STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

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http://www.azleg.state.az.us/jlbc.htm

HOUSE OF REPRESENTATIVES

JOINT LEGISLATIVE BUDGET COMMITTEE
Wednesday, July 17, 2002
9:30 a.m.
Senate Appropriations Room 109

AGENDA

- Call to Order

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION
  A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
  B. Arizona Department of Administration - Risk Management Annual Report.

1. DEPARTMENT OF ECONOMIC SECURITY - Review of Plan and Methodology for Distributing Developmental Disabilities Provider Rate Adjustment.

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

3. AHCCCS - Report on the Implementation of the Ticket to Work Program.

4. PROPOSITION 204 PUBLIC HEALTH PROGRAMS - Consider Approval of Inflation Adjustments.

5. ARIZONA DEPARTMENT OF EDUCATION - Report on Implementation of FY 2003 Lump Sum Reduction.

6. ARIZONA COMMISSION ON THE ARTS - Review of the Arizona Arts Endowment Fund and Private Contributions.

7. ARIZONA DEPARTMENT OF ADMINISTRATION - Report on Human Resources Information System Status Questions and Responses.

8. REPORT ON RECENT AGENCY SUBMISSIONS
    A. Arizona Department of Administration - Report on On-Line Bidding Systems Implementation.
    B. Attorney General - Report on Model Court.
    C. Department of Economic Security - Bimonthly Report on Arizona Works.
    D. Department of Economic Security - Bimonthly Report on Children Services Program.
    E. Department of Environmental Quality - Preliminary Progress Report on the Arizona Alternative Testing and Compliance Study.
    F. Department of Health Services - Report on Health Crisis Fund Expenditures.
    G. Department of Revenue - Report on Ladewig Expenditure Plan.

The Chairman reserves the right to set the order of the agenda.
07/11/02

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DATE: July 10, 2002

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

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF PLAN AND METHODOLOGY FOR DISTRIBUTING DEVELOPMENTAL DISABILITIES PROVIDER RATE ADJUSTMENT

Request

Pursuant to a footnote in the FY 2003 General Appropriation Act (Laws 2002, Chapter 327), the Department of Economic Security (DES) requests the Committee review its plan and methodology for distributing a provider rate adjustment for community service and independent service agreement providers of services to developmentally disabled (DD) clients.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to DES' plan. For most services, providers whose rates are less than 93% of the "base weighted average" of each service's cost would have their rates increased to the 93% level. Habilitation Group Home providers whose staff hour rates are less than 100% of the "base weighted average" would have their staff hour rates increased to the 100% level. The total cost of the proposal as estimated by DES, $19,593,993, exceeds the budgeted amount of $19,532,200 by $61,793, or about 0.3%. The Arizona Health Care Cost Containment System (AHCCCS) will also need to adjust the department's capitation rate for its Long Term Care program to ensure DES has sufficient funds to pay for the increase.

Analysis

The FY 2003 General Appropriation Act (Laws 2002, Chapter 327) includes the following footnote:

> "The amounts appropriated to the Department of Economic Security include an estimated $7,745,300 of state General Fund monies, $1,407,400 Long Term Care System Fund monies and $10,379,500 federal Title XIX monies to increase contracted community service providers and independent service agreement providers disbursements paid through the Developmental Disabilities and Long Term Care cost centers. It is the intent of the Legislature that increased funding be incorporated into current contracted rates effective

(Continued)

> July 1, 2002. Subject to the availability of funds, the adjustment shall be directed toward raising rates paid to providers receiving less than the average rate paid to all similar providers providing similar levels of service for the same service types in a manner and time to be determined by the department. Monies for the rate increases shall be allocated only to providers with contracts or agreements for eligible services in effect as of January 1, 2002. The adjustment shall be distributed by August 1, 2002. Prior to the distribution of the adjustment, the department shall submit its plan and methodology for distributing the adjustment to the Joint Legislative Budget Committee for its review. The adjustment in this section is exempt from the provisions of Title 41, Chapter 23, Arizona Revised Statutes, related to procurement, as well as the provisions of A.R.S. § 36-557B."

Consistent with methodology discussed during the budget process, DES has submitted a plan which would, with a few exceptions, increase rates for providers making less than 93% of the "base weighted average" paid per unit up to that 93% level. For example, if the base weighted average for a service was $15.00 per hour, every provider making less than $13.95 per hour (93% of $15.00) for that service would have their contract amended so that they were paid $13.95 per hour. Providers paid more than $13.95 per hour for that service would not receive any increase for the service. In determining the "base weighted average," the department eliminated high and low "outliers."

There are some exceptions to this process. Most notably, the rates for the Habilitation Group Home category are increased to 100% (not 93%) of the "base weighted average" of staff hour costs. The department selected the 100% level for this category because this category is particularly at risk of losing providers. Another exception is for occupational, physical and speech therapies, which are currently paid based on a published rate schedule, meaning there is no variation among providers for the same level of service. DES' proposal would increase these rates, unchanged since 1997, by 10%. A couple different types of transportation services also had non-standard increases.

DES has estimated the following fiscal impact of the increased rates based on the number of units of service provided in FY 2001, increased by 9.4% in both FY 2002 and FY 2003:

Service Category	*Estimated Fiscal Impact*
In Home Services (e.g., Attendant Care, Respite)	$ 2,578,117
Day Treatment and Training	3,039,140
Habilitation, Group Home	7,693,823
All Other Residential Services	3,190,345
Professional Services (e.g., Nursing, Therapies)	2,299,480
Other Services (e.g., Transportation)	493,088
Contingency	300,000
TOTAL	$19,593,993

The total cost of the proposal as estimated by DES, $19,593,993, exceeds the budgeted amount of $19,532,200 by $61,793, or about 0.3%. DES' total estimated amount, however, does include a $300,000 contingency in case providers appeal department decisions or utilization is higher than anticipated.

JLBC Staff recommends the Committee give the DES proposal a favorable review. The methodology is consistent with proposals discussed during the budget process in that it raises rates for the lowest-paid providers except in the few cases (such as therapies or transportation) where published rates already exist or variation in rates is too complex.

It should be noted, however, that this proposal (as well as the appropriation in the General Appropriation Act) assumes AHCCCS provides DES with a capitation rate increase for its Long Term Care program. Without such an increase, DES will not be able to adjust the rates in the amounts shown here.

RS/SSh:jb

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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

Jane Dee Hull
Governor

John L. Clayton
Director

JUL 3 2002

RECEIVED
JUL - 5 2002
JOINT BUDGET COMMITTEE

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

Dear Senator Solomon:

As required by footnote to the General Appropriations Act, the Department of Economic Security requests to appear at the next Joint Legislative Budget Committee meeting to present the plan and methodology for distribution of the rate increase for providers in the Developmental Disabilities and Long Term Care cost centers. Material will be provided to JLBC staff under separate cover.

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

Sincerely,

John L. Clayton

John L. Clayton

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

Arizona Department of Economic Security
Division of Development Disabilities
SFY 03 Provider Rate Increase

History

- HB2706 "provided funds to the Department of Economic Security to increase contracted community service providers and independent service agreement providers disbursements paid through the Developmental Disabilities and Long-Term Care cost centers".
- The adjustment shall be "directed toward raising rates paid to providers receiving less than the average rate paid to all similar providers providing similar levels of service for the same service types in a manner and time to be determined by the department".
- Table below reflects the Appropriated amounts:

Fund Source	Appropriation Amount
General Fund	\$7,745,300
LTC Fund (Federal)	\$10,379,500
Other Funds	\$1,407,400
Total	\$19,532,200

Plan

- June 7th, 2002 – Submitted methodology and rates to AHCCCS for review and approval.
- June 25th, 2002 – Statewide provider information meeting held to discuss methodology and the process that will be used for implementing the increase.
- July 1st, 2002 - Increased funding be incorporated into current contracted rates.
- July 17th, 2002 – Submit plan and methodology for distributing the adjustment to the Joint Legislative budget Committee for its review.
- July 1st – July 30th, 2002 – Contract amendments and authorizations completed by DDD staff.
- August 1, 2002 - Legislation authorizing the provider increase will be implemented and distributed.

Rate Increase Impact

- Narrows the spread of rates paid by moving the lower rates up which ensures like pay for like services.
- Moves the Division closer to rate setting and parity across independent and agency services.
- Increases rates to 93% of the Title XIX weighted average for the lowest paid providers by service category. For Habilitation Group Homes 100% of the staff hour mean cost was used.
- Aggregates overall increase to the Division providers by 5%.

Methodology

- Examined existing rates, eliminated high and low outliers to determine the 93% weighted average.
- Determined the average rates by service by provider. The cost in SFY01 terms was calculated by finding the difference between the rates actually paid and the 93% rate. The difference was the level that needed to be funded in terms of SFY 01 dollars.
- Converted the estimates to SFY03 utilization levels once the SFY01 estimates were completed. Developed tables to forecast the units that would be received in SFY02 and SFY03.
- Estimated budget impacts by fund type with and without a provider increase.

DES/DIVISION OF DEVELOPMENTAL DISABILITIES
PROPOSED IMPLEMENTATION PROCEDURE
FY 03 PROVIDER INCREASE

An Implementation Team was identified by the Assistant Director to plan for the distribution of the legislatively appropriated Provider Increase with an effective July 1, 2002. The distribution process plan has been completed and rate adjustments will be distributed by August 1, 2002. The final distribution required a revision to the FY03 DDD AHCCCS capitation, and the review of the distribution plan by the Joint Legislative Budget Committee. The team also finalized a mechanism for provider review and appeal process for the contract rates.

A high level summary of the distribution plan is as follows:

In Home Services
Attendant Care, Habilitation Support, Housekeeping, Respite, Habilitation Independent Living

All providers whose contracted base rate is below the 93% base weighted average paid unit for the service had the base rate amended to the 93% level.

NOTE: A new service code has been added for Respite Daily (Continuous). It will be billed on a daily unit basis. The daily rate for Respite, continuous will be calculated as 13 X the hourly rate. Hourly respite will be for less than 13 hours; daily will include 13+ hours in a consecutive period.

Day Treatment and Training
Adult Day Treatment, Child Day Treatment

All providers whose contracted base rate is below the 93% base weighted average paid unit for the service had the base rate amended to the 93% level.

Residential Services
Habilitation, Group Home

The staff hour cost is the unit cost used to determine the weighted mean. An example of how to determine staff hour cost and then re-calculate a revised daily rate is as follows.

A. First the staff hour cost for each site was calculated. The staff hour cost was calculated by:
   total annual cost of the site
   (number of direct FTE X 2080)

B. The total annual cost was calculated by:
   Daily rate for the site X Maximum capacity for the rate in 5.5 of the contract X 365.

C. The staff hour cost for all homes was calculated. The total annual cost of all homes divided by the total number of FTE X 2080 for all homes.

D. The base of $14.72 staff hour cost (the current average staff hour) was used to recalculate the daily rate if current staff hour cost was less than $14.72.

E. All homes with a current staff hour cost below $14.72 was raised to $14.72 and the total cost calculated by: $14.72 X FTE X 2080 = REVISED total annualized cost.

F. The REVISED total annualized cost was divided by 365 and the maximum capacity for the site. This became the revised new daily rate. Rates will be adjusted by site.

Room and Board, Group Home

A. All sites for Room and Board have been broken into 6 categories based on the occupancy for the rate.
B. The weighted average daily rate was determined for all six categories with the corresponding 93% of the weighted average daily rate.
C. All matrices for Room and Board, which are below the 93% adjustment, have been amended.

Habilitation, Nursing Support, Room and Board; Habilitation, Developmental Homes (Dev. Home, State Direct, Room and Board, Dev. Home, Agency Support, Room and Board)

All providers whose contracted base rate is below the 93% base weighted average paid unit for the service had the base rate amended to the 93% level.

Habilitation, MUSIC

All hourly habilitation providers who are certified music therapists and provide hourly habilitation with music, and whose contracted base rate is below the 93% base weighted average paid unit for the service had the base rate amended to the 93% level. This was calculated independently of hourly habilitation in general.

Professional Services

Nursing

All providers whose contracted base rate is below the 93% base weighted average paid unit for the service had the base rate amended to the 93% level.

Home Health Aide

All providers whose contracted base rate is below the 93% base weighted average paid unit for the service had the base rate amended to the 93% level.

Therapy (Occupational, Physical, Speech)

Therapy providers are currently paid rates established in a 1997 published rate schedule; the calculation is based upon a 10% increase to the 1997 rates. Because this has been a fixed rate, the 93% determination was not a relevant methodology to distribute a rate increase. Therapy rates have not been adjusted since 1997. A 2% inflation factor was used per year to determine the 10% increase. The Division compared market rates to current provider rates and determined that DDD provider rates are not competitive. The increase moves the DDD rate closer to what the market is paying.

Other Services

Transportation, Day Program related

All providers whose contracted base rate is below the 93% base weighted average paid unit for the service had the base rate amended to the 93% level.

Transportation, Non-Day program related.

A 5 % increase will be applied to all existing rates. It was not possible to determine 93% rate due to the wide range of rates currently being paid. The Division compared market rates to current provider rates and determined that DDD provider rates are competitive in the market; therefore an inflation factor of 5% was applied.

Transportation, Independent

All trip rates that reflect a rate which is less than .34 per mile were recalculated to equal mileage X .34 = Trip rate. Rates reflecting mileage rate greater than .34 X mileage will not be increased.

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http://www.azleg.state.az.us/jlbc.htm

DATE: July 10, 2002

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

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

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

Request

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

Recommendation

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

Analysis

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

(Continued)

The following table shows the proposed rates for FY 2003.

Proposed Rate Changes for the CRS Title XIX Program

	FY 2002 Rate	Proposed FY 2003 Rate	FY 2003 % Change Above/(Below) FY 2002	Anticipated State Match Savings
Phoenix				
High	$507.06	$464.43	-8.4%	$ (369,000)
Medium	297.52	281.19	-5.5%	(314,100)
Low	210.98	197.18	-6.5%	(358,800)
Tucson				
High	401.03	395.26	-1.4%	(136,300)
Medium	377.21	364.66	-3.3%	(119,300)
Low	228.20	218.29	-4.3%	(123,000)
Flagstaff				
High	320.09	318.39	-0.5%	(31,100)
Medium	192.02	189.30	-1.4%	(35,600)
Low	160.03	150.26	-6.1%	(39,100)
Yuma				
High	220.87	220.05	-0.4%	(13,900)
Medium	152.68	156.94	2.8%	3,000
Low	134.82	132.91	-1.4%	(13,100)
Total				**$(1,550,300)**

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

Using population estimates used in developing the FY 2003 appropriation, these changes would represent a reduction of approximately $(4,670,600) in Total Funds, or roughly $(1,550,300) in state match dollars. However, because the Title XIX eligible population has also grown considerably, these capitation rate reductions are not likely to translate into significant General Fund savings.

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

RS/GG:jb

Arizona Department of Health Services

Office of the Director

1740 W. Adams Street
Phoenix, Arizona 85007-2670
(602) 542-1025
(602) 542-1062 FAX

JANE DEE HULL, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

July 3, 2002

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

Dear Senator Solomon:

Pursuant to a footnote in the General Appropriation Act (Laws 2002, Chapter 327), the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's (JLBC) agenda for its next scheduled meeting. We want to discuss proposed changes to the Children's Rehabilitative Services capitation rates for FY 2003.

You may recall that we asked for this item to be on last month's JLBC agenda. However, we then withdrew the item since we needed more time to work with the Arizona Health Care Cost Containment System (AHCCCS) on the proposed rate changes for FY 2003.

You will find attached our revised certification letter to AHCCCS and the proposed rates prepared by William M. Mercer, Incorporated (Attachment 1). The rates have been modified from FY 2002 to reflect the elimination of the minimum and maximum revenue risk bands that were an integral part of the FY 2002 capitation rates. In addition, the rates were adjusted to increase administrative fees from 7% to 8.4%. This fee increase is due to additional costs related to the federally mandated Health Care Insurance Portability and Accountability Act. For your convenience, we have summarized in a table the FY 2002 approved rates and the FY 2003 proposed rates (Attachment 2).

We plan to also discuss in this JLBC meeting our proposed capitation rate adjustments for Behavioral Health Services. We had requested review of these rate adjustments at your last meeting. However, they were withheld from the agenda due to the need for further analysis. The JLBC Staff has informed us that the proposed Behavioral Health Services capitation rates will be on your agenda for this meeting.

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

Sincerely,

Danny Valenzuela
for Catherine R. Eden, Director

CRE:LS:pm

Arizona Department of Health Services

Bureau of Community and Family Health Services
Office for Children with Special Health Care Needs
2927 N. 35th Avenue, Suite200
Phoenix, Arizona 85017
(602) 542-1860
(602) 542-2589 FAX

JANE DEE HULL, GOVERNOR
CATHERINE R. EDEN DIRECTOR

July 1, 2002

Ann Winter
Financial Manager
AHCCCS
701 East Jefferson
Phoenix, Arizona 85034

Re: CRS Rate Renewal

Dear Ms. Winter:

Attached is the revised certification letter from Michael E. Nordstrom at William M. Mercer for State Fiscal Year 03 capitation rates for the Children's Rehabilitative Services Program.

Sincerely,

Cathryn Echeverria

Cathryn Echeverria
Office Chief

CE:es

Attachments

MERCER

Government Human Services Consulting

3131 East Camelback Road, Suite 300
Phoenix, AZ 85016-4536
602 522 6500 Fax 602 957 9573
www.mercerHR.com

July 1, 2002

Cathryn Echeverria
Office Chief
Department of Health Services
2927 North 35th Avenue, Suite 200
Phoenix, AZ 85017

Subject:
Title XIX , Title XXI, and Proposition 204 Capitation Rates for State Fiscal Year 2003

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 Title XIX, Title XXI, and Proposition 204 capitation rates. 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, 2002, and ending June 30, 2003, Mercer has developed SFY 2003 capitation rates following the process described in this letter.

Background

Prior to July 1, 2000, CRS negotiated annual fixed price contracts with CRS contractors to provide services to Title XIX, State AHCCCS, and State Only funded eligible members. CRS decided to convert the reimbursement methodology to a capitated system for Title XIX and Title XXI eligible members that better matched payment with the risk of the membership enrolled with each contractor. As a result, three capitation rates were developed for compensating CRS contractors for SFY 2001. The three rates were developed for each contractor based upon a member's enrollment diagnosis. The three rates represent compensation for providing services to members that have historically represented relatively high, medium, and low costs to the CRS contractor.

Minimum Capitation Revenue Limit

Since SFYs 2001 and 2002 represent the initial years that contractors were reimbursed under a capitation rate methodology, the CRS project team determined that it was appropriate to put limits around the minimum and maximum compensation that a contractor could receive. The minimum compensation that a contractor could receive was determined as follows: If a contractor's SFY 2001 Title XIX capitation revenue was less than the Title XIX portion of its SFY 2000 fixed contracted amount as determined by CRS, the contractor would receive additional compensation calculated as the difference between the two amounts. Similar minimum limitations are applicable to SFY 2002.

Maximum Capitation Revenue Limits

There were two limits that were placed upon the maximum amount that a contractor could receive. The first limit was based upon the acuity mix of a contractor's membership. Historically, the mix of enrollment diagnoses has been relatively consistent for each contractor, and it was not expected that this mix would significantly change during the SFYs 2001 or 2002. As a result, a contractor would not be allowed to keep any Title XIX revenue that resulted from a change in acuity mix that was greater than 1.5 percent above the weighted average capitation rate for all three risk groups as calculated by Mercer. This limit was applicable to SFYs 2001 and 2002.

The second limit was based upon the total Title XIX revenue that a contractor could earn during a contract year. Historical membership in CRS had been relatively stable prior to SFY 2001 and was not expected to increase significantly during SFYs 2001 and 2002. As a result, it was determined that a contractor would not be allowed to keep any Title XIX capitation revenue due to member month growth that was in excess of 8 percent above the fixed contracted amount as determined by CRS over the 2-year period covering SFYs 2001 and 2002. This limit was created as member month growth in excess of 8 percent during this 2-year period would most likely result from administrative CRS enrollment policy changes, and not true membership or member month growth. Specifically, eligibility changes were implemented at the beginning of SFY 2001 to improve the systematic re-enrollment of eligible CRS members. Successful implementation of these changes would result in an increase in reported member months for SFY 2001 and 2002, but not a true increase in membership or utilization of services. Since capitation rates were initially developed using member months for the period prior to the change in re-enrollment policy, this limit was imposed to prevent overcompensation to the CRS contractors. This limit was applicable to SFYs 2001 and 2002.

SFY 2003 Capitation Rates

The CRS administration has determined that limits around minimum and maximum capitation revenues are no longer necessary and should be removed from the SFY 2003 capitation rates. Since SFY 2002 member months are expected to generate capitation revenues for each CRS contractor that would otherwise be in excess of the maximum revenue limits, each contractor is receiving effective capitation rates that are less than the current SFY 2002 capitation rates. That is, a contractor receives no additional capitation revenue for member month growth that is in excess of the maximum revenue limit.

Mercer's approach to developing capitation rates for SFY 2003 without maximum revenue limits is to first calculate the effective capitation rates for SFY 2002. These effective capitation rates represent the rates that would have been in effect during SFY 2002 had there not been a maximum revenue limit in place and would generate the same level of total contractor revenues as the current SFY 2002 capitation rates with the maximum revenue limits. The calculation is performed by dividing expected total member months into expected total revenues for SFY 2002. After reviewing and comparing member months to membership, Mercer determined that member months during the first part of SFY 2002 did not fully reflect the CRS re-enrollment policy changes. As a result, Mercer adjusted the effective capitation rates to reflect contractor enrollment during the last quarter of SFY 2002. The calculation is performed by dividing expected total member months for the last quarter of SFY 2002 into expected total revenues for the same time period.

A substantial portion of CRS contractor costs are related to the administrative operation of the CRS clinics, and a significant portion of these costs are fixed costs and do not vary with small changes in CRS membership. Therefore, an important step in developing the capitation rates is assessing the adequacy of the capitation rates to compensate contractors appropriately for both fixed and variable costs.

In assessing the adequacy of the SFY 2002 capitation rates, Mercer reviewed financial statements from the contractors and discussed with them the adequacy of SFY 2002 Title XIX, Title XXI, and Proposition 204 contractor reimbursement. As a result of these steps, Mercer concluded that the SFY 2002 capitation rates adequately compensate contractors for the costs associated with the operation of the Title XIX, Title XXI, and Proposition 204 portions of the CRS program. Furthermore, the compensation provided through the SFY 2002 capitation methodology will serve as the base funding for developing the SFY 2003 capitation rates.

Mercer reviewed information from the CRS administration and contractors relating to cost and utilization trends unique to the CRS program that should be considered in the development of the SFY 2003 capitation rates.

Having established the adequacy of SFY 2002 compensation, Mercer calculated an appropriate aggregate trend factor for each contractor for all rates, and trended the SFY 2002 effective capitation rates forward to SFY 2003.

AHCCCS has placed CRS at risk for the provision of CRS covered services for the SFY ending June 30, 2003. 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 include an 8.4 percent administrative load, which was negotiated between AHCCCS and CRS administration. The administrative load represents the CRS costs of ensuring the delivery of services in a managed care environment and is based upon historical CRS costs and adjusted for anticipated SFY 2003 costs.

The Title XIX, Title XXI, and Proposition 204 CRS capitation rates for SFY 2003 are presented in the following table. The capitation rates include an 8.4 percent administrative fee that will be retained by CRS as compensation for the cost of ensuring the provision of Title XIX, Title XXI, and Proposition 204 CRS covered services.

	Risk Category		
Contractor	High	Medium	Low
Phoenix	$ 464.43	$ 281.19	$ 197.18
Tucson	$ 395.26	$ 364.66	$ 218.29
Flagstaff	$ 318.39	$ 189.30	$ 150.26
Yuma	$ 220.05	$ 156.94	$ 132.91

Conclusion

The CRS capitation rates resulting from this methodology are in accordance with generally accepted actuarial principles and, as such, in Mercer's professional opinion, are actuarially sound.

If you have any questions concerning our rate methodology, please feel free to contact me at 602 522 6510.

Sincerely,

Michael E. Nordstrom

Michael E. Nordstrom, ASA, MAAA

MEN/te

Copy:
Jill Pavlovsky, CRS
Rick Potter, Mercer

Attachments

Attachment A

SFY 03 Rate Calculations - Title XIX, Title XXI, and Prop 204

Phoenix	SFY 02 Capitation Rates	Remove Revenue Max Limit	SFY 02 Effective Rates	Member Weight Adjustment	SFY 03 Base Rates	7.00% Trend	SFY 03 Capitation Rates
High	$ 473.89	$ (51.75)	$ 422.14	$ (21.74)	$ 400.41	$ 28.03	$ 428.44
Medium	$ 278.06	$ (32.91)	$ 245.15	$ (2.72)	$ 242.43	$ 16.97	$ 259.40
Low	$ 197.18	$ (21.96)	$ 175.22	$ (5.23)	$ 170.00	$ 11.90	$ 181.90

Tucson	SFY 02 Capitation Rates	Remove Revenue Max Limit	SFY 02 Effective Rates	Member Weight Adjustment	SFY 03 Base Rates	6.00% Trend	SFY 03 Capitation Rates
High	$ 374.79	$ (28.46)	$ 346.33	$ (2.34)	$ 343.99	$ 20.64	$ 364.63
Medium	$ 352.53	$ (24.48)	$ 328.05	$ (10.69)	$ 317.36	$ 19.04	$ 336.40
Low	$ 213.27	$ (14.98)	$ 198.29	$ (8.32)	$ 189.98	$ 11.40	$ 201.37

Flagstaff	SFY 02 Capitation Rates	Remove Revenue Max Limit	SFY 02 Effective Rates	Member Weight Adjustment	SFY 03 Base Rates	6.00% Trend	SFY 03 Capitation Rates
High	$ 299.15	$ (26.07)	$ 273.08	$ 4.02	$ 277.09	$ 16.63	$ 293.72
Medium	$ 179.46	$ (16.85)	$ 162.61	$ 2.14	$ 164.75	$ 9.88	$ 174.63
Low	$ 149.56	$ (12.99)	$ 136.57	$ (5.80)	$ 130.78	$ 7.85	$ 138.62

Yuma	SFY 02 Capitation Rates	Remove Revenue Max Limit	SFY 02 Effective Rates	Member Weight Adjustment	SFY 03 Base Rates	6.00% Trend	SFY 03 Capitation Rates
High	$ 206.42	$ (12.59)	$ 193.83	$ (2.33)	$ 191.51	$ 11.49	$ 203.00
Medium	$ 142.69	$ (8.09)	$ 134.60	$ 1.99	$ 136.59	$ 8.20	$ 144.78
Low	$ 126.00	$ (7.09)	$ 118.91	$ (3.24)	$ 115.67	$ 6.94	$ 122.61

Attachment B

SFY 03 Rate Calculations - Member Month Weight Adjustment

Phoenix	[A] 4th Qtr SFY 02 Title XIX Title XXI and Prop 204 Member Months	[B] SFY 02 Revenue After Limit Adjustments	[B]/4 = [C] One Fourth Total SFY 02 Revenue	[C]/[A] = [D] SFY 03 Base Rate	[E] SFY 02 Effective Rates	E-D Member Weight Adjustment
High	4,543	$ 7,275,595	$ 1,818,899	$ 400.41	$ 422.14	$ (21.74)
Medium	5,736	5,562,388	1,390,597	242.43	$ 245.15	$ (2.72)
Low	9,860	6,704,792	1,676,198	170.00	$ 175.22	$ (5.23)

Tucson	[A] 4th Qtr SFY 02 Title XIX Title XXI and Prop 204 Member Months	[B] SFY 02 Revenue After Limit Adjustments	[B]/4 = [C] One Fourth Total SFY 02 Revenue	[C]/[A] = [D] SFY 03 Base Rate	[E] SFY 02 Effective Rates	E-D Member Weight Adjustment
High	2,643	3,636,067	$ 909,017	$ 343.99	$ 346.33	$ (2.34)
Medium	2,525	3,205,902	801,476	317.36	$ 328.05	(10.69)
Low	3,673	2,790,853	697,713	189.98	$ 198.29	(8.32)

Flagstaff	[A] 4th Qtr SFY 02 Title XIX Title XXI and Prop 204 Member Months	[B] SFY 02 Revenue After Limit Adjustments	[B]/4 = [C] One Fourth Total SFY 02 Revenue	[C]/[A] = [D] SFY 03 Base Rate	[E] SFY 02 Effective Rates	E-D Member Weight Adjustment
High	936	1,037,747	$ 259,437	$ 277.09	$ 273.08	$ 4.02
Medium	1,491	982,868	245,717	$ 164.75	$ 162.61	$ 2.14
Low	1,510	789,725	197,431	$ 130.78	$ 136.57	$ (5.80)

Yuma	[A] 4th Qtr SFY 02 Title XIX Title XXI and Prop 204 Member Months	[B] SFY 02 Revenue After Limit Adjustments	[B]/4 = [C] One Fourth Total SFY 02 Revenue	[C]/[A] = [D] SFY 03 Base Rate	[E] SFY 02 Effective Rates	E-D Member Weight Adjustment
High	656	502,883	$ 125,721	$ 191.51	$ 193.83	$ (2.33)
Medium	254	138,809	34,702	$ 136.59	$ 134.60	$ 1.99
Low	897	415,135	103,784	$ 115.67	$ 118.91	$ (3.24)

Att. ment C

SFY 03 Rate Calculations - Revenue Max. Limit Adjustment

Phoenix	SFY 02 Capitation Rates	SFY 02 Member Months	In Dollars: SFY 02 Revenue Before Limits	Maximum Revenue Limit Adjustment	SFY 02 Revenue After Limit Adjustments
High	$ 473.89	17,235	$ 8,167,412	$ (891,817)	$ 7,275,595
Medium	$ 278.06	22,689	6,309,033	(746,645)	5,562,388
Low	$ 197.18	38,264	7,544,923	(840,131)	6,704,792

Per Member Per Month: SFY 02 Revenue Before Limits	Maximum Revenue Limit Adjustment	SFY 02 Revenue After Limit Adjustments
$ 473.89	$ (51.75)	$ 422.14
$ 278.06	$ (32.91)	$ 245.15
$ 197.18	$ (21.96)	$ 175.22

Tucson	SFY 02 Capitation Rates	SFY 02 Member Months	In Dollars: SFY 02 Revenue Before Limits	Maximum Revenue Limit Adjustment	SFY 02 Revenue After Limit Adjustments
High	$ 374.79	10,499	3,934,818	(298,751)	$ 3,636,067
Medium	$ 352.53	9,773	3,445,142	(239,240)	3,205,902
Low	$ 213.27	14,074	3,001,631	(210,778)	2,790,853

Per Member Per Month: SFY 02 Revenue Before Limits	Maximum Revenue Limit Adjustment	SFY 02 Revenue After Limit Adjustments
$ 374.79	$ (28.46)	$ 346.33
$ 352.53	$ (24.48)	$ 328.05
$ 213.27	$ (14.98)	$ 198.29

Flagstaff	SFY 02 Capitation Rates	SFY 02 Member Months	In Dollars: SFY 02 Revenue Before Limits	Maximum Revenue Limit Adjustment	SFY 02 Revenue After Limit Adjustments
High	$ 299.15	3,800	1,136,825	(99,078)	$ 1,037,747
Medium	$ 179.46	6,044	1,084,708	(101,840)	982,868
Low	$ 149.56	5,782	864,828	(75,102)	789,725

Per Member Per Month: SFY 02 Revenue Before Limits	Maximum Revenue Limit Adjustment	SFY 02 Revenue After Limit Adjustments
$ 299.15	$ (26.07)	$ 273.08
$ 179.46	$ (16.85)	$ 162.61
$ 149.56	$ (12.99)	$ 136.57

Yuma	SFY 02 Capitation Rates	SFY 02 Member Months	In Dollars: SFY 02 Revenue Before Limits	Maximum Revenue Limit Adjustment	SFY 02 Revenue After Limit Adjustments
High	$ 206.42	2,594	535,535	(32,652)	$ 502,883
Medium	$ 142.69	1,031	147,153	(8,344)	138,809
Low	$ 126.00	3,491	439,897	(24,762)	415,135

Per Member Per Month: SFY 02 Revenue Before Limits	Maximum Revenue Limit Adjustment	SFY 02 Revenue After Limit Adjustments
$ 206.42	$ (12.59)	$ 193.83
$ 142.69	$ (8.09)	$ 134.60
$ 126.00	$ (7.09)	$ 118.91

Att: D

Phoenix	Capitation Revenues SFY 02 Title XIX	Title XXI	Prop 204	Total Capitation Revenues	Member Months SFY 02 Title XIX	Title XXI	Prop 204	Total Member Months	Effective Capitation Rates	Current Capitation Rates	Net Change in Rate
High	$ 6,469,435	729,199	76,962	$ 7,275,595	15,534	1,539	162	17,235	$ 422.14	$ 473.89	$ (51.75)
Medium	$ 5,416,325	134,877	11,186	$ 5,562,388	22,164	485	40	22,689	$ 245.15	$ 278.06	$ (32.91)
Low	$ 6,094,495	570,290	40,007	$ 6,704,792	35,169	2,892	203	38,264	$ 175.22	$ 197.18	$ (21.96)

Tucson	Capitation Revenues SFY 02 Title XIX	Title XXI	Prop 204	Total Capitation Revenues	Member Months SFY 02 Title XIX	Title XXI	Prop 204	Total Member Months	Effective Capitation Rates	Current Capitation Rates	Net Change in Rate
High	$ 3,583,970	33,728	18,369	$ 3,636,067	10,360	90	49	10,499	$ 346.33	$ 374.79	$ (28.46)
Medium	$ 2,870,043	289,003	46,856	$ 3,205,902	8,820	820	133	9,773	$ 328.05	$ 352.53	$ (24.48)
Low	$ 2,528,601	240,556	21,696	$ 2,790,853	12,845	1,128	102	14,074	$ 198.29	$ 213.27	$ (14.98)

Flagstaff	Capitation Revenues SFY 02 Title XIX	Title XXI	Prop 204	Total Capitation Revenues	Member Months SFY 02 Title XIX	Title XXI	Prop 204	Total Member Months	Effective Capitation Rates	Current Capitation Rates	Net Change in Rate
High	$ 932,972	93,881	10,895	$ 1,037,747	3,450	314	36	3,800	$ 273.08	$ 299.15	$ (26.07)
Medium	$ 958,978	20,503	3,387	$ 982,868	5,911	114	19	6,044	$ 162.61	$ 179.46	$ (16.85)
Low	$ 707,205	72,793	9,728	$ 789,725	5,231	487	65	5,782	$ 136.57	$ 149.56	$ (12.99)

Yuma	Capitation Revenues SFY 02 Title XIX	Title XXI	Prop 204	Total Capitation Revenues	Member Months SFY 02 Title XIX	Title XXI	Prop 204	Total Member Months	Effective Capitation Rates	Current Capitation Rates	Net Change in Rate
High	$ 461,509	35,073	6,301	$ 502,883	2,394	170	31	2,594	$ 193.83	$ 206.42	$ (12.59)
Medium	$ 117,929	18,027	2,854	$ 138,809	885	126	20	1,031	$ 134.60	$ 142.69	$ (8.09)
Low	$ 349,986	60,131	5,018	$ 415,135	2,974	477	40	3,491	$ 118.91	$ 126.00	$ (7.09)

SFY 02 Forecasted Revenues

Title XIX

Phoenix	Actual	Estimated	Unadjusted Total		Adjusted Total
High	$ 6,079,991	$ 1,281,261	$ 7,361,251	36.0%	$ 6,469,435
Medium	$ 5,128,922	$ 1,034,049	$ 6,162,970	30.1%	$ 5,416,325
Low	$ 5,746,553	$ 1,188,074	$ 6,934,626	33.9%	$ 6,094,495
Total			$ 20,458,848	100.0%	$ 17,980,255 **

Title XXI

Actual	Estimated	Total
$ 604,268	$ 124,931	$ 729,199
$ 113,102	$ 21,774	$ 134,877
$ 476,571	$ 93,719	$ 570,290
		$ 1,434,365

Prop 204

Actual	Estimated	Total
$ 61,299	$ 15,663	$ 76,962
$ 8,906	$ 2,280	$ 11,186
$ 30,651	$ 9,356	$ 40,007
		$ 128,155

Title XIX

Tucson	Actual	Estimated	Total		Adjusted Total
High	$ 3,230,393	$ 652,329	$ 3,882,722	39.9%	$ 3,583,970
Medium	$ 2,568,514	$ 540,768	$ 3,109,283	32.0%	$ 2,870,043
Low	$ 2,259,477	$ 479,902	$ 2,739,379	28.1%	$ 2,528,601
Total			$ 9,731,383	100.0%	$ 8,982,613 **

Title XXI

Actual	Estimated	Total
$ 28,731	$ 4,997	$ 33,728
$ 240,568	$ 48,435	$ 289,003
$ 201,722	$ 38,835	$ 240,556
		$ 563,288

Prop 204

Actual	Estimated	Total
$ 16,152	$ 2,217	$ 18,369
$ 37,425	$ 9,431	$ 46,856
$ 17,900	$ 3,795	$ 21,696
		$ 86,921

Title XIX

Flagstaff	Actual	Estimated	Total		Adjusted Total
High	$ 866,698	$ 165,351	$ 1,032,049	35.9%	$ 932,972
Medium	$ 891,572	$ 169,246	$ 1,060,818	36.9%	$ 958,978
Low	$ 647,775	$ 134,532	$ 782,307	27.2%	$ 707,205
Total			$ 2,875,174	100.0%	$ 2,599,155 **

Title XXI

Actual	Estimated	Total
$ 76,412	$ 17,469	$ 93,881
$ 17,393	$ 3,111	$ 20,503
$ 61,127	$ 11,666	$ 72,793
		$ 187,177

Prop 204

Actual	Estimated	Total
$ 8,424	$ 2,470	$ 10,895
$ 2,750	$ 637	$ 3,387
$ 7,634	$ 2,094	$ 9,728
		$ 24,009

Title XIX

Yuma	Actual	Estimated	Total		Adjusted Total
High	$ 409,890	$ 84,272	$ 494,161	49.7%	$ 461,509
Medium	$ 105,050	$ 21,223	$ 126,273	12.7%	$ 117,929
Low	$ 310,534	$ 64,214	$ 374,748	37.7%	$ 349,986
Total			$ 995,182	100.0%	$ 929,423 **

Title XXI

Actual	Estimated	Total
$ 29,981	$ 5,092	$ 35,073
$ 15,553	$ 2,473	$ 18,027
$ 50,369	$ 9,762	$ 60,131
		$ 113,231

Prop 204

Actual	Estimated	Total
$ 5,514	$ 786	$ 6,301
$ 1,998	$ 856	$ 2,854
$ 3,666	$ 1,352	$ 5,018
		$ 14,173

Attachment 2

Children's Rehabilitative Services Capitation Rates - Approved FY 2002 and Proposed FY 2003

Table 1: Children's Rehabilitative Services Contractor Capitation Rates Approved for FY 2002*

Contractor	*Risk Category*								
	High			Medium			Low		
	Services	Admin	Total	Services	Admin	Total	Services	Admin	Total
Phoenix	$473.89	$33.17	$507.06	$278.06	$19.46	$297.52	$197.18	$13.80	$210.98
Tucson	$374.79	$26.24	$401.03	$352.53	$24.68	$377.21	$213.27	$14.93	$228.20
Flagstaff	$299.15	$20.94	$320.09	$179.46	$12.56	$192.02	$149.56	$10.47	$160.03
Yuma	$206.42	$14.45	$220.87	$142.69	$9.99	$152.68	$126.00	$8.82	$134.82

Table 2: Children's Rehabilitative Services Contractor Capitation Rates Proposed for FY 2003*

Contractor	*Risk Category*								
	High			Medium			Low		
	Services	Admin	Total	Services	Admin	Total	Services	Admin	Total
Phoenix	$428.44	$35.99	$464.43	$259.40	$21.79	$281.19	$181.90	$15.28	$197.18
Tucson	$364.63	$30.63	$395.26	$336.40	$28.26	$364.66	$201.37	$16.92	$218.29
Flagstaff	$293.72	$24.67	$318.39	$174.63	$14.67	$189.30	$138.62	$11.64	$150.26
Yuma	$203.00	$17.05	$220.05	$144.78	$12.16	$156.94	$122.61	$10.30	$132.91

* The Administration rate is at 7% in FY 2002 and a new proposed rate at 8.4% in FY 2003.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: July 11, 2002

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

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES - REVIEW OF 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. 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. These rate changes may affect the CBH, SMI, and GMH/SA Special Line Items, as well as the Proposition 204 Line Item.

Recommendation

DHS is proposing rate increases for the CBH and GMH/SA populations and a rate decrease for the SMI population. There are a number of outstanding questions on the CBH rate increase that require additional information and therefore JLBC Staff recommends deferring a decision on the proposed rate change for the CBH capitation rate until those issues are resolved.

The net impact of the SMI and GMH/SA adjustments would require a supplemental of $8.6 million, given the population assumptions used in the FY 2003 budget. The FY 2003 budget had envisioned a larger decrease in Title XIX rates than is currently being proposed. These decreases were anticipated because the population eligible for Title XIX services has grown tremendously as a result of the implementation of Proposition 204. This population increase in turn should result in a decreased cost per enrolled person on a monthly basis.

The federal government requires that Title XIX programs use actuarially sound rates, and the recommended rates are those proposed by an actuary. While we believe that a range of possible rates could be defended as actuarially sound, the proposal represents the actuaries' best estimates.

(Continued)

Nonetheless, the question of how to fund the $8.6 million supplemental cost of the proposed rate changes remains. There are several options. First, the CBH rate changes may allow us to receive additional federal funds for an existing population that would free up state resources to offset the cost of the other rate adjustments. As we noted above, more work needs to be done on this issue. Second, as more data becomes available on the Proposition 204 population, we may be able to further reduce rates.

We would recommend that the committee give a favorable review to the SMI downward rate adjustment. This would begin to generate at least some of the savings anticipated in the budget. Because the rate decline is not as great as originally anticipated, however, DHS would still require a supplemental of approximately $7.2 million if no other changes are made later in the year or no other alternative fund sources are identified.

At this time, we would suggest deferring the GMH/SA rate increase that will add $1.5 million to the cost of the supplemental. DHS has raised some concerns that the SMI rate decrease in combination with no GMH/SA adjustment might affect the financial viability of particular RBHAs. In addition, the rates do need to be based on a sound actuarial analysis. Prior to funding this upward adjustment, however, it seems prudent to have a better understanding of how we would fund the supplemental in a very tight budget year.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims and encounter data and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in 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, on July 1, 2002, and has submitted its planned capitation rate changes for the Committee's review. These rate changes will affect each Title XIX Special Line Item, as well as the Proposition 204 Special Line Item.

The following table show the budgeted and proposed capitation rates for each program and JLBC Staff estimates for General Fund cost impact by program above the FY 2003 appropriation based on the enrollment projections used in developing the FY 2003 appropriation. The table also assumes no change in the capitation rate for children, pending review of the children's rate at a later time. Final costs based on the new capitation rates may be higher or lower, depending upon the actual number of people that are eligible for Title XIX behavioral health services.

	FY 2003 Capitation Rate		FY 2003 Appropriation		Estimated Need with Capitation Rate Changes	
	Budgeted	Proposed	TF	GF	TF	GF
CBH	$25.75	$25.75	$117,853,500	$ 40,344,600	$117,853,500	$40,344,600
SMI	$75.13	$63.48	148,064,900	49,241,500	123,687,900	41,209,100
GMH/SA	$17.69	$19.82	37,538,800	12,532,300	42,063,900	14,014,600
			$303,457,200	$102,118,400	$283,605,300	$95,568,300
Less Capitation Rate Adj.				(15,200,000)		
				$ 86,918,400		
Diff. between GF Available and Est. Need						$ (8,649,900)

TF = Total Funds GF = General Fund

JLBC Staff is unable to determine the impact of these capitation rate changes on the Proposition 204 Special Line Item. This line item receives its state match funding from the Tobacco Settlement. The estimates for this line item were developed by the Governor's Office and have not been revised. In theory, however, Proposition 204 costs should be reduced as a result of the decrease in the SMI capitation rate.

In recognition of the fact that the population eligible for Title XIX services is increasing rapidly, which in turn should result in a decreased cost per enrolled person on a monthly basis, the FY 2003 budget included a reduction of $(15,200,000) from the General Fund. This reduction was not applied to a specific line item, but was available to be used to among all three Title XIX line items. DHS's proposed capitation rate changes would generate a net savings of approximately $6,550,100, which is ($8,649,900) less than anticipated by the Legislature. DHS has not addressed potential funding sources for this deficit.

Based on enrollment projections used in developing the FY 2003 appropriation, the capitation rate changes will create a decrease of $(8,032,400) associated with the SMI program, and an increase of $1,482,300 for General Mental Health. The actual cost of the capitation rate increase will depend upon the number of people that are eligible for Title XIX behavioral health services.

DHS has also requested review of a capitation rate change for the Children's Title XIX capitation rate. In developing the proposed Children's rate, the actuaries included an adjustment for behavioral health services for children in the foster care system. This adjustment is based several assumptions that may translate into savings in the Department of Economic Security. These savings could then be used for other DES programs, or transferred to DHS. Based upon the information available at this time, however, the level of savings is not clear. JLBC Staff recommends deferring a review of the CBH rate until better information becomes available.

RS:GG:jb

Arizona Department of Health Services

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JANE DEE HULL, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

JUN 06 2002

June 6, 2002

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

Dear Senator Solomon:

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

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

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

The current and proposed statewide rates are as follows:

Program	*Current Statewide Capitation Rates*	*Proposed FY 2003 Capitation Rates*
Children	$25.75	$27.49
SMI	$75.13	$63.48
General Mental Health/ Substance Abuse	$17.69	$19.82

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

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

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

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

Sincerely,

Cathy Eden

Catherine R. Eden
Director

CRE:LS:pm

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DATE: July 10, 2002

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

THRU: Richard Stavneak, Director

FROM Gretchen Logan, Senior Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS) – REPORT ON THE IMPLEMENTATION OF THE TICKET TO WORK PROGRAM

Request

Senator Solomon has requested that the Committee receive a report on the implementation of the Ticket to Work program.

Recommendation

This item is for information only and no Committee action is required. AHCCCS had a statutory requirement to implement Ticket to Work by January 2002, but does not plan on starting the program until January 2003.

Analysis

Laws 2001, Chapter 385 authorized a new eligibility category that allows for the provision of Medicaid coverage to disabled individuals who return to work. This new program is referred to as both Ticket to Work and Freedom to Work.

Pursuant to Chapter 385, the Ticket to Work program's implementation date is January 1, 2002. However, Chapter 385 also specifies that implementation is subject to approval of the Ticket to Work state plan amendment by the Center for Medicare and Medicaid Services (CMS). AHCCCS began work on the program's implementation in July 2001, however, suspended work in November 2001, in part because funding for the program was not included in the Executive Budget Recommendations.

In March 2002, the Appropriations Chairmen met with AHCCCS and expressed support for the program and the need to proceed with implementation. AHCCCS subsequently requested a revised implementation date of January 1, 2003 and explained that, due to the unique eligibility

(Continued)

determination process for this new population and internal resource constraints, the implementation of the program required additional time (*see Attachment 1, which provides detail on the program's implementation requirements*). The Legislature did not modify the implementation date. In May 2002, AHCCCS resumed Ticket to Work implementation activities. Currently, the agency plans to implement the program on January 1, 2003 (*see Attachment 2 for implementation schedule).* The agency believes that this delayed implementation date is not in conflict with statute since Chapter 385 subjects start-up to federal approval of the proposal.

AHCCCS, however, does not plan to submit its proposal to the federal government until December 2002. This timetable is inconsistent with legislative intent, given that the Legislature has retained the January 2002 start date.

RS/GL:jb
Attachments

Attachment 1

AHCCCS

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Committed to excellence in health care

Jane Dee Hull
ernor

Phyllis Biedess
Director

April 15, 2002

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

The Honorable Laura Knaperek
Arizona House of Representatives
1700 W. Washington
Phoenix, Arizona 85007

Dear Senator Solomon and Representative Knaperek:

In May 2001, the legislature authorized two new eligibility groups based on Congressional legislation that allowed states to continue providing Medicaid medical benefits for disabled persons who want to return to work. The groups are the Basic Coverage Group and the Medical Improvement Group, which AHCCCS refers to as eligible for Freedom to Work.

The eligibility screening process will be different for the new Freedom to Work population since the agency must use the SSI methodology required by the Social Security Administration. This will add a new layer of complexity and will require significant computer system changes in order to recognize a new eligibility category, impose and collect premiums and scan for a much broader range of expenses that must be deducted from earned income.

In July, AHCCCS convened an internal workgroup to implement Freedom to Work. Although the legislature had specified January 1, 2002 as the implementation date, contingent on CMS approval of our SPA, AHCCCS realized that the new eligibility groups could not be implemented until at least April 1 2002 for a variety of reasons. The unexpected complexity of a new eligibility process was a contributing factor plus AHCCCS needed the same resources to implement Proposition 204, the new Breast and Cervical Cancer eligibility group, a finger imaging program and a new Pharmacy Subsidy Program (both postponed after the implementation work had been completed).

The Freedom to Work workgroup met regularly until November when it became clear that the legislature would be addressing a significant budget shortfall and that all agency budgets could be subject to budget reductions. With continued funding for Freedom to Work in some doubt, AHCCCS suspended work on the implementation of Freedom to Work until the legislature acted on the 2002 budget. In the Second Special Session, the legislature did leave some funding for the program through June 30, 2002; however, the Governor is recommending that funding for this program be eliminated in 2003.

States that have added the Freedom to Work eligibility groups have cautioned other states to take sufficient time to resolve the many issues and to make the necessary changes to their computer systems. In fact, Pennsylvania suggested that states plan on up to a year to work through the issues and implement the new eligibility groups. AHCCCS has identified the following issues that impact the implementation of Freedom to Work:

- For the past two years, AHCCCS has been working on an extremely important redesign of our aging computer system that was never intended to support the information needs of an agency serving over 750,000 persons. Completing the redesign of the system is critical to the viability of our information system. In fact, it is a critical element of our Strategic Plan and the first phase of the redesign will be a pilot to test the redesign in October 2002. The resources the agency needs to finish the work on the redesigned eligibility system are the same employees who will work on the Freedom to Work changes. They can not accomplish both projects by October 1, 2002.
- If the legislature approves the expansion of KidsCare to include parents on October 1, 2002, the agency must focus on that activity in order to bring more federal funds to the state. Again, the same resources are needed for the redesign and this eligibility expansion.
- Computer systems must be reconfigured to support the calculation, notification and tracking of premiums.
- AHCCCS has requested CMS guidance on how to define medical improvement for the second eligibility group under Freedom to Work. This is a major issue since the agency defines disability differently for the acute care and ALTCS programs. For example, under the ALTCS program, AHCCCS determines disability with the pre-admission screening tool, DES determines disability under the acute care program by using different federal guidelines and ADHS uses the SMI determination for applicants who are seriously mentally ill.
- AHCCCS must determine how to process Freedom to Work applications in view of the recent administrative budget reductions. Although the original legislation and accompanying budget included four entry level eligibility staff for Freedom to Work, AHCCCS is in the process of eliminating 38 positions in the ALTCS eligibility offices as part of our 2002 budget reductions and foresees more administrative cuts in 2003. AHCCCS is also planning on closing one entire ALTCS eligibility office to further reduce administrative costs.
- All contracts must be amended for acute health plans and the ALTCS program contractors.
- Capitation rates must be developed for acute care and ALTCS for this population.
- A policy on a host of issues that must be resolved for premium collection must be considered. For example, should there be a "grace" period for someone who has lost a job? Persons re-entering the work force may have lapses in employment.
- Eligibility decision notices must be developed and system changes made to notify applicants about approvals, denials, terminations and renewals of eligibility.

- When all policy and implementation issues have been resolved, policy manuals must be written for all eligibility staff.
- Performance measures and operational reports must be developed.
- Statewide training must be completed before the new eligibility groups can be added.

I understand that there is support for this program and the agency will reconvene the workgroup to work through the multiple issues. Depending on continued funding by the legislature and the Governor's concurrence, the program could be operational by January 1, 2003.

Sincerely,

Phyllis

Phyllis Biedess
Director

S:\OPC\LRD\2002 Legislation\Version2 Freedon To Work.doc

AGENCY GOALS	AGENCY ACTIONS PLANS[i]	LEAD DIVISION[ii]
● 2.1.9j	COMPLETED By 11/01 Exec. Mgmt. Approval of eligibility and medical policies	DMS/OMM
● 2.1.9k	COMPLETED By 11/15/01 (9/01) Develop capitation rates with actuaries for Exec. Mgmt. Approval	OMC
● 2.1.9l	COMPLETED By 12/01 (10/01) Present capitation rates to CEOs	OMC
● 2.1.9m	COMPLETED By 2/1/01 (12/15/01) Load capitation rates into system	OMC/ISD
● 2.1.9n	COMPLETED By 12/01 New positions authorized and hired	DMS/HR
● 2.1.9o	COMPLETED By 12/01 GRRC approval of rules	OPAC
~~2.1.10~~	**Ticket to Work On Hold** By 1/1/03 develop and implement an eligibility process and premium billing for individuals who are employed, meet Ticket to Work criteria, and have adjusted earned income at or below 250% of FPL. Enable persons with disabilities to work and retain Medicaid benefits.	DMS
2.1.10a	By 12/1/02 (1/1/02) Submit state plan amendment	OPAC
2.1.10b	By 12/1/02 (2/1/02) Finalize eligibility policy	K. Wingate
2.1.10c	By 12/1/02 Establish contract rates	OMC
2.1.10d	By 12/1/02 Amend contracts	OMC
2.1.10e	By 12/15/02 Train eligibility staff	K Wingate
2.1.10f	By 12/19/02 (10/26/01) Finalize rules	OPAC
2.1.10g	By 12/30/02 (2/15/02) File rules with Secretary of State	OPAC
2.1.10h	By 1/1/03 Promote system changes, if any	ISD
2.1.10i	By 1/1/03 Implement premium billing process	DBF
3.1.4.	**To plan and coordinate AHCCCS' Sunset Review** evaluated by the committee of reference under the supervision of the Joint Legislative Audit Committee along with the Auditor General. The Joint Legislative Audit Committee will determine if the merits of the program justify its continuation rather than termination or continuation at a level less than or greater than the existing level per ARS 41-2953. The AHCCCS agency terminates on 7/1/2003 and Title 36; Chapter 29 is repealed on 1/12004 if no action is taken per ARS 41-3003.08.	OOD
● 3.1.4 a	COMPLETED By 6/2001 Coordinate communication with Auditor General's Office	
● 3.14b	COMPLETED By 10/2001 (9/2001)Track when the committee shall initiate the sunset review which is not less than 17 months prior to the termination date for each agency	
● 3.1.4 c	COMPLETED By 1/2002 (9/2001) Obtain Auditor Generals' schedule and audit scope necessary	

Attachment 2

● Completed milestones and projects (Date is Original Target Date)

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUTH SOLOMON
CHAIRMAN 2002
MARSHA ARZBERGER
TIMOTHY S. BEE
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JACK A. BROWN
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HOUSE OF
REPRESENTATIVES

LAURA KNAPEREK
CHAIRMAN 2001
CAROLYN S. ALLEN
MEG BURTON CAHILL
LINDA GRAY
STEVE MAY
RUSSELL K. PEARCE
MARION L. PICKENS
CHRISTINE WEASON

DATE: July 10, 2002

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: PROPOSITION 204 PUBLIC HEALTH PROGRAMS — CONSIDER APPROVAL OF INFLATION ADJUSTMENTS

Request

Proposition 204 requires the Joint Legislative Budget Committee to calculate annual inflation adjustments for the public health programs that are funded in the proposition from the Tobacco Litigation Master Settlement and to provide this information to the director of the Arizona Health Care Cost Containment System (AHCCCS).

Recommendation

The JLBC Staff has calculated the FY 2002 allocations for the programs and requests Committee approval of the calculations, as required by A.R.S. § 36-2901.02. We calculated the adjustments using the GDP price deflator. Based on these calculations, we recommend the following allocations:

Program	FY 2002 Increase	FY 2002 Total
Healthy Families	$ 95,303	$ 5,522,563
Arizona Health Education System	76,242	4,418,050
Teenage Pregnancy Prevention	57,182	3,313,538
Disease Control Research	38,121	2,209,025
Health Start	38,121	2,209,025
Women, Infants, and Children Food Program	19,061	1,104,513
Total	**$324,030**	**$18,776,714**

The actual funding of each of these programs will depend on the availability of tobacco settlement monies after accounting for AHCCCS coverage of the 100% of the federal poverty level (FPL) population. AHCCCS reports that all FY 2002 program payments for the AHCCCS expansion have been made and sufficient monies remain to fund the public health programs. Pursuant to A.R.S. § 5-522, these allocations are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations and do not revert to the General Fund at the end of each fiscal year.

(Continued)

Analysis

Proposition 204, approved by voters on November 7, 2000, specifies that the public health programs listed in A.R.S. § 5-522(E), as enacted in 1996 by Proposition 203, shall be funded from the monies the state receives from the Tobacco Litigation Master Settlement. The following table displays the programs funded in A.R.S. § 5-522, the 1996 allocation for each program, and the agency that administers each program.

Program	1996 Allocation	Agency
Healthy Families	$5,000,000	Department of Economic Security
Arizona Health Education System	4,000,000	Arizona Board of Regents
Teenage Pregnancy Prevention	3,000,000	Department of Health Services
Disease Control Research	2,000,000	Disease Control Research Commission
Health Start	2,000,000	Department of Health Services
Women, Infants, and Children Food Program	1,000,000	Department of Health Services

The programs listed in A.R.S. § 5-522 were originally funded from the State Lottery Fund but received monies only after numerous other programs were funded. Because the lottery has not generated sufficient revenue to fund all the statutory programs, the public health programs have not received any monies from the State Lottery Fund since their inception in 1996. Proposition 204 changed the funding source to the Arizona Tobacco Litigation Settlement Fund, which receives monies from the Tobacco Litigation Master Settlement.

Proposition 204 also requires the Joint Legislative Budget Committee to calculate annual inflation and provide the adjustment amount to the director of AHCCCS, who will then transfer the monies to the agencies that administer the programs. AHCCCS reports it will transfer the monies upon approval of allocations by the Committee.

We have used the Gross Domestic Product (GDP) price deflator to calculate the inflation adjustment as specified by A.R.S. § 5-522. The GDP deflator growth since 1996 is shown below:

	GDP Price Deflator
FY 1997	2.0%
FY 1998	1.6%
FY 1999	1.3%
FY 2000	1.8%
FY 2001	2.3%
FY 2002	1.7%

Proposition 204 also included an AHCCCS expansion, which is funded from the tobacco settlement monies before the public health programs receive monies. If all of the tobacco settlement monies are expended for the AHCCCS expansion, the public health programs would not receive funding. AHCCCS estimates there is approximately $21.5 million remaining from the tobacco settlement remaining after funding the AHCCCS expansion, which is sufficient to fund the programs in FY 2002. However, A.R.S. § 5-522 specifies that if there are not sufficient monies to fully fund all the public health programs, the funding shall be adjusted on a prorated basis in line with the monies available. AHCCCS reports that all program payments for the expansion have been made, and that any subsequent administrative adjustments will not affect the public health program funding. Therefore, we believe that the programs would receive full funding in FY 2002.

Based on the current FY 2003 estimates for the AHCCCS expansion, we do not believe the public health programs will receive funding in FY 2003.

RS:BK:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

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http://www.azleg.state.az.us/jlbc.htm

DATE: July 11, 2002

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

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF EDUCATION – REPORT ON IMPLEMENTATION OF FY 2003 LUMP SUM REDUCTION

Request

Senator Solomon has requested that the Committee receive a report on the Arizona Department of Education (ADE) plan to allocate its lump sum reduction for FY 2003.

Recommendation

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

ADE's current lump sum reduction plan appears inconsistent with current statutory language. Most of the reduction is in the Assistance to Schools cost center, which the Legislature held harmless from lump sum reductions. Legislative intent was to reduce administrative costs, not program monies for schools. ADE may still be able to comply with the spirit of the law, if reductions for Assistance to Schools programs are targeted at administrative rather than program costs. We have asked ADE to clarify whether this would be the case under their plan.

Analysis

The FY 2003 appropriation for ADE in the General Appropriation Act (Laws 2002, Chapter 327, Section 20) includes a "State Board and General Services Administration lump sum reduction" of $(358,900). This amount was computed by multiplying by 3.125% the FY 2002 General Fund budgets for the State Board of Education and General Services Administration cost centers. Funding for ADE's third cost center ("Assistance to Schools") was not included in computing the lump sum reduction amount because most Assistance to Schools funding goes directly to schools. The "State Board and General Services Administration lump sum reduction" that appears in the General Appropriation Act therefore reflected a policy decision to exclude Assistance to Schools programs from lump sum cuts.

(Continued)

ADE's current plan, however, allocates most of the $(358,900) lump sum reduction to programs in Assistance to Schools. That plan is summarized in the table below.

ADE's Current Plan for Allocating Its Lump Sum Reduction

Cost Center	**Program**	**Lump Sum Reduction**
State Board of Education	Arizona Teacher Evaluation	$(6,060)
State Board of Education	Career Ladder Administration	(2,565)
State Board of Education	Charter Schools Administration	(6,207)
General Services Administration	Charter Schools Liaison	(4,536)
Assistance to Schools	Adult Education Assistance	(165,948)
Assistance to Schools	Chemical Abuse	(53,462)
Assistance to Schools	School Report Cards	(34,802)
Assistance to Schools	School Safety Program	(5,995)
Assistance to Schools	Early Childhood Block Grant	(79,325)
Total		**$(358,900)**

We recently notified ADE that its current allocation plan is inconsistent with legislative intent regarding the protection of Assistance to Schools programs from lump sum cuts. We do not yet know if ADE plans to alter its original allocation plan.

RS/SSC:jb

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF REPRESENTATIVES

DATE: July 10, 2002

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

THRU: Richard Stavneak, Director

FROM: Jill Young, Fiscal Analyst

SUBJECT: ARIZONA COMMISSION ON THE ARTS – REVIEW OF THE ARIZONA ARTS ENDOWMENT FUND AND PRIVATE CONTRIBUTIONS

Request

Pursuant to A.R.S. § 41-986(F), the Committee shall annually review the Arizona Commission on the Arts' records regarding private monies that are donated for use in conjunction with public monies from the Arizona Arts Endowment Fund.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the agency's report.

Analysis

The Arizona Arts Endowment Fund was created by Laws 1996, Chapter 186. The legislation was intended to encourage the establishment of arts endowments supported by public and private funds. The public component of the legislation began in FY 1998 and consists of an annual appropriation of up to $2 million to the Arizona Arts Endowment Fund. These monies are then invested by the State Treasurer, who distributes the interest income to the Arts Commission to fund arts programs across the state. Laws 2002, Chapter 1, 3rd Special Session suspended the FY 2002 and FY 2003 deposit to the Arts Endowment Fund and extended the final deposit to FY 2009 when the fund will have accrued $20,000,000. As of June 30, 2002, the fund has earned approximately $989,900 in interest, $892,800 of which has been expended or committed in the form of grants and contracts.

The private component of the legislation allows the Arts Commission to partner with non-profits such that the non-profit may receive, invest and manage private donations 1) to its own endowment, 2) to the endowment of other arts organizations or 3) to the non-designated portion of the Arizona Arts Endowment Fund. Donors who wish to support endowments of a specific arts organization, such as the

(Continued)

Phoenix Symphony, may do so. Such donations are administered by the individual arts organization, but must conform to the rules adopted by the Arts Commission to qualify as a contribution to the Arizona Arts Endowment Fund. Several smaller arts organizations have arranged for the Arizona Community Foundation to administer endowments on their behalf. For example, donors who wish to endow the Orpheum Theatre may do so via a designated fund administered by the Arizona Community Foundation. Donors who wish to endow the arts generally, without designating a particular arts organization, may do so by giving to the private non-designated portion of the Arizona Arts Endowment Fund. Such donations are invested and managed by the Arizona Community Foundation and not commingled with the public monies. The Arts Commission receives the interest income from these donations and distributes the earnings according to its rules.

The table below summarizes private contributions that have been collected since the establishment of the Arizona Arts Endowment Fund. Private contributions are less in 2001 than in previous years due to the slowing economy. As of December 2001, private pledged contributions total approximately $24 million. The public monies appropriated to the Arizona Arts Endowment Fund total $8 million for FY 1998 through FY 2001. There is no statutory requirement that private donations match public appropriations for the Arizona Arts Endowment Fund.

Private Donations to the Arizona Arts Endowment Fund, by Calendar Year

	1996*	1997	1998	1999	2000	2001	Total
Designated	$1,682,685	$2,973,245	$5,799,633	$3,887,349	$6,559,045	$2,044,004	$22,945,961
Non-Designated	0	76,481	545,336	475,921	58,731	0	1,156,469
Total	$1,682,685	$3,049,726	$6,344,969	$4,363,270	$6,617,776	$2,044,004	$24,102,430

* 1996 reporting period is from April 15, when the legislation was passed, to December 31

Although private donors have pledged approximately $24 million to arts endowments since 1996, the agency estimates that only about 40% of that total has actually been transferred from the donor to the recipient. Federal accounting laws require non-profit organizations to count all money in the year it was pledged, even if the pledged amount is to be transferred in several allotments over future years. This law allows donors to count their pledge as a tax deduction all in one year.

The impact of the Arizona Arts Endowment Fund may also be measured by the increase in the number of arts endowments. Prior to the legislation only 2 of the participating arts organizations had endowments, now 18 of them do. While it is clear that private support of arts endowments has grown significantly, it is difficult to determine how much of the growth is attributable to this legislation. Nevertheless, the records indicate that the Arizona Arts Endowment Fund is technically operating as the Legislature intended.

RS:JY:ss

Arizona Commission on the Arts
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Phoenix, AZ 85003-1326
p 602-255-5882
f 602-256-0282
general@ArizonaArts.org
www.ArizonaArts.org

RECEIVED
JUN 26 2002
JOINT BUDGET COMMITTEE

June 25, 2002

Senator Ruth Solomon
State Senate
1700 West Washington
Phoenix, AZ 85007

Dear Senator Solomon:

This letter is to report to the Joint Legislative Budget Committee regarding funds raised for arts endowments in compliance with the requirements that established the Arizona arts endowment fund in April 1996, A.R.S. Number 41-986(F).

Contributions to endowments have slowed this year as a result of the slowing economy and an emphasis on current operating issues. However, we are pleased that 14 organizations are now reporting that they have and are making contributions to endowments.

We request that this report be included on the agenda of the JLBC when it is convenient.

Sincerely,

Shelley M. Cohn
Executive Director

Senate President Randall Gnant
Speaker of the House Jim Weiers
Representative Laura Knaperek
Richard Stavneak
Jill Young
Tom Betlach
Christine Sato

ARIZONA ARTSHARE

Summary of Endowment Contributions by Calendar Year

Arts Organization	1996*	1997	1998	1999	2000	2001	Total
Arizona Opera	11,642	7,207	25,350	5,070	69,376	231,870	350,515
Ballet Arizona	50,000	50,000	--	--	--	--	100,000
Flagstaff Symphony	--	--	16,085	--	--	--	16,085
Heard Museum	329,591	1,880	817	2,742	35,845	6,309	377,184
Museum of Northern Arizona	--	15,000	--	--	1,165,645	--	1,180,645
Orpheus Male Chorus of Phx	--	--	--	--	--	33,674	33,674
Phippen Museum	--	--	--	--	420,000	--	420,000
Phoenix Art Museum	549,000	1,116,635	718,230	559,912	122,244	416,000	3,482,021
Phoenix Boys Choir	--	--	818,673	--	143,057	184,067	1,145,797
Phoenix Symphony	30,000	--	3,125,000	1,311,680	3,363,968	418,890	8,249,538
Scottsdale Cultural Council	275,651	375,390	1,008,277	1,661,490	1,111,585	3,005	4,435,398
Sierra Vista Symphony Assc.	--	--	--	--	--	9,817	9,817
Tucson Museum of Art	5,500	33,131	42,109	27,910	32,298	19,139	160,087
Tucson Symphony	23,455	316,380	41,500	223,500	95,027	228,282	928,144
Subtotal:	**1,274,839**	**1,915,623**	**5,796,041**	**3,792,304**	**6,559,045**	**1,551,053**	**20,888,905**

Community Foundations	1996*	1997	1998	1999	2000	2001	Total
Arizona Community Foundation (Orpheum Theatre, Cross Cultural Dance Resources, Bead Museum, Pickard Arts and Culture Fund)	407,846	957,622	3,592	95,045	--	492,951	1,957,056
Community Foundation for Southern Arizona	--	100,000	--	--	--	--	100,000
Subtotal:	**407,846**	**1,057,622**	**3,592**	**95,045**	**0**	**492,951**	**2,057,056**
Arizona ArtShare (non-designated)		**76,481**	**545,336**	**475,921**	**58,731**	**(13,912) ****	**1,156,469**
TOTALS:	**1,682,685**	**3,049,726**	**6,344,969**	**4,363,270**	**6,617,776**	**2,030,092**	**24,102,430**

*1996 reporting period is from April 15 to December 31

**Investment losses

Through December 31, 2001

07/03/02

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: July 10, 2002

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

THRU: Richard Stavneak, Director

FROM: Paul Shannon, Senior Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF ADMINISTRATION – REPORT ON HUMAN RESOURCES INFORMATION SYSTEM (HRIS) STATUS QUESTIONS AND RESPONSES

Request

At the June 20, 2002 Committee meeting, members of the Committee asked for the written responses to a series of questions posed by the Government Information Technology Agency (GITA) in their quarterly report on the progress of the Human Resources Information System.

Recommendation

This item is for information only and no Committee action is necessary. GITA has reviewed the responses and is generally satisfied with the information the Arizona Department of Administration (ADOA) provided. GITA will provide a more detailed and written reaction to the responses in their next report to the Committee. GITA and ADOA continue to work together on the design of the project, including discussions on the level to which agencies will participate in the full package of HRIS features.

Analysis

In general, GITA reports that the ADOA responses provided reassurance that the project was progressing adequately through the initial development period. GITA's primary concern is that the project is adequately planned and executed in the early stages of development to avoid cost over-runs and reduced functionality as the project nears completion.

(Continued)

GITA believes that ADOA is doing many things well and cited the project communication plan and the level of agency cooperation as examples. GITA maintains some concern that ADOA complete a detailed scope of work for the project by August 2002. When changes are made to the scope of work after design has begun, it is necessary to change completed work, which wastes both time and money. GITA also recommends that the project provide a system of mid-level reporting that provides enough information to understand technical aspects of the project without creating overwhelming detail. These mid-level reports are critical for GITA's understanding of the progress of the project.

In their quarterly report, GITA posed a number of questions to ADOA about the progress of the Human Resources Information System. Primary among those concerns were questions about the project timeline. The project management has delayed the initial phase of implementation from January 1, 2003 until April 14, 2003. This was done because of the continued need to clarify the business and technical needs of the agencies and to clarify the necessary functionality of the new system. ADOA also cited the need to achieve agreement among several key agencies about the security structures to be implemented and the need to understand agencies' sub-systems. ADOA reports that the project is within budget and that the new timeline is achievable.

GITA also raised questions about the project management structure. ADOA responded that the management structure and agency involvement in the project are governed by plans approved by the Information Technology Assessment Committee of GITA, and that those structures are being implemented according to plan.

Finally, GITA asked several questions about specific technical requirements of the project. GITA will provide a more technical analysis of those items in their next report to the Committee.

RS:PS:ss
Attachment

JANE DEE HULL
Governor

J. ELLIOTT HIBBS
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

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

(602) 542-1500

June 27, 2002

Mr. Craig Stender
Director and State CIO
411 North Central, Suite 770
Phoenix, Arizona 85004

Dear Mr. Stender:

The attached is the response to your letter dated June 7, 2002, regarding the status of the HRIS Project.

As I mentioned in our meeting with you on Wednesday, June 19, 2002, I appreciate your questions and believe our goals are similar which is the success of this project. I welcome your help and support on this Project as we proceed.

I hope these answers have satisfied your concerns. If you need any further information or have additional questions please do not hesitate to contact me at 542-1500, or Tim Boncoskey, the HRIS Project Director at 274-8571.

Sincerely,

William Bell, ADOA Deputy Director
Chairman, HRIS Project
Board of Directors

WB/dld

CC: J. Elliott Hibbs, ADOA Director
Richard Stavneak, JLBC Staff Director
Tom Betlach, OSPB Director
Tim Boncoskey, HRIS Project Director

Attachment

1. Why did the project slip? What were the issues that caused the dates to move?

The project has not slipped. On January 24, 2002, the BOD accepted a Project recommendation of a January 2003 "Core" Roll-out and April Roll-out of remaining functionality with the following caveats: **1)** ***The time the project was delayed due to approvals in December and January is made up, and 2) The project can overcome any fit gaps that are identified. A checkpoint was determined to be May 1, 2002.*** This has been the project plan since January, and has been communicated in each and every presentation on the project.

Based on available data and a recommendation by the HRIS project team the BOD made the decision on June 4, to return to the original 14-month implementation date of April 14, 2003 for all the functionality identified in RFP Amendment 1. The remaining functionality (Data Warehouse, e-Recruiting, Performance Management, Workflow, and Workforce Analytics) by July, 2003. Based on the RFP and the IBM Lawson response this is not a slip in the project.

Some of the reasons why a January date could not be achieved are as follows: 1) More analysis needed to take place with certain agencies to clarify their business and technical requirements, 2) An overall statewide network security structure needs to be developed and agreed to by ADOA, GITA, SOS, Auditor General and Attorney General, 3) Adjunct teams must be formed outside the core HRIS team to define in detail the system functionality that the State does not have currently, and 4) Agencies have more sub-systems that need HRIS data then originally planned.

2. Since total project implementation has slipped 3 months (or 21 percent) after 10 percent of the funds have been expended, how are you going to balance the books? Are you going to ask for more funding or reduce the scope of the project?

See #1.

3. Will slippage of the due date cause any procurement issues since the original procurement mandates a 14-month implementation? What functionality was in the original 14-month contract and what was not? What functionality is being treated as "enhanced functionality"?

See #1.

4. Since there has been no apparent change to the methodology to manage the project, how do we know if the April 2003/July 2003 dates are achievable? What are your contingency plans should these dates be unattainable?

The statement that the methodology has not changed is correct. The project is based on IBM's Method Blue implementation methodology. Method Blue consists of four high level phases; *Prepare, Redesign/Design, Configure, and Deploy*. The approach the team adopted is to manage a single instance of Method Blue with phased deliverables, beginning with the April go-live and culminating with the implementation of specific modules (Data Warehouse, Process Flow, e-Recruiting, Performance Management) by July 2003.

During the Prepare Phase of the HRIS Project formal Risk Mitigation took place. Risks were cataloged and documented in Project Office. Currently, risks are reviewed and updated quarterly. If any risks become unmanageable during the life of the project the adopted contingency would be developed based on analysis of all variables known at that time. The resulting alternatives would be weighed and a recommendation made to the BOD, Budget Offices, and GITA / ITAC.

5. Why aren't there any large agency leaders on the Project Board of Directors? A significant project gap currently centers on the larger agencies- Department Of Economic Security, Department of Corrections (DES, DPS, DOC, etc) having to interface their legacy systems with HRIS. Would it make sense to have them on the Board to become part of the solution?

Project Governance is essentially the same since October 2000. This approach was approved in the HRMS Replacement PIJ in January 2001 (page 14). The HRIS RFP (page I.8) called out in more detail the same approach in May 2001 and was accepted by IBM.

A HRIS project issue escalation process was developed and is available to any agency. The issue management flow-chart was distributed to agencies, both functional and technical staff, during the "To-Be" phase of the project. The process has also been incorporated in the Project Charter (3-26 version, page 15-16, 24).

6. Project management leadership appears to be too dependent on the contractor. What steps will be taken to ensure the State has adequate control of overall project management?

Steps that have been taken to ensure control of overall project management.

1. A Board of Directors that meets at the call of the Deputy Director to monitor progress, make decisions and review – resolve project issues.
2. A contract with the META Group for independent review and quality assurance.
3. A SOA Contract Administrator to protect State contract interests.
4. A full time project management office staffed with five people
5. A formal active process for identification and mitigation of identified project risks
6. Nineteen project strategies with resources, plans and schedules for each individual strategy all tied into the project master plan.
7. Formal assignment of project resources for change management and communication with stakeholders.
8. A Change Management team to assist individual agencies with their system readiness assessments, plans and execution of those plans.
9. Assignment of project resources to focus specifically on all levels and types of training that is required for successful implementation and operation of the HRIS.

7. It appears there is not adequate project management control reporting in place to ensure success. Does the project management team have project reporting in place that allows them to prevent schedules slippage?

The following project management tools are being employed on the HRIS project. We believe these tools are more then adequate for managing and reporting on the state of the project.

Microsoft Project Plan: the Project Management Office has a detailed plan in place. This is in the process of being recalibrated due to the revised target go-live date of April 2003. The plan has also been restructured into a master plan containing sixteen sub plans, which will provide the PMO to drive activities and tasks more efficiently and in a modular fashion.

IBM Project Office: this web-based tool is the central repository for project issues, documents, change requests, etc. The following project team members have access to this tool:

- Core HRIS project team
- HRIS Board of Directors
- Quality Assurance - GITA
- Delivery Assurance - Meta Group
- Agency Implementation Coordinators
- Agency Training Facilitators

Project Time Tracking System: this web-based tool is used by the core team to record the hours expended on specific tasks as described in IBM's Statement of Work (i.e. *7.2.5.4.9 Design and Implement Organizational Change Management).* This allows the PMO to track and monitor time at a very detailed level.

8. Will the ADOA IT Strategic Business Plan, currently under development, incorporate support for HRIS? If no, how will it be supported?

The ADOA IT Strategic Plan will contain a section on the HRIS Project. The HRIS project management team is meeting with the Assistant Directors (BOD) of the various impacted ADOA Divisions on a regular basis. Operational support requirements of the completed HRIS system, is a topic of discussion at every meeting. This year's plan will include budget issues with strategic and tactical plans for FY 2004 and beyond. These documents will be completed as a normal part of the budget and planning cycle during the summer of 2002.

9. When will an online version of the HRIS data entry screens be available to agencies for training and orientation?

<u>August 1, 2002</u> – a navigation tutorial will be distributed with basic navigation to the Lawson system for orientation.

<u>December 1, 2002</u> – a sandbox environment will be available to a limited amount of users (e.g. AICs, ATFs, etc.) to play, explore, and get orientated with the HRIS system. This will be set up, maintained and refreshed daily by the IT team. There will not be any support and this sandbox environment will be used as an exercise environment only.

January 6, 2003 – an online version of training, HRIS data screens, and simulations will be made available for ATFs training only.

March 1, 2003 – an online version of training, HRIS data screens, and simulations will be made available for ATFs to train their end-users.

10. Has ADOA prepared an agency status list so resources can be assigned agencies behind schedule? If not, why not and when will one be done?

Yes. The project dashboard documents the status of 110 agencies using a color code to show progress against all agency related tasks. The AIC provides status to the HRIS Change Management Team who updates the dashboard.

The dashboard can be viewed in Project Office or on the HRIS website.

11. When will interface specifications be provided to agencies so they may begin redesigning interfaces?

The project team began assessing the technical infrastructure including interfaces in March 2002. As stated in the original HRIS Project Charter, one of the key goals of the initiative is to actually *replace and retire* interfaces, not redesign them. This is an ongoing endeavor and in some agency circumstances the team has concluded that interfaces will remain in place and need to be redesigned. In some of those cases the team has begun documenting preliminary data mapping requirements. We anticipate that the final specifications will be available in the August timeframe.

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

There are various meetings with agencies from the HRIS Functional, Technical, and Change Management teams. All meetings are published to AIC's or specific staff for participation.

- Change Management: conducted five AIC meetings, none of which were rescheduled or cancelled. In addition, the Change Management team conducted the following agency specific meetings which were scheduled via GroupWise:

Commerce CIO Council	3/13
Revenue AHCCCS	3/14
DHS CaMP DOC	3/19
DJC	3/21
DEQ	3/25
ADOT CFO	3/26
BOD	3/27

Agriculture	4/3
Water Resources	4/4
DJC Leadership	4/8
ADOT Management Team	4/9
State Parks BOD	4/10
DPS Library and Archives Legislative Council	4/11
DPS Follow-Up	4/16
Auditor General	4/17
DOC	4/19
CFO (small) Demo Day all agencies	4/23
CFO (large)	4/30
Land	5/8
Game and Fish DOC (Tucson)	5/9
DOC-technical	5/10
AHCCCS-technical	5/13
Veteran's Services	5/15
ASRS CaMP	5/21
DJC	5/22
DOA Payroll	5/29

- Training: conducted one ATF meeting, which was rescheduled due to ATF schedule conflicts.

- Technical: held 29 preliminary assessments between 3/25 - 4/16/2002. All occurred on schedule unless noted below; there were no HRIS cancellations:

Office of Administrative Hearings	3/25
ADOA	3/29
ADOT	3/28
AHCCCS	4/5
Arts Commission	4/3
Attorney General	4/11
Auto Theft Authority	4/4
Banking	3/27
Commerce	4/3
Corrections	4/4
DES	4/1
Education	4/2
Emergency & Military Affairs	4/8 ****no show, was rescheduled**
Game & Fish	4/2
Governor's Office	****no show, rescheduled at least once**
Health Services	4/9
Juvenile Corrections	4/3
Land Department	4/4
Legislature	3/27
Lottery	3/27

Public Safety	4/8
Racing	4/4
Registrar of Contractors	4/5
State Boards	4/9
State Retirement	3/28
Supreme Court	4/1
Water Resources	4/8
Liquor	(phone call)
Tourism	(phone call)
Corporation Commission	5/31(was 5/23, rescheduled by agency)
Department Of Commerce	5/8, 5/10 (2 meetings so far)
Land Department	5/20
Department Of Economic Security	5/10
AHCCCS	5/13
Supreme Court	4/29 (Carl H.) and 5/9 (team)
Dept of Juvenile Corrections	May 1
Attorney General	May 2
Governor's Office and OSPB	May 7
Industrial Commission	May 8
ASRS	May 9
Game and Fish	May 9 and May 20
Lottery	May 21
ADOA	May 23
Dept of Agriculture	May 23
Dept Of Corrections	May 1
Department Of Environmental Quality	May 9
Department Of Health Services	May 3
Law Enforcement/Merit System	May 8
Department Of Public Safety	May 8
Schools For Deaf And Blind	May 7

- Functional: all schedules are posted in Project Office. The Functional Team conducted numerous meetings with agency personnel including 47 As-Is Workshops, 37 To-Be Workshops, and 1 Conference Room Pilot

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

No, at this time the Deployment Education and Training Plan is under development and being reviewed by the HRIS management team. Once completed, the Plan will be available electronically in Project Office by August 1, 2002. It is estimated that actual curriculum and documentation be available in December 2002.

14. DOC recently submitted a PIJ to GITA for the purchase of 200 PC's to meet criteria required by HRIS. Do you know if any other agencies do not have adequate

hardware/software to access the new HRIS system? If not, have you polled agencies to determine whether or not their equipment is suitable?

This item has been discussed at CIO Council on multiple occasions and with individual agencies. The HRIS Project has stated from the beginning that each agency will be responsible for their own infrastructure to support how they choose to implement the functionality and services that are provided through HRIS. Agencies have been given the minimum configurations required. It is their responsibility to work with GITA for infrastructure deficiencies.

The HRIS Technical Assessment team met face to face with 50 agencies' representatives and will be meeting with 10 more agencies in the near future. The remaining agencies will be surveyed to determine if they meet requirements. So far, with the exception of DOC, DES is the only agency that will have problems for their Payroll and HR users to be able to access the HRIS. A number of their PC's do not meet the minimum requirements (hardware, software, or both). DES has provided us with a list of these PC's with hardware and software information.

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

Several reassignments and personnel changes within the project team on the IBM side have occurred as a result of the project redesign and for other reasons as well. The intent is to continue to strengthen the project team as a whole as the dynamics of the project require.

For example, IBM was able to hire the Michigan project executive, Ted Benca, in March. In order to take advantage of his skill and experience, he was placed in the role of Project Manager, Agency Readiness. Additional staff changes in the project management offices of both the State and IBM have been made to better equip the project office to document and administer contract change orders. Other additions and changes have been made to the staff, particularly the technical staff on the IBM side, to bring stronger skills to bear where necessary.

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

ADOA and the State HRIS staff welcome the opportunity to meet with GITA in conjunction with any IBM issue. Project Office contains the list of all open issues and action items with the owner and assigned responsibilities. These lists are updated at least weekly and are available to GITA for review at any time. ADOA will prepare a formal contract review for GITA.

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

Formal changes are currently in draft and continue to be refined as the project plan and strategies are completed. Project to date, there are seven contract amendments approved or in process. They are documented in the monthly status report and in Project Office.

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

When the HRIS RFP was written, it was believed that on January 1, 2003, the current software would no longer be supported. The vendor has since changed their position and is still supporting the ADOA release of the GEAC system.

> This was verified with the vendor in late March of 2002. This is no longer an issue. The State could remain on the current system through the end of calendar year 2003 without incurring significant risk. It is built into the project risk model to periodically review this item and take action as required if a problem comes up.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: July 10, 2002

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

FROM: Richard Stavneak, Director

SUBJECT: REPORT ON RECENT AGENCY SUBMISSIONS

Request

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

Recommendation

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

Reports

A. Arizona Department of Administration - Report on On-Line Bidding Systems Implementation.

The Arizona Department of Administration (ADOA) is required by Laws 2001, 2nd Special Session, Chapter 5 to prepare a report on efforts to implement Laws 2001, Chapter 375, relating to on-line bidding systems. Chapter 375 provided $200,000 to implement an on-line bidding system for use by the State Procurement Office.

The report notes that the $200,000 appropriation was repealed in Laws 2001, 2nd Special Session, Chapter 2, and that no portion of those funds were expended.

ADOA did utilize part of its regular operating budget to begin development of an on-line procurement system. This system, known as the SPIRIT system, is currently in the final stages of development and will provide much of the functionality originally envisioned in the Chapter 375 appropriation. ADOA expects this system to be on-line sometime during this Fall, 2002.

B. Attorney General - Report on Model Court.

Laws 2001, Chapter 238 requires the Office of the Attorney General to submit a quarterly report summarizing program information related to Model Court. The agency's summary for the 3rd Quarter of FY 2002 reports total expenditures at approximately $618,500. As of January 1, 1999 there were approximately 6,000 open dependency cases (cases open before statewide implementation of Model Court). By the end of the 3rd Quarter of FY 2002, 843 of the original 6,000 remain. The total number of children (both new and existing) placed during the 3rd Quarter was 494. Of this amount, 106 children represent backlog cases. A case is considered a "backlog" case if it was open before January 1, 1999, or before statewide implementation of Model Court. The number of cases does not correspond directly to the number of children (i.e. each case may involve more than one child). Of the 494 children placed, 49 were adopted by a relative, 78 were adopted by a non-relative, 129 were placed with a guardian related to the child, 38 were placed with a guardian not related to the child, and 200 were reunited with a parent. The agency reports a total of 6,788 children still awaiting placement. Of this amount, 1,694 children (or 843 cases) represent backlog cases.

C. Department of Economic Security - Bimonthly Report on Arizona Works.

As the vendor for the state's Arizona Works pilot welfare program, MAXIMUS is required to report bimonthly on Arizona Works. It submitted its latest report in May. Total caseloads in Arizona Works increased by 12.6% from March 2001 through March 2002. Over the same period of time, welfare caseloads in the rest of Maricopa County increased 30.3%. We would note, however, that any difference in recipient and economic characteristics in both areas may contribute to differences in caseloads. Laws 2002, Chapter 331 ends the Arizona Works pilot on September 30, 2002. After that date, the department will resume administration of the welfare program in Maricopa and Greenlee Counties.

D. Department of Economic Security - Bimonthly Report on Children Services Program.

Pursuant to a footnote in the FY 2002 Supplemental Bill, the Department of Economic Security has submitted the bimonthly Children Services report for June 1. The report includes actual expenditure and caseload data through April 2002. Year-to-date expenditures totaled $79.2 million, or 1.9% higher than the $77.7 million projected in DES' last bimonthly report. DES projected a $(2.1) million General Fund deficit for FY 2002. To address this deficit, DES made internal transfers including a $1 million transfer from the Developmental Disabilities cost center, which was favorably reviewed by the Committee at its June 2002 meeting.

E. Department of Environmental Quality - Preliminary Progress Report on the Arizona Alternative Testing and Compliance Study.

Pursuant to Laws 2000, Chapter 404 the Department of Environmental Quality submits the preliminary progress report on the major findings and conclusions of the vehicle emissions identification, testing and repair research study. The purpose of the study is to evaluate alternative emissions monitoring technologies in Areas A and B and address methods to improve motorist compliance with the current Vehicle Emissions Inspection Program. In addition, the study shall assess the methods to assure a high degree of motorist compliance with the options identified. The research study shall address alternative testing technologies, including improvements in remote sensing, the utilization of on-board diagnostics and any other alternatives for identifying high emitting vehicles and facilitating their repair.

The preliminary report from Eastern Research Group, the contractor responsible for the study, includes 7 appendices that cover a range of topics including: an evaluation of remote sensing, profiling and prediction of individual vehicle pass/fail rates, program repair data, evaluation of on board diagnostic testing effectiveness, analysis of historical remote sensing and emissions data, and overview of voluntary vehicle scrap programs.

Major conclusions relating to the evaluation of alternative emissions monitoring technologies include:

- 24 emissions monitoring strategies were identified for further study.
- These strategies were ranked according to their cost-effectiveness and anticipated benefits.
- Further analysis of each strategy is recommended.

Major findings relating to the analysis of program compliance include:

- 3% to 7% of eligible vehicles in Arizona are not in compliance with Vehicle Emissions Inspection program requirements.

F. Department of Health Services - Report on Health Crisis Fund Expenditures.

Pursuant to Laws 2001, Chapter 374, the Governor is required to submit a copy of the Executive Order when monies from the Health Crisis Fund are allocated for a health crisis. The Health Crisis Fund receives up to $1,000,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund. The Governor may declare a health crisis or a significant potential for a health crisis and authorize monies from the Health Crisis Fund for the emergency. On June 25, the Governor allocated $90,000 to the Arizona Health Care Cost Containment System (AHCCCS) to allow the agency to continue to provide kidney dialysis and chemotherapy to undocumented persons. On June 27, 2002, the Governor authorized up to $300,000 to the Governor's Community Policy Office, Division for Prevention of Family Violence, which will distribute the monies for the continuation of Sexual Abuse Hotline and Advocacy services in Arizona. The monies are intended to keep in operation 2 sexual abuse hotlines that faced funding deficits due to non-state funding reductions. On the same date, the Governor also allocated $100,000 to the Arizona Pioneers' Home to address a funding deficit. The FY 2002 allocations from the Health Crisis Fund to date total $1,000,000 and are shown below:

Executive Order	Recipient	Amount
2001-18	Department of Health Services - State Laboratory	$ 350,000
2001-19	Department of Health Services - Border Health Foundation	80,000
2002-2	Department of Health Services - Non-Renal Transplant Medications	80,000
2002-12	Arizona Pioneers' Home	100,000
2002-13	AHCCCS – Dialysis and Chemotherapy	90,000
2002-14	Gov.'s Community Policy Office, Div. for Prevention of Family Violence	300,000
	Total	**$1,000,000**

G. Department of Revenue - Report on Ladewig Expenditure Plan.

In June 2002, the Committee approved $866,400 for the Department of Revenue's (DOR) 3-month interim expenditure plan for Ladewig administration costs for the first quarter of FY 2003, and asked DOR to provide a monthly report on their status and expenditures. The judge ruled June 20, 2002 that DOR must begin mailing the notice to 675,000 putative class members 8 weeks from June 21, must complete the mailing within 6 weeks of the start, and must begin publishing the notice 2 weeks after the mailing begins. Within 2 weeks of the June 20 ruling, the parties must present the judge with options for possible mediators. Class members must opt out by October 11 or they will be included in the class.

DOR plans to use 4 existing FTE Positions to manage Ladewig. DOR moved 2 of these FTE Positions (program administrator and budget officer) to Ladewig effective July 1, expects to move the executive staff assistant the second week in July, and expects to transfer the clerk typist at an undetermined future date. DOR has not yet determined when they will hire temporary personnel to staff phones, open and sort mail, and act as audit clerks. DOR reports that they have established codes to track Ladewig expenditures. DOR reports that no other FY 2003 Ladewig expenditures have occurred as of July 2, 2002.

RS:lm