implemented without notification of the Legislature. The footnotes were added so that legislators would be made aware of these changes and the potential budget impacts before the new rates are implemented.

#### Title XIX Waiver Group Rate Decrease

AHCCCS has two sets of capitation rates for all eligibility groups in Acute Care and the Title XIX Waiver Group (Proposition 204 expansion). The first set of rates covers the period prior to enrollment in a health plan. This is called “prior period coverage” (PPC) and includes some amount of retroactivity coverage depending on eligibility. The second set of rates, referred to as “regular” capitation, take effect after enrollment in the health plan.

This capitation rate reduction only applies to the Proposition 204 enrollees that are childless adults — referred to as the Prop 204 non-categoricals. When setting this rate initially, the actuaries developed a set of enrollment and cost assumptions based on the best data available. However, due to higher than expected enrollment, the actuaries performed a mid-year review and incorporated actual enrollment experience into their models. This resulted in an April 1 downward adjustment of 26% in the PPC rate (from \$232.32 to \$172.86) and a 42% reduction in the regular capitation rate (from \$357.29 to \$206.79) for the non-categorical population. These rates reflect the average rate paid per member per month to the health plan.

The savings associated with this adjustment have been incorporated into the current estimate for the Proposition 204 population. The actual savings associated with this downward adjustment may be higher or lower, depending upon the actual number of people that are eligible for services.

#### Arizona Long Term Care System (ALTCS)

ALTCS services are provided through a system of 8 program contractors who competitively bid to provide long-term care services to eligible individuals. In all counties, except Maricopa, there is one program contractor that is responsible for coordinating and managing all of the clients’ long-term and acute care needs. In Maricopa County there are 3 program contractors, and therefore, Maricopa residents are given an enrollment choice.

In response to the November 1999 recommendations of the Long Term Care Regulator Subcommittee, AHCCCS implemented a Uniform Assessment Tool (UAT) to ensure a more consistent assignment of acuity levels among contractors.

AHCCCS reports that the costs associated with the UAT in FY 2002 can be absorbed within the current budget. In addition, the agency reports that the average capitation rate of \$2,458 is required to fund the costs associated with the UAT in FY 2003. Currently, it appears that the FY 2003 budgeted rate can absorb the increase in costs associated with the UAT; however, JLBC Staff will continue to monitor the specific cost components of the ALTCS rate during FY 2003.

#### CMDP Rate Increase

The Comprehensive Medical and Dental Program (CMDP) serves children in the foster care system. AHCCCS recommends a 28% increase to the CMDP capitation rate retroactive to October 1, 2001. This increase does not require additional funding, and instead, will result in

state savings. The savings are due to the fact that *prior to the current adjustment* the rate was below actual costs, which resulted in annual CMDP losses of approximately \$2,000,000 per year. This cost overrun was funded with 100% state funds. With the recommended 28% increase, the CMDP rate will more accurately reflect actual costs, additional federal dollars will be drawn down, and the 100% state funded subsidy should not be required.

Department of Health Services (DHS)/Behavioral Health Services (BHS) Rate Decrease

In November 1998, the Children's Health Insurance Program (CHIP), or Title XXI, program was implemented. This program provides health insurance coverage to children up to 200% of the federal poverty level (FPL). Children enrolled in the CHIP program receive behavioral health services through the Regional Behavioral Health Authorities (RBHA's), who are paid a monthly capitation rate based on CHIP enrollment.

Because CHIP is relatively new, the most recent actuarial analysis of the CHIP behavioral health rate was the first to include a full set of encounter data. This analysis resulted in a recommended decrease of 14% in the CHIP behavioral health rate.

The savings associated with this adjustment retroactive to July 1, 2001, have been incorporated into the current estimate for the CHIP population.

In sum, the various changes to the AHCCCS Proposition 204, ALTCS, CMDP and CHIP capitation rates are based on actuarial analysis, which is a requirement for participation in the Title XIX program. In addition to these capitation rates changes, AHCCCS has also recommended a decrease to the Department of Economic Security (DES)/Developmental Disabilities (DD) capitation rate, which is addressed in a separate agenda item. The General Appropriation Act footnotes were added to increase legislative awareness of these changes and their potential budget impacts. As noted, the savings associated with these changes have been incorporated into the current FY 2002 and FY 2003 revised budgets. In the case of the capitation rate increases in ALTCS and CMDP, program these increases can be absorbed within the current FY 2002 budget. If current enrollment trends continue, it is likely that the increased costs in FY 2003 can be absorbed within budgeted amounts.

RS/GL:ck





ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

*Committed to Excellence in Health Care*

March 1, 2002

The Honorable Laura Knaperek, Chair  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, Arizona 85007



Dear Representative Knaperek:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda for the March 2002 Joint Legislative Budget Committee meeting for the purpose of reviewing four capitation rate adjustments. This review is required in the footnotes to the General Appropriation Act: *"Before implementation of any changes in capitation rates the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review and this includes any capitation rates used for the Proposition 204 populations."*

**DES/DDD Rate Decrease**

For CYE '01, AHCCCS recommended a 7.2% increase for the Developmental Disabilities (DD) program based on utilization trends. During review of financial and utilization data for CYE '01, it was apparent that the DD program did not experience the predicted trends. Because DD didn't experience the increase in utilization, the program had a significant profit for CYE '01. As a result, the state requested a \$9,394,000 distribution of excess funds to the general fund.

Additionally, data provided by DD indicates that an increase in utilization and costs will not occur until the end of CYE '02. Therefore, AHCCCS in conjunction with William M Mercer, consulting actuaries, determined that the capitation rates for CYE '02 were over-funded. Therefore, AHCCCS recommends a 5% capitation rate decrease to the DD program. The new rate will be retroactively effective to October 1, 2001. The budget impact is as follows:

Budget impact due to rate decrease by funding source

SFY '02

|                    |                        |
|--------------------|------------------------|
| Federal Funds      | \$ (8,782,455)         |
| State Funds        | \$ (4,733,173)         |
| <b>Total Funds</b> | <b>\$ (13,515,628)</b> |

### **Title XIX Waiver Group Rate Decrease**

In November 2000, the State of Arizona passed Proposition 204 that expanded eligibility for Medicaid services to individuals whose income is at or below 100% of the federal poverty level. (FPL). The Title XIX Waiver Group is the non-categorically linked population for which CMS granted a waiver in January 2001.

There were two main components in developing the base capitation rates for October 1, 2001: cost and enrollment assumptions. Because of uncertainties of projected enrollment growth, a mid-year review of enrollment assumptions was performed. AHCCCS' actuaries applied the actual enrollment experience to their models and developed new capitation rates. Based on actual enrollment growth of the new population, it was determined that a mid-year rate adjustment was necessary for both the prospective and prior period coverage capitation rates.

The adjustment resulted in a 40% decrease to the prospective capitation rates, and a 26% decrease to the prior period coverage capitation rates. The new capitation rates will be effective April 1, 2002.

#### **Budget impact due to rate decrease by funding source**

|               | <u>SFY '02</u>         |
|---------------|------------------------|
| Federal Funds | \$ (19,354,252)        |
| State Funds   | <u>\$ (10,736,314)</u> |
| Total Funds   | <u>\$ (30,090,567)</u> |

### **ALTCS Rate Increase**

On November 9, 1999 the Long Term Care Regulatory Subcommittee made a list of ten recommendations to the Long Term Care Task Force. The number one priority item was for the ALTCS system to use a uniform tool for assessing the level of care for ALTCS members requiring institutionalization. This new tool will ensure a more consistent assignment of acuity levels among contractors.

On November 1, 2001, AHCCCS and its ALTCS program contractors implemented the Uniform Assessment Tool (UAT). Because there was a shift of members to higher levels of acuity, the capitation rates paid to program contractor are no longer actuarially sound. AHCCCS provided William M Mercer acuity data to estimate the appropriate rate adjustment. However, based on actual shift results, the final adjustment may differ.

Estimated budget impact due to rate increase by funding source

|                 | <u>SFY '02</u>          |
|-----------------|-------------------------|
| Federal Funds   | \$ 933,535              |
| State Funds     | \$ 286,468              |
| County Funds    | <u>\$ 216,647</u>       |
| <br>Total Funds | <br><u>\$ 1,436,649</u> |

**CMDP rate increase**

AHCCCS with its consulting actuaries, William M. Mercer, has conducted a review of cost and utilization data for Comprehensive Medical Dental Program (CMDP), the program contained within the Department of Economic Security (DES), that provides acute care medical services to children in foster care. Children enrolled in CMDP population are a high acuity population with unique health care needs.

Based on cost and utilization trends, AHCCCS is recommending a retroactive 28.76% increase to CMDP's capitation rates for the period October 1, 2001 through September 30, 2002. This significant change to CMDP's rate was mainly due to increasing costs of the program, and will provide federal funding that will offset the approximately \$2,000,000 in CMDP's annual losses that are currently funded 100% from the general fund.

Budget impact due to rate increase by funding source

|                 | <u>SFY '02</u>             |
|-----------------|----------------------------|
| Federal Funds   | \$ 1,178,115.76            |
| State Funds     | <u>\$ 634,927.89</u>       |
| <br>Total Funds | <br><u>\$ 1,813,043.65</u> |

Representative Laura Knaperak  
March 1, 2002  
Page 4

All of the rate increases delineated above will be addressed in more detail at the Joint Legislative Budget Committee meeting in March 2002. Please feel free to contact Anne Winter, Financial Manager, Office of Managed Care, at (602) 417-4591 if you have any questions.

Sincerely,



Kari Price  
Assistant Director  
Office of Managed Care

- c. Phyllis Biedess, Director, AHCCCS  
Branch McNeal, Deputy Director, AHCCCS  
Tom Betlach, Deputy Director, AHCCCS  
Richard Stavneak, Director, Joint Legislative Budget Committee Staff  
Kari Price, Assistant Director, Office of Managed Care, AHCCCS  
Jim Cockerham, Assistant Director, Division of Business and Finance, AHCCCS  
Lynn Dunton, Assistant Director, OPAC  
Gretchen Logan, Joint Legislative Budget Committee Staff  
Bob Chapko, Governor's Office of Strategic Planning and Budgeting  
Anne Winter, Finance Manager, Office of Managed Care, AHCCCS  
Andy Genualdi, Assistant Director, DES/DBF



Jane Dee Hull  
Governor

Phyllis Biedess  
Director

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM**  
*Committed to Excellence in Health Care*

April 16, 2002

The Honorable Laura Knaperek, Chair  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, Arizona 85007

Dear Representative Knaperek:

On March 1, 2002, I sent you a letter detailing adjustments that the Arizona Health Care Cost Containment System, (AHCCCS) was making to the capitation rates of several different programs (attached). The following summarizes the previously discussed adjustments, as well as provides estimates based on actual data for the Uniform Assessment Tool Adjustment, and the KidsCare behavioral health capitation rate adjustment.

**DES/DDD Rate Decrease**

AHCCCS adjusted the DES/DDD capitation rate on April 1, 2002, which resulted in a 5% decrease. The new rate is effective retroactively to October 1, 2001.

**Estimated budget impact due to rate decrease by funding source**

|               | <u>SFY '02</u>  |
|---------------|-----------------|
| Federal Funds | \$ (8,782,455)  |
| State Funds   | \$ (4,733,173)  |
| Total Funds   | \$ (13,515,628) |

**Title XIX Waiver Group Rate Decrease**

The Title XIX Waiver Group prospective and prior period coverage (PPC) capitation rates were prospectively adjusted April 1, 2002. The adjustment resulted in a 42% decrease to the prospective capitation rates, and a 26% decrease to the PPC capitation rates.

Estimated budget impact due to rate decrease by funding source

|               | <u>SFY '02</u>         |
|---------------|------------------------|
| Federal Funds | \$ (19,354,252)        |
| State Funds   | <u>\$ (10,736,314)</u> |
| Total Funds   | <u>\$ (30,090,566)</u> |

**ALTCS Rate Increase**

On November 9, 1999 the Long Term Care Regulatory Subcommittee made a list of ten recommendations to the Long Term Care Task Force. The number one priority item was for the ALTCS system to use a uniform tool for assessing the level of care for ALTCS members requiring institutionalization. This new tool will ensure a more consistent assignment of acuity levels among contractors.

On November 1, 2001, AHCCCS and its ALTCS program contractors implemented the Uniform Assessment Tool (UAT). Because there was a shift of members to higher levels of acuity, the capitation rates were adjusted for increased expenditures the contractors will experience due to this shift. AHCCCS provided William M Mercer acuity data to estimate the appropriate rate adjustment.

The March 1, 2002 letter noted that the estimate provided at that time was based on a sample, and that the budget impact would change after making the adjustment on actual shift percentages. Based on the actual placement changes due to the new tool, the estimated impact has been revised. The revised estimate shows an additional \$150,000 in state funds.

Estimated budget impact due to rate increase by funding source

|               | <u>SFY '02</u>      |
|---------------|---------------------|
| Federal Funds | \$ 1,439,992        |
| State Funds   | \$ 441,881          |
| County Funds  | <u>\$ 334,181</u>   |
| Total Funds   | <u>\$ 2,216,054</u> |

Representative Laura Knaperek  
April 16, 2002  
Page 4

**Total estimated SFY '02 budget impact for all adjustments**

|               | <b>DES/DDD</b>  | <b>Title XIX<br/>Waiver Group</b> | <b>ALTCS</b> | <b>CMDP</b>  | <b>ADHS/BHS</b> | <b>Total</b>    |
|---------------|-----------------|-----------------------------------|--------------|--------------|-----------------|-----------------|
| Federal Funds | (\$ 8,782,455)  | (\$ 19,354,252)                   | \$ 1,439,992 | \$ 1,178,116 | (\$845,945)     | (\$ 26,364,544) |
| State Funds   | (\$ 4,733,173)  | (\$ 10,736,314)                   | \$ 441,881   | \$ 634,928   | (\$281,984)     | (\$14,674,662)  |
| County Funds  |                 |                                   | \$ 334,181   |              |                 | \$ 334,181      |
| Total Funds   | (\$ 13,515,628) | (\$ 30,090,566)                   | \$ 2,216,054 | \$ 1,813,044 | \$(1,127,929)   | (\$40,705,025)  |

Please feel free to contact Anne Winter, Financial Manager, Office of Managed Care, at (602) 417-4591 if you have any questions.

Sincerely,



Kari Price  
Assistant Director  
Office of Managed Care

- c. Phyllis Biedess, Director, AHCCCS  
Branch McNeal, Deputy Director, AHCCCS  
Tom Betlach, Deputy Director, AHCCCS  
Richard Stavneak, Director, Joint Legislative Budget Committee Staff ✓  
Jim Cockerham, Assistant Director, Division of Business and Finance, AHCCCS  
Lynn Dunton, Assistant Director, OPAC  
Gretchen Logan, Joint Legislative Budget Committee Staff  
Bob Chapko, Governor's Office of Strategic Planning and Budgeting  
Anne Winter, Finance Manager, Office of Managed Care, AHCCCS

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES - REVIEW OF FY 2003 EXPENDITURE  
PLAN FOR ARNOLD v. SARN SPECIAL LINE ITEM

### Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to expending any funding for the Arnold v. Sarn Special Line Item in Behavioral Health. DHS is requesting review of its FY 2003 expenditure plan for this line item.

### Recommendation

The JLBC Staff recommends a favorable review of the request as the plan appears technically consistent with legislative intent for the Arnold v. Sarn line item. Members, however, may wish to review the proposed distribution on page 2 to ensure that it meets their policy concerns.

### Analysis

The FY 2003 budget included \$27,500,000 to address the requirements of the state's settlement in *Arnold v. Sarn* lawsuit in Maricopa County. Further, the General Appropriation Act specified that it is the intent of the Legislature that this funding be used throughout the state for all persons who meet the same criteria as those covered in the *Arnold v. Sarn* lawsuit. The General Appropriation Act also required DHS to present an expenditure plan to the Committee for its review.

The General Appropriation Act included a \$(10,000,000) General Fund offset in FY 2003. The General Appropriation Act did not specify where the \$(10,000,000) reduction in the behavioral health budget needed to be made.

DHS plans to reflect \$(8,000,000) of the offset in the Arnold v. Sarn line item, leaving \$19,500,000 to be allocated to each Regional Behavioral Health Authority (RBHA) based on a population formula. Of this amount, \$14,500,000 will be used for services for the Seriously Mentally Ill that cannot be paid for using



Title XIX funds. The sum of \$5,000,000 will be used to adjust the Title XIX capitation rate for the Seriously Mentally Ill to expand Title XIX services. DHS expects to leverage an additional \$10,021,000 in Federal Funds for these services, for a total of \$29,521,000.

The expenditure plan continues the implementation of a model developed in the 1999 report from the Human Services Research Institute (frequently referred to as the Leff Report) that was commissioned by the Department in accordance with the exit stipulation in *Arnold v. Sarn*. This model focuses on the development of residential and rehabilitative services for the seriously mentally ill, the development of treatment teams, as well as other services. DHS uses the Leff Report to guide the expansion of both its Non-Title XIX and Title XIX Services.

In regard to non-Title XIX services, DHS is planning to spend approximately 39% of the Non-Title XIX allocation on residential services. Another 15% will be spent on community based clinical treatment teams. The remainder will support a variety of services, including emergency care, hospital-based inpatient services, outpatient services, rehabilitation, including supported employment, transportation, and medication. The DHS expenditure plan also provides funding for RBHA administrative expenses at their contracted rate of 8%, or \$1,160,000. Finally, the expenditure plan provides that 4% of the RBHA's total expenses may be used as "profit". In this context, "profit" represents the excess of state reimbursement over actual operating costs. Profits are generally available for reinvestment in RBHA programs.

DHS plans to spend approximately 31% of the funding available for Title XIX services, including Federal Funds, on outpatient treatment. Another 20% will be spent on emergency services. DHS plans to spend 15% of the Title XIX funding on medications, 13% on clinical case management services, and 9% on hospital inpatient services. RBHAs may use 8% for their administrative expenses, and 5% may be used for "profit", again in accordance with the contracts.

Table 1 summarizes the DHS expenditure plan by type of service, as well as dollar allocation for both Title XIX and non-Title XIX services.

Table 1

**FY 2003 Arnold v. Sarn Expenditure Plan**

|                          | <b>Non-Title XIX Services</b> |                                 | <b>Title XIX Services</b> |                             | <b>Total SMI Services</b> |                   |
|--------------------------|-------------------------------|---------------------------------|---------------------------|-----------------------------|---------------------------|-------------------|
|                          | <u>Dollar Amount</u>          | <u>% of Non-Title XIX Total</u> | <u>Dollars</u>            | <u>% of Title XIX Total</u> | <u>Dollar Amount</u>      | <u>% of Total</u> |
| Residential Services     | \$ 5,657,400                  | 39%                             | -                         | 0%                          | \$ 5,657,400              | 19%               |
| Clinical Case Management | 2,219,800                     | 15%                             | 1,928,700                 | 13%                         | 4,148,500                 | 14%               |
| RBHA Admin/Risk Corridor | 1,739,900                     | 12%                             | 1,857,100                 | 12%                         | 3,597,000                 | 12%               |
| Rehabilitation           | 1,258,200                     | 9%                              | -                         | 0%                          | 1,258,200                 | 4%                |
| Outpatient Treatment     | 1,190,600                     | 8%                              | 4,621,400                 | 31%                         | 5,812,000                 | 20%               |
| Hospital Services        | 1,075,000                     | 7%                              | 1,285,500                 | 9%                          | 2,360,500                 | 8%                |
| Support                  | 477,200                       | 3%                              | -                         | 0%                          | 477,200                   | 2%                |
| Emergency Services       | 389,900                       | 3%                              | 3,071,300                 | 20%                         | 3,461,200                 | 12%               |
| Capital/Lease Expenses   | 348,000                       | 2%                              | -                         | 0%                          | 348,000                   | 1%                |
| Medication               | <u>144,000</u>                | 1%                              | <u>2,257,000</u>          | 15%                         | <u>2,401,000</u>          | 8%                |
| <b>Total</b>             | <b>\$14,500,000</b>           |                                 | <b>\$15,021,000</b>       |                             | <b>\$29,521,000</b>       |                   |

**Arizona  
Department of  
Health Services**

***Office of the Director***

1740 W. Adams Street  
Phoenix, Arizona 85007-2670  
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(602) 542-1062 FAX

JANE DEE HULL, GOVERNOR  
CATHERINE R. EDEN, DIRECTOR



June 6, 2002

The Honorable Ruth Solomon, Chairman  
Joint Legislative Budget Committee  
1700 West Washington  
State Capitol – Senate Wing  
Phoenix, Arizona 85007

Dear Senator Solomon:

Pursuant to footnotes in the General Appropriation Act (Laws 2002, Chapter 327), the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to discuss (1) the proposed changes to the Behavioral Health Services capitation rates for FY 2003 (2) the Arnold v. Sarn expenditure plan; and (3) proposed changes to the Children's Rehabilitative Services capitation rate for FY 2003.

**Behavioral Health Capitation Rate Adjustment:** The Department is submitting Title XIX capitation rates effective July 1, 2002, for your review. The rates were developed by William M. Mercer, Inc. and include the following major adjustments:

- Base Capitation Rate Adjustment for all populations, which includes medical inflation, retroactive claims, and a downward trend factor to account for the growth of new eligibles under Proposition 204
- Prescription Drug Adjustment for all populations
- Kids Care (Title XXI) Parents Adjustment resulting from changes in Title XIX eligibility for those parents
- CMDP Children's Adjustment for Level I and II Placements in RBHA-contracted providers
- SEH Children's Adjustment for Title XIX Children Previously Reimbursed under Non-Title XIX Funding Sources

The current and proposed statewide rates are as follows:

| <u><i>Program</i></u>                     | <u><i>Current Statewide<br/>Capitation Rates</i></u> | <u><i>Proposed FY 2003<br/>Capitation Rates</i></u> |
|---|--|---|
| Children                                  | \$25.75  | \$27.49   |
| SMI                                       | \$75.13  | \$63.48   |
| General Mental Health/<br>Substance Abuse | \$17.69  | \$19.82   |

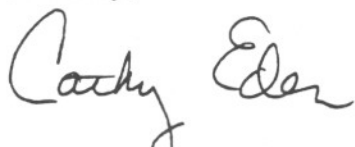
**Arnold V. Sarn Expenditure Plan:** Also, the Department is submitting an expenditure plan for the developed Arnold v. Sarn Special Line Item. Our plan is to allocate \$19.5 million in General Fund (\$27.5 million appropriated for Arnold v. Sarn less \$8.0 million in appropriated offsets), of which \$5.0 million will be federalized to draw down approximately \$10.0 million in Federal Funds for a Total Fund allocation of \$29.5 million in the Arnold v. Sarn Special Line Item.

The expenditure plan uses the "Leff Report" model to develop residential, rehabilitation, intensive and assertive treatment teams, and other needed services along the continuum of care. It is important to note that the unique services are estimates and will adjust as the mix between the Non-Title XIX and Title XIX eligible populations also adjust. The plan can be found as Attachment 1.

**Children's Rehabilitative Services Capitation Rate Adjustment:** And finally, the Department is submitting capitation rates effective July 1, 2002, for the Children's Rehabilitative Services program. These rates were also prepared by William M. Mercer, Incorporated. The rates have been modified from State Fiscal Year 2002 to reflect the elimination of the minimum and maximum revenue risk bands that were an integral part of the State Fiscal Year 2002 capitation rates. These adjustments resulted in base capitation rates. The base capitation rates were then adjusted to reflect health care trends for State Fiscal Year 2003. Attachment 2 identifies the estimated State Fiscal Year 2003 member months and funding allocations by site. Attachment 3 shows the FY 2002 approved rates and the FY 2003 proposed rates for your review.

If you need additional information, please contact me at 542-1025 or my Central Budget Office Staff at 542-6386.

Sincerely,



Catherine R. Eden  
Director

CRE:LS:pm

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – REVIEW OF CHILDREN’S  
REHABILITATIVE SERVICES CAPITATION RATE CHANGES

**Request**

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present a plan to the Committee for its review prior to implementing any change in the capitation rates for the Title XIX Children’s Rehabilitative Services (CRS) program. DHS has received approval from the Arizona Health Care Cost Containment System (AHCCCS) to change the capitation rates for the CRS line item effective July 1, 2002.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of the request, since the proposed rate changes are based upon actuarial study and do not reflect any anticipated additional cost to the General Fund in FY 2003.

**Analysis**

Prior to FY 2001, CRS contracted with community providers for Title XIX services on a fixed price annual basis. During FY 2000, CRS and AHCCCS developed a capitation methodology for the Title XIX component of the CRS program. Beginning in FY 2001, DHS began covering all CRS Title XIX services using per-member, per month capitation rates, which vary by provider. The rate structure also includes a high, medium, and low tier, which represent varying levels of medical acuity.

(Continued)

The following table shows the proposed rates for FY 2003.

| <b>Proposed Rate Changes for the CRS Title XIX Program</b> |                     |                              |   |  |
|--|---------------------|------------------------------|---|--|
|  | <u>FY 2002 Rate</u> | <u>Proposed FY 2003 Rate</u> | <u>FY 2003 % Change Above/(Below) FY 2002</u> | <u>Anticipated State Match Savings</u> |
| <b>Phoenix</b>   |                     |                              |   |  |
| High   | \$473.89            | \$428.44                     | -9.6%   | (\$369,000)                            |
| Medium   | 278.06              | 259.40                       | -6.7%   | (314,100)                              |
| Low  | 197.18              | 181.90                       | -7.7%   | (358,800)                              |
| <b>Tucson</b>  |                     |                              |   |  |
| High   | 374.79              | 364.63                       | -2.7%   | (136,300)                              |
| Medium   | 352.53              | 336.40                       | -4.6%   | (119,300)                              |
| Low  | 213.27              | 201.37                       | -5.6%   | (123,000)                              |
| <b>Flagstaff</b>   |                     |                              |   |  |
| High   | 299.15              | 293.72                       | -1.8%   | (31,100)                               |
| Medium   | 179.46              | 174.63                       | -2.7%   | (35,600)                               |
| Low  | 149.56              | 138.62                       | -7.3%   | (39,100)                               |
| <b>Yuma</b>  |                     |                              |   |  |
| High   | 206.42              | 203.00                       | -1.7%   | (13,900)                               |
| Medium   | 142.69              | 144.78                       | 1.5%  | (3,000)                                |
| Low  | 126.00              | 122.61                       | -2.7%   | (13,100)                               |
| <b>Total</b>   |                     |                              |   | <b>(\$1,556,300)</b>                   |

The proposed rates for FY 2003 represent significant decreases in the rates paid to contractors in almost every acuity level in FY 2002. This decrease better reflects the actual costs per member per month incurred by program contractors.

Using population estimates used in developing the FY 2003 appropriation, these changes would represent a reduction of approximately \$(4,670,600) in Total Funds, or roughly \$(1,556,300) in state match dollars. However, because the Title XIX eligible population has also grown considerably, these capitation rate reductions are not likely to translate into significant General Fund savings.

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

RS/GG:ck

**Arizona  
Department of  
Health Services**

***Office of the Director***

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JANE DEE HULL, GOVERNOR  
CATHERINE R. EDEN, DIRECTOR

June 6, 2002



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Joint Legislative Budget Committee  
1700 West Washington  
State Capitol – Senate Wing  
Phoenix, Arizona 85007

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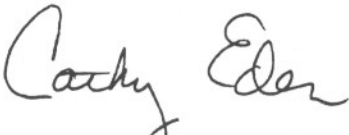
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Sincerely,



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CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF LONG TERM CARE  
EXPENDITURE PLAN

**Request**

Pursuant to a footnote in the FY 2002 Supplemental bill, the Department of Economic Security (DES) is presenting to the Committee its expenditure plan for the Long Term Care (LTC) program as a result of a decrease in LTC capitation rates.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review to the attached report. The report indicates that this year's capitation rates for the LTC program in DES will decrease 5% from last year's capitation rates. The approved State Fiscal Year (SFY) 2002 budget incorporates some, but not all, of this decrease.

**Analysis**

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

Laws 2002, Chapter 2, 3<sup>rd</sup> Special Session, which amended DES' FY 2002 appropriation, includes the following footnote:

“Monies for the Long Term Care program are appropriated for the capitation rates effective on October 1, 2000. No monies may be expended for a change in these capitation rates unless an expenditure plan is reviewed by the Joint Legislative Budget Committee.”

(Continued)



In a December 21, 2001 letter to Tom Betlach, Governor's Office of Strategic Planning and Budgeting Director, AHCCCS recommended capitation rates for Federal Fiscal Year (FFY) 2002, which started on October 1, 2001. These rates are shown in the table below. Almost all clients served by DES in the LTC program are categorized as enrolled.

| <b>Category</b>                     | <b>FFY 2001 rate</b> | <b>FFY 2002 Rate</b> | <b>% Change</b> |
|-------------------------------------|----------------------|----------------------|-----------------|
| Enrolled (Non-Ventilator Dependent) | \$2,593.72           | \$2,496.46           | (3.75)%         |
| Ventilator Dependent                | \$8,888.35           | \$8,918.71           | 0.34%           |

According to DES, which received this information via telephone conversation with AHCCCS, the decrease in the Enrolled category is allocated as follows:

| <b>Category</b>                               | <b>FFY 2001 rate</b> | <b>FFY 2002 Rate</b> | <b>% Change</b> |
|---|----------------------|----------------------|-----------------|
| Aid to Individuals                            | \$1,888.24           | \$1,774.22           | (6.04)%         |
| Acute Care Services                           | 339.92               | 339.92               | 0.00            |
| Case Management Services                      | 104.66               | 104.66               | 0.00            |
| Administration                                | 195.87               | 184.16               | (5.98)          |
| Risk/Profit                                   | <u>37.93</u>         | <u>36.04</u>         | <u>(4.98)</u>   |
| <b>Total - DES LTC</b>                        | \$2,566.62           | \$2,439.00           | (4.97)          |
| Behavioral Health Services (DHS pass-through) | <u>27.10</u>         | <u>57.46</u>         | <u>112.03</u>   |
| <b>Total Enrolled Rate</b>                    | \$2,593.72           | \$2,496.46           | (3.75)%         |

As can be seen in the table, DES' LTC program received a reduction of approximately 5% in its portion of the capitation rate. (The Behavioral Health Services increase has already been addressed at a previous Committee meeting.) This reduction was taken as a result of a significant surplus of nearly \$20 million in the Long Term Care System Fund at the conclusion the SFY 2001. DES expects that, with the revised capitation rate, its estimated SFY 2002 expenditures of \$383,454,600 will exceed estimated SFY 2002 capitation revenues of \$379,754,600 by \$3,700,000. DES has requested permission from AHCCCS to use the current Long Term Care System Fund balance to cover the difference. There is currently about \$10 million in the Long Term Care System Fund that can be used to address any shortfall.

Laws 2001, Chapter 2, 3<sup>rd</sup> Special Session reduced DES' budget under the assumption that DES' portion of the FFY 2002 monthly capitation rate would be reduced to \$2,496.46. This assumption was based on the December 21 letter that compared DES' recommended FFY 2002 capitation rate to DES' FFY 2001 capitation rate of \$2,566.62. That letter did not break out the different cost components of the rate, so it was not until early May that JLBC Staff discovered that DES' portion of the FFY 2002 capitation rate was actually \$2,439.00, or \$57.46 below that assumed in the 3<sup>rd</sup> Special Session budget. With the \$2,439.00 rate for FFY 2002, DES has a little more than \$2 million excess General Fund in its Long Term Care budget. DES, however, may have already used some of that excess General Fund to offset shortfalls in other areas of the budget.

JLBC Staff recommends that the Committee give a favorable review to the attached report.

RS/SSH:jb



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

Jane Dee Hull  
Governor

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

John L. Clayton  
Director

APR 23 2002



The Honorable Ruth Solomon, Chairman  
Joint Legislative Budget Committee  
1700 W. Washington, Senate Wing  
Phoenix, AZ 85007

Dear Senator Solomon:

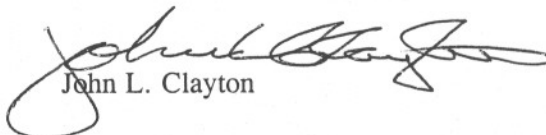
Pursuant to the footnote to the General Appropriations Act, the Arizona Department of Economic Security requests permission to appear at the next Joint Legislative Budget Committee to discuss the following:

1. A revised expenditure plan for the Long Term Care System Fund based on the October 1, 2001, capitation rate.
2. Progress towards developing outcome measures for the Domestic Violence Program.

Details regarding these two issues will be provided under separate cover to Stefan Shepherd, JLBC analyst.

Please contact Karen McLaughlin, Financial Services Administrator, at (602) 542-3786 if you have questions.

Sincerely,

  
John L. Clayton

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY  
LONG TERM CARE AUTHORITY**

In March 2002, the Department of Economic Security (DES) received a 4.97% reduction (excluding the behavioral health component) in the capitation amount received from the Arizona Health Care Cost Containment System (AHCCCS) for the Long Term Care population. This reduction was retroactive to October 1, 2001. As required by footnote to the General Appropriations Act, DES asks the Joint Legislative Budget Committee to give favorable review to its expenditure plan based on the revised rate.

**Rates excluding the Behavioral Health component**

Previous Rate \$2,566.62

New Rate \$2,439.00

The General Fund and expenditure authority were adjusted during the recent special sessions. The SFY '02 expenditures are projected to exceed capitation revenues by \$3,700,000. The Department has requested permission from the Arizona Health Care Cost Containment System to use the current Long Term Care fund balance to cover the difference.

|   |    |                    |
|---|----|--------------------|
| Actuals through March 31, 2002                                | \$ | 241,687,892        |
| Projected expenditures through adjustment period <sup>1</sup> | \$ | <u>141,766,729</u> |
|   | \$ | 383,454,621        |
| Estimated revenue received <sup>2</sup>                       | \$ | <u>379,754,621</u> |
| Estimated '02 Expenditures in Excess of Rev                   | \$ | (3,700,000)        |

<sup>1</sup>Projected expenditures are based on historical trends, Reinsurance and FFS expenditure lags and an additional estimate for an increase in the provider network that would not have been included in the base estimate.

<sup>2</sup> Estimated revenue excludes \$8,496,500 associated with administrative division expenditures.

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF PROPOSED  
TRANSFER FROM DEVELOPMENTAL DISABILITIES PROGRAMS TO  
CHILDREN SERVICES

**Request**

Pursuant to a footnote in the General Appropriation Act as modified by Laws 2002, Chapter 321, the Department of Economic Security (DES) requests Committee review of a proposed FY 2002 transfer of \$1,000,000 General Fund from Developmental Disabilities programs to the Children Services Special Line Item in the Division of Children, Youth and Families (DCYF).

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of the request to transfer \$1,000,000 from Developmental Disabilities programs in FY 2002 to the Children Services Special Line Item.

**Analysis**

The Developmental Disabilities cost center in DES provides 100% state-funded services to developmentally-disabled (DD) clients. The General Appropriation Act as modified by Laws 2002, Chapter 321, includes the following footnote:

“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 these costs in the subsequent year. The

(Continued)

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 that the Committee review a proposed transfer of \$1,000,000 from the Developmental Disabilities cost center to the Children Services Special Line Item.

In its "25<sup>th</sup>-of-the-Month" report covering April year-to-date expenditures, DES reports that it has a surplus of \$2,000,000 in the Developmental Disabilities cost center. This surplus is in the Home and Community Based Services Special Line Item, which provides an array of day program, therapy, and residential services to state-only DD clients. DES has reported that its surplus will exist in FY 2002 only and will be used in FY 2003 to fund the provider rate increases authorized in the FY 2003 General Appropriation Act (Laws 2002, Chapter 327).

DES currently projects a FY 2002 General Fund (GF) deficit of approximately \$2.1 million in the Children Services Special Line Item. Through the end of April 2002, DES has spent approximately \$24.5 million GF of the \$31.0 million GF appropriated in the Children Services line item. It currently projects that it will require \$33.1 million by the end of FY 2002, or \$2.1 million more than its FY 2002 appropriation. The \$1,000,000 transfer from the Developmental Disabilities would address about half of the projected deficit.

It is difficult to project year-end Children Services spending by fund source because many of the administrative adjustments after the close of the fiscal year dramatically change the fund sourcing for the line item. Based on monthly year-to-date FY 2002 General Fund expenditures, however, JLBC Staff believes DES projections for final FY 2002 expenditures are not unreasonable.

Based on the projected surplus in Developmental Disabilities and the projected deficit in Children Services, JLBC Staff recommends a favorable review of the request to transfer \$1,000,000 from Developmental Disabilities programs in FY 2002 to the Children Services Special Line Item. The surplus monies in the Developmental Disabilities programs are one-time in FY 2002 and will not be available in FY 2003.

RS/SSH:jb



## ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Jane Dee Hull  
Governor

JUN 6 2002

John L. Clayton  
Director



The Honorable Ruth Solomon, Chairman  
Joint Legislative Budget Committee  
Arizona State Senate  
1700 West Washington  
Phoenix, AZ 85007

Dear Senator Solomon:

The Department of Economic Security requests to appear at the next Joint Legislative Budget Committee meeting to ask permission to transfer \$1,000,000 from the Division of Developmental Disabilities to meet current year shortfalls in the Children Services program.

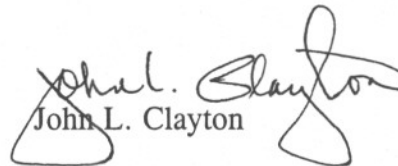
The costs within the Children Services line item have increased due to the percentage of children in out-of-home care who require placement in therapeutic and residential treatment settings which are more costly have resulted in an increased dependence on appropriated resources. The attached document provides information about client placements. The surplus in the Division of Developmental Disabilities exists in FY 02 only and will be used in FY 03 to fund the provider rate increases authorized in the recent legislative session.

In addition, as required by General Appropriation Act footnote, the Department requests approval to use up to \$1,000,000 of the \$4,200,000 appropriated in FY 2003 as authority only in the cash benefits line item of the Division of Benefits & Medical Eligibility. This would be a contingency approval as current expenditure levels are very close to the appropriated level.

The Honorable Ruth Solomon, Chairman  
Page 2

If you have any questions, please contact Andy Genualdi, Assistant Director, Division of Business and Finance, at 542-7166 or me at 542-5678.

Sincerely,

  
John L. Clayton

Attachment

c:

The Honorable Laura Knaperek, Vice Chairman, Joint Legislative Budget Committee  
Richard Stavneak, JLBC Staff Director  
Stefan Shepherd, JLBC Staff

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON PROPOSED USE  
OF TANF CASH BENEFITS EXPENDITURE AUTHORITY

**Request**

Pursuant to a footnote in the General Appropriation Act as modified by Laws 2002, Chapter 321, the Department of Economic Security (DES) is reporting on its intent to use up to \$1,000,000 federal Temporary Assistance for Needy Families (TANF) Block Grant monies of the \$4,200,000 appropriated as expenditure authority to pay TANF Cash Benefits in FY 2002.

**Recommendation**

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

**Analysis**

The General Appropriation Act as modified by Laws 2002, Chapter 321 contains the following footnote regarding the TANF Cash Benefits Special Line Item in the Division of Benefits and Medical Eligibility (DBME):

“Of the amount appropriated for Temporary Assistance for Needy Families Cash Benefits, \$4,200,000 reflects appropriation authority only. The department shall notify the Joint Legislative Budget Committee and the Governor’s Office of Strategic Planning and Budgeting Staff before the use of any of the \$4,200,000 appropriation authority.”

(Continued)



The TANF Cash Benefits line item contains this additional expenditure authority because the state pays TANF benefits on behalf of the state's five Native American tribes that operate their own welfare programs. The tribes repay the state for the benefits, but because there can be a delay between the time the benefits are paid out and the time the tribes repay the state, the Legislature appropriated \$4,200,000 for expenditure authority. The footnote permits DES to expend these monies if notifies JLBC and OSPB Staff beforehand. Any expenditures that the department makes from this amount actually reduces the amount of TANF carry-forward balance available to the state.

DES is reporting its intent to spend up to \$1,000,000 of its expenditure authority in FY 2002 for benefits to non-tribal members. DES also notes, however, that current expenditure levels are very close to the appropriated level and it may not need to spend any of the \$1,000,000. Its best estimate is that FY 2002 expenditures will be approximately \$70,000 less than the FY 2002 appropriation (excluding the expenditure authority) and it will not need to use any of the expenditure authority.

RS/SSH:jb

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CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - UPDATE ON DOMESTIC  
VIOLENCE BASELINE COST-EFFECTIVENESS MEASURES

**Request**

Pursuant to a request made by the Committee at its October 19, 2000 meeting, the Department of Economic Security (DES) is presenting progress made on developing outcome measures for domestic violence programs.

**Recommendation**

This item is for information only and no Committee action is required. JLBC Staff recommends that DES update the Appropriations Committees on this issue during next year's budget hearings.

**Analysis**

Laws 2000, Chapter 122 required that DES report to the Governor and the Legislature baseline cost-effectiveness information. When DES submitted its report, it was still in the initial stages of collecting expenditure data and needed time to evaluate and plan cost-effective usage of the data. It was also in the process of obtaining input from other state agencies and interested stakeholders on the outcome measures. As a result, at its October 19, 2000 meeting the Committee asked DES to report to the Committee after receiving this input, around 12 to 18 months.

The report details the efforts of DES' Community Services Administration (CSA) in developing outcome measures. Due to size restrictions, we have not attached a copy of the report; copies are available from our office upon request. It summarizes progress made on three levels — local, state, and national.

(Continued)

### Local

In 1998, the Sojourner Center, one of DES' domestic violence program contractors, asked CSA to help them develop an "outcome evaluation system." Sojourner Center developed a "Need for Service Assessment Scale," which is used to establish the need for service in 15 areas. Sojourner periodically measures changes in need to show an increase or decrease in client improvement on the scale. DES' report says the next step is to attribute cost to activities, which will assist Sojourner in allocating resources to the most beneficial activities. Sojourner has trained a total of eight domestic violence-related organizations on their system. CSA will monitor the use of this system by other shelters to determine if this is an effective system to implement statewide in the next Request for Proposals (RFP) for domestic violence services.

### Statewide

Since July 1, 2000, CSA's domestic violence contractors have submitted quarterly outcome measure data. Each contractor was required to develop at least 4 outcomes that quantifiably measured performance of emergency shelter and transitional housing services. Measures were mostly evenly split between "quality of life" measures (e.g., the percent of clients whose knowledge of domestic violence has improved) and "output" measures (e.g., number of social service referrals). DES plans to incorporate standard statewide outcome measures into its RFP for emergency shelter services starting in FY 2004.

CSA also continues to participate in the State Agency Coordination Team (SACT). SACT consists of representatives of seven state agencies that provide funding to domestic violence programs. SACT is working to determine common outcomes to be used in RFPs.

### National

CSA staff has also participated in a national project funded by the federal Department of Health and Human Services to develop definitions, goals and objectives, and measures.

The report notes other important issues related to domestic violence outcomes. National research emphasizes the importance of distinguishing between "short-term" and "long-term" outcomes for domestic violence programs. National research also highlights some of the challenges in collecting outcome measure data, including victims' occasional anonymity, outcomes that cannot be measured systematically, and outcomes requiring too long of a time horizon.

As noted above, CSA plans to refine current outcome data and incorporate standard outcome measures into solicitations and contracts starting in FY 2004. CSA will conduct another statewide meeting of stakeholders by the end of FY 2003 to gather final input on outcome measures.

JLBC Staff recommends that DES update the Appropriations Committees on this issue during next year's budget hearings.

RS/SSH:jb

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: ARIZONA STATE RETIREMENT SYSTEM – REVIEW OF FY 2003  
INFORMATION TECHNOLOGY EXPENDITURE PLAN

**Request**

The Arizona State Retirement System (ASRS) requests Committee review of the FY 2003 Information Technology (IT) Expenditure Plan for FY 2003. ASRS was appropriated \$9,000,000 in each FY 2002 and FY 2003 to upgrade their current information technology. A General Appropriation Act footnote requires ASRS to seek JLBC review of each year's expenditure plan. A favorable review was granted by JLBC last May for the FY 2002 expenditure plan.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of the FY 2003 expenditure plan submitted for the agency's IT plan. The plan fully converts the IT system to the Oracle environment to enhance efficiencies and services, as well as accommodate increases in membership.

**Analysis**

The footnote requiring JLBC review of the expenditure plans was added to the General Appropriation Act because of the magnitude and importance of the IT Plan for the agency, and due to the fact that the IT Plan did not receive approval from the Information Technology Authorization Committee (ITAC) until after the original FY 2002 – FY 2003 budget

(Continued)

development process. At the January 2001 ITAC meeting the project was approved; however, the agency is required to submit their Project Investment Justification (PIJ) to ITAC for further approval if the technology, scope of work, or implementation schedule varies from the original PIJ document.

The ASRS IT Plan is meant to address IT inefficiencies that currently exist and to position the agency for the anticipated increases in the longevity of retirees and actual number of retirees as the "baby boomer" generation reaches retirement. An additional component of the IT Plan is designed to improve the ASRS Web site. Instead of being only an information resource, the agency plans to create a Web site that provides services to members. For example, the enhanced ASRS Web site will enable members to complete tasks such as viewing their pension payment history, scheduling appointments with retirement advisors, and use an on-line benefit estimate calculator. Finally, the IT Plan includes upgrades for the agency's telecommunications system, which is the primary point of contact for ASRS members.

Implementation of the IT Plan began in FY 2002. Progress is mostly on schedule, though there was a delay in some programming work due to legislation from the 2001 Legislative Session. These other programming needs have delayed the overall progress in FY 2002, but have not altered the timeline of duties expected to be completed by the end of FY 2003. According to GITA, the plan is proceeding according to schedule, and no significant changes to the original PIJ are occurring.

The IT Plan is addressing inefficiencies due to the use of both an Oracle environment and an older COBOL environment. An Oracle environment is considered more flexible than a COBOL environment and allows the agency to make modifications and updates to the system in a more timely manner than is possible in a COBOL environment. In addition, conversion of all IT systems to Oracle will eliminate data redundancy, increase data integrity, streamline operational processing, and allow the agency to collect additional information that will enhance the service provided to ASRS members. The functions that have already been converted to Oracle are: 1) contact tracking; 2) member demographics; 3) employer demographics; 4) contribution reporting; 5) accounts receivable ledger; and, 6) health insurance. The functions that will be converted with the funding provided are: 1) member statements; 2) service purchase cost letters; 3) fiscal year-end processing; 4) calendar year-end processing; 5) forfeitures; 6) 13<sup>th</sup> month check distributing investment earnings; 7) contribution posting; 8) pension payroll; 9) benefit estimates; 10) new retiree processing; 11) survivor benefits for retired and non-retired members; and, 12) determination of payment of excess benefits.

The real impetus for the changes proposed in the IT Plan is the projected increase in the longevity of retirees and the anticipated increase in the actual number of retirees as the "baby boomer" generation reaches retirement. For example, ASRS currently has approximately 59,000 retirees; however, the agency anticipates the number of retirees to increase to approximately 98,000 by 2010. The agency estimates that if the IT Plan were not implemented the agency would need, at a minimum, 110 FTE Positions to achieve efficiencies somewhat similar to what will be achieved from completing the IT Plan. Without the IT Plan, many processes would remain manual and less efficient. For example, with the current manual process an estimate of retirement benefits takes staff approximately 40 minutes to complete. However, with the automation efficiencies introduced by the IT Plan, the same retirement benefit estimate would take staff approximately 10 minutes.

(Continued)

ASRS has submitted an expenditure plan for the \$9,000,000 allocated in FY 2003 for the IT Plan, which includes 14 FTE Positions. These expenditures are in line with the cost estimates included in the PIJ, which were determined reasonable by GITA and ITAC as part of their approval process. The table below details the components of the \$9,000,000 allocated in FY 2003.

| <b>ASRS IT PLAN</b>             |                  |                         |
|---------------------------------|------------------|-------------------------|
|                                 | <u>FY 2002</u>   | <u>Proposed FY 2003</u> |
| FTE Positions                   | 12               | 14                      |
| Personal Services & ERE         | \$ 798,600       | \$1,103,800             |
| Professional & Outside Services | 4,253,000        | 6,682,700               |
| Travel                          | 10,400           | 10,500                  |
| Other Operating Expenditures    | 407,900          | 735,500                 |
| Equipment                       | <u>3,530,100</u> | <u>467,500</u>          |
| Total                           | \$9,000,000      | \$9,000,000             |

Current senior ASRS staff from each service area are assigned to the IT Plan to ensure that the programming in the new Oracle environment fully meets the agency's operational and customer needs. Because consultants are performing much of the business application development in Oracle, in-house IT staff assigned to the IT Plan will enhance the knowledge transfer process from the consultants, which will reduce the risks associated with maintaining the Oracle system. The ASRS IT Plan includes approximately 27 consultants that will provide expertise in building business applications using Oracle, and therefore, will help ensure that the Oracle applications are completed in a timely manner. In addition to hiring additional in-house and consulting staff, the FY 2003 IT Expenditure Plan includes the continuation of consultants and FTE Positions from FY 2002. Much of the necessary equipment was purchased in FY 2002, thus the expected amount used for equipment in FY 2003 is significantly lower. ASRS will continue to purchase equipment for telephone and network enhancements, and will be purchasing maintenance contracts for current and past equipment purchases. Finally, several internal planning tasks need to be continued from FY 2002 or begin in FY 2003 such as finalizing PERIS projects, reengineering and automated workflow analysis, and telephone system and network enhancements.

The FY 2003 expenditure plan for the ASRS IT Plan is consistent with the expenditures outlined in the PIJ document approved by ITAC, and therefore, the JLBC recommends a favorable review.

RS/TS:ag



# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1-800-621-3778

LeRoy Gilbertson  
Director

May 20, 2002

The Honorable Ruth Solomon  
Chair, Joint Legislative Budget Committee  
Arizona State Senate  
1700 W. Washington  
Phoenix, AZ 85007



Dear Chairman Solomon:

RE: JLBC REVIEW OF THE ASRS IT EXPENDITURE PLAN

I am requesting that the Joint Legislative Budget Committee (JLBC), at its June 2002 meeting, review the proposed expenditure of FY03 appropriations for the Arizona State Retirement System (ASRS) Information Technology (IT) Plan.

Enclosed is the ASRS IT Expenditure Plan for FY03. The plan outlines expenditures in the areas of IT/User FTEs and Employee-Related Expenditures, Professional and Outside Services, Travel, Other Operating Expenditures and Equipment.

Thank you in advance for the committee's consideration.

Sincerely,

LeRoy Gilbertson  
Director

LG:mkh

Enclosure

ARIZONA STATE RETIREMENT SYSTEM  
MEMORANDUM

TO: Martha Rozen, Chief of Administrative Services  
FROM: Kevin Langley, Budget Manager  
DATE: May 20, 2002  
RE: IT Plan FY2003

| <u>FY2003:</u>    | <u>Completed</u> |
|-------------------|------------------|
| Expenditures      | Y or N           |
| FTEs              | 14               |
| Personal Services | \$ 912,205       |
| ERE               | \$ 191,563       |
| PPF               | \$ 69,421        |
| P&O               | \$ 6,682,701     |
| Travel            | \$ 10,500        |
| OOE               | \$ 666,078       |
| Equipment         | \$ 467,532       |
| Total             | \$ 9,000,000     |

**Objectives:**

**Staffing**

FTEs from (FY02)  
Continued usage of contractors from (FY02)

**Equipment**

Purchase/update required software and hardware  
Purchase new equipment for new FTEs  
Purchase equipment for telephone and network enhancements  
Purchase maintenance contracts for equipment purchased in FY02/03

**Internal Planning**

Continue/Finalize PERIS Projects  
Service Purchase  
Fiscal Year End Processing  
Monthly Pension Payroll  
Member Statements  
New Retirees  
Continue Reengineering and Automated Workflow  
Conduct review of ASRS Laws & Rules  
Redesign ASRS forms to accompany imaging  
Telephone System Enhancements  
Upgrade PBX Operating System Software  
Implement Call Management Software  
Enhance Computer Telephony Interface Applications  
Implement Centerview Remote  
Enhance Interactive Voice Response Application  
Network Enhancements  
Replace file services, workstations, switches, printers  
Upgrade to Windows 2000 & Office 2000  
Implement user help desk software  
Upgrade training room projection equipment  
Upgrade anti-virus software for desktop and network security  
Implement video conferencing in four locations statewide



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CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT  
INFORMATION TECHNOLOGY AGENCY - REPORT ON HRMS REPLACEMENT  
PROJECT

**Request**

As part of the favorable review of the expenditure plan for the Human Resources/Payroll System, the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) are required to report back quarterly to provide information on the project.

**Recommendation**

This item is for information only and no Committee action is required. Workshops to define the process and begin design have been completed and agency staff have been selected to provide training to agency employees.

GITA submitted its quarterly report to the Committee on April 24, 2002 and noted that the significant scope of the project, the aggressive timeline, and the amount of inter-agency cooperation required in the project are areas for concern. Since receipt of that GITA report, the Human Resources Information Solution Board of Directors delayed the implementation date for the first phase of the project until April 14, 2003. Further recent communication from GITA to ADOA raises questions about how this deviation from the original plan will affect the budget of the project. GITA noted equipment issues at other agencies that have resulted from the project and specifically requested a contingency plan from the project managers should the new

(Continued)

implementation dates also prove unachievable. GITA also requests several other updates on the project status.

In light of these new developments, JLBC Staff recommends that both ADOA and GITA provide updates on an as-needed basis if the quarterly schedule would not provide timely information to the Committee.

### **Analysis**

The replacement Human Resources/Payroll System is commonly known as the Human Resources Information Solution (HRIS). The project officially began after contracts were signed in January 2002 and project teams were assembled.

Funding for the project is provided through a pro-rata assessment on Personal Services. Of the \$80.2 million in project costs, \$44.3 million are costs associated with the lease-purchase of the system. This lease-purchase arrangement has a period of 12 years.

The system hardware and software are supplied by a partnership between IBM and Lawson Software. Hardware and software installation was conducted in February 2002. The project team has also conducted a number of workshops during February and the following months to gather information on the current human resources business process (“as-is” workshops) and to design the desired configuration for the implemented business process (“to-be” workshops).

The HRIS Board of Directors met on June 5, 2002 and determined that the implementation date for the project would be moved to April 14, 2003. The Board decided that the original implementation date of January 1, 2003 could not be met due to concerns about agency readiness. In the original project planning, the January date was a target because the current system would not be supported by a critical vendor after December 31, 2002. That vendor has agreed to provide support for their system past December 31<sup>st</sup>, so the current system will be fully supported during the delay.

RS:PS:ss

**JANE DEE HULL**  
GOVERNOR



**CRAIG STENDER**  
DIRECTOR

STATE OF ARIZONA  
GOVERNMENT INFORMATION TECHNOLOGY AGENCY  
411 North Central Avenue, Suite 770  
Phoenix, AZ 85004

June 7, 2002



Mr. Bill Bell, Deputy Director  
Arizona Department of Administration  
1700 West Washington Street  
Phoenix AZ 85007

Dear Mr. Bell:

At the June 5, 2002 Board of Directors meeting for the Human Resources Information System (HRIS) project, you directed Government Information Technology Agency (GITA) attendees – Mr. James Ryan, Deputy Director, Mr. Bob Ramming, Project Monitoring Manager, and me, the Director and State Chief Information Officer (CIO) – to leave the room. You indicated the meeting was only for Arizona Department of Administration (ADOA) personnel and other non-Board members from Meta Group, IBM and Lawson.

Your action has created a serious crisis for the HRIS project and potentially the vendors involved. According to State law A.R.S 41-3504, Sections A and C, GITA must monitor projects deemed major or critical, and may examine all books, papers, records and documents in the office of any budget unit and may require any state officer of the budget unit to furnish information or statements necessary to carry out the provisions of this chapter.

By excluding GITA from a critical meeting, you have caused information to be withheld that may or may not have a bearing on the viability of the project. So, pursuant to GITA's responsibilities under the law, we request that you immediately provide GITA with a copy of the meeting agenda, a summary of topics discussed, a transcript of the meeting minutes and a list of meeting attendees.

We understand the final implementation date of the project has moved to July 2003, with the core functionality being scheduled for implementation in April 2003.

There are several issues and concerns GITA was prepared to ask at this meeting. Without that opportunity, they now require your immediate attention.

Mr. Bill Bell  
June 7, 2002  
Page Two

1. Why did the project slip? What were the issues that caused the dates to move?
2. Since total project implementation has slipped 3 months (or 21 percent) after 10 percent of the funds have been expended, how are you going to balance the books? Are you going to ask for more funding or reduce the Scope of the project?
3. Will slippage of the due date cause any procurement issues since the original procurement mandates a 14-month implementation? What functionality was in the original 14-month contract and what was not? What functionality is being treated as 'enhanced functionality'?
4. Since there has been no apparent change to the methodology to manage the project, how do we know if the April 2003/July 2003 dates are achievable? What are your contingency plans should these dates be unattainable?
5. Why aren't there any large agency leaders on the project Board of Directors? A significant project gap currently centers on the larger agencies – Department of Economic Security, Department of Public Safety, Department of Corrections (DES, DPS, DOC, etc.) having to interface their legacy systems with HRIS. Would it make sense to have them on the Board to become part of the solution?
6. Project management leadership appears to be too dependent on the contractor. What steps will be taken to ensure the State has adequate control of overall project management?
7. It appears there is not adequate project management control reporting in place to ensure success. Does the project management team have project reporting in place that allows them to prevent schedule slippage?
8. Will the ADOA IT Strategic Business Plan, currently under development, incorporate support for HRIS? If not, how will it be supported?
9. When will an online version of the HRIS data entry screens be available to agencies for training and orientation?
10. Has ADOA prepared an agency status list so resources can be assigned to agencies behind schedule? If not, why not and when will one be done?
11. When will interface specifications be provided to agencies so they may begin redesigning interfaces?

Mr. Bill Bell  
June 7, 2002  
Page Three

12. Agencies have complained that meetings have been cancelled or delayed. Has an agency meeting schedule been published? If so, please provide a copy.

13. Has an agency training curriculum and documentation been published? If so, please provide a copy. If not, when will documentation be available for distribution to agencies?

14. DOC recently submitted a Project Information Justification (PIJ) to GITA for the purchase of 200 PCs to meet criteria required by HRIS. Do you know if any other agencies do not have adequate hardware/software to access the new HRIS system? If not, have you polled agencies to determine whether or not their equipment is suitable?

15. Have ADOA/HRIS or Lawson/IBM personnel been reassigned to different tasks as a result of the project redesign? Please describe.

16. GITA plans to meet independently with IBM and Lawson representatives to investigate project status. Please describe any technical, contractual or business issues that remain unresolved.

17. Will formal changes be made to the contract subject to agreement by IBM and Lawson? If so, please provide copies of any contract modifications, amendments and addenda.

18. During the HRIS presentation to Information Technology Authorization Committee (ITAC), ADOA personnel justified the 14-month implementation schedule based on cost avoidance of \$900 thousand for a software upgrade to allow continued support of the existing payroll system beyond January 1, 2003. Since the new HRIS is delayed, will the old system be upgraded at a cost of \$900 thousand? If not, explain.

Please submit your responses to these questions to GITA by June 21, 2002. Please be assured, any action we take regarding the HRIS project will be governed by the law and the best judgments of all concerned. Also be advised that one or more GITA representatives will attend all HRIS Board meetings in the future.

Sincerely,



Craig Stender  
Director & State CIO

CS: mc

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

June 7, 2002

The Honorable Ruth Solomon, Chairman  
Joint Legislative Budget Committee  
Arizona State Senate  
1700 W. Washington Street  
Phoenix, AZ 85007



Dear Senator Solomon:

ADOA is submitting this Quarterly HRIS Project update per JLBC action on January 9, 2002. This report will highlight activities since the initial ADOA report of February 15, 2002, and the GITA report to the JLBC of April 24, 2002.

#### **Significant May Achievements:**

- Agencies have completed their reviews of the "To-Be" business process workshops
- Conference room pilot CRP 1 was successfully completed and reviewed by the HRIS team
- Configuration and preparation for CRP 2 has begun
- Agency business and technical assessments were documented for "Go, No-Go" decision
- Nineteen statewide project strategies were developed, documented and forwarded to the ADOA Board of Director's for review and comment
- HRIS website redesign was completed
- Technical staff began discussions with the state portal team to integrate HRIS with the secure gateway solution of the portal

#### **Significant June Achievements:**

- The project team delivered a "No-Go recommendation" to the Board of Director's regarding the January 2003 implementation date on June 5, 2002. Extensive research and information gathering activities were completed in May, which provided the data to render the decision relative to the January 2003 implementation. The "No-Go" for January 2003 reverts the project implementation date back to the original and contracted for April 2003 "Go-Live" date. The Board was presented with the recommended project strategies (functionalities) to implement in April 2003 and those project strategies that will be in place before July 2003
- Agency Training Facilitator Kickoff was conducted on June 6<sup>th</sup>

The previously submitted HRIS Productivity Cost Savings estimates have not changed since February.

Sincerely,

A handwritten signature in black ink, appearing to read 'William Bell', with a stylized, flowing script.

William Bell  
Deputy Director

Cc: The Honorable Laura Knaperek, House of Representatives  
Richard Stavneak, JLBC Staff Director  
Tom Betlach, OSPB Director  
Tim Boncoskey, HRIS Project Director

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: June 11, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION/GOVERNMENT  
INFORMATION TECHNOLOGY AGENCY – REPORT ON HRMS  
REPLACEMENT PROJECT AGENCY BUDGET SAVINGS

**Request**

As part of the review of the expenditure plan for the replacement of the Human Resources/Payroll System, the Committee required the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) to report by February 15, 2002 on agency budget reductions from the implementation of the new system.

**Recommendation**

This item is for information only and no Committee action is required. The report summarizes an average of \$1,350,000 per year in “hard” savings and \$7,999,000 per year in “soft” savings during the 12-year life of the project. While the hard savings appear possible, the soft estimate is questionable, as explained below. The JLBC Staff does recommend that a follow-up report be submitted by ADOA and GITA by January 31, 2003.

**Analysis**

The JLBC Staff received a report from ADOA of potential budget reductions. This report provides total savings from the project of \$14,849,100 in “hard” savings over the 12-year life of the project and \$87,989,200 in “soft” savings over the 12-year life of the project. “Soft” savings are defined as cost avoidance.

(Continued)



The “hard” savings include the elimination of 1 FTE Position associated with direct deposit and 23.4 FTE Positions associated with activities associated with Resumix hiring software. There will also be savings of \$2,216,300 for consultant costs and \$80,200 in reductions in staff time to manually process checks of over the 12-year life of the project.

Other “soft” savings, in the form of costs that are avoided due to the implementation of the Human Resources Information Solution (HRIS) System include savings in data entry over 12 years of \$48,769,400. An estimated \$39,219,800 in savings from reduced turnover is expected over 12 years. Turnover savings are assumed to result from a 0.5% reduction in turnover due to increased satisfaction with personnel management. The JLBC Staff experience is that turnover has many causes, so Staff assumes it will be difficult to demonstrate that any reduction in turnover was the result of a more responsive payroll system.

Since the project will not be fully implemented until April 14, 2003, it should be assumed that the hard savings of the project would not be realized until, at the earliest, the 4<sup>th</sup> quarter of FY 2003.

The HRIS project continues to identify agency processes that will be more efficient with the new system. Hard dollar savings are expected from the redundancy of existing time and attendance systems that many agencies currently use. ADOA reports that these savings will be identified in FY 2003.

RS/PS/ss



**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

February 15, 2002

FEB 15 2002

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

Dear Mr. Stavneak:

Pursuant to the December 20, 2001 meeting, the following is the anticipated cost savings of the project as required. Our presentation in December included an estimated \$102,838,237 over the 11 years of the project. Of this estimated total, \$87,989,173 represents cost avoidance or "soft" savings, and \$14,849,064 represents identified hard dollar savings, as shown below:

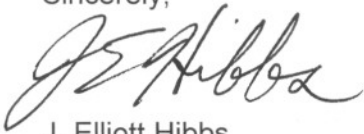
| EMPLOYEE SELF SERVICE                             | Hard Dollar Savings | Soft Dollar Savings | TOTAL Savings |
|---|---------------------|---------------------|---------------|
| ADDRESS CHANGES (5A)                              |                     | \$5,190,091         | \$5,190,091   |
| TAX CHANGES (4G)                                  |                     | \$3,066,872         | \$3,066,872   |
| TIME & ATTENDANCE                                 |                     | \$7,243,509         | \$7,243,509   |
| DIRECT DEPOSIT (1 FTE)                            | \$474,060           |                     | \$474,060     |
| VIEW PAYCHECKS                                    |                     | \$1,531,056         | \$1,531,056   |
| BENEFITS STATEMENTS                               | \$999,652           |                     | \$999,652     |
| W-2   | \$9,600             | \$37,986            | \$47,586      |
| MANAGER SELF SERVICE                              |                     |                     |               |
| TIME & ATTENDANCE / LEAVE APPROVAL                |                     | \$18,353,342        | \$18,353,342  |
| VIEW EMPLOYEE PROFILE                             |                     | \$3,529,482         | \$3,529,482   |
| VIEW EMPLOYEE HISTORY (ON-CALL)                   |                     | \$4,101,153         | \$4,101,153   |
| PAYROLL SORTING / DISTRIBUTION                    |                     | \$948,119           | \$948,119     |
| TURNOVER REDUCTION (.5%)                          |                     | \$39,219,753        | \$39,219,753  |
| RESUMIX STAFF SAVINGS (including ERE)             | \$11,069,292        |                     | \$11,069,292  |
| MANUAL PROCESSING SYSTEM SAVINGS                  |                     |                     |               |
| COBRA PROCESSING                                  |                     | \$270,251           | \$270,251     |
| ANNUAL CENSUS BUREAU REPORTS                      |                     | \$33,055            | \$33,055      |
| BLUE WARRANTS TO DIRECT DEPOSIT                   | \$80,201            | \$3,632,792         | \$3,712,993   |
| ELECTRONIC PAYSTUB DISTRIBUTION                   |                     | \$831,712           | \$831,712     |
| IT CONSULTANTS                                    | \$2,216,259         |                     | \$2,216,259   |
| PROJECTED PRODUCTIVITY COST SAVINGS OVER 11 YEARS | \$14,849,064        | \$87,989,173        | \$102,838,237 |

Richard Stavneak  
February 15, 2002  
Page two

At this point in the project, the project team and state agencies, have completed "As-Is" workshops. However, system training, the "To-Be" process workshops, configuration and conference room pilots have not begun. Until these activities are completed, cost savings cannot be refined further than the accompanying list. As you know, among the largest opportunities for savings are the eventual elimination of other agency systems. Any savings from agency systems will not mature until HRIS is fully operational. To date, the HRIS project has not quantified these costs. It will be well into FY03 before a realistic estimate of agency savings could be forwarded for your review.

If there are any questions, please contact Tim Boncoskey at 542-0495.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. Elliott Hibbs".

J. Elliott Hibbs  
Director

JEH:skm

Attachments

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: June 6, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: DEPARTMENT OF TRANSPORTATION – REPORT ON GRAND CANYON  
AIRPORT FUNDING

**Request**

The Arizona Department of Transportation (ADOT) requests that the Committee release \$161,500 (the final 3 months) of the FY 2002 appropriation to operate the Grand Canyon Airport for the remainder of FY 2002. Due to time constraints, this issue was not considered at the May JLBC meeting.

**Recommendation**

The JLBC Staff recommends the release of \$161,500 to operate the Grand Canyon Airport for the final 3 months in FY 2002. The total appropriation is \$646,100 for FY 2002. A General Appropriation Act footnote requires that no more than \$53,800 may be made available to ADOT in any month.

**Analysis**

The ownership and management of the Grand Canyon Airport was transferred from ADOT to the then newly established Grand Canyon Airport Authority on October 1, 1999, in accordance with Laws 1999, Chapter 213. The Authority was envisioned as having more local control, more freedom from the state bureaucracy, and with the ability to borrow funds for capital needs. However, ADOT subsequently determined that the Authority was a semi-autonomous state entity, instead of an independent municipal corporation, which still had to use the state accounting system, personnel system, and administrative rule making process. To remedy these shortcomings, Laws 2000, Chapter 99 was enacted. Chapter 99 eliminated the Grand Canyon Airport Authority, reverted any unexpended and unencumbered monies previously appropriated to the Authority to the State Aviation Fund, and returned the operation of the Grand Canyon National Park Airport to ADOT, effective July 18, 2000. ADOT had to lease the airport to a nonprofit corporation, to operate and develop the airport as provided in the lease.

(Continued)

In addition, Laws 2000, Chapter 99 requires ADOT to submit the lease to the Joint Legislative Budget Committee for review at least 30 days before they intend to execute the lease. ADOT may not execute the lease until the Joint Legislative Budget Committee reviews the lease and submits a report summarizing the terms of the lease to the Speaker of the House of Representatives and the President of the Senate, which shall be within 30 days after receipt of the lease. The Committee gave a favorable review of ADOT's proposed lease at its January 9, 2002 meeting, with the provision that the final lease includes specified technical amendments. ADOT had expected to sign the proposed lease sometime later in January 2002. This has still not occurred since the potential lessee still has unresolved issues including reduced Airport revenues since the 9/11/01 tragedy, liability concerns regarding a lawsuit by the Airport's fixed base operator, and questions whether the lessee can be directly given federal grants. ADOT now expects to continue running the Airport for the indefinite future, with no specific timeframe for if or when a lease might be consummated.

The General Appropriation Act included a \$646,100 appropriation, as adjusted for statewide salary and other allocations, to ADOT in FY 2002 for the operation of the Grand Canyon Airport. A General Appropriation Act footnote required that before the expenditure of any of this money for the Grand Canyon Airport, the department had to report to the Joint Legislative Budget Committee on the status and projected date of the privatization of the airport. The footnote further provides that no more than one-twelfth of the \$646,100 may be made available to ADOT in any month. At its January 9, 2002 meeting the Committee concurred with ADOT's request to release \$161,500 for 3 months of funding in FY 2002 to operate the Grand Canyon Airport through March 31, 2002. This made \$484,600 released for the first 9 months of FY 2002, and left another \$161,500 of the total appropriation of \$646,100 available for the last 3 months of FY 2002, if needed.

RS/BH:jb



Jane Dee Hull  
Governor

Victor M. Mendez  
Director

# Arizona Department of Transportation

## Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

April 23, 2002

Debra Brisk  
Deputy Director



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

Re: Grand Canyon National Park Airport

Dear Richard:

The Arizona Department of Transportation respectfully requests to be placed on the May 9, 2002, agenda of the Joint Legislative Budget Committee (JLBC) in order to comply with the provision of the 2002 General Appropriations Act regarding funding for the Grand Canyon National Park Airport, and report to the Committee on the current status of the lease agreement.

At the present time, the Department has negotiated a lease agreement with the Grand Canyon Airport Authority, Inc., an Arizona nonprofit corporation, to operate and develop the airport for forty (40) years. This agreement was favorably reviewed by the JLBC in January 2002.

I did receive a call from Paul Babbitt, Chairman of the GCAA, Inc. indicating that the GCAA, Inc. would not be in a position, by April 1, 2002, to execute the proposed lease agreement.

Since the funding for the Grand Canyon Airport was based on an April 1, 2002 lease signing date, and it is essential that the airport operation not be disrupted. I would at this time request the release of the remaining fiscal year 2002 funds to ensure that the daily operations of the airport are not compromised.

If you have any questions or need any additional information please contact Gary Adams at 602-294-9144.

Sincerely,

*Victor Mendez*  
Victor Mendez  
Director

cc: Bob Hull, JLBC  
Tom Betlach, OSPB  
Marcel Benberou, OSPB  
Gary Adams, ADOT  
Terry Trost, ADOT



2001 Award Recipient

STATE OF ARIZONA

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CHRISTINE WEASON

DATE: June 12, 2002

TO: Senator Ruth Solomon, Chairman  
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

**Request**

The JLBC has received a number of statutorily required reports during the past month. Each report is briefly described below.

**Recommendation**

The reports are for information only and no Committee action is required. We do not intend to discuss the reports at the JLBC meeting unless a member has a question. If any member knows in advance that they will have questions, we would appreciate knowing that before the meeting so as to ensure the relevant agency is available.

**Reports**

A. Arizona State Schools for the Deaf and the Blind (ASDB)- Report on Intended Use of Classification Salary Adjustment Monies.

A General Appropriation Act footnote requires ASDB to report the intended use of budgeted monies for Classification Salary Adjustments prior to the expenditure of those monies in FY 2002. The bill increased ASDB's FY 2002 voucher fund appropriation \$94,800 above the FY 2001 amount for Classification Salary Adjustments to ease hiring in hard-to-fill job categories. ASDB has selected the following job categories for the use of the additional funds:

|  |              |
|--|--------------|
| Nurse (6 FTE)                                | \$ 7,000     |
| Payroll (6 FTE)                              | 8,000        |
| Supervising Teacher (30 FTE)                 | 44,000       |
| Custodial Worker (15 FTE)                    | 11,900       |
| Extracurricular Activities (30 Positions)    | 6,500        |
| Master Teaching Parent/On-Call (38 Weekends) | <u>2,600</u> |
| TOTAL  | \$ 80,000    |

B. Department of Emergency and Military Affairs - Report on Declared Emergencies.

State Land Department Fire Suppression Fund

Pursuant to A.R.S. § 26-303, the Governor declared a State of Emergency effective April 2, 2002 through July 31, 2002 due to a severe forest and grassland fire emergency. Pursuant to A.R.S. § 37-623, the Governor authorized the State Forester to spend \$1,000,000 from the General Fund to pre-position fire fighting resources for the suppression of wild land fires on state and private lands located outside incorporated municipalities. Arizona is experiencing extreme drought conditions which create a higher than normal danger of wildfires. The funds will pay for firefighters, airplanes, retardant-dropping air tankers and training for Department of Public Safety and National Guard personnel.

Under A.R.S. § 37-623.02, the Governor may authorize the State Forester to spend \$1,000,000 from the State Land Department's Fire Suppression Fund to prepare for periods of extreme fire danger and pre-position equipment and other fire suppression resources to provide for enhanced initial attack on wild land fires.

Governor's Emergency Fund

Pursuant to A.R.S. § 26-303, the Governor declared a State of Emergency effective May 15, 2002 due to the Indian Fire near Prescott in Yavapai County. Pursuant to A.R.S. § 35-192, the Governor directed that \$200,000 from the Governor's Emergency Fund be made available for expenditure by the Director of the State Division of Emergency Management. The Indian Fire burned homes and forested land near the City of Prescott in the Prescott National Forest.

Under A.R.S. § 35-192, the Governor is authorized to approve the expenditure of \$200,000 or less for any single disaster, emergency or contingency. Authorization of larger expenditures cannot be made without consent of a majority of the members of the State Emergency Council. The total amount of all expenditures for States of Emergency cannot exceed \$4,000,000 for any fiscal year. The Gila Bend/Ajo Storm Emergency (PCA 22001) and Airport Security Emergency (PCA 22003) closed in April 2002 and reverted \$277,000 to the General Fund. There have been twelve emergency declarations, amendments or other actions in FY 2002, with total authorized expenditures of \$3,898,000 from the General Fund.

RS:lm