STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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HOUSE OF
REPRESENTATIVES

JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, June 29, 2004
9:00 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of May 25, 2004.
- DIRECTOR'S REPORT (if necessary).

1. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of FY 2004 Expenditure Plan for Workforce Investment Act Monies.
   B. Review of FY 2005 Expenditure Plan for Workforce Investment Act Monies and Report on Streamlining Workforce Training.
   C. Consider Approval of Requested Transfer of Appropriations for Day Care Subsidy and Transitional Child Care.
   D. JLBC Staff Report on Child Protective Services Issues.

2. DEPARTMENT OF PUBLIC SAFETY - Review of the Statewide Interoperability System Design Expenditure Plan.

3. DEPARTMENT OF REVENUE - Review of Ladewig Expenditure Plan.

4. DEPARTMENT OF HEALTH SERVICES
   A. Review of Children's Rehabilitative Services Capitation Rate Changes
   B. Review of Behavioral Health Capitation Rate Changes.

5. ATTORNEY GENERAL - Review of Allocation of Settlement Monies.

6. DEPARTMENT OF ADMINISTRATION - Report on Implementation of Self-Insurance for State Employee Health Insurance.

7. ARIZONA COMMUNITY COLLEGES - Report on Dual Enrollment and Appointing Ad Hoc Committee.

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

9. AHCCCS - Review of KidsCare Behavioral Health Capitation Rate Changes.

The Chairman reserves the right to set the order of the agenda.
06/22/04

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HOUSE OF
REPRESENTATIVES

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

May 25, 2004

The Chairman called the meeting to order at 9:08 a.m., Tuesday, May 25, 2004, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Anderson	Representative Biggs
	Senator Arzberger	Representative Burton Cahill
	Senator Bee	Representative Gray
	Senator Cannell	Representative Huppenthal
	Senator Harper	Representative Lopez
	Senator Martin	
	Senator Rios	
Absent:		Representative Farnsworth
		Representative Huffman
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Beth Kohler	Stefan Shepherd
Others:	Betsey Bayless	Director, ADOA
	Susan Strickler	Benefits Manager, ADOA
	Paul Shannon	Budget Manager, ADOA
	Steve Schramm	Consultant, Mercer Human Resources
	Tim Upson	Consultant, Mercer Human Resources

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of March 19, 2004. The motion carried.

DEPARTMENT OF ADMINISTRATION (ADOA) – Review of Self-Insurance for State Employee Health Insurance.

Ms. Beth Kohler, JLBC Staff, gave a public presentation on self-insurance using a handout (Attachment A). She noted that if members had questions on the contribution strategy that would be addressed in Executive Session.

Ms. Kohler said that ADOA had originally proposed non-integrated multiple vendors and issued an RFP for these contracts. In discussion with the Legislature, some members had expressed concern about the lack of an integrated bid. ADOA subsequently issued a RFP for integrated contracts.

Senator Arzberger asked Mr. Kohler to explain the difference between integrated and non-integrated.

Ms. Kohler said that in the handout on pages 2 and 3 it shows what the differences are between these 2. She said that from an employee perspective integrated and non-integrated will look the same. The employee will have 1 card and will choose a combination of contracts, whichever one is in their region, and be able to access all their services with that 1 card.

Ms. Kohler noted that ADOA said the integrated bids were still undergoing negotiations and had not finalized the bids at the time of the meeting. Any estimates that are discussed were developed prior to the finalization of those bids.

Representative Biggs asked what level the stop/loss kicks in.

Ms. Kohler said that the stop/loss is a per employee amount and it comes into affect if an employee's costs exceed $250,000.

In response to Senator Anderson, Ms. Kohler said she understands that the actuaries believe that when you remove the risk you make the environment more competitive and therefore the state is better able to hold down future cost increases and, in addition, the state is better able to limit administrative growth increases and that would be the advantages to self-insurance.

Senator Burns said that as well as saving dollars, another goal would be to improve services.

Senator Anderson asked if the state assumes the risk, what would be the worst case scenario that could happen.

Ms. Kohler said that the actuaries were fairly conservative in developing the estimate of how much a reserve we needed to have to cover the worst case scenario. Their estimate of $50 million would be enough to cover that.

Representative Biggs said that if we anticipate reserves to be $50 million are we buying some kind of reinsurance contract or something like that above $50 million.

Mr. Paul Shannon, Budget Manager, ADOA, elaborated on how the self-insured contract works. He explained that we pay a per-head charge for the administrative functions and for the pharmacy benefit, the utilization review, and the stop/loss. Those charges will be incurred whether anyone in the state gets sick or not. As an example, using extremes, say next year no employee gets sick and goes to the doctor. At that point there would be no medical claims and the only charges the state would pay would be the per-head charge. If the opposite happens and everyone goes to the doctor, there would be a lot of medical and pharmacy claims. When an employee gets very sick and incurs medical claims in excess of $250,000, the stop/loss comes into effect. The risk pool that the state employees bring with them is 50,000 employees, 10,000 retirees, and 90,000 family members. The amount we have come up with to generate a reserve of $50 million at the end of the year is about 14% of the total premium.

Senator Cannell stated that he hoped eventually that we would have more control over our insurance program. We could do employee wellness since we are high users. When looking at integrated versus non-integrated, patients will see the medical network looks basically the same. Senator Cannell asked if there is any difference in the pharmacy benefit between integrated and non-integrated.

Ms. Betsey Bayless, Director, ADOA, distributed a chart (Attachment B) showing the integrated and non-integrated structure. They have 1 pharmacy benefit manager for both types and will use 1 pharmacy plan for all 150,000 users.

Senator Bee asked what changes cause us to lose the premium tax benefit. He thought they had established this last year.

Ms. Kohler said that last year we applied the premium tax to the Medicaid payment. The premium tax itself for commercial plans has been in existence for longer than a few years. Self-insured plans are not subject to the premium tax. In FY 2005 the figure will actually be $7 million because it is three-quarters of the year. The annualized figure for the year would be $9 million.

Senator Bee asked if that makes it more expensive to go with this model in the first year than the figures show. Also, is the premium tax for the commercial plans tied to federal dollars.

Ms. Kohler said it is more expensive the first year. There is a loss of General Fund revenue associated with this in the first year and that is an on-going loss. We do not get a federal reimbursement for those dollars.

EXECUTIVE SESSION

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

At 9:28 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 10:25 a.m. the Committee reconvened into open session.

Due to time constraints Senator Burns announced that the Committee will recess to the sound of the gavel. THE MEETING RECESSED AT 10:26 A.M.

THE MEETING RECONVENED AT 5:10 P.M. The following members were present: Representatives Pearce, Burton Cahill, Gray, Lopez; Senators Burns, Anderson, Arzberger, Bee, Cannell, Harper, and Rios.

DEPARTMENT OF ECONOMIC SECURITY (DES) – Consider Approval of Requested Transfer of Appropriations for TANF Cash Benefits.

Mr. Stefan Shepherd, JLBC Staff, said this item is a request from DES for a temporary transfer of monies in their budget to the Temporary Assistance for Needy Families (TANF) Cash Benefits line item. The budget that was sent to the Governor this week included a $8.7 million FY 2004 supplemental appropriation for TANF Cash Benefits. However, if that budget is not signed by this week, the department will need to temporarily transfer monies from the JOBS line item to the TANF Cash Benefits line item and then transfer those monies back to the JOBS line item once the supplemental is signed.

Representative Pearce moved that the Committee approve the $6.5 million transfer as requested by the Department of Economic Security and give a favorable review to the use of $1.5 million appropriation authority. These transfers will be reversed upon the passage of a TANF supplemental. The motion carried.

Senator Burns announced that the DES item on the agenda will be the only item done at this meeting. The other agenda items will be held for a later meeting.

EXECUTIVE SESSION

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

At 5:14 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 6:07 p.m. the Committee reconvened into open session.

DEPARTMENT OF ADMINISTRATION (ADOA) – Review of Self-Insurance for State Employee Health Insurance and Review for Committee the Planned Contribution Strategy for State Employee Health Plans.

Representative Pearce moved that the Committee give a favorable review with the following stipulations:

A. *That ADOA report back to the Committee on whether final negotiated integrated rates are lower than current estimates.*
B. *That ADOA report to the Committee on what performance measures they will establish to evaluate the new contracts.*
C. *Report quarterly to the Committee on the implementation of self-insurance including feedback from state employees and retirees.*
D. *ADOA should structure the contribution strategy to treat the administrative costs of integrated contracts nearly the same as non-integrated contracts.*

The motion carried

Without objection the Committee adjourned at 6:10 p.m.

Respectfully submitted:

____
Cheryl Kestner, Secretary

____
Richard Stavneak, Director

____
Senator Bob Burns, 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 22, 2004

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of FY 2004 Expenditure Plan for Workforce Investment Act Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security (DES) in September submitted an expenditure plan for federal Workforce Investment Act (WIA) funds received by the state in excess of $48,004,700. The total increase in WIA appropriation authority requested by the agency in FY 2004 was $12.3 million.

At its September meeting, the JLBC favorably reviewed $10.5 million of the increase but recommended that $1.8 million of discretionary program expansions be postponed to determine if those monies were needed to solve DES' FY 2004 budget shortfall.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of DES' plan for the $1.8 million of additional WIA monies, since FY 2004 supplementals have eliminated the agency's budget shortfall. The JLBC Staff further recommends that the agency submit performance measures for the new and expanded programs (Women's Issues, Youth Programs, and the Nursing initiative).

Analysis

The DES Workforce Development Administration (WDA) is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. The WIA legislation established block grants to states for workforce development. Funds are delivered to the local level to those in need of services, including job seekers, dislocated workers, youth, veterans, disabled individuals, and employers. Services are provided through partnerships between various public and private sector employment and training agencies. Federal provisions require that 85% of the monies received by WDA must be allocated to local areas, with the state receiving the other 15%.

(Continued)

Expenditure Plan for Discretionary Monies

The department's plan for discretionary spending (15%) included funding for programs established by the Governor's Council on Workforce Development. The Governor's Council recommended the establishment of new programs in FY 2004, designed to address workforce development issues related to women and youth and the support of the nursing profession, totaling $1.8 million. It was the expenditure of these monies that the Committee did not review at its September meeting. The $1.8 million would be allocated between the following three programs:

- Women's Issues Program - $500,000. Of this amount, $435,000 would be utilized to fund programs that focus on improving job skills for women on welfare and women exiting the corrections system. Grant monies would assist this group in entering and remaining in the workforce and assist displaced homemakers and provide training for women in non-traditional employment. The additional $65,000 would be utilized to fund a staff person to oversee the grant process.

- Youth Programs - $800,000, which includes elimination of a $200,000 program and the establishment of 3 new programs totaling $1 million. The Council recommends eliminating the High Concentration of Youth Activities Program and establishing two new initiatives – the formation of a Youth Council and the establishment of Youth Programs. The Council would utilize $170,000 to establish and staff a State Youth Council on Youth Workforce Development. Staff would provide technical assistance to local boards in addition to establishing a statewide conference on youth workforce development activities. An additional $330,000 would be granted to organizations involved in youth-related workforce development activities. An additional $500,000 would be used for various youth programs at the local level.

- Nursing Program - $510,000 to expand registered nurse education in Arizona's public postsecondary education institutions, including Arizona State University, Northern Arizona University, the University of Arizona, Mesa Community College, and Northland Pioneer Community College.

RS/JM:ss

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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

Janet Napolitano
Governor

David A. Berns
Director

SEP 11 2003

RECEIVED
SEP 11 2003
JOINT BUDGET COMMITTEE

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

Dear Senator Burns:

The General Appropriation Act includes the following footnote: "All federal Workforce Investment Act funds that are received by the State in excess of $47,960,700 are appropriated to the Workforce Investment Act Programs Special Line Item. Excess monies may not be spent until a proposed expenditure plan for the excess monies has been reviewed by the Joint Legislative Budget Committee."

Pursuant to this requirement, the Arizona Department of Economic Security requests to be placed on the agenda for the September Joint Legislative Budget Committee (JLBC) meeting. The purpose of the request is to review the proposed expenditure plan for the additional Workforce Investment Act (WIA) funds currently being received by the Department above the appropriated level. The WIA federal allocation is $53,501,086; therefore, the additional appropriation authority requested is $5,540,386.

In addition, the Department is requesting increased appropriation authority for unspent WIA allocations received in prior years. The Department has three years to spend WIA annual allocations. There is $6,250,800 of prior-year funding unexpended that must be spent in FY 2004. Of this amount, $1,952,513 is for funding of the Virtual One-Stop (VOS) automation enhancement project that will be spent in FY 2004. An additional $524,000 of prior-year funding originally budgeted in FY 2003 requires appropriation authority for VOS in FY 2004. Therefore, the total increase in WIA appropriation authority being requested for FY 2004 is $12,315,186. On August 29, JLBC staff requested responses to several questions related to this request. Those responses are attached.

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

Sincerely,

David A. Berns
Director

DAB:JS:sl

Attachment

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

Attachment A

Workforce Investment Administration Funding/Expenditure Plan
Joint Legislative Budget Committee Follow-up Questions
August 29, 2003

Question 1: We had asked for further detail on how additional ongoing discretionary WIA monies totaling $825K will be spent on the state side (i.e., 10% Gov Council, 5% Admin) and how that fits into the existing expenditure plan for these funds. For both the existing funds (totaling $7.2 M) and the additional funds ($825K), please provide a specific expenditure plan. This would include budget schedule detail including amounts expended on FTEs, Personal Services, ERE etc. Grants to outside organizations should be separately detailed. These grant allocations could be allocated by project/component/grant recipient.

Response: See Attachment B.

Question 2: Please provide the same level of detail referenced above on how the $6.8 million in prior year appropriations will be expended. Additionally, please indicate which projects/components are one-time and which are ongoing.

Response: These monies were previously allocated by DES to the Local Workforce Investment Administration (LWIA) entities, but have not yet been expended by the local entities. Please refer to Attachment C for a breakout by LWIA and expenditure category.

Question 3: Please provide an updated list of expenditures approved by the Governor's Council on Workforce Development for FY 2003 and FY 2004. Please clarify which numbers would change as a result of the proposed additional funding.

Response: Listed on Attachment B are the recommendations from the Governor's Council on Workforce Policy for the 15% Set-Aside distributions for FY 2003 (July 1, 2002 - June 30, 2003) and FY 2004 (July 1, 2003 - June 30, 2004).

The Governor's Council on Workforce Policy made the recommended distributions based on the federal DOL allocations published in the Federal Registers dated March 8, 2002 and April 1, 2003. Therefore, the numbers will not change based on the additional funding.

Question 4: Please provide the same level of detail on the costs associated with the Virtual One Stop (VOS) Program. Are the costs associated with this program for software or for staff? DES staff or local staff? Does VOS attempt to link to other online job databases (i.e. Monster.com)? What are the costs estimated to be for ongoing operations? Can future operating costs of VOS be absorbed with the current $48 million WIA appropriation?

Question 4a: Please provide the same level of detail on the costs associated with the Virtual One Stop (VOS) Program.

Response 4a: See Attachment C.

Question 4b: Are the costs associated with this program for software or for staff?

Response 4b: Costs associated with this program are for both software and staff, as listed in Attachment C.

Question 4c: DES staff or local staff?

Response 4c: DES staff.

Question 4d: Does VOS attempt to link to other online job databases (i.e., Monster.com)?

Response 4d: Yes, VOS will link to America's Job Bank, Monster.com, Hot Jobs and the State Job Bank. In addition, VOS provides features including an advanced resume and letter builder, information regarding current workforce trends and labor market information.

Question 4e: What are the costs estimated to be for ongoing operations?

Response 4e: The ongoing operational cost for VOS is $606,000 per year, starting in FY 2005.

Question 4f: Can future operating costs of VOS be absorbed with the current $48 million WIA appropriation?

Response 4f: Yes, future operating costs for VOS will be paid from the existing DES WIA operating budget.

Question 5: What is the difference between WIA and Job Service?

Response: The Job Service is funded under the federal Wagner-Peyser Act. The primary focus of the Job Service is to operate as the state labor exchange, obtaining employer job orders for job applicants with specific skill sets. Job Service staff members match applicants with the skills required in job orders and refer qualified job seekers to the employment opportunities. Federal Wagner-Peyser program funds are sent from the Department of Labor to the DES; labor exchange services are delivered by DES staff.

WIA is federal legislation authorizing the establishment and implementation of federal workforce development programs. The primary focus of the WIA programs is to provide training for Dislocated Workers, Adults and Youth. WIA program funds are provided from the Department of Labor to DES and passed through to local government entities and their Local Workforce Investment Boards. Local staff deliver training programs through One-Stop Employment Centers.

Question 6: The Appropriations chairmen are interested in finding unit cost data currently being collected in state programs. Please provide any unit cost data (e.g., cost per trainee) currently being collected for WIA programs, either by DES or by local boards.

Response: As an average, the overall cost per participant is approximately $1,940. WDA is comprised of three programs:

	Average
Adult Programs	$1,864
Dislocated Worker Programs	$1,405
Youth Programs	$2,548
Overall Average	$1,940

Workforce Investment Act

Governor's Council Recommendation of 15% Set-Aside Distribution 1/			
Required Activities		**FY 2003**	**FY 2004**
Eligible Training Provider List	ADOE	223,000	214,325
Incentive Funds for LWIAs	LWIA	689,000	500,000
Technical Assistance / Capacity Building	LWIA	521,726	125,000
System Building	LWIA	-	152,000
High Concentration of Youth Activities	LWIA	200,000	-
High Concentration of Youth Activities / Formation of Youth Council	GOV	-	500,000
Subtotal		1,633,726	1,491,325
Program Set-Asides			
Apprenticeship	ADOC	125,000	130,000
Women Issues	GOV	-	500,000
Business Research and Statistics	ADOC	250,000	-
Arizona Workforce Connection / Marketing	ADOC	225,000	-
Virtual One Stop	DES/WDA	524,000	325,000
Youth Programs	LWIA	-	500,000
Miscellaneous	LWIA	-	510,395
Subtotal		1,124,000	1,965,395
State Administration			
DES Administration WDA	DES/WDA	1,976,362	1,900,000
DES JOBS Administration	DES/JOBS	2,000,000	2,000,000
ADOC / State Council	ADOC	402,500	600,000
Subtotal		4,378,862	4,500,000
Total 15% Set-Aside		7,136,588	7,956,720

DES Budget Detail 2/		
DES Set-Aside	**FY 2003**	**Estimated FY 2004**
Personal Services	1,079,400	1,088,200
Employee-Related Expenditures	255,300	313,400
Professional & Outside Services	120,200	40,300
In-State Travel	52,800	70,300
Out of State Travel	6,200	-
Client Services (JOBS special line item)	1,190,900	2,000,000
Other Operating Expenditures	259,600	421,900
Capital Equipment	131,700	-
Non-Capital Equipment	8,400	-
Total DES Set-Aside	3,104,500	3,934,100

1/ The Governor's Council recommendation of the distribution of the 15% set-aside was based upon the USDOL allocation of WIA Title I funds to Arizona as presented in the Federal Register dated March 8, 2002 and April 1, 2003.

2/ The DES Budget Detail amounts represent actuals through the 13th month for FY 2003 and the approved appropriation amounts for FY 2004.

Workforce Investment Act

Distribution of Carryover

ON-GOING COSTS

Local WIA	Adult	Youth	Dislocated Worker	Totals
Apache	3,211	4,610	886	8,707
Cochise	36,073	40,149	13,138	89,360
Coconino	20,198	28,707	29,819	78,724
Gila/Pinal	43,580	45,265	71,742	160,587
Graham	10,229	10,668	2,952	23,849
Greenlee	3,830	4,341	4,281	12,452
Maricopa	162,830	173,690	404,616	741,136
Mohave/LaPaz	29,920	28,976	30,557	89,453
Navajo	13,060	16,995	3,690	33,745
Navajo Nation	112,881	127,920	40,890	281,691
Phoenix	281,342	304,809	464,254	1,050,405
Pima	136,617	144,748	218,473	499,838
Santa Cruz	40,380	36,649	13,285	90,314
Yavapai	12,322	14,572	28,490	55,384
Yuma	249,714	284,616	83,846	618,176
Tribal	74,464	79,467	65,247	219,178
Local WIA Distribution	1,230,651	1,346,182	1,476,166	4,052,999

ONE-TIME COSTS

DES Distribution (VOS)	Estimated FY 2004
Personal Services	142,000
Employee-Related Expenditures	41,500
In-State Travel	7,100
Other Operating Expenditures	1,370,200
Capital Equipment	631,000
Non-Capital Equipment	530,000
Total DES Distribution	2,721,800
Total Carryover Distribution	6,774,799

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 22, 2004

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of FY 2005 Expenditure Plan for Workforce Investment Act Monies and Report on Streamlining Workforce Training

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security (DES) is submitting an expenditure plan for $2.5 million of the discretionary portion of federal Workforce Investment Act (WIA) monies received by the state for FY 2005. Unlike most Federal Funds, the WIA monies are subject to legislative appropriation due to federal requirements. DES has indicated that it will present an expenditure plan for an additional $2 million of WIA monies at a later JLBC meeting.

In addition, DES has submitted a report on streamlining workforce development services, as required by the FY 2004 General Appropriation Act. Since this report addresses WIA activities, there is a summary at the end of this memo.

Recommendation

The JLBC Staff recommends a favorable review of DES' expenditure plan. The program activities and expenditure levels being sought seem reasonable and represent core functions typically funded by WIA dollars.

The JLBC Staff further recommends that DES provide the Committee with its perspective on the findings of the report. The report indicated that Arizona's workforce development system is stymied at the state level by a lack of organization and innovation and suggested that workforce development initiatives either be consolidated into one agency or be addressed via an independent partnership between public and private sector stakeholders.

(Continued)

Analysis

The DES Workforce Development Administration (WDA) is the state's grant recipient for federal WIA funds from the U.S. Department of Labor *(See agenda item 1A for further background.).* Approximately $1.8 million of the $2.5 million expenditure plan is funding that is passed through to the Arizona Department of Education (ADE), to local workforce investment areas, and to DES' Virtual One Stop (VOS) program. The remaining $700,000 is allocated to Commerce for staffing the Governor's Council on Workforce Policy and for apprenticeship programs.

Governor's Council Recommendation of 15% Set-Aside

Program Activities	Agency	FY 2004	FY 2005	Net Change
Eligible Training Provider List	ADE	$214,325	$127,000	$ (87,300)
Incentive Funds for LWIAs	LWIA	500,000	500,000	--
Technical Assistance	LWIA	125,000	250,000	125,000
System Building	LWIA	152,000	300,000	148,000
High Concentration of Youth Activities	LWIA	200,000	200,000	--
Virtual One Stop	DES	325,000	325,000	--
Evaluation	GOV	--	125,000	125,000
Apprenticeship	ADOC	130,000	70,000	(60,000)
ADOC/State Council	ADOC	600,000	600,000	--
Other Set-Aside Components	Various	$1.8M	$0[1]	--
TOTAL 15% Set-Aside		**$2,246,325**	**$2,497,000**	**$250,700**

Legend

ADE	*Department of Education*	*LWIA*	*Local Workforce Investment Areas*
GOV	*Governor's Office*	*ADOC*	*Department of Commerce*
DES	*Department of Economic Security*		

1/ Plan to be presented at subsequent meeting

The above table delineates the FY 2005 level of funding by program and recipient and compares that total to FY 2004 levels. The expenditure plan represents core functions typically funded by discretionary WIA dollars. As noted from the table, the agency plans to spend $273,000 over FY 2004 on 2 programs (Technical Assistance and System Building), while reducing funding by $(147,300) on the Eligible Training Provider List and the Apprenticeship Program. The expenditure plan would also allocate $125,000 for a new program to conduct evaluation studies in order to gauge the effectiveness of various WIA activities.

Report on Workforce Governance in Arizona

To fulfill the footnote requirement for a study on streamlining workforce training activities, the Governor's Council on Workforce Policy contracted with the Morrison Institute of Public Policy. (This report is on file with JLBC Staff.) The report looked at the strengths and weaknesses of the state system and recommended ways in which the state could improve its effectiveness in training workers in a changing economy. The report describes the workforce development system in Arizona as being "stuck in transition." The major findings of the report are:

- The roles and responsibilities of agencies responsible for workforce development (the Departments of Education, Economic Security and Commerce) are unclear to those who work in and contribute to workforce development. The influence of the Department of Education has faded.
- DES' and Commerce's activities are oftentimes duplicative.

(Continued)

- Commerce has more capacity for innovation and effectiveness because of less bureaucracy and greater private sector connections, but is hampered by less experience with program administration.
- DES has the background but not the drive necessary for the changes needed to create a workforce system that is responsive to the private sector and economic development.
- There is limited state level leadership contributing to the perception that workforce development concerns are much more important at the local level.
- There exists difficulty in engaging the private sector in workforce development concerns because of perceptions about bureaucracy and the limited skills of workers.
- Arizona has not agreed to measurable goals beyond Federal requirements and therefore follow mandates rather than devising its own course.

The report also offered suggestions for ways in which Arizona's workforce development system can be improved:

- Arizona needs a coherent, up-to-date economic growth strategy that will enable a strong sense of direction for the future.
- Workforce development structure must give the private sector a large role.
- Establish the Arizona Economic Summit Group consisting of workforce and economic development entities (GPEC, GTEC, etc) to allow for greater coordination amongst these groups.

Finally, the report suggested three ways in which Arizona's workforce development system could choose to be organized in the future:

- Improve on the existing coordination between ADE, DES and Commerce; Consolidate programs into a newly created Arizona Department of Employment and Economic Growth; or Create an independent public-private partnership for workforce and economic development.

RS/JM:ss

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

Janet Napolitano
Governor

David A. Berns
Director

JUN 8 2004

RECEIVED
JUN 08 2004
JOINT BUDGET COMMITTEE

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

Dear Senator Burns:

The Arizona Department of Economic Security (DES) requests to be placed on the agenda for the review of federal Workforce Investment Act (WIA) projects funded with WIA discretionary monies pursuant to Laws 2004, 2nd Regular Session, Chapter 275, which includes the following new footnote:

> "Monies appropriated to the workforce investment act - discretionary special line item may not be expended until a proposed expenditure plan has been reviewed by the joint legislative budget committee."

The Governor's Council on Workforce Policy (GCWP) met on June 1, 2004, and identified the issues in the table below to be funded in FY 2005 from the $3,266,600 of appropriated WIA discretionary funding. The issues approved at the June 1, 2004, meeting are primarily WIA required activities.

Funded Activities 1/	**WIA Required or Optional Program**	**Benefiting Entity** 2/	**FY 2005 Funding Level**
Eligible Training Provider List	Required	ADE	$127,000
Incentive Funds for LWIAs	Required	LWIA	500,000
Technical Assistance/Capacity Building	Required	LWIA	250,000
System Building	Required	GCWP	300,000
High Concentration of Youth Activities	Required	LWIA	200,000
Virtual One Stop	Required	DES	325,000
Evaluation	Required	DES	125,000
Apprenticeship Program	Optional	ADOC	70,000
Department of Commerce (staffing the GCWP)	Optional	ADOC	600,000
Subtotal			**$2,497,000**

1/ See attachment 1 for additional details on funded activities.
2/ See attachment 2 for key to abbreviations.

The GCWP anticipates identifying the additional projects to be funded from the remaining $769,600 in WIA appropriated discretionary expenditures at a future meeting. DES will then forwarded the GCWP recommendations to the JLBC for review prior to expenditure of these remaining funds.

In addition, the GCWP will develop recommendations for the WIA allocation amount above the JLBC appropriation level. Therefore, in addition to the remaining $769,600 noted above, DES anticipates bringing additional GCWP recommended activities totaling approximately $1.2 million to the JLBC to review. These additional WIA discretionary funds are subject to the footnote below, which allows for discretionary WIA monies above the appropriated level to be expended following JLBC review:

> "All federal workforce investment act discretionary funds that are received by the state in excess of $3,266,600 are appropriated to the workforce investment act - discretionary special line item. Excess monies may not be spent until a proposed expenditure plan for the excess monies has been reviewed by the joint legislative budget committee."

If you have any questions, please contact me at (602) 542-5678.

Sincerely,

David A. Berns

David A. Berns
Director

DB:WH

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

REQUIRED WIA ACTIVITIES
Recommended by the Governor's Council on Workforce Policy
June 1, 2004

Eligible Training Provider List [Section 134(a)(2)(B)(i)]

Requirements: Dissemination of the State list of eligible providers of training services, including eligible providers of nontraditional training services, on-the-job training, and customized training, as well as performance information and program cost information for each training program. Each provider must be a post-secondary educational institution that (a) falls within the purview of Title IV of the Higher Education Act of 1965; (b) provides programs that lead to an associate degree, baccalaureate degree, or certificate; (c) provides programs carried out under the National Apprenticeship Act of 1937 and its amendments; or (d) another public or private provider of a program of training services.

The State Employment Administration has historically contracted with the Arizona Department of Education (DOE) to ensure that all training providers on the State list meet initial and subsequent eligibility requirements for continued inclusion on the list. DOE maintains a web site through which providers can complete such processes, and regularly monitors providers for compliance with WIA, as well as compliance with specific regulations governing the provision of training in Arizona.

Incentive Funds for LWIAs [Section 134(a)(2)(B)(iii)]

Requirements: Providing incentive grants to local areas for regional cooperation among local boards (including local boards for a designated region); for local coordination of activities carried out under the Act; *and* for exemplary performance by local areas on the local performance measures.

The State has traditionally spelled out two methods through which WIA incentive grants are awarded to local areas. Method I requires each LWIA to display exemplary performance in serving WIA participants, based on performance levels for the fifteen core measures that each local area negotiates with the State each program year. Method II requires LWIAs to demonstrate exemplary cooperation among local boards or One-Stop offices, through an application process and scoring system developed by an interagency work group.

Technical Assistance/Capacity Building for LWIAs [Section 134(a)(2)(B)(v) and Section 134(a)(3)(A)(ii)]

Requirements: Providing technical assistance to local areas that fail to meet local performance measures. Although "technical assistance" is not specifically defined under the Act, there is a general understanding that it includes the communication to LWIAs of corrective actions and new strategies that assist local program directors in developing continuous improvement practices that lead to improved customer service and enhanced performance outcomes. Assistance may take the form of in-person contact, issuance of technical guidance, or a combination thereof.

Within the context of technical assistance, the Act encourages efforts aimed at capacity building at the State and local levels. These efforts are intended to support LWIAs in their recruitment and retention of qualified professionals, succession planning, leadership development, and strengthening collaborative efforts among all staff associated with the One Stop system in each LWIA.

System Building [Section 134(a)(2)(B)(v) and Section 134(a)(3)(c)(2)]

Requirements: Funds must be used in assisting in the establishment and operation of One-Stop delivery systems. At a minimum, a One-Stop delivery system in each LWIA must provide physical accessibility in at least one center and alternative accessibility through affiliated or electronic sites. Individuals using the One Stop system must be assured that information is available on employment and training resources regardless of where the individuals enter the statewide workforce investment system.

High Concentration of Youth Activities [Section 128(a)(3)(B)(I)]

Requirements: These funds are distributed each program year at the discretion of the Governor's Council on Workforce Policy to help defray the relatively higher program costs associated with serving youth in poverty. The funds are allocated to those LWIAs that receive less than $500K in youth formula funds (usually 7 - 8 LWIAs). Distribution is based on the percentage of youth in poverty in each LWIA. This information comes from the latest national Census figures obtained from DES Research Administration. Although high concentration of youth funds are tracked separately for federal reporting, youth served with these funds are rolled up in WIA performance like all other formula-funded youth.

Virtual One Stop (VOS) [Section 134(a)(2)(B)(v) and Section 136]

Requirements: Operating a fiscal and management accountability information system, in coordination with local boards and chief elected officials in the State. The system must promote efficient collection and use of fiscal and management information for reporting and monitoring the use of funds and for preparing the WIA annual report. The Act also alludes to additional system requirements such as measuring progress of state and local performance through quarterly wage records and carrying out all such activity while complying with provisions of the General Education Provisions Act and the Family Educational Rights and Privacy Act and their amendments.

Evaluation [Section 134(a)(2)(B)(ii) and Section 136(e)(1), (2) and (3)]

Requirements: The State, in coordination with local boards, must conduct ongoing evaluation studies of workforce investment activities carried out in the State to promote, establish, implement, and utilize methods for continuously improving WIA activities. Reports of such studies are to be used ultimately to improve employability for job seekers and the competitiveness of employers. It is generally recognized nationwide that evaluation activities are also intended to determine the cost effectiveness/return on investment of various One-Stop system program management activities.

Key to Abbreviations

ADE	Arizona Department of Education
ADOC	Arizona Department of Commerce
DES	Department of Economic Security
GCWP	Governor's Council on Workforce Policy
LWIA	Local Workforce Investment Area
VOS	Virtual One-Stop
WIA	Workforce Investment Act

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DATE: June 22, 2004

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Economic Security – Consider Approval of Requested Transfer of Appropriations for Day Care Subsidy and Transitional Child Care

Request

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) requests Committee approval of a FY 2004 transfer of $400,000 of federal Child Care and Development Fund (CCDF) Block Grant monies from the Day Care Subsidy Special Line Item (SLI) to the Transitional Child Care SLI.

Recommendation

JLBC Staff recommends that the Committee approve the request to transfer $400,000 CCDF from the Day Care Subsidy Special Line Item to the Transitional Child Care Special Line Item.

On a related matter, DES has indicated that they have eliminated the waiting list for families seeking child care subsidies in June 2004. For further details, please see the Analysis section below.

Analysis

DES' budget contains approximately $149 million in funding for child care subsidies and quality-related expenditures in FY 2004. This funding is split between two special line items: Day Care Subsidy and Transitional Child Care. The Day Care Subsidy SLI provides $118.3 million in child care subsidies and quality-related expenditures to TANF clients engaged in job activities, those providing foster care services, low-income persons, and other persons meeting financial and other eligibility criteria. The Transitional Child Care SLI funds $30.5 million in subsidies and quality-related expenditures to clients no longer receiving TANF Cash Benefits due to finding employment. The program provides subsidies for up to 24 months after the client stops receiving TANF Cash Benefits.

(Continued)

Based on current projections, DES has forecasted a shortfall in the Transitional Child Care SLI of $400,000 by the end of FY 2004. In order to address this shortfall and to continue to provide child care subsidies to this mandatory population, the agency has requested that monies be transferred from the Child Care Subsidy SLI to the Transitional Child Care SLI.

A FY 2004 shortfall of $(400,000) for Transitional Child Care seems reasonable based on recent trends in expenditures in the program. The Day Care Subsidy line item has enough monies for this transfer if DES does not use these monies to further reduce the waiting list.

Waiting List Eliminated

According to DES, sufficient resources were available to eliminate the remainder of the waiting list in June 2004. The waiting list was eliminated because there were fewer families qualifying for mandatory programs than originally anticipated as well as greater attrition from the waiting list. Of the 6,800 reported to be seeking child care subsidies in June, approximately 3,400 will receive services (the other 3,400 either had increased income, made other child care arrangements, could not be located, etc). DES anticipates reestablishing a waiting list during FY 2005. The number of children receiving child care subsidies in June is expected to be approximately 40,000.

The FY 2005 budget provides approximately $154 million for child care subsidies, which would serve about 40,100 children per month. In addition, the budget conditionally appropriates $5 million in FY 2005 from the General Fund for additional child care subsidies if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast. If revenues trigger this extra appropriation, an additional 1,300 children would receive child care subsidies, for an average number of children served of 41,400.

DES' FY 2005 appropriation fully funds the universe of those families seeking subsidies as of June 2004, leaving no children on a waiting list. The need to reestablish a waiting list in FY 2005 would depend on the level of caseload growth in the program. If caseloads remain at June 2004 levels, there would not be a need to institute a waiting list for FY 2005. If revenue triggers are implemented, DES would be able to absorb a 3.5% increase in caseloads over June 2004 levels without necessitating a waiting list. Caseload growth above these levels, however, would require DES to implement a waiting list in order to provide subsidies within the agency's appropriated levels of funding. DES anticipates 45,100 children per month seeking child care subsidies in FY 2005, an increase of 13% over June 2004 levels.

RS/JM:ss

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

Janet Napolitano
Governor

David A. Berns
Director

MAY 18 2004

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MAY 18 2004
JOINT BUDGET COMMITTEE

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

Dear Senator Burns:

The Arizona Department of Economic Security (DES) requests to be placed on the agenda for the next Joint Legislative Budget Committee (JLBC) meeting for the review and approval of two appropriation transfers between special line items and the usage of appropriation authority for tribal expenditures.

Cash Benefits

Currently, the Cash Benefits Special Line Item (SLI) has inadequate appropriation authority to pay all anticipated expenditures in FY 2004. DES will be unable to process cash benefit payments for June 2004, without an approved transfer or the passage of SB 1404 (fiscal year 2003-2004; supplemental appropriations) by May 31, 2004(the Senate Engrossed version of SB 1402, page 2, line 33 remedies this problem). The transfer or supplemental expenditure authority is required to be in place by June 1, 2004, because approximately 80% of the Cash Benefits SLI monthly obligations are paid in the first 3 days of each month. Without the transfer or supplemental funding, approximately 50,800 families/120,000 individuals would not receive the average monthly cash benefit payment of approximately $275 in June 2004.

The General Appropriation Act (Laws 2003 1st Special Session, Chapter 1) includes the following footnotes:

> Notwithstanding A.R.S.35-173C, any transfer to or from the $164,540,100 appropriated for Temporary Assistance for Needy Families Cash Benefits requires approval of the Joint Legislative Budget Committee.
>
> Of the amounts appropriated for Temporary Assistance for Needy Families (TANF) Cash Benefits, $1,500,000 reflects appropriation authority only to ensure sufficient cashflow to administer cash benefits for tribes operating their own welfare programs. The department shall notify the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB) staff before the use of any of the $1,500,000 appropriation authority.

DES is requesting approval to use $8,000,000 of TANF funding to meet the June 2004 cash benefits payment obligation. Of this amount, DES is requesting approval of a temporary transfer of $6,500,000 of TANF authority from the JOBS Special Line Item within the Division of Employment and Rehabilitation Services to the Cash Benefits Special Line Item of the Division of Benefits and Medical Eligibility. This funding is currently available as the JOBS Special Line Item historically has a high volume of expenditures that are paid during the administrative adjustment period. In addition, DES intends to use the $1,500,000 appropriated in FY 2004 for the tribal authority temporarily to meet the June 2004 beginning of the month cash benefit obligation.

Assuming passage of SB 1404, DES requests approval from the JLBC to reverse: 1) the temporary transfer of $6,500,000 of TANF back to the JOBS Special Line Item and 2) the temporary use of the $1,500,000 expenditure authority in cash benefits, allowing FY 2004 to close with the $1,500,000 of expenditure authority for the tribal authority in place.

Child Care Subsidy

The General Appropriation Act (Laws 2003 1st Special Session, Chapter 1) includes the following footnote:

> The amounts appropriated for Day Care Subsidy and Transitional Child Care shall be used exclusively for child care costs unless a transfer of monies is approved by the Joint Legislative Budget Committee. Monies shall not be used from these appropriated amounts for any other expenses of the Department of Economic Security unless a transfer of monies is approved by the Joint Legislative Budget Committee.

DES is requesting a transfer of $400,000 from the Day Care Subsidy SLI to the Transitional Child Care SLI, both of which are within the Division of Employment and Rehabilitation Services. This amount is necessary, based on current projections, to cover anticipated expenditures for the applicable caseloads.

If you have any questions, please contact me at (602) 542-5678.

Sincerely,

David A. Berns

David A. Berns
Director

DB:WH

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

Department of Economic Security
Division of Business and Finance
Financial Services Administration(FSA)
Revised: May 13, 2004

Division of Employment and Rehabilitation Services
State Fiscal Year 2004
Day Care Subsidy/Transitional Child Care

	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	Total	Projection	APPR	Surplus/ (Shortfall)
Day Care Subsidy	-	9,667.0	9,462.0	9,474.2	10,377.6	8,911.5	9,528.3	8,973.6	8,526.2	9,750.8	84,671.2	117,856.5	118,256.5	400.0
TCC Extension Pilot	-	2,533.1	2,414.8	2,400.1	2,652.2	2,291.1	2,601.7	2,500.1	2,477.5	2,844.7	22,715.3	30,900.0	30,500.0	(400.0)

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 21, 2004

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

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Senior Fiscal Analyst

SUBJECT: JLBC Staff – Report on Child Protective Services Issues

Request

Pursuant to Laws 2003, Chapter 6, 2nd Special Session, the Department of Economic Security (DES), the Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC) are required to develop a financial and program accountability reporting system for Child Protective Services (CPS). The report is to include specific performance measures intended to evaluate the CPS system. The legislation allows DES, OSPB, and JLBC to add performance measures to the report if deemed necessary.

In addition, the special session legislation appropriated \$16.6 million to DES from the state General Fund (GF) to provide funding for a variety of CPS issues, including 160 new CPS staff positions. Pursuant to the legislation, the Auditor General is required to report monthly to the Director of the JLBC Staff on the expenditure of these monies.

Recommendation

This report is for information only and no Committee action is required. The JLBC Staff has already recommended adding 5 performance measures to the financial and program accountability report (see Attachment A). These measures would be in addition to the 7 measures specifically identified in the 2nd Special Session legislation.

The additional measures are intended to evaluate employee satisfaction within the Division of Children, Youth and Families (DCYF), as well as the decision-making within Child Protective Services. While no Committee action is required, the Committee could also add other measures as well.

The \$16.6 million appropriation provided funding for the following CPS issues: 1) 160 new CPS staff positions; 2) pay increases for CPS staff; 3) a family foster care rate increase; 4) new information technology (IT) equipment; and 5) \$10.3 million for a projected shortfall in the department. As of May 31st, the department had implemented the CPS pay increases, the family foster care rate increase, and signed an IT lease agreement. In addition, DES has filled 88 of the 131 new positions it had planned to fill by this date. All 80 of the caseworker positions have been filled, but only 8 of the 51 support positions have been filled.

Analysis

Report on Performance Measures
Pursuant to Laws 2003, Chapter 6, 2nd Special Session, the financial and program accountability report is due on a semi-annual basis, beginning August 1, 2004. The legislation identifies 7 performance measures to be included in the report and specifies that additional measures may be added by DES, OSPB, and JLBC if deemed necessary. The measures are intended to evaluate the performance of the CPS system. The following 7 measures are identified in the legislation:

- Success in meeting training requirements
- Caseloads for CPS caseworkers
- The number of new cases, cases that remain open and cases that have been closed
- The ratio of CPS caseworkers to immediate supervisors
- Employee turnover, including a breakdown of employees who remain with the department and employees who leave the department
- The source and use of federal monies in CPS
- The source and use of state monies in CPS

In addition to the measures listed in the special session legislation, the JLBC Staff has recommended that the following performance measures be added to the financial and program accountability report for CPS:

Employee Satisfaction
- Employee satisfaction rating for employees completing the CPS Training Academy (Scale 1-5)
- Employee satisfaction rating for employees in DCYF (Scale 1-5)

CPS Decision-Making
- Percent of CPS original dependency cases where court denied or dismissed petition for removal
- Percent of Office of Administrative Hearings decisions where CPS case findings are affirmed
- Percent of CPS complaints reviewed by the Office of the Ombudsman where allegations are reported as valid by the Ombudsman

DES is required to report these measures by July 1, 2004 to the Governor, the chairmen of the House and Senate Appropriations Committees, and the chairmen of the House Human Services and Senate Family Services Committees. The report is to include the definition of each performance measure, as well as the methodology in determining each measure.

Report on Supplemental Appropriations
The $16.6 million appropriated to DES is allocated in the following manner: 1) $3.6 million for new CPS staff; 2) $1.6 million for pay increases; 3) $103,500 for IT equipment; 4) $1.0 million for a family foster care rate increase; and 5) $10.3 million for a projected budget shortfall in the division.

CPS Staff
As of May 31st, the department had filled 88 of the 131 new positions it had planned to fill by this date. Of the 88 positions, 82 are caseworker positions, 3 are supervisor positions, and 3 are support staff positions. The 43 unfilled planned positions consist of 12 supervisor positions, 15 case aides (human service worker), 4 human service unit managers, and 12 support staff positions. The department has hired the number of caseworkers it had planned to hire by this date. The report also indicates that in addition to

the 82 caseworker positions hired as a result of the 2nd Special Session, the department hired an additional 14 caseworkers in May in anticipation of turnover.

The report also identifies total CPS staffing (by position) and the number of vacancies experienced each month since January. Of the 62 vacant positions reported for May, 46 are CPS caseworker positions, 4 are supervisor positions, 2 are case aides, and 10 are secretaries. By way of comparison, In January there were 64 vacant positions of which 52 were caseworkers. As of May 31st, the department had spent approximately $435,100 of the $3.6 million appropriation.

Pay Increase
DES began paying a 10% pay increase to CPS caseworkers on March 5, 2004. The increase was retroactive to January 17, 2004. On March 19th, DES paid a $1,000 stipend for caseworkers with Master's degrees in social work. In April, DES performed competency tests for a bilingual stipend and paid $1,000 to each staff member who passed the test. DES is in the process of developing criteria for a performance-based compensation adjustment. As of May 31st, the department had spent $1.1 million of the $1.6 million appropriation.

Equipment
DES received final approval from the Government Information Technology Agency on February 25, 2004 to purchase desktop computers, monitors, and network servers. The department acquired these items in April. The first payment of the 5-year lease financing agreement will be made on June 20, 2004. As of the report date, DES had not expended any of the $103,500 appropriation.

Family Foster Home Rate Increase
DES increased the family foster home rate by $3.75 per day on January 1, 2004 and further increased the rate by an additional $3.75 per day on June 1, 2004. As of May 31st, the department had spent approximately $489,700 of the $1.0 million appropriation.

Budget Shortfall
In May, the department began to expend monies from this appropriation. To date, DES has spent approximately $566,600 of the $10.3 million appropriation.

Copies of the Auditor General monthly reports are available upon request.

RS/KH:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

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May 7, 2004

Mr. David Berns, Director
Department of Economic Security
1717 W. Jefferson Street
Phoenix, Arizona 85007

Dear Mr. Berns:

Laws 2003, 2nd Special Session, Chapter 6 requires the Department of Economic Security (DES), the Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC) to develop a financial and program accountability reporting system for Child Protective Services (CPS). The report will be due on a semi-annual basis, beginning August 1, 2004. The legislation identifies 7 performance measures to be included in the report and specifies that additional measures may be added by DES, OSPB, and JLBC if deemed necessary. The measures are intended to evaluate the performance of the CPS system.

In addition to the measures listed in the special session legislation, we suggest that the following performance measures be added to the financial and program accountability report for CPS:

- Employee satisfaction rating for employees completing the CPS Training Academy (Scale 1-5)
- Employee satisfaction rating for employees in the Division of Children, Youth and Families (Scale 1-5)
- Percent of CPS original dependency cases where court denied or dismissed
- Percent of Office of Administrative Hearings hearings where CPS case findings are affirmed
- Percent of CPS complaints reviewed by the Office of the Ombudsman where allegations are reported as valid by the Ombudsman

Pursuant to the special session legislation, DES is required to report these measures by July 1, 2004 to the Governor, the chairmen of the House and Senate Appropriations Committees, and the chairmen of the House Human Services and Senate Family Services Committees. The report is to include the definition of each performance measure, as well as the methodology in determining each measure.

We will also be sharing these measures with the Joint Legislative Budget Committee at their next meeting to gain their perspective as well.

Please let us know if you have any questions.

Sincerely,

Richard Stavneak

Richard Stavneak
Director

STATE OF ARIZONA

Joint Legislative Budget Committee

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LINDA J. LOPEZ

DATE: June 22, 2004

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

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Senior Fiscal Analyst

SUBJECT: Department of Public Safety – Review of the Statewide Interoperability Design Expenditure Plan

Request

Pursuant to a footnote in Laws 2004, Chapter 275 (General Appropriation Act), the Department of Public Safety (DPS) requests Committee review of its plan to begin development of design standards for a statewide radio interoperability system. Chapter 275 requires that prior to expenditure of monies an expenditure plan be submitted to JLBC for review.

Recommendation

The JLBC Staff recommends the Committee give a favorable review of the expenditure plan. The plan includes design development using both a $2 million General Fund appropriation in DPS' base budget and a $3 million conditional appropriation if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast.

Laws 2004, Chapter 281 directs the department to submit a quarterly report to the Committee regarding expenditures and design progress. The JLBC Staff also recommends that the department's quarterly reports include the cost and purpose of Professional and Outside Services contracts, as well as comments on the project from the Government Information Technology Agency (GITA).

Analysis

Background
Laws 2004, Chapter 275 appropriated $2 million to DPS for design costs of a statewide radio interoperability communication system. In addition, Chapter 275 conditionally appropriates $3 million for design costs if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast. Radio interoperability allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency.

Public safety agencies, over a period of years, have established their own networks to meet communication requirements. However, most public safety agencies in Arizona operate communication systems that are over 20 years old, with unreliable infrastructure that cannot support interoperability. These communication systems cannot adequately communicate with each other and are in need of an upgrade. Interoperable design standards would provide a statewide voice and mobile data network that connects all state and local public safety operations.

Like local public safety agencies, DPS currently operates a communication network. The DPS system includes the DPS radio network that provides officers in the field with accident information, criminal history, arrest warrants, and requests for backup. In addition, 10 other state agencies rely on the system for their communication needs. The DPS communications system also includes the Arizona Criminal Justice Information System (ACJIS), used by state and local law enforcement agencies for criminal history and background information, warrant information, and vehicle license and registration data.

In addition to the design cost appropriation for DPS, Laws 2004, Chapter 281 established the Public Safety Communications Advisory Commission (PSCAC) to develop a state of the art public safety interoperable communications network for Arizona.

Expenditure Plan for Statewide Interoperability Design

The department's $2 million expenditure plan includes the operational costs to staff the PSCAC and begin the project for statewide detailed design. Considering the size and complexity of statewide radio communications, the department requires a full-time staff to plan, design, implement and manage the system. The PSCAC staff will complete most of the conceptual design, with contractors completing a majority of the detailed design work. PSCAC staff will also prepare Request for Proposals (RFPs) and provide contract management and oversight. The department would hire 9 staff members consisting of an Executive Director, Project Manager, 3 Telecommunications Engineers, Technical Writer, Communications Specialist, Administrative Assistant, and Executive Assistant.

Table 1

FY 2005 Statewide Interoperability Design Expenditure Plan

	$2 Million Appropriation	**$5 Million Appropriation** 1/
FTE Positions	9.0	9.0
Personal Services	$ 382,800	$ 382,800
Employee Related Expenditures	104,200	104,200
Professional and Outside Services	1,040,500	4,040,500
Travel – In	20,700	20,700
Travel – Out	15,900	15,900
Other Operating Expenditures	338,700	338,700
Equipment	97,200	97,200
Total Operating Expenditures	$ 2,000,000	$ 5,000,000

1/ The additional $3 million appropriated by Chapter 275 is non-lapsing and is included in the Professional and Outside Services line.

The expenditure plan also includes a timeline for hiring staff, developing the conceptual design, and completing the detailed design. The conceptual design work would be completed by mid-2006 with final design acceptance occurring in FY 2008 at a total cost of approximately $8 million, based on the cost of the City of Phoenix's new digital radio system. Given Phoenix's recent work on the topic, DPS has examined the city's design costs and have extrapolated those costs to a statewide system. According to the department, lack of additional monies would not effect design work in FY 2005, however, additional monies would be required in future fiscal years to complete the detailed design project.

Construction costs of a statewide radio interoperability system are estimated to exceed $300 million. These costs are in addition to the statewide interoperability design costs.

RS:TV:ss

ARIZONA DEPARTMENT OF PUBLIC SAFETY

2102 WEST ENCANTO BLVD. P.O. BOX 6638 PHOENIX, ARIZONA 85005-6638 (602) 223-2000

JANET NAPOLITANO
GOVERNOR

DENNIS A. GARRETT
DIRECTOR

RECEIVED
JUN 14 2004
JOINT BUDGET
COMMITTEE

June 8, 2004

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

Dear Mr. Stavneak:

Laws 2004, Chapter 275 appropriates $2,000,000 to the Department of Public Safety for "Statewide interoperability design." A footnote in the bill requires DPS to submit its expenditure plan to the JLBC for review prior to expenditure.

Chapter 275 also makes a conditional appropriation of $3,000,000 to DPS for "public safety communications systems to address interoperability issues." It now appears likely that this appropriation will occur.

With this letter, DPS requests to appear before the JLBC at its next meeting for a review of our expenditure plan for these two appropriations. We understand that the Committee is tentatively scheduled to meet on June 22.

We will provide details of our expenditure plan to your staff by no later than June 14. If you have any questions, please contact Phil Case, DPS Comptroller, at (602) 223-2463.

Sincerely,

for Dennis A. Garrett, Colonel
Director

ARIZONA DEPARTMENT OF PUBLIC SAFETY

2102 WEST ENCANTO BLVD. P.O. BOX 6638 PHOENIX, ARIZONA 85005-6638 (602) 223-2000

JANET NAPOLITANO
GOVERNOR

DENNIS A. GARRETT
DIRECTOR

June 14, 2004

RECEIVED
JUN 14 2004
JOINT BUDGET COMMITTEE

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

Dear Mr. Stavneak:

As promised in our letter dated June 8, please find the enclosed materials related to the review of the FY 2005 expenditure plans for public safety communications interoperability.

The enclosures include the following documents:

- Background on the Development of a Statewide Interoperable Communications Network in Arizona
- Public Safety Communications Advisory Commission – Fiscal Year 2005 Expenditure Plans
- Public Safety Communications Commission Tasks & Schedule
- Public Safety Communications Advisory Commission Staff – Summary of Job Responsibilities

We look forward to a discussion of this issue at the JLBC's next meeting. If you have any questions, please contact Phil Case, DPS Comptroller, at (602) 223-2463.

Sincerely,

for Dennis A. Garrett, Colonel
Director

Enclosures

Background on the Development of a Statewide Public Safety Interoperable Communications Network In Arizona

June 2004

The Arizona Public Safety Communications Committee (PSCC) is an ad-hoc committee comprised of public safety executives, volunteering their time and dedicated to addressing the short and long-term interoperable communications needs for all public safety entities in the state of Arizona. The PSCC was formed in April of 2000 to educate its members and community stakeholders on the critical need for interoperability and to begin the process of identifying funding for this long-term enterprise. The PSCC membership has shared one central focus: *to develop a standards based, shared voice and data radio system that efficiently and effectively addresses the front-line needs of its users.*

Beginning in April 2000, the PSCC has meet on a quarterly basis and established subcommittees to assist in identifying funding and educating the public safety community, the general public and elected officials. The PSCC, with the assistance of the Arizona Criminal Justice Commission, acquired a federal appropriation earmark that funded a study of public safety communications systems in use throughout Arizona. This study was the critical first step required prior to developing conceptual and detailed technical designs that would set the course for future public safety communication systems in Arizona.

Since September 11, 2001 the national and state emphasis on homeland security has further taxed the critical need for radio voice and data technologies that are needed to support the needs of public safety first responders into the foreseeable future. The 1950/60's technologies and infrastructures of concrete and steel in Arizona have survived well beyond their anticipated life cycle and are in desperate need of replacement and modernization.

While all public safety agencies have the need to upgrade communication capabilities to service their specific communities, it became clear that a greater statewide effort was necessary to address the need for multiple agency, cross jurisdictional communications during large scale events and natural disasters affecting the state. This need has evolved into a vision for a modern statewide voice and mobile data network that supports local public safety operations as well as providing a robust statewide infrastructure supporting wide area coverage for all agencies.

Today's statewide microwave network and associated state agency radio systems are managed and repaired by engineers and technicians employed by DPS. The state owned microwave network, which could serve as the statewide infrastructure, is badly in need of modernization and transition from analog to digital technology. DPS staffing and current funding is inadequate for the proper planning, technical complexity, development, deployment and operational management of the voice and mobile data network system that needs to become a part of the State's public safety infrastructure. Further, this issue transcends state-level use and needs in that it affects all public safety agencies working within the state.

Current homeland security funding is only a stop-gap measure to improve local interoperability and does not improve upon existing communication infrastructures or lack of statewide radio coverage. This is a long-term, complex and expensive undertaking that requires a high level of accountability, management and operational control to be successful. Planning and management of a system of this size and complexity requires a competent full time staff with a single focus toward a statewide system design and implementation. Potential funding demands for such a system are likely to exceed 300 million dollars.

Now officially organized as the Arizona Public Safety Communications Advisory Commission, the PSCAC will continue the work begun by the PSCC. The PSCAC staff will foster, recommend and develop technical standards; oversee conceptual and detailed design efforts; and pursue funding to build out and maintain a statewide system *for use by all local, state, tribal and federal public safety entities in Arizona*. The PSCAC will continue to work closely with local, county, state, tribal and federal partners to insure a system design that will meet the needs of these groups. There is much more to be done, and the acquisition of ongoing funding to complete designs and construct the system is critical to enable the PSCAC to advance the work already accomplished.

Public Safety Communications Advisory Commission (PSCAC) [1/]
Fiscal Year 2005 Expenditure Plans

Line Item	$2 M Plan [2/]		$5 M Plan [3/]	
FTE Positions		**9.0**		**9.0**
Personal Services	$	382,800	$	382,800
Employee Related Expenditures		104,200		104,200
Subtotal - Payroll	**$**	**487,000**	**$**	**487,000**
Professional and Outside Services	$	1,040,490	$	4,040,520
Travel - In State		20,700		20,700
Travel - Out of State		15,900		15,900
Aid to Other Organizations		55,000		55,000
Other Operating Expenditures		203,300		203,300
Equipment		97,200		97,200
Indirect Costs		80,400		80,400
Subtotal - Operating	**$**	**1,512,990**	**$**	**4,513,020**
Total	**$**	**2,000,000**	**$**	**5,000,000**

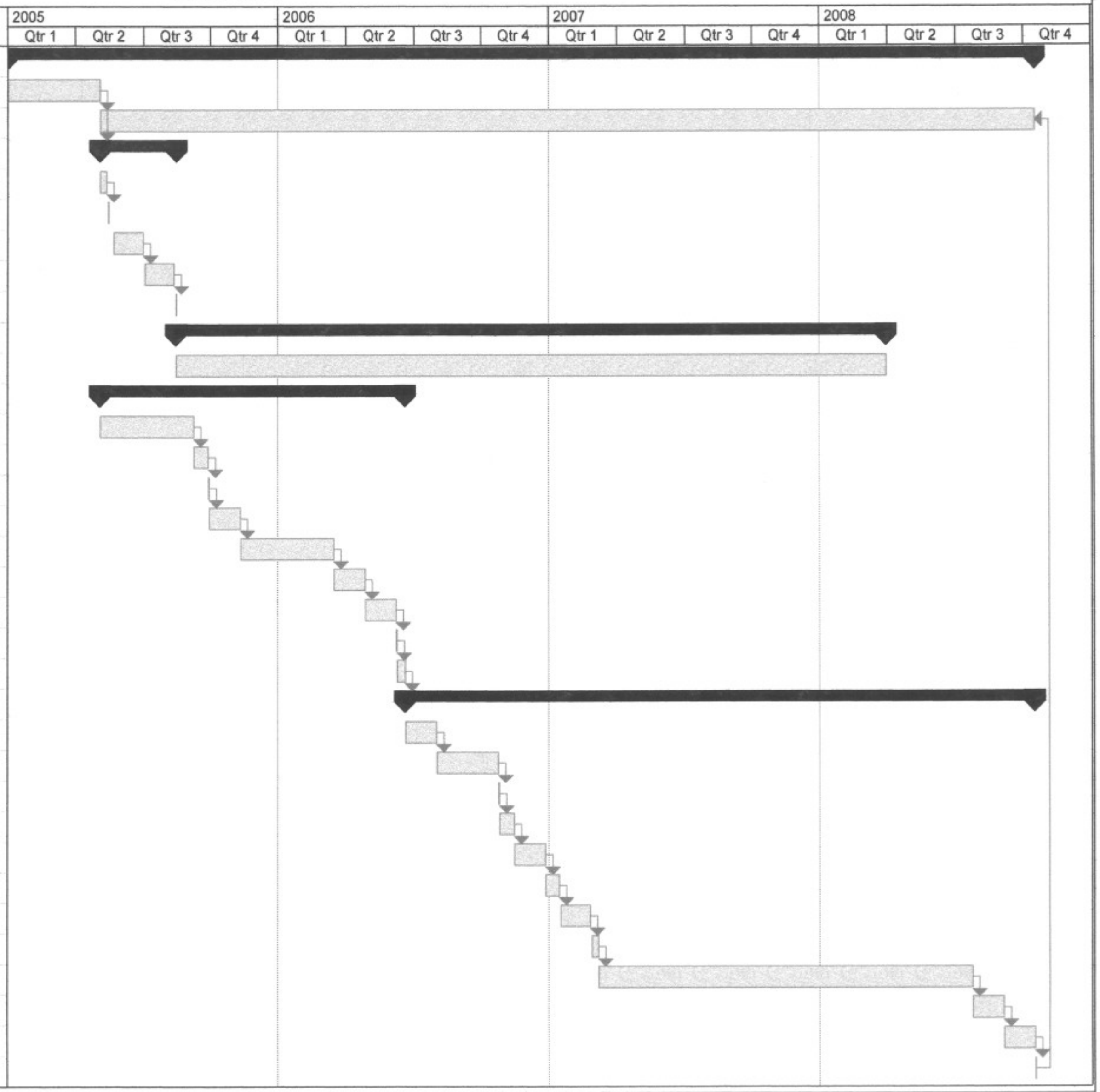
[1/] Laws 2004, Chapter 281 establishes the PSCAC to advise the Director of the Department of Public Safety (DPS) on "the development of a standard based system that provides interoperability of public safety agencies communications statewide." The appropriations referenced in the following two notes support the PSCAC's mandate.

[2/] Laws 2004, Chapter 275 appropriates $2,000,000 to the Department of Public Safety in FY 2005 for "statewide interoperability design." A footnote in the bill requires DPS to submit its expenditure plan to the JLBC for review prior to expenditure. The plan is labeled "$2 M Plan" throughout this document.

[3/] Contingent upon State revenues achieving a predetermine level, Laws 2004, Chapter 275 appropriates an additional $3,000,000 to DPS in FY 2005 for "public safety communications systems to address interoperability issues." It now appears likely that this appropriation will occur. The additional appropriation is included in the column labeled "$5 M Plan" throughout this document.

Public Safety Communications Commission Task & Schedule
Rev: 6-14-04

ID	Task Name
1	**Staffing**
2	Establish Staff
3	Continue Staff
4	**Evaluate Macro Study**
5	Select Options
6	Present Options to PSCC
7	Goal Based QA Acceptance Review from User Reps from All Agencies
8	Goal Based QA Acceptance Review by PSCC
9	PSCC Decision
10	**Construction Budget Development**
11	Construction Budget Development Refinement (Throughout Project)
12	**Conceptual Design**
13	Focus Groups with End User Agencies-Law Enforcement, Fire, EMS, etc.
14	Establish System Design Parameters
15	Submit to PSCC for Review
16	SIEC Subcommittee Review Process
17	Mini-Pilot/Interim Step Operational-Only Field Trial Based on Existing Systems
18	Goal Based QA Acceptance Review from User Reps from all Agencies
19	Goal Based QA Acceptance Review by PSCC
20	PSCC Decision
21	Finalize Conceptual Design
22	**Statewide Detailed Design**
23	Conceptual Design is Basis for RFP
24	Final Development of Detailed Design RFP
25	Release RFP
26	Pre-Bid Conference
27	User Review Process
28	Vendor Selection
29	Vendor Contract Review/Negotiations
30	Award Contract
31	Vendor Detail Design Development
32	Goal Based QA Acceptance Review from User Reps from all Agencies
33	Goal Based QA Acceptance Review by PSCC
34	**PSCC Final Design Acceptance**



Project: SIEC
Date: Mon 6/14/04

Task | Split | Progress | Milestone | Summary | Rolled Up Task | Rolled Up Split | Rolled Up Milestone | Rolled Up Progress | External Tasks | Project Summary | External Milestone | Deadline

STATE OF ARIZONA

Joint Legislative Budget Committee

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STEVE HUFFMAN
JOHN HUPPENTHAL
LINDA J. LOPEZ

DATE: June 21, 2004

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Department of Revenue – Review of Ladewig Expenditure Plan

Request

In compliance with a Ladewig Settlement Budget Reconciliation Bill (Laws 2004, Chapter 285) footnote, including tax payments and attorney fees, the Department of Revenue (DOR) requests that the Committee review its FY 2005 Ladewig expenditure plan for the remainder of the project.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of DOR's estimated administrative expenditure plan of $3.0 million for the FY 2005 Ladewig project. DOR's administrative expenses are estimated to be $1.8 million in FY 2006 and $2.6 million in FY 2007. We will be in a better position to review the FY 2006 and FY 2007 figures at the beginning of those years, since the numbers are not yet final.

The total Ladewig costs are projected to be $125 million in FY 2005, $65 million in FY 2006, and $93 million in FY 2007.

Analysis

The case of Ladewig v. State of Arizona involved the different state income tax treatment of dividends from Arizona and non-Arizona companies. DOR estimates the total cost of the Ladewig Settlement at $302 million plus 10% interest on plaintiff attorneys' fees from the date awarded until they are paid. This amount is to be paid out over 5 fiscal years from FY 2003 through FY 2007, and includes both DOR administration costs and plaintiff's attorneys fees. The FY 2003 and FY 2004 expenses solely cover DOR's administrative costs and plaintiff's attorneys fees. Refunds to taxpayers will begin in FY 2005.

(Continued)

Previous legislation allocated $15 million in FY 2003 to DOR for first year payments and costs associated with the case, with any unused amount to be held in reserve for future payments. Later legislation made any unused amount available for future administration costs. The following table summarizes the department's Ladewig expenditures through May 2004.

Summary of Ladewig Expenditures 1/

	FY 2003	FY 2004 (11 Mo.)
Allocation	$15,000,000	$ 0 2/
DOR Administration	$ 8,587,100	$3,311,400
Plaintiff Attorneys	2,000,000	2,000,000 3/
Taxpayer Payments	0	0
Total Expenditures	$10,587,100	$5,311,400 3/
Ending Balance	$ 4,412,900	$1,101,500

1/ In addition, DOR reports operating budget expenditures of $134,600 in FY 2002 for Ladewig administration.
2/ Governor vetoed the allocation of up to $7,300,000 for Ladewig administrative costs in FY 2004.
3/ Reimbursed to DOR by Department of Administration Risk Management.

The Ladewig Settlement Budget Reconciliation Bill (Laws 2004, Chapter 285) allocates $120 million in FY 2005 to the department for payments and costs associated with the case of Ladewig v. State of Arizona, with any unused amount to be held in reserve for future payments. The $120 million includes up to $3,753,300 for department administration costs and review of payments. The department is required to present an expenditure plan for review by the Joint Legislative Budget Committee that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, before expending any of the $120 million.

The following table provides further detail on DOR's estimated administration cost in FY 2005.

DOR's Estimated Administration Cost in FY 2005

Personal Services	$473,000
Employee Related Expenditures	90,000
Professional & Outside Services 1/	593,100
Travel	1,000
Other Operating Expenditures 2/	1,768,300
Equipment	30,000
Total	$2,955,400

1/ Includes $245,000 for computer consultant, $137,000 for temporary personnel, $79,000 for mail data entry and imaging, $102,100 for North Phoenix office, and $30,000 for court appointed special master.
2/ Includes $515,800 for postage, $1,220,000 for printing and mailing, and $32,500 for other items.

DOR's administration cost estimate for FY 2005 seems reasonable. The bulk of the cost will be for Other Operating Expenditures for printing, postage and mailing warrants and form 1099's for taxpayer payments. DOR's permanent staff assigned to the Ladewig project and temporary personnel will continue to respond to the public and handle internal issues. The computer consultant will continue to maintain and enhance the computer system as necessary.

(Continued)

Overall Settlement Estimates

DOR has been working to resolve disputed taxpayer claims in May. Taxpayer payments for the first year must be in the mail by August 20, 2004. The department estimates Ladewig settlement costs for the remaining 3 years, FY 2005 through FY 2007, as shown in the following table. The amounts of taxpayer payments and plaintiff attorneys' fees are governed by the court settlement.

Ladewig Estimated Cost for FY 2005 – FY 2007

	FY 2005	FY 2006	FY 2007 [2/]	3 Year Total
DOR Administration	$ 2,955,400	$ 1,786,600	$ 2,566,300	$ 7,308,300
Plaintiff Attorneys [1/]	5,707,000	4,853,300	4,853,300	15,413,600
Taxpayer Payments	116,310,900	58,245,200	85,945,000	260,501,100
Total Expenditures	$124,973,300	$64,885,100	$93,364,600	$283,223,000

1/ Attorneys' fees will increase in all 3 fiscal years due to additional court awards.
2/ The FY 2007 amount includes the unused portions of the $35 million set aside for DOR administration cost and the $36.24 million set aside for plaintiff's attorneys fees.

As seen in the above table, DOR estimates expenditures of $125 million in FY 2005 for Ladewig payments and costs. The $125 million is not yet final. If DOR's Ladewig expenses exceed $120 million in FY 2005, the department expects to make those payments above $120 million from the tax refund account in the General Fund. This is based on the provision of Laws 2004, Chapter 285 which states that "DOR shall draw all amounts necessary pursuant to the authority prescribed in A.R.S. § 42-1117 for the payments and costs."

The court settlement was for the amount of taxpayer claims with a cap of $350 million. Last year DOR reported that the anticipated cost was $161.7 million in FY 2005, $81.4 million in FY 2006 and $84.1 million in FY 2007, based on the $350 million settlement cap. Since then DOR has revised their estimated cost of taxpayer claims to $302 million, by refining their database and settling taxpayer disputes. The figures in the above table are based on DOR's $302 million estimate, which still is not final. Final taxpayer payments in FY 2007 are $28 million higher in FY 2006, since they include unused set asides of $14 million out of the $35 million set aside for DOR's administrative costs and another $14 million out of $36 million set aside for plaintiff attorneys' fees. Any unused set asides will be distributed to taxpayers in FY 2007.

RS/BH:ss

STATE OF ARIZONA
Department of Revenue
Office of the Director
(602) 716-6090

Janet Napolitano
Governor

J. Elliott Hibbs
Director

RECEIVED
JUN 21 2004
JOINT BUDGET COMMITTEE

June 18, 2004

Senator Bob Burns, Chairman
Joint Legislative Budget Committee
1700 West Washington
Phoenix, AZ 85007

Dear Senator Burns:

The Department of Revenue requests a place on the agenda for the next JLBC meeting to review the Department's expenditure plan for the Ladewig v. State of Arizona lawsuit.

As required by Chapter 285, Laws 2004, before the expenditure of any FY 2004-2005 funding for the administration of the Ladewig settlement, the Department of Revenue is required to present an expenditure plan to the Joint Legislative Budget Committee for review. Prior to the JLBC meeting the expenditure plan will be provided to Bob Hull.

We look forward to the opportunity to review the Ladewig expenditure plan and will gladly meet with you or your staff to discuss any questions or provide any additional information that may be required. Please do not hesitate to contact either me (716-6918) or Reed Spangler (716-6883) for any additional assistance.

Sincerely,

Leigh Cheatham

Leigh Cheatham
Assistant Director for External Services

Cc: Bob Hull, JLBC
Bret Cloninger, OSPB
J. Elliott Hibbs, Director, Arizona Department of Revenue

Ladewig Budget - Estimated	Revised FY05	Revised FY06	Revised FY07	Revised Total
Permanently Assigned Staff	$ 115,000.00	$ 70,000.00	$ 70,000.00	$ 255,000.00
Professional & Managerial Staff	$ 80,000.00	$ 70,000.00	$ 70,000.00	$ 220,000.00
Mainframe Programming	$ 6,000.00	$ 4,000.00	$ 1,000.00	$ 11,000.00
TIA Staff	$ 27,000.00	$ 19,000.00	$ 6,800.00	$ 52,800.00
DOR Support staff	$ 50,000.00	$ 36,000.00	$ 13,000.00	$ 99,000.00
Cost of DOR Overtime	$ 194,500.00	$ 137,500.00	$ 49,000.00	$ 381,000.00
Training Costs	$ 500.00	$ 500.00	$ 200.00	$ 1,200.00
Personal Services	**$ 473,000.00**	**$ 337,000.00**	**$ 210,000.00**	**$ 1,020,000.00**
Employee Related Expenditures	**$ 89,990.00**	**$ 62,385.00**	**$ 42,700.00**	**$ 195,075.00**
WEB Page Consultant	$ -	$ -	$ -	$ -
SQL Consultant	$ 245,000.00	$ 10,200.00	$ 10,200.00	$ 265,400.00
Mainframe Programming Consultant	-	-	-	$ -
Temporary Personnel	$ 137,000.00	$ 72,000.00	$ 37,000.00	$ 246,000.00
Data Entry Incoming Mail	$ 23,000.00	$ 23,000.00	$ -	$ 46,000.00
Imaging Income Mail/WEB Hosting	$ 56,000.00	$ 500.00	$ 200.00	$ 56,700.00
Rental File Storage	$ -	$ -	$ -	$ -
Move from NVO to PHX	$ 12,000.00	$ -	$ -	$ 12,000.00
Cost of NVO space	$ 90,100.00	$ -	$ -	$ 90,100.00
Skip Trace/Address Checks				$ -
Special Master Court Appointed	$ 30,000.00	$ 30,000.00	$ 30,000.00	$ 90,000.00
Professional & Outside Services	**$ 593,100.00**	**$ 135,700.00**	**$ 77,400.00**	**$ 806,200.00**
Travel	$ 1,000.00	$ 200.00	$ -	$ 1,200.00
Travel	**$ 1,000.00**	**$ 200.00**	**$ -**	**$ 1,200.00**
US Postmaster (PO Box 29099 Rental	$ 800.00	$ 850.00	$ 850.00	$ 2,500.00
US Postmaster (Outgoing Postage)	$ 515,000.00	$ 515,000.00	$ 515,000.00	$ 1,545,000.00
Mailing Vendor & Printing Vendor	$ 1,220,000.00	$ 700,000.00	$ 700,000.00	$ 2,620,000.00
Unclaimed Property Ads Returned Warrants	$ -	$ -	$ 1,000,000.00	$ 1,000,000.00
Phone for Ladewig	$ 2,000.00	$ 2,000.00	$ 2,000.00	$ 6,000.00
Mainframe	$ 500.00	$ 500.00	$ 400.00	$ 1,400.00
Consumable supplies	$ 20,000.00	$ 5,000.00	$ 5,000.00	$ 30,000.00
File folders	$ -	$ 1,000.00	$ 1,000.00	$ 2,000.00
Other taxpayer correspondence Handling	$ -	$ -	$ -	$ -
Equipment maintenance	$ 10,000.00	$ 10,000.00	$ 10,000.00	$ 30,000.00
Other Operating Expenditures	**$ 1,768,300.00**	**$ 1,234,350.00**	**$ 2,234,250.00**	**$ 5,236,900.00**
IT Equipment	$ 30,000.00	$ 15,000.00	$ -	$ 45,000.00
Non-IT equipment	$ -	$ 2,000.00	$ 2,000.00	$ 4,000.00
Equipment	**$ 30,000.00**	**$ 17,000.00**	**$ 2,000.00**	**$ 49,000.00**
Administration Total	**$ 2,955,390.00**	**$ 1,786,635.00**	**$ 2,566,350.00**	**$ 7,308,375.00**
Attorneys' Fees *	**$ 5,707,000.00**	**$ 4,853,278.00**	**$ 4,853,278.00**	**$ 15,413,556.00**
Taxpayer payments (refunds)	**$ 116,310,885.00**	**$ 58,245,174.00**	**$ 85,945,000.00**	**$ 260,501,059.00**
Settlement total	**$ 124,973,275.00**	**$ 64,885,087.00**	**$ 93,364,628.00**	**$ 283,222,990.00**

*** Attorneys' fees will be increased due to additional court awards in all 3 fiscal years**
Please note that FY03 and FY04 figures are not included.
Prepared by DOR 6-9-04

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 21, 2004

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: Department of Health Services – Review of 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 an expenditure plan to the Committee for its review prior to implementing any change in 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 items beginning July 1, 2004.

Recommendation and Summary

The JLBC Staff recommends that the Committee give a favorable review of the DHS CRS capitation adjustments. A footnote in the General Appropriation Act prohibits the use of any potential savings in the CRS program for other DHS programs without prior review by the Committee.

The proposed rates are based upon an actuarial study, which is required by the federal government. The proposed changes would cost \$(1.5) million General Fund less than FY 2005 budgeted amount. The weighted average rate change is (4)% below FY 2004. In comparison, the FY 2005 budget assumed a 6% capitation rate increase.

The actual FY 2005 cost of the Title XIX CRS program will depend upon the number of people that enroll for CRS services. If enrollment is higher than projected, the actual costs of the CRS program could be greater than budgeted, even with lower capitation rates.

(Continued)

Analysis

The CRS program provides services for children with chronic and disabling or potentially disabling conditions. Contractors are reimbursed using a per-member, per-month capitation rate, which varies by providers in four different sites: Phoenix, Tucson, Flagstaff, and Yuma. The rate structure also includes a high, medium and low tier, which represent varying degrees of medical acuity. The average change across these various rates was (4)%, although some rates increased and some rates decreased. In comparison, the FY 2005 budget assumed a 6% capitation rate increase. The table below displays the FY 2005 budgeted and proposed rates by city and medical acuity and details the changes from FY 2004.

Proposed CRS Capitation Rate Changes, FY 2004 to FY 2005 1/

	FY 2004 Rate	FY 2005 Budgeted Rate	FY 2005 Actual Rate	FY 2004 Change Above FY 2003	Anticipated State Match Cost/(Savings) 2/
Phoenix					
High	486.19	526.63	444.25	(8.6)%	(506,700)
Medium	258.34	279.83	229.02	(11.4%)	(456,400)
Low	235.29	254.86	211.50	(10.1)%	(513,900)
Tucson					
High	359.55	389.45	384.47	6.93%	(19,900)
Medium	318.10	344.56	345.20	8.52%	2,400
Low	194.21	210.36	207.67	6.93%	(14,000)
Flagstaff					
High	229.90	249.02	245.27	6.69%	(6,200)
Medium	156.71	169.74	167.19	6.69%	(6,100)
Low	113.33	122.76	120.91	6.69%	(4,400)
Yuma					
High	214.35	232.18	234.11	9.22%	1,700
Medium	146.07	158.22	159.53	9.21%	500
Low	128.24	138.91	140.06	9.22%	1,400
Total				**(4)% 2/**	**(1,521,600)**

1/ Represents rates for services only. The administrative components of the rates are not shown here (see discussion of administrative costs above).
2/ Rate change for services only; rate change including administrative reduction is (4.2)%.

The rate increases are developed using the following assumptions:

- Prior year financial experience. If contractors were losing money by providing CRS services, the actuaries adjusted the rates to prevent these losses. This adjustment led to increases of 5% for one contractor and 2% for another.
- Expected medical inflation: The actuaries estimated an average inflation figure of 8.2%, although the actual figures varied by contractor.
- Profit/Risk Margin: The actuaries increased the profit/risk/contingency margin from 2% to 2.5%. This is the same margin used for Title XIX behavioral health services.
- A reduction in the DHS administrative allocation from 9.3% to 9.1%. Since the Legislature funds Title XIX administrative costs separately from the services through the budget process, this reduction is not included in the JLBC Staff analysis.

(Continued)

The proposed FY 2005 rates continue to limit a contractor's revenue from member month growth. In FY 2004 this limit was 2% and in FY 2005 it increases to 2.5%. This limit was established in prior years and is designed to prevent overpayment of capitation rates to providers.

For Phoenix only, increases in FY 2004 enrollment result in an FY 2005 rate that is lower than the approved FY 2004 rates because fixed costs of the program are able to be spread across more individuals, which leads to a lower average cost per person. Due to a technical anomaly, contractors will actually be paid more in FY 2005 than in FY 2004, even though the rates are decreasing.

The number of persons enrolled in the Phoenix program is greater than the enrollment in the other 3 programs combined. Therefore, even though the rates in Tucson, Flagstaff, and Yuma are all increasing above the approved FY 2004 rates, due to the decrease in the Phoenix rates, the weighted average rate change is a decrease of (4)%.

Without changes to the enrollment projections that were used to develop the FY 2005 appropriation, the capitation rate changes will result in total program costs that are $(1.5) million General Fund lower than the current FY 2005 budget.

Enrollment in the Title XIX CRS program in Phoenix has been higher than was expected when the FY 2005 budget was developed. This higher enrollment could offset the savings associated with the capitation rate changes. The JLBC Staff will continue to monitor enrollment in the program to determine the potential impact on the FY 2005 budget.

RS/BK:ck

Arizona Department of Health Services

Office of the Director

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JANET NAPOLITANO, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

JUN 08 2004

RECEIVED
JUN 08 2004
JOINT BUDGET COMMITTEE

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

Dear Senator Burns:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's (JLBC) agenda for its next scheduled meeting. We want to discuss proposed changes to the Children's Rehabilitative Services capitation rates for FY 2005.

You will find attached our certification letter for the proposed rates prepared by William M. Mercer, Incorporated (Attachment 1). The information was sent to the Arizona Health Care Cost Containment System for their review and a copy of their approval letter is attached (Attachment 2). The rates have been modified from FY 2004 to reflect changes in member month enrollments. There also is a 2.5% maximum limit set on revenue collections from member month growth. This revenue limit for FY 2005 is similar to the maximum revenue risk bands that have been part of this capitation program. In addition, the rates were adjusted to reduce administrative fees from 9.3% to 9.1% based on historical costs and adjustments for regulatory oversight expectations for FY 2005.

Attachment 3 and Attachment 4 identify the currently estimated State Fiscal Year 2005 member months and funding allocations by site. The information shows estimated State Match funding needs will not exceed the FY 2005 legislative appropriation based on current estimates that will be revised as actual data become available.

We have summarized in a table the FY 2004 approved capitation rates and the FY 2005 proposed capitation rates (Attachment 5). If you need additional information, please contact Pat Mah, Budget Director at 602-542-6386.

Sincerely,

Catherine R. Eden

Catherine R. Eden
Director

CRE:pm
Attachments

Attachments 2 through 5 on file with JLBC.

cc: Representative Russell Pearce, Vice Chairman
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting (OSPB)
Bob Chapko, Budget Manager, OSPB
Richard Stavneak, Director, JLBC
Beth Kohler, Senior Fiscal Analyst, JLBC
Leslie Schwalbe, Deputy Director, Department of Health Services (DHS)
Danny Valenzuela, Deputy Director, DHS
Rose Conner, Assistant Director, Public Health Division, DHS
Cathryn Echeverria, Office Chief, Office for Children with Special Health Care Needs, DHS
Pat Mah, Director, Central Budget Office, DHS

Attachment 1

May 10, 2004

Cathryn Echeverria
Office Chief
Arizona Department of Health Services
Office for Children with Special Health Care Needs
Children's Rehabilitative Services
150 N. 18th Ave.
Suite #330
Phoenix, AZ 85007-3243

FINAL AND CONFIDENTIAL

Subject:
Title XIX, Title XXI, and Proposition 204 Capitation Rates for State Fiscal Year 2005

Dear Ms. Echeverria:

The Arizona Department of Health Services (ADHS), Office for Children with Special Health Care Needs (OCSHCN), Children's Rehabilitative Services (CRS) program contracted with Mercer Government Human Services Consulting (Mercer) to develop capitation rates for the Title XIX, Title XXI, and Proposition 204 populations. These rates are used by the Arizona Health Care Cost Containment System (AHCCCS) to compensate CRS and the CRS contractors for CRS members determined Title XIX, Title XXI, or Proposition 204 eligible during the State Fiscal Year (SFY). For the SFY beginning July 1, 2004, and ending June 30, 2005 (SFY 2005), Mercer has developed capitation rates following the process described in this letter.

Background

CRS is primarily a children's program for Arizona residents under the age of twenty-one with chronic and disabling, or potentially disabling, conditions. The program provides statewide services through four regional contractors, each with its own hospital and physician support. In addition to the four regional clinic sites, services are provided through outreach clinics operated by each contractor. Medical services not related to a child's CRS eligible condition are provided through the child's AHCCCS health plan.

Prior to July 1, 2000 (the start of SFY 2001), CRS negotiated annual fixed price contracts with its contractors to provide services to Title XIX, Title XXI, and State-Only funded eligible members. To better match payment with the risk of the membership enrolled with each contractor, CRS converted its reimbursement methodology to a capitated system for Title XIX and Title XXI eligible members. As a result, three capitation rates were developed for compensating CRS contractors beginning in SFY 2001. The three rates were developed for each contractor based upon a member's CRS enrollment diagnosis. The three rates represent compensation for providing services to members with specific diagnoses that have historically represented relatively High, Medium, and Low costs to the CRS contractor. The High, Medium, and Low capitation risk group structure included the QMB Plus, Medicaid (Non QMB and Non SLMB), and SLMB Plus dual eligible populations. No other dual eligible populations are enrolled in the program. In Mercer's opinion, the High, Medium, and Low capitation rate cells, which vary by contractor region, most appropriately match payment with risk in the CRS program, and hence provide a greater level of actuarial soundness than other approaches. The three rate tier structure will continue to be used for SFY 2005.

Maximum Capitation Revenue Limits

Enrollment policy and process requirement changes that were implemented during SFY 2001 continue to improve the systematic re-enrollment of eligible CRS members. Successful adherence to these changes continues to result in an increase in continuous enrollment and reported member months since initial implementation. Partially as a result, it has been determined necessary in the past to develop maximum capitation revenue limits related to member month growth to prevent potential contractor overcompensation.

Another in-favor consideration for the use of maximum capitation revenue limits is the nature of the CRS contractor service delivery system. As previously mentioned, each regional contractor has its own clinic site, as well as its own hospital and physician support. In addition to the regional clinic sites, services are also provided through outreach clinics operated by each contractor. This delivery system model has a significantly higher proportion of fixed costs when compared to a typical delivery system model. The marginal variable cost of adding additional CRS eligible members to the largest program (Title XIX) is a smaller proportion of total cost than normally seen. Hence, maximum capitation revenue limits make sense for Title XIX for this reason as well. The Title XXI and Proposition 204 populations are too small for this fixed versus variable cost approach to apply.

As a result of the above two considerations, it has been necessary in the past to develop maximum capitation revenue limits related to member month growth to prevent contractor overcompensation. Based upon member month fluctuations in SFY 2004 eligibility patterns (primarily related to retro-eligibility among some contractors), combined with minimal aggregate member growth expectations in SFY 2005, in Mercer's opinion it is necessary to continue a maximum capitation revenue limit for SFY 2005 for the CRS contractors to prevent potential inappropriate overpayment of total capitation dollars. The SFY 2005 maximum capitation revenue limit is similar to the maximum capitation revenue limits that were in place for the four previous SFYs, and will be applied in a similar manner. The maximum capitation revenue is based, in part, upon the total Title XIX revenue that a contractor earned during SFY 2004. For SFY 2005, it was determined that in aggregate contractors will not be allowed to keep Title XIX capitation revenue due to member month growth that is in excess of 2.5 percent. Due to regional growth pattern variation, the limits vary by contractor, from 0.81 percent for Yuma to 4.50 percent for Flagstaff.

Similar to SFY 2001 through SFY 2004, the maximum capitation revenue limit will also apply to the administrative load portion of the Title XIX capitation rates, which represents the CRS administrative costs of ensuring the delivery of cost effective services in a managed care environment.

SFY 2005 Capitation Rate Development Methodology — Overview

The primary base data source for the SFY 2005 capitation rate update adjustment is the audited financial data submitted by the CRS contractors to CRS Administration. For SFY 2005 rate development, the financial data was determined to be the most reasonable and reliable. This base data source is consistent with that used for the SFY 2004 rates. The financial data used was incurred during the period July 1, 2002 through June 30, 2003 (SFY 2003), for three contractors and October1, 2002 through September 30, 2003, for a fourth contractor. Collectively, this data will be referred to as SFY 2003.

Other data sources, including claims encounter data and CRS contractor reported utilization data were evaluated and determined to not yet be sufficiently complete and/or not sufficiently reliable for complete rate setting purposes. There has been continuous improvement in the gathering and understanding of CRS encounter data; it and additional data sources were used for specific factors or adjustments for SFY 2005, where appropriate.

Mercer's approach to developing capitation rates for SFY 2005 was to first calculate the effective base capitation rates for SFY 2004. The effective base capitation rates (which are prior to trend, CRS administration loading, and other adjustments) represent the rates that would have been in effect during SFY 2004 calculated after application of revenue maximum limits. In other words, any projected Title XIX SFY 2004 capitation revenue above the contracted Title XIX capitation revenue limit was removed as part of the calculation of the effective base capitation rate. For SFY 2004, only Phoenix was impacted by this limit.

Base Data

To develop trend and other adjustment factors, Mercer began with the audited SFY 2003 incurred financial data from the four CRS contractors that contracted with CRS Administration throughout SFY 2003. Modifications were made to the SFY 2003 contractor audited data to assure data consistency. The modifications represent reclassifications of certain expenses from one category to another, as well as adjustments to incurred claims data.

The CRS program falls under Arizona's 1115 waiver. 1115(a)(2) services are considered State Plan services for 1115 populations for the duration of the demonstration waiver, and hence no adjustment is required. Further, during the SFY 2004 Request for Proposal (RFP) process, CRS had previously surveyed each of the four contractors regarding any supplementary non-State plan services provided. The results indicated no adjustment was required.

Unpaid Claim Adjustment

The next step in the rate calculation process was review of the CRS contractors' expense component for claims incurred but unpaid, hereinafter called the unpaid claims liability (UCL). The UCL is the sum of claims incurred but not reported, plus those claims reported but not yet paid. Statutory accounting recognizes an incurred medical expense for the period as the result of the sum of claims paid in the period, plus the change in the accrued liability for the UCL between the beginning and the end of the period. This calculation pushes the correction of the estimation error of the beginning UCL into the expense recognized in the current period. However, the expense that should be recognized in rate development is calculated from claims incurred in the SFY 2003 experience period, both claims paid in SFY 2003 and the accrued liability for the UCL as of the end of SFY 2003.

The structure of the CRS program is focused on the delivery of CRS services through regional clinics, each with its own hospital and physician support. Services outside the clinic are prior authorized. Financial reviews performed by CRS Administration on each CRS contractor indicated there is a minimal time lag between the date services are provided and the subsequent receipt of a claim and/or recording of a liability. As a result, no additional unpaid claim adjustment by Mercer was determined necessary.

Trend to SFY 2004

The SFY 2003 audited financial claims expense data was first trended to SFY 2004, a change of one year (technically three-fourths of a year for the one contractor). The trend factors recognize changes in cost per service and utilization of health care services from the base period to SFY 2004. The same category of service (COS) trend factors used in the development of the approved SFY 2004 CRS capitation rates were utilized here. The weighted annual trend adjustment for SFY 2003 to SFY 2004 varied by contractor in the range of 4.3 percent to 7.5 percent, due to different COS mix for each contractor.

Adjustments from SFY 2004 to SFY 2005

Adjustments were made to the projected SFY 2004 costs (SFY 2003 costs trended, above) to reflect changes in contractor-specific financial experience, trend to SFY 2005, program operational requirements/changes, third party liability (TPL) assumptions, and underwriting profit/risk/contingencies margin. The adjustments resulted in overall increases, compared to the corresponding projected SFY 2004 amounts, that varied by contractor in the range of 6.7 percent to 9.9 percent.

Financial Experience

Mercer reviewed the SFY 2003 audited financial statements for each CRS contractor and determined that an adjustment was necessary for two of the four contractors to partially reflect their financial experience in the program. The adjustment resulted in increases to projected SFY 2004 costs of 5.0 percent and 2.0 percent to those two contractors. As these two contractors and percentages were the same as in the SFY 2004 capitation rate development process, the net impact on the SFY 2005 capitation rates was zero.

Trend

Trends were applied separately for six consolidated COS. Trend factors recognize anticipated changes in cost per service and utilization of health care services from SFY 2004 to SFY 2005. Expected fee schedule changes and general price/wage inflation, as well as historical encounter data submissions, were utilized for unit cost trend. Mercer relied on CRS encounter information, its professional experience in working with other state Medicaid programs, outlooks in the commercial marketplace that influence Medicaid programs, and regional and national economic indicators, in developing utilization trends. The weighted trend adjustment for projected SFY 2004 to SFY 2005 across all contractors was 8.2 percent, approximately 2.3 percent greater than the projected SFY 2004 annualized trend of 5.9 percent. While this appears to be a substantial acceleration in trend, the CRS program is increasingly impacted by large medical technology driven claims, expensive prescription drugs, provider contracting challenges associated with meeting access requirements, and a shift to outpatient services.

Operational Requirements Changes beginning SFY 2004

SFY 2004 represented a re-procurement year for the CRS program. As part of this re-procurement CRS Administration issued a RFP for services commencing July 1, 2003, that included increased expectations in CRS staffing levels and contractor operational performance. The CRS Administration received proposals from each of the four existing CRS contractors in response to the RFP. CRS contractors were required to identify and submit in their proposals the costs associated with complying with these new requirements and expectations. CRS Administration and Mercer reviewed all contractor proposals, and held discussions with all contractors to review their proposals. Only a portion of contractor proposed adjustments were accepted as part of the SFY 2004 rate development process. For the SFY 2005 capitation rates, CRS Administration followed up with each contractor to determine if the assumed increased staffing and operational performance had taken place. As a result of the information provided by the contractors, and reviewed by CRS Administration, Mercer utilized the same by-contractor dollar figures that were used in the SFY 2004 rate development process, since none of these amounts were in the base SFY 2003 financial data. Hence, the net impact on the SFY 2005 capitation rates for this adjustment was zero.

Loading for Third Party Liability (TPL) and Underwriting Profit/Risk/Contingency

For the SFY 2004 capitation rate adjustments, Mercer had developed components for TPL and underwriting profit/risk/contingency. A TPL reduction of 3.0 percent was applied uniformly to all CRS contractors to reflect increased expectation level of TPL activity. An underwriting profit/risk/contingency loading of 2.0 percent was applied uniformly to all CRS contractors. As the four regional contractors are private, non-profit entities, there should be an assumed margin for contribution to entity surplus and adverse claim risk contingency. For SFY 2005, the TPL percentage adjustment remains unchanged, but the underwriting profit/risk/contingency margin assumption has been increased to 2.5 percent to make it consistent with the assumptions used for Title XIX and Title XXI for Behavioral Health Services, another ADHS carve-out program, as well as for the majority of the AHCCCS acute care contractors.

Program Change beginning SFY 2005

Beginning with SFY 2005, chest vests to assist in breathing (primarily for cystic fibrosis) will become an expense for the CRS contractors. Mercer gathered estimated utilization and unit cost data from the contractors and CRS Administration in order to determine the potential impact of this program change. Mercer estimated per member per month (PMPM) impact of this program change to be approximately 0.7 percent for Phoenix and 0.5 percent for Tucson. The remaining two CRS contractors do not serve eligible members with cystic fibrosis at this time.

CRS Administration

AHCCCS has placed CRS Administration at risk for the provision of CRS covered services for SFY 2005. Accordingly, the capitation rates were developed to include compensation to CRS for the cost of ensuring the delivery of all CRS covered services. The capitation rates paid to CRS for this $50 million program include a 9.1 percent administrative load, which was negotiated between AHCCCS and CRS Administration. The administrative load represents the CRS costs of ensuring the efficient delivery of services in a managed care environment, and is based upon historical CRS costs and adjusted for regulatory oversight cost expectations for SFY 2005. The 9.1 percent is a reduction of 0.2 percent from SFY 2004's level of 9.3 percent.

Certification of Rates

Mercer certifies that the Title XIX, Title XXI, and Proposition 204 CRS capitation rates for SFY 2005 presented below and in the attachments to this letter were developed in accordance with generally accepted actuarial practices and principles by actuaries meeting the qualification standards of the American Academy of Actuaries for the populations and services covered under the managed care contract. Rates developed by Mercer are actuarial projections of future contingent events. Actual contractor costs will differ from these projections. Mercer has developed these rates on behalf of CRS to demonstrate compliance with the Centers for Medicare & Medicaid Services (CMS) requirements under 42 CFR 438.6(c) and are in accordance with applicable law and regulations.

Risk Category

Contractor	High	Medium	Low
Phoenix	$ 484.68	$ 249.86	$ 230.75
Tucson	$ 419.46	$ 376.61	$ 226.57
Flagstaff	$ 267.59	$ 182.40	$ 131.91
Yuma	$ 255.41	$ 174.05	$ 152.81

If you have any questions or would like to discuss this information further, please call me at 602 522 6510.

Sincerely,
Michael E. Nordstrom ASA, MAAA
Michael E. Nordstrom, ASA, MAAA

MEN/jc

Copy:
Cynthia Layne, CRS
Branch McNeal, Mercer
Sean Elcock, Mercer

Attachments

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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HOUSE OF
REPRESENTATIVES

DATE: June 22 2004

TO: Senator Bob Burns
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: Department of Health Services – Review of Behavioral Health Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present its plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX behavioral health programs. Capitation rates are the flat monthly payments made to managed care health plans for each Title XIX recipient. DHS is requesting review of rate changes for the Children's Behavioral Health (CBH), Seriously Mentally Ill (SMI), and General Mental Health/Substance Abuse (GMH/SA) Title XIX rates.

Summary

The proposed rates are based upon an actuarial study, which is required by the federal government. The proposed rates cost $1.7 million General Fund more than the capitation adjustment assumed in the FY 2005 budget. Whether or not DHS will require supplemental funding for these higher costs will depend on the FY 2005 enrollment trends. The actuaries contracted by DHS estimate that actual enrollment will be lower than the enrollment assumed in the FY 2005 budget. Therefore, total costs of providing behavioral health services may be lower than budgeted, even with the higher capitation rate increase.

The CBH rate is increasing by 43.8%, the SMI rate is decreasing by (4.2)%, and the GMH/SA rate is increasing by 15.4%. The weighted average rate of these increases is 12.8% above FY 2004. In comparison, the preliminary capitation rate numbers reported by DHS, which were the basis of the FY 2005 budget, assumed an 11.4% capitation rate increase.

Contributing to the CBH rate increase is a change in policy regarding the Department of Economic Security (DES) foster care children. Both DES and DHS fund behavioral health services for foster care children. In FY 2005, certain DES services will be shifted to DHS, which will enable the state to draw

(Continued)

down federal Title XIX matching funds. Because these services are currently funded in the DES budget and are being shifted to DHS, this will result in lower DES costs.

Recommendation

The Committee has at least the following options:

1. A favorable review of DHS' capitation adjustments with no conditions. DHS would view this option as an endorsement of any potential supplemental request.
2. A favorable review with any combination of the following stipulations:
   - The review does not constitute an endorsement of a supplemental request (even with this condition, however, a supplemental request would still be possible, depending on future enrollment trends).
   - DHS and DES shall report by September 1, 2004 with an estimate of how much funding is freed up in the DES Children Services and Comprehensive Medical & Dental Program line items as a result of shifting treatment for children from DES to DHS.
   - DHS and DES shall report by September 1, 2004 with an analysis of whether shifting more behavioral health services for children from DES to DHS results in an expansion of services to these children or whether DES was providing a similar level of services.
3. An unfavorable review. Given the federal actuarial study requirement, the Department is likely to proceed with the proposed increases.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates in managed care programs 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 the capitation rates. Once DHS requests a change in rates, the new rates must be approved by Arizona Health Care Cost Containment System (AHCCCS).

DHS has received approval from AHCCCS to change the capitation rates for CBH, SMI and GMH/SA, beginning to July 1, 2004, and has submitted its planned capitation rate changes for the Committee's review. These rate changes will affect each Title XIX and Proposition 204 Special Line Item, and the Medicaid Special Exemption Payments Line Item.

Table 1 shows the budgeted and proposed capitation rates for each program. The FY 2005 appropriation was developed using preliminary capitation rate data reported by department during the session, which assumed an 11.4% capitation rate increase above FY 2004. When the capitation rate increase was finalized, the average increase was 12.8%, although the actual increases vary by line item.

Table 1

	FY 2004 Capitation Rates	FY 2005 Capitation Rates			
	Actual	Budgeted	% Change Above FY 2004	Proposed	% Change Above FY 2004
CBH	$31.85	$43.87	37.7%	$45.79	43.8%
SMI	$65.91	$62.55	(5.1)%	$63.11	(4.2)%
GMH/SA	$26.02	$31.01	19.2%	$30.04	15.4%
Avg. Rate	$60.77	$67.73	11.4%	$68.53	12.8%

(Continued)

The proposed Children's rate increase is 43.8%, which is due to:

- A projected 12.3% increase in medical inflation through higher claims costs
- The transfer of certain behavioral health services from DES to DHS
- A 20.4% increase in the number of foster care children, who tend to be more expensive than other children
- An increase in the "penetration rate" from 5.75% to 6.86% (which measures how much of the total eligible population is actually receiving services. An increase in the penetration rate means that, within the total Title XIX and Proposition 204 populations, a greater number of children are utilizing behavioral health services).

The proposed SMI rate decrease is (4.3)%. This rate includes the following adjustments:

Increases associated with:
- A projected 17.3% increase in medical inflation
- Additional conversions from the Non-Title XIX program to the Title XIX program, which result in increased costs to the Title XIX program.

Decreases associated with:
- A decrease in the "penetration rate" from 4.48% to 4.20%. This means that a smaller percentage of the total eligible population is actually utilizing SMI services. Because many of the individuals who require SMI services are already receiving them, this population does not grow at the same rate as the general Title XIX population. Therefore the "penetration rate" decreases as the population grows.

The General Mental Health and Substance Abuse rate increased by 15.4% due to:

- A projected (1.1)% trend in the per member per month cost
- An increase in the "penetration rate" from 8.22% to 10.82%

<u>Children's Behavioral Health Services Rate</u>
Title XIX behavioral health services in the CMDP program (which is a program that provides coverage of medical and dental expenses of foster children) are funded in the DHS budget. Expenses for these children are typically significantly more costly than expenses for non-foster care children. For example, the FY 2005 monthly rate for non-foster care children is $28.00, compared to the CMDP rate of $715.55.

The CMDP population has increased by more than 20% since July 2003. In comparison, the non-foster care population has decreased over the same time period. Because the CMDP population is more expensive and now represents a greater percentage of the total children's behavioral health population, this results in a higher average cost per child per month.

In FY 2003, funding for out of home care in more secure facilities that provide intensive services for CMDP children was shifted from the DES budget to the DHS budget. Although the FY 2003 capitation rates were adjusted to reflect this shift, DHS now reports that the FY 2003 adjustments did not provide sufficient funding for these services. Therefore, the FY 2005 rates include an additional increase to reflect the actual costs of these services.

DHS also plans to begin providing therapeutic foster care, counseling, and out of home care in less restrictive facilities to the CMDP children. Therefore, the CBH rates have been adjusted upward to reflect the increased costs associated with providing these new services. Previously, these services had been funded in the DES Children Services and Comprehensive Medical & Dental Program line items.

(Continued)

Providing these services through the Title XIX program in DHS allows the department to receive the standard Title XIX federal matching monies for any state dollars spent.

Because these functions will now be shifted to DHS, the monies DES was spending on these services will now be available for other purposes. DHS was not able to provide us with an estimate of how much DES was spending on these services, so we are not able to estimate how much funding will be freed up in the DES budget. DHS was also not able to tell us whether the services provided under DHS constitute an expansion in services to the CMDP children or whether DES was providing similar levels of service.

Due to a change in the methodology for estimating the rates for the children in the CMDP program, we are not able to estimate how much of the 43.8% increase is related to changes in the CMDP rates and population. However, DHS believes that these rates are a large component of the increase.

Budget Impact

Table 2 shows the FY 2005 appropriated amounts for each population, as well as the JLBC Staff estimates of the cost by program above the FY 2005 appropriation, based on the enrollment projections that were used in developing the FY 2005 budget. Without changes to the enrollment projections and other assumptions used in developing the FY 2005 appropriation, the capitation rate changes will require an increase of $1.7 million from the General Fund and $5.5 million in Total Funds above the existing FY 2005 appropriation.

The actual costs of the new capitation rates may be higher or lower, depending upon the actual number of people that enroll in Title XIX behavioral health programs. The DHS actuaries estimate that FY 2005 enrollment will be lower than budgeted. If so, the higher costs of the capitation rates may be offset by lower enrollment, and the Title XIX and Proposition behavioral health programs may be within the budgeted amount.

Table 2

	FY 2005 Appropriation		**Estimated Need with Capitation Rate Changes**	
	TF	GF	TF	GF
Children's Behavioral Health				
Title XIX	$203,896,200	$64,727,100	$212,007,300	$67,371,100
Proposition 204	2,432,100	394,700	2,531,100	427,000
Seriously Mentally Ill				
Title XIX	130,621,000	42,577,900	131,458,800	42,851,000
Proposition 204	124,474,700	5,562,000	125,231,900	5,808,900
General Mental Health/ Substance Abuse				
Title XIX	69,572,700	22,678,900	67,204,800	21,907,000
Proposition 204	61,710,000	8,717,200	59,609,700	8,032,600
Medicaid Special Exemption Payments	12,862,000	4,192,700	13,011,400	4,241,400
Total	**$605,568,800**	**$148,850,500**	**$611,055,000**	**$150,639,000**
Difference			**$5,486,200**	**$1,788,500**

TF = Total Funds GF = General Fund Monies

RS:BK:ss

Arizona Department of Health Services

Office of the Director

150 North 18th Avenue, Suite 500
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JANET NAPOLITANO, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

JUN 09 2004

RECEIVED
JUN 09 2004
JOINT BUDGET COMMITTEE

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

Dear Senator Burns:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services (the Department) respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to review the proposed changes to the Behavioral Health Services Title XIX capitation rates for fiscal year 2005.

Enclosed please find the final report prepared by Mercer Government Human Services Consulting to develop capitation rates for the Department for Title XIX behavioral health services for Children, Seriously Mentally Ill, and General Mental Health/Substance Abuse populations for the fiscal year July 1, 2004 to June 30, 2005 (FY05). In accordance with the Center for Medicare & Medicaid Services (CMS) and Balanced Budget Act of 1997, the rates were developed using actuarially sound methodologies by Mercer Government Human Services Consulting. The rates submitted herein have been reviewed and approved by AHCCCS and have been delivered to CMS for approval.

The purpose of developing new capitation rates each year is to re-evaluate the prior period's rates for reasonableness as it relates to providing adequate service levels and evaluating the cost to provide those services. Below is a summary of last year's capitation rates, the capitation rates developed for this year, and a comparison of the amount appropriated for each population compared to the amount needed to fund the anticipated eligible population.

Attachments on file with JLBC.

TITLE XIX RATES AND FUNDING

Program	Current Statewide FY04 Capitation Rates	Proposed Statewide FY05Capitation Rates	Appropriated Amounts for FY05*	Required Amounts for FY05 Capitation Rates*	Difference
Children – Statewide Weighted Average	$31.85	$45.79	$206,328,300	$207,933,000	
Children – Non CMDP		$31.46	Included Above		
Children - CMDP		$734.99	Included Above		
Seriously Mentally Ill	$65.91	$63.11	$255,095,700	$272,020,600	
General Mental Health/Substance Abuse	$26.02	$30.04	$ 131,282,700	$129,509,900	
Allocation of Administration			$12,414,700		
Arnold vs. Sarn			$15,338,700		
DES / DDD			Included above	$12,548,600	
Allocation of Medicaid Tax Exemption			$12,862,000		
Total			$633,322,100	$622,012,100	$11,310,000
State Match**			$204,716,100	$200,926,700	$3,789,400
Federal Portion			$428,606,000	$421,085,400	$7,520,600

*Proposition 204 and base populations combined.
**State match calculations based on FMAP percentages assumed in appropriation bill (Children's FMAP different from Adult).

Below are tables with the changes in enrollment and penetration for the last two years:

TITLE XIX ENROLLMENT

	April 03	April 04	April 03-April 04 Percent Change
Children	23,110	27,465	+18.8%
Seriously Mentally Ill	16,034	15,416	-3.9%
General Mental Health/Substance Abuse	29,440	39,728	+34.9%
Totals	68,584	82,609	+20.4%

TITLE XIX PENETRATION

	April 03	April 04	April 03-April 04 Percent Change
Children	5.749	6.856	+19.3%
Seriously Mentally Ill	4.478	4.199	-6.2%
General Mental Health/Substance Abuse	8.223	10.820	+31.6%
Totals	9.024	10.760	+19.2%

Children Behavioral Health Capitation Rate. As is seen above, this population will be broken out between children enrolled in CMDP and children not enrolled in CMDP. The weighted statewide rate for Children increased 43.8% from $31.85 to $45.79. Key factors that contribute to this change include:

- Penetration increased from 5.75% to 6.86% (April 2003 to April 2004), or 19.3%.
- An increase of 20.4% (from 6,550 to 7,887) in the number of children in the CMDP program between July 2003 and May 2004.
- PMPM claim cost data trended to FY05 increase of 12.3%.
- Increases in services as a result of serving DES clients and providing Out of Home Care, Therapeutic Foster Care, and Counseling (4.4% of total rate).

Seriously Mentally Ill (SMI) Behavioral Health Capitation Rate. The proposed statewide rate for the SMI population decreased 4.3% from $65.91 to $63.11. Key factors that contribute to this change include:

- Penetration *decreased* from 4.48% to 4.20%, or 6.2%.
- SMI conversions from Non-Title XIX to Title XIX (2.1% of total rate).
- PMPM claim cost data trended to FY05 increase of 17.3%.

General Mental Health / Substance Abuse (GMH/SA). The proposed statewide rate for the GMH/SA population increased 15.5% from $26.02 to $30.04. The main factor that is attributable to this change is:

- Penetration increased from 8.22% to 10.82%, or 31.6%.

If you have any questions, please feel free to call Leslie Schwalbe, Deputy Director, at (602) 364-4567 or Chris Petkiewicz, Chief Financial Officer for Behavioral Health Services, at (602) 364-4699.

Sincerely,

Cathy Eden

Catherine R. Eden
Director

Enclosure

cc: Representative Russell Pearce, Vice Chairman
David Jankofsky, Director, Governor's Office of Strategic Planning & Budgeting
Bob Chapko, Budget Manager
Richard Stavneak, Director, JLBC
Beth Kohler, Senior Fiscal Analyst, JLBC
Leslie Schwalbe, Deputy Director, Department of Health Services
Danny Valenzuela, Deputy Director, Department of Health Services
Pat Mah, Director, Central Budget Office
Susan Gerard, Health Policy Advisor, Governor's Office

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: May 19, 2004

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

THRU: Richard Stavneak, Director

FROM: Brian Schmitz, Senior Fiscal Analyst

SUBJECT: ATTORNEY GENERAL – REVIEW OF ALLOCATION OF SETTLEMENT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has notified the Committee of the allocation of monies to be received from the Medco and Warner-Lambert settlement agreements.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for both settlements. The allocation plans are consistent with A.R.S. § 44-1531.01, which states that monies recovered by the Attorney General as a result of enforcing consumer protection or consumer fraud statutes shall be deposited in the Consumer Fraud Revolving Fund. The JLBC Staff also recommends that the Attorney General's Office report back to the Committee when it has developed a specific plan for expending another $600,000 in funds associated with the Medco settlement.

Analysis

The General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and it specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review. The Office of the Attorney General recently settled 2 cases that will result in the receipt of settlement monies over $100,000.

In the first case, Medco Health Solutions, Inc. allegedly did not provide complete and accurate information about its prescription drug interchange program, which resulted in the switching of prescription drugs to the less expensive drug. Under the settlement, the State of Arizona will receive approximately $200,000, which will be deposited in the Consumer Fraud Revolving Fund pursuant to

(Continued)

statute. Also, the state is expected to receive at least $600,000 in other funds, which will be passed on by the Attorney General to benefit low income, disabled, or elderly consumers of prescription drugs or to fund other programs targeted to benefit persons affected by this case. The Attorney General does not yet have a distribution plan for this $600,000.

In the second case, Warner-Lambert allegedly encouraged doctors to prescribe Neurontin for the treatment of bipolar disorder, although there is no evidence that Neurontin is effective in treating this condition. The settlement involves all 50 states. Under the settlement, Arizona will receive $278,000 to be deposited in the Consumer Fraud Revolving Fund pursuant to statute. There is a possibility that the state will also receive an additional payment, which would probably be $5,000 or less.

RS/BS:jb

Terry Goddard
Attorney General

Rene Rebillot
Chief Counsel
Consumer Protection &
Advocacy Section
Telephone: 602.542.7701
Fax: 602.542.4377

Office of the Attorney General
State of Arizona

April 26, 2004

The Honorable Ken Bennett
President of the Senate
State Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Jake Flake
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

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

Re: Settlement Medco Health Solutions, Inc.

Dear Gentlemen:

This Office has entered into a Consent Judgment between Medco Health Solutions, Inc., Merck-Medco Managed Care, L.L.C., ("Medco") and the State of Arizona. Nineteen other state attorneys general have entered into substantially the same consent judgment. A copy of the Consent Judgment is attached. The Consent Judgment settles claims by the State that Medco violated the Arizona Consumer Fraud Act with respect to representations it made to doctors and patients as a pharmacy benefit manager concerning Medco's prescription drug interchange program.

In addition to extensive injunctive relief, the Consent Judgment provides for reimbursement to affected consumers of up to $25 for out-of –pocket expenses incurred in Medco's Statin Drug Interchange program. The total amount of reimbursement will be up to $25 million.

The Consent Judgment also provides for a *cy pres* distribution of up to $20.2 million to benefit low income, disabled, or elderly consumers of prescription drugs or to fund other programs targeted to benefit a substantial number of persons affected by the conduct described in the Consent Judgment. It is expected that Arizona's share of the *cy pres* funds will be at least $600,000. Medco will also pay $6.6 million to the states for costs and fees. Arizona's share will be approximately $200,000, which will be deposited into the Consumer Fraud Revolving Fund pursuant to A.R.S. § 44-1531.01.

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

Please call me at (602) 542-7701 if you have any questions regarding this matter.

Sincerely,

Rene J. Rebillot
Chief Counsel
Consumer Protection & Advocacy Section
Telephone: (602) 542-7701
Fax: (602) 542-4377

Enclosure

cc: The Honorable Jack Brown
The Honorable John Loredo
The Honorable Robert Burns
Mr. Richard Stavneak
Ms. Kim Hohman
Mr. Richard Travis
Mr. John Stevens

841222

Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

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May 13, 2004

The Honorable Ken Bennett
President of the Senate
State Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Jake Flake
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

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

Re: Settlement with Warner-Lambert, LLC regarding Neurontin

Dear Gentlemen:

This Office has entered into an Assurance of Discontinuance (AOD) and Memorandum of Understanding (MOU) between Warner-Lambert, LLC , a subsidiary of Pfizer, Inc. and the State of Arizona. The Assurance of Discontinuance is part of a global settlement including fifty states, DOJ, NAMFCU (National Association of Medicaid Fraud Control Units), and a private qui tam plaintiff. Fifty other state attorneys general have entered into substantially the same MOU. Copies of the MOU and the Order Governing the Administration of the Multistate Grant and Advertising Program which implements the MOU among the Attorneys General, are attached. The AOD and MOU settles claims by the State that Warner-Lambert violated the Arizona Consumer Fraud Act with respect to representations it made to doctors and patients concerning the beneficial off-label use of Neurontin for the treatment of bipolar disorder.

In addition to extensive injunctive relief, the MOU provides for $28 million for a remediation program. The state of Oregon will set up the settlement account. Up to $6 million of this amount will go toward a National Advertising Program to provide physicians with fair and balanced information about Neurontin. Up to $1 million will be used to evaluate the effectiveness of the remediation program. $21 million will be used to fund a Prescriber and Consumer Education Program (PCEP) that will make grants to governmental agencies, academia, and not-for-profits chosen by participating Attorneys General to provide prescribers and/or consumers with fair and balanced information about drugs. Each of the participating Attorneys General has the opportunity to share equally in the fund. Any money not spent from the Advertising and Evaluation accounts will pour over into the PCEP.

In addition to the amounts described above for the remediation program, $10 million will go to the Attorneys General offices. Arizona will receive $278,000.00 for costs, fees and for other purposes set out in the Consumer Fraud Act. Arizona's share will be deposited into the Consumer Fraud Revolving Fund pursuant to A.R.S. § 44-1531.01. If there is money left over from state's expenses, Arizona may receive an additional payment. Our best estimate is that any additional payment would be $5,000 or less.

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

Please call me at (602) 542-7701 if you have any questions regarding this matter.

Sincerely,

Rene J. Rebillot

Rene J. Rebillot
Chief Counsel
Consumer Protection & Advocacy Section

Encls.

cc: The Honorable Jack Brown
The Honorable John Loredo
The Honorable Robert Burns
Mr. Richard Stavneak
Mr. Brian Schmitz
Mr. Richard Travis
Mr. John Stevens

#844100

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 22, 2004

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: Arizona Department of Administration — Report on Implementation of Self-Insurance for State Employee Health Insurance

Request

At its May 25th meeting, the JLBC favorably reviewed the Arizona Department of Administration's (ADOA) plan to self-insure state employee health benefits prior to proceeding with self-insurance. The Committee asked ADOA to report back on the final integrated rates, performance measures, and the implementation of self-insurance. The JLBC Staff also asked for additional detail regarding the contract awards, patient referral process, and PBM network.

Recommendation and Summary

This item is for information only and no Committee action is required. The Committee has the option, however, of requesting additional information from ADOA regarding the new contracts. One possible request is to ask ADOA to provide a list of the physicians in both the current and new networks, plus an analysis of how many physicians are in both networks and how many physicians that are on the current network will no longer be available to state employees.

The following is a summary of the ADOA report:
1. Employees in the Central and Southern region will have a choice between 3 non-integrated and 1 integrated plans, but employees in Northern, Western, and Southeastern regions have only 2 non-integrated plans available to them.
2. Employees will be required to pay $10 more per month if they select an integrated plan than if they select a non-integrated plan. ADOA had originally proposed a $15 differential, but the Committee recommended that they treat administrative costs of the integrated contracts nearly the same as the non-integrated contracts. It is not clear whether the revised contribution strategy implements this recommendation.
3. Walgreens Health Initiative will be the pharmacy benefits manager (PBM) for state employees, with a network of over 850 pharmacies (including non-Walgreens pharmacies).

(Continued)

4. ADOA and the contractors have agreed upon a list of performance measures for the medical networks, pharmacy, and utilization review/disease management contracts.
5. ADOA reports that patients will be able to see more specialists without first seeing a primary care physican (PCP) than under the current contract.

Analysis

ADOA is moving from a fully insured system for state employee health insurance benefits to a self-insured system, in which the state assumes the risk associated with providing health coverage to its employees. At its May 25, 2004 meeting, the Committee heard details about this move and the proposed contribution strategy under self-insurance.

The JLBC Staff presented an analysis of this move, including concerns that the cost estimates were based on preliminary rates for the integrated contracts and that the administrative costs of the non-integrated contracts were being treated differently than similar costs of the integrated contracts.

Contract Awards

After the Committee meeting, ADOA awarded various contracts for state-employee health benefits. ADOA awarded contracts by geographic region and type of plan (Exclusive Provider Organization, or EPO, which is the self-insurance equivalent of an HMO, and Preferred Provider Organization, or PPO, which is an option in which employees have the choice to see in-network or out-of-network physicians without management by a primary care physician).

Employees in the Central and Southern region have a choice between 3 non-integrated and 1 integrated plans (see *Contribution Strategy* discussion below for differences in the employee contribution for these plans). Employees in Northern, Western, and Southeastern regions have only 2 non-integrated plans available to them.

Table 1 summarizes the medical network awards by geographic region and type of plan (EPO or PPO).

Table 1

Self-Insurance Contract Awardees, by Region

Central and Southern Regions *(Maricopa, Gila, Pinal, Pima and Santa Cruz)*

EPO	PPO
Rural Arizona Network/ Arizona Medical Network	AZ Foundation Network
Schaller Anderson Network	United Healthcare*
United Healthcare*	

Northern, Western, and Southeastern Regions *(Yavapai, Coconino, Navajo, Apache, Mohave, La Paz, Yuma, Greenlee, Graham, and Cochise)*

EPO	PPO
Rural Arizona Network/ Arizona Medical Network	AZ Foundation Network

*Represents an integrated contract; all other contracts are non-integrated

In addition, the following statewide contracts were awarded:

- Third Party Administrator (TPA) (Non-Integrated only): Harrington Benefits

(Continued)

- Utilization Manager/Disease Management (Integrated and Non-Integrated): Schaller Anderson
- Pharmacy Benefits Manager (Integrated and Non-Integrated): Walgreens Health Initiative (WHI)

Contribution Strategy

The final contribution strategy is slightly different than the strategy proposed at the May meeting. ADOA will allow state employees in the Central and Southern regions to choose between participating in a non-integrated or an integrated plan, but employees will be required to pay 100% of the difference between the two plans. At the May meeting, ADOA estimated the difference between the non-integrated and integrated options to be $15 per month. After finalizing the rates for the various health plans and upon completion of the actuaries' analysis of the plans, ADOA now estimates the difference to be $10 per month. Employees in Northern, Western, and Southeastern regions do not have an integrated option.

Table 2 summarizes the contribution strategy proposed at the May meeting and the revised contribution strategy.

Table 2

	Proposed Contribution Strategy – May 2004		Actual Contribution Strategy	
	Non-Integrated	Integrated	Non-Integrated	Integrated
Central and Southern Regions				
EPO Single	$25	$40	$25	$35
EPO Family	$125	$140	$125	$135
PPO Single	$140	$155	$140	$150
PPO Family	$390	$405	$390	$400
Northern, Western, and Southeastern Regions				
EPO Single	$25	NA	$25	NA
EPO Family	$125	NA	$125	NA
PPO Single	$140	NA	$140	NA
PPO Family	$390	NA	$390	NA

Under the original proposed contribution strategy, state employees who chose an integrated plan were required to pay $15 more per month. ADOA reported that this differential reflected a difference in the administrative costs between the integrated and non-integrated plans. However, the state employees that chose the non-integrated plan had a portion of these administrative costs subsidized by the state through an appropriation to ADOA. At its May meeting, the Committee recommended that ADOA structure the contribution strategy to treat the administrative costs of integrated contracts nearly the same as non-integrated contracts. The JLBC Staff interpreted this provision to mean that the same proportion of administrative costs under both the non-integrated and integrated contracts would be covered by the ADOA appropriation. It appears that ADOA did not have the same interpretation of the Committee's recommendation. Therefore it is not clear that the revised contribution strategy (which includes a $10 per month differential between integrated and non-integrated plans) treats the administrative costs of integrated contracts nearly the same as non-integrated contracts.

Performance Measures

ADOA has provided a list of the performance standards that will be used to evaluate the various contractors. The standards differ between non-integrated and integrated plans and the non-integrated

(Continued)

standards are more numerous and more specific. For the non-integrated medical networks, standards include measuring administration and customer service through telephone response time and customer complaints, measuring program and healthcare management, and customer satisfaction. For the non-integrated third party administrator (TPA), the standards include measuring claims processing, financial payment, and claims payment accuracy, customer service and satisfaction, data reporting, program and vendor management. There are also monthly, quarterly, and annual reporting requirements for the TPA.

For the integrated contracts (which correspond to the medical network and TPA requirements for non-integrated contractors), the standards include measuring payment, financial, and procedural accuracy, customer service and satisfaction, program management, and employee benefit managers satisfaction.

For the pharmacy benefit manager (PBM), measures include the timeliness and accuracy of claims payment, customer service and satisfaction, data reporting, program, vendor, and network, management. There are also monthly, quarterly, and annual reporting requirements for the PBM. For the Utilization Review/Disease Management contractors, there are performance measures related to customer service and satisfaction, disease management, and vendor satisfaction.

Finally, there are standards related to whether each contractor is able to implement their activities by October 1, 2004. A complete list of the performance measures is on file with the JLBC Staff, including detail on each of the performance measures, the target measures set by ADOA, and the penalties what may be imposed if the standards are not met.

Pharmacy Network

The JLBC Staff requested that ADOA provide details on the PBM's contracted pharmacies. The contract includes over 850 pharmacies and includes (but is not limited to) pharmacies such as Walgreens, Osco, CVS, and Eckerd, as well as grocery store pharmacies such as Safeway, Fry's, Basha's and Albertson's. There are also numerous local pharmacies in the network. A complete list of the pharmacies in the network is on file with the JLBC Staff.

ADOA believes that, given the number of pharmacies on the list, all state employees will have access to a pharmacy regardless of where in the state they live. Because ADOA has not actually conducted a formal analysis to determine that all state employees will have access to pharmacies within the WHI network, we are unable to confirm whether there will be available pharmacies for all employees throughout the state. However, ADOA has indicated that they will work with state employees if they do not feel they have convenient access to a pharmacy within the network.

Patient Referral

ADOA reports that under the current contract, patients were able to self-refer to an OB/GYN, but had to be referred through their PCP for all other specialist services. Under the new contracts, ADOA reports that patients will be able to self-refer to specialists for all conditions except for the most acute. ADOA is still developing this list of these conditions that will require referral through a PCP.

RS:BK:ss

ARIZONA DEPARTMENT OF ADMINISTRATION
JLBC Report- State Employee Health Benefits
June 18, 2004

BACKGROUND

Arizona Revised Statute §38-651 requires that the Joint Legislative Budget Committee (JLBC) review the Arizona Department of Administration's plan to self-insure State Employee Health Benefits.

At its May 25, 2004 meeting the Committee gave a favorable review to self-insurance for State Employee Health Benefits with specific stipulations.

This report will incorporate the requested information from the May 25, 2004 JLBC meeting and the additional information requested on June 3, 2004 by JLBC Director Richard Stavneak.

FINAL NEGOTIATED RATES

ADOA had received and analyzed the non-integrated rates. Attachment A provides the final negotiated rates

Non-Integrated Administrative Fee Comparison- PEPM

The following offerors were chosen by the Request for Proposal (RFP) Committees as susceptible for award:

	Harrington Benefits	Medical Networks[1]	Schaller Anderson	Walgreens Health Initiatives
Claims Administration	**\$10.82**			
Network Access		**\$3.30**		
UR/UM- Disease Mgmt.			**\$8.65**	
PBM				**\$0.00**

- Harrington's TPA fees are for the 20,000 or greater member level. Should they only receive 5,000 to 19,999 members; the fee will increase to \$10.91.
- Network access fees could vary depending on enrollment by network.
- Walgreens Health Initiatives did not propose a fee for claim administration, however, they will be paid through other pharmacy mechanisms such as rebates and processing charges.

Non-Integrated Medical Fee Schedule and Overall Costs

The network proposals were also analyzed for total estimated cost of the network fee schedule and the average estimated fee/procedure[2] based on 350,000 procedures and 40 medical codes (see Attachment A).

---

[1] Average of HMA, Inc. (RAN/AMN), Arizona Foundation, Schaller Anderson, and Beech Street
[2] Estimated cost is based on historical State utilization (2/1/02-1/31/03) of selected procedure codes

The same analysis was conducted for the integrated proposals.

Integrated Administrative Fee Comparison- PEPM

The attached fees were contained within the proposals received by the offerors (see Attachment B).

Integrated Medical Fee Schedule and Overall Costs

The network proposals were also analyzed for total estimated cost of the network fee schedule and the average estimated fee/procedure[3] based on 350,000 procedures and 40 medical codes (see Attachment A).

Integrated Award

Upon receipt of the integrated proposals, it was apparent administrative costs for the integrated vendors were higher than the non-integrated proposals. Due to the State's desire to offer an integrated product, the additional administrative costs were factored into the contribution strategy. United Healthcare also offered a "Select EPO" plan. This plan would provide additional choice for State employees and retirees, since they would still be required to select a primary care physician, however, they will not be required to obtain a referral for specialty care. Since this plan is less managed than a typical EPO which uses a "gatekeeper" mechanism to reduce specialty care through a primary care physician, medical costs may higher due to the open access.

Medical Network Access

An analysis was also completed on the depth and breadth of the medical networks to determine the number of physicians in an area per employee and the physician's coverage of more communities where employees are located (see Attachment B).

<u>CONTRIBUTION STRATEGY</u>

During the May 25, 2004 JLBC meeting, the Committee expressed its' concern with the $15.00 differential between the non-integrated and integrated employee premiums. ADOA has recalculated the contribution strategy and has been able to reduce this differential by $5.00. The contribution strategy is attached (see Attachment C).

[3] Estimated cost is based on historical State utilization (2/1/02-1/31/03) of selected procedure codes

CONTRACT AWARDS

Based on a significant amount of analysis and review, the following offerors were awarded contracts. The attached map displays the contractors in each region for both employees and retirees (see Attachment D & E)

AD030062- Third Party Administrator	Harrington Benefits
AD030063- Medical Networks	Arizona Foundation
	Beech Street
	HMA, Inc. (RAN/AMN)[4]
	Schaller Anderson
AD030064- Utilization Manager/Disease Mngt.	Schaller Anderson
AD030065- Pharmacy Benefit Manager	Walgreens Health Initiatives
AD040404- Integrated Group Health Benefits	United Healthcare
	PacifiCare- SecureHorizons[5]

PERFORMANCE MEASURES

The performance guarantee standards incorporated in the Integrated RFP have been modified to require "fees at risk". Therefore, the amount of damages for non-compliance will be based on a percentage of administrative fees, not a lump sum payment per occurrence as it exists in the current contract.

The actual contractual standards for United Healthcare are attached (see Attachment E).

PHARMACY BENEFIT MANAGER

Walgreens Health Initiatives (WHI) is a division of the Walgreens Corporation. WHI has partnerships with grocery stores, such as Safeway and Fry's and other pharmacies, and has the largest network of pharmacy providers in the country. In Arizona, employees will be able to access approximately 850 locations statewide (see Attachment F). ADOA believes that employees will have access to a pharmacy regardless of their location within the state. ADOA will coordinate with WHI to address individual employee and retiree complaints on a case-by-case basis.

PATIENT REFERRAL

The Committee has requested information on the patient referral process. All EPO plans will require a member to select a primary care physician (PCP). The United Select plan will allow member to seek most specialty care without an authorization from their PCP. All other features of the plan design will remain the same.

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[4] Rural Arizona Network/Arizona Medical Network

[5] PacifiCare has been awarded the Medicare Advantage program, SecureHorizons, on a fully-insured basis

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF
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DATE: May 19, 2004

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: ARIZONA COMMUNITY COLLEGES – REPORT ON DUAL ENROLLMENT AND APPOINTING AD HOC COMMITTEE

Request

Pursuant to A.R.S. § 15-1821.01 the Arizona Community Colleges are reporting on dual enrollment courses offered in FY 2003 and the subsequent achievements of students dual enrolled in FY 2002.

On receipt of this report, statute requires the Committee to convene an ad hoc committee that includes community college academic officers, faculty, and other experts. The ad hoc committee shall review the manner in which dual enrollment courses are provided and may make recommendations to the full Committee regarding desirable changes to these courses.

Recommendation

Other than the appointment of the ad hoc committee, this item is for information only and no Committee action is required. The report indicates that, in FY 2003, 32,582 students were dual enrolled. Of the total, 29,504 students earned a C or better, qualifying those students for both high school and community college credit.

Analysis

<u>Dual Enrollment Courses – FY 2003</u>

A.R.S. § 15-1821.01 requires community college districts to report annually on dual enrollment courses. The report shall include the following:

1) Total enrollments listed by location, by high school grade level, by course and by whether the program was academic or occupational

(Continued)

2) Summary data on the performance of students enrolled for college credit, including completion rates and grade distribution
3) The number of freshman and sophomore students enrolled
4) Documentation of compliance with statutory guidelines for the course, course materials, and faculty qualifications

The *Attachment* provides summary data from the FY 2003 report. The full report is available upon request. Highlights include:

- 32,582 students were dual enrolled
- 836 courses were offered, of which 320 courses were classified as Academic and 516 were Occupational
- Courses were offered at 190 locations in 8 districts
- 31,379 students, or 96% of those enrolled, completed the course
- 29,504 students earned a C or better, qualifying those students for both high school and community college credit
- 2,936 freshman and sophomore students were dual enrolled (included under "Students not meeting course requirements" column)

<u>Subsequent Achievement Tracking</u>

A.R.S. § 15-1821.01 also requires the community colleges to report, every other year, on the subsequent achievement of students enrolled in dual enrollment courses. That portion of the report shall include the following:

1) High school graduation rate
2) Number of students continuing their studies after graduation at an Arizona community college or university
3) Performance of students in subsequent college courses in the same field as dual enrollment courses
4) Student GPA after one year at a community college or university as compared to high school GPA

Districts currently cannot track high school students after graduation if they continue their studies at a university or a different community college district. Therefore, the districts have attempted to report on the above measurements as they apply to dual enrolled high school students that continued their studies at a community college within the district. The districts may be able to track high school seniors that attend a university or a community in another district in the future with the implementation of the Student Accountability Information System (SAIS).

Within the limitations discussed above, Table 1 provides district by district information on the high school graduation rate and the number of students continuing their studies after graduation at a community college within the district. As indicated in the table, the high school graduation rate at schools where dual enrollment courses were offered ranged from approximately 70% to 80%. The percentage of high school seniors continuing their studies after graduation at a community college within the district range from 10% in Pinal to 97% in Graham.

(Continued)

Table 1

Dual Enrolled Students

District	High School Grad Rate [1/]	Number/Percentage of Students Continuing Studies [2/]
Cochise	80.7%	51 / 38%
Coconino	70.3%	4 / 15%
Graham	N/A	338 / 97%
Maricopa	79.8%	1,623 / 35%
Mohave	- -	No Dual Enrollment
Navajo	79.3%	106 / 31%
Pima	N/A	95 / 46%
Pinal	N/A	26 / 10%
Yavapai	79.2%	18 / 33%
Yuma/La Paz	- -	No Dual Enrollment

1/ Measures graduation rate of all students at a high school offering dual enrollment.

2/ Indicates the number and percentage of dual enrolled seniors that continued at a college within the district.

Table 2 provides a summary of dual enrollment student GPA after one year at a community college within the district as compared to the same student's high school GPA. As before, the data is limited to dual enrolled high school seniors that continued their studies after graduation at a community college within the district. Of the 2,214 dual enrolled seniors that attended a community college within the district, 68% had a high school GPA of 3.0 or better. A year later 54% of dual enrolled seniors that continued at a community college within the district had a GPA of 3.0 or better.

Table 2

	High School GPA	Community College GPA
3.5 – 4.0	818 / 37%	624 / 28%
3.0 – 3.49	682 / 31%	571 / 26%
2.5 – 2.99	186 / 8%	391 / 18%
2.0 – 2.49	411 / 19%	341 / 15%
1.5 – 1.99	37 / 2%	119 / 5%
1.0 – 1.49	55 / 2%	85 / 4%
< 1.0	25 / 1%	83 / 4%
TOTAL	2,214 / 100%	2,214 / 100%

JC:ss
Attachment

ARIZONA'S COMMUNITY COLLEGE SYSTEM
Aggregate Community College Courses Offered in Conjunction with High Schools
by District
FY 2002-03

District	Number of locations offering courses	Student Enrollment *(headcount)*	Categories of Courses Offered			Grade Distribution						Com-pleters	Students not meeting course requirements
						Earned CC Credit			HS credit only	Failing	Other[1]		
			Academic	Occupational	Total	A	B	C	D	F	O		
Cochise	6	708	13	5	18	283	265	120	24	9	7	99% *(n=701)*	3% *(n=19)*
Coconino	1	321	9	24	33	173	77	45	10	2	14	96% *(n=307)*	18% *(n=58)*
Graham	3	883	11	16	27	384	234	159	62	27	17	98% *(n=866)*	19% *(n=171)*
Maricopa	140	24,256	177	195	372	10,797	8,006	3,293	562	167	981[2]	96% *(n=23,275)*[3]	9% *(n=2,104)*
Mohave	District does not offer dual enrollment courses.												
Navajo	15	3,766	53	230	283	1,744	1,068	572	229	104	47	99% *(n=3,719)*[4]	14% *(n=509)*
Pima	17	1,936	35	19	54	834	613	294	87	45	63[5]	97% *(n=1,873)*	1% *(n=29)*
Pinal	5	633	19	27	46	257	151	88	30	24	48	92% *(n=585)*[6]	6% *(n=37)*
Yavapai	3	79	3	0	3	25	15	7	5	1	26	67% *(n=53)*	11% *(n=9)*
Yuma/LaPaz	District does not offer dual enrollment courses.												
Aggregate	190	32,582	320	516	836	14,497	10,429	4,578	1,009	379	1,203	96% *(N=31,379)*	9% *(N=2,936)*

[1]Other = withdraw, incomplete, withdraw failing, or no credit
[2]Includes 124 students for whom no grade was given
[3]Includes 450 students who earned a "pass" grade in a course offered only on a pass/fail basis for any student
[4]Includes two students who earned a "pass" grade
[5]Includes one student to whom no grade was given
[6] Includes 34 students who withdrew, but were passing as of the 45th day and one student who withdrew but was failing as of the 45th day

Prepared by ACCA
January 2004

ACCA

Arizona Community College Association

2411 West 14th Street
Tempe, AZ 85281
480/731-8115

RECEIVED
FEB - 6 2004
JOINT BUDGET
COMMITTEE

February 6, 2004

Honorable Robert Burns, Chair
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Chairman Burns:

On behalf of the Arizona community college system, it is my pleasure to present you with the *Report on Community College Classes Offered in Conjunction with High Schools for FY 2002-03* in accordance with A.R.S. § 15-1821.01.

The Arizona community college system and I appreciate your continued support of our mission and the mutual constituents we serve.

Sincerely,

Jan Guy

Jan Guy, Chair
Arizona Community College Association

NOTE: This 146-page report is on file at the JLBC Office.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 17, 2004

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

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: Arizona Department of Education – Report on Estimated Fiscal Impact of Changes to Achievement Testing Program

Request

The Chairman has requested that the Arizona Department of Education (ADE) appear to provide updated information regarding increases in achievement testing costs. At an earlier JLBC meeting, ADE projected an additional $4.2 million cost for the achievement testing contract in FY 2005. The current estimate is $5.5 million.

Recommendation

This item is for information only and no Committee action is required. The Committee, however, may wish to request that the department provide recommendations for addressing a projected $1.3 million FY 2005 shortfall.

Analysis

A footnote in the General Appropriation Act states that "Before making any changes to the achievement testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the Joint Legislative Budget Committee." In response to this requirement, ADE reported to the Committee in March 2004 that an estimated $4.2 million General Fund increase would be required in order to fully fund achievement testing costs for FY 2005.

Since then, ADE has awarded the contract for the new "AIMS-Dual Purpose Assessment" (AIMS-DPA) exam and, based on the new contract, has revised the $4.2 million estimate to $5.5 million *(see Attachment 1)*. Overall the cost of achievement testing under the new contract will increase from $11.3 million in FY 2004 to $17.0 million in FY 2005. The General Fund share under these estimates is increasing from $3.4 million to $8.9, or $5.5 million.

(Continued)

The revised estimate would imply a $1.3 million funding shortfall for achievement testing for FY 2005, since the General Appropriation Act for FY 2005 (Laws 2004, Chapter 277) provides the program with a $4.2 million rather than $5.5 million increase for FY 2005.

The Committee may wish to ask ADE to provide recommendations for addressing the projected $1.3 million shortfall by means other than a General Fund supplemental. One potential solution would be to require school districts and charter schools to pay for test retakes for students who have already passed AIMS. (Some districts currently allow their high school students to retake AIMS in order to improve their scores.) Another potential solution might be to postpone AIMS-DPA testing for pupils in Grades 4, 6 and 7 until FY 2006 unless a school district or charter school wants to administer it in FY 2005 using local monies. The federal No Child Left Behind Act does not require pupils in Grades 4, 6 & 7 to be AIMS tested until FY 2006. Beyond offering any of their own solutions, the Staff recommends that the ADE response address the feasibility of these potential solutions.

RS/SSc:jb
Attachment

ATTACHMENT 1

Arizona's Instrument to Measure Standards (AIMS) (DPA)

		Actual Costs Incurred		Projected Costs	
		FY 2002	FY 2003	FY 2004	FY 2005
1	**AIMS Contract Base**	$4,750,200	$6,818,797	$5,614,759 [1]	11,041,499 [10]
2	**Mod 1**		$0		
3	**Mod 2**		$309,313		
4	**Mod 3**		$7,381		
5	**Mod 4**		$75,010		
6	**Mod 5**		$4,576		
7	**Mod 6**		$22,514		
8	**Mod 7**		$44,365		
9	**Mod 8**		$75,889		
10	**Mod 9**		$17,143		
11	**Mod 10**			$4,181,165 [2]	
12	**Mod 11**		$55,986		
13	**Cost Overrun Mod 10 and 11**			$10,175 [4]	
14	**Mod 12**			$0	
15	**Mod 13**				$92,535 [6]
16	**Mod 14**				$3,412,393 [3]
17	**Science item writing (still needed)**				$822,989 [3]
18	**Test Subtotal**	$4,750,200	$7,430,974	$9,806,099	$15,369,416
19	**State Admin - Salary etc.**	$184,700	$114,781	$188,000	$188,000
20	**Federal Admin - Salary etc.**	$0	$753,879	$805,000	$950,000
21	**Standard Setting**				$500,000 [5]
22	**Standards Articulation - Science**			$300,000 [7]	
23	**Standards Articulation - Writing**			$150,000 [8]	
24	**Naional Organizational Commitees**			$30,000 [9]	$30,000 [9]
25	**Lost-Reverted back to the state**		$73,119		
26	**Program Subtotal**	$4,934,900	$8,372,753	$11,279,099	$17,037,416
27	**Funding Summary**				
28	**GF (Admin)**	$183,300	$187,900	$188,000	$188,000
29	**GF (AIMS)**	$3,389,800	$3,208,600	$3,208,600	$3,208,600
30	**Prop 301 (NRT)**	$1,100,000	$0	$0	$2,255,500 [11]
31	**Prop 301 Solution Team**		$1,491,045	$0	$0
32	**Federal (NCLB for assessment)**	$0	$3,238,918	$5,476,340	$5,807,917
33	**Subtotal**	$4,673,100	$8,126,463		$11,460,017
34				$8,872,940	
35	**Total General Fund Deficit**	-$261,800	-$246,290	-$2,406,159	-$5,577,399
36					
37	**State Test Base Contract 3-5-8-10/DPA**	$4,750,200	$6,818,797	$5,614,759	11,041,499
38	**State Appropriation for State Test**	$3,389,800	$3,208,600	$3,208,600	$5,464,100
39	**Difference (shortfall)**	$1,360,400	$3,610,197	$2,406,159	$5,577,399

1 **Original Contract Base from 2001. Contract life 6 years.**
Modification 1 No money just wording.
Modification 2 Curriculum standards articulation ,meetings July 21, 2002-July 26,2002 to articulate by grade level standards to be measurable. This is needed both for **NCLB** and for **AZLearns**
Modification 3 Addition of two state test cordinators to NAAAC meeting. **NCLB** discussed also **AZLearns**
Modification 4 Standards articulation meeting 22-24 September 2002. Needed both for **NCLB** and **AZLearns**.
Modification 5 Standards articulation meeting October 4 2002 with measurement experts. **NCLB** and **AZLearns**
Modification 6 Standards meeting for Science, cancellation fee. Credit to be given. **NCLB** expense.
Modification 7 Standards articulation meeting October 26, 2002. **NCLB** and **AZLearns** expense
Modification 8 National Consulting firm StandardsWorks. They helped create the original AZ standards and now are needed to address modifications needed for NCLB. **NCLB** expense and update to state standards for **AZLearns**
Modification 9 Consultants from standards articulation committee members to assemble final draft of standards This is an **NCLB** and **AZLearns** expense.

2 **Modification 10** Write items for NCLB mandated grades and replacement items for state mandated grades. **NCLB** and **AZLearns**
Modification 11 initial meeting of Science articulation. **NCLB** expense
Modification 12 FERPA modification no cost to ADE.
Modification 13 Commissioning of reading passages for item writing June 2004. Long lead time necessary. **NCLB** and **AZLearns**
Modification 14 Item writing and fall testing and scoring. Subsumes Mod 13. **NCLB** and **AZLearns**

3 **$3,412,393** The AIMS contract needs to be modified to include item writing for the Summer of 04. Also, writing AIMS items to match the new blueprint modified to match the articulated standards in reading, mathematics and writing, and in the number of grades assessed in 2005 (grades 4,6,7 to be added). **$822,989** must be included to write items for the new Science Standards as required by NCLB.

4 Cost overrun for Science Facilitator and extra NAAAC expenses

5 $500,000 This is necessitated by both changes in the test at 3,5,8, and 10, and the addition of grades 4,6, and 7 for which there are no performance standards. This is usually a one time expense except in high stakes .

6 Long lead item writing passages for reading test.

7 Articulation of Science Standard (covered under NCLB)

8 Articulation of Writing Standard (projected expenditure)

9 National Organizational Committees CCSSO sub-committees

10 **New AIMS DPA contract with CTB**

11 **Assumption of NRT appropriation for AIMS DPA** As of 5/26/04

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 24, 2004

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

THRU: Richard Stavneak, Director

FROM: Tim Sweeney, Fiscal Analyst

SUBJECT: AHCCCS – Review of KidsCare Behavioral Health Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System requests review of Behavioral Health capitation rates for the KidsCare (including parents) program. The proposed rates are 1.7% above FY 2004 rates, and are within budgeted levels for FY 2005.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the requested rate increase. The proposed rates are within budgeted levels for FY 2005.

Analysis

The KidsCare program provides AHCCCS coverage to children up to 200% of the Federal Poverty Level (FPL) who are not eligible for the regular AHCCCS Title XIX program. In turn, the KidsCare - Parents program provides services to parents of children up to 200% FPL. While the Behavioral Health component of the regular Title XIX Medicaid program is funded in the Department of Health Services (DHS), the behavioral health component the KidsCare programs are funded in the AHCCCS budget. As a result, the behavioral health cost increases in the KidsCare population will not be covered by the rate increases requested by DHS.

The rates AHCCCS is proposing for the KidsCare programs are based in part on the rates developed for the regular Title XIX program. For children in KidsCare, the requested rates represent an increase of 12% above the FY 2004 rates, however for Parents population the requested rates represent a (12.6%) decrease below the FY 2004 rates. In total, the requested rates represent a 1.7% increase above the FY 2004 rates. Table 1 details the average FY 2004 rates and the proposed rates for FY 2005. These rates represent increases above FY 2004, but are within budgeted levels for FY 2005.

Table 1

	Current 2004	Proposed 2005	% Change
KidsCare			
Children	$13.34	$15.16	13.6%
SMI	26.54	21.64	(18.5)%
Average			12.0%
KidsCare Parents			
SMI	27.13	22.75	(16.1)%
GMH/SA	11.02	10.58	(4.0)%
Average			(12.6)%
Weighted Change			1.7%

RS/TS:ck

Janet Napolitano, Governor
Anthony D. Rodgers, Director

AHCCCS

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

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PO Box 25520, Phoenix AZ 85002
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RECEIVED
JUN 17 2004
JOINT BUDGET COMMITTEE

June 15, 2004

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

Dear Representative Pearce:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the Joint Legislative Budget Committee's (JLBC) agenda for its next scheduled meeting, for the purpose of reviewing changes to the TXXI (Kids Care and the Kids Care Parents) behavioral health capitation rates for the contract year 2005. This review is required in the footnotes to the General Appropriation Act.

The TXXI membership was approximately 61,834 on February 1, 2004. Because membership is small, and the behavioral health penetration is only 3.6%, Mercer concluded that the encounter data is not sufficient for using as a base in preparing actuarially sound rates. Instead, Mercer used the TXIX behavioral health rate development as a proxy for determining appropriate capitation rates for TXXI behavioral health programs. The full Mercer report is attached for your review.

<u>TXXI behavioral health capitation rate changes</u>

Below please find a comparison of the CYE '04 actual rates and the CYE '05 proposed rates:

	CYE '04	CYE '05	% Change
Kids Care (0-17years)	$13.34	$15.16	13.64%
Kids Care (18 yrs)	$26.54	$21.64	-18.5%
Kids Care Parents SMI	$27.13	$22.75	-16.1%
Kids Care Parents GMH/SA	$11.02	$10.58	-04.0%

As detailed in the attached table the budgetary impact associated with the implementation of these new rates is an increase of $245,000 or 1.7% above the current rates. This analysis simply compares the AHCCCS projected member months for Fiscal Year 2005 compared to the cost of the old rates versus the new rates. This increase in costs is below the rate increase anticipated in the FY 2005 budget.

If you have any questions, please feel free to call Patrice Spencer, Financial Coordinator – Behavioral Health Unit, AHCCCS at 602-417-4107.

Sincerely,

Kari Price

Kari Price
Assistant Director
Division of Health Care Management

c: Richard Stavneak, Director, Joint Legislative Budget Committee Staff
Anthony Rodgers, Director, AHCCCS
Tom Betlach, Deputy Director, AHCCCS
Jim Cockerham, Assistant Director, Division of Business and Finance, AHCCCS
Lynn Dunton, Assistant Director, Office of Policy Analysis and Coordination, AHCCCS
Bonnie Marsh, Manager Behavioral Health Unit, DCHM, AHCCCS
Patrice Spencer, Financial Coordinator Behavioral Health Unit, DCHM, AHCCCS

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
Arizona Department of Health Services - Division of Behavioral Health Services
Budget Impact of FY 2005 Capitation Rate Increases

	Statewide Rates SFY04	Statewide Rates SFY05	FY05 Population[1]	SFY04 Rate with FY 05 Pop.	SFY05 Rate with FY 05 Pop.	Change Inc. (Dec.)	Percent Impact
TXXI							
Children	$ 13.34	$ 15.16	588,170	7,846,200	8,916,700	1,070,500	13.6%
SMI	$ 26.54	$ 21.64	15,806	419,500	342,000	(77,500)	-18.5%
Total Rate	$ 39.88	$ 36.80	603,976	8,265,700	9,258,700	993,000	12.0%
HIFA II							
SMI	$ 27.13	$ 22.75	155,204	4,210,700	3,530,900	(679,800)	-16.1%
GMH/SA	$ 11.02	$ 10.58	155,204	1,710,300	1,642,100	(68,200)	-4.0%
Total Rate	$ 38.15	$ 33.33	155,204	5,921,000	5,173,000	(748,000)	-12.6%
				TOTAL BUDGET IMPACT		245,000	1.7%
					State	55,900	
					Federal	189,100	

NOTE:
1) Population estimates for FY 2005 are taken from the AHCCCS March-2004 rebase.