STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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CHAIRMAN 2006
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HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
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R E V I S E D

JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, July 21, 2005
9:30 a.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order

- Approval of Minutes of June 28, 2005.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION
  A. Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee Health Plans as required under A.R.S. § 38-658A.
  B. Arizona Department of Administration - Risk Management Annual Report.

1. DEPARTMENT OF ECONOMIC SECURITY - Review of FY 2006 Expenditure Plan for Workforce Investment Act Monies.

2. DEPARTMENT OF HEALTH SERVICES - Review of Behavioral Health Title XIX Capitation Rates.

3. JOINT LEGISLATIVE BUDGET COMMITTEE STAFF - Report on Phoenix Medical Campus.

4. **DEPARTMENT OF CORRECTIONS - Report on Health Care Contracts.**

The Chairman reserves the right to set the order of the agenda.
07/19/05

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 542-5491.

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

June 28, 2005

The Chairman called the meeting to order at 9:40 a.m., Tuesday, June 28, 2005, in House Hearing Room 4. The following were present:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Boone	Senator Bee
	Representative Burton Cahill	Senator Cannell
	Representative Gorman	Senator Martin
	Representative Huffman	Senator Waring
	Representative Tully	
Absent:	Representative Biggs	Senator Arzberger
	Representative Lopez	Senator Garcia
		Senator Harper

APPROVAL OF MINUTES

<u>Representative Pearce moved</u> that the Committee approve the minutes of May 11, 2004. The motion carried.

EXECUTIVE SESSION

<u>Senator Burns moved</u> that the Committee go into Executive Session. The motion carried.

At 9:42 a.m., the Joint Legislative Budget Committee went into Executive Session.

<u>Senator Burns moved</u> that the Committee reconvene into open session. The motion carried.

At 9:50 a.m. the Committee reconvened into open session.

<u>Senator Burns moved</u> that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Monje v. State of Arizona, et al. The motion carried.

<u>Senator Burns moved</u> that the Committee approve the 1.7% salary increase for the Director of the Joint Legislative Budget Committee as provided for other state employees. The motion carried.

DIRECTOR'S REPORT

Mr. Richard Stavneak, Director, JLBC Staff, gave an update on the status of the state budget.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS) – Review of KidsCare Behavioral Health Capitation Rate Changes.

Mr. Stefan Shepherd, JLBC Staff, said this item is a review of the KidsCare Behavioral Health capitation rate changes. This is one portion of the Behavioral Health system that is funded in the AHCCCS budget instead of the DHS budget. The requested capitation rate increases are about 5% and are within the budgeted amount for FY 2006.

Senator Burns moved that the Committee give a favorable review to the Arizona Health Care Cost Containment System's, KidsCare Behavioral Health capitation rate changes. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES)

A. Review of Transfer of Appropriations for TANF Cash Benefit Monies.

Mr. Eric Jorgensen, JLBC Staff, said this item is a request for a review of a transfer of Federal TANF Block Grant monies in the amount of $12 million. Using a table in the JLBC Agenda Book Mr. Jorgensen explained the DES projected shortfall and possible funding sources to alleviate the shortfalls. He said that the transfer is possible because of the $12 million surplus in the TANF Cash Benefits line item and this is due to declining TANF caseloads. In addition to an improving economy, the department has also identified a program that diverts would-be benefit recipients by providing a one-time payment to help them overcome immediate obstacles.

Representative Tully asked if the $800,000 for electronic transfers was a bank fee.

Mr. Jorgensen said yes, that it was for contracted services for the costs of electronic transfers.

Representative Gorman asked about the Children's Services shortfall and what the Governor did concerning that program.

Mr. Jorgensen said there were some lump sum reductions that were put into the budget and those were vetoed, which essentially negated the lump sum reduction and increased the amount of funding.

Senator Burns asked how the department is going to resolve the shortfalls that do not require JLBC review.

Ms. Lynne Smith, Assistant Director for the Division of Business and Finance, DES, said for Permanent Guardianship they are doing a transfer from the TANF Jobs line item, in keeping with the recommendation of JLBC Staff to use savings and other available monies first before using the Cash Assistance transfer. For the Adoption Services they have identified $300,000 in other surpluses; $450,000 in federal non-appropriated monies, $50,000 in client trust fund monies, and $1.2 million identified from the Cash Assistance transfer. For Children Services they have identified Tobacco Tax Funds ($1.5 million), the Governor's Drug Policy monies, Child Abuse Prevention monies, and transfers from other areas.

Senator Burns asked if they have shortfalls in the future, will they be able to use some of the same funds to alleviate the shortfall.

Ms. Smith said that they always look for flexibility from department savings and Federal Funds first.

Senator Burns asked for an explanation on why some monies were not being spent from the Healthy Families Fund.

Ms. Smith said that the Healthy Families appropriation for FY 2005 was $13.8 million using both General Fund and TANF monies. Total expenditures from both the full appropriation and some of non-appropriated sources previously mentioned, is only $11.2 million. This is because some of the Healthy Family increases were slower getting started, and expenditures were lower than originally expected for FY 2005.

Representative Pearce asked Mr. Stavneak if the JLBC Staff recommendation makes up some of the shortfall that was there because of the Governor's veto in Children Services.

Mr. Stavneak said that was correct. There was a lack of clarity of intent when the FY 2005 budget was enacted. There is the perspective that the Governor never recommended funding for the program and recommended that it be found from other efficiencies.

Senator Cannell said that another issue is that DES has attempted to get people working and off the rolls and get kids adopted. They are making progress and the Legislature should support those efforts.

Mr. Stavneak said that there is an ongoing issue of what this means for the FY 2006 budget. In this case, the transfer was not incorporated in any numbers that were done for the FY 2006 budget. There is still a potential surplus and potential transfer that we would also face during FY 2006 as well.

<u>*Senator Burns moved*</u> *that the Committee give a favorable review to the Department of Economic Security's request to transfer $12 million from the TANF Cash Benefit SLI with the provision that DES use non-appropriated fund sources and savings first to mitigate the projected shortfalls.* The motion carried.

B. Review of Transfer of Appropriations between Child Care Subsidy Line Items.

Mr. Eric Jorgensen, JLBC Staff, said this item is a request for review of a transfer of $4 million of Federal Child Care Development Fund monies from the Day Care Subsidy line item to the Transitional Child Care SLI. Both of these line items are used to provide essentially the same services. Recipients of the TANF Cash Assistance are eligible for the Day Care Subsidy. However, once a family leaves the program they continue to be eligible for Transitional Child Care for 2 years. The surplus in the Day Care Subsidy program is about $7 million and the shortfall for the Transitional Child Care program will be between $3 million and $4 million.

Representative Gorman asked if this is related to the phantom day care waiting list or is it different.

Mr. Jorgensen said that it is the same program.

Mr. Stavneak said that we went from a waiting list to where we are now we have a $7 million surplus. He also said that in the Child Care budget we added dollars sufficient to fund about a 12% caseload growth. However, we are now seeing about a 6% growth. It is possible that there may be some surplus dollars in the Day Care line item during the course of FY 2006, depending on how caseload projections work out, because it is a caseload driven program.

Representative Tully asked if historically it has been about a 6% growth.

Mr. Stavneak said that is correct.

Representative Boone noted that basically this surplus is one time only for this year.

Ms. Smith said that both these line items provide the same service, (day care services, transitional child care and one that has a mix of people). It is all going to child care and nothing is being transferred out.

Senator Martin asked how they could go from a waiting list to a surplus in a very short span of time. He said that if the department knew the numbers had changed before the budget was being finalized the Legislature should have been informed of that.

Ms. Smith said that while a $4 million dollar transfer is a sizeable amount of money; it is only 3% of the program's budget. The reality is that it is very difficult for the department to anticipate what parents with children will choose to do. In terms of what steps are being taken to prevent this from happening next year, they would not be doing waiting lists so early in the year. They would be doing it later in the year when they have better information in order to estimate more accurately. DES believes the Legislature appropriated a sufficient amount for FY 2006. Ms. Smith said that in terms of FY 2006 they are not estimating that they will need any less money, there is caseload growth and they believe they need that dollar amount in FY 2006.

Representative Huffman noted that when the discussions on waiting lists were taking place, he thought part of the reason for the waiting lists was because of the nature of the families and children that the program serves. Because of family situations the children would get pulled out of the program and then end up being put back on a waiting list trying to get back in the program.

Representative Boone said that a waiting list should be created after you believe you have no more money in the program, it is a net number and now we find out there is a surplus.

<u>Senator Burns moved</u> *that the Committee give a favorable review to the Department of Economic Security's request for a $4 million transfer of appropriations between Child Care Subsidy Special Line Item to the Transitional Child Care Special Line Item.* The motion carried.

C. Review of Expenditure Plan for Discretionary Workforce Investment Act Monies.

Mr. Eric Jorgensen, JLBC Staff, said as a clarifying note the original request is written to be an addition to the FY 2005 expenditure plan that has just been revised to be the first piece in the FY 2006 expenditure plan, but all the rest of the information is pertinent and correct.

The Committee has favorably reviewed $4.9 million for the FY 2005 expenditure plan. This FY 2006 plan would be $184,900 in FY 2006 for the Jobs for Arizona Graduates (JAG program). The JAG program did receive funding from these Workforce Investment Act (WIA) monies in FY 2004 but was not included in the FY 2005 numbers. This program is to provide assistance to students who dropped out or are in danger of dropping out of high school.

Senator Waring asked how students are identified for the program since there is not enough money for every student that drops out to enter the program.

Mr. Jorgensen said that the JAG program is on a voluntary basis. JAG works with different school districts and students are identified through the counseling programs but it is voluntary to enroll in the program.

<u>Senator Burns moved</u> *that the Committee give a favorable review to the Department of Economic Security's expenditure plan for discretionary Workforce Investment Act Monies in FY 2006 with the provision that the department provide performance measures related to the program by September 1, 2005.* The motion carried.

DEPARTMENT OF HEALTH SERVICES – Review of Children's Rehabilitative Services Capitation Rate Changes.

Mr. John Malloy, JLBC Staff, said that this item is a review of the capitation rates for the Children's Rehabilitative Services program. He said that the adjustment falls within the FY 2006 appropriation.

<u>Senator Burns moved</u> *that the Committee give a favorable review to the Department of Health Service's request for review of the Children's Rehabilitative Services Capitation Rate adjustments.* The motion carried.

DEPARTMENT OF REVENUE (DOR) – Review of Ladewig Expenditure Plan

Mr. Bob Hull, JLBC Staff, said this item is a review of the Ladewig expenditure plan for FY 2006. The Ladewig Settlement Payments Budget Reconciliation Bill allocates $58.3 million in FY 2006 to the department for payments and costs associated with the case, with any unused amount to be held in reserve for future payments. The department is required to present an expenditure plan for review by the JLBC that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, before expending any of the $58.3 million. The $58.3 million includes up to $1,758,900 for department administration costs and review of payments. The department has reduced the $1,758,900 to $1,424,700 by reducing their estimates for printing, postage and mailing costs. The $1.4 million might be reduced further if the department was not encountering some additional costs for overpayments that were made in FY 2005 for refunds to taxpayers.

The FY 2005 refunds include overpayments of about $6.3 million to 3,000 claimants due to clerical and calculation errors and computer matching errors. There is a court hearing scheduled for September 2005 to resolve issues involving that overpayment and whether the state will be able to collect that back from the taxpayers. The department is keeping separate track of administrative expenses related to costs associated with the overpayments.

Senator Cannell asked what the agency feels the chance is of getting these overpayments back.

Mr. Tom McGinnis, Project Administrator, DOR, said the purpose of the hearing is for the taxpayers to present their arguments on why they should not have to pay back the overpayments. He said he does not have a feeling for what the court will decide but it seems reasonable to believe the overpayments will have to be returned.

Representative Pearce said he has concerns with how this happened and if it has been corrected so it will not happen again in the future.

Mr. McGinnis said there were a number of pieces that affected the amount that taxpayers got. The major cause was the truncation issue. The data, that they spent millions of dollars capturing, was captured by the mainframe system in the 1980s. When they scanned the microfiche to create an electronic database, some fields in the microfiche had truncated numbers. DOR thought they had all the records identified and created manual work lists for people to go in and locate those records. Of all those records that had the truncated problem, there were 2 cases that went through. That is the bulk of the overpayment, $750,000 a piece for the 2 individuals. Most of the overpayments were small.

Representative Pearce said in a checks and balance system you would know if more money went out than was actually paid.

Mr. McGinnis said there were cases where the overpayment was so large, that they were overpaid more than the taxpayer paid but the total overpayment in those cases was small.

Representative Huffman asked if any safeguards have been put in place either before or after the overpayments.

Mr. McGinnis said they have corrected the problem. He said they have implemented 2 program modifications in the computer system. The first is when the system calculates the warrant amounts to be refunded, it compares it to what the actual payment is and determines if the warrant is a reasonable amount. Secondly, they individually look at all checks going out that are over $100,000. This system was not in place prior to the overpayments going out because of a court ordered deadline to mail out the refunds.

Senator Burns asked what the current total remaining Ladewig settlement cost is that DOR still owes.

Mr. McGinnis said the FY 2006 payout is about $51 million, plus about $5 million for attorney's fees. There will be another taxpayer payment in July 2006, which will include any unused set-asides for DOR's administrative costs and attorney's fees. The FY 2007 costs will be about $99 million.

Senator Burns asked what the total overpayment is and how it affects the total settlement costs.

Mr. McGinnis said the overpayment was $7.2 million.

Mr. Hull said that currently DOR has estimated the total Ladewig Settlement costs at $308.5 million. However, they are taking a look at how much of the overpayments might be included in that amount. It will depend on the ruling by the courts.

Senator Burns moved that the Committee give a favorable review as recommended by the JLBC Staff to the Department of Revenue's FY 2006 administrative expenditure plan for the Ladewig settlement. The Committee further requests that DOR report back to the Committee after the taxpayer refund overpayment issue has been resolved. The motion carried.

ARIZONA STATE RETIREMENT SYSTEM (ASRS) – Review of FY 2006 Information Technology (IT) Expenditure Plan.

Mr. Eric Jorgensen, JLBC Staff, said the ASRS has received an appropriation of $6,378,700 for FY 2006. This represents the fifth and final year of development funding under the approved project investment justification document.

The total development costs for this project is $40.6 million. Mr. Jorgensen said due to the Government Information Technology Agency's (GITA) concern as to the progress of the IT plan regarding the Public Employees Retirement Information System (PERIS) and the Financial Management System (FMS), they have changed the project status from "green" to "red" indicating a serious risk to the project being completed by the planned date.

Representative Gorman asked if the software for this project was done in-house.

Mr. Jorgensen said it was done in-house by state employees, as well as through external contracts.

Representative Tully asked who the vendor is for the PERIS system.

Mr. Jorgensen said that most of it was done in-house. The Financial Management System was done by an outside vendor. Mr. Jorgensen explained that ASRS hired a consultant who evaluated the system and determined that it was behind. At the request of the Information Technology Authorization Committee (ITAC), ASRS got a second opinion and the report of the second consultant will be released at the next ITAC meeting.

Mr. Anthony Guarino, Deputy Director, ASRS, said that at the initial review they essentially red-flagged themselves. As part of the implementation plan they brought on an advisory consultant. ASRS had 1 consultant for a couple of years who was giving them positive results. He eventually left for a different position. In June they brought in a new independent advisory consultant, and that consultant raised some concerns about project management issues, some vendor choices and some technology choices. The Director, at that time, organized a review and brought on an outside firm to do an independent assessment to resolve the issue and it was determined that concerns raised were almost completely unfounded. That assessment has been written up and will be presented to ITAC at their July meeting.

Representative Tully asked if the independent consultant was hired by ASRS.

Mr. Guarino said that was correct.

Senator Burns asked when they anticipate the red light turning green.

Mr. Guarino said he was confident that it will turn green at the July ITAC meeting.

Representative Pearce asked what the cost is for the overall project.

Mr. Guarino said that it is $40 million. In response to Representative Boone, Mr. Guarino said the start date of the project was when the funding became available on July 1, 2001, and the ending date is projected to be June 2006.

Representative Boone said it is a good idea to have in-house employees working on the project. Not being at the mercy outside vendors is a wise move.

Representative Gorman asked if the consultant that initiated the red flag was being paid a flat fee.

Mr. Guarino said that the consultant was paid an hourly wage.

<u>Senator Burns moved</u> that the Committee give a favorable review of the Arizona State Retirement System's Information Technology FY 2006 expenditure plan. The motion carried.

DEPARTMENT OF CORRECTIONS (ADC)

A. Report on Employee Overtime Pay and the On-Call Pay Settlements.

Mr. Kevin Bates, JLBC Staff, said this item was for information only and no Committee action was required. ADC received supplemental monies for compensatory time and on-call claims. ADC reports that $7.8 million was expended for FY 2004 employee compensatory time payments. One unresolved issue is compensatory time for FY 2005. ADC estimates that to be about $13 million. The Legislature has at least 2 options in this situation: they could increase

ADC's base appropriation or they could choose not to adjust their appropriation requiring the department to absorb the costs within its existing appropriation. The second issue is the on-call claims. ADC reports they have settled all but 3 claims regarding a lawsuit brought by current and former state employees who were not compensated for being "on-call."

Representative Pearce asked what the vacancy rate is at the different facilities.

Mr. Gary Phelps, Deputy Director, ADC, said the vacancy rate is getting worse every day, and at 2 facilities, Lewis and Winslow there is about 30% vacancy rate. ADC is mandating their officers to work in excess of 50 hours a week and they are losing 102 officers a month.

Representative Pearce asked what kind of savings the department has as a result of these vacancies.

Mr. Phelps said that they are working through that at this time. It will be mid July before they know what the savings are. He noted that until they get an adequate salary compensation plan this will continue to be an issue for them. He said that $7.5 million will be spent on the liability from last year, and they are still in the stipend and bonus phase of trying to retain officers, in addition, they have to cut 595 FTE.

Representative Pearce wants the Committee to be kept informed on the vacancy rate and how the dollars will be expended from unpaid vacancy positions.

Representative Pearce said that in 2004 ADC was to privatize the inmate stores and award a contract by November 1, 2004 and to privatize the stores by January 15, 2005. He asked if that has taken place yet.

Mr. Phelps said that the store contract was awarded on June 16, 2005.

Representative Pearce said the other issue is the 1000 new permanent private beds. In Special Session we had a prison crisis of a bed shortage. During that time we negotiated to fix that deficit. The deal between leadership and the Governor was that they would be rolled out virtually at the same time. At this time there is not even a contract out for the 1000 beds today.

Mr. Phelps said that the contract would be awarded today or tomorrow, they are still in final negotiations with the vendor. There was a holdup because of some VOI/TIS money and environmental quality issues and studies.

Representative Pearce said that the requirement to go forward to privatize the female prison is in statute. People spent a lot of money to compete on that bid and then they were told we were not going to go forward on it. People will not compete in Arizona if we do not follow the law to move forward on these issues.

Senator Cannell said he was at a meeting where this issue was discussed and one of the concerns was with women prisoners. They need to be near their families and continue to interact with their children. He also said they need to increase the compensation for correction officers.

B. Report on Monthly Bed Plan Update.

Mr. Stavneak said this item was not presented because JLBC Staff did not receive the report from the agency in time for the meeting.

Chairman Burns adjourned the meeting at 11:40 p.m.

Respectfully submitted:

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Cheryl Kestner, Secretary

____

Richard Stavneak, Director

____

Representative Russell Pearce, Chairman

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

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DATE: July 13, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Russell Frandsen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of FY 2006 Expenditure Plan for Workforce Investment Act Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security (DES) is submitting an expenditure plan for $2.3 million of the discretionary portion of federal Workforce Investment Act (WIA) monies received by the state for FY 2006. Unlike most Federal Funds, the WIA monies are subject to legislative appropriation due to federal requirements. DES has indicated that it will present an expenditure plan for an additional $1.3 million of WIA monies at a later JLBC meeting.

Recommendation

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

Analysis

The DES Workforce Development Administration is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. Approximately $1.6 million of the $2.3 million expenditure plan is funding that would be passed through to the Arizona Department of Education (ADE), to local workforce investment areas, and to DES' Virtual One Stop Support and evaluation programs. The remaining $730,000 would be allocated to the Department of Commerce for staffing the Governor's Council on Workforce Policy (GCWP) and for apprenticeship programs.

(Continued)

Governor's Council Recommendation of 15% Set-Aside

Program Activities	Agency	FY 2005	FY 2006	Net Change
Eligible Training Provider List & Website	ADE	$ 127,000	$ 127,100	$ 100
Incentive Grants to LWIAs	LWIA	500,000	350,000	(150,000)
Technical Assistance and Capacity Building	LWIA	250,000	250,000	--
High Concentration of Eligible Youth	LWIA	200,000	150,000	(50,000)
Virtual One Stop Support	DES	325,000	300,000	(25,000)
Evaluation	DES	125,000	100,000	(25,000)
System Building	LWIA	300,000	300,000	--
Apprenticeship	ADOC	70,000	130,000	60,000
ADOC (staffing the Governor's Council on Workforce Policy)	ADOC	600,000	600,000	--
TOTAL 15% Set-Aside		**$2,497,000**	**$2,307,100**	**($189,900)**

Legend

ADE	*Department of Education*
DES	*Department of Economic Security*
LWIA	*Local Workforce Investment Areas*
ADOC	*Department of Commerce*

The above table delineates the FY 2006 level of funding by program and recipient and compares that total to FY 2005 levels. The expenditure plan represents core functions typically funded by discretionary WIA dollars. As noted from the table, the agency plans to increase Apprenticeship spending by $60,000 over FY 2005, while reducing funding by $(250,000) on 4 programs (Incentive Grants to LWIAs, High Concentration of Eligible Youth, Virtual One Stop Support, and Evaluation).

RS/RF:ck

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

Janet Napolitano
Governor

David A. Berns
Director

JUL 07 2005

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JOINT BUDGET COMMITTEE

The Honorable Russell K. Pearce, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Pearce:

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

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

The Governor's Council on Workforce Policy (GCWP) met on June 7, 2005 and identified the issues in the table below to be funded in FY 2006 from the $3,614,000 of appropriated WIA discretionary funding.

The GCWP anticipates identifying the additional projects to be funded from the remaining WIA appropriated discretionary expenditures at a future meeting. DES will then forward the GCWP recommendations to the Joint Legislative Budget Committee (JLBC) for review prior to expenditure of these remaining funds.

Funded Activities 1/	**Benefiting Entity** 2/	**FY 2006 Funding Level**
Eligible Training Provider List & Website	ADE	$127,100.00
Incentive Grants to LWIAs	LWIA	350,000.00
Technical Assistance and Capacity Building	LWIA	250,000.00
High Concentration of Eligible Youth	LWIA	150,000.00
Virtual One Stop Support	DES	300,000.00
Evaluation	DES	100,000.00
System Building	GCWP	300,000.00
Apprenticeship Program	ADOC	130,000.00
Department of Commerce (staffing the GCWP)	ADOC	600,000.00
Subtotal		$2,307,100.00

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

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

Sincerely,

David A. Berns
Director

DB:JS:mlh

C:
The Honorable Robert Burns, Vice Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Clark Partridge, State Comptroller, Arizona Department of Administration
David Yaquinto, Director, Governor's Office of Strategic Planning and Budgeting

REQUIRED WIA ACTIVITIES
Recommended by the Governor's Council on Workforce Policy
June 7, 2005

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Key to Abbreviations

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

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: July 14, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

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

Request

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

Summary

The proposed rates reflect utilization and inflation actuarial adjustments and DHS program changes. The proposed rates cost $15.1 million General Fund more than the $60 million capitation adjustment assumed in the FY 2006 budget. The Executive budget request contained $73.2 million in state match monies for growth, including monies to address the *Arnold v. Sarn* settlement agreement. The DHS proposal would therefore be comparable to the capitation funding in the Executive proposal.

The shortfall created by these higher than budgeted capitation rates will also depend on the FY 2006 enrollment trends. Current caseloads are running near budget, and as a result, the capitation rate increases are likely to result in a shortfall in FY 2006.

The weighted average of the capitation increases is 11.7% above FY 2005. In comparison, the preliminary capitation rate numbers reported by DHS, which were the basis of the FY 2006 budget, assumed an 8% capitation rate increase across the three behavioral health categories.

Beyond these actuarial adjustments for utilization and inflation, the rates reflect 3 main program changes:

- A special $13 million General Fund adjustment to Maricopa SMI rates as part of the Executive's proposed agreement to resolve the *Arnold v. Sarn* lawsuit;
- Transferring some of the Department of Economic Security's (DES) behavioral health responsibilities for foster care children to DHS, at a cost of $3.3 million General Fund;
- Transferring current county responsibility for behavioral health services in juvenile detention centers to DHS, at a cost of $1.6 million General Fund.

With these transfers, the state will begin to draw down federal funds for these activities.

Recommendation

The Committee has at least the following options:

1. A favorable review of DHS' capitation adjustments with no conditions. DHS would view this option as an endorsement of any potential supplemental request.
2. A favorable review with the stipulation that the favorable review does not constitute an endorsement of a supplemental request.
3. An unfavorable review. The Department is likely to proceed with the proposed increases even with an unfavorable review by the Committee.

With any option, the JLBC Staff recommends that DES and DHS report by October 1, 2005 on the savings that will accrue as a result of shifting services from DES to DHS.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates in managed care programs that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims and encounter data and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DHS requests a change in rates, the new rates must be approved by Arizona Health Care Cost Containment System (AHCCCS). As directed by DHS, capitation rates may also include program expansions.

DHS has received approval from AHCCCS to change the capitation rates for CBH, SMI and GMH/SA, beginning July 1, 2005, and has submitted its planned capitation rate changes for the Committee's review. These rate changes will affect each Title XIX and Proposition 204 Special Line Item, and the Medicaid Special Exemption Payments Line Item.

Table 1 shows the budgeted and proposed capitation rates for each program. The FY 2006 appropriation was developed using preliminary capitation rate data reported by the department during the session, which assumed an 8.0% capitation rate increase above FY 2005.

Table 1

Capitation Rates

	FY 2005 Actual	FY 2006 Budgeted	% Change Above FY 2005	FY 2006 Final	% Change Above FY 2005
Children	$45.79	$49.45	8.0%	$50.71	10.7%
SMI	$63.11	$68.16	8.0%	$72.81	15.4%
General Mental Health	$30.04	$32.44	8.0%	$31.75	5.7%

Children's Behavioral Health
The proposed Children's rate increase is 10.7% above the actual FY 2005 budgeted rate, which is due to:

- A utilization trend increase of 10% from FY 2005 to FY 2006;
- A projected 13.1% increase in pharmacy related costs in FY 2006;
- Approximately 4,800 children that are Title XIX eligible that will be confined in detention centers (resulting in a $0.87 increase in cap rate);
- The transfer of certain behavioral health services from DES to DHS including:
  - 138 new children receiving therapeutic foster care (resulting in a $0.59 increase to the cap rate);
  - 500 children receiving counseling services (resulting in a $0.09 increase to the cap rate);
  - 333 children receiving Out of Home Care in DES that are eligible for Title XIX funding (resulting in a $1.06 increase to the cap rate);

Title XIX behavioral health services for foster care children are funded in the DHS budget. In FY 2003, funding for more intensive services began to be shifted from the DES budget to the DHS budget. Although the capitation rates were adjusted to reflect this shift, DHS now reports that the FY 2003 adjustments did not provide sufficient funding for these services. Therefore, the FY 2006 CBH rates have been adjusted upward (by an aggregate total of $1.74 per child per month, or $3.3 million General Fund) to reflect the increased costs associated with providing these new services. These services had been funded in the DES Children Services and Comprehensive Medical & Dental Program line items.

In addition to services being shifted from DES to DHS, DHS will begin to provide services to approximately 4,800 children who are eligible for Title XIX services that are anticipated to be confined to county detention centers in FY 2006, resulting in increased costs to DHS to provide these services. The cost to provide these services is approximately $1.6 million General Fund.

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

Seriously Mentally Ill
The proposed SMI rate increase is 15.4%, which is due to:

- Additional services provided to the SMI population in Maricopa County as part of an agreement with the Superior Court of Arizona related to the *Arnold v. Sarn* lawsuit. The services to be covered include residential, emergency, hospital and crisis, treatment, rehabilitation and support services. The adjustment for these additional services is $16.19 for Maricopa County, or $7.60 for the overall SMI population.
- A utilization trend increase of 2.7% from FY 2005 to FY 2006;
- A projected 9.7% increase in pharmacy related costs in FY 2006;
- Additional conversions from the Non-Title XIX program to the Title XIX program, which result in increased costs to the Title XIX program (an increase of $1.03 to the cap rate);

A Maricopa County Superior Court judge recently agreed to the Arizona Department of Health Services' completion dates for *Arnold v. Sarn* class action lawsuit. The lawsuit covers over 17,200 individuals with a Serious Mental Illness in Maricopa County, which is approximately 13% of all individuals served in Arizona. As part of that settlement agreement, DHS agreed to seek approximately $317 million in total funds to serve the SMI population in Maricopa County in FY 2006, an increase of $55 million (in all fund sources, including federal monies) over FY 2005.

According to JLBC Staff estimates, the enacted budget provided approximately $292 million in total funds for Maricopa SMIs in FY 2006. This included an increase of 8% for capitation rate growth and 2.4% for caseload increases. According to the Executive, the Governor's budget included capitation rate adjustments (20% for the SMI population) consistent with the $317 million Maricopa SMI spending agreement.

The rate adjustment being sought by the agency (a $16.19 per member per month increase to the capitation rate paid to the Maricopa County RBHA) would fulfill the requirements of the settlement agreement. The additional funds will be used to provide residential, emergency, hospital and crisis, treatment, rehabilitation and support services.

It is not clear if individuals meeting the same criteria as those covered by *Arnold V. Sarn* but living outside of Maricopa County will receive the same level of services as those living in Maricopa County.

In addition to the increases included above, the actuaries calculated a savings as a result of Medicare Part D, in which a new prescription drug benefit will be provided by Medicare for dual eligibles, resulting in prescription drug expenditures for this population to be reduced. This savings resulted in a decrease of $(2.13) to the cap rate in FY 2006. This savings (approximately $3.1 million General Fund) will not be realized, however, as federal law requires that most of these savings be returned to the federal government. As a result, the $15.1 million General Fund cost of the capitation rate change referenced in the Summary section does not include any savings from the implementation of Medicare Part D, as these savings will eventually be reimbursed to the federal government.

<u>General Mental Health/Substance Abuse</u>
The General Mental Health and Substance Abuse rate increased by 5.7% due to:

- A utilization increase of 5% from FY 2005 to FY 2006;
- A 3.6% increase in pharmacy related costs in FY 2006.

As with the SMI population, the actuaries calculated a savings as a result of Medicare Part D for the General Mental Health and Substance Abuse population, resulting in a decrease of $(0.62) to the capitation rate in FY 2006. This savings (approximately $1.1 million General Fund) will not be realized, however, as federal law requires that most of these savings be returned to the federal government.

<u>Budget Impact</u>
Table 2 shows the FY 2006 appropriated amounts for each population, as well as the JLBC Staff estimates of the cost by program above the FY 2006 appropriation, based on the enrollment projections that were used in developing the FY 2006 budget. Without changes to the enrollment projections and other assumptions used in developing the FY 2005 appropriation, the capitation rate changes will require an increase of $15.1 million from the General Fund and $45.8 million in Total Funds above the existing FY 2006 appropriation.

The actual costs of the new capitation rates may be higher or lower, depending upon the actual number of people that enroll in Title XIX behavioral health programs. The DHS actuaries estimate FY 2006 enrollment similar to what was budgeted.

Table 2

Statewide

	FY 2006 Appropriation		Estimated Need with Capitation Rate Changes	
	TF	GF	TF	GF
Children's Behavioral Health				
Title XIX	$265,932,200	$87,498,400	$274,262,900	$90,239,400
Proposition 204	3,146,900	1,035,400	3,248,800	1,068,900
Seriously Mentally Ill[X]				
Title XIX	161,122,000	53,013,200	179,806,100	59,160,600
Proposition 204	158,811,500	52,252,900	176,101,700	57,941,700
General Mental Health/ Substance Abuse				
Title XIX	80,839,300	26,598,200	81,320,700	26,756,500
Proposition 204	75,592,500	24,871,900	75,989,900	25,002,600
Medicaid Special Exemption Payments	15,850,300	5,215,200	16,396,700	5,395,000
Total	**$761,294,700**	**$250,485,200**	**$807,126,800**	**$265,564,700**
Difference			**$45,832,100**	**$15,079,500**

X – Maricopa SMI funding is a share of this amount plus other fund sources, which yields the $317 million spent in Maricopa in FY 2006

TF = Total Funds GF = General Fund Monies

RS/JM:ck

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JANET NAPOLITANO, GOVERNOR
SUSAN GERARD, DIRECTOR

JUN - 9 2005
JOINT BUDGET COMMITTEE

June 9, 2005

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

Dear Representative Pearce:

Pursuant to Laws 2004, Chapter 275, Section 26., the Arizona Department of Health Services (the Department) respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to review the proposed changes to the Behavioral Health Services Title XIX capitation rates for fiscal year 2006.

The purpose of developing new capitation rates each year is to re-evaluate the prior period's rates for reasonableness as it relates to providing adequate service levels and evaluating the cost to provide those services.

Key factors that contributed to the increases in the capitation rates include program changes, changes in acuity, and trend. The weighted average increase in the capitation rates developed is 10.5%. This compares to a weighted average rate increase of 8% used by the JLBC to develop the budget which was subsequently appropriated by the legislature.

Below are the capitation rates developed for this year, and a comparison of the amount appropriated for each population compared to the amount needed to fund the anticipated eligible population.

TITLE XIX RATES AND FUNDING

Program	Proposed Statewide FY06Capitation Rates	Capitation Rates Used in Appropriation Report	Appropriated Amounts for FY06*	Required Amounts for FY06 Capitation Rates*	Difference
Children	Broken out individually below	$49.45	$269,079,100	$271,842,500	
Children – Non CMDP	$33.10	Not broken out individually	Included Above		
Children - CMDP	$814.07	Not broken out individually	Included Above		
Seriously Mentally Ill	$72.81	$68.16	$319,933,500	$375,271,500	
General Mental Health/Substance Abuse	$31.75	$32.44	$ 156,431,800	$163,618,600	
Allocation of Administration			$12,719,500		
Arnold vs. Sarn			$15,196,400		
DES / DDD			Included above	$19,745,500	
Allocation of Medicaid Tax Exemption			$15,850,300		
Total			$789,210,600	$830,478,100	$41,267,500
State Match**			$259,650,300	$273,227,300	$13,577,000
Federal Portion			$529,560,300	$557,250,800	$27,690,500

*Proposition 204 and base populations combined.
**State match calculations based on FMAP blended rate of 67.10%

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

Sincerely,

Susan Gerard

Susan Gerard
Director

SG: tsg

c: Senator Robert Burns, Vice Chairman
Anne Winter, Policy Advisor, Health/Human Services, Governor's Office
George Cunningham, Deputy Chief of Staff, Finance/Budget
Gary Yaquinto, Director, Governor's Office of Strategic Planning and Budgeting
Bob Chapko, Budget Manager, Governor's Office of Strategic Planning & Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
John Malloy, Fiscal Analyst, Joint Legislative Budget Committee
Danny Valenzuela, Deputy Director, Department of Health Services
Eddy Broadway, Acting Deputy Director, Department of Health Services
Theresa Garcia, Director, Central Budget Office, Department of Health Services
Chris Petkiewicz, Chief Financial Officer, Division of Behavioral Health Services, Department of Health Services

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May 25, 2005

Mr. Chris Petkiewicz
Chief Financial Officer
Arizona Department of Health Services
Division of Behavioral Health Services
150 N. 18th Avenue, Suite 200
Phoenix, AZ 85007

Subject:
Behavioral Health Services State Fiscal Year 2006 Capitation Rates for the Title XIX Program

Dear Mr. Petkiewicz:

Introduction/Background

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) contracted with Mercer Government Human Services Consulting (Mercer) to develop actuarially sound capitation rates for each of its Regional Behavioral Health Authorities (RBHAs) for State Fiscal Year 2006 (SFY06). Rates were developed for the Title XIX program.

There are four RBHAs for which actuarially sound capitation rates were developed, covering six geographic service areas. They include:

RBHA	Areas Served
Community Partnership of Southern Arizona (CPSA 3 and CPSA 5)	Pima, Graham, Greenlee, Santa Cruz, and Cochise Counties
Cenpatico Behavioral Health of Arizona (Cenpatico 2 and Cenpatico 4)	Yuma, LaPaz, Pinal and Gila Counties
Northern Arizona Regional Behavioral Health Authority (NARBHA)	Mohave, Coconino, Apache, Navajo, and Yavapai Counties
ValueOptions	Maricopa County

Overview of Rate-Setting Methodology

Mercer assisted BHS with the development of a risk-based capitation rate methodology for RBHAs that complies with the Centers for Medicare & Medicaid Services' (CMS') requirements and the regulations under the Balanced Budget Act of 1997 (BBA). As it relates to the rate-setting methodology checklist and Medicaid managed care regulations (42 CFR 438.6) effective August 13, 2002, CMS requires that capitation rates be "actuarially sound." CMS defines actuarially sound rates as meeting the following criteria:

- have been developed in accordance with generally accepted actuarial principles and practices;
- are appropriate for the populations to be covered and the services to be furnished under the contract; and
- have been certified by actuaries who meet qualification standards established by the American Academy of Actuaries and the Actuarial Standards Board.

Actuarially sound capitation rates were developed for the contract period July 1, 2005, through June 30, 2006, covering SFY06. Mercer has utilized actuarially sound principles and practices in the development of these capitation rates.

The goal of capitation rate development is to take experience that is available during the base period and convert that experience, using actuarial principles, into appropriate baseline data for the contract period. Once the baseline data is determined, adjustments including trend, program changes, and provisions for administration and underwriting profit/risk/contingency are applied in order to determine actuarially sound capitation rates.

The capitation rate development process was divided into the following steps.

1. Calculate base data
   - Collect and analyze RBHA encounter data from SFY02 through the first half of SFY05
   - Apply separate completion factors by month and RBHA, to account for any unpaid claims liability
   - Apply appropriate data adjustments (if necessary) to account for encounter data underreporting

- Review RBHA financial statements to determine if adjustments are needed to the Base SFY04 total claim costs
- Utilize actual member months from SFY04 and the Base SFY04 total claim costs, to calculate Base SFY04 per-member-per-month (PMPM) values
- Perform budget neutral relational modeling (if necessary)

2. Calculate SFY06 actuarially sound rates
   - Apply trend factors to bring final Base SFY04 PMPM claims forward 12 months from SFY04 to SFY05
   - Apply acuity adjustment (if necessary) to account for changes in Behavioral Health penetration rates
   - Apply trend factors to SFY05 PMPM claims bringing them forward 12 months from SFY05 to SFY06
   - Apply appropriate adjustments for various program changes
   - Certify actuarial equivalence of the populations
   - Add provisions for administration and underwriting profit/risk/contingency

The end result of this capitation rate development process, completed jointly by BHS and Mercer, is actuarially sound capitation rates for SFY06.

Actuarially sound capitation rates were developed for each of the following population and RBHA combinations, shown in the table below.

Title XIX

Population	**CPSA 3**	**CPSA 5**	**Cenpatico 2**	**NARBHA**	**Cenpatico 4**	**Value-Options**	**Statewide**
Children — Non-CMDP	$ 29.82	$ 34.03	$ 35.45	$ 19.82	$ 46.82	$ 25.33	$ 27.54
Children — CMDP	$ 720.11	$ 848.78	$ 1,355.22	$ 883.67	$ 973.74	$ 670.32	$ 770.63
SMI	$ 45.38	$ 56.60	$ 54.97	$ 37.11	$ 42.30	$ 92.54	$ 68.18
GMH/SA	$ 23.88	$ 38.49	$ 25.50	$ 15.39	$ 46.69	$ 32.44	$ 30.11

The rate development schedules are shown in Attachment A.

Base Costs

The base data consisted of encounter data from all current RBHAs for July 1, 2003, through June 30, 2004. Given significant population growth in the Arizona Medicaid program, and continued emphasis on increased access to providers, this current timeframe and its fully credible aggregate membership was determined to be the most appropriate. Use of this SFY04 period allowed for eight months of encounter run-out. In addition, financial reports spanning SFY04 and year-to-date SFY05 were used to supplement the encounter data.

The BHS program falls under Arizona's 1115 waiver. 1115(a)(2) services are considered State Plan services for 1115 populations for the duration of the demonstration waiver, and hence no adjustment is required. The base data provided by BHS to Mercer includes only State Plan approved services. Mercer used the lower value of the encounters or the submitted financial reports on an aggregate RBHA statewide basis for Base SFY04 total claim costs.

Completion Factors

The base encounter data included encounters received through February 28, 2005, with incurred dates from July 1, 2003, through June 30, 2004. Completion factors to account for unpaid claims liability, and thus estimate ultimate incurred liability, were developed separately for each RBHA, and were applied by month. Completion factors are shown separately for behavioral health benefits (non-pharmacy) and pharmacy. The tables below and on the following page show the completion factors used for each of the current RBHAs' encounter data.

Non-Pharmacy

Population	CPSA 3	CPSA 5	EXCEL[1]	NARBHA	PGBHA[1]	Value-Options
Children — Non-CMDP	1.007	1.142	1.004	1.115	1.123	1.110
Children — CMDP	1.008	1.148	1.006	1.122	1.128	1.114

[1] EXCEL and PGBHA will not be contractors for SFY06, however they are referenced in all instances where their historical data has been used as a base source or to develop adjustments.

Population	CPSA 3	CPSA 5	EXCEL[1]	NARBHA	PGBHA[1]	Value-Options
SMI	1.008	1.120	1.006	1.112	1.129	1.072
GMH/SA	1.008	1.128	1.005	1.129	1.116	1.109

Pharmacy

Population	CPSA 3	CPSA 5	EXCEL[1]	NARBHA	PGBHA[1]	Value-Options
Children — Non-CMDP	1.004	1.003	1.000	1.003	1.011	1.001
Children — CMDP	1.004	1.002	1.000	1.002	1.010	1.001
SMI	1.004	1.002	1.000	1.002	1.012	1.001
GMH/SA	1.004	1.002	1.000	1.003	1.010	1.001

Data Adjustments

The base data was reviewed for consistency on a completed monthly incurred basis. This review was conducted at a RBHA and category of service (COS) (pharmacy and non-pharmacy) level of detail. An additional data adjustment was made to exclude any costs that are not reimbursed using Title XIX funds. Specifically, a downward adjustment of $4.259 million was made to the encounters to account for court-ordered evaluation encounters that were included in the base and are not reimbursed using Title XIX funds.

In addition, the encounter data was compared to the financial data on a RBHA and statewide aggregate level to determine the completeness of the encounter data. Due to variation between encounters and financials on a RBHA specific level of detail, a reduction factor was applied to the financial data to better estimate the ultimate true value of complete encounter data. The factor was derived based on the aggregate relationship of encounters to financials.

[1] EXCEL and PGBHA will not be contractors for SFY06, however they are referenced in all instances where their historical data has been used as a base source or to develop adjustments.

Budget Neutral Relational Modeling

While in aggregate the population, encounter and financial data was fully credible in the base period, there were regional distortions which required additional smoothing. There also appeared to be claims distortions between CMDP and non-CMDP children for two of the current RBHAs. Mercer applied budget neutral relational modeling to account for these variances. No dollars were gained or lost through this process.

Behavioral Health Penetration — Acuity Adjustment

A significant increase in penetration in the behavioral health program has been observed in the CMDP children and GMH/SA populations. Greater proportions of those eligible populations are accessing the behavioral health system. These increases have contributed to the projected increase in utilization for these populations reflected in overall claim costs. An acuity factor of 1.033 was applied to the Children-CMDP population across all RBHAs, and a factor of 1.017 was applied to the GMH/SA population across all RBHAs. This change was applied as an acuity adjustment to the SFY05 PMPM claim costs and represents a difference due to increased penetration (those enrolled, compared to those eligible), and does not adjust for any normal unit cost or utilization trends, which are handled below.

Trend

Trend is an estimate of the change in the cost of providing a specific set of benefits over time, resulting from both unit cost (price) and utilization changes. Trend factors are used to estimate the cost of providing services in some future year (contract year) based on the cost incurred in a prior (base) year.

In order to determine actuarially sound capitation rates, Mercer projected the base data forward to reflect utilization and unit cost trend by population, behavioral health (non-pharmacy) and pharmacy COS, and RBHA. Mercer calculated trends from the historical encounter data. The historical data that was used as a basis for trend development did not appropriately reflect the costs related to more recent program changes, which made it necessary for Mercer to include separate adjustments in the rate development process to account for such changes (these adjustments are discussed in later sections of this letter). Mercer also utilized its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs. RBHA submitted financial data trends were also reviewed. Although the trends were developed using several years of historical data, the trends factors were applied only to the SFY04 base data, bringing it forward 24 months to SFY06.

A combined unit cost and utilization trend was applied to bring to the base SFY04 PMPMs forward from SFY04 to SFY05. Separate unit cost and utilization trends were then applied to the SFY05 PMPMs to bring them forward to SFY06. Each of these components of trend are shown below, and applied in conjunction with the acuity factors, as previously discussed. The trend and acuity factors are not duplicative.

Mercer applied the following PMPM trend estimates to account for changes from SFY04 to SFY05.

PMPM Trend SFY04 – SFY05

Population	Children — Non-CMDP	Children —CMDP	SMI	GMH/SA
Non-Pharmacy	10.9%	10.9%	4.1%	5.9%
Pharmacy	28.1%	28.1%	9.3%	9.3%

The following utilization and unit cost trend estimates were used to account for changes from SFY05 to SFY06. These trends should be reviewed in conjunction with the corresponding acuity adjustment factors.

Utilization Trend SFY05 – SFY06

Population	Children — Non-CMDP	Children —CMDP	SMI	GMH/SA
Non-Pharmacy	10.0%	10.0%	2.7%	5.0%
Pharmacy	13.3%	13.3%	-0.4%	5.5%

Unit Cost Trend SFY05 – SFY06

Population	Children — Non-CMDP	Children —CMDP	SMI	GMH/SA
Non-Pharmacy	0.8%	0.8%	1.4%	0.9%
Pharmacy	13.1%	13.1%	9.7%	3.6%

Program Changes

BHS and Mercer reviewed the program changes that will have a material effect upon the cost, utilization, or demographic structure of the program during the contract period SFY06, whose effect was not included within the base data. Mercer reviewed the following information:

- programmatic changes affecting covered services and eligibility; and
- programmatic changes affecting provider reimbursement rates.

Program changes are applied in instances where the base data does not accurately reflect the populations or services that will be provided in SFY06. Because the base data consists of SFY04 data, it is necessary to make program adjustments for any population or services that are not fully represented in the base encounter and financial data.

Therapeutic Foster Care

There are an estimated 138 new children in therapeutic foster care that are currently covered by the Department of Economic Security (DES). These children are expected to shift in claim cost responsibility to BHS. The average cost of these children is $68.00 per day. The overall PMPM impact of this adjustment is $26.44 for the Children — CMDP population.

DES Kids in Counseling

For SFY05 rate development, approximately 731 children receiving counseling services through DES were to be transitioned to BHS. In SFY06, BHS plans to continue the transition of these children and estimates that 500 children will be transitioned in SFY06. The overall PMPM impact of this adjustment is $4.21 for the Children — CMDP population.

DES Kids in Level 1, 2, and 3 Out of Home Care

There are currently several DES children who are eligible for Title XIX services that are being covered by the DES. These children's services are paid for using other funds rather than Title XIX funds. Most of these children are located in inpatient facilities. The State of Arizona has determined that these children are eligible to access the services of the behavioral health system.

For SFY06, BHS plans to accelerate the transition of children in DES behavioral health settings to BHS. BHS estimates that this will result in a total BHS out of home placement population of approximately 333 children. The overall PMPM impact of this adjustment is $47.07 for the Children — CMDP population.

Juveniles in Institutions

There are currently several children who are eligible for Title XIX services that are anticipated to be confined in detention centers. These children incur higher costs than the average Title XIX child. An adjustment is therefore needed to reflect these increased costs in SFY06. Approximately 4,800 children are expected to be eligible. The overall PMPM impact of this adjustment is $0.87 for the Children — CMDP and Children — Non-CMDP populations.

Converted SMI Users

Under the current law and agreements with the plaintiffs in the lawsuit, **Arnold v. ADHS**, Non-Title XIX SMI clients are entitled to the same services as the Title XIX SMI clients. BHS has converted a significant number of these Non-Title XIX clients to Title XIX eligibility. In 2002, the Arizona Legislature eliminated laws previously exempting the SMI population from being required to comply with all Title XIX eligibility requirements. This action will provide the incentive for those clients seeking to continue to receive the full array of Title XIX services to convert to the Title XIX program.

BHS estimates that there are approximately 312 Non-Title XIX SMI users that will convert to the Title XIX program in SFY06 based on historical conversion data. The converted users were allocated among the RBHAs based upon the current SMI membership distribution. PMPM costs were developed under the assumption of an average annual cost per user of $17,002. The overall PMPM impact of this adjustment is $1.03 for the SMI population.

HSRI Adjustment

As a result of the agreement with the Superior Court of the State of Arizona regarding services for the Maricopa County SMI population, Mercer applied an adjustment to account for the increased level of services to be provided by the RBHA. The services covered under this agreement include residential, emergency, hospital & crisis, treatment, rehabilitation and support services. The PMPM impact of this adjustment is $16.19 for Maricopa County, or $7.60 PMPM for the overall SMI population.

Medicare Part D

Under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), a prescription drug benefit will be provided by Medicare for the Medicare/Medicaid dual eligible population. This change will be effective January 1, 2006. Under this program, prescription drug expenditures for dual eligibles by a state Medicaid program will be significantly reduced. Historical dual eligible prescription drug expenditures were reviewed and used to make an estimate of the impact of MMA to the SFY06 capitation rates. The overall PMPM impact of this adjustment is a reduction of $2.13 for the SMI population and a reduction of $0.62 for the GMH/SA population.

Administration and Underwriting Profit/Risk/Contingency

The actuarially sound capitation rates developed include provisions for RBHA administration. Mercer used its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs in determining appropriate loads for administration and underwriting profit/risk/contingency. Mercer reviewed current RBHA financial reports. The component for administration and underwriting profit/risk/contingency is calculated as a percentage of the final capitation rate. A 10 percent load was added across all populations. This is the same percentage as SFY05.

Risk Corridors and Performance Incentive

BHS has in place a risk corridor arrangement with the RBHAs that provides motivation for the RBHAs to appropriately manage expenses, yet provides financial protection against unmanageable losses. The risk corridor provides impetus for the RBHAs to operate efficiently and generate net income, but also provides for the return of any excessive profit to the State.

The proposed SFY06 BHS risk corridor approach provides for gain/loss risk sharing symmetry around the service revenue portion of the capitation rates. This risk corridor model is designed to be cost neutral, with no net aggregate assumed impact across all payments. The RBHAs' contracts also provide for a potential one percent performance incentive. In Mercer's professional opinion, the risk corridor and performance incentive methodologies utilized by BHS are actuarially sound.

Tribal Fee-For-Service Claims Estimate

Mercer received tribal claims and membership data from BHS for SFY00 through SFY04. Year-to-date figures and projections for SFY05 were also provided. BHS also provided additional information related to FFS rate increases that would affect tribal claims. Based on this information, Mercer and BHS projected that Title XIX tribal claim costs for SFY06 will be approximately $26.1 million.

BHS Administration

The Arizona Health Care Cost Containment System (AHCCCS) has placed BHS Administration at risk for the provision of BHS covered services for SFY06. Accordingly, the capitation rates were developed to include compensation to BHS for the cost of ensuring the delivery of all BHS covered services. The capitation rates paid to BHS include a 4.70 percent administrative load, which was negotiated between AHCCCS and BHS Administration. The administrative load represents the BHS costs of ensuring the efficient delivery of services in a managed care environment, and is based upon historical BHS costs and adjusted for increased regulatory oversight cost expectations for SFY06. The factor is 0.62 percent lower than SFY05.

Development of Statewide Capitation Rates

Statewide capitation rates were developed by blending the SFY06 capitation rates for each RBHA using projected SFY06 member months, the estimated dollar amount of SFY06 tribal claims, and the administrative percentage add-on component for BHS.

The statewide capitation rates are shown in Attachment B.

Certification of Final Rates

Mercer certifies that the above and attached rates were developed in accordance with generally accepted actuarial practices and principles by actuaries meeting the qualification standards of the American Academy of Actuaries for the populations and services covered under the managed care contract. Rates developed by Mercer are actuarial projections of future contingent events. Actual RBHA costs will differ from these projections. Mercer has developed these rates on behalf of BHS to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable law and regulations.

FINAL AND CONFIDENTIAL

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

Sincerely,

Michael E. Nordstrom ASA, MAAA

Michael E. Nordstrom, ASA, MAAA

MEN/jc

Copy:
Terri Speaks, BHS
Sundee Easter, Mercer
Sean Elcock, Mercer
Mark Hoyt, Mercer
Gabe Smith, Mercer

Enclosures

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STATE OF ARIZONA

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DATE: July 14, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Joint Legislative Budget Committee Staff – Report on Phoenix Medical Campus

Summary

The FY 2006 Higher Education Budget Reconciliation Bill (Laws 2005, Chapter 330) directs the University of Arizona (UA), based in Tucson, to establish a medical campus of its Health Sciences Center (AHSC) at the former site of Phoenix Union High School (PUHS). To support the Phoenix Medical Campus (PMC), Chapter 330 appropriates $6 million from the General Fund to AHSC, as well as $1 million from the General Fund to create the Arizona State University (ASU) Department of Biomedical Informatics.

The Arizona Board of Regents (ABOR) must submit for Committee review, by September 1, 2005, detailed operational and capital plans for PMC. *(Please see Attachment A.)* Of the $7 million appropriation for the new campus, Chapter 330 provided only $3.5 million on July 1, 2005. The remaining $3.5 million will become available upon the Committee's review of the PMC plans, but no later than October 5, 2005.

This agenda item provides the Committee with background information on PMC in advance of the September 1 deadline. UA and the City of Phoenix may also make preliminary presentations. The members will have the opportunity to raise additional issues for the September 1 submissions to address.

The highlights of the current PMC plan are as follows:

- Chapter 330 limited PMC to one class of 24 students, at an annual operating expense of $7 million.
- The first class will begin in fall 2006, housed in 90,000 square feet of 3 renovated buildings on a 4.8 acre campus.
- The City of Phoenix has supplied the property for a nominal annual fee, but UA and ABOR are responsible for renovating the 3 existing buildings, as well as possibly constructing 3 additional facilities.
- UA will finance the $19 million of renovations through lease payments of $16.25 per square foot, or $1.5 million per year, of which the Chapter 330 General Fund appropriation will pay $1.0 million.
- The original UA plan for PMC called for 196 students in 4 classes within 5 years, at an annual operating expense of $24 million. Furthermore, UA hoped to expand PMC enrollment to as many as 700 students, with possible annual operational costs upwards of $44 million, at an unidentified future date.

- PMC resides in the larger 15.8 acre Phoenix Bioscience Center, which the city owns and envisions could hold 1 million square feet, including: the existing TGen building; a joint university research facility, scheduled to begin construction later this summer; and two additional ABOR buildings not yet scheduled for construction.
- The Phoenix Bioscience Center plan includes a treatment facility. Options for patient services range from an outpatient clinic to a full teaching and research hospital, but no firm plan exists.

In mid-September, a joint subcommittee of this Committee and the Joint Committee on Capital Review (JCCR) will convene to discuss the September 1 plans in depth. This subcommittee will be able to spend more time reviewing PMC details than would be possible during a regular Committee meeting. The subcommittee will report its findings to the full Committee prior to formal review in late September or early October. *(Please see Attachment A.)*

To supplement the requirements of Chapter 330, JLBC Staff has prepared a list of suggested additional questions for the September 1 submission. *(Please see Attachment B.)*

PMC Detail

The Legislature, in Chapter 330, stated, "The Phoenix Medical Campus shall accommodate 24 first year medical students in instruction. The Phoenix Medical Campus shall continue to accommodate those 24 students through the remaining years of their instruction and clinical rotations." (Section 13.D) The Act also stated, "It is the intent of the Legislature that no more than $7,000,000 from the state General Fund be appropriated for the Phoenix Medical Campus in any fiscal year." (Section 13.G)

However, UA originally envisioned PMC expanding annually, through two levels. In Level I, enrollment and funding would grow, from FY 2006 to FY 2011, to fill all the space available at PUHS. This first level would eventually accommodate 48 lower division medical students, 148 upper division medical students (4 classes of 24 students, plus 100 upper-division students who complete their lower-division courses in Tucson, but choose clinical rotations in Phoenix), and 70 bioinformatics students. Level I would annually graduate 24 doctors at an operational expense of $24 million.

UA aims to begin the first PMC class in July 2006. UA will extend the curriculum and accreditation of AHSC to PMC. Additionally, PMC faculty will receive joint appointments at ASU and UA.

Table 1 summarizes the UA initial proposal for development of this first level.

Table 1

Phoenix Medical Campus Initially Proposed Level I Growth

	University of Arizona			Arizona State University			Total	
Fiscal Year	GF (M)	Lower Division	Upper Division [1/]	GF (M)	Undergrad	Grad	GF (M)	Students
2006	$ 6.0	0	0	$ 1.0	0	10	$ 7.0	10
2007	6.0	24	100	2.0	0	20	8.0	144
2008	8.5	48	100	3.0	0	30	11.5	178
2009	12.0	48	124	3.5	20	40	15.5	232
2010	16.0	48	148	4.0	20	50	20.0	266
2011	20.0	48	148	4.0	20	50	24.0	266

1/ Upper-division students include 100 per year who complete their lower-division courses in Tucson, but choose clinical rotations in Phoenix.

Level II, for which very little planning information exists, might accommodate 300 first and second year medical students, as well as 400 third and fourth year medical students. Level II might annually produce

150 doctors. This second level would require the construction of a new building, which a preliminary City of Phoenix estimate suggests might cost $150 million. UA has not yet provided any operational cost estimates for Level II. However, the UA College of Medicine, which graduates 110 doctors per year, receives an annual appropriation of around $44 million.

Level I Operations

Since no classes will run in FY 2006, the initial $7 million budget will finance startup expenses. Equipment, including specialized telecommunications infrastructure necessary for extension of the AHSC accreditation, will cost $3.8 million. UA will use another $2.2 million to hire PMC faculty and staff. ASU will use the remaining $1 million to hire faculty and staff for its Department of Biomedical Informatics. This new multidisciplinary department will incorporate the studies of computer science, biology, and engineering, to organize and analyze medical data.

Beginning in FY 2007, $1 million will finance lease costs, $0.9 million will cover general operating expenditures, $2.8 million will pay PMC faculty salaries, $1.3 million will fund PMC staff salaries, and $1 million will support the ASU Department of Biomedical Informatics. *(For the proposed UA and ASU cost breakdowns of future years, please see Attachment D.)*

Since 1992, UA has leased 17,000 square feet near 3rd Street and Indian School Road in Phoenix to house 100 upper division medical students who complete their lower division courses in Tucson, but choose clinical rotations in Phoenix. UA will move these students, and their associated $2.8 million in annual funding, to PMC.

Level I Capital

The City of Phoenix took title to PUHS in 2002, but did not complete the purchase until 2003. The city used friendly condemnation, a legal procedure similar to eminent domain, to reduce the purchase price of the property to approximately $10 million.

PUHS is a 4.5-acre campus on the north side of Van Buren Street between 5th and 7th Streets in downtown Phoenix. The campus houses 3 buildings of 3 stories each, totaling 90,000 square feet. These facilities are under renovation to accommodate PMC.

Building 1, located on the west side of the site, will include a bookstore, library, administrative and financial aid offices, student common areas, and a pre-clinical training area with exam rooms. Building 2, located in the middle of the site, will contain interactive classrooms, meeting spaces, and a conference center. Building 3, located on the east side of the site, will provide space for student and faculty offices. New additions on the north side of buildings 1 and 3 will house elevators, disability access, and additional stairs. *(Please see Attachment C.)*

The city and UA have executed a series of 30-year leases on the site. The city leased PUHS to UA for $3 per year. The lease provides an option for extensions. At the conclusion of the lease, the City of Phoenix retains ownership.

UA sublet the property at the same $3 annual rate to a private developer, who began $19 million of renovations in March 2005. Of this expense, $1.8 million will purchase landscaping and other open space improvements. Since the private developer is financing the project, it qualifies for New Market Tax Credits, established by the federal government to encourage private investment in low-income areas. These credits reduced the cost of the work by around $4 million.

Based on the above amounts, the renewal project has a total cost per square foot of $211. Since renewal and renovation projects often combine both minor and major work, it is difficult to make meaningful comparisons among them. Other than the exterior walls, the developer is completely rebuilding the PUHS facilities. Therefore, JLBC Staff believes the per-square-foot costs for the project are reasonable. *Table 2* compares the costs of some assorted renovation projects.

Table 2

Selected Building Renewal/Renovation Projects
Estimated Per Square Foot Costs

Project	Total Project Cost	Total Cost Per Square Foot	Direct Construction Cost Per Square Foot
ASU-Backfill Space Renovation II	$ 3,800,000	$ 40	$ 24
Treasurer Renovations	360,000	42	34
UA-Residential Life Building Renewal Phase I	8,600,000	61	51
ASU-Academic Renovations & Deferred Maintenance Phase I	10,000,000	133	100
AVERAGE		***$137***	***$105***
NAU-School of Communication Building Renovations	14,020,000	154	131
Phoenix Medical Campus (PUHS Renovation)	**19,000,000**	**211**	**?**
ASU-Instruction/Research Laboratory Renovations Phase I	10,000,000	238	213
ASU-Instruction/Research Laboratory Renovations Phase II	11,447,000	293	185

Comments: Costs are not adjusted for general or materials inflation.

Once the buildings are complete, UA will lease them back from the private developer at a rate not to exceed $16.25 per square foot, inflation adjusted. For comparison, the state Lease Cost Review Board estimates the average per square foot cost for leasing privately owned space at $18.25 through FY 2007. Annual lease costs will be $1.5 million, which UA will pay with $1.0 million from the PMC General Fund appropriation and $0.5 million from locally retained tuition revenues.

Related ABOR Capital Projects

An intergovernmental agreement signed by the City of Phoenix and ABOR in February 2004 provides ABOR the option to construct three new buildings to the north of the PUHS site. The agreement provides ABOR the flexibility to withdraw without penalty, should the Legislature choose not to provide additional appropriations. The development leases may also include an option for ABOR to purchase the underlying land. JLBC Staff has requested copies of all leases.

Preliminarily, ABOR plans to construct the following facilities:

- Arizona Biomedical Collaborative Building 1 (ABC 1), a joint research facility of all three state universities. ABOR estimates that the 82,000 square foot structure would cost $26 million. ASU and UA have suggested they might exhaust the remainder of their research infrastructure debt capacity, as defined by Laws 2003, Chapter 267, to finance the facility. ABOR has not yet submitted this capital project for JCCR review. However, the board plans to begin construction later in the summer, with completion scheduled for early 2007.
- Arizona Biomedical Collaborative Building 2, an anticipated 100,000 square-foot facility. ABOR has not yet formally budgeted or scheduled this project.
- PMC Level II Expansion Building, an expected 150,000 square foot structure. ABOR has not yet formally budgeted or scheduled this project.

UA does not envision that PMC will include a teaching hospital, although the university is contemplating outpatient or limited inpatient clinics for a specialized program in cancer or neuroscience. UA believes its current affiliations with 9 hospitals in Phoenix will continue to provide sufficient clinical rotation positions and teaching resources.

Phoenix Bioscience Center

PMC and the ABC research complex are part of a larger City of Phoenix master plan called the Phoenix Bioscience Center. The center is a 15.8 acre site bounded by Fillmore, Van Buren, 5th, and 7th Streets in downtown Phoenix, adjacent to the ASU Downtown Campus at the Mercado. *(Please see Attachment C.)*

ABOR envisions that the Bioscience Center will also house the ASU College of Nursing, the ASU Nutrition Program, and the UA College of Pharmacy.

The city master plan states that the Phoenix Bioscience Center has a capacity 1,000,000 square feet. The plan allocates 500,000 square feet for research, 300,000 square feet for academic purposes, and 200,000 square feet for clinical research. Potential tenants already exist to fill around 2/3 of this space. ABOR would occupy 90,000 square feet at PMC, 182,000 square feet with the two ABC buildings, and 150,000 square feet with a new medical school facility.

The Translational Genomics Research Institute and the International Genomics Consortium, private non-profit medical research organizations, occupy a 170,000 square foot structure north of the planned ABC I site. Built and owned by the city, the facility opened in 2004. The City of Phoenix also plans a 50,000 square-foot specialized animal care facility at the center, as well as parking structures and space for private biotechnology companies or hospital branches.

According to a study conducted by a global health care consulting firm, the two greatest hurdles for the Bioscience Center will be a lack of space and the highly competitive Phoenix hospital market. The Health Sciences Center in Tucson, which does not house any non-profit or private medical organizations, is a 48-acre campus. The City of Phoenix master plan states the city's intention to expand the Bioscience Center seven blocks north of Fillmore Street and into the ASU Downtown Center. The city currently owns 10 additional acres in the area.

While UA does not plan to build a teaching hospital, the City of Phoenix has discussed new research and clinical facilities at the Bioscience Center with at least two Phoenix area hospital systems. If any UA-affiliated Phoenix hospitals feel undue competition from the center, they could respond by closing clinical rotation positions and withdrawing teaching resources.

Additional Requirements

Once the Committee completes its review in late September or early October, Chapter 330 requires ABOR to submit for Committee review, by December 31, 2005, a progress report on PMC. Thereafter, any significant changes to the operational plan must receive Committee review and any significant changes to the capital plan must receive JCCR review.

RS/SC:ck

Attachment A

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DATE: July 7, 2005

TO: Members, Joint Legislative Budget Committee
Members, Joint Committee on Capital Review

As you are aware, the budget provides $7 million for the University of Arizona's Phoenix Medical Campus and an associated Arizona State University academic department. Half of this funding was made available on July 1. The other half will be made available no later than October 5 upon a review by the Joint Legislative Budget Committee (JLBC) of an operational and capital plan for the Phoenix Medical campus. This plan is to be submitted by September 1.

As required by statute, the plan shall include at least the following:

1. Detail on expenditures to date by the Arizona Board of Regents, its institutions, and its partners.
2. Detailed 5-year operational and capital budgets, including information on the expected sources of all funds.
3. A 5-year description of enrollment, capacity growth, and graduation expectations by practice area.
4. A 20-year financing plan detailing each funding source, including options to maximize resources and partnerships with the Maricopa Health Care District and other health care entities. Funding sources may include federal grants monies, private donations and contributions from other public entities.
5. The programs and areas of practice offered.
6. All partners involved in the Phoenix Medical Campus project, their roles, and an organizational chart.
7. The contributions and financing arrangements of all partners contributing to the capital plant, as well as the legal and financial relationship of the Arizona Board of Regents and its institutions to these partners.

After the initial review of this plan, any significant material changes to the plan are to be reviewed by the JLBC for operational issues and the Joint Committee on Capital Review (JCCR) for capital issues.

(Continued)

Given the importance of this issue, we want to alert you to our plans for the Committee review. We will start by having an introduction to this issue at the July 21st JLBC meeting. Since we will have not yet received the operational and capital plan at that time, this meeting is intended to give you a background on the issue. It will also provide you with an opportunity to ask for information to be submitted as part of the September 1 report.

In mid-September, we plan to have a joint subcommittee of the JLBC and JCCR meet to discuss the September 1 plan. A subcommittee will be able to take more time to review the plan's details than is possible during a regular JLBC meeting. The subcommittee will report its findings to the full JLBC. The formal review as required by statute will then occur at a full JLBC meeting in late September or early October.

If you are interested in serving on this subcommittee, please let us know. We would also strongly encourage your attendance at the regular JLBC and JCCR meetings during the interim. We were disappointed in having to cancel the June JCCR meeting due to a lack of a quorum. **These interim meetings are a critical part of our legislative oversight responsibility.** The Phoenix Medical School issue is an excellent example of why we need to attend and participate in these meetings. Given the potential ramifications, it is imperative that this plan reflect legislative priorities.

We look forward to seeing you at these meetings.

Robert L. Burns

Robert Burns, Chairman
Joint Legislative Budget Committee

Russell Pearce

Russell Pearce, Chairman
Joint Committee on Capital Review

RB/RP:ck

Attachment B

Suggested Additional Questions for September 1 Phoenix Medical Campus Submission

Level I

- What is the status of UA clinical rotation agreements with affiliated Phoenix area hospitals? Have the hospitals guaranteed the necessary rotation positions?
- What options have UA and the City of Phoenix considered for patient services near PMC? What is the current view of the university and the city, and why?
- UA has stated it will contribute a cumulative $21 million for operating expenses and $17 million for capital expenses through FY 2011 from its existing budget. What is the annual distribution of these funds? Which monies will UA reallocate and what are their current purposes?
- Why do proposed Level I operational costs continue to escalate after PMC reaches maximum student capacity, from $16 million in Year 4 to $20 million in Year 5?

Leases

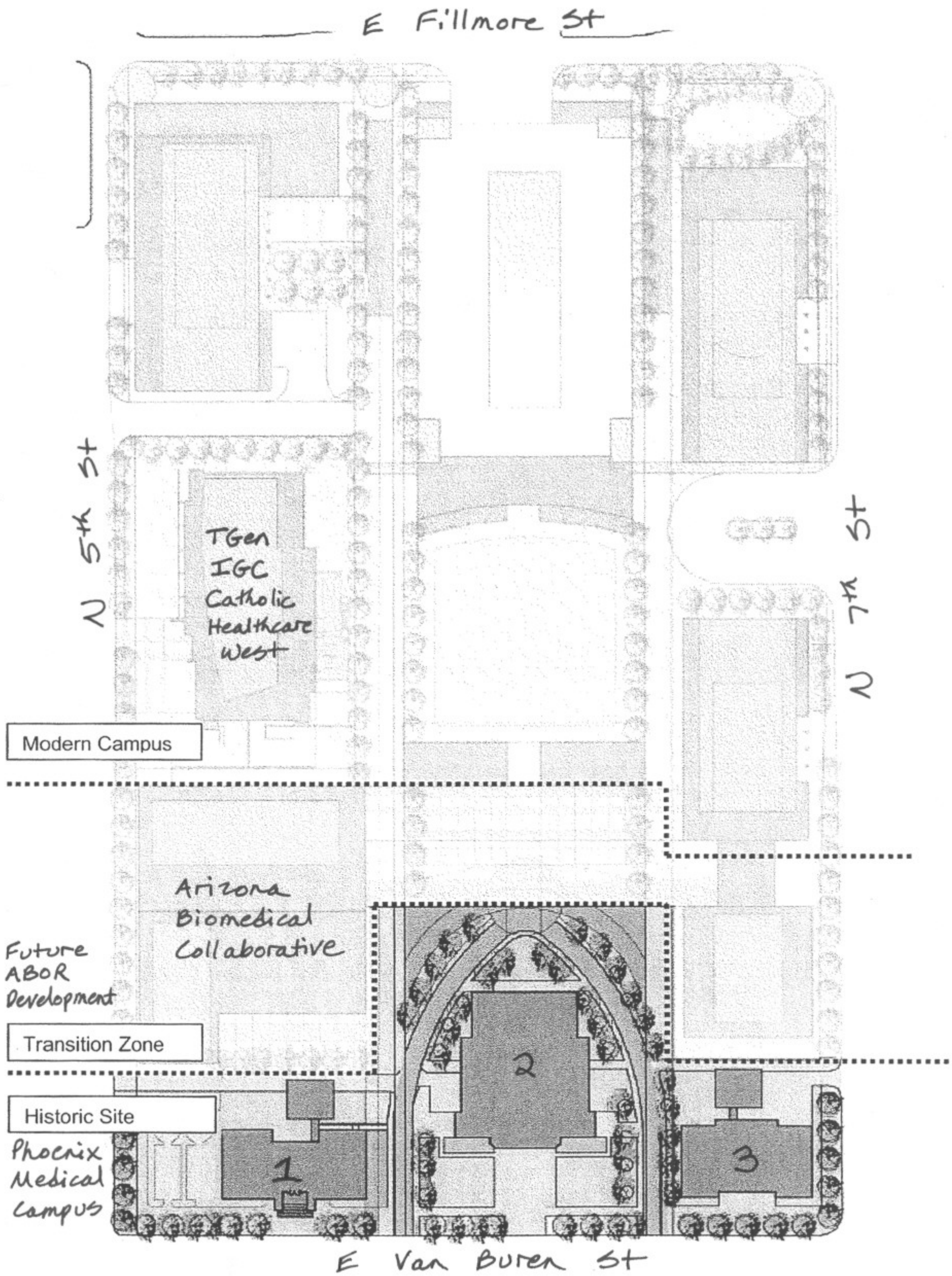
- Is the UA lease from the private developer a lease-purchase agreement? If so, what is the term of the agreement? If not, why not?
- Will UA terminate its current lease at 3rd Street and Indian School Road? If not, to what use will UA place the facility?

Phoenix Bioscience Center

- What exact space will house each of the ASU Department of Biomedical Informatics, the ASU College of Nursing, the ASU Nutrition Program, and the UA College of Pharmacy?
- Who owns the 7 blocks located to the north of Fillmore Street? What are the city's plans for acquiring the land?
- When can JCCR expect to review the Arizona Biomedical Collaborative Building 1 (ABC 1)? What will be the relationship between ABC 1 and the Phoenix Medical Campus?

PHOENIX BIOSCIENCE CENTER MAP

Attachment C



Mercado (ASU Downtown Center)

Phoenix Program
UA College of Medicine
State Budgets for FY 06 and FY 07

Narrative

The start-up process for the UA College of Medicine Phoenix Program is quite complex but relatively inexpensive for Level I operations, which can accommodate 24 first year students in each class in renovated Phoenix Union High School buildings and build toward a steady-state operation with 48 students combined in the first and second years and almost 150 students in the third and fourth years, including medical students who began their medical training in Tucson. Level I operations also require State investments in the ASU Biomedical Informatics Program, which is budgeted separately.

Level II operations, which could have as many as 150 new students starting medical education in Phoenix each year, is also not included in this budget summary, as it will require separate actions by the State several years into the future.

If the Phoenix Program steps up to 150 new students at Level II and the Tucson Program expands slightly to 120 new medical students each year, Arizona will be producing as many as 270 practicing physicians every year in response to the keenly felt societal need for doctors in this growing state.

In order to secure permission from the accrediting body (the Liaison Committee for Medical Education) to enroll new medical students in Phoenix when the academic year begins in July, we must host a site visit the preceding Fall and demonstrate that standards are met in three areas: Facilities, Faculty and Curriculum.

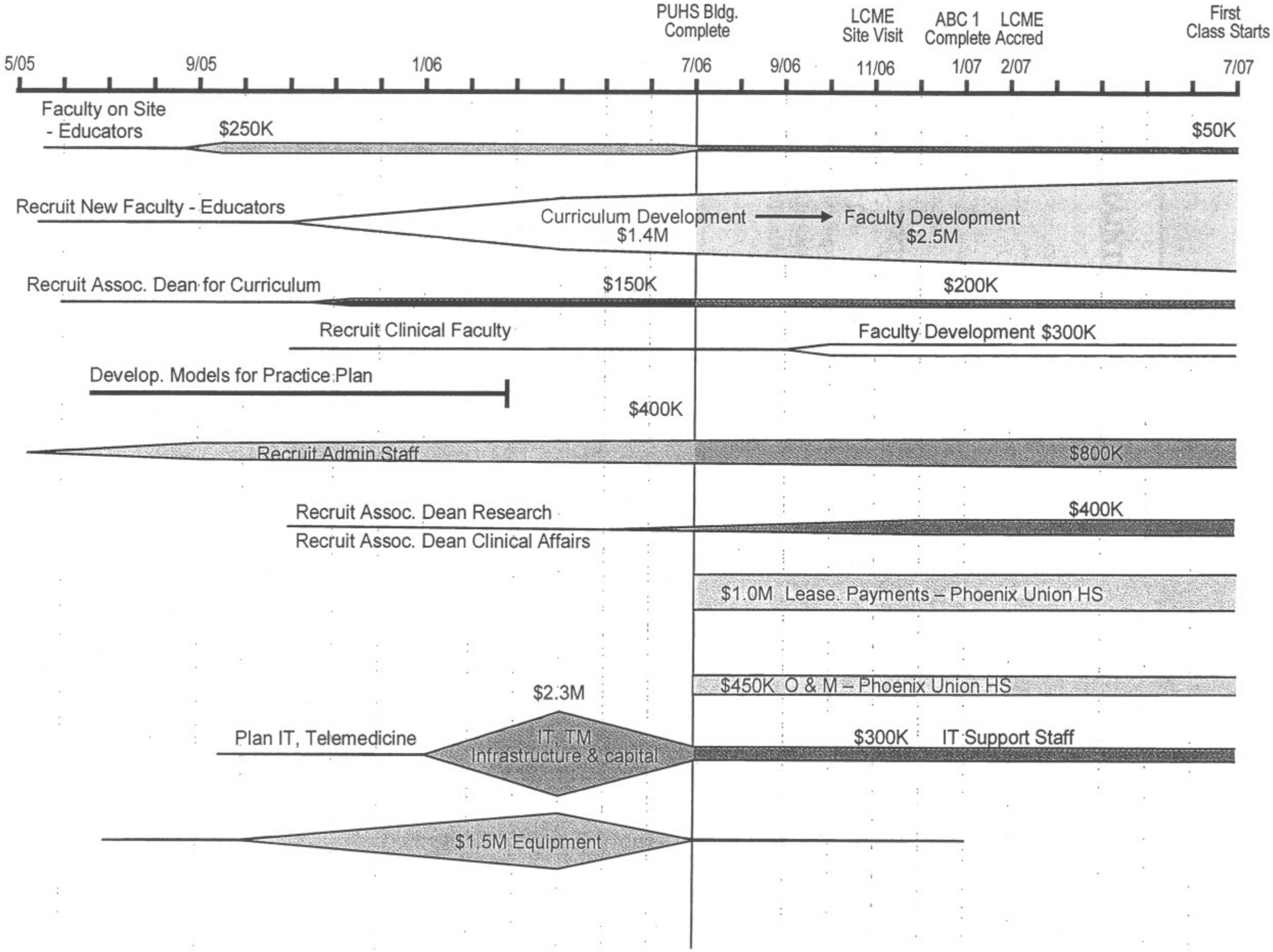
The renovated facilities will be available in July 2006, when about 100 upper division students already in Phoenix will move with faculty and staff from leased facilities elsewhere in Phoenix. If we add $6.0 million in new State funds for FY06 to the $2.8 million of UA funds currently committed, the facilities will be equipped and the faculty in place for the LCME site visit, tentatively scheduled for November of '06, with the curriculum in an advanced stage of development.

The attached flow chart illustrates schematically how the $6.0 million in State funds will be used in FY06 and FY07. Although the dollars are the same for both years, the uses of funds are quite different. In FY06 approximately $3.8 million of the $6.0 million would be invested in equipping the facilities, which must be adequate to meet very high telecommunications standards as required by the telemedicine program that enables the UA College of Medicine to serve the entire State. The balance would be used to begin assembling the required faculty and staff.

The budget for the second year, FY07, is displayed schematically in the attached flow chart and described in more detail in the second attachment, which shows $6.0 million in State funds in combination with $2,774,000 in UA funds.

PL/ls
Attachment 1. Flow chart for FY06, FY07
Attachment 2. Budget for FY07

Incremental Expenses- Phoenix Program UA COM



Phoenix Program – University of Arizona College of Medicine
Budget Breakdown FY 07
(in thousands, $K)

	Existing UA Funds/Grants ($K)	Total ($K)	Requested ($K)
OPERATIONS AND MAINTENANCE			
Operations	509	909	400
Lease Costs	448	1,448	1,000
Operations and Maintenance	0	450	450
Travel	175	175	0
EDUCATION			
Administration			
Dean of Academic Affairs (1)	1,223	1,823	600
Associate and Assistant Deans (5)			
Admissions/Academic/Financial Support (3)			
Admin Assistant and Admin Associates/Reception (6)			
Business Affairs/Development/Facilities (3)			
Special Assistant to Dean (2)			
Minority Affairs			
Director	257	257	0
Student Recruiters (3)			
Administrative Assistant (1)			
Basic Science Faculty for Year 1 and 2 Students			
Ph.D. faculty (6)	0	2,640	2,640
M.D. faculty (2)			
Clinical Science half-time M.D. (6)			
Clinical Science M.D. (3)			
Educational Consultants M.D., part-time (20)			
Administrative Assistant (5)			
Information Technology			
Media support (2)	162	462	300
Medical computing (2)			
Gross Anatomy Lab			
Staff (1)	0	47	47
Pre-Clinical Training			
Faculty M.D. (1)	0	210	210
Administrative Assistant (1)			
Medical Library			
Librarian (1)	0	309	309
Library Support staff (2)			
Computer staff (1)			
Medical Bookstore			
Office staff (1)	0	44	44
TOTALS ($K)	**2,774**	**8,774**	**6,000**

State Funding Requirements (six year projection)
Phoenix Program, LEVEL I
The University of Arizona College of Medicine
(Not including related budget for ASU, which starts at $1.0 Million)

FISCAL YEAR	UA	NEW REQUEST
	$ M	Δ$ M
06	6.00	6.00
07	6.00	0.00
08	8.50	2.50
09	12.00	3.50
10	16.00	4.00
11	20.00	4.00

The appropriations for LEVEL I funding will provide the following:

- Start-up: Facilities, equipment, faculty and staff
- Year 1 – 24 new students, plus 100 students from the Tucson campus in clinical rotations, or 124 students
- Year 2 – 24 new students, plus 24 second year students, plus 100 in clinical rotations, or 148 new students
- Year 3 – 24 new students, plus 48 second and third year students, plus 100 in clinical rotations, or 172 students
- Year 4 – 24 new students, plus 72 second, third and fourth year students, plus 100 in clinical rotations, or 196 students

NOTE: These are LEVEL I funding requirements, at which level the facilities on the Phoenix Biomedical Campus are limited to the renovated Phoenix Union High School buildings, with maximum capacity of 24 first year medical students per year, for a total capacity of approximately 100 medical school students (first through fourth year). However, the funding requirement reflects increases in the number of students supported by the Phoenix campus. Currently, there are approximately 100 third and fourth year medical students doing clinical rotations in Phoenix. At full complement, LEVEL I will support nearly 200 students (48 first and second year students and about 148 third and fourth year students).

During the first two years of the program, faculty and staff are needed for the basic science education. Paid clinical faculty are required as more students transition into this area of training. Currently, the UA College of Medicine utilizes 400 volunteer, unpaid faculty in Phoenix, however, clinical faculty will need to be paid as they contribute a greater portion of their time to the training of medical students.

State Funding Requirements (six year projection)
Phoenix Program, LEVEL I
The University of Arizona College of Medicine
(Continued)

The funding requirements display a tremendous cost savings by utilizing shared resources with the Tucson campus. In addition to the requested state appropriation the UA is contributing over these six years approximately $21 million in operating costs and investing over $17 million in Phoenix Biomedical Campus capital facilities.

In addition, tremendous cost savings are achieved through the use of the land (valued at approximately $3.2 million), the use of the Phoenix Union High School buildings (purchased by the City of Phoenix at a cost of approximately $10 million) and through the utilization of federal "New Market Tax Credits" by the City of Phoenix for $25 million.

A business plan will be developed in CY05 for LEVEL II operations, permitting up to 150 first year medical students per year, but requiring major public and private investments in facilities and operations. The timing of the move to LEVEL II will depend on the final recommendations of the Arizona Commission on Medical Education and Research, the type of public-private partnerships formed through the City of Phoenix's biomedical campus and the desire of the Arizona State Legislature and Governor to increase class size in the future. Current state policy-makers cannot bind future legislators, or Governors, to a pre-set appropriation. LEVEL I funding is the only commitment being sought.

"Metropolitan Phoenix was the 14th largest metropolitan area in the nation in the 2000 census – and it is by far the largest metro area in the nation without a four-year allopathic medical school and major academic medical center."

-"Meds and Eds", March 2005 edition

Contrary to certain perceptions, only a fraction of medical school graduates focus solely on research. It is anticipated that the students graduating from the Phoenix Program of The University of Arizona College of Medicine will practice in hospitals, private offices and clinics throughout the state. Moreover, expansion of the Arizona telemedicine program will increase our capacity to serve all areas of Arizona, especially the most remote. Currently, Arizona has a shortage of physicians (45th per capita in number of physicians) and lacks the academic support in Maricopa County to retain many of these physicians.

State Funding Requirements (five year projection)
Department of Biomedical Informatics
Arizona State University

Category of Expense	FY06	FY07	FY08	FY09	FY10
Faculty	600000	1200000	1800000	2100000	2400000
Staff	75000	150000	200000	250000	250000
Student assistants	50000	100000	250000	350000	500000
Operations	100000	150000	200000	225000	250000
Library/Information Resources	100000	150000	200000	200000	200000
Rent	75000	250000	350000	375000	400000
Totals	**1000000**	**2000000**	**3000000**	**3500000**	**4000000**

Notes: Facilities and classroom renovations are not included; Rental calculation based on 25/sq ft starting mid year 06

Faculty: The funds for faculty hires are for full-time faculty in Biomedical Informatics Department and joint faculty hired with Computer Science and Engineering Department (CSE), Bioengineering Department (BE) and the School of Life Sciences (SOLS) at ASU.

Staff: The funds are for staff positions for administering the department, educational programs (including student advising) and technical support.

Student Assistants: These are for research and teaching assistants to help with the curriculum/ laboratory design and instructional support.

Library/Information Resources: This is required for faculty and students to have access to the medical information databases and publications.

Implementation Plan

FY06

- 4 Faculty, 1.5 staff, and 1 teaching assistant and 0.5 research assistant
- Students: 10 graduate students in BMI concentrations (through CSE, BE and SOLS)

FY07

- 8 Faculty, 3 staff, and 2 teaching assistants and 1 research assistant
- Students: 10 in graduate degree program, 10 in BMI concentrations; Informatics instruction for 24 medical students (Year 1)

FY08

- 12 Faculty, 4 staff, and 4 teaching assistants and 3 research assistants
- Students: 20 in graduate program, 10 in BMI concentrations; Informatics instruction for 48 medical students (Year 1 and Year 2)

FY09

- 14 Faculty, 5 staff, 6 teaching assistants and 4 research assistants
- Students: 30 in graduate program; 10 graduate and 20 undergraduate in BMI concentrations; Informatics instruction for 72 medical students (Years 1, 2 and 3)

FY10

- 16 Faculty, 6 staff, 6 teaching assistants, 4 research assistants and 3 Fellowships
- Students: 40 in graduate program; 10 graduate and 20 undergraduate in BMI concentrations; Informatics instruction for 96 medical students (Years 1 to 4)

Biomedical Informatics Department
Arizona State University

Biomedical informatics (BMI) is a rapidly expanding field that merges biological/medical sciences and public health with the latest advances in computer science, information technology and telecommunications.

- **Mission**: The BMI department at ASU will be a world-class partnership between academic researchers, clinical practitioners, and regional healthcare providers to advance research and education in the science and practice of biomedical informatics. Working with partners such as TGen, the University of Arizona College of Medicine, BNI and the Mayo Clinic, the Department will bring together a unique synthesis of biomedical informatics and experimental investigations seamlessly integrated to predict, test, and elucidate the connections in the continuum from genotype to phenotype to provide the highest quality of care. The Department will prepare individuals who are capable of making major contributions to the creation and evaluation of computational and informatics tools and their application to biomedical or clinical research, health care practice and administration, public health, and the education of health professionals and patients.

- **Establishing Biomedical Informatics Education**: Arizona is one of very few states that does not yet have a strong university-based biomedical informatics program. Biomedical informatics is one of the areas of biotech that is growing fastest. To remain competitive in the bioscience sphere, Arizona needs to develop a doctoral-level training program in biomedical informatics, as well as masters and undergraduate programs. The Department will offer graduate and undergraduate degrees in biomedical informatics, joint degrees with the medical school and other allied health professional programs, and continuing and executive education for health professionals.

> ***"Arizona has 195 doctors for every 100,000 population – a figure well below the national average of 253. Furthermore, the pool of physicians practicing in Arizona is aging rapidly, and the 200-250 physicians per year graduating is barely enough to keep up with the growing population."***
> -"Meds and Eds", March 2005 edition

- **Advancing & Supporting Medical School Development:** The integration of biomedical informatics into the new medical school curriculum will ensure that the Phoenix track of the University of Arizona College of Medicine develops a world-class medical education program and research program. Educating physicians about the use of information technology is an essential component of physician education and training in the future including President Bush's plan to establish a national system for electronic medical records and health information technology.

- **Enhancing Relationships with Clinical Partners**. A strong biomedical informatics program at ASU will help to leverage the related resources in Phoenix and further develop Arizona as a bioscience hub. By combining ASU's expertise in computing and informatics with the resources of our partners such as the University of Arizona College of Medicine, TGen, BNI and the Mayo Clinic, the ASU Department of Biomedical Informatics will help solidify Phoenix's position as a leader in the biosciences.

Biomedical Informatics Department
Arizona State University
(continued)

- **Attracting New NIH Research Funding**: Biomedical and Bioinformatics are a key element of the NIH strategic plan, the *NIH Roadmap: Accelerating Medical Discoveries to Improve Health.* As a result, a great number of NIH requests for research funding require a biomedical informatics component. Existing biomedical informatics' programs bring large funding and prestige to their universities. For example, Ohio State University has received over $18 million and the Virginia Bioinformatics Institute at Virginia Tech has received over $12 million in such funding.

- **Improving Healthcare**. A strong biomedical informatics program at ASU will ensure that Arizonans have access to state-of-the art, efficient, safe, and low-cost clinical care. For example, Columbia University's Department of Biomedical Informatics has played an instrumental role in advancing health care in New York City hospitals through the development of a patient record database that can be accessed by physicians from a variety of locations, a superior system for securing patients' electronic data records, and a computerized event monitor that alerts physicians when a patient's vital signs rise to critical levels.

- **Building the Arizona Knowledge Economy**. The BMI Department at ASU will yield many economic benefits to the local and regional economy.

  ■ A recent industry survey found that the market for bioinformatics products is estimated to be as much as $37 billion in 2006.

  ■ Over 20,000 new positions for people with bioinformatics degrees will open by the end of 2005, with even more opportunities for those who receive masters and graduate degrees. Salaries for those with bioinformatics training are high, ranging from $40,000 for those with a Bachelor's degree to over $100,000 for those with a doctoral degree

  ■ Biomedical informatics tools and applications will lead to the establishment of several new companies in Arizona creating numerous new jobs for Arizonans.

> ***"According to the AzHHA Healthcare Institute, in 2001, virtually all hospitals in the state experienced severe problems in dealing with overcrowding and capacity – a vastly different picture than the rest of the nation..."***
>
> -"Meds and Eds", March 2005 edition.

Attachment E

156301

CITY COUNCIL REPORT 2005 JUN 16 PM 6: 14

FORMAL AGENDA CITY CLERK DEPT.

TO:	Sheryl Sculley Assistant City Manager	AGENDA DATE: June 22, 2005	
FROM:	Patrick Grady Director, Downtown Development Office	ITEM:144	PAGE:203

SUBJECT: BACK-UP REPORT TO JUNE 22, 2005 FORMAL AGENDA ITEM FOR REFINEMENT OF THE MASTER PLAN FOR THE PHOENIX BIOMEDICAL CAMPUS

This report provides back-up information to the June 22, 2005 Formal Agenda item requesting City Council authorization for the refinement of the current Phoenix Biomedical Campus (PBC) Master Plan with the following components: adoption of the land use concepts, mission statement and rules of engagement, and approval to proceed with a planning study north of Fillmore.

This recommendation has the unanimous support of the Arizona Commission for Medical Education and Research (June 7, 2005). This item was approved by the Knowledge Workforce, Education, Arts and Culture Subcommittee on June 8, 2005.

THE ISSUE

In October 2002, the City Council approved the land use and site plan study prepared by a team of consultants that was led by Stantec Consulting Inc. The study provided the City of Phoenix with an overall plan for the use of city owned land bounded by Fillmore and Van Buren between 5th and 7th streets. This plan recommended a location for the Translational Genomics Research Institute and International Genomics Consortium (TGen/IGC) headquarters facility as well as identified development opportunities for one million square feet that could be absorbed by the site within ten to 15 years, and set forth the parking requirements needed for the planned uses.

Between the fall of 2002 and spring of 2003 the TGen/IGC headquarters program increased from the original two tenants to four and the facility increased in size from approximately 90,000 to 170,000 square feet. Due to this increase, the site plan of the 15.8 acre campus was modified by the Smith Group to accommodate this growth, increase the pedestrian movement through the site and locate future buildings. This site plan was approved by the City Council in April of 2003. In December 2004, the City Council also approved the *Downtown Strategic Vision and Blueprint for the Future* that identified the seven blocks north of Fillmore and the ASU Downtown Center along Van Buren as part of the PBC for future biomedical expansion.

In November 2004, the City Council passed a resolution in support of leasing city-owned land in downtown Phoenix to the Arizona Board of Regents (ABOR) for medical research and academic development. Other recent developments have occurred that require refinement and implementation of the master plan. These developments are expected to increase the number of doctors in Arizona and the level of research conducted on the PBC as well as accommodate future biomedical development on City-owned land to the north of the PBC. Current developments planned include the University of Arizona (UA) College of Medicine and the first facility for the Arizona Biomedical Collaborative (ABC). These facilities are scheduled to open in 2006 and 2007, respectively. This compliments the recent December, 2004 opening of the TGen facility.

In October 2004, Governor Napolitano authorized the creation of the Arizona Commission on Medical Education and Research (ACMER) to implement the expansion of the UA Colleges of Medicine and Pharmacy at the PBC. The ACMER mandate also includes building additional programs and facilities on the PBC in conjunction with ASU and one or more Phoenix area hospitals currently participating in the current College of Medicine teaching programs. As a result of the mandate, the consulting firm Kurt Salmon Associates (KSA), retained by ACMER through the Flinn Foundation, was asked to provide input on the PBC master plan based upon recent commitments and initiatives.

PBC MASTER PLAN REFINEMENT

Mayor Phil Gordon represents the City on ACMER while the Assistant City Manager, Sheryl Sculley is Co-Chair of the PBC Master Planning Task Force. This task force has representation from the universities, TGen and non-profit health care organizations. The focus of this task force is to evaluate and recommend refinements to the master plan necessary to accommodate the Colleges of Medicine and Pharmacy, develop the PBC mission statement and land use concepts, and identify the rules of engagement for future development on PBC.

KSA assisted the task force by identifying four scenarios (Attachment A) for land use consideration that can be implemented on the PBC. The scenarios describe concepts for different occupancy uses. The master planning task force reviewed all the scenarios and identified the use of scenario two as the most desirable land use strategy.

This scenario emphasizes and supports the current focus on research and education on the campus, including the first phase of the medical school that will be housed in the three historic buildings; the first ABC research facility and the potential for specialty oriented clinical uses that could be ambulatory or perhaps involve less than 100 beds.

The original master plan approved by City Council indicated that approximately one million square feet could be developed on the 15.8 acres of the PBC core. To achieve the highest and best use of this land, the master planning task force has identified the allocation of the PBC space to be 500,000 square feet for research, 300,000 square feet for academic purposes and 200,000 square feet for clinical research.

The revisions to the original master plan include expanding the planning area from the original 15 acre PBC campus to include the seven blocks north of Fillmore Street and the current site of the ASU Downtown Center along Van Buren Street. In addition, the revised plan (Attachment B) also identifies and locates the following categories of land uses:

Research: the west-central portion of the PBC including the current TGen and ABC site, plus a development pad at the southeast corner of Fifth and Fillmore streets;
Research/Clinical: the northeast portion of the PBC, plus the City-owned block at the northwest corner of 7th and Fillmore streets;
Research/Education/Clinical: the existing ASU Downtown Center site;
Education: the southern and southeast portion of the PBC campus, including the historic former Phoenix Union High School buildings plus a development pad north of the northwest corner of 7th and Van Buren streets.
Research/Education/Clinical/Industry: the blocks currently owned in whole or in part by the City between Fillmore, Garfield, 4th and 6th streets.
Support: the north-central portion of the PBC, which would include structured parking, retail, and other ancillary uses.

The master plan refinements will provide greater direction to prospective tenants and to the community regarding the City's expectations for land use, facility location, vehicular and pedestrian circulation, and the location of the campus development.

MISSION STATEMENT AND INITIAL RULES OF ENGAGEMENT

The revised master plan would include a mission statement and initial rules of engagement (Attachment C) that will guide the future land development and uses for the PBC. The mission statement and rules of engagement provide flexibility for the types of uses on the PBC and are closely aligned with the work of TGen, ABC, UA Colleges of Medicine and Pharmacy; and the major biomedical categories that were identified as industry and educational strengths in the *Arizona Bioscience Roadmap*, the report commissioned by the Flinn Foundation and produced by the Battelle Memorial Institute.

Mission Statement

The mission statement recognizes the broad benefits of synergistic uses throughout the state and region that would provide opportunities for growth and compliment the existing work of TGen, ABC and the UA Colleges of Medicine and Pharmacy. This statement defines the type of development and research that the PBC will foster and outlines the protocol for future tenants.

Initial Rules of Engagement

The initial rules of engagement for the PBC reflect the priority themes that contribute to the overall mission, increase the synergy of existing tenants and guide the selection process of non-profit and for-profit organizations. These rules provide a clear framework for the City, tenants and prospective proposers regarding the future development of the PBC. It requires proposers to demonstrate how their activity will enhance the overall mission of the PBC.

Governance

The initial rules of engagement propose the establishment of an advisory committee that would be comprised of City staff and PBC tenants. This advisory committee would provide recommendations to the City of Phoenix (as owner of the PBC) on the suitability of proposed development, provide expertise and collective knowledge on biomedical issues and research, and recommend the most appropriate uses that would be in alignment with the mission of the PBC.

PLANNING STUDY NORTH OF FILLMORE

The initial Stantec land use study recommended a site to construct the TGen/IGC facility, identified potential reuses for the three historic, former Phoenix Union High School buildings and the amount and phasing of future development on the PBC. The study briefly noted the five City-owned blocks located north of Fillmore Street adjacent to the PBC as property that could serve future expansion of the PBC but gave no further recommendations.

In recognition of the recommendation to revise the approved master site plan, staff is also requesting to hire a consultant to produce a general land use plan for the North of Fillmore property. The scope of work would include assessment of open space, parking, traffic, height, density, massing, pedestrian connectivity and the design guidelines of the PBC that would be illustrated in a revised general plan for the area. The study would be completed by the end of the calendar year. Additionally, input from the Evans Churchill, Roosevelt and Garfield neighborhood associations would be sought as well as from adjacent property owners and other downtown community organizations.

RECOMMENDATION

Based on the input from KSA, the master planning task force, and potential users of the PBC, this report requests City Council authorization to proceed with the refinement of the current Phoenix Biomedical Campus (PBC) Master Plan with the following components: adoption of the land use concepts, mission statement and rules of engagement; and approval to proceed with a planning study north of Fillmore.

This recommendation has the unanimous support of the Arizona Commission for Medical Education and Research (June 7, 2005). This item was approved by the Knowledge Workforce, Education, Arts and Culture Subcommittee on June 8, 2005.

Attachment F

ARIZONA BOARD OF Regents

MINUTES

President Christina Palacios
President-elect Robert Bulla
Treasurer Fred Boice
Secretary Lorraine Frank

ARIZONA BOARD OF REGENTS

MINUTES OF A SPECIAL MEETING

ARIZONA BOARD OF REGENTS GREAT SEAL OF THE STATE OF ARIZONA DITAT DEUS 1912

February 17, 2005

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A meeting of the Arizona Board of Regents was held February 17, 2005, in the Small Conference Room of the ABOR Office, 2020 N. Central, Suite 230, Phoenix, Arizona. President Stuart called the meeting to order at 1:41 p.m. Some of the people participated by telephone.

PRESENT:	Regent Fred Boice (By telephone) Regent Ernest Calderón Regent Lorraine Frank (By telephone) Regent Jack Jewett (By telephone) Regent Wes McCalley (By telephone) Regent Christina Palacios (By telephone) Regent Gary Stuart
ABSENT:	Governor Janet Napolitano Regent Robert Bulla Regent Benjamin Graff Regent Chris Herstam Superintendent Tom Horne

Also present were: Dr. George Davis (by telephone) and Mr. Greg Fahey, University of Arizona; Dr. Christine Wilkinson (by telephone), Arizona State University; Executive Director Joel Sideman, Board Counsel Paulina Vazquez-Morris, Secretary to the Board Judy Garza, Ms. Kathy Bedard, and Mr. Ted Gates, Central Office; Mr. Jaime Molera, Consultant; Mr. David Harris, Senior Project Manager for the Phoenix Biomedical Campus, and Ms. Darcy Renfro (by telephone), Governor's Office.

All lists, reports, summaries, background materials, and other documents referred to in these minutes can be found in the February 17, 2005, Documents File.

President Stuart explained the Board was being asked to authorize the University of Arizona to enter into a lease agreement with the City of Phoenix for three historic buildings and related land located at the former Phoenix Union High School site in downtown Phoenix at 7th and Van Buren Streets; to authorize the University of Arizona to sublease those facilities to DESCO Southwest; and then lease them back from DESCO Southwest when required renovation work has been completed.

President Stuart said Regent Herstam had recused himself from the meeting because he might have a conflict of interest with a client. There was a need to meet in a special meeting to authorize these documents so the project can begin and will finish in time to meet the necessary deadlines for everyone involved.

The Board approved an Intergovernmental Agreement (IGA) with the City of Phoenix at its January 2004 meeting to allow the universities to renovate existing historic buildings and construct new facilities at the Phoenix Biomedical Campus of the Arizona University System in downtown Phoenix. Under this IGA, the City of Phoenix offered to lease three historic buildings on the Campus to the universities for $1.00 per year per building for a term of 30 years. The City has also offered the University of Arizona an opportunity to participate in its New Market Tax Credit Program, which could reduce construction costs by 25% by offering Federal Income Tax Credits to any proposed developer.

In June 2004, proposals were solicited from private developers to lease the building from the University of Arizona, renovate them, and lease them back to the university for 30 years for use for expansion of the College of Medicine in downtown Phoenix. After review by an independent financial consultant, DESCO Southwest was selected from five proposing developers based in large part on their experience with a similar project in St. Louis, Missouri, and their experience with New Market Tax Credits.

It is anticipated that the renovations will commence by March 1, 2005, on the 90,000 sq. ft. facility which will include highly mediated classrooms, administrative offices, faculty offices, student study carrels and library, and a small auditorium. The facility will accommodate 48 medical students, with the first class of 24 students starting in July 2006 and a second class of 24 students starting in July 2007.

Upon motion of President Stuart, seconded by Regent Boice, the Board authorized the University of Arizona, through its president or his designated representative, to enter into a 30-year lease with the City of Phoenix for three historic buildings and related land located at 7th and Van Buren Streets at a rate of $1.00 per year per building; authorized the university to sublease these facilities to DESCO Southwest for an identical $1.00 per year per building for a 30-year term; authorized the university to lease the facilities back from DESCO Southwest when required renovations are completed for a term of 30 years for an initial rate not to exceed $16.25 per sq. ft., with an annual inflation increase of 1.5 % or the CPI, whichever is greater. The appropriate legal documents are subject to review by university and Board Counsel.

The motion passed by unanimous roll call vote.

Regent Calderón asked if the property would revert back to the City of Phoenix after the 30 years and was told yes if the university did not exercise its option.

Mr. Harris received expressions of gratitude for his work on this project.

FAQ's

Medical School

- **Why is it important that a medical school be located in Phoenix?**
  There are numerous reasons why it's important for a four-year allopathic* medical school to be located in Phoenix, the fifth largest city in the nation.

  The UA College of Medicine currently enrolls 110 beginning medical student per year and lacks the capacity to substantially increase class size. About 40 percent of third and fourth-year medical students currently complete their clinical preparation in nine Phoenix area hospitals, and have the capacity to add more. By adding a cadre of first and second-year medical students to Phoenix, in time the total College of Medicine enrollment could nearly double.

  Arizona has a shortage of physicians, pharmacists, nurses, and many technical and allied health professionals. Arizona trails most states in the proportion of health professionals to its population. The number of bioscience degrees being conferred in Arizona is going down faster than in the country as a whole, most particularly at the associate degree level. While the supply of physicians in Arizona should increase, important factors under study are (1) the mix of primary care and specialty physicians relative to the needs of the population; and (2) the urban/rural distribution of physicians.

  In addition to helping meet the deficit in Arizona's healthcare workforce, the proposed expansion will draw upon the unique physical and intellectual assets of ASU, UA, TGen, and Phoenix-area hospitals and research institutes.

- **Where will the medical school be housed?**
  The target start date is July 2006. Initially, essential administrative offices, library and student-support services, as well as classrooms and a lecture hall will be located in three historic Phoenix Union High School buildings on Van Buren between 5th St. and 7th St. in Phoenix. The approximate 90,000 square feet of building space is situated on 4.5 acres.

- **When will the medical school open?**
  Renovation work on the three historic buildings will begin March 2005. The medical school is scheduled to open July 2006.

  - How many students will be taught at the medical school?
    The first entering class is planned to be 24 students starting in July 2006. A second class of 24 would start In July 2007.

  - How many faculty and support staff will be employed at the medical school?
    Initially, an estimated 15 to 18 faculty will be needed. It is hoped that current College of Medicine faculty, supplemented by faculty from ASU, TGen, participating hospitals, and research institutes, will comprise the core faculty.

  - What will be taught at the medical school?
    The proposed Phoenix curriculum will support the educational goals adopted by the College of Medicine faculty and approved by appropriate accrediting

agencies. A Phoenix track will draw upon unique Phoenix area resources and health care institutions and be characterized by small-group learning experiences supported by advanced technologies, research tracks, and multidisciplinary learning experiences.

- What is the University of Arizona College of Medicine's current role in Phoenix?
  Since 1992, the UA College of Medicine has maintained a regional campus in Phoenix, allowing about 40 percent of third-year and fourth-year UA medical students to complete their clinical studies in Maricopa County. The UA College of Medicine currently has more than 400 volunteer faculty members in Maricopa County, providing a strong foundation for the new college. Their current location is at 4001 North 3rd St. in 17,000 square feet of classroom and office space.

- What is the relationship between the medical school and ASU's proposed downtown campus?
  The proposed expansion process will involve those elements available or being developed at ASU that would complement the value and heighten the success of the expansion. In addition to a physical linkage between the Phoenix Biomedical Campus and ASU's proposed downtown campus, linkages are planned with ASU's new bioinformatics program in the Fulton School of Engineering and Applied Science, the ASU College of Nursing and Nutrition program, and specific research programs on ASU's main campus.

- What is the relationship between the medical school and our local hospitals?
  The UA College of Medicine currently maintains a clinical teaching relationship with nine Phoenix area hospitals and plans to continue those partnerships. These affiliations often provide medical students unique educational experiences. Many medical schools utilize a similarly dispersed system of hospital partnerships to enhance educational experiences. Recent changes in the medical school curriculum target a greater integration between the basic and clinical experiences. This requires a new framework to enable faculty and students to move efficiently between the classroom, the hospital, and the research laboratory. The precise configuration of the integration of the educational, clinical, and research missions of the College of Medicine in Phoenix is yet to be determined.

- What is the relationship between the medical school and TGen?
  The preeminence of TGen in genomics research and the proximity of the new TGen laboratories on the Phoenix Biomedical Campus to the College of Medicine expansion should provide synergistic opportunities. How those will be expressed is yet to be determined.

- What is the financing mechanism to complete the medical school building renovations?
  The University of Arizona will lease the three historic buildings from the City of Phoenix for $1 each for 30 years, then sublease them at the same rate to developer DESCO Southwest, which will perform the expected $19 million renovations. DESCO Southwest will lease the buildings back to the university, for an expected $1.4 million a year. The University of Arizona will pay for the facilities in part with tuition and with money already devoted to a lease at their current Phoenix location. After 30 years, ownership of the

buildings will revert to the city of Phoenix. The buildings were built in the 1910s and need extensive renovation. A private developer is being used so the renovation can qualify for New Market Tax Credits, a federal program that reduces the costs by about 25 percent. The University of Arizona can lease the buildings for substantially below market value in downtown Phoenix.

- Is there an economic benefit to having a medical school in Phoenix?

  In February 2003, the Association of American Medical Colleges (AAMC) retained Tripp Umbach Healthcare Consulting, Inc. to measure the economic impact of AAMC member institutions on the 46 individual states and District of Columbia in which they are located. According to this study, the total economic impact of the University of Arizona College of Medicine (including both direct and indirect business volume, employment, and government revenue impact) came to just over $2.5 billion in 2002.

ACMER

- What is ACMER?

  The Arizona Commission for Medical Education and Research (ACMER) was established by Governor Janet Napolitano (Executive Order 2004-25) and charged with developing a plan to implement the principles enumerated in the August 4, 2004 Memorandum of Understanding signed by the presidents of the ABOR, ASU, and UA for an expansion of the College of Medicine and other health science programs in Phoenix. This planning and implementation process is not a substitute for, or delegation of, the academic and fiduciary responsibilities of its member institutions.

- What organizations comprise ACMER?

  State of Arizona (The Honorable Janet Napolitano, chair; The Honorable Carolyn Allen; and The Honorable Laura Knaperek), City of Phoenix (The Honorable Phil Gordon), Arizona Board of Regents (Gary Stuart, President), University of Arizona (Peter Likins, President), Arizona State University (Michael Crow, President), Banner Health (Peter Fine, President/CEO), St. Joseph's Hospital & Medical Center (Linda Hunt, CEO), Maricopa Medical Center (James Kennedy, Chief Medical Officer & Interim CEO), Translational Genomics Research Institute (Jeffrey Trent, President/Scientific Director), Flinn Foundation (John Murphy, President/CEO).

- What is Kurt Salmon Associates (KSA)?

  KSA is a global management consulting firm offering integrated strategy, process and technology deployment solutions to the consumer products, retail, and health care industries. KSA's Health Care Consulting group provides management advisory services in facility planning, strategy, and information technology to multiple hospital systems, community hospitals, academic medical centers, children's hospitals, and physician group practices. With 50 years of experience and expertise in working with the nation's top medical schools, KSA was selected to assist ACMER in developing the initial recommendations.

- When was ACMER created?