STATE OF ARIZONA

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, July 27, 2006
9:30 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of June 14, 2006.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION - Review for Committee the Planned Contribution Strategy for State Employee Health Plans as required under A.R.S. § 38-658A.

1. DEPARTMENT OF PUBLIC SAFETY
   A. Review of Expenditure Plan for Staffing of Additional Highway Patrol Positions and Sworn Officer Salary Increases.
   B. Review of Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission
   C. Review of Expenditure Plan and Project Timeline of the Microwave Communications System Upgrade.

2. DEPARTMENT OF HEALTH SERVICES
   A. Review of Behavioral Health Title XIX Capitation Rate Changes.
   B. Review of Requested Transfer of Appropriations between Special Line Items and Report on the Arizona State Hospital Expenditure Plan.
   C. Review of Children’s Rehabilitative Services Capitation Rate Changes.

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

4. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of FY 2007 Expenditure Plan for Workforce Investment Act.
   B. Review of Incentive Funding from the Workforce Investment Act.

(Continued)

5. ARIZONA GAME AND FISH DEPARTMENT - Review of Watercraft Operation Under the Influence (OUI) Equipment Expenditure Plan.

6. ARIZONA STATE RETIREMENT SYSTEM - Review of FY 2007 Information Technology Expenditure Plan.

The Chairman reserves the right to set the order of the agenda.
07/20/06

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

June 14, 2006

The Chairman called the meeting to order at 9:18 a.m., Wednesday, June 14, 2006, in Senate Appropriations Room 109. The following were present:

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

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of May 2, 2006, Senator Burns stated the minutes would stand approved.

ARIZONA DEPARTMENT OF CORRECTIONS - Consider Approval of Requested Transfer of Appropriations.

Mr. Lorenzo Martinez, JLBC Staff, explained that earlier in the month the Arizona Department of Corrections (ADC) submitted a request to transfer monies from Personal Services and Employee Related Expenditures (ERE) to cover an estimated shortfall in overtime. Staff reviewed the request and factored in the now enacted supplemental appropriation, the requested transfer would have left a shortfall in Personal Services and a surplus in ERE by the end of the year. This was relative to the department's estimate of year-end needs at the time. Since the enactment of the supplemental, the department withdrew the request because the additional monies are sufficient to cover immediate needs for the department. This item is for information only. The department still does not know if the allocations in the line items will be sufficient by the end of the year, as they are trying to determine its year-end needs.

Representative Pearce asked about the department's year-end estimate.

Ms. Dora Schriro, Director, Department of Corrections, stated that the department started with $18 million allocated for Overtime, the department has come before the Committee twice and requested 2 additional transfers, totaling $34 million for Overtime. ADC now has over $40 million to address the cash and comp time. On May 31, 2006, there was a survey done regarding employees who have earned comp time balances and if they would request to opt out of an end of year comp time payment.

There are 3 things have caused ADC to withdraw the request:

1. The receipt of the Supplemental Appropriation.
2. The information on the amount of the comp time opted out.
3. The continuing reconciliation that is needed with the new HRIS system.

Representative Pearce asked when the Committee could have the ADC year-end estimate.

Ms. Schriro stated the department would have the year-end report by week's end.

Senator Burns stated the item was for information only.

DEPARTMENT OF ECONOMIC SECURITY

A. Review of Transfer of Appropriations from the Temporary Assistance for Needy Families Cash Benefit Special Line Item (SLI).

Mr. Eric Jorgensen, JLBC Staff, said this is a request for a transfer from Department of Economic Security (DES) Temporary Assistance for Needy Families (TANF) Cash Benefit Special Line Item and other items in the agency. The request is for $13.5 million, of that $9 million is General Fund and $4.5 million is TANF monies. The surplus in the SLI is due to decreased caseloads in the TANF program. There is a shortfall of $6.5 million in the Division of Benefits and Medical Eligibility operating budget due to increased contract costs, more intensive case management services, increased caseloads in medical eligibility and food stamps, the costs of associated FTE's and additional overtime for those programs. There is also a shortfall in the Children, Youth and Families Division. The transfer would give $5 million to Children Support Services and $2 million to Foster Care Placement.

The Committee has 2 options: The Committee can give a favorable review of the transfer. Based on year-to-date totals, expenditures are on course to outpace the appropriation and the magnitude of DES' projected shortfall does appear reasonable. The Committee can give an unfavorable review to the proposed transfer because part of this transfer results from administrative expansions, including additional FTE's, which would have been better authorized through the annual Appropriations process.

Representative Pearce stated that it appears the department is using program savings to increase administrative expenses. The policy seems to circumvent the Appropriations process. This is a decision that should be made by the Legislature in terms of the level of funding for administrative purposes.

Mr. Stephen Pawlowski, DES Financial Services, said these are expenses related to eligibility work. There are federal guidelines both to quality and timeliness of eligibility determinations for Medicaid and Food Stamps. From FY 2002 until the current fiscal year, the department's caseloads in both the food stamps and medical programs have grown by 60%. The cash assistance caseload is even from FY 2002, despite recent decreases over the last couple of fiscal years. With the increases in caseload and resulting workload, the department's funding has decreased by $5 million, or 4%. The department does not believe it is an expansion of administrative functions, just meeting the additional workload as required by federal regulations.

DES has been reporting the shortfall on the program over the course of the year in the 30th of the month report. Food Stamp benefits are 100% federally funded, there are no state costs associated with the benefits themselves. Any sort of administrative or eligibility function is a cost share between the state and federal government, that is 50% state and 50% federal.

Senator Arzberger asked since the federal government is sharing in the cost, is there a number of what it costs for food stamp caseloads and does the department submit that number to the federal government and they give 50% back.

Mr. Pawlowski stated the benefits are 100% federally funded for administrative costs. As the department incurs the expenditures, the federal government pays for 50% of those expenses.

Senator Burns recommended that the Committee go with an unfavorable review on this particular item.

<u>Representative Pearce moved</u> to give an unfavorable review to the proposed transfer as listed in Option #2 by the JLBC Staff.

<u>Representative Lopez moved</u> a substitute motion to give a favorable review of the proposed transfer.

Senator Garcia spoke in support of a favorable review.

Representative Pearce stated that we have this body's Appropriation process, which has been circumvented by the moving of dollars savings out of an entitlement program for management purposes. That is not appropriate and this Committee needs to give an unfavorable review to that process in order to dignify the Appropriations process and keep the checks and balances intended by our Constitution in place.

Senator Arzberger stated that this appears to be an example of program budgeting where the expenses are applied exactly to the program that they were used for. Therefore, she spoke in favor of a favorable review.

Representative Burton-Cahill, seconded by Senator Garcia, moved to have a roll call vote on the substitute motion. The motion carried.

The substitute motion failed by a roll call vote of 5-6-0-5 (Attachment 1)

The original motion carried.

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

Mr. Jorgensen stated this is a transfer between the Day Care Subsidy Line Item and Transitional Child Care SLI in the amount of $4 million. The Day Care Subsidy funds various caseloads, including the TANF-related caseloads. The program caseload is declining as the TANF caseloads are also declining, however the Transitional Child Care program is for individuals coming off TANF and they are eligible for 2 years after coming off of TANF. With the declining TANF caseloads, this population is increasing, the money would move from the Day Care Subsidy SLI to the Transitional Child Care SLI to help with the shifting of the populations. If the transfer is approved the monies cannot be further transferred without additional JLBC review.

The JLBC Staff recommends a favorable review of the request, as it will provide the same services to a more limited population.

<u>Representative Pearce moved</u> to accept the JLBC Staff recommendation to give a favorable review of the request to transfer $4 million from the Day Care Subsidy SLI to the Transitional Child Care SLI. The motion carried.

ARIZONA PIONEERS' HOME – Consider Approval of Requested Transfer of Appropriations.

Ms. Kimberly Cordes-Sween, JLBC Staff, stated that this is a request for a transfer of appropriations. The Pioneers' Home has a detailed line item budget. Transfers to and from Personal Services and ERE lines require Committee approval. The agency is requesting to transfer $257,800 into the ERE line. This total includes $186,100 from Personal Services and $71,700 from the Prescription Drug Special Line Item. The JLBC Staff is recommending approval of this transfer. This transfer is due to higher health insurance costs.

<u>Representative Pearce moved</u> the JLBC Staff recommendation to give approval to the agency request to transfer $186,100 from Personal Services and $71,700 from the Prescription Drug SLI to the ERE. The motion carried.

AHCCCS – Review of Rural Hospital Reimbursement Capitation Rate Change.

Mr. Carson Howell, JLBC Staff, explained the review of the Rural Hospital Reimbursement Capitation Rate Change. Last year the Legislature appropriated $12 million for the Rural Hospital Reimbursement program. The Centers for Medicare and Medicaid Services will not allow AHCCCS to make direct supplemental payments to the hospitals. AHCCCS is requesting this temporary change in capitation rates to distribute those appropriated monies through the health plans to the hospitals. The JLBC Staff recommends a favorable review as this change is to distribute already appropriated monies.

Senator Garcia stated that in the Analysis section of the documentation the Committee received from JLBC Staff, it states that the Rural Hospitals get reimbursed 71% of their costs. He asked if that 71% is determined by the legislative process or how that is determined.

Ms. Kari Price, Executive Consultant, AHCCCS, stated that a study was performed 2 years ago which was as a result of a legislative work group that was put together where AHCCCS worked with Arizona Hospital and Health Care Association and different hospitals to determine that amount.

Senator Arzberger stated that the report was at 51% and not 71%.

Ms. Price replied that she was not sure of the 71%, she thought the letter stated 62%.

Senator Arzberger said that original study did show 51% and there was an update a year later and she was not sure if it was completed, so the firm number is 51% until a new study is done.

Ms. Price said that she believes that there were other payments which were Critical Access Hospital payments as well as Disproportionate Share Hospital payments. When those payments were added in, it came to 62%.

Senator Arzberger said that the Legislature asked for a study, which was completed 2 years ago. That was an official and well conducted study. She asked about the tiered payment program.

Ms. Price stated that the tiered rates are required to be adjusted as they are currently on an annual basis and cannot be revised unless there is legislation proposed and passed to make that change.

Senator Arzberger stated that she approves of the capitation rate, but not the numbers that have been provided. She also suggested that another study be done with firm numbers.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of the AHCCCS capitation rate as outlined in the recommendation. The motion carried.

ATTORNEY GENERAL – Review of Allocation of Settlement Monies.

Ms. Leah Ruggieri, JLBC Staff, stated that this item is a routine request for a favorable review of the allocation of settlement monies received by the Attorney General's (AG) office over $100,000. Recently the AG entered into a consent judgment with Liberty League International from which they would receive $115,000 which would be deposited into their Consumer Fraud Revolving Fund. This amount is from civil penalties as well as AG costs and fees associated with the lawsuit.

Representative Pearce moved to accept the JLBC Staff recommendation to give a favorable review of the allocation plan from the Liberty League International consent judgment. The motion carried.

ARIZONA DEPARTMENT OF TRANSPORATION – Review of Third Party Quality Assurance Report.

Mr. Richard Stavneak, Director, JLBC Staff, stated this item is a review of the Arizona Department of Transportation (ADOT) third party quality assurance report. The Committee reviews the results of the third party program quarterly. Under this program, in the last quarter the staffing is now at 22 of their 23 available positions. They hired and trained the 3 new people last year, and filled 2 vacancies in the third quarter. At the same time, the number on the waiting list for third party transactions has increased from 106 to 118. In the Committee's last review at the end of February, the Committee gave an unfavorable review, due to concerns about the growth in the waiting list. The Committee has 2 options; a favorable or an unfavorable review.

Representative Pearce asked about the progress of the department.

Ms. Penny Martucci, ADOT, Motor Vehicle Division (MVD), responded by saying there are 3 pieces of good news.

1. The business day's backlog for third party title and registration quality assurance review improved due to the 3 positions, which are now trained, despite an increase in third party transactions.
2. In anticipation of the 2007 budget, ADOT has begun working to eliminate the waiting list. ADOT has approved 5 new sites. Of the 24 current third parties who want additional sites, ADOT is in the process of doing site visits of the remaining 19 sites.
3. ADOT was also given 5 positions last year for Commercial Driving Schools and examiners and up to 15 motorcycle dealers and examiners. ADOT has lifted the moratorium in this area.

Representative Pearce moved to give a favorable review of the third party quality assurance report. The motion carried.

DEPARTMENT OF EDUCATION – Review of Kinder Morgan Settlement.

Mr. Steve Schimpp, JLBC Staff, said this item deals with the Kinder Morgan settlement issue. Kinder Morgan, who has a gas pipeline that stretches across the state from Cochise County to Yuma County, appealed for its property valuations for recent years through Arizona Tax Court. They won that case and as a result the state now has to refund to the school districts the QTR and County Equalization Tax monies that those school districts got from Kinder Morgan. There are 5 counties that are affected; the only one that ADE currently has numbers for to make adjustments is Yuma County. The Yuma cost adjustment (Attachment 2) is about $1 million. The state is not required under A.R.S. § 15-915 (B) to refund monies other than the formula monies that Kinder Morgan paid, in other words the QTR and Equalization money. If the school districts have override monies they got from Kinder Morgan or bond debit service monies; those are not included in the state refunding amounts. Likewise, there is no interest amount including the state monies. ADE is seeking a favorable review on their plan to distribute to the Yuma County School Districts in an amount of $1,039,700.

Representative Pearce moved to accept the JLBC Staff recommendation to give a favorable review to provide school districts in Yuma County with $1,039,700 in corrected Basic State Aid funding. The motion carried.

DEPARTMENT OF PUBLIC SAFETY – Quarterly Review of the Arizona Public Safety Communication Advisory Commission (PSCC).

Mr. Martin Lorenzo, JLBC Staff, explained that the item is a review of the PSCC third quarter expenditures and progress. The JLBC Staff recommends a favorable review. The third quarter expenditures total $150,100, which is consistent with those in the first and second quarter. The PSCC has reported progress relative to the short-term and long-term interoperable solutions. With respect to the long-term project, the PSCC has issued a Request for Proposal (RPF) which they expect to award in July. The RFP consists of 2 phases. The first phase will address the conceptual design and plans for the long-term interoperability system. The second phase consists of construction documents to implement the blue print, as well as the construction of the demonstration project. The first phase is to be completed by the end of FY 2007 and the second phase to be completed by the end of FY 2008.

In response to Representative Pearce's question, Mr. Kurt Knight, Department of Public Safety and the Public Safety Communications Commission, updated the Committee on the vehicles purchased by DPS for business use.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of the third quarter expenditures and progress for the statewide interoperability design project. The motion carried.

DEPARTMENT OF REVENUE – Review of Ladewig Expenditure Plan.

Mr. Richard Stavneak, Director, JLBC Staff, stated that this item has to do with the Ladewig administrative expenses. It is contingent upon the passage and enactment of the Case Settlements Budget Reconciliation Bill. FY 2007 will be the final year of the Ladewig payments. There are estimated administrative expenses that the department will make of $974,600. The monies will be used for personnel, postage, and unclaimed property advertising. The Department of Revenue is asking for a favorable review of the $974,600 administrative expenses for the Ladewig lawsuit.

Representative Pearce moved the JLBC Staff recommendation to give a favorable review of DOR's estimated administrative expenditure plan of $974,600 for the FY 2007 Ladewig project, with the condition that DOR report *back with a revised expenditure plan if the provision to eliminate the requirement for the newspaper advertising of names of individuals with unclaimed property is enacted.* The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION – Consider Approval of Requested Transfer of Appropriations

Mr. Tyler Palmer, JLBC Staff, stated A.R.S. § 35-173 requires the Committee to approve of transfer of spending authority within the Department of Administration (DOA). Due to utility rate increases, largely electricity, the department is requesting a transfer of up to $250,000 from the Capital Outlay Stabilization Fund (COSF) lump sum appropriation to the Utilities Special Line Item. The $250,000 represents a 4% increase from the current budget amount. The amount seems reasonable, but due to the late submission of information, the JLBC Staff has not had enough time to analyze the information or request additional information. It seems reasonable considering utilities and electricity has gone up 4%. The JLBC Staff recommends approval of the transfer.

Representative Pearce moved the JLBC Staff recommendation to approve the transfer of up to $250,000 from the COSF lump sum appropriation to the Utilities SLI. The motion carried.

EXECUTIVE SESSION

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

At 10:05 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 11:00 a.m. the Committee reconvened into open session.

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Alexander v. State of Arizona, et al. The motion carried.

The meeting adjourned at 11:00 a.m.

Respectfully submitted:

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Amanda Ruiz, Secretary

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Richard Stavneak, Director

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Senator Robert Burns, Chairman

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

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DATE: July 19, 2006

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

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Assistant Fiscal Analyst

SUBJECT: Department of Public Safety – Review of Expenditure Plans for Staffing of Additional Highway Patrol Positions and Sworn Officer Salary Increases

Request

The Department of Public Safety (DPS) has submitted to the Committee for review their expenditure plans relating to additional Highway Patrol Personnel and Sworn Officer Salary Adjustments.

Summary

The FY 2007 General Appropriation Act (Laws 2006, Chapter 344) included $5.5 million from the General Fund for an additional 46 highway patrol and related support positions and $2.8 million from the Parity Compensation Fund for sworn officer salary adjustments.

Last year, the FY 2006 budget included $1.5 million in Personal Services and Employee Related Expenditures for an additional 28 Highway Patrol Officers. Of this amount, DPS used $1.2 million for salary adjustments and 25 positions went unfilled. Given that DPS used new officer funding for pay raises in FY 2006, the recently enacted General Appropriation Act included the requirement that the Committee review the expenditure plans for the new FY 2007 officer and support positions and the salary adjustments. The General Appropriation Act also included an intent footnote that DPS fill the 25 positions held vacant during the past year.

DPS proposes to use $387,800 of its new salary monies to fill 6 of the 25 unfilled DPS positions from FY 2006. The purpose of the intent footnote was for DPS to fill all 25 positions from their base budget in FY 2007, not from their new salary monies.

DPS is also proposing to distribute the new salary adjustment so as to achieve greater parity with the 5 highest paying local law enforcement jurisdictions for each pay classification. As a result, supervisory related salaries would increase between 9.9% and 16.6%, while officer positions would increase between 6.4% and 9.4%. These adjustments take into account the 6.3% average increase approved in Chapter 1

(Continued)

for all state employees. These salary adjustments would bring all sworn officer classifications within 3.6% of the August 2005 gross pay of the 5 highest paying local agencies. This gap will grow depending on 2006 local government pay increases. DPS officers, however, have an extra 5% of their retirement contribution paid by the state compared to the local jurisdictions. As a result, the DPS net take home pay differential will be less than gross pay.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the expenditure plans. The new 46 positions have generally been assigned as outlined in the original JLBC baseline budget. The new pay adjustments increase salary parity with other law enforcement jurisdictions.
2. An unfavorable review of the request. The DPS plan does not conform to the legislative intent footnote by not filling the 25 positions from their base budget. The use of the Parity Compensation Fund to finance new positions also is inconsistent with the intent of the fund.

Under either option, the JLBC Staff recommends that DPS report to the Committee by November 1, 2006 on the updated salary comparison by classification based on both the top 5 highest paid markets as well as the markets with more than 100 sworn positions. The 5 highest markets are not always among the largest law enforcement agencies in the state. As a result, this particular market comparison better serves as a gauge of whether DPS personnel are among the highest paid officers in the state. The 100+ employee comparison supplements the 5 highest data by providing a better indication of competition in the marketplace. We also recommend that the report include information on the new jobs taken by sworn officers when they leave DPS.

Analysis

Additional Highway Patrol Personnel Expenditure Plan
Of the $5,520,900 and 46 FTE Positions appropriated to DPS in FY 2007 for Highway Patrol personnel, the department intends to add the following positions:

Positions	**Cost**
4 Sergeants	$ 616,200
37 Officers	4,607,300
5 Support Positions	297,400
	$5,520,900

The positions will be distributed statewide based on the Police Allocation Model (PAM). The model uses data relating to service demands from the prior 3-year period as well as recent average daily traffic counts to determine Highway Patrol staffing needs. The plan is generally consistent with legislative intent; however, DPS reallocated 2 Highway Patrol Officer positions originally intended for the Phoenix Metro area to the Kingman Area. Based on the results of PAM, DPS allocated the positions accordingly:

- **Tucson** – 1 Sergeant and 7 Highway Patrol Officers will be allocated to a newly-established motorcycle patrol squad. The squad will be responsible for patrolling highways within the urban Tucson area.
- **Phoenix Metro** – 2 Sergeants and 14 Highway Patrol Officers would be used to create 2 new motorcycle patrol squads, with 1 squad responsible for highways within the central and western corridors of the Phoenix Metropolitan area, and the other squad responsible for the eastern corridor.
- **Kingman** – 2 Highway Patrol Officers to increase existing squads patrolling highways within the Kingman area.

(Continued)

- **Pinal County** – 1 Sergeant and 7 Highway Patrol Officers would be used to establish a patrol squad responsible for the highways located within the Casa Grande and Maricopa areas.
- **Maricopa County** – 2 Detention Officers to provide support to Highway Patrol and Criminal Investigation Officers within Maricopa County.
- **Canine Units (Statewide)** – 5 Canine Officers to increase support of the existing Canine Enforcement District. The district is part of the Highway Patrol Division and specializes in bomb and drug detection in addition to their patrol responsibilities. Three of the officers would be placed in the southern corridors of the state, while the remaining 2 officers would be deployed to the central and northern corridors.
- **Support Personnel (Statewide)** – DPS would hire 5 support personnel positions, including 1 administrative assistant, 1 automobile mechanic, and 1 criminal records specialist to be assigned to Phoenix, 1 dispatcher position to Tucson, and 1 computer specialist position to Flagstaff.

Sworn Officer Salary Adjustments

The General Appropriation Act appropriated $2,768,100 from the Parity Compensation Fund to DPS for sworn officer salary increases. Chapter 344 also included a footnote allowing the distribution of these monies to be determined by the department; however, prior to expending these monies the department is required to submit for review their intended distribution. The Parity Compensation Fund was established by Laws 2005, Chapter 306 and consists of 1.51% of vehicle license tax revenues that would otherwise be deposited into the State Highway Fund. Monies in the fund are to be used for salaries and benefits for law enforcement personnel. Actual revenues into the fund in FY 2006 totaled $2,693,300.

DPS Proposed Plan

Of the $2,768,100 appropriation, the department's expenditure plan distributes $2,380,300 for sworn officer salary adjustments in FY 2007 and the remaining $387,800 to fund 6 of the 25 positions held vacant in FY 2006.

In distributing these monies, DPS determined the average salary of the top 5 highest paying local law enforcement agencies by position classification. As a result, the 5 agencies may differ for each position classification. After determining the average salary of the 5 highest salaries for each position classification, DPS adjusted the salaries of all sworn position classifications (who they have determined to have a defined market) to within 3.6% of the market.

The comparison contained maximum base salaries available to officers in each department and forms of compensation such as shift differential, take home vehicles, education credits and other subsidies (retirement) were not included.

Table 1 indicates DPS sworn officer position classifications, the corresponding increase from Laws 2006, Chapter 1 and the Parity Compensation Fund, and the amount and percentage increase under their proposed plan and the new FY 2007 salary.

(Continued)

Table 1

Summary of DPS Sworn Officer Pay Increases

Salary Level	Base Salary [1/]	Ch. 1 Increase	PCF Increase	% Increase	FY 2007 Salary [1/]
Chief	$104,253	$4,256	$13,067	16.6%	$121,576
Commander	96,390	4,060	6,400	10.9	106,850
Lieutenant	85,107	3,778	6,800	12.4	95,685
Sergeant II	69,397	3,385	3,907	10.5	76,689
Sergeant I [2/]	60,053	3,151	2,821	9.9	66,025
Officer III	56,410	3,060	553	6.4	60,023
Officer II	47,764	2,844	793	7.6	51,401
Officer I	39,118	2,628	1,033	9.4	42,779
Rotary Wing Pilot II [2/]	64,614	3,284	0	5.1	67,898
Rotary Wing Pilot I [2/]	52,928	3,018	0	5.7	55,946
Motor Carrier Supervisor	60,053	3,151	2,821	9.9	66,025
Motor Carrier Investigator [2/]	47,764	2,844	793	7.6	51,401

1/ Salaries shown are maximums for each level.
2/ Denotes position classifications DPS has determined not to have a defined market.

Alternative Market Comparison

The department's position in the market depends on how the market is defined. As indicated above, DPS has determined their pay classifications should be compared to the top 5 highest paying agencies within each position classification, however, this methodology does not take into account factors such as the number of individuals each agency employs or the number of open positions.

An alternative means of comparison could be done by size of department. For example, the federal government's Bureau of Justice Statistics uses the standard of 100 or more sworn officers (defined as large agencies) in the calendar year 2000 Law Enforcement Management and Administrative Statistics report. *Table 2* provides a comparison of DPS salaries to the top 5 highest paying law enforcement agencies as well as to all law enforcement agencies that employed 100 or more sworn personnel. As can be seen from the table, DPS is 3.6% below the 5 highest paying markets, but the department generally exceeds the average of the agencies that employ in excess of 100 sworn employees. Excluding DPS, all salary figures are as of August 2005 and do not include any pay adjustments authorized thereafter.

Table 2

Comparison of Market Definitions for Law Enforcement Salaries

Salary Level	DPS [1/]	Avg. Top 5 [2/]	% Difference	Avg. Large Agencies [2/]	% Difference
Chief	$121,576	$125,986	-3.6%	$122,286	-0.6%
Commander	106,850	110,725	-3.6%	104,459	2.2%
Lieutenant	95,685	99,155	-3.6%	90,096	5.8%
Sergeant II	76,689	79,470	-3.6%	71,517	6.7%
Officer III	60,023	62,200	-3.6%	57,939	3.5%
Officer II	51,401	53,266	-3.6%	49,602	3.5%
Officer I	42,779	44,331	-3.6%	41,266	3.5%

1/ Salary figures based on DPS' proposed plan
2/ Salary figures as of August 2005

(Continued)

It is likely that large agencies have a more profound effect on DPS because they provide more opportunities for sworn officers to transfer as well as attract prospective officers due to a greater number of vacancies. Based on the 2004 Crime in Arizona Report provided by DPS, *Table 3* indicates all law enforcement agencies in Arizona who employ in excess of 100 sworn officers as well as the number of sworn personnel employed.

Table 3

Agencies With 100+ Sworn Employees

Agency	# of Sworn Employees
Phoenix Police Department	2,859
DPS	1,133
Tucson Police Department	951
Mesa Police Department	795
Maricopa County Sheriff's Office	699
Pima County Sheriff's Office	465
Scottsdale Police Department	367
Tempe Police Department	341
Glendale Police Department	331
Chandler Police Department	294
Gilbert Police Department	143
Peoria Police Department	141
Pinal County Sheriff's Office	159
Yuma Police Department	143
Yavapai County Sheriff's Office	112

RS/ML:ym

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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JANET NAPOLITANO Governor
ROGER VANDERPOOL Director

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JUL 06 2006
JOINT BUDGET COMMITTEE

July 6, 2006

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

Dear Senator Burns:

The FY 2007 DPS budget contains a special line item appropriation of $5,520,900 for "additional highway patrol personnel". Prior to the expenditure of any of these monies, the Department must submit an expenditure plan to the JLBC for review.

The attached plan is consistent with the Department's original request for this funding and is also consistent with the JLBC recommendation, which formed the basis for the appropriation. The only deviation from the Department's request and the JLBC recommendation is to allocate two (2) of the new officer positions to Kingman rather than to the Phoenix Metro area to address critical staffing needs.

We ask that the JLBC review the Department's expenditure plan at its next meeting. If you have any questions about the plan, please contact Phil Case, DPS Comptroller, at 602-223-2463 or pcase@azdps.gov.

Sincerely,

Roger Vanderpool
Director

Enclosures

cc: Mr. Richard Stavneak, Director

Expenditure Plan for "Additional Highway Patrol Personnel" Special Line Item

Laws 2006, Chapter 344 (HB 2863), require the Department of Public Safety to submit an expenditure plan to the Joint Legislative Budget Committee for review before expending any monies appropriated through the additional Highway Patrol special line item. The special line item appropriation of $5,520,900 dollars provides for an additional 46 FTE Positions, 41 of which will be in the Highway Patrol Division.

The following is a breakdown of how these FTE's would be filled:

4 Sergeants (first-line operational supervisors)
35 Highway Patrol Officers
2 DPS Detention/Transport Officers
1 Administrative Assistant
1 Automobile Mechanic
1 Computer Specialist
1 Criminal Records Specialist
1 Dispatcher

The patrol positions would be placed strategically in critical locations based upon the agency's utilization of the Police Allocation Model (PAM).

Tucson (Pima and Santa Cruz Counties):

One (1) Sergeant and seven (7) Highway Patrol Officers would be utilized for a newly created motorcycle patrol squad. This squad would have primary responsibility for patrolling Interstate and State highways located within the urban Tucson area. Recent growth in this area has created unique traffic congestion issues that can only be addressed through the utilization of motorcycle patrol officers. Current staffing levels in the Tucson area are at 66% (50 authorized FTE's; PAM recommends 76 FTE's), based upon statistics utilized with the police allocation model for the time period of April 2003 through May 2006.

Phoenix (Maricopa County):

Two (2) Sergeants and fourteen (14) Highway Patrol Officers would be utilized for two additional motorcycle patrol squads. One of these squads would have primary responsibility for patrolling Interstate and State highways located within the central and western corridors of the Phoenix area. The other squad would have primary responsibility for patrolling Interstate and State highways located within the eastern corridors of the Phoenix area. Current staffing levels in the Phoenix area are at 80% (275 authorized FTE's; PAM recommends 344 FTE's), based upon statistics utilized with the police allocation model for the time period of April 2003 through May 2006.

Casa Grande (Pinal County):

One (1) Sergeant and seven (7) Highway Patrol Officers would be utilized to establish a squad that has primary responsibility for patrolling Interstate and State highways located with the Casa Grande and City of Maricopa area. Current staffing levels in the Casa Grande area are at 53% (24 authorized FTE's; PAM recommends 45 FTE's), based upon statistics utilized with the police allocation model for the time period of April 2003 through May 2006.

Kingman (Mojave County):

Two (2) Highway Patrol Officers would be utilized to supplement Highway Patrol Squads functioning within the Kingman area, with primary responsibility for patrolling Interstate and State Highways. Current staffing levels in the Kingman area are at 56% (30 authorized FTE's; PAM recommends 54 FTE's), based upon statistics utilized with the police allocation model for the time period of April 2003 through May 2006.

Statewide Deployment – Police Canine Units

Five (5) Highway Patrol Division Canine/Criminal Interdiction Officers would be placed on the Interstate and State highway corridors to supplement the currently existing Canine/Criminal Interdiction Enforcement District. Three (3) of these officers with their canine partners trained in narcotics detection and attack capabilities would be utilized in the southern corridors of the state. The other two (2) would be placed in the central and northern corridors of the state. This has been a highly successful program in interdicting criminals and narcotic smugglers operating within the state of Arizona. This would serve to further expand the capabilities of this District of highly trained officers.

Phoenix (Maricopa County):

Two (2) DPS Detention Officers would be trained and utilized as a resource for Highway Patrol and Criminal Investigation Officers functioning within the Maricopa County area. Currently, it takes anywhere from 2-3 hours for an officer to make an arrest and then process and book an arrestee into the Maricopa County Jail system. One detention van with wireless booking capabilities has recently been constructed utilizing existing resources. This van will safely hold and transport up to six (6) prisoners. The use of the wireless technology allows roadside booking information to be transmitted directly to the Maricopa County Jail, cutting the booking paperwork time down to around 30 minutes. The utilization of DPS Detention Officers to secure, transport and drop prisoners off at the jail, will free up Highway Patrol and Criminal Investigation officers to remain available to respond to public safety requests.

Support Staff (Statewide)

Without proper administrative and technical support, officers in the field cannot perform their mission properly or cost effectively. Of the five (5) authorized positions, the administrative assistant, automobile mechanic, and criminal records specialist positions will be assigned to Phoenix; the dispatcher position will be assigned to Tucson; and the computer specialist position will be assigned to Flagstaff.

Line Item Expenditures

All of the costs in the attached spreadsheet are consistent with the Department's original budget request. Base salaries have been increased per the General Salary Adjustment and the proposed DPS sworn salary plan. Operating expenditures are consistent with the Department's "Cost per Officer" schedule as submitted with our FY 2007 budget request.

Additional Highway Patrol Personnel Special Line Item Expenditure Plan

	Sergeants	Motor Sergeants	Officers	Motor Officers	Highway Patrol Total	Commun-ications	Information Technology	Criminal Information	Agency Support	Grand Total
FTE Positions	2.0	2.0	21.0	16.0	41.0	1.0	1.0	1.0	2.0	46.0
Personal Services	132,050	132,050	898,359	684,464	1,846,923	35,845	42,013	29,540	75,809	1,952,272
Uniform Allowance	2,000	2,000	21,000	16,000	41,000	-	-	-	-	41,000
Employee Related Expenditures	59,295	59,295	456,572	347,865	923,027	14,283	15,503	13,035	29,380	996,575
Subtotal	193,345	193,345	1,375,931	1,048,329	2,810,950	50,128	57,516	42,576	105,188	3,066,358
Professional & Outside Services	2,978	2,978	31,265	23,821	61,041	-	-	-	-	61,041
Travel - In State	3,380	3,380	35,490	27,040	69,290	-	-	-	-	69,290
Other Operating Expenditures	23,076	23,076	242,298	184,608	473,058	3,000	3,000	3,000	9,000	485,058
Equipment	92,610	44,630	972,400	357,040	1,466,680	-	-	-	-	1,466,680
Non-Capitalized Equipment	16,708	16,708	175,434	133,664	342,514	4,000	4,000	4,000	12,000	358,514
Subtotal	138,751	90,772	1,456,887	726,173	2,412,583	7,000	7,000	7,000	21,000	2,454,583
										-
TOTAL	332,096	284,117	2,832,819	1,774,502	5,223,533	57,128	64,516	49,576	126,188	5,520,941

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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"Courteous Vigilance"

JANET NAPOLITANO
Governor

ROGER VANDERPOOL
Director

July 6, 2006

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

Dear Senator Burns:

The FY 2007 DPS budget contains an appropriation of $2,768,100 for sworn salary adjustments from the Parity Compensation Fund established by Laws 2005, Chapter 306. The budget includes a footnote indicating that the distribution of the monies shall be determined by the Department. The footnote also requires JLBC review of the distribution plan prior to its implementation.

On May 24, pursuant to A.R.S. § 41-1830.12, the Law Enforcement Merit System Council (LEMSC) adopted a FY 2007 salary plan for DPS sworn employees based on the concept of internal "parity". Under this concept, the salaries for all sworn job classifications will be brought to the same level relative to the market. Our long-term goal is to achieve both internal and external parity (i.e., bringing all salaries, both civilian and sworn, to market pay levels).

The attached tables show the combined effects of the recent General Salary Adjustment and the LEMSC approved plan. These adjustments will allow us to bring our sworn salaries to 3.6% behind market. It is important to note, however, that the market comparison is about eleven months old and is, therefore, already out of date. We will get an updated perspective on the market when we conduct our next salary survey in August 2006. By that time, DPS salaries will be an estimated 7.1% or more behind market.

The adopted adjustments are more substantial for the higher ranks than for the lower ranks because recent salary adjustments have tended to favor the lower ranks. As a result, salaries for the higher ranks are further behind market. Unless this is corrected, we may develop difficulties in encouraging employees to promote and in retaining valuable supervisors and managers.

It is also important to note that officers, sergeants, pilots, motor carrier supervisors, and motor carrier investigators have the ability to earn overtime, while lieutenants and higher ranks do not. Therefore, the earnings potential of these overtime-eligible classifications is greater than their base salaries.

As part of the plan adopted by LEMSC, we are funding six of the 25 officer positions whose vacancy savings were used in FY 2006 for officer pay. The long-term goal is to fully fund all of these vacant positions over a 4-year period, subject to the availability of funds.

The adopted plan has the support of all four of the Department's employee groups and is consistent with the Department's compensation philosophy for the last four years. The Department and its employee groups have been discussing the concept of parity with the Legislature during this time period, and it is the basis for the establishment of the Parity Compensation Fund.

We ask that the JLBC review the Department's sworn salary adjustment plan at its next meeting. All forthcoming adjustments will be made retroactive to July 1, the effective date of the budget.

If you have any questions about the plan, please contact Phil Case, DPS Comptroller, at 602-223-2463 or pcase@azdps.gov.

Sincerely,

Roger Vanderpool
Director

Enclosures

cc: Mr. Richard Stavneak, Director

FY 2007 DPS Sworn Salaries as Adopted by the Law Enforcement Merit System Council (LEMSC) on May 24, 2006
(Also Funds 6 Unfunded Officer Positions)

Pay Level	Salary Before GSA [1/]	% Behind Market (based on August 2005 survey) [2/]	GSA Increase [1/]	LEMSC Adopted Adjustments	FY 2007 Salary (including Performance Pay)	Revised % Behind Market (based on August 2005 survey) [2/]
Motor Carrier Investigator	$ 47,764	11.5%	$ 2,844	$ 793	$ 51,401	3.6%
Motor Carrier Supervisor [3/]	$ 60,053	N/A	$ 3,151	$ 2,821	$ 66,025	N/A
Rotary Wing/Fixed Wing Pilot I [3/]	$ 52,928	N/A	$ 3,018	$ -	$ 55,946	N/A
Rotary Wing/Fixed Wing Pilot II [3/]	$ 64,614	N/A	$ 3,284	$ -	$ 67,898	N/A
Officer - Minimum	$ 39,118	13.3%	$ 2,628	$ 1,033	$ 42,779	3.6%
Officer - Midpoint	$ 47,764	11.5%	$ 2,844	$ 793	$ 51,401	3.6%
Officer - Maximum	$ 56,410	10.3%	$ 3,060	$ 553	$ 60,023	3.6%
Sergeant I [3/]	$ 60,053	N/A	$ 3,151	$ 2,821	$ 66,025	N/A
Sergeant II	$ 69,397	14.5%	$ 3,385	$ 3,907	$ 76,689	3.6%
Lieutenant	$ 85,107	16.5%	$ 3,778	$ 6,800	$ 95,685	3.6%
Commander	$ 96,390	14.9%	$ 4,060	$ 6,400	$ 106,850	3.6%
Chief [4/]	$ 104,253	20.8%	$ 4,256	$ 13,067	$ 121,576	3.6%

[1/] A General Salary Adjustment (GSA) of 2.5% and $1,650 was granted to all State employees, effective March 11, 2006, by Laws 2006, Chapter 1. The 2.5% is considered performance pay and will become "at risk" beginning April 29, 2007.

[2/] The most recent market salary survey conducted by DPS was in August 2005. "% Behind Market" figures reflect the percent increase necessary for a given salary to equal the market salary. Given the rapid salary increases experienced in the law enforcement market in recent years, DPS salaries are probably at least 3.5% further behind than indicated here. The Department intends to conduct its next annual salary survey in August 2006.

[3/] Pay levels not set according to market. Sergeant I pay is set at 10% above officer - maximum pay; motor carrier supervisor pay is set at sergeant I pay. Pilot I and II salaries were increased 10% with special duty assignment stipends prior to the GSA due to recruiting and retention difficulties.

[4/] Appointed position. Salary established by the Department, not by LEMSC.

4-Year History of DPS Sworn Salaries[1/]

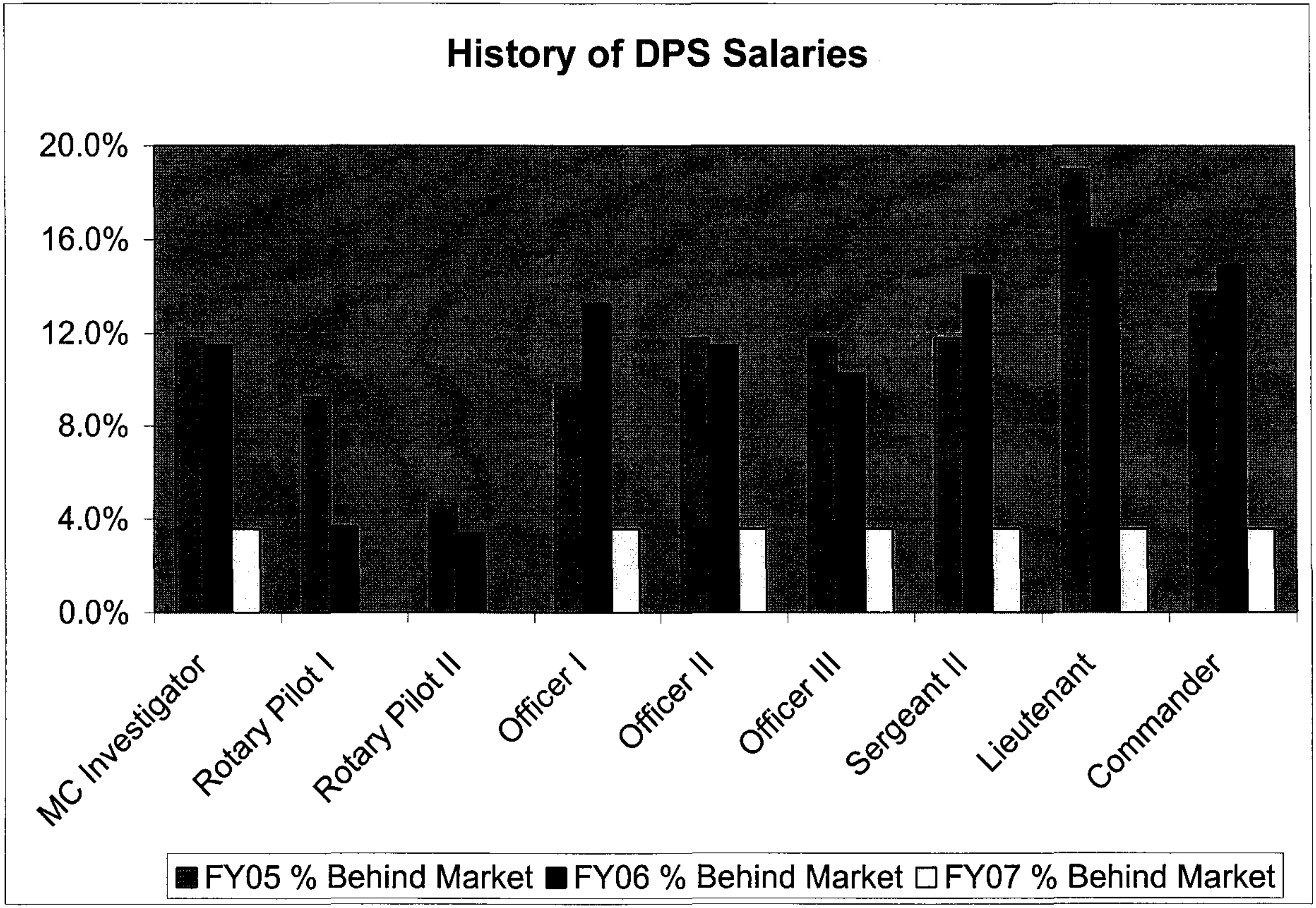
Pay Level (Positions)		FY 2004	FY 2005	FY05 % Behind Market	FY 2006	FY06 % Behind Market	Approved FY 2007 [2/]	FY07 % Behind Market [4/]	Total Increase	Total % Increase
Motor Carrier Investigator	(4)	$ 42,454	$ 44,119	11.8%	$ 47,764	11.5%	$ 51,401	3.6%	$ 8,947	21.1%
Motor Carrier Supervisor	(2)	$ 56,415	$ 57,415	N/A	$ 60,053	N/A	$ 66,025	N/A	$ 9,610	17.0%
Rotary Wing/Fixed Wing Pilot I 3/	(4)	$ 44,629	$ 45,629	9.3%	$ 48,116	3.7%	$ 55,946	N/A	$ 11,317	25.4%
Rotary Wing/Fixed Wing Pilot II 3/	(18)	$ 54,704	$ 55,704	4.7%	$ 58,740	3.4%	$ 67,898	N/A	$ 13,194	24.1%
Officer - Minimum	(352)	$ 36,096	$ 37,096	9.9%	$ 39,118	13.3%	$ 42,779	3.6%	$ 6,683	18.5%
Officer - Midpoint	(152)	$ 42,454	$ 44,119	11.8%	$ 47,764	11.5%	$ 51,401	3.6%	$ 8,947	21.1%
Officer - Maximum	(448)	$ 47,557	$ 51,772	11.8%	$ 56,410	10.3%	$ 60,023	3.6%	$ 12,466	26.2%
Sergeant I	(51)	$ 52,168	$ 56,950	N/A	$ 60,053	N/A	$ 66,025	N/A	$ 13,857	26.6%
Sergeant II	(119)	$ 60,662	$ 65,810	11.8%	$ 69,397	14.5%	$ 76,689	3.6%	$ 16,027	26.4%
Lieutenant	(39)	$ 74,351	$ 78,812	19.0%	$ 85,107	16.5%	$ 95,685	3.6%	$ 21,334	28.7%
Commander	(16)	$ 90,408	$ 91,408	13.8%	$ 96,390	14.9%	$ 106,850	3.6%	$ 16,442	18.2%
Chief	(3)	$ 103,253	$ 104,253	N/A	$ 104,253	N/A	$ 121,576	3.6%	$ 18,323	17.7%

[1/] All figures reflect salaries at the start of the fiscal year and include any mid-year adjustments from the prior year, such as the March 11, 2006 General Salary Adjustment (GSA).

[2/] FY 2007 figures include the proposed distribution of Parity Compensation Fund monies contained in the FY 2007 DPS budget. These figures also include the performance pay adjustment contained in the General Salary Adjustment.

[3/] FY 2007 pilot figures include 10% Special Duty Assignment (SDA) pay adjustments instituted in FY 2006 to address recruiting and retention problems.

[4/] The most recent market salary survey conducted by DPS was in August 2005. "% Behind Market" figures reflect the percent increase necessary for a given salary to equal the market salary. Given the rapid salary increases experienced in the law enforcement market in recent years, DPS salaries are probably at least 3.5% further behind than indicated here. The Department intends to conduct its next annual salary survey in August 2006.


History of DPS Salaries
20.0%
16.0%
12.0%
8.0%
4.0%
0.0%
MC Investigator
Rotary Pilot I
Rotary Pilot II
Officer I
Officer II
Officer III
Sergeant II
Lieutenant
Commander
FY05 % Behind Market
FY06 % Behind Market
FY07 % Behind Market

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

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http://www.azleg.gov/jlbc.htm

DATE: July 20, 2006

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

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Assistant Fiscal Analyst

SUBJECT: Department of Public Safety – Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission

Request

Pursuant to Laws 2006, Chapter 344, the Department of Public Safety (DPS) is required to submit for review an expenditure plan for the $10 million and $7 million appropriations for the Gang and Immigration Intelligence Team Enforcement Mission (GITEM) prior to their expenditure. In addition, the department is required to submit a summary of quarterly and year-to-date expenditures within 30 days of the last day of each calendar quarter. According to the General Appropriation Act, the $10 million is to be used to expand GITEM at the local level, including the funding of local border personnel and other border security efforts. The $7 million is to be used for an additional 100 sworn positions within DPS, including 50 for immigration and border security.

DPS' submission identifies the use of $1 million of the $10 million appropriation for the purchase of license plate readers and to expand the capabilities of their gang member information and tracking system (GangNet) and $410,000 of the $7 million appropriation for increasing their recruiting program. Beyond these items, the DPS submission does not provide an expenditure plan for the remaining monies. For example, DPS' submission does not include a timeline for hiring additional personnel or budget detail for their projected salary, benefit and equipment costs.

Recommendation

The Committee has at least the following 3 options:

1. A favorable review of the request with no further Committee review being required.
2. A favorable review of $1 million (of the $10 million) to purchase license plate readers and to expand the capabilities of the GangNet system, and $410,000 (of the $7 million) for recruiting efforts. The review would be with the provision that the GangNet and license plate reader

(Continued)

improvements receive Project Investment Justification (PIJ) approval from the Government Information Technology Agency (GITA).

3. An unfavorable review of the request. Of the total $17 million amount, DPS has only identified $1.4 million in spending. Hence, it is difficult for the Committee to review DPS' overall plan.

Under either option 2 or 3, the JLBC Staff recommends the Committee take the following actions:

- Require DPS to submit an expanded expenditure plan prior to expending any additional monies beyond the reviewed expenditures. As a transitional measure, DPS could expend up to $500,000 to hire additional staff prior to the Committee reviewing the more complete expenditure plan.
- Request the next quarterly report include a timeline for hiring the additional personnel and accomplishing other objectives of the legislation.

Analysis

Laws 2006, Chapter 344 appropriates $25,952,900 and 100 FTE Positions in FY 2007 to DPS for the newly expanded GITEM. This amount includes the following:

- $8,952,900 for the existing Gang Intelligence Team Enforcement Mission;
- $10 million to expand the existing GITEM into a multi-jurisdiction task force known as the Gang and Immigration Intelligence Team Enforcement Mission and for new functions relating to immigration enforcement, including border security and border personnel. If DPS uses monies for agreements to have local law enforcement entities provide services for GITEM, the local entity must provide 15% of the cost of the services and must have entered into a 287 memorandum of understanding (MOU) with the United States Department of Homeland Security (DHS); and
- $7 million and 100 FTE Positions for sworn DPS personnel, of which 50 are for immigration and border security.

With the expansion of GITEM for immigration related efforts, DPS has included in their report an overview of the issues related to gang activity and the criminal element of illegal immigrants in Arizona as well as how they envision GITEM will address these problems. In addition to the department providing an organizational chart indicating how GITEM could possibly be structured, DPS anticipates doing the following to achieve their overall objective:

- Entering into a MOU with the federal DHS and assigning personnel to the federal Immigration and Customs Enforcement (ICE) sponsored Border Enforcement Strike Team;
- Forming agreements and contracts with other local agencies who will be reimbursed by DPS for 85% of their services, providing they have entered into an MOU with the federal DHS;
- Pursuing partnerships with other Task Forces such as the Motor Vehicle Divisions Office of Special Investigations, the Border Patrol and an existing US Postal Service Task Force to address illegal immigration and related crimes; and
- Substantially increasing patrols, investigations, undercover activities and intelligence gathering and analysis.

The DPS proposal does not include a timeline for meeting these objectives.

(Continued)

Expenditure Plan
The department did not provide a detailed budget for the $10 million to expand GITEM and fund multi-jurisdictional efforts. However, the department anticipates utilizing $1 million to integrate the existing GangNet system, which allows tracking and identification of known gangs and affiliates, with other intelligence systems and to purchase fixed and mobile license plate readers to aid GITEM in identifying stolen vehicles, smuggling patterns and gang activity. The license plate reader is a device that scans vehicle license plates and checks the numbers against DPS databases as the vehicle passes the device. If a license plate number is identified, an alert is instantly sent to DPS personnel in the area who can take appropriate action.

The department has previously received approval of their PIJ from GITA for the initial rollout of the GangNet system and for license plate readers that have already been purchased. However, DPS indicates they would need additional approval from GITA to pursue the proposed projects.

DPS also did not provide a detailed budget for the $7 million to add 100 FTE Positions within DPS. While the department will identify existing sworn personnel that can be transferred to GITEM, they will also consider transfers from other agencies and new hires. To attract candidates, DPS would like to expand their recruiting program. Specifically, DPS requests to utilize $410,000 of the $7 million appropriation to hire a recruiting expert, implement a recruiting campaign, and make enhancements to the DPS website that would expedite the application process. These monies would be in addition to the $350,000 in the department's base budget for recruiting efforts. DPS did not provide a timeline for adding the new personnel.

RS/ML:ym

ARIZONA DEPARTMENT OF PUBLIC SAFETY
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"Courteous Vigilance"

JANET NAPOLITANO Governor
ROGER VANDERPOOL Director

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JUL 1 2 2006
JOINT BUDGET COMMITTEE

July 11, 2006

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

Dear Senator Burns:

The FY 2007 DPS budget contains an appropriation of $25,952,900 for the Gang Intelligence and Team Enforcement Mission (GITEM) Special Line Item. Of these monies, $10,000,000 may be used to expand the program by contracting with other entities for services to address crime stemming from illegal immigration. Another $7,000,000 is intended to fund up to 100 DPS sworn personnel of which fifty (50) are to be used for immigration and border security.

Prior to the expenditure of the $17,000,000 referenced above, the Department must present an expenditure plan for each component to JLBC for review. In addition, DPS must provide quarterly expenditure reports to JLBC. Any police department or sheriff's office that receives a portion of the $10,000,000 to provide services to GITEM must have a memorandum of understanding (MOU) in place with the federal Department of Homeland Security to "...investigate, apprehend, and detain illegal aliens in the United States to the fullest extent consistent with state and federal law". Other entities providing services to GITEM through a contract must also pay 15% of the contract costs.

As described in the attached expenditure plan, the Department intends to implement the above provisions to the greatest extent possible by contracting with other agencies for personnel and by filling sworn DPS positions in GITEM. We will report to the JLBC on our progress on a quarterly basis.

In addition to hiring personnel, DPS would like to move forward with two important technology projects to enhance the efficiency and effectiveness of GITEM and other law enforcement officers. One project would enhance the effectiveness of the existing GangNet system by integrating it with existing intelligence and case management systems. The other project would deploy license plate readers to help identify stolen vehicles, smuggling patterns, and gang activity. We have budgeted $1,000,000 for these projects and would only proceed with them once we have approved Project Investment Justifications from the GITA.

In order to maximize our ability to fill DPS GITEM positions, we intend to spend $410,000 of the $7,000,000 appropriation for increased recruiting efforts as described in the attached recruiting plan. These monies will be in addition to $350,000 in funding from the DPS lump sum budget.

We ask that the JLBC review the Department's expenditure plans at its next meeting. If you have any questions about the plan, please contact Phil Case, DPS Comptroller, at 602-223-2463 or pcase@azdps.gov.

Sincerely,

Roger Vanderpool
Director

Enclosures

cc: Mr. Richard Stavneak, Director

Gang & Immigration Intelligence Team Enforcement Mission
Expansion & Expenditure Plan
July 1, 2006

PROGRAM:

Effective July 1, 2006, GITEM is appropriated $25,952,900 for FY 2006-2007. The role of the State Gang Task Force has been expanded to include border security and immigration enforcement initiatives and the unit's acronym has been modified to GIITEM, Gang & Immigration Intelligence Team Enforcement Mission. The new unit received 50 sworn personnel positions to expand the gang enforcement mission and fifty officer positions to be used for immigration and border security. Seven million dollars is earmarked for the increased personnel expense. Another $10 million is to be used for new functions relating to immigration enforcement, including border security and border personnel. DPS is required to reimburse participating agencies 85% of the cost of other agency personnel. Other agencies participating with GIITEM must first sign a section 287(g) memorandum of understanding with the Department of Homeland Security. Prior to expending the new budget, DPS must submit an expenditure plan to the joint legislative budget committee for review.

GENERAL THREAT ASSESSMENT

Arizona law enforcement has documented approximately 2,000 criminal gangs that operate within the state. During the late 1990's, aggressive gang enforcement efforts contributed to the decline in gang related crime and the incarceration of many gang members. Some of those criminals have been released from prison in recent years and have returned to criminal activities. During June 2003 – June 2006, nearly 2,700 security threat group members were released from Arizona prisons. Unfortunately, while in prison many gang members developed closer ties to gang life and learned to become better organized in their criminal enterprises. In the Phoenix area, 85% - 90% of all violent crimes are attributed to three categories of criminal activity: gangs, smuggling of illegal aliens, and drugs.

Illegal immigration from Mexico into Arizona has increased, surpassing the higher numbers historically tallied in Texas and California. During 2004, the apprehension of illegal immigrants by the Border Patrol in the Tucson sector was higher, by a 4 to 1 ratio than those captured in the San Diego or El Paso sectors. Illegal aliens have formed criminal gangs, such as the MS-13, Border Brothers, and Wetback Power, to further their enterprises. The New Mexican Mafia (EME) is responsible for many dozens of murders in Arizona. Polygangs, unheard of ten years ago, are responsible for an alarming number of home invasions. Alien smuggling has become an extremely violent enterprise and has contributed to the deaths of many hundreds of immigrants. Assassination, kidnapping, extortion, rape, robbery, and racketeering are not uncommon in the trade. The importation of marijuana, narcotics, and methamphetamine also flourish with a porous border. Frequently, armed, military type personnel escort aliens or drugs from Mexico into Arizona. Auto thefts, among the highest in the country, are also a bi-product of border crimes.

ORGANIZATION OF GIITEM

To combat the gang and border crime trends, gang enforcement efforts will be significantly increased statewide. Phoenix and Tucson experience the greatest numbers of gang related crimes. Accordingly, both metropolitan areas will see substantially increased gang enforcement resources. Most rural counties will benefit from the assignment of additional gang enforcement personnel. Intelligence efforts will be vastly improved with the implementation of a Gang and Immigration Intelligence District. Border Security and Immigration Enforcement personnel will be assigned to the four southern border counties, as well as in Tucson, Phoenix, and with the Border Enforcement Strike Team (BEST), sponsored by Immigration and Customs Enforcement (ICE).

The attached organizational chart graphically depicts a possible Gang Enforcement Bureau structure that would include all new functions and personnel.

ENFORCEMENT FOCUS & STRATEGIES

A focused enforcement effort directed at gangs and the criminal element of illegal immigrants is the mission of GIITEM. With an increase in Border Patrol and National Guard personnel this strategy should complement that of the federal government and communities in southern Arizona should realize a significant reduction in crime.

Directed enforcement efforts are successful when they incorporate a multi-pronged approach that includes aggressive, overt patrol, undercover activities, long term investigations, and concerted intelligence collection and analysis. Policing efforts will be "intelligence driven." Crime trends analysis will identify which gang and immigration related crimes are dominant, as well as where and when those crimes are occurring. Intelligence collection and analysis will identify those who are likely committing the crimes. GIITEM enforcement squads will saturate and aggressively patrol problem areas targeting the identified criminal groups or individuals. Undercover GIITEM squads will infiltrate criminal groups to develop prosecutable cases and assist in the operations of extensive, long term investigations of criminal syndicates. Border Security and Immigration Enforcement personnel will incorporate the same strategies and direct their efforts along the Mexico border areas. Crimes most likely to be addressed by GIITEM strategies are homicides, assaults, alien smuggling, property crimes including auto thefts, and narcotics trafficking.

STAFFING & RECRUITING

The single greatest challenge for GIITEM will be staffing 100 new officer positions. DPS officer positions for GIITEM are filled predominantly from Highway Patrol transfers. Understanding that the Highway Patrol also has staffing needs, the Criminal Investigations Division will work with the Highway Patrol Division to identify how many patrol officers can be immediately released for transfer to GIITEM. Additionally, both divisions will cooperatively develop a time table projecting anticipated availability of more patrol officer transfers to GIITEM. Sworn officer transfers from other assignments in the Department will also be considered and identified. The Department will consider lateral applicants from other agencies to fill Highway Patrol and Criminal Investigations positions, including GIITEM.

As GIITEM incrementally grows, opportunities exist to enhance the effectiveness of officers already assigned and those new to the unit. The new GangNet automation system which tracks gang members, gangs, and trends has already proven to be a significant force multiplier for existing gang officers. Existing GIITEM squads have been made more effective through the use of this system. The concept of attacking the gang problem based upon a thoughtful analysis of gang trends and activities has already been a benefit of the system.

Although the GangNet system has shown itself to be highly effective in tracking gangs and gang activity, officer effectiveness can be even further enhanced though the integration of GangNet into the case management system, the drug-intelligence systems at the Arizona HIDTA, and the existing intelligence and counter-terrorism systems at the ACTIC. Additionally, individual technology initiatives such as mobile-data-computers, handheld wireless devices, mobile and fixed license plate readers (LPRs), and technical surveillance equipment will enable officers to be far more effective and efficient in both patrol and investigative functions.

TASK FORCE PARTNERSHIPS

Partnerships with other agencies are critical to the success of the mission. GIITEM will promote and pursue participation from other agencies throughout the state. The 85% reimbursement to participating agencies will secure additional help for the effort. Ideally, every GIITEM squad will have officers from other agencies.

DPS will participate in the appropriate training through a section 287(g) memorandum of understanding with I.C.E. GIITEM will assign personnel to the B.E.S.T. Task Force in Tucson. The Border Patrol has indicated their interest in participating with GIITEM. GIITEM will seek to partner with MVD's Office of Special Investigations to investigate driver's license and vehicle registration fraud as it pertains to border crimes and security. GITTEM will also partner with an existing US Postal Service task force which is addressing the growing identity theft problem in the state. Although that task force is less than one year old, their work to date has shown a direct connection to immigration fraud and gang activity.

EQUIPMENT, SERVICES & TRAINING

GIITEM will purchase the required equipment and services for all participating personnel and pay for all training and associated travel. Equipment will include, but not be limited to, vehicles, radios, mobile data terminals, communications services, telephones and necessary hardware, computers, monitors, servers, software, printers, cameras, scanners, mobile handheld devices, personal safety equipment, weapons, tasers, duty belts, uniforms, uniform accoutrements, restraints, office equipment and furniture. GIITEM will also be obligated to pay for office space, office services, fuel, and utilities.

PROJECTED COSTS AND BUDGET:

GIITEM will operate within the constraints of the funding available. Since receiving the approved appropriations for GIITEM, there has been insufficient time to prepare a detailed budget. It is fair to say that the vast majority of the budget will be dedicated to personal services and equipment.

Full staffing will likely not be realized this fiscal year due to recruiting and hiring time constraints. As a result, GIITEM will realize some vacancy savings. Because personnel are the scarce commodity, some of the vacancy savings will be utilized to develop and expand the technology infrastructure to support highly effective enforcement techniques. Wireless technology will be leveraged as a force multiplier to help officers be more effective and efficient. This technology will come in the form of mobile license plate readers, mobile network surveillance equipment, wireless audio and visual monitoring systems, LPRs, and officer safety equipment that allows officers at the roadside to check facial recognition and fingerprint databases to identify potential suspects in real time. Records management software will also be critical in managing the vast amounts of information that will be generated. This information will, in turn, be analyzed and prepared for enforcement targeting purposes.

July 3, 2006
DRAFT

161 Sworn Positions
Gang Funding
Border Funding

- GIITEM [illegible]
  - GIITEM Operations Staff 3
  - GIITEM Northern Enforcement District 2
    - Coconino County GIITEM Squad 9
    - Mohave County GIITEM Squad
    - Navajo/Apache GIITEM Squad 6
    - Yavapai County GIITEM Squad 9
  - GIITEM Central Enforcement District 2
    - GIITEM Enforcement Phx Metro East 8
    - GIITEM Enforcement Phx Metro Central 8
    - GIITEM Enforcement Phx Metro West 8
    - GIITEM Investigations Phoenix 8
    - GIITEM [illegible]
  - GIITEM Southern Enforcement District 2
    - GIITEM Enforcement Tucson 8
    - GIITEM Investigations Tucson 8
    - GIITEM [illegible] Investigations Tucson 7
    - Pinal County GIITEM Squad 7
  - Border Security & Immigration Enforc District 2
    - Cochise/Santa Cruz GIITEM Squad 8 + 2
    - Yuma/La Paz GIITEM Squad 8
    - Border Security Strike Force Team Tucson 8 + 1
    - Border Security Strike Force Team Phoenix 8 + 1
    - B.E.S.T – Tucson (I.C.E) 2 + 2
  - Gang & Immigration Intelligence District 2
    - GIITEM Intelligence Phoenix 6 + 1
    - GIITEM Intelligence Tucson 6 + 1
    - GIITEM [illegible]
    - GangNet Administrator

ARIZONA DEPARTMENT OF PUBLIC SAFETY
SWORN OFFICER RECRUITING PROGRAM
FISCAL YEAR 2007

Background and Description of Problem

The Arizona Department of Public Safety (DPS) is facing ever-increasing challenges in attracting, recruiting, and retaining qualified sworn officer candidates. DPS must compete to attract qualified candidates from a limited recruiting "pool". This situation poses significant problems for the agency as we attempt to recruit applicants to fill existing and new sworn officer positions.

These hiring challenges exist for many reasons. While recent sworn salary pay increases have helped make the agency more competitive in this market, pay alone does not address overall recruiting problems. For example, the current generation of young adults, the "Millennial Generation", is considered the target recruiting audience. This group is not as attracted to the police profession as past generations have been based upon a shifting of values that includes favorable work schedules and balanced life style concerns. Our recruiting efforts need to be reflective of this recruiting pool's priorities and shift away from "traditional" recruiting events such as generic job fairs to those venues (e.g., Internet advertising) that are more likely to catch their attention. Additionally, our recruiting ability diminishes each time a competing law enforcement agency significantly increases their recruiting budget, hires recruiting experts, and offers incentives such as hiring bonuses to attract applicants.

For FY 06/07, the Legislature approved 143 new DPS sworn officer positions (100 GITEM, 41 Highway Patrol, and 2 detectives). Based on the current recruiting environment, finding qualified candidates to fill these new positions will be a daunting task. Nationwide, law enforcement retirements are increasing due to demographic and other factors (e.g., "Baby Boomers" leaving the workforce). If we are to be successful, we must identify and focus our efforts on a comprehensive recruiting program that will result in the highest return of qualified candidates.

Proposed Solution

Based on past recruiting experience, surveys of applicants, and successes of other law enforcement agencies, the Department has identified the following three key components of a comprehensive recruiting program that we believe will greatly enhance the agency's ability to attract, recruit, and retain qualified candidates:

- Recruiting Expert: Hire a recruiting expert experienced in law enforcement recruiting initiatives to analyze our target audience and identify a recruiting campaign strategy that will maximize our exposure to the targeted audience and provide the highest level of return of qualified candidates. This campaign will help ensure the agency maximizes recruiting staff's time and funding, and is expected to include a strategic and comprehensive plan to effectively use a combination of recruiting approaches.

- Recruiting Campaign: Implement the recruiting campaign identified by the expert that will result in the highest return on our investment. This campaign will include a requirement for statistical information or feedback that identifies those venues resulting in the highest return of qualified candidates so the agency can further "tweak" the recruiting strategy. Expected outcomes will include increased numbers of applicants and maintenance of our hiring standards, ultimately resulting in an overall hiring increase.

- DPS Website Enhancements: The successful recruiting campaign will be complimented by a faster and easier on-line application process through the hiring of a web expert to provide enhancements to the DPS website. This will include the addition of an on-line fillable job application form that "hits" on key words and provides pop-up windows to address questions or concerns regarding the application. Other enhancements may include an on-line testing capability, capturing of applicant e-mail addresses the agency will use to notify and remind applicants of upcoming test dates, a "streaming" video on the realities of police academy life, a link for volunteers, and a section for suggestions and/or input from potential applicants on ways to improve the site and provide the agency with statistical information on the website's use.

In conjunction with the above program, the agency is now in the process of making the following internal improvements to our existing recruiting efforts that we believe will further enhance the success of this program:

- Update current in-house applicant tracking software and analyze the hiring process to determine why some applicants fail. Determine the impact of modifying hiring standards to address these areas.

- Conduct an internal management audit of the hiring process to identify areas where improvement can be made to speed up the overall process.

- Expand the hiring of lateral sworn officers to include both the Highway Patrol and the Criminal Investigations Divisions. Update the agency's Lateral Fast-Track Training Manual for both divisions.

- Continue to pre-hire qualified employees whenever possible in order to avoid losing these individuals when there is a "wait list" for a police academy opening.

- On a temporary basis, redeploy two sworn officers to the DPS Human Resources Sworn Recruiting Unit to conduct applicant background investigations in order to speed up the hiring process, ensure consistent and thorough background checks, and to minimize the negative impact of taking Highway Patrol or Criminal Investigations officers away from their assigned enforcement duties to conduct these backgrounds (over 2,750 hours in calendar year 2005 alone). This is a short-term fix only. The agency's FY08/09 budget will include a request for four civilian background investigators to be assigned full-time to the Human Resources Recruiting Unit for this purpose.

- Submit a FY08/09 budget request to establish one additional polygraph examiner to speed-up the hiring process and ensure the proper industry checks and balances for each exam is in place.

- Outsource psychological review services to one additional provider, again to more efficiently process applicants and ensure back-up services.

- Consider implementing a "regional recruiter" program where DPS sworn officers in outlying areas serve as initial points-of-contact for potential applicants in those areas, ensure ongoing dialogue with those individuals and assist Human Resources in recruiting events.

- Adopt a longer pre-academy, perhaps two-to-three weeks, in order to better prepare recruits for the policy academy, improve their physical conditioning, and more effectively "bond" them to the DPS culture and core values.

- Hire a human resources expert to review the agency's classification and compensation package (including tangible and intangible benefits) to determine our competitive level in the sworn recruiting market.

Effects of Not Funding the Program

Failure to fund this program is expected to result in the agency being unable to fill the majority of the 143 new sworn officer positions approved by the Legislature for FY07. This would prevent the Department from meeting the legislative mandate and intent of the additional funding in the areas of gang and immigration related enforcement and public safety patrol functions throughout the State.

Requested Program Funding

Professional & Outside Services:	
• Recruiting Expert	$ 70,000.00
• Website Enhancements	$ 70,000.00
Subtotal:	$ 140,000.00
Other Operating Expenditures:	
• Advertising/Marketing/ Recruiting Expenses	$585,000.00
Subtotal:	$585,000.00
Travel/In-State & Out-of-State:	
• Recruiting Events	$ 25,000.00
Subtotal:	$ 25,000.00
Overtime:	
• Recruiting Events	$ 10,000.00
Subtotal:	$ 10,000.00
GRAND TOTAL:	**$760,000.00**

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

HOUSE OF
REPRESENTATIVES

DATE: July 19, 2006

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

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Assistant Fiscal Analyst

SUBJECT: Department of Public Safety – Review of the Expenditure Plan and Project Timeline of the Microwave Communications System Upgrade

Request

Pursuant to the FY 2007 Capital Outlay Bill (Laws 2006, Chapter 345), the Department of Public Safety (DPS) has submitted for review an expenditure plan, project timeline and the results of the Project Investment Justification (PIJ) for the microwave communications system upgrade. Future reports, as required by the Capital Outlay Bill, are anticipated to be received by December 31, 2006 and June 30, 2007. These reports shall include the microwave communications system upgrade expenditures and progress as well as any additional information requested by this committee.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request with the following provisions:

- DPS submit an updated cost estimate on the southern loop and the entire project in its December 31 report.
- DPS request Committee review of any expenditure from the $1.2 million contingency greater than $100,000.

Analysis

Overview & Estimates
Currently, DPS operates and maintains a statewide microwave communication system. A microwave communications system is a series of towers and communications equipment (currently analog equipment) that transports voice and data from one location to the next, enabling dispatch control and long distance communication for portable radios in remote areas. The microwave system is comprised of 3 independent but integrated loops located in the southern, northern and western parts of the state. The

(Continued)

current analog microwave system consists of equipment that is no longer manufactured and infrastructure in need of repair. DPS estimates the cost to upgrade all 3 loops to be approximately $61 million. DPS estimates upgrading the entire system will take a total of 7 years, including 3 years to upgrade the first loop and 2 years to complete each of the remaining 2 loops. As a result, DPS will begin to upgrade the southern loop in FY 2007 (which would be operational beginning FY 2010) and complete the final loop in FY 2013.

Funding
The estimated $12.4 million ($4,133,000 annually) cost to upgrade the southern loop of DPS' analog microwave system is intended to be shared between monies appropriated to DPS and Federal Homeland Security monies. Specifically, the Capital Outlay Bill appropriated $2,533,000 in FY 2007 and advance appropriated an additional $5,066,000 ($2,533,000 in each of FY 2008 and FY 2009) including:

- $4,500,000 ($1,500,000 annually) from the General Fund to DPS
- $2,478,000 ($826,000 annually) from the State Highway Fund to ADOT for distribution to DPS
- $621,000 ($207,000 annually) from the Game and Fish Fund to Game and Fish for distribution to DPS

ADOT and Game and Fish are the 2 largest non-DPS users of the system and monies were allocated to reflect each of the agencies usage. The most recent data from DPS indicates ADOT and Game and Fish usage of the system at approximately 20% and 5%, respectively. The remaining $4.8 million ($1.6 million annually) is to be funded from Federal Homeland Security monies allocated to DPS.

Expenditure Plan
DPS anticipates expending the $4,133,000 appropriated by Laws 2006, Chapter 345 in each of FY 2007 through FY 2009. Based on the department's 3-year expenditure plan, a total of 3 new sites will be constructed in the southern loop, 19 existing sites would be refurbished (3 located outside the southern loop) and digital equipment would be installed on 15 southern sites. *Table 1* indicates DPS' anticipated expenditures.

Table 1

DPS Estimated Expenditures -- Microwave Communications System Upgrade

	FY 2007	FY 2008	FY 2009	Total
FTE Positions	2	3	4	4
Personal Services	$ 126,000	$ 170,000	$ 218,300	$ 514,300
Employee Related Expenditures	38,500	54,100	70,600	163,200
Professional & Outside Services	-	-	-	-
Travel - In State	10,000	12,000	22,000	44,000
Travel - Out of State	-	-	-	-
Other Operating Expenditures				
New Sites	-	950,000	700,000	1,650,000
Refurbished Sites	3,150,000 [1/]	2,715,000	725,000	6,590,000
Miscellaneous	2,000	3,100	4,100	9,200
Microwave Equipment	-	-	2,250,000	2,250,000
Contingency (10.5%)	806,500	228,800	143,000	1,178,300
Total Operating Expenditures	**$4,133,000**	**$4,133,000**	**$4,133,000**	**$12,399,000**

1/ Includes $1,150,000 to refurbish 3 sites located outside of the southern microwave loop.

In FY 2007, the $4,133,000 would fund 2 FTE Positions (a Project Manager and Tower Technician) and their associated costs $(176,500), the refurbishment of 5 communication Sites located in the southern

(Continued)

loop $(2,000,000), the refurbishment of 3 communication Sites located outside the southern loop $(1,150,000) and a 10.5% contingency $(806,500). The locations to be refurbished outside the southern loop are in need of repairs and replacement of damaged equipment and towers.

Timeline

The department provided a timeline (see attachment A) indicating when various tasks relative to the project are to begin and be accomplished. Based on the timeline, DPS anticipates the following:

- Hiring a project manager by October 2006
- Completing the renovation of the Phoenix Microwave room by January 2007
- Issuing site Request for Proposals (RFP) in December 2006 and awarding all RFP's by June 2007
- Beginning construction and renovation of the southern segment in January 2007, replacing radios in August 2007 and completing the upgrade by June 2010.

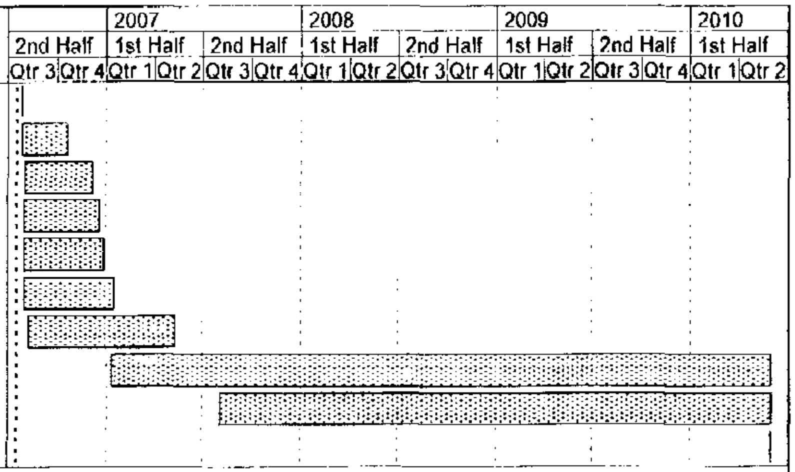
Other Information

The department was required to include in its submission the results of the PIJ by the Information Technology Authorization Committee (ITAC). DPS has provided a letter indicating ITAC approved the project.

RS/ML:ym

Attachment A

ID	Task Name	Duration	Start	Finish
1	Start	1 day	Fri 7/28/06	Fri 7/28/06
2	Hire Project Manager	60 days	Fri 7/28/06	Thu 10/19/06
3	Renovate Phoenix Microwave Room (On Contract)	90 days	Tue 8/1/06	Mon 12/4/06
4	Tower Loading Engineering Studies South Loop	100 days	Tue 8/1/06	Mon 12/18/06
5	Site Specific RFPs (Several Sites)	107 days	Tue 8/1/06	Wed 12/27/06
6	Frequency Coordination & License South Loop	120 days	Tue 8/1/06	Mon 1/15/07
7	RFPs for Site Construction/Renovation Services	195 days	Thu 8/10/06	Wed 5/9/07
8	Start Construction/Renovation South Loop Sites	883 days	Thu 1/11/07	Mon 5/31/10
9	Replace South Loop Microwave Radios	737 days	Fri 8/3/07	Mon 5/31/10
10	End Phase 1	1 day?	Mon 5/31/10	Mon 5/31/10



Project: Microwave Replacement
Date: Mon 7/17/06

Task	Milestone	External Tasks
Split	Summary	External Milestone
Progress	Project Summary	Deadline

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

"Courteous Vigilance"

JANET NAPOLITANO Governor
ROGER VANDERPOOL Director

RECEIVED
JUL 06 2006
JOINT BUDGET COMMITTEE

July 6, 2006

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

Dear Senator Burns:

The FY 2007 Capital Outlay Bill contains appropriations totaling $2,533,000 in each of FY 2007, FY 2008, and FY 2009 to upgrade the Department's microwave system. The bill also states that it is the Legislature's intent that $1,600,000 in federal homeland security monies be allocated in each of these fiscal years for the project. In total, the bill envisions $12,399,000 being made available for the microwave upgrade.

As you know, the microwave system serves as the backbone for the State's radio system and will serve as the backbone for an eventual statewide interoperable radio system. The approved funding represents only a portion of the monies necessary to complete the entire microwave upgrade, which is divided into three phases. The remaining two phases will require an estimated $48 million in current costs to complete.

Prior to the expenditure of the approved monies, the Capital Outlay Bill requires DPS to submit an expenditure plan and project timeline to JLBC for review. The Department must also provide project updates to JLBC by December 31, 2006 and June 30, 2007.

We ask that the JLBC review the Department's expenditure plan at its next meeting. If you have any questions about the plan, please contact Phil Case, DPS Comptroller, at 602-223-2463 or pcase@azdps.gov.

Sincerely,

Roger Vanderpool
Director

Enclosures

cc: Mr. Richard Stavneak, Director

ARIZONA DIGITAL MICROWAVE NETWORK CONVERSION

Point-to-point microwave systems have been used since the early 1950's by Common Carriers, Broadcasters, private parties, and Public Safety entities to transport voice and data communications over long distances. Although largely replaced in the Common Carrier (Telephone) environment by fiber and satellites now, it still plays a major role in many private systems; especially public safety systems.

Unlike two-way radio, which typically transmits only one channel of information on a single carrier, a microwave system can transport many hundreds of individual channels of information simultaneously. A microwave link can be thought of as a huge freeway, consisting of lanes, with traffic moving continuously in both directions. Vehicles (voice traffic) can enter at various on-ramps and exit at designated off-ramps. In the early days of microwave transport, all systems were analog, and carried narrow voice-band traffic. During this early period, from 1950-1980, the State built an extensive statewide analog microwave system to link various ADOT and Highway Patrol dispatch centers to their 2-Way base stations, on high mountain-top sites throughout the state. Its reliability was improved by reconfiguring it into "three system loops" in the 1980s, and upgraded with newer, more reliable solid state equipment into the 1990s.

During the mid 1970's, digital microwave came into existence. By the late 1980's, such systems were mature, and in common use by the major carriers, including Sprint, AT&T, and MCI. However, this occurred just as the carriers started building out their continental fiber networks. Their fiber connected only cities and towns in the lower elevations where trenching in soft ground, often along highway rights-of-way, was relatively cheap and easy. Public safety users, who needed to maintain sites on mountain locations to maintain 2-Way radio coverage over large distances, continued to use, and even expanded the use of microwave systems. High elevation sites are necessary in the mountainous west to cover the vast distances between the sites. They can't be placed at sites in low-lying flatland locations, as hundreds more would be required to provide the 2-Way coverage to Arizona's 114,000 square miles.

By the mid 1990's, most new systems being installed for private microwave users were all digital.

Analog terminals continued to be manufactured only for replacements of analog user systems. Then, around year 2000, all the remaining manufacturers, both domestic and international, discontinued both construction and support of their older analog products. This left the State of Arizona in a difficult situation. Maintenance of the State analog microwave system, which had been meticulously built and maintained over a half century, at a cost of millions of dollars, was at the mercy of the used spare parts market. Six years later, this market continues to shrink, and the State faces the very real possibility that a major failure could disrupt the entire State public safety communications system. As the system grew over the past half-century, a multitude of agencies, State, County and Federal users and functions, now rely on the DPS statewide sites and/or microwave network. The loss of the DPS sites/microwave system would be catastrophic to many of these users, and would seriously jeopardize the public safety and our homeland security as there are few, if any alternatives to the state-wide DPS system.

The solution, which has been in the planning stages for over a decade, involves overbuilding the older analog microwave loops, with digital microwave. In order to maintain continuing normal operations, the old analog systems have to be kept in operation until the new digital systems are fully constructed within each loop, since the analog and digital systems are incompatible. Given the pace of construction anticipated, this means that the last analog microwave loop will need to be kept in operation until about 2014. This will prove to be difficult, as parts are not anticipated to be available in another year or two, except from the State's own microwave terminals which will be removed from service as the digital microwave is installed. Therefore, it is essential that the new digital network be constructed as soon as possible. Arizona's microwave infrastructure must be updated to allow for the support of modern digital two-way interoperable radio networks under consideration by the Public Safety Communications Commission (PSCC).

The State's microwave network provides the infrastructure to connect all of the required remote radio sites together. For the State to construct a high-tech interoperable radio network and to replace the numerous 30 year-old VHF and UHF conventional analog systems currently in use, a digital microwave backbone system must first be in place.

This task would be much easier if it were just a matter of slipping a new rack of digital microwave into the State DPS communications sites, and adding another microwave dish antenna or two at each tower. However, this is far from the case. Digital microwave terminals consume far more DC power than their analog predecessors. This will require larger power supplies and battery systems. It also requires additional space in buildings, and added cooling capability, which drives up the electrical system requirements. As a result, many State DPS communications buildings, towers, and standby generators will need renovation or replacement.

Also, adding microwave dish antennas adds tremendous stress to radio towers. With the number of new dishes required for a digital microwave system, which often requires two microwave dish antennas per terminal path, instead of a single one in an analog system, many of the State towers will not be capable of supporting the needed load. Many of the State towers are nearly 50 years old, and already have degraded load carrying capabilities. (This can only be determined after conducting professional engineering.) So, many towers will first need reinforcement or complete replacement. Vast amounts of concrete and steel must be transported to the sites, along with a crane to lift tower sections into place.

It is estimated that nearly 2/3 of the cost of the State microwave system upgrade will involve conventional low-tech construction (steel and concrete). While the first 5 years of the microwave digital equipment upgrade program will cost over $10M, it is anticipated that construction and renovation of sites in the South, West and North microwave loops will cost $45M. Only about $14M total over 7 years is involved in actual digital transport systems. The rest of the funding is brick, mortar, and steel.

The Arizona Highway Patrol, and now the Department of Public Safety, has been building radio communications sites since the 40's and has built, rebuilt, or moved over 60 communications sites supporting over 600 2-Way base stations. Each of these sites with their buildings and towers were constructed to the needs and funds available at the time. Their refurbishment may require individual Requests for Proposals due to their unique locations, distance to population centers, and system support requirements. Individual site costs will vary by the system needs and the materials costs at the time of construction.

Expenditure Plan for the Digital Microwave Upgrade

The department's expenditure plan includes the operational cost to add project management and technical support staff in support of the project, capital and non-capital equipment purchases, and Professional and Outside Services to provide both consulting services and site construction. The staff positions include; the Wireless Systems Project Manager, Communications Tower Technicians, and a Wireless Systems Technician. Because of the complexity of this microwave replacement project, a full time project manager whose primary job responsibility is the planning and coordination of the project is needed. Part of the project manager's duties also includes the coordination with the 2-Way system design consultant that the PSCC is retaining. It is anticipated that this consultant will provide some of the microwave system design parameters needed to support the infrastructure requirements of the statewide interoperable radio system. Additional internal staff, the tower technicians, are needed to help monitor the construction of communications site by outside vendors. The actual microwave equipment installation is expected to be handled by internal staff and the additional wireless technician, thereby reducing that aspect of the project.

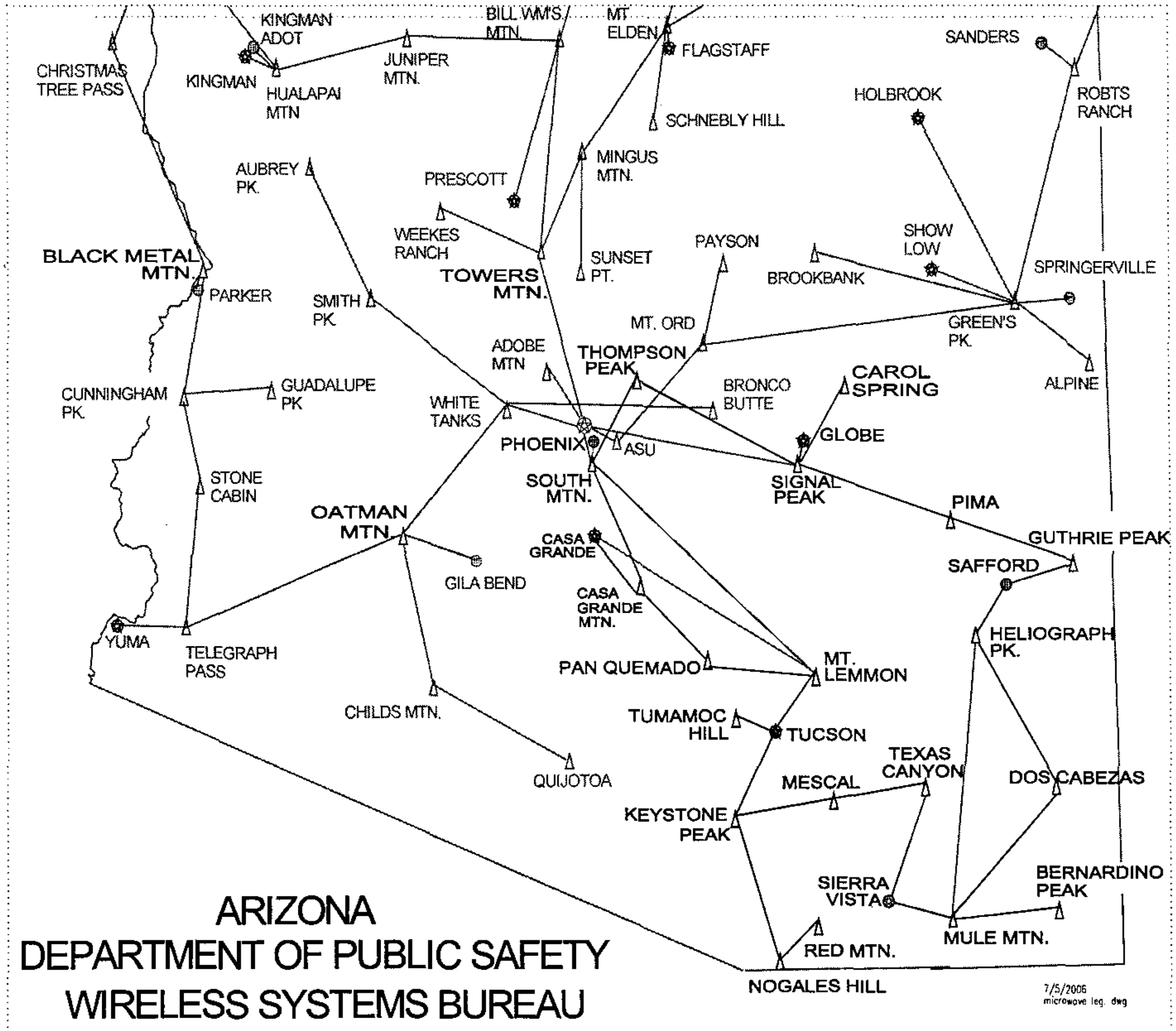
In fiscal year 2007, the priorities, besides the Project Manager, are the replacement of damaged communications towers at Oatman and Black Metal mountains. Additional projects include the completion of the upgrade to the Phoenix Microwave Room, refurbishment of the Towers Mountain and Thompson Peak communications sites, and the development of two new shared public safety communications sites at Casa Grande and Red Mountains. The Towers Mountain refurbishment will allow the department to deploy digital microwave from Phoenix to the Flagstaff District Office, in support of the Computer Aided Dispatch and Mobile Data Computer systems. Thompson Peak is another shared public safety communications development. Conduct engineering tower studies on all south loop sites. The PSCC consultant will be used to help with microwave system design requirements.

In fiscal year 2008, a second tower technician will be added to the staff to help monitor site construction. Sites under consideration during this fiscal year include; Keystone Peak, a shared public safety site; Nogales, Mule and Dos Cabezas Mountains, Bernardino, Guthrie and Signal Peaks, Mescal and Texas Canyon sites, Sierra Vista and Safford District Offices, and the new Game and Fish Phoenix Headquarters.

In fiscal year 2009, a wireless technician will be added to the staff to help with microwave equipment installation. Sites under consideration during this fiscal year include: Carol Springs, a new site at Pima Arizona, Phoenix tower addition; install and commission microwave equipment at previously constructed sites.

FY 2007 - FY 2009 Microwave Upgrade Expenditure Plan

	FY 2007 Units	FY 2007 Cost Estimate	FY 2008 Units	FY 2008 Cost Estimate	FY 2009 Units	FY 2009 Cost Estimate	Total Units	Total Cost Estimate
FTE Positions		2.0		3.0		4.0		4.0
Personal Services		126,000		170,000		218,300		514,300
Employee Related Expenditures		38,500		54,100		70,600		163,200
Travel - In State		10,000		12,000		22,000		44,000
Other Operating Expenditures		2,000		3,100		4,100		9,200
Subtotal - Operating		174,500		239,200		315,000		730,700
New Sites	-	-	2	950,000	1	700,000	3	1,650,000
Refurbished Sites	5	2,000,000	9	2,715,000	2	725,000	16	5,440,000
Microwave Equipment	-	-	-	-	15	2,250,000	15	2,250,000
Subtotal - Southern Loop		2,000,000		3,665,000		3,675,000		9,340,000
New Sites	-		-	-	-	-	-	-
Refurbished Sites	3	1,150,000	-	-	-	-	3	1,150,000
Microwave Equipment	-		-	-	-	-	-	-
Subtotal - Non-Southern Loop		1,150,000		-		-		1,150,000
Contingency (equals 10.5%)		808,500		228,800		143,000		1,180,300
TOTAL		**4,133,000**		**4,133,000**		**4,133,000**		**12,399,000**


KINGMAN ADOT
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MINGUS MTN.
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PAYSON
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BROOKBANK
SPRINGERVILLE
BLACK METAL MTN.
PARKER
SMITH PK.
TOWERS MTN.
MT. ORD
GREEN'S PK.
ALPINE
ADOBE MTN
THOMPSON PEAK
BRONCO BUTTE
CAROL SPRING
CUNNINGHAM PK.
GUADALUPE PK
WHITE TANKS
PHOENIX
ASU
GLOBE
SOUTH MTN.
SIGNAL PEAK
STONE CABIN
OATMAN MTN.
PIMA
GUTHRIE PEAK
CASA GRANDE
GILA BEND
SAFFORD
CASA GRANDE MTN.
YUMA
TELEGRAPH PASS
HELIOGRAPH PK.
PAN QUEMADO
MT. LEMMON
CHILDS MTN.
TUMAMOC HILL
TUCSON
QUIJOTOA
TEXAS CANYON
MESCAL
DOS CABEZAS
KEYSTONE PEAK
SIERRA VISTA
BERNARDINO PEAK
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MULE MTN.
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STATE OF ARIZONA

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DATE: July 19, 2006

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Senior 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 capitation rates are currently expected to cost $912,000 more than the General Fund budgeted level. Title XIX caseloads, however, have been declining and the related savings may offset this cost.

The department's capitation rate adjustment also includes 2 program changes. Laws 2006, Chapter 331 added statutory language that limits capitation rate adjustments to utilization and inflation unless those changes are approved by the Legislature or are specifically required by federal law or court mandate.

The first program change would provide more intensive treatment for SMIs with methamphetamine addiction. This $2.5 million General Fund adjustment could be viewed either as increased utilization for this population or as a program expansion. This funding is in addition to the $3 million for increased methamphetamine treatment in Laws 2006, Chapter 337. According to the department, approximately $29 million in Total Funds was spent on methamphetamine treatment for SMIs in FY 2005. The second program change would add more treatment teams for SMIs in Maricopa County. This $1.9 million

(Continued)

General Fund program change is in accordance with the state's agreement with the plaintiffs in the *Arnold v. Sarn* lawsuit.

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.

Under any option, the JLBC Staff recommends that DHS 1) provide the Committee by August 31, 2006 with an explanation of how the increased methamphetamine funding in the capitation rate will be coordinated with the Chapter 337 funding, and 2) how DHS will evaluate the effectiveness of this funding.

Analysis

DHS has received approval from AHCCCS to change the capitation rates for CBH, SMI and GMH/SA, beginning July 1, 2006 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.

Table 1 shows the budgeted and proposed capitation rates for each program. The FY 2007 appropriation was developed using preliminary capitation rate data reported by the department during the session, which assumed a weighted capitation rate increase of 5.5% above FY 2006. Given that the actual increase is only 5.2%, this should generate General Fund savings of $1.1 million. However, due to issues with how DHS' administrative costs are calculated, it will have a General Fund cost of approximately $912,000.

The FY 2007 rates also include 2 adjustments related to program expansions. These specific issues, as well as further detail on changes to the individual behavioral health categories, are discussed below.

<u>Administrative Adjustments</u>
DHS adjusts their capitation rates to include additional administrative costs. The Legislature historically backs out these administrative increases when calculating an appropriated amount for the upcoming fiscal year. The FY 2007 budget assumed a 4.7% DHS administrative increase for the Title XIX population and a 5.2% increase for the Proposition 204 population. The capitation rates implemented by DHS, however, assumed an across-the-board 4.2% increase for DHS administrative costs. As a result, the FY 2007 budget backed out approximately $2 million too much from the capitation rate for DHS administrative costs. Therefore, the new capitation rates (with the associated administrative components) result in a $900,000 General Fund cost, rather than approximately $1.1 million in savings.

<u>Program Changes</u>
The capitation rate adjustment for the SMI population included 2 programmatic increases that go beyond adjustments for utilization and inflation. These adjustments include:

- An increase of 2.8% in order to provide more intensive treatment of methamphetamine abuse among the SMI population. According to DHS, the department directed the actuaries to include an adjustment for more intensive treatment because methamphetamine abuse continues to be a large problem in

(Continued)

Arizona, especially among the seriously mentally ill population. This adjustment is expected to cost the General Fund $2.5 million in FY 2007.

In addition to the capitation adjustment above, Laws 2006, Chapter 337 appropriated $3 million from the General Fund in FY 2007 to the Department of Health Services for methamphetamine treatment. Of the monies appropriated, $2.5 million is for rural detoxification programs and $500,000 is for distribution to a statewide alliance of community-based organizations that provide substance abuse prevention programming to children. Programs must serve children in rural, urban and Indian communities, and military bases in Arizona.

- An increase of 2.1% in order to add 6 additional Assertive Community Treatment (ACT) teams, which are required under the *Arnold v. Sarn* agreement with the plaintiffs. The adjustment will increase the number of ACT teams from 12 to 18 operating in Maricopa County. This capitation adjustment helps meet the exit stipulation agreement with the plaintiffs in the *Arnold v Sarn* lawsuit. This adjustment is expected to cost the General Fund $1.9 million in FY 2007.

Table 1

Capitation Rates

Category	**FY 2006 Actual**	**FY 2007 Budgeted**	**% Change Above FY 2006**	**FY 2007 Proposed**	**% Change Above FY 2006**
Children	$50.71	$55.81	10.1%	$55.85	10.1%
SMI	$72.81	$71.01	(2.5)%	$70.62	(3.0)%
General Mental Health	$31.75	$36.86	16.1%	$36.66	15.5%

Children's Behavioral Health

The proposed Children's rate increase is 10.1% above the FY 2006 rate, but is in line with what was assumed in the FY 2007 budget. Main drivers for the 10.1% increase in the FY 2007 rates include:

- A rebase in the FY 2006 capitation rate of approximately (3.9)% to align costs with actual encounter data for this population.
- An increase of 2.4% due to a greater proportion of eligible children accessing the behavioral health system
- An increase of 6.3% due to the projected increased costs of providing services from FY 2006 to FY 2007
- An administrative component and underwriting profit/loss increase of 10%. Approximately 7.5% of the capitation rate is utilized by each Regional Behavioral Health Authority (RBHA) for administrative expenses. A 2.5% profit/risk contingency was also applied uniformly to all DHS contractors. Contractors can make up to 2.5% in profit or absorb up to 2.5% in losses.

Seriously Mentally Ill

The proposed SMI rate is (3)% below FY 2006. Reasons for the decrease include:

- A rebase in the FY 2006 capitation rate of approximately (15.1)% to align costs with actual encounter date for this population.
- An increase of 0.9% due to a greater proportion of eligible SMIs accessing the behavioral health system
- An increase of 7.3% due to the projected increased cost of providing services from FY 2006 to FY 2007
- An administrative component and underwriting profit/loss increase of 10%.

(Continued)

- A reduction of (7.8)% due to the continued implementation of the Medicare Part D prescription drug benefit, which shifted the cost of prescription drugs for individuals eligible for both Medicare and Medicaid from the state to the federal government.
- An increase of 4.9% for program expansions detailed above.

General Mental Health/Substance Abuse

The General Mental Health and Substance Abuse rate increased by 15.5% above FY 2006 due to:

- A rebase in the FY 2006 capitation rate of approximately (4.9)% to align costs with actual encounter date for this population.
- An increase of 4% due to a greater proportion of eligible individuals accessing the behavioral health system.
- An increase of 10.5% due to the projected increased cost of providing services from FY 2006 to FY 2007
- An administrative component and underwriting profit/loss increase of 10%
- A decrease of (5.9)% due to the continued implementation of the Medicare Part D prescription drug benefit.

Budget Impact

Table 2 shows the FY 2007 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 2007 budget. Without changes to the enrollment projections and other assumptions used in developing the FY 2007 appropriation, the capitation rate changes will require an increase of approximately $900,000 from the General Fund and $1.8 million in Total Funds above the existing FY 2007 appropriation.

The actual costs of the new capitation rates may be higher or lower than shown in *Table 2*, depending upon the actual number of people that enroll in Title XIX behavioral health programs.

Table 2

Statewide

Category	**FY 2007 Appropriation** Total Funds	General Fund	**Estimated Need with Capitation Rate Changes** Total Funds	General Fund
Children's Behavioral Health				
Title XIX	$290,378,100	$96,993,600	$292,051,300	$97,552,500
Proposition 204	3,861,300	1,289,800	3,910,000	1,306,100
Seriously Mentally Ill				
Title XIX	162,835,400	54,391,100	162,788,800	54,375,500
Proposition 204	160,688,400	53,673,900	161,702,100	54,012,500
General Mental Health/ Substance Abuse				
Title XIX	87,612,900	29,264,900	87,594,600	29,258,800
Proposition 204	83,449,400	27,874,200	83,981,200	28,051,800
Medicaid Special Exemption Payments	16,980,900	5,672,100	16,508,700	5,514,400
Total	**$805,806,400**	**$269,159,600**	**$808,536,700**	**$270,071,600**
Difference			**$2,730,300**	**$912,000**

TF = Total Funds GF = General Fund Monies

RS/JM:ss

Arizona Department of Health Services

Office of the Director

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JANET NAPOLITANO, GOVERNOR
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RECEIVED
JUL 03 2006
JOINT BUDGET COMMITTEE

JUN 20 2006

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

Dear Representative Pearce:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to review the proposed changes to the Behavioral Health Services Title XIX, Title XXI, HIFA II, and Children's Rehabilitative Services capitation rates for fiscal year 2007.

Enclosed please find the following final reports prepared to develop capitation rates for the Department for fiscal year July 1, 2006 to June 30, 2007 (FY07):

- Title XIX behavioral health services for Children, Seriously Mentally Ill, and General Mental Health/Substance Abuse populations
- Title XXI and HIFA II Behavioral Health Services Programs
- Title XIX, Title XXI and Proposition 204 populations for Children Rehabilitative Services.

In accordance with the Centers for Medicare & Medicaid Services and the Balanced Budget Act of 1997, the rates were developed using actuarially sound methodologies by Mercer Government Human Services Consulting. The Arizona Health Care Cost Containment System (AHCCCS) has reviewed and approved the proposed capitation rates.

If you have any questions related to the Behavioral Health Services Reports, please feel free to call Chris Petkiewicz, Chief Financial Officer for Behavioral Health Services, at (602) 364-4699. For information regarding the Children's Rehabilitative Services Report contact Cynthia Layne, Finance and Business Operation Manager, Children's Rehabilitative Services at (602) 542-2879.

Sincerely,

Susan Gerard
Director

SG: tsg

c: Representative Tom Boone, House Appropriations Chairman
Senator Robert Burns, Senate Appropriations Chairman
Anne Winter, Policy Advisor, Health/Human Services, Governor's Office
George Cunningham, Deputy Chief of Staff, Finance/Budget
Gary Yaquinto, Director, Office of Strategic Planning and Budgeting
Tory Anderson, Budget Analyst, Office of Strategic Planning & Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
John Malloy, Fiscal Analyst, Joint Legislative Budget Committee
Matt Busby, Fiscal Analyst, Joint Legislative Budget Committee
Rose Conner, Deputy Director, Department of Health Services
Eddy Broadway, Deputy Director, Department of Health Services, BHS
Chris Petkiewicz, Chief Financial Officer, BHS
Niki O'Keeffe, Assistant Director, DHS, Public Health Division
Joan Agostinelli, Office Chief Administrator, DHS, Public Health Division
Cynthia Layne, Finance and Business Operation Manager, DHS, Public Health Division
Pat Spencer, Financial Consultant, AHCCCS, Division of Health Care Management, BH

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May 19, 2006

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 2007 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 2007 (SFY07). 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

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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, 2006, through June 30, 2007, covering SFY07. 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, any program changes (such as Medicare Part D), 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, analyze, and adjust first half of SFY06 (1HSFY06) RBHA financial statements
   - Utilize actual member months from 1HSFY06 and the adjusted 1HSFY06 total claim costs to calculate 1HSFY06 per-member-per-month (PMPM) values
   - Adjust the derived 1HSFY06 PMPMs via a seasonality/trend projection factor to generate initial full year SFY06 claim cost PMPMs
   - Perform budget neutral relational modeling (if necessary)

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2. Calculate SFY07 actuarially sound rates
   - Apply appropriate adjustments for any program changes (such as Medicare Part D)
   - Adjust for any unusual service utilization changes
   - Apply acuity adjustment (if necessary) to account for changes in Behavioral Health penetration rates
   - Apply trend factors to bring Base SFY06 claims costs forward to SFY07
   - 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 SFY07.

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	$ 30.44	$ 36.86	$ 36.83	$ 23.14	$ 52.26	$ 29.94	$ 31.40
Children — CMDP	$ 902.35	$ 982.84	$ 1,718.65	$ 1,040.94	$ 1,052.43	$ 540.44	$ 764.42
SMI	$ 47.20	$ 57.31	$ 52.56	$ 35.96	$ 45.98	$ 89.11	$ 66.95
GMH/SA	$ 26.08	$ 41.33	$ 26.67	$ 22.78	$ 50.70	$ 37.38	$ 34.89

The rate development schedules are shown in Attachment A.

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Base Data

The base data consisted of adjusted financial statements from all current RBHAs for the July 1, 2005, through December 31, 2005 time period. Given Cenpatico 2 and Cenpatico 4 replaced Excel and PGBHA respectively, this current timeframe and its fully credible aggregate membership was determined to be the most appropriate. The financial statement expenses were reduced by 1 percent for each RBHA for the SMI and GMH/SA populations. The financial statement expenses were reduced by .15 percent for the Non-CMDP and CMDP children's populations, due to expected increases in utilization due to treating children in detention in inpatient settings.

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.

Seasonality/Trend to SFY06

The base data included adjusted RBHA financial statements received for 1HSFY06. Projection factors to account for seasonality/trend were developed by population in order to project costs forward to a full SFY06 period.

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value-Options
Children — Non-CMDP	1.05	1.05	1.05	1.05	1.05	1.05
Children — CMDP	1.05	1.05	1.05	1.05	1.05	1.05
SMI	1.02	1.02	1.02	1.02	1.02	1.02
GMH/SA	1.03	1.03	1.03	1.03	1.03	1.03

Budget Neutral Relational Modeling

While in aggregate the population and adjusted 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 at least one of the current

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RBHAs. Mercer applied budget neutral relational modeling to account for these variances. No dollars were gained or lost through this process.

Service Utilization Increase

BHS and Mercer reviewed changes for SFY07 that would unusually affect service utilization. It was determined that due to expected increases in utilization of specific existing Covered Services, adjustments to the base data would need to be made to account for these increases.

The Intensive Methamphetamine Treatment service expansion will fund a continuum of Level 1, Level 2, and outpatient group/individual/family counseling for an average period of 6 months. The estimated cost is approximately seven million, four hundred thousand dollars. All services to be provided under this continuum are currently covered under the ADHS/BHS Covered Services Guide. This intensive array of services is based on nationally recognized best practices that have been clinically proven to be the most effective treatment modality for combating stimulant use disorder.

The Maricopa County RBHA will be adding six additional Assertive Community Treatment (ACT) teams during SFY07, increasing current ACT services. The cost of the six teams is approximately five million, four hundred thousand dollars. These ACT teams are needed due to anticipated increases in utilization of services that accompany population growth and existing needs.

The factors applied to the SMI population for these two utilization adjustments are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value-Options	Statewide
SMI	4.0%	3.3%	3.3%	5.2%	4.4%	5.5%	4.9%

Behavioral Health Penetration — Acuity Adjustment

An increase in penetration in the behavioral health program has been observed and is projected in all populations. Greater proportions of those eligible are accessing the behavioral health system. These increases have contributed to the projected increase in utilization for these populations and are reflected in overall claim costs. This change was applied as an acuity adjustment to the SFY06 PMPM claim costs and represents a difference due to increased

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penetration (those enrolled, compared to those eligible), and does not adjust for any normal unit cost or utilization trends, which are handled below. The acuity factors that were applied are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value-Options
Non-CMDP	0.950	0.995	1.065	1.030	1.065	1.015
CMDP	1.095	1.033	0.995	1.070	1.083	1.025
SMI	1.010	1.025	0.945	0.985	1.070	1.010
GMH/SA	1.025	1.025	1.010	1.035	1.150	1.035

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. Mercer calculated trends from the historical financial data and summarized encounter data. The historical data that was used as a basis for trend development did not appropriately reflect the costs related to the separate service utilization increases described previously. Mercer also utilized its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs. Although the trends were developed using several years of historical data, the trends factors were applied only to the projected SFY06 base data, bringing it forward 12 months to SFY07. The following trend estimates were used for the capitation rates:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value-Options	Statewide
Children	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
SMI	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
GMH/SA	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%

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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 SFY07, 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 SFY07. Because the base data consists of 1HSFY06 data, it is necessary to make program adjustments for any population or services that are not fully represented in the base financial data.

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 was 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 develop an estimate of the impact of MMA to the SFY07 capitation rates. The overall PMPM impact of this adjustment is a reduction to the adjusted SFY06 pharmacy costs of $4.47 for the SMI population and $1.72 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 also 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, consistent with SFY06 capitation rate development.

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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 SFY07 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 SFY04 through SFY05. Year-to-date figures for SFY06 were also provided. This data was reviewed, projected, and trended forward. 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 SFY07 will be approximately $27.5 million.

BHS Administration/Risk/Contingency

The Arizona Health Care Cost Containment System (AHCCCS) has placed BHS Administration at financial risk for the provision of BHS covered services for SFY07. 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 4.20 percent load, which was negotiated between AHCCCS and BHS Administration. The load represents the BHS costs of ensuring the efficient delivery of services in a managed care environment. The percentage represents a decrease of 0.50 percent from the previous year.

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Development of Statewide Capitation Rates

Statewide capitation rates were developed by blending the SFY07 capitation rates for each RBHA using projected SFY07 member months, the estimated dollar amount of SFY07 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.

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/hl

Copy:
Eddy Broadway, BHS
Sundee Easter, Mercer
Sean Elcock, Mercer
Jeremy Hamblen, Mercer
Dawn Mueller, Mercer

Enclosures
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State of Arizona

Attachment A
SFY07 Capitation Rate Development
Title XIX
Non-CMDP Children

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value Options	Total
1. 1HSFY06 Adjusted BHS Service Expenses	$ 3,031,992	$ 11,875,289	$ 2,733,978	$ 7,150,450	$ 4,502,835	$ 35,563,522	$ 64,858,066
2. 1HSFY06 Member Months	117,227	397,513	127,463	394,047	127,116	1,469,551	2,632,917
3. 1HSFY06 PMPM	$ 25.86	$ 29.87	$ 21.45	$ 18.15	$ 35.42	$ 24.20	$ 24.63
4. SFY06 Projection Factor	1.05	1.05	1.05	1.05	1.05	1.05	1.05
5. SFY06 Initial Projected Claim Cost	$ 27.16	$ 31.37	$ 22.52	$ 19.05	$ 37.19	$ 25.41	$ 25.87
6. Relational Modeling Factor	1.00	1.00	1.30	1.00	1.12	0.98	1.01
7. SFY06 Adjusted Claim Cost	$ 27.13	$ 31.37	$ 29.28	$ 19.02	$ 41.54	$ 24.98	$ 26.15
8. Acuity Factor	0.950	0.995	1.065	1.030	1.065	1.015	1.017
9. Claim Cost Trend Factor	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
10. Base SFY07 Claim Costs	$ 27.39	$ 33.18	$ 33.15	$ 20.83	$ 47.03	$ 26.95	$ 28.26
11. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
12. SFY07 Capitation Rates	$ 30.44	$ 36.86	$ 36.83	$ 23.14	$ 52.26	$ 29.94	$ 31.40
13. SFY06 Current Rates	$ 29.82	$ 34.03	$ 35.45	$ 19.82	$ 46.82	$ 25.33	$ 27.55
14. % Change	2.1%	8.3%	3.9%	16.8%	11.6%	18.2%	14.0%

Attachment A
SFY07 Capitation Rate Development
Title XIX
CMDP Children

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value Options	Total
1. 1HSFY06 Adjusted BHS Service Expenses	$ 1,594,656	$ 10,956,567	$ 2,438,745	$ 4,365,200	$ 2,096,781	$ 13,263,632	$ 34,715,583
2. 1HSFY06 Member Months	2,326	13,878	1,200	5,414	3,384	31,114	57,316
3. 1HSFY06 PMPM	$ 685.58	$ 789.49	$ 2,032.29	$ 806.28	$ 619.62	$ 426.29	$ 605.69
4. SFY06 Projection Factor	1.05	1.05	1.05	1.05	1.05	1.05	1.05
5. SFY06 Initial Projected Claim Cost	$ 719.86	$ 828.97	$ 2,133.90	$ 846.59	$ 650.60	$ 447.61	$ 635.97
6. Relational Modeling Factor	0.97	0.97	0.69	0.97	1.26	1.00	0.98
7. SFY06 Adjusted Claim Cost	$ 697.70	$ 805.55	$ 1,462.42	$ 823.66	$ 822.76	$ 446.41	$ 622.70
8. Acuity Factor	1.095	1.033	0.995	1.070	1.083	1.025	1.039
9. Claim Cost Trend Factor	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
10. Base SFY07 Claim Costs	$ 812.11	$ 884.56	$ 1,546.78	$ 936.84	$ 947.19	$ 486.40	$ 687.98
11. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
12. SFY07 Capitation Rates	$ 902.35	$ 982.84	$ 1,718.65	$ 1,040.94	$ 1,052.43	$ 540.44	$ 764.42
13. SFY06 Current Rates	$ 720.11	$ 848.78	$ 1,355.22	$ 883.67	$ 973.74	$ 670.32	$ 767.96
14. % Change	25.3%	15.8%	26.8%	17.8%	8.1%	-19.4%	-0.5%

Attachment A
SFY07 Capitation Rate Development
Title XIX
Combined Children (For Informational Purposes Only)

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value Options	Total
1. 1HSFY06 Adjusted BHS Service Expenses	$ 4,626,649	$ 22,831,857	$ 5,172,723	$ 11,515,651	$ 6,599,615	$ 48,827,155	$ 99,573,649
2. 1HSFY06 Member Months	119,553	411,391	128,663	399,461	130,500	1,500,665	2,690,233
3. 1HSFY06 PMPM	$ 38.70	$ 55.50	$ 40.20	$ 28.83	$ 50.57	$ 32.54	$ 37.01
4. SFY06 Projection Factor	1.05	1.05	1.05	1.05	1.05	1.05	1.05
5. SFY06 Initial Projected Claim Cost	$ 40.63	$ 58.27	$ 42.21	$ 30.27	$ 53.10	$ 34.16	$ 38.86
6. Relational Modeling Factor	0.99	0.99	1.01	0.99	1.16	0.99	1.00
7. SFY06 Adjusted Claim Cost	$ 40.17	$ 57.48	$ 42.64	$ 29.93	$ 61.80	$ 33.71	$ 38.86
8. Acuity Factor	0.999	1.013	1.043	1.045	1.071	1.018	1.024
9. Claim Cost Trend Factor	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
10. Base SFY07 Claim Costs	$ 42.66	$ 61.90	$ 47.26	$ 33.24	$ 70.37	$ 36.47	$ 42.32
11. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
12. SFY07 Capitation Rates	$ 47.40	$ 68.78	$ 52.51	$ 36.94	$ 78.19	$ 40.53	$ 47.02
13. SFY06 Current Rates	$ 43.25	$ 61.52	$ 47.76	$ 31.53	$ 70.86	$ 38.70	$ 43.32
14. % Change	9.6%	11.8%	10.0%	17.2%	10.4%	4.7%	8.5%

State of Arizona

Attachment A
SFY07 Capitation Rate Development
Title XIX
SMI

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value Options	Total
1. 1HSFY06 Adjusted BHS Service Expenses	$ 5,482,735	$ 21,734,540	$ 5,121,171	$ 15,057,038	$ 5,306,002	$ 87,339,330	$ 140,040,817
2. 1HSFY06 Member Months	138,800	436,989	129,254	464,914	136,542	# 1,177,139	2,483,638
3. 1HSFY06 PMPM	$ 39.50	$ 49.74	$ 39.62	$ 32.39	$ 38.86	$ 74.20	$ 56.39
4. SFY06 Projection Factor	1.02	1.02	1.02	1.02	1.02	1.02	1.02
5. SFY06 Initial Projected Claim Cost	$ 40.29	$ 50.73	$ 40.41	$ 33.03	$ 39.64	$ 75.68	$ 57.51
6. Relational Modeling Factor	0.98	0.98	1.19	0.97	0.97	1.00	1.00
7. SFY06 Adjusted Claim Cost	$ 39.69	$ 49.52	$ 48.15	$ 32.02	$ 38.42	$ 75.90	$ 57.51
8. Full Year Dual Eligible SFY06 Part D Drugs	$ (2.00)	$ (4.13)	$ (3.00)	$ (2.90)	$ (3.88)	$ (5.74)	$ (4.47)
9. SFY06 Claim Cost Adjusted for Part D	$ 37.69	$ 45.39	$ 45.14	$ 29.11	$ 34.54	$ 70.15	$ 53.04
10. Service Utilization Increase	4.0%	3.3%	3.3%	5.2%	4.4%	5.5%	4.9%
11. Base SFY06 Claim Costs	$ 39.19	$ 46.90	$ 46.65	$ 30.62	$ 36.04	$ 74.00	$ 55.66
12. Acuity Factor	1.010	1.025	0.945	0.985	1.070	1.010	1.009
13. Claim Cost Trend Factor	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
14. Base SFY07 Claim Costs	$ 42.48	$ 51.58	$ 47.30	$ 32.36	$ 41.38	$ 80.20	$ 60.25
15. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
16. SFY07 Capitation Rates	$ 47.20	$ 57.31	$ 52.56	$ 35.96	$ 45.98	$ 89.11	$ 66.95
17. SFY06 Current Rates	$ 45.38	$ 56.60	$ 54.97	$ 37.11	$ 42.30	$ 92.54	$ 68.49
18. % Change	4.0%	1.3%	-4.4%	-3.1%	8.7%	-3.7%	-2.2%

State of Arizona

Attachment A
SFY07 Capitation Rate Development
Title XIX
GMH/SA

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value Options	Total
1. 1HSFY06 Adjusted BHS Service Expenses	$ 2,884,390	$ 14,654,693	$ 2,794,595	$ 8,844,246	$ 4,863,137	$ 36,011,954	$ 70,053,014
2. 1HSFY06 Member Months	138,800	436,989	129,254	464,914	136,542	1,177,139	2,483,638
3. 1HSFY06 PMPM	$ 20.78	$ 33.54	$ 21.62	$ 19.02	$ 35.62	$ 30.59	$ 28.21
4. SFY06 Projection Factor	1.03	1.03	1.03	1.03	1.03	1.03	1.03
5. SFY06 Initial Projected Claim Cost	$ 21.40	$ 34.54	$ 22.27	$ 19.59	$ 36.68	$ 31.51	$ 29.05
6. Relational Modeling Factor	1.02	1.02	1.03	0.99	1.03	0.99	1.00
7. SFY06 Adjusted Claim Cost	$ 21.86	$ 35.10	$ 23.00	$ 19.40	$ 37.84	$ 31.11	$ 29.05
8. Full Year Dual Eligible SFY06 Part D Drugs	$ (1.14)	$ (2.25)	$ (1.49)	$ (1.47)	$ (1.93)	$ (1.69)	$ (1.72)
9. Base SFY06 Claim Costs	$ 20.72	$ 32.84	$ 21.51	$ 17.93	$ 35.91	$ 29.42	$ 27.33
10. Acuity Factor	1.025	1.025	1.010	1.035	1.150	1.035	1.040
11. Claim Cost Trend Factor	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
12. Base SFY07 Claim Costs	$ 23.47	$ 37.20	$ 24.00	$ 20.50	$ 45.63	$ 33.65	$ 31.40
13. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
14. SFY07 Capitation Rates	$ 26.08	$ 41.33	$ 26.67	$ 22.78	$ 50.70	$ 37.38	$ 34.89
15. SFY06 Current Rates	$ 23.88	$ 38.49	$ 25.50	$ 15.39	$ 46.69	$ 32.44	$ 30.26
16. % Change	9.2%	7.4%	4.6%	48.0%	8.6%	15.2%	15.3%

Attachment B
SFY07 Statewide Rates
Title XIX

Statewide TXIX Rate for Non-CMDP Children

RBHA	Col. 1 Projected SFY07 Member Months	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	235,511	$ 30.44	$ 7,168,027
CPSA 5	775,911	$ 36.86	$ 28,602,758
Cenpatico 2	241,422	$ 36.83	$ 8,891,207
NARBHA*	725,379	$ 23.14	$ 16,787,351
Cenpatico 4	264,918	$ 52.26	$ 13,843,330
Value Options	2,884,523	$ 29.94	$ 86,370,169
Tribes			$ 22,206,011
Subtotal	5,127,664		$ 183,868,853
BHS Administration/R/C of 4.20%			$ 8,051,440
Total with BHS Administration/R/C			$ 191,920,293
Statewide Capitation Rate			$ 37.43

Statewide TXIX Rate for CMDP Children

RBHA	Col. 1 Projected SFY07 Member Months	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	4,498	$ 902.35	$ 4,058,749
CPSA 5	28,218	$ 982.84	$ 27,733,860
Cenpatico 2	2,318	$ 1,718.65	$ 3,983,826
NARBHA*	16,548	$ 1,040.94	$ 17,225,435
Cenpatico 4	8,011	$ 1,052.43	$ 8,431,046
Value Options	63,770	$ 540.44	$ 34,464,140
Tribes			$ 1,168,737
Subtotal	123,363		$ 97,065,793
BHS Administration/R/C of 4.20%			$ 4,250,418
Total with BHS Administration/R/C			$ 101,316,211
Statewide Capitation Rate			$ 821.29

* NARBHA Eligible MMs Include Tribal Counts

Attachment B
SFY07 Statewide Rates
Title XIX

Statewide TXIX Rate for SMI

RBHA	Col. 1 Projected SFY07 Member Months		Col. 2 Proposed Rates		Col. 1 x Col. 2 Total Dollars
CPSA 3	277,202	$	47.20	$	13,082,820
CPSA 5	854,325	$	57.31	$	48,964,181
Cenpatico 2	245,892	$	52.56	$	12,923,779
NARBHA*	884,107	$	35.96	$	31,788,481
Cenpatico 4	275,636	$	45.98	$	12,674,069
Value Options	2,279,096	$	89.11	$	203,082,076
Tribes				$	3,356,207
Subtotal	4,816,258			$	325,871,613
BHS Administration/R/C of 4.20%				$	14,269,604
Total with BHS Administration/R/C				$	340,141,217
Statewide Capitation Rate				$	70.62

Statewide TXIX Rate for GMH/SA

RBHA	Col. 1 Projected SFY07 Member Months		Col. 2 Proposed Rates		Col. 1 x Col. 2 Total Dollars
CPSA 3	277,202	$	26.08	$	7,228,972
CPSA 5	854,325	$	41.33	$	35,312,607
Cenpatico 2	245,892	$	26.67	$	6,558,105
NARBHA*	884,107	$	22.78	$	20,140,168
Cenpatico 4	275,636	$	50.70	$	13,975,338
Value Options	2,279,096	$	37.38	$	85,203,014
Tribes				$	748,389
Subtotal	4,816,258			$	169,166,593
BHS Administration/R/C of 4.20%				$	7,407,642
Total with BHS Administration/R/C				$	176,574,235
Statewide Capitation Rate				$	36.66

* NARBHA Eligible MMs Include Tribal Counts

Attachment B
SFY07 Statewide Rates
Title XIX
Medicare Part D Clawback

Statewide TXIX Rate for Non-CMDP Children

RBHA	Col. 1 Projected SFY07 Member Months	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	235,511	$ 30.44	$ 7,168,027
CPSA 5	775,911	$ 36.86	$ 28,602,758
Cenpatico 2	241,422	$ 36.83	$ 8,891,207
NARBHA*	725,379	$ 23.14	$ 16,787,351
Cenpatico 4	264,918	$ 52.26	$ 13,843,330
Value Options	2,884,523	$ 29.94	$ 86,370,169
Tribes			$ 22,206,011
Subtotal	5,127,664		$ 183,868,853
BHS Administration/R/C of 4.20%			$ 8,051,440
Total with BHS Administration/R/C			$ 191,920,293
Statewide Capitation Rate			$ 37.43

Statewide TXIX Rate for CMDP Children

RBHA	Col. 1 Projected SFY07 Member Months	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	4,498	$ 902.35	$ 4,058,749
CPSA 5	28,218	$ 982.84	$ 27,733,860
Cenpatico 2	2,318	$ 1,718.65	$ 3,983,826
NARBHA*	16,548	$ 1,040.94	$ 17,225,435
Cenpatico 4	8,011	$ 1,052.43	$ 8,431,046
Value Options	63,770	$ 540.44	$ 34,464,140
Tribes			$ 1,168,737
Subtotal	123,363		$ 97,065,793
BHS Administration/R/C of 4.20%			$ 4,250,418
Total with BHS Administration/R/C			$ 101,316,211
Statewide Capitation Rate			$ 821.29

* NARBHA Eligible MMs Include Tribal Counts

Attachment B
SFY07 Statewide Rates
Title XIX
Medicare Part D Clawback

Statewide TXIX Rate for SMI

RBHA	Col. 1 Projected SFY07 Member Months	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	277,202	$ 47.20	$ 13,082,820
CPSA 5	854,325	$ 57.31	$ 48,964,181
Cenpatico 2	245,892	$ 52.56	$ 12,923,779
NARBHA*	884,107	$ 35.96	$ 31,788,481
Cenpatico 4	275,636	$ 45.98	$ 12,674,069
Value Options	2,279,096	$ 89.11	$ 203,082,076
Tribes			$ 3,356,207
Subtotal	4,816,258		$ 325,871,613
BHS Administration/R/C of 4.20%			$ 14,269,604
Total with BHS Administration/R/C			$ 340,141,217
Statewide Capitation Rate (Before Medicare Part D Clawback)			$ 70.62
Medicare Part D Clawback			$ 8,070,493
Total with BHS Administration/R/C and Medicare Part D Clawback			$ 348,211,710
Statewide Capitation Rate (including Medicare Part D Clawback)			$ 72.30

Statewide TXIX Rate for GMH/SA

RBHA	Col. 1 Projected SFY07 Member Months	Midpoint Col. 2 Proposed Rates	Midpiont Col. 1 x Col. 2 Total Dollars
CPSA 3	277,202	$ 26.08	$ 7,228,972
CPSA 5	854,325	$ 41.33	$ 35,312,607
Cenpatico 2	245,892	$ 26.67	$ 6,558,105
NARBHA*	884,107	$ 22.78	$ 20,140,168
Cenpatico 4	275,636	$ 50.70	$ 13,975,338
Value Options	2,279,096	$ 37.38	$ 85,203,014
Tribes			$ 748,389
Subtotal	4,816,258		$ 169,166,593
BHS Administration/R/C of 4.20%			$ 7,407,642
Total with BHS Administration/R/C			$ 176,574,235
Statewide Capitation Rate (Before Medicare Part D Clawback)			$ 36.66
Medicare Part D Clawback			$ 3,107,277
Total with BHS Administration/R/C and Medicare Part D Clawback			$ 179,681,512
Statewide Capitation Rate (including Medicare Part D Clawback)			$ 37.31

* NARBHA Eligible MMs Include Tribal Counts

State of Arizona

Attachment C
SFY07 Capitation Rate Development
Projection of Expenditures
Title XIX

Note: This section uses SFY07 Projected Member Months applied to both SFY06 and SFY07 Rates.

	Statewide Rates SFY06	Statewide Rates SFY07	SFY07 Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXIX						
Children	$ 51.45	$ 55.85	5,251,027	$ 270,151,796	$ 293,236,504	8.5%
SMI	$ 72.81	$ 70.62	4,816,258	$ 350,671,745	$ 340,141,217	-3.0%
GMH/SA	$ 31.75	$ 36.66	4,816,258	$ 152,916,192	$ 176,574,235	15.5%
Total				**$ 773,739,732**	**$ 809,951,956**	**4.7%**

	Statewide Rates SFY06	Statewide Rates SFY07	SFY07 Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXIX Children						
Non-CMDP Children	$ 33.10	$ 37.43	5,127,664	$ 169,725,678	$ 191,920,293	13.1%
CMDP Children	$ 814.07	$ 821.29	123,363	$ 100,426,117	$ 101,316,211	0.9%
Total	**$ 51.45**	**$ 55.85**	**5,251,027**	**$ 270,151,796**	**$ 293,236,504**	**8.5%**

Note: This section uses SFY06 Actual/Projected Member Months applied to SFY06 Rates, and SFY07 Projected Member Months applied to SFY07 Rates.

	Statewide Rates SFY06	Statewide Rates SFY07	SFY06 Actual/ Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXIX						
Children	$ 49.99	$ 55.85	5,320,611	$ 265,997,185	$ 293,236,504	10.2%
SMI	$ 72.81	$ 70.62	4,907,254	$ 357,297,164	$ 340,141,217	-4.8%
GMH/SA	$ 31.75	$ 36.66	4,907,254	$ 155,805,315	$ 176,574,235	13.3%
Total				**$ 779,099,664**	**$ 809,951,956**	**4.0%**

SFY07 Projected MMs
5,251,027
4,816,258
4,816,258

	Statewide Rates SFY06	Statewide Rates SFY07	SFY06 Actual/ Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXIX Children						
Non-CMDP Children	$ 33.10	$ 37.43	5,205,517	$ 172,302,613	$ 191,920,293	11.4%
CMDP Children	$ 814.07	$ 821.29	115,094	$ 93,694,573	$ 101,316,211	8.1%
Total	**$ 49.99**	**$ 55.85**	**5,320,611**	**$ 265,997,185**	**$ 293,236,504**	**10.2%**

SFY07 Projected MMs
5,127,664
123,363
5,251,027

State of Arizona

Attachment C
SFY07 Capitation Rate Development
Projection of Expenditures
Title XIX
Medicare Part D Clawback

Note: This section uses SFY07 Projected Member Months applied to both SFY06 and SFY07 Rates.

	Statewide Rates SFY06	Statewide Rates SFY07	SFY07 Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXIX						
Children	$ 51.45	$ 55.85	5,251,027	$ 270,151,796	$ 293,236,504	8.5%
SMI	$ 72.81	$ 72.30	4,816,258	$ 350,671,745	$ 348,211,710	-0.7%
GMH/SA	$ 31.75	$ 37.31	4,816,258	$ 152,916,192	$ 179,681,512	17.5%
Total				**$ 773,739,732**	**$ 821,129,726**	**6.1%**

	Statewide Rates SFY06	Statewide Rates SFY07	SFY07 Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXIX Children						
Non-CMDP Children	$ 33.10	$ 37.43	5,127,664	$ 169,725,678	$ 191,920,293	13.1%
CMDP Children	$ 814.07	$ 821.29	123,363	$ 100,426,117	$ 101,316,211	0.9%
Total	**$ 51.45**	**$ 55.85**	**5,251,027**	**$ 270,151,796**	**$ 293,236,504**	**8.5%**

Note: This section uses SFY06 Actual/Projected Member Months applied to SFY06 Rates, and SFY07 Projected Member Months applied to SFY07 Rates.

	Statewide Rates SFY06	Statewide Rates SFY07	Actual/Projected SFY06 MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXIX						
Children	$ 49.99	$ 55.85	5,320,611	$ 265,997,185	$ 293,236,504	10.2%
SMI	$ 72.81	$ 72.30	4,907,254	$ 357,297,164	$ 348,211,710	-2.5%
GMH/SA	$ 31.75	$ 37.31	4,907,254	$ 155,805,315	$ 179,681,512	15.3%
Total				**$ 779,099,664**	**$ 821,129,726**	**5.4%**

SFY07 Projected MMs
5,251,027
4,816,258
4,816,258

	Statewide Rates SFY06	Statewide Rates SFY07	Actual/Projected SFY06 MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXIX Children						
Non-CMDP Children	$ 33.10	$ 37.43	5,205,517	$ 172,302,613	$ 191,920,293	11.4%
CMDP Children	$ 814.07	$ 821.29	115,094	$ 93,694,573	$ 101,316,211	8.1%
Total	**$ 49.99**	**$ 55.85**	**5,320,611**	**$ 265,997,185**	**$ 293,236,504**	**10.2%**

SFY07 Projected MMs
5,127,664
123,363
5,251,027

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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HOUSE OF
REPRESENTATIVES

DATE: July 18, 2006

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

THRU: Richard Stavneak, Director

FROM: Matt Busby, Fiscal Analyst

SUBJECT: Department of Health Services – Review of Requested Transfer of Appropriations between Special Line Items and Report on Arizona State Hospital Expenditure Plan.

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) is requesting the Committee's review of the transfer of $538,900 in General Fund monies from the Arizona State Hospital's (ASH) operating budget to the Sexually Violent Persons (SVP) Special Line Item (SLI).

The transfer will allow DHS to implement its Direct Care Worker salary plan. As background, the Legislature appropriated $3,100,000 in FY 2007 to ASH for salary increases to address turnover among direct care workers at the hospital.

In addition to the transfer request, this memo also provides information on DHS's plan to allocate the $3,100,000 for salary increases among Direct Care Workers at ASH. A footnote in the General Appropriation Act requires the Department of Health Services (DHS) to submit an expenditure plan to the Committee prior to the expenditure of monies appropriated for salary increases.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request. Of the $3,100,000 appropriation for salary increases, $538,900 would be distributed to the SVP SLI for the direct care workers at the Arizona Community Protection and Treatment Center (ACPTC).

The expenditure plan is for information only and no Committee action is required.

(Continued)

Analysis

A.R.S. § 13-4606 requires individuals determined by the court or jury to be a SVP to be committed to ASH for treatment at the ACPTC, which is funded through the SVP SLI. DHS received an appropriation of $3,100,000 in FY 2007 for salary increases for direct care workers at ASH, some of which work at ACPTC. The salary increase was appropriated to ASH's operating lump sum and the transfer will allow ASH to distribute the salary increase to all direct care workers and psychiatrists at ASH. The transfer is a technical shift and does not have a budget impact.

Direct Care Workers Expenditure Plan
As mentioned above, the Legislature added $3,100,000 in FY 2007 to ASH in order to address high turnover and vacancy rates at the hospital. In FY 2006, the turnover rate for direct care workers was 27% and the vacancy rate was 16%. A footnote in the General Appropriation Act requires DHS to submit an expenditure plan to the Committee prior to the expenditure of the monies appropriated for salary increases.

The Civil and Forensic Hospital will receive $2,561,100 of the $3,100,000 appropriation for the following salary adjustments affecting the 397 current employees:

- 8 psychiatrists will be affected by a new Psychiatric Pay Plan, which will be based upon the number of board certifications that the individual Psychiatrist has obtained.
- 100 Registered Nurses (RN) will receive a 20% increase in the form of a stipend to create equity with correctional health nurses.
- 1 Chief Nursing Officer (CNO) and 3 Assistant CNOs will receive a 10% increase.
- 11 Licensed Practical Nurses will receive a 10% stipend.
- 266 Rehabilitation, Psychology, Social Work, Therapists, and other staff in Direct Care Class codes will receive a 10% increase.
- 8 supervisors and managers in the direct care class codes will receive a 5% increase.

The ACPTC will receive the remaining $538,900 for the following salary adjustments affecting the 95 current employees:

- 10 supervisors and managers in direct care class codes will receive a 5% increase.
- 11 RN's will receive an 8% stipend.
- 1 Psychiatrist and 7 Psychology Associate staff will receive an 8% increase.
- 2 Psychologist III's will receive an equity adjustment to help recruitment and retention. A Psychologist I and II will each receive a 10% increase.
- 62 Resident Program Specialist I and II staff will receive an equity adjustment. All staff in the same class code will receive a 9% increase.

Monies not used to increase current employee salaries will be used to provide higher starting salaries for new employees to make ASH more competitive with other organizations. The expenditure plan is for information only and no Committee action is required.

RS/MB:ym

Arizona Department of Health Services

Office of the Director

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JANET NAPOLITANO, GOVERNOR
SUSAN GERARD, DIRECTOR

RECEIVED
JUL 12 2006
JOINT BUDGET COMMITTEE

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

Dear Mr. Chairman:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services requests placement on the July 2006 Joint Legislative Budget Committee meeting agenda in order to review FY 2007 transfers between Special Line Items in the Arizona State Hospital budget.

As explained in our expenditure plan dated June 29, 2006, the $3.1 million appropriation for salary increases for direct care workers and psychiatrists will cover positions at both the Civil and Forensic Hospital and the Arizona Community Protection Treatment Center (ACPTC). Therefore, we are requesting that $538,905 be transferred from the Arizona State Hospital lump sum appropriation to the ACPTC special line item. A breakdown of the requested transfer is attached.

If you need additional information, please contact Theresa Garcia, Central Budget Office Director, at 542-1266.

Sincerely,

T Breaden for

Susan Gerard
Director

SG/tsg

Attachment

General Fund Transfers by Special Line Item

TRANSFER FROM:		TRANSFER TO:	
		Special Line Item:	
Arizona State Hospital Civil and Forensic Hospital	($538,905)	Arizona Community Protection Treatment Center (ACPTC)	$538,905
Total Transfer Out	**($538,905)**	**Total Transfer In**	$538,905

Arizona Department of Health Services

Office of the Director

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JANET NAPOLITANO, GOVERNOR
SUSAN GERARD, DIRECTOR

RECEIVED
JUL 03 2006
JOINT BUDGET COMMITTEE

JUN 20 2006

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

Dear Representative Pearce:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to review the proposed changes to the Behavioral Health Services Title XIX, Title XXI, HIFA II, and Children's Rehabilitative Services capitation rates for fiscal year 2007.

Enclosed please find the following final reports prepared to develop capitation rates for the Department for fiscal year July 1, 2006 to June 30, 2007 (FY07):

- Title XIX behavioral health services for Children, Seriously Mentally Ill, and General Mental Health/Substance Abuse populations
- Title XXI and HIFA II Behavioral Health Services Programs
- Title XIX, Title XXI and Proposition 204 populations for Children Rehabilitative Services.

In accordance with the Centers for Medicare & Medicaid Services and the Balanced Budget Act of 1997, the rates were developed using actuarially sound methodologies by Mercer Government Human Services Consulting. The Arizona Health Care Cost Containment System (AHCCCS) has reviewed and approved the proposed capitation rates.

If you have any questions related to the Behavioral Health Services Reports, please feel free to call Chris Petkiewicz, Chief Financial Officer for Behavioral Health Services, at (602) 364-4699. For information regarding the Children's Rehabilitative Services Report contact Cynthia Layne, Finance and Business Operation Manager, Children's Rehabilitative Services at (602) 542-2879.

Sincerely,

Susan Gerard
Director

SG: tsg

c: Representative Tom Boone, House Appropriations Chairman
Senator Robert Burns, Senate Appropriations Chairman
Anne Winter, Policy Advisor, Health/Human Services, Governor's Office
George Cunningham, Deputy Chief of Staff, Finance/Budget
Gary Yaquinto, Director, Office of Strategic Planning and Budgeting
Tory Anderson, Budget Analyst, Office of Strategic Planning & Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
John Malloy, Fiscal Analyst, Joint Legislative Budget Committee
Matt Busby, Fiscal Analyst, Joint Legislative Budget Committee
Rose Conner, Deputy Director, Department of Health Services
Eddy Broadway, Deputy Director, Department of Health Services, BHS
Chris Petkiewicz, Chief Financial Officer, BHS
Niki O'Keeffe, Assistant Director, DHS, Public Health Division
Joan Agostinelli, Office Chief Administrator, DHS, Public Health Division
Cynthia Layne, Finance and Business Operation Manager, DHS, Public Health Division
Pat Spencer, Financial Consultant, AHCCCS, Division of Health Care Management, BH

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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STEPHEN TULLY

DATE: July 19, 2006

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Senior Fiscal Analyst

SUBJECT: Department of Health Services – Review of Children's Rehabilitative Services Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX Children's Rehabilitative Services (CRS) program.

Recommendation and Summary

The JLBC Staff recommends that the Committee give a favorable review to the DHS CRS capitation adjustments. A footnote in the General Appropriation Act prohibits the use of any potential savings in the CRS program for other DHS programs without prior review by the Committee. The department has not identified any DHS programs to receive any potential savings from the CRS Program should savings occur in FY 2007.

The proposed rates are based upon an actuarial study, which is required by the federal government. The proposed changes would cost $(216,900) General Fund less than the FY 2007 budgeted amount. The weighted average rate change is 4.8% above FY 2006. In comparison, the FY 2007 budget assumed a 6% capitation rate increase.

The actual FY 2007 cost of the Title XIX CRS program will depend upon the number of people that enroll for CRS services. If enrollment is higher than projected, the actual costs of the CRS program could be greater than budgeted, even with lower capitation rates.

Analysis

The CRS program provides services for children with chronic and disabling or potentially disabling conditions. Contractors are reimbursed using a per-member/per-month (PM/PM) capitation rate, which varies by providers in 4 different sites: Phoenix, Tucson, Flagstaff, and Yuma. The rate structure also

(Continued)

includes a high, medium and low tier, which represent varying degrees of medical acuity. The average change across these various rates was 4.8%, although some rates increased and some rates decreased. In comparison, the FY 2007 budget assumed a 6% capitation rate increase. The table below displays the FY 2007 budgeted and proposed rates by city and medical acuity and details the changes from FY 2006.

Proposed Monthly CRS Capitation Rate Changes, FY 2007

	FY 2006 Rate	FY 2007 Budgeted Rate	FY 2007 Actual Rate	FY 2007 Change Above FY 2006	Anticipated State Match Cost/(Savings) 2/
Phoenix					
High	509.72	540.30	529.65	3.91%	(100,300)
Medium	299.00	316.94	315.23	5.43%	(29,900)
Low	143.79	154.42	139.59	(2.92)%	(164,800)
Tucson					
High	431.14	457.01	458.47	6.34%	6,900
Medium	311.65	330.35	308.55	(0.99)%	(104,900)
Low	156.55	165.94	167.11	6.75%	5,800
Flagstaff					
High	238.28	252.58	293.90	23.34%	114,700
Medium	139.12	147.47	174.60	25.50%	43,000
Low	93.70	99.32	108.19	15.46%	20,100
Yuma					
High	288.17	305.46	309.81	7.51%	4,700
Medium	126.50	134.09	123.97	(2.00)%	(12,300)
Low	70.26	74.48	74.54	6.09%	100
Total				**4.8%** 2/	**(216,900)**

1/ Represents rates for services only. The administrative components of the rates are not shown here.
2/ Represents change from FY 2006 Rate to FY 2007 Actual Rate.

Several changes to the CRS program not reflected in the base data (FY 2003 to FY 2005) were integrated into the FY 2007 rates. These adjustments included:

- Chest Vests. Beginning in FY 2005, chest vests (primarily for children with cystic fibrosis to assist in breathing) became a covered expense for CRS contractors. The estimated impact of this program change was approximately a $0.65 increase for Phoenix and $0.54 increase for Tucson. The remaining 2 CRS contractors do not serve eligible CRS members at this time.
- Service Demand. DHS recently performed a review of network sufficiency and timeliness of service availability for all 4 contractors. As a result, 2 of the contractors (Tucson and Yuma) will be providing specialty clinics to meet the increased service demand. As a result, the capitation rates were adjusted upward by $3.51 for Tucson and $3.53 for Yuma.
- Administrative Expenses and Profit/Risk. The FY 2007 contractor administrative expense component is 12.3% of the services component of the capitation rate. A 2.5% profit/risk contingency was also applied uniformly to all CRS contractors. Contractors can make up to 2.5% in profit or absorb up to 2.5% in losses.
- CRS Administration. A 6.3% DHS-CRS administrative component was added to the capitation rate for DHS related expenses. JLBC Staff backs out this increase when calculating the cost of service delivery to this population.

RS/JM:ar

Arizona Department of Health Services

Office of the Director

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JANET NAPOLITANO, GOVERNOR
SUSAN GERARD, DIRECTOR

RECEIVED
JUL 03 2006
JOINT BUDGET COMMITTEE

JUN 20 2006

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

Dear Representative Pearce:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to review the proposed changes to the Behavioral Health Services Title XIX, Title XXI, HIFA II, and Children's Rehabilitative Services capitation rates for fiscal year 2007.

Enclosed please find the following final reports prepared to develop capitation rates for the Department for fiscal year July 1, 2006 to June 30, 2007 (FY07):

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- Title XXI and HIFA II Behavioral Health Services Programs
- Title XIX, Title XXI and Proposition 204 populations for Children Rehabilitative Services.

In accordance with the Centers for Medicare & Medicaid Services and the Balanced Budget Act of 1997, the rates were developed using actuarially sound methodologies by Mercer Government Human Services Consulting. The Arizona Health Care Cost Containment System (AHCCCS) has reviewed and approved the proposed capitation rates.

If you have any questions related to the Behavioral Health Services Reports, please feel free to call Chris Petkiewicz, Chief Financial Officer for Behavioral Health Services, at (602) 364-4699. For information regarding the Children's Rehabilitative Services Report contact Cynthia Layne, Finance and Business Operation Manager, Children's Rehabilitative Services at (602) 542-2879.

Sincerely,

Susan Gerard
Director

SG: tsg

c: Representative Tom Boone, House Appropriations Chairman
Senator Robert Burns, Senate Appropriations Chairman
Anne Winter, Policy Advisor, Health/Human Services, Governor's Office
George Cunningham, Deputy Chief of Staff, Finance/Budget
Gary Yaquinto, Director, Office of Strategic Planning and Budgeting
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Rose Conner, Deputy Director, Department of Health Services
Eddy Broadway, Deputy Director, Department of Health Services, BHS
Chris Petkiewicz, Chief Financial Officer, BHS
Niki O'Keeffe, Assistant Director, DHS, Public Health Division
Joan Agostinelli, Office Chief Administrator, DHS, Public Health Division
Cynthia Layne, Finance and Business Operation Manager, DHS, Public Health Division
Pat Spencer, Financial Consultant, AHCCCS, Division of Health Care Management, BH

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June 8, 2006

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

Subject:
Title XIX, Title XXI, and Proposition 204 Capitation Rates for State Fiscal Year 2007

Dear Ms. Agostinelli:

The Arizona Department of Health Services (ADHS), Office for Children with Special Health Care Needs (OCSHCN), Children's Rehabilitative Services (CRS) program contracted with Mercer Government Human Services Consulting (Mercer) to develop capitation rates for the Title XIX, Title XXI, and Proposition 204 populations. These rates are used by the Arizona Health Care Cost Containment System (AHCCCS) to compensate CRS and the CRS contractors for CRS members determined Title XIX, Title XXI, or Proposition 204 eligible during the State Fiscal Year (SFY). For the SFY beginning July 1, 2006, and ending June 30, 2007 (SFY 2007), Mercer has developed capitation rates following the process described in this letter.

Background

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

Prior to July 1, 2000 (the start of SFY 2001), CRS negotiated annual fixed price contracts with its contractors to provide services to Title XIX, Title XXI, and State-Only funded eligible members. To better match payment with the risk of the membership enrolled with each contractor, CRS converted its reimbursement methodology to a capitated system for Title XIX and Title XXI eligible members. As a result, three capitation rates were developed for compensating CRS contractors beginning in SFY 2001. The three rates were developed for each contractor based upon a member's CRS enrollment diagnosis. The three rates represent compensation for providing services to members with specific diagnoses that have historically represented relatively High, Medium, and Low costs to the CRS contractor. The High, Medium, and Low capitation risk group structure included small numbers of the Qualified Medicare Beneficiary (QMB) Plus, Medicaid (Non QMB and Non Specified Low-income Medicare Beneficiary (SLMB)), and SLMB Plus dual eligible populations. No other dual eligible populations are enrolled in the program. In Mercer's opinion, the High, Medium, and Low capitation rate cells, which vary by contractor region, most appropriately match payment with risk in the CRS program, and hence provide a greater level of actuarial soundness than other approaches. The three tier rate structure will continue to be used for SFY 2007.

SFY 2007 Capitation Rate Development Methodology — Overview

For each of the four years SFY 2002 through SFY 2005, contractor capitation rates were updated based upon application of claim and administrative cost trend factors, evaluation of program requirement changes, and incorporation of adjustments for such items as underwriting profit/risk/contingency loading and maximum capitation revenue limits. Contractor encounter data was used in the development of some claim utilization and unit cost trend factors, but while appropriate and useful for other reporting purposes, was determined to lack sufficient completeness and reliability to be used for rate-setting purposes. SFY 2007 marks the second year that contractor encounters (from SFY 2004 and SFY 2005) have been used as the base data source. Therefore, the SFY 2007 rates have been re-based.

Base Data

The SFY 2004 and SFY 2005 contractor encounter data was valued using Medicaid (AHCCCS) fee schedule allowed amounts, incorporating a "lesser of" methodology in conjunction with Third Party Liability (TPL) cost avoidance and any pay-and-chase recoveries. This means that the contractor's liability for a claim from a provider was compared to the AHCCCS allowed amount, minus the TPL amount, and the lower value was utilized.

With three years of encounter data, SFY 2003 through SFY 2005, CRS Administration and Mercer performed a thorough analysis and re-established High, Medium, and Low diagnostic groupings for each contractor. Based upon the three years of data, per member per month

(PMPM) costs were regrouped into the three categories. Once the updated groupings were determined, the base SFY 2004 and SFY2005 data was adjusted accordingly, increasing the ~~matching of payment to underlying risk. For each contractor, the adjustments were done on a~~ budget-neutral basis, meaning no dollars were gained or lost in the process.

Base Data Adjustments

1. Unpaid Claims Liability

The SFY 2004 and SFY 2005 base data utilizes encounters with dates of service beginning July 1, 2003, and ending June 30, 2005. Encounters were initially analyzed with a run-out period of 6 months beyond the June 30, 2005 endpoint, with data extracted in early January 2006. The next step in the base data analysis process was a review of the CRS contractors' expense component for claims incurred but unpaid, hereinafter called the unpaid claims liability (UCL). The UCL is the sum of claims incurred but not reported, plus those claims reported but not yet paid. Statutory accounting recognizes an incurred medical expense for the period as the result of the sum of claims paid in the period, plus the change in the accrued liability for the UCL between the beginning and the end of the period. This calculation pushes the correction of the estimation error of the beginning UCL into the expense recognized in the current period. However, the expense that should be recognized in base data development is calculated from claims incurred in the SFY 2004 and SFY 2005 experience period, both claims paid in SFY 2004 and SFY 2005 and the accrued liability for the UCL as of the end of SFY 2005.

A review of the contractor's SFY 2005 encounters at the end of February 2006 indicated that there were outstanding claims as of the early January 2006 data extract. The level of outstanding claims varies by contractor. The overall adjustment for SFY 2004 and SFY 2005 encounters received beyond the early January 2006 data extract was 0.44 percent.

2. Completion for "Omissions"

As part of its 1115 waiver provisions, AHCCCS performs annual data validation studies of encounters. AHCCCS tests for completeness, accuracy, and timeliness of encounter submissions based upon statistically valid sampling of both professional and facility encounters, comparing them against medical records. Mercer utilized the results of the most recently completed data validation study (Contract Year 2003) to develop factors to apply to the base CRS data to further complete the encounters for these "omissions". Mercer and CRS Administration utilized the factors shown by AHCCCS, which vary between facility and professional consolidated categories of service (COS). The overall rate impact of this correcting adjustment is 4.26 percent.

---

3. "Non-encounterable" Costs

In addition, the adjusted base SFY 2004 and SFY 2005 data reflects contractor costs not captured by encounters, but historically reported by the contractors under medical service expenses rather than administrative expenses. These "non-encounterable" costs include those for such providers as social workers and interpreters, as well as services such as telephone and tele-video interventions, counseling, care coordination activities, and member/family education. The overall non-encounterable adjustment is 2.35 percent of the base SFY 2004 and SFY 2005 encounters.

4. Paid Greater than Allowed

Due to the unique nature of the service needs of the CRS population, the members tend to utilize a disproportionate mix of specialty services. This includes specialty physicians, specialty non-physician professionals, and durable medical equipment. The CRS contractors are required to provide adequate coverage of these services, and generally have to pay rates beyond the AHCCCS fee schedule for these services. Mercer analyzed the impact of the claims where the contractors were forced to pay more than the AHCCCS allowed amount, and made a partial upward adjustment to the base data to account for it. The overall impact of this adjustment is 2.18 percent of the base SFY 2004 and SFY 2005 encounters.

5. Medicare Part D

Under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), a prescription drug benefit is provided by Medicare for the Medicare/Medicaid dual eligible population. This change was effective January 1, 2006. Under this program, prescription drug expenditures for dual eligibles by a state Medicaid program will be significantly reduced. In order to account for this change, Mercer excluded all pharmacy costs for dual eligibles from the base data.

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

Trend to SFY 2007

The SFY 2004 and SFY 2005 encounter cost data was trended forward thirty months to SFY 2007. The trend factors recognize changes in cost per service (unit cost) and utilization of health care services from the SFY 2004 and SFY 2005 base period to SFY 2007. Unique trends were applied separately for ten COS. Trends ranged from a low of 1.7 percent for Inpatient (-2.0 percent utilization and 3.8 percent unit cost; 0.98 x 1.038 = 1.017) to a high of 17.8 percent for Pharmacy (2.0 percent utilization and 15.5 percent unit cost; 1.02 x 1.155 = 1.178). The weighted annual trend adjustment for SFY 2004 and SFY 2005 to SFY 2007 was 5.0 percent (1.0 percent utilization and 4.0 percent unit cost). COS trend factors were developed on a state-wide basis. Contractor trends varied solely due to differing COS distributions.

Mercer relied heavily on historical CRS encounter information, and also utilized its professional experience in working with other state Medicaid programs, outlooks in the commercial marketplace that influence Medicaid programs, regional and national economic indicators, and general price/wage inflation in developing trends. The 5.0 percent weighted trend compares favorably with the 5.5 percent trend used for SFY 2006 rate development.

Program Changes from SFY 2004 to SFY 2007

Several program changes not reflected (or not fully reflected) within the SFY 2004 and SFY 2005 base data will impact the CRS contractors for SFY 2007.

SFY 2005 Change

Beginning SFY 2005, chest vests (primarily for cystic fibrosis) became a covered expense for the CRS contractors. Mercer gathered actual and estimated utilization and unit cost data from the contractors and CRS Administration in order to determine the potential SFY 2007 impact of this program change. Mercer estimated the PMPM impact of this program change to be approximately $0.65 for Phoenix and $0.54 for Tucson. The remaining two CRS contractors do not serve eligible members with cystic fibrosis at this time.

SFY 2006 Changes

1. Telemedicine Fees

In an effort to maximize the availability of a limited number of specialist providers, the CRS contract requires that each contractor offer and utilize Telemedicine services. The Telemedicine connection between the four contractors requires telecom and access fees. These costs previously fell within the CRS Administration component of the rates. Starting in SFY 2006 these expenditures were classified under the regional contractor program expenditures. There is no impact in federal match by appropriately moving these responsibilities to the CRS contractors, since the same federal match rate applies.

2. Enrollment Services

The CRS contractors must maintain staff to screen and assist families with the eligibility process, including completion of the financial application, and coordinating with the Department of Economic Security for enrollment into the Title XIX or Title XXI program. Contractors also must verify and re-determine eligibility, and if applicable, assist families through the re-determination process. These costs previously fell within the CRS Administration component of the rates. There is no impact in federal match by appropriately moving these responsibilities to the CRS contractors, since the same federal match rate applies.

3. EQRO BBA Compliance

Requirements under the Balanced Budget Act (BBA) of 1997 with regards to External Quality Review Organization (EQRO) protocol compliance necessitated the hiring of additional contractor staff. The CRS program recently underwent a thorough BBA compliance assessment, which identified specific corrective actions to be implemented. Based on that assessment and the necessary corrective actions, Phoenix and Tucson will each require one full-time equivalent (FTE) Compliance Officer due to increased federal and state compliance requirements. Flagstaff and Yuma each require one-half FTE.

SFY 2007 Change

ADHS recently performed a review of the network sufficiency and timeliness of service availability for each regional contractor. In response to this, two of the contractors, Tucson and Yuma, will be providing additional specialty clinics to meet the increased service demand. The contractors provided detailed cost estimates for the additional services, which were reviewed by ADHS/CRS and Mercer for reasonableness. The SFY 2007 capitation rates were adjusted to cover the estimated cost of the new services. The PMPM impacts of these adjustments are approximately $3.51 for Tucson and $3.53 for Yuma.

Loading for Contractor Administration and Underwriting Profit/Risk/Contingency

CRS contractors range from the relatively large (Phoenix, with projected CRS SFY 2007 revenue of approximately $40.4 million) to the quite small (Yuma, with projected CRS SFY 2007 revenue of under $2 million). Combining these economies-of-scale differences with the relatively high care-focused administrative expenses CRS contractors must incur, generates varying and somewhat higher than normal administrative loads than a traditional acute care program. Across all contractors, the SFY 2007 administrative expense load is 14.8 percent of the capitation rate. This percentage is calculated prior to the 2006 program changes related to telemedicine fees, enrollment services, and EQRO BBA compliance described above.

An underwriting profit/risk/contingency loading of 2.5 percent was applied uniformly to all CRS contractors. As the four regional contractors are private, non-profit entities, there should be an assumed margin for contribution to entity surplus and adverse claim risk contingency. The 2.5 percent is consistent with the assumptions used for Title XIX and Title XXI for Behavioral Health Services, another ADHS carve-out program, as well as for the AHCCCS acute care contractors.

CRS Administration

AHCCCS has placed CRS Administration at risk for the provision of CRS covered services for SFY 2007. Accordingly, the capitation rates were developed to include compensation to CRS for the cost of ensuring the delivery of all CRS covered services. The capitation rates paid to CRS for this $61 million program include a 6.3 percent administrative load, which was negotiated between AHCCCS and CRS Administration. The administrative load represents the CRS costs of ensuring the efficient delivery of services in a managed care environment, and is based upon historical CRS costs and accounts for continued regulatory oversight cost expectations for SFY 2007. The 6.3 percent represents a substantial reduction from SFY 2004 and SFY 2005 levels.

Maximum Capitation Revenue Limits

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

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

As a result of the above consideration, in Mercer's opinion it is necessary to continue a maximum capitation revenue limit for SFY 2007 for the CRS contractors to prevent potential inappropriate overpayment of total capitation dollars. The SFY 2007 maximum capitation revenue limit is similar in approach to the limits that were in place for the six previous SFYs, and will be applied in a similar manner. For SFY 2007, it was determined that in aggregate contractors will not be allowed to keep Title XIX capitation revenue due to member month growth that is in excess of 4.9 percent. Due to regional growth pattern variation, the limits vary by contractor, from 4.7 percent for Phoenix to 5.3 percent for Tucson, Flagstaff, and Yuma. Over the four years SFY 2002 to SFY 2006, Title XIX member month growth has risen at the compounded annual rate of 8.5 percent.

Similar to SFY 2001 through SFY 2006, the maximum capitation revenue limit will also apply to the administrative load portion of the Title XIX capitation rates, which represents the CRS administrative costs of ensuring the delivery of cost effective services in a managed care environment.

Certification of Rates

Mercer certifies that the Title XIX, Title XXI, and Proposition 204 CRS capitation rates for SFY 2007 presented below and in the attachments to this letter were developed in accordance with generally accepted actuarial practices and principles by actuaries meeting the qualification standards of the American Academy of Actuaries for the populations and services covered under the managed care contract. Rates developed by Mercer are actuarial projections of future contingent events. Actual contractor costs will differ from these projections. Mercer has developed these rates on behalf of CRS to demonstrate compliance with the Centers for Medicare & Medicaid Services (CMS) requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations.

Risk Category

Contractor	High	Medium	Low
Phoenix	$573.13	$340.74	$151.85
Tucson	$495.25	$335.13	$180.47
Flagstaff	$314.23	$186.46	$116.18
Yuma	$334.38	$134.76	$80.54

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

Sincerely,

Michael E. Nordstrom ASA, MAAA

Michael E. Nordstrom, ASA, MAAA

MEN/GS/kmj

Copy:
Cynthia Layne, CRS
Cheryl Prescott, CRS
Branch McNeal, Mercer
Gabe Smith, Mercer
Andrea Demers, Mercer

Attachments

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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HOUSE OF
REPRESENTATIVES

DATE: July 19, 2006

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Senior Fiscal Analyst

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

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to present any changes to its capitation rates to the Joint Legislative Budget Committee for review prior to implementation. The proposed rates are an average of 11% above FY 2006 rates which will result in a General Fund increase of approximately $186,200 above budgeted levels for FY 2007. The adjustment is expected to cost $4.5 million rather than $4.3 million.

Recommendation

The Committee has at least the following options for the proposed rate change:

1. A favorable review of AHCCCS' proposed capitation rates as requested. AHCCCS 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. AHCCCS would most likely implement these rates even with an unfavorable review.

Analysis

The KidsCare program provides AHCCCS coverage to children up to 200% of the Federal Poverty Level (FPL) who are not eligible for the regular AHCCCS Title XIX program. In turn, the KidsCare–Parents program provides services to parents of children up to 200% FPL. While the Behavioral Health component of the regular Title XIX Medicaid program is funded in the Department of Health Services (DHS), the Behavioral Health component of both KidsCare programs is funded in the AHCCCS budget.

(Continued)

For children in KidsCare, the requested rates represent an increase of 14.4% above the FY 2006 rates; for the parental population, the requested rates represent a decrease of (2.1)% below the FY 2006 rates. In total, the requested rates represent an 11% increase above the FY 2006 rates. The budgeted rates for FY 2007 assumed a rate increase of 6%. *Table 1* details the average FY 2006 rates and the proposed rates for FY 2007. These rates result in a General Fund increase above budgeted levels for FY 2007 of approximately $186,200, or 4.4%.

Table 1

KidsCare Behavioral Health Capitation Rate Change

	Capitation Rate Change				**FY 2007 Budget Impact**		
Capitation Category	**Current FY 06**	**Budgeted FY 07**	**Proposed FY 07**	**Proposed % Change Above FY 06**	**Budgeted GF Expenditures**	**Proposed GF Expenditures**	**% Change**
KidsCare							
Children	$16.20	$17.25	$18.57	14.6%	$2,768,600	$2,980,000	7.6%
SMI	22.06	23.49	23.63	7.1%	68,100	73,300	7.6%
Average				**14.4%**			
Subtotal					**$2,836,700**	**$3,053,300**	**7.6%**
KidsCare Parents							
SMI	23.83	25.38	20.19	(15.3)%	1,008,100	854,200	(15.3)%
GMH/SA	10.19	10.85	13.11	28.7%	431,100	554,600	28.7%
Average				**(2.1)%**			
Subtotal					**$1,439,200**	**$1,408,800**	**(2.1)%**
Total				**11.0%**	**$4,275,900**	**$4,462,100**	**4.4%**

The actuaries reported that the membership in the KidsCare and KidsCare-Parents populations are relatively low, making actuarial assumptions about each population difficult. As a result, the actuaries, along with DHS, used information from the Title XIX population (which has much higher enrollment) in forecasting capitation rates for both KidsCare and KidsCare-Parents. DHS and the actuaries agreed to use the FY 2007 Title XIX per-member/per-month values as the base data for the Title XXI rates. According to historical encounter data, KidsCare and KidsCare-Parents claim costs generally represent between 30% and 40% of the Title XIX claim costs. Therefore, the KidsCare and KidsCare-Parents capitation rates were calculated by multiplying the capitation rate for the Title XIX population by a specified adjustment factor for each KidsCare subpopulation.

For the KidsCare population, the actuaries applied an adjustment factor of 38% for Children and 31% for the SMI population.

For the KidsCare-Parents population, the adjustment factor was 26% for the SMI population and 32% for the General Mental Health and Substance Abuse population.

RS/JM:ar

Arizona Department of Health Services

Office of the Director

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JANET NAPOLITANO, GOVERNOR
SUSAN GERARD, DIRECTOR

RECEIVED
JUL 03 2006
JOINT BUDGET COMMITTEE

JUN 20 2006

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

Dear Representative Pearce:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to review the proposed changes to the Behavioral Health Services Title XIX, Title XXI, HIFA II, and Children's Rehabilitative Services capitation rates for fiscal year 2007.

Enclosed please find the following final reports prepared to develop capitation rates for the Department for fiscal year July 1, 2006 to June 30, 2007 (FY07):

- Title XIX behavioral health services for Children, Seriously Mentally Ill, and General Mental Health/Substance Abuse populations
- Title XXI and HIFA II Behavioral Health Services Programs
- Title XIX, Title XXI and Proposition 204 populations for Children Rehabilitative Services.

In accordance with the Centers for Medicare & Medicaid Services and the Balanced Budget Act of 1997, the rates were developed using actuarially sound methodologies by Mercer Government Human Services Consulting. The Arizona Health Care Cost Containment System (AHCCCS) has reviewed and approved the proposed capitation rates.

If you have any questions related to the Behavioral Health Services Reports, please feel free to call Chris Petkiewicz, Chief Financial Officer for Behavioral Health Services, at (602) 364-4699. For information regarding the Children's Rehabilitative Services Report contact Cynthia Layne, Finance and Business Operation Manager, Children's Rehabilitative Services at (602) 542-2879.

Sincerely,

Susan Gerard
Director

SG: tsg

c: Representative Tom Boone, House Appropriations Chairman
Senator Robert Burns, Senate Appropriations Chairman
Anne Winter, Policy Advisor, Health/Human Services, Governor's Office
George Cunningham, Deputy Chief of Staff, Finance/Budget
Gary Yaquinto, Director, Office of Strategic Planning and Budgeting
Tory Anderson, Budget Analyst, Office of Strategic Planning & Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
John Malloy, Fiscal Analyst, Joint Legislative Budget Committee
Matt Busby, Fiscal Analyst, Joint Legislative Budget Committee
Rose Conner, Deputy Director, Department of Health Services
Eddy Broadway, Deputy Director, Department of Health Services, BHS
Chris Petkiewicz, Chief Financial Officer, BHS
Niki O'Keeffe, Assistant Director, DHS, Public Health Division
Joan Agostinelli, Office Chief Administrator, DHS, Public Health Division
Cynthia Layne, Finance and Business Operation Manager, DHS, Public Health Division
Pat Spencer, Financial Consultant, AHCCCS, Division of Health Care Management, BH

MERCER
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May 19, 2006

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 2007 Capitation Rates for the Title XXI and HIFA II Programs

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 2007 (SFY07). Rates were developed for the Title XXI and HIFA II programs.

The State Children's Health Insurance Program (SCHIP), titled "KidsCare" and also known as Title XXI, provides health insurance to uninsured children under 19 years of age whose families gross income is at or below 200 percent of the federal poverty level. The KidsCare benefit package is identical to what is offered to State Employees.

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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 (CPSA3 and CPSA5)	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

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

Title XXI

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value-Options	Statewide
Children	$ 18.01	$ 26.13	$ 19.96	$ 14.04	$ 29.71	$ 15.40	$ 17.60
SMI	$ 14.63	$ 17.77	$ 16.29	$ 11.15	$ 14.25	$ 27.62	$ 20.98

HIFA II

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value-Options	Statewide
SMI	$ 12.27	$ 14.90	$ 13.67	$ 9.35	$ 11.96	$ 23.17	$ 18.29
GMH/SA	$ 8.35	$ 13.23	$ 8.53	$ 7.29	$ 16.22	$ 11.96	$ 11.28

The rate development schedules are shown in Attachment A.

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Base Costs

Mercer has developed capitation rates for the Title XXI and HIFA II populations for SFY07. Because the membership in these populations is quite low, encounter data from their claims is not sufficient. Based upon review of historical financial statements, Title XXI individuals' claim costs generally represent about 30–40 percent of Title XIX claim costs. Based on this observation, BHS and Mercer agreed to use the Title XIX claim cost per-member-per-month (PMPM) values as the base data for the Title XXI rates.

From these base PMPMs, Mercer applied an acuity adjustment factor to the PMPMs to derive the Title XXI capitation rates. The acuity adjustment factors were 0.38 for Children and 0.31 for the SMI population.

Similar to the Title XXI rates, Mercer used the Title XIX claim cost PMPMs as the base PMPM for the HIFA II capitation rates. From there, an acuity adjustment factor of 0.26 was applied to the SMI population, and 0.32 was applied to 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 also 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 SFY06.

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 SFY07 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 RBHA contract

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also provides 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 SFY05. Year-to-date figures for SFY06 were also provided. This data was reviewed, projected, and trended forward. 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 XXI tribal claim costs for SFY07 will be approximately $395,000 and the HIFA II tribal claim costs for SFY07 will be approximately $421,000.

BHS Administration/Risk/Contingency

The Arizona Health Care Cost Containment System (AHCCCS) has placed BHS Administration at financial risk for the provision of BHS covered services for SFY07. 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 4.20 percent load, which was negotiated between AHCCCS and BHS Administration. The load represents the BHS costs of ensuring the efficient delivery of services in a managed care environment. The percentage represents a decrease of 0.50 percent from the previous year.

Development of Statewide Capitation Rates

Statewide capitation rates were developed by blending the SFY07 capitation rates for each RBHA using projected SFY07 member months, the estimated amount of SFY07 tribal claims, and the administrative percentage add-on component for BHS.

The statewide capitation rates are shown in Attachment B.

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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 Centers for Medicare & Medicaid Services (CMS) requirements under 42 CFR 438.6(c) and are in accordance with applicable law and regulations.

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/hl

Copy:
Eddy Broadway, BHS
Sundee Easter, Mercer
Sean Elcock, Mercer
Jeremy Hamblen, Mercer
Dawn Mueller, Mercer

Enclosures

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Attachment A
SFY07 Capitation Rate Development
Title XXI & HIFA II

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value Options	Total
Title XXI - Children							
1. 1HSFY06 Member Months	11,501	43,562	14,419	35,007	10,625	188,415	303,529
2. T-19 SFY07 Claim Costs	$ 42.66	$ 61.90	$ 47.26	$ 33.24	$ 70.37	$ 36.47	$ 41.68
3. Acuity Factor	0.380	0.380	0.380	0.380	0.380	0.380	0.380
4. Base SFY07 Claim Costs	$ 16.21	$ 23.52	$ 17.96	$ 12.63	$ 26.74	$ 13.86	$ 15.84
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY07	$ 18.01	$ 26.13	$ 19.96	$ 14.04	$ 29.71	$ 15.40	$ 17.60
7. Current Rates SFY06	$ 15.01	$ 21.48	$ 16.89	$ 10.33	$ 25.86	$ 13.45	$ 14.90
8. Change in Rates	20.0%	21.7%	18.1%	35.9%	14.9%	14.5%	18.1%
Title XXI - SMI							
1. 1HSFY06 Member Months	437	1,469	534	1,130	358	3,538	7,466
2. T-19 SFY07 Claim Costs	$ 42.48	$ 51.58	$ 47.30	$ 32.36	$ 41.38	$ 80.20	$ 60.90
3. Acuity Factor	0.310	0.310	0.310	0.310	0.310	0.310	0.310
4. Base SFY07 Claim Costs	$ 13.17	$ 15.99	$ 14.66	$ 10.03	$ 12.83	$ 24.86	$ 18.88
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY07	$ 14.63	$ 17.77	$ 16.29	$ 11.15	$ 14.25	$ 27.62	$ 20.98
7. Current Rates SFY06	$ 13.61	$ 16.98	$ 16.49	$ 11.13	$ 12.69	$ 27.76	$ 20.77
8. Change in Rates	7.5%	4.6%	-1.2%	0.1%	12.3%	-0.5%	1.0%

Attachment A
SFY07 Capitation Rate Development
Title XXI & HIFA II

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Value Options	Total
HIFA II - SMI							
1. 1HSFY06 Member Months	4,306	13,309	4,917	11,443	3,193	44,264	81,432
2. T-19 SFY07 Claim Costs	$ 42.48	$ 51.58	$ 47.30	$ 32.36	$ 41.38	$ 80.20	$ 63.29
3. Acuity Factor	0.260	0.260	0.260	0.260	0.260	0.260	0.260
Base SFY07 Claim Costs	$ 11.04	$ 13.41	$ 12.30	$ 8.41	$ 10.76	$ 20.85	$ 16.46
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY07	$ 12.27	$ 14.90	$ 13.67	$ 9.35	$ 11.96	$ 23.17	$ 18.29
7. Current Rates SFY06	$ 13.61	$ 16.98	$ 16.49	$ 11.13	$ 12.69	$ 27.76	$ 21.64
Change in Rates	-9.8%	-12.2%	-17.1%	-16.0%	-5.8%	-16.5%	-15.5%
HIFA II - GMH/SA							
1. 1HSFY06 Member Months	4,306	13,309	4,917	11,443	3,193	44,264	81,432
2. T-19 SFY07 Claim Costs	$ 23.47	$ 37.20	$ 24.00	$ 20.50	$ 45.63	$ 33.65	$ 31.73
3. Acuity Factor	0.320	0.320	0.320	0.320	0.320	0.320	0.320
4. Base SFY07 Claim Costs	$ 7.51	$ 11.90	$ 7.68	$ 6.56	$ 14.60	$ 10.77	$ 10.15
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY07	$ 8.35	$ 13.23	$ 8.53	$ 7.29	$ 16.22	$ 11.96	$ 11.28
7. Current Rates SFY06	$ 7.16	$ 11.55	$ 7.65	$ 4.62	$ 14.01	$ 9.73	$ 9.22
8. Change in Rates	16.6%	14.5%	11.6%	57.8%	15.8%	23.0%	22.4%

Attachment B
SFY07 Statewide Rates
Title XXI

Statewide TXXI Rate for All Children

RBHA	Col. 1 Projected SFY07 Member Months	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	25,978	$ 18.01	$ 467,913
CPSA 5	97,556	$ 26.13	$ 2,549,593
Cenpatico 2	41,037	$ 19.96	$ 818,911
NARBHA*	97,577	$ 14.04	$ 1,369,608
Cenpatico 4	27,566	$ 29.71	$ 819,055
Value Options	524,668	$ 15.40	$ 8,080,042
Tribes			$ 381,690
Subtotal	814,382		$ 14,486,812
BHS Administration/R/C of 4.20%			$ 634,364
Total with BHS Administration/R/C			$ 15,121,176
Statewide Capitation Rate			$ 18.57

Statewide TXXI Rate for SMI

RBHA	Col. 1 Projected SFY07 Member Months	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	864	$ 14.63	$ 12,641
CPSA 5	3,549	$ 17.77	$ 63,056
Cenpatico 2	1,188	$ 16.29	$ 19,356
NARBHA*	2,626	$ 11.15	$ 29,270
Cenpatico 4	642	$ 14.25	$ 9,151
Value Options	10,846	$ 27.62	$ 299,599
Tribes			$ 13,308
Subtotal	19,715		$ 446,381
BHS Administration/R/C of 4.20%			$ 19,547
Total with BHS Administration/R/C			$ 465,928
Statewide Capitation Rate			$ 23.63

* NARBHA Eligible MMs Include Tribal Counts

Attachment B
SFY07 Statewide Rates
Title XXI

Statewide HIFA II Rate for SMI

RBHA	Col. 1 Projected SFY07 Member Months	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	9,667	$ 12.27	$ 118,623
CPSA 5	29,435	$ 14.90	$ 438,624
Cenpatico 2	12,637	$ 13.67	$ 172,688
NARBHA*	27,164	$ 9.35	$ 253,941
Cenpatico 4	7,321	$ 11.96	$ 87,523
Value Options	112,706	$ 23.17	$ 2,611,135
Tribes			$ 166,021
Subtotal	198,930		$ 3,848,555
BHS Administration/R/C of 4.20%			$ 168,525
Total with BHS Administration/R/C			$ 4,017,080
Statewide Capitation Rate			$ 20.19

Statewide HIFA II Rate for GMH/SA

RBHA	Col. 1 Projected SFY07 Member Months	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	9,667	$ 8.35	$ 80,672
CPSA 5	29,435	$ 13.23	$ 389,333
Cenpatico 2	12,637	$ 8.53	$ 107,852
NARBHA*	27,164	$ 7.29	$ 198,017
Cenpatico 4	7,321	$ 16.22	$ 118,781
Value Options	112,706	$ 11.96	$ 1,348,309
Tribes			$ 254,936
Subtotal	198,930		$ 2,497,900
BHS Administration/R/C of 4.20%			$ 109,381
Total with BHS Administration/R/C			$ 2,607,281
Statewide Capitation Rate			$ 13.11

* NARBHA Eligible MMs Include Tribal Counts

State of Arizona

Attachment C
SFY07 Capitation Rate Development
Projection of Expenditures
Title XXI

Note: This section uses SFY07 Projected Member Months applied to both SFY06 and SFY07 Rates.

	Statewide Rates SFY06	Statewide Rates SFY07	SFY07 Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXXI						
Children	$ 16.20	$ 18.57	814,382	$ 13,192,988	$ 15,121,176	14.6%
SMI	$ 22.06	$ 23.63	19,715	$ 434,913	$ 465,928	7.1%
Total				**$ 13,627,901**	**$ 15,587,104**	**14.4%**

	Statewide Rates SFY06	Statewide Rates SFY07	SFY07 Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
HIFA II						
SMI	$ 23.83	$ 20.19	198,930	$ 4,740,502	$ 4,017,080	-15.3%
GMH/SA	$ 10.19	$ 13.11	198,930	$ 2,027,097	$ 2,607,281	28.6%
Total				**$ 6,767,599**	**$ 6,624,361**	**-2.1%**
Grand Total				**$ 20,395,500**	**$ 22,211,465**	**8.9%**

Note: This section uses SFY06 Actual/Projected Member Months applied to SFY06 Rates, and SFY07 Projected Member Months applied to SFY07 Rates.

	Statewide Rates SFY06	Statewide Rates SFY07	Actual/Projected SFY06 MMs	SFY07 Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
TXXI							
Children	$ 16.20	$ 18.57	636,765	814,382	$ 10,315,593	$ 15,121,176	46.6%
SMI	$ 22.06	$ 23.63	15,510	19,715	$ 342,151	$ 465,928	36.2%
Total					**$ 10,657,744**	**$ 15,587,104**	**46.3%**

	Statewide Rates SFY06	Statewide Rates SFY07	Actual/Projected SFY06 MMs	SFY07 Projected MMs	Total Projected Expenditures SFY06	Total Projected Expenditures SFY07	Percent Change
HIFA II							
SMI	$ 23.83	$ 20.19	168,053	198,930	$ 4,004,703	$ 4,017,080	0.3%
GMH/SA	$ 10.19	$ 13.11	168,053	198,930	$ 1,712,460	$ 2,607,281	52.3%
Total					**$ 5,717,163**	**$ 6,624,361**	**15.9%**
Grand Total					**$ 16,374,907**	**$ 22,211,465**	**35.6%**

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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STEPHEN TULLY

DATE: July 19, 2006

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of FY 2007 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 a FY 2007 expenditure plan for $3.3 million of the discretionary portion of federal Workforce Investment Act (WIA) monies received by the state. 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 $0.3 million of WIA monies at a later JLBC meeting.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of DES' expenditure plan with the provision that DES and the Governor's Council on Workforce Policy (GCWP) report back to the Committee by September 1, 2006 on how the Master Teacher expenditures will be coordinated with other appropriations for this purpose. The program activities and expenditure levels include core functions typically funded by WIA dollars. The JLBC Staff also recommends that the included performance measure and the results of the funded evaluations be reported in the statewide workforce development annual report required by A.R.S. § 41-1542, as modified by Laws 2006, Chapter 331.

Analysis

The DES Workforce Development Administration is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. Approximately $2.3 million of the $3.3 million expenditure plan is funding that would go to program activities approved by the committee in FY 2006. The remaining $1.0 million goes to new program activities. These activities include Business Outreach Grants, Master Teacher, and the Governor's Office of Children, Youth, and Families. Funds in FY 2006 were passed through to the Arizona Department of Education (ADE), to local workforce investment areas, the

(Continued)

Department of Commerce and to DES' Virtual One Stop Support and evaluation programs. The FY 2007 adds the Governor's Office of Children, Youth, and Families to agencies receiving funding.

Table 1 delineates the proposed FY 2007 level of funding by program and recipient and compares that total with FY 2006 levels. The expenditure plan represents core functions typically funded by discretionary WIA dollars. As noted from the table, in the core functions, the agency plans to increase spending by $97,900 over FY 2006 for 2 program activities (Eligible Training Provider List & Web Site and System Building), while reducing funding by $(125,000) on 2 programs (staffing the Governor's Council on Workforce Policy and Evaluation).

Table 1

Governor's Council Recommendation of 15% Set-Aside

Program Activities	Agency	FY 2006	FY 2007	Net Change
Core Functions				
Eligible Training Provider List & Website	ADE	$ 127,100	$ 175,000	$ 47,900
Incentive Grants to LWIAs	LWIA	350,000	350,000	--
Technical Assistance and Capacity Building	LWIA	250,000	250,000	--
High Concentration of Eligible Youth	LWIA	150,000	150,000	--
Virtual One Stop Support	DES	300,000	300,000	--
Evaluation	DES	100,000	50,000	(50,000)
System Building	LWIA	300,000	350,000	50,000
Apprenticeship	ADOC	130,000	130,000	--
Dept. of Commerce - Governor's Council on Workforce Policy	ADOC	600,000	525,000	(75,000)
Additional Programs				
Business Outreach Grants	LWIA	0	571,825	571,825
Master Teacher	GOCY	0	250,000	250,000
Governor's Office of Children, Youth and Families	GOCY	0	235,000	235,000
Mature Worker Connection		77,000	0	(77,000)
Subtotal		$2,384,100	$3,336,825	$952,725
Unallocated Appropriation		*$1,229,900*	*$277,175*	*$(952,725)*
TOTAL 15% Set-Aside		**$3,614,000**	**$3,614,000**	**$0**

Legend

ADE	*Department of Education*
DES	*Department of Economic Security*
LWIA	*Local Workforce Investment Areas*
ADOC	*Department of Commerce*
GOCY	*Governor's Office of Children, Youth and Family*

The current expenditure plan leaves $277,175 unallocated, which could be allocated and reviewed by the Committee at a later time. In FY 2006, $1.2 million in WIA funds were left unallocated. The federal government allows these monies to be spent for 3 years after federal appropriation; however, they would still require appropriation by the state legislature.

Outside the core WIA functions, this expenditure plan provides other services in line with workforce development in 3 programs not funded in last year's expenditure plan. Those programs are the Business Outreach Grants, Master Teacher Program and the Governor's Office of Children, Youth and Families. The Mature Worker Connection program funded last year is not included at this time, but could be funded in the future from currently unallocated monies.

<u>Business Outreach Grants</u> are intended to build a stronger relationship between the business community and the workforce development system. The expenditure plan provides $571,825 to meet this goal. The

plan also includes several performance goals, including increasing employer participation in One-Stop activities and services, identifying critical workforce needs, providing on-line assessment tools to ensure companies are hiring the right candidates, enhancing the understanding of business needs by creating a statewide business survey.

The Master Teacher program would provide professional development to teachers in public schools, including charters. The program specifically targets high-poverty districts in an attempt "to train and retain high quality teachers with the goal of improving teacher effectiveness and student achievement." The expenditure plan includes $250,000 for this program. Performance goals include a 90% successful completion rate (45 teachers), providing at least 3 development seminars, improved student test scores, and the practical application of taught strategies.

Laws 2006, Chapter 359 appropriated $2,000,000 to establish the Alternative Teacher Development Program in the Department of Education (ADE). It is not clear how these programs are related or how they would overlap or interact. The JLBC Staff recommends that the DES and GCWP report back to the Committee on efforts to coordinate between these programs.

The plan includes $235,000 for the Governor's Office of Children, Youth and Families (GOCYF). The GOCYF would use the funding for workforce development activities targeting youth, women and early childhood professional. This funding would also continue the Arizona Statewide Youth Development Task Force, which provides youth workforce development policy input to the GCWP and other stakeholders. GOCYF would also continue monitoring and finish activities related to current workforce development programs. The expenditure plan also includes 27 specific performance measures related to the requested GOCYF funding.

The JLBC Staff recommends that all the performance measures listed in the expenditure plan, as well as previously submitted performance measures associated with on going WIA projects, be included in the statewide workforce development annual report required by A.R.S. § 41-1542, as amended this past session.

RS/EJ:ar

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

Janet Napolitano
Governor

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

Tracy L. Wareing
Director

RECEIVED
JUL 10 2006
JOINT BUDGET COMMITTEE

JUL 10 2006

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

Dear Senator Burns:

The Arizona Department of Economic Security (DES) requests to be placed on the Joint Legislative Budget Committee's agenda for review of federal Workforce Investment Act (WIA) projects pursuant to Laws 2006, Chapter 344, 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 6, 2006 and identified the issues in the table below to be funded in fiscal year 2007 from the $3,614,000 appropriation to the Workforce Investment Act - Discretionary special line item. When the GCWP identifies the uses of the remaining funds, DES will submit the plan for JLBC review.

Funded Activities1/	**Administering Agency**	**FY 2007 Funding**
Eligible Training Provider List and Website	Department of Education	$ 175,000
Incentive Grants to Local Workforce Investment Areas	Local Workforce Investment Areas (LWIA)	$ 350,000
Technical Assistance and Capacity Building	LWIA	$ 250,000
High Concentration of Eligible Youth	LWIA	$ 150,000
Virtual One Stop Support	DES	$ 300,000
Evaluation	DES	$ 50,000
System Building	LWIA	$ 350,000
Apprenticeship Program	Department of Commerce	$ 130,000
Department of Commerce – Gov's Council	Department of Commerce	$ 525,000
Business Outreach Grants	LWIA	$ 571,825
Master Teacher	Governor's Office of Children, Youth, and Families (GOCYF)	$ 250,000
Governor's Office of Children, Youth and Families	GOCYF	$ 235,000
Total		**$3,336,825**

1/ See attachment 1 for additional details on funded activities.

If you have any questions, please contact Stephen Pawlowski, Financial Services Administrator, at (602) 542-3786.

Sincerely,

Tracy L. Wareing

Tracy L. Wareing

Attachment

c: The Honorable Russell K. Pearce, Vice Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Gary Yaquinto, Director, Governor's Office of Strategic Planning and Budgeting

Recommended by the Governor's Council on Workforce Policy
June 6, 2006

Eligible Training Provider List [29 U.S.C. § 2864 (a)(2)(B)(i)]

$175,000 to disseminate 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) is another public or private provider of a program of training services.

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

Incentive Funds for Local Workforce Investment Areas (LWIAs) [29 U.S.C. § 2864 (a)(2)(B)(iii)]

$350,000 to provide 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 and Capacity Building for LWIAs [29 U.S.C. § 2864 (a)(2)(B)(v) and 29 U.S.C. § 2864 (a)(3)(A)(ii)]

$250,000 to provide 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 [29 U.S.C. § 2864 (a)(2)(B)(v) and 29 U.S.C. § 2864 (a)(3)(c)(2)]

$350,000 to assist 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 [29 U.S.C. § 2853 (a)(3)(B)(I)]

$150,000 distributed 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 LWIAs that receive less than $500K in youth formula funds (usually 7 or 8 LWIAs). Distribution is based on the percentage of youth in poverty in each LWIA. This information comes from the latest Census figures obtained from DES' Research Administration. Although high concentration of youth activities funds are tracked separately for federal reporting, youths served with these funds are included in the WIA performance measures with all other formula-funded youths.

Virtual One Stop (VOS) [29 U.S.C. § 2864 (a)(2)(B)(v) and 29 U.S.C. § 2871]

$300,000 to operate a fiscal and management accountability information system in coordination with local boards. The system promotes 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 [29 U.S.C. § 2864 (a)(2)(B)(ii) and 29 U.S.C. § 2871 (e)]

$50,000 for the State, in coordination with local boards, to 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 and return on investment of various One-Stop system program management activities.

Apprenticeship

Pursuant to 29 CFR 29.12, Arizona is one of twenty-seven states recognized by the Office of the Secretary of Labor as a State Apprenticeship Agency or Council (SAC) state that authorizes the Arizona Department of Commerce Apprenticeship Office to determine whether an apprenticeship program conforms with the Secretary's published standards and the program is, therefore, eligible for Federal certification. Registered Apprenticeship is a training system that produces highly skilled workers to meet the demands of employers competing in a global economy. Apprenticeship combines on-the-job training with related theoretical classroom instruction in which paid employees receive technical and practical training in skilled occupations and, upon completion, receive a nationally recognized portable skill certificate issued by the Arizona Department of Commerce and approved by the U.S. Department of Labor. The Apprenticeship Program is partially funded with the $130,000 allocation approved by the Governor's Council on Workforce Policy. The funding provides for two staff, a Director and an Apprenticeship and Training Representative. Their duties include marketing, registration of new programs, servicing and monitoring the existing 120 programs, and staffing the Arizona Apprenticeship Advisory Committee established pursuant to Governor's Executive Order 2003-24.

Business Outreach

In September 2005 the Governor's Council on Workforce Policy held a strategic planning session to create a streamlined action plan for the Council. During this strategic planning session the Council identified the need to create a stronger relationship between the workforce system and the business community. They captured this in the following mission statement: *"To solidify a better relationship with the business community by understanding their critical workforce needs and modeling a workforce system to meet those demands."*

To meet that goal the Governor's Office, in partnership with the GCWP has created the Arizona Workforce Connections Business Outreach Fund. $571,825 is allocated to promote and support local workforce initiatives that exhibit a demand driven system.

Performance Measures:
- Increase Arizona's talent pool by increasing the workers trained in high-growth industries.
- Expand awareness of the Arizona Workforce Connections system by increasing the participation of employers in one-stop activities and services.
- Increase workforce and economic development alignment by identifying communities critical workforce needs.
- Support Arizona's business community by providing key online assessments to ensure companies are hiring the right candidates for their positions.
- Enhance knowledge of the needs of the business and economic development communities by creating a business survey to be utilized statewide.

Master Teacher

Teacher professional development is both a student achievement and an employer expense issue. Research and experience shows that well-trained teachers have the most impact on a student's academic experience after parental involvement. It is also widely known that lack of investment in professional development often leads to the loss of teachers seeking greater job satisfaction and enhancement of their craft. Teacher turnover and lack of teacher development is both a cause and a symptom of low student achievement.

However, in Arizona, no state (employer) investment is made in the workforce development of our teaching corps. Though many districts and charters find dollars in their maintenance and operations budgets to provide sponsored trainings and, in some cases tuition reimbursements, the level of training is often a function of the wealth of the local community and not a designated funding amount in the education funding formula. $250,000 is allocated to provide high-poverty districts with the opportunity to train and retain high quality teachers with the goal of improving teacher effectiveness and student achievement.

Performance Measures:

- Successful completion of the training program by at least 45 of the 50 teachers planned to be trained.
- Conducting at least 3 developmentally-aligned seminars and choice activities that relate to the context of teaching and the school community at teach school.
- Student learning is evident as a result of the skills of the teacher and reflected in improved test scores as measured by standardized testing. Teacher applies appropriate skills in a variety of situations.
- Teacher made consistent effort to implement strategies in the classroom, obtain feedback and, if necessary, make adjustment to the strategies being used.

Governor's Office of Children, Youth and Families

The Governor's Office for Children, Youth and Families (GOCYF) is allocated $235,000 continue its work in supporting the workforce and educational needs of youth, women and early childhood education professionals throughout Arizona.

Funding will be used to:

- Support workforce development activities for youth, women and early childhood professionals throughout Arizona, including coordination of projects and policy on statewide and potentially national levels.
- Continue of the Arizona Statewide Youth Development Task Force which will implement its youth development plan, coordinate meetings, and discuss youth policy-related issues. The Task Force will continue to focus on youth workforce development policy and practices in Arizona, including WIA activities, and will provide its expertise to the Governor's Council on Workforce Policy and the P-20 Council. Members of the Task Force and its committees will continue to be composed of GCWP members, LWIB representatives, local Youth Council representatives, and others with expertise in youth workforce development.
- Continue monitoring activities and close out three programs in the GOCYF: the Youth Works Arizona Grant Program, Women's Workforce Development Grant Program, and School Readiness Board's Early Childhood Educator development program.

Performance Measures:

General Youth Outcomes:

- 80% of all youth enrolled will complete programs administered by sub-grantees.
- 60% of all youth enrolled will attain a general equivalency diploma (GED).
- 50% of all youth enrolled will obtain employment OR 30% of all youth enrolled will pursue post-secondary education or advanced training (sub-grantees will be asked to meet at least one of these measures).

Participant Tracking:

- All sub-grantees will be required to submit data on their clients through the end of the grantee contract.

Client and Employer Satisfaction

- Client satisfaction will be measured throughout the length of the program.

- Employer satisfaction will be tracked with a separate survey sent to or discussed with employers with client placements.

Arizona Statewide Youth Development Task Force

- The Arizona Statewide Youth Development Task Force will finalize and implement recommendations on improving and supporting youth workforce development in the State.
- The Task Force will distribute an annual survey assessment tool to all Local Youth Councils to gauge their needs, strengths and weaknesses in order to provide specific technical assistance.

Sub-grantees of the Women's Workforce Development Program are required to demonstrate the following:

- 80% of clients served with these funds will receive supportive employment services including comprehensive assessments, development of individual employment plans, counseling and career planning.
- 80% of clients served with these funds will receive supportive social services that address their individual barriers to employment.
- As a result of the above interventions, 65% of clients served with these funds will gain improved job skills.
- 60% of clients served with these funds will obtain employment and, of those clients, 40% will retain employment for 6 months.

Participant Tracking:

- All sub-grantees will be required to submit data on their clients through the end of the grantee contract.
- Sub-grantees will be required to track whether or not clients gained employment and if they are still gainfully employed after 6 months.

Client and Employer Satisfaction:

- Client satisfaction will be measured with an exit survey when the client stops seeking services from the agency.
- Employer satisfaction will be tracked with a separate survey sent to employers with client placements.

General Early Childhood Educators Scholarships Measures

- 80% of all participants enrolled will complete programs administered by sub-grantees.
- 60% of all participants enrolled will attain a Child Development Associates (CDA) certificate or other certificate of completion.
- 50% of all high school youth participants enrolled will obtain employment in an early childhood education setting.
- 50% of all adult participants enrolled will continue working in an early childhood education setting for 6 months after completing the program.

Participant Tracking:

- All sub-grantees will be required to submit data on their clients through the end of the grantee contract.
- Sub-grantees will be required to report whether or not high school youth gained employment and if they are still gainfully employed at the end of the grantee contract.

- Sub-grantees will be required to track whether adult clients are still employed in an early childhood education setting 6 months after the ending date of the grantee contract.

Client and Employer Satisfaction:

- Client satisfaction will be measured with an exit survey when the client stops seeking services for the agency.
- Employer satisfaction will be measured with a satisfaction survey sent to employers with client placements.

The Arizona Statewide Early Education Development Scholarship (SEEDS) Workgroup

- The State School Readiness Board will continue to work with the DES' Child Care Administration to develop a joint scholarship program for the professional development of early care and education practitioners, which incorporates both SEEDS and the Professional Career Pathways scholarship models.
- Using an Asset-Based Community Development Model, the workgroup will develop recommendations for a statewide Early Childhood Education Professional Development Plan that identifies regional stakeholders and addresses the strengths and capacities of local communities.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: July 19, 2006

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of Incentive Funding from the Workforce Investment Act

Request

Pursuant to a footnote in the General Appropriation Act allowing the expenditure of Workforce Investment Act (WIA) monies in excess of the appropriated amount with Committee review, the Department of Economic Security (DES) is submitting an expenditure plan for $709,618 of WIA incentive funds received by the state. Unlike most Federal Funds, the WIA monies are subject to legislative appropriation under federal requirements.

Recommendations

The JLBC Staff recommends that the Committee give a favorable review of DES' expenditure plan. The plan provides for targeted development of the state's health care workforce. The expenditure plan seems reasonable and reflects a collaboration of the parties earning the incentive funds. The JLBC Staff also recommends that suggested performance measures be reported back to the Committee in the statewide workforce development annual report required by A.R.S. § 41-1542, as modified by Laws 2006, Chapter 331.

Analysis

The DES Workforce Development Administration is the state's grant recipient for Federal WIA funds from the U.S. Department of Labor. Each year the state receives a portion of the Federal WIA grant for workforce development in the state. In FFY 2005, the state met the performance requirements to be eligible for incentive funds above the normal grant for the first time. DES

(Continued)

will receive these monies in SFY 2007. A footnote in the General Appropriation Act allows DES to expend monies above the appropriated amount with prior Committee review.
The state will receive $709,618 in incentive funds, which must be used to provide services authorized by the Workforce Investment Act, the Carl Perkins Education Act, or the Higher Education Act. To this end, DES, the Governor's Council on Workforce Policy (GCWP), and the Department of Education (ADE) developed a plan to use these monies to improve workforce development and training activities in health care related fields.

The grant is to be split evenly between Adult Education Services (AES), Career and Technical Education (CTE) and DES/Local Workforce Investment Areas (LWIAs). ADE's Adult Education Services will serve individuals needing Adult Basic or Secondary Education or English Language Acquisition for Adults by providing courses in cooperation with local One-Stop centers to provide essential skill for individuals wanting to enter a health care profession. AES also provides referrals to Career and Technical Education and WIA programs for additional services. The expenditure plan includes $236,539 for AES.

ADE's Career and Technical Education Program will serve secondary and post-secondary students by identifying major occupation needs in health care careers in Arizona, as well as specific skills and requirements of health care employers. CTE will also provide assessments to identify job seekers with the necessary skills or potential for a heath care career. Existing students will be referred to higher degrees and certificates and other training needed for health care professions. CTE will also provide coordination of the stakeholder group for the project. The expenditure plan includes $236,539 for CTE.

LWIAs and the local One-Stop Centers serve low-income individuals in need of employment assistance. They provide the initial identification and assessment of potential health care workers, followed up with mentoring and career preparation training specific to the health care industry. The One-Stops will also refer job-seekers to AES and CTE or other WIA partners for additional courses, assessments, counseling, training, and job search services. The expenditure plan includes $236,540 for the LWIAs.

The Department of Commerce will also be involved to provide overall coordination of the project and marketing through the GCWP.

The plan identifies the following 3 performance goals:

- Assist WIA partners in improving performance levels in youth numeracy and literacy gains, youth/adult/dislocated worker credential attainments, and employment and retention rates.

- Assist AES partners in increasing the number of participants who enter, retain, and/or improve employment or placement into post-secondary education or other training.

- Assist CTE partners in increasing the percentage of client access to industry based assessments, participants meeting industry standards, and individuals entering employment in the allied and health care occupations.

RS/EJ:ar

xc: ES/SSL/HF

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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

Janet Napolitano
Governor

David A. Berns
Director

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JUN 13 2006
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JUN - 9 2006

Emily Stover DeRocco
Assistant Secretary
Employment and Training
U.S. Department of Labor
200 Constitution Avenue, NW, Room S-5206
Washington, D.C. 20210

Dear Assistant Secretary Stover DeRocco:

The Department of Economic Security is pleased to have the opportunity to submit for your approval the application for the Workforce Investment Act (WIA) Incentive Grant for Program Year 2004: "Enhancing Arizona's Workforce Connections." The proposed initiative will target health occupations as a context to enhance coordination of services and referrals among education and workforce partners, thus creating a more responsive workforce development system in Arizona.

The three partner programs that exceeded state performance goals to earn these incentive funds; i.e., Adult Education (AES), Career and Technical Education (CTE) and WIA, have developed an integrated healthcare initiative that crosses program boundaries in both urban and rural settings to address Arizona's critical shortage of qualified healthcare workers. This project will incorporates priority service delivery for individuals who are low income, employed entry-level workers, displaced homemakers, adults lacking a high school diploma, and English language learners. It will provide education and employment opportunities to youth and adults through expanded involvement in occupational and educational programs at secondary and post-secondary institutions.

DES looks forward to your approval of this initiative and to working with its partners in increasing the focus on creating a more responsive workforce development system for Arizona.

Sincerely,

David A. Berns

David A. Berns

Attachments

STATE OF ARIZONA

JANET NAPOLITANO
GOVERNOR

OFFICE OF THE GOVERNOR
1700 WEST WASHINGTON STREET, PHOENIX, AZ 85007

MAIN PHONE: 602-542-4331
FACSIMILE: 602-542-7601

June 10, 2006

Emily Stover DeRocco, Assistant Secretary
For Employment and Training
U.S. Department of Labor
200 Constitution Avenue, NW, Room S-5206
Washington, D.C. 20210

Dear Secretary Stover DeRocco:

Arizona suffers from a critical shortage of allied and health care workers to support its health care industry statewide. Candidates for such placements need both job specific and literacy skills to be successful in this field. Obstacles that currently exist to meeting this labor market need are a shortage of post-secondary allied and health care training opportunities, a two-year wait list for adult literacy classes, and a less-than desired collaborative referral system among the state's local Workforce Investment Act ("WIA") partners.

The WIA Incentive Funds for Program Year 2004 will provide the Arizona Workforce Connection System with an opportunity to enhance the coordination of adult education, allied and healthcare training and workforce development services/referrals among Arizona's WIA partners, as envisioned in the law.

Anticipated outcomes of the proposed project include:

- Increased referrals among WIA partners to and from adult education, allied and health care training programs and employers in the allied and health care field;
- Increased referral to adult education services from local One-Stop centers;
- Increased placement in allied and health care occupations from occupational training programs;
- Increased number of participants in occupational training programs meeting industry skills standards for allied and health care occupations; and
- A collaboration model that can be replicated in other areas of the state.

Please consider Arizona's application for PY2004 WIA Incentive Funds. With these funds, the WIA partners who have exceeded their program goals (Adult Education, Career and Technical Education, WIA) to earn this incentive award will help to create a more responsive workforce development system for Arizona.

Yours very truly,

Janet Napolitano

Janet Napolitano
Governor

State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

May 25, 2006

Emily Stover DeRocco, Assistant Secretary
for Employment and Training
U.S. Department of Labor
200 Constitution Avenue, NW, Room S-5206
Washington, D.C. 20210

Dear Secretary Stover DeRocco:

I am pleased to support the Arizona application for the Workforce Investment Act (WIA) Incentive Grant for Program Year 2004: "Enhancing Arizona's Workforce Connections." This initiative will target health occupations as a context to enhance coordination of services and referrals among education and workforce partners, thus creating a more responsive workforce development system in Arizona.

The partner programs that exceeded program goals to earn these incentive funds; i.e., Adult Education (AES), Career and Technical Education (CTE) and WIA, have developed an integrated healthcare initiative that crosses program boundaries in both urban and rural settings to address Arizona's critical shortage of qualified healthcare workers. This project incorporates priority service delivery for individuals who are low income, employed entry-level workers, displaced homemakers, adults lacking a high school diploma, and English language learners. It will provide education and employment opportunities to youth and adults through expanded involvement in occupational and education programs at secondary and post-secondary institutions.

I commend the three partners who earned the opportunity for this incentive grant by exceeding their state performance goals and who have begun, through this application, increased partnership efforts focused on creating a more responsive workforce development system for Arizona.

Sincerely,

Tom Horne

Tom Horne

1535 West Jefferson Street, Phoenix, Arizona 85007 • (602) 542-4361 • www.ade.az.gov

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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

Janet Napolitano
Governor

David A. Berns
Director

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

Dear Senator Burns:

The Department is pleased to inform the Joint Legislative Budget Committee that the Department of Labor recently announced that, for the first time since the inception of the WIA program, Arizona has achieved the necessary qualifications to be eligible for Workforce Investment Act (WIA) incentive funds. Arizona was one of 23 states to receive this distinction. In order to be eligible for these funds, the State had to exceed performance measures for the WIA programs, the Adult Education and Family Literacy program, and the Carl D. Perkins Vocational and Technical Education Act program.

For fiscal year 2005, the State achieved the required performance on all measures to be eligible for an incentive award in all three programs. Arizona has received preliminary information which indicates that, upon completion and submission of the required application, the State will receive $709,618 in incentive funds.

The incentive funds must be used to provide services authorized by the Workforce Investment Act, Carl Perkins Vocational Education Act or the Higher Education Act. DES, the Governor's Council on Workforce Policy, and the Arizona Department of Education have collaboratively developed a plan to expend the incentive funds on health care education programs to improve the State's workforce development and training activities in health care related fields.

Laws 2005, Chapter 286 provides for JLBC review of WIA discretionary funds:

> All federal workforce investment act discretionary funds that are received by the state in excess of $3,614,000 are appropriated to the workforce investment act - discretionary special line item. Excess monies may not be spent until a proposed expenditure plan for the excess monies has been reviewed by the joint legislative budget committee.

The Department requests to be placed on the Joint Legislative Budget Committee's agenda for review of this spending plan. If you have any questions, or need additional information related to this issue, please contact Stephen Pawlowski, Financial Service Administrator at (602) 542-3786.

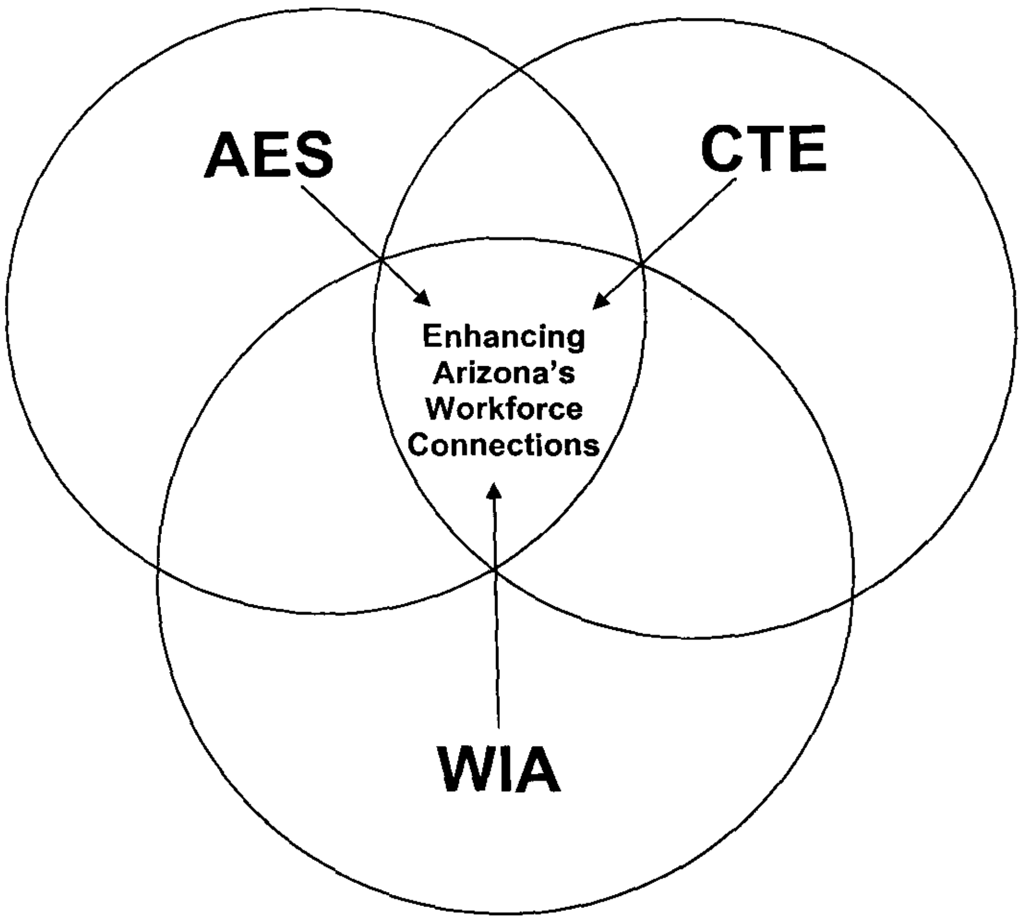
Sincerely,

David A. Berns

David A. Berns

c: The Honorable Russell Pearce, Vice Chairman, Joint Legislative Budget Committee
The Honorable Tom Horne, Superintendent, Arizona Department of Education
Lisa Lovallo Chairman, Governor's Council on Workforce Policy
Richard Stavneak, Director, Joint Legislative Budget Committee
Gary Yaquinto, Director, Office of Strategic Planning and Budgeting

Enhancing Arizona's Workforce Connections



A Collaborative Project
Of
Arizona's
Adult Education Services
and
Career and Technical Education
and
Workforce Investment Act

Enhancing Arizona's Workforce Connections

Description of Need:

Arizona suffers from a critical shortage of allied and health care workers to support its health care industry statewide. For example, currently Arizona ranks 45th out of 50 states for the number of registered nurses per 100,000 residents. Arizona's labor market information shows a need for over 30,000 nurses, 11,000 medical assistants, and over 15,000 allied health care workers within the next 7 years.

Workers need both job specific and literacy skills to be successful. One of Arizona's major concerns is the current demand for adult literacy classes has created a two year wait for services in many parts of the state. In addition, there is a shortage of post-secondary allied and health care training opportunities. Incentive funds will be used to address these issues and build local capacity.

Planned Use of Incentive Funds:

PY04 Incentive Funds will provide the Arizona Workforce Connection (AWC) System an opportunity to enhance coordination of education and workforce services and referrals among partners. The partner programs that exceeded program goals to earn these incentive funds, Adult Education Services (AES), Career and Technical Education (CTE), and the Workforce Investment Act (WIA), developed an integrated health care initiative that crosses program boundaries in both urban and rural settings, to address this critical shortage of qualified health care workers.

This project incorporates priority service delivery for individuals who are low income, employed entry-level workers, displaced homemakers, basic skills deficient (Adult Basic Education, ABE and Adult Secondary Education, ASE) and/or in need of English Language Acquisition for Adults (ELAA). It will provide allied and health care education and employment opportunities to youth and adults through expanded involvement in occupational education programs at secondary and post-secondary institutions.

Individuals can enter through any partner door – truly a "no wrong door" approach. Each partner will be responsible for providing services and referring to other partners for services, depending on each individual's needs.

Identification of Agencies and Operational Authority:

David Berns, Director, Arizona Department of Economic Security (DES) will serve as contact person for this grant. DES will receive and administer the funds ($709,618) on behalf of all state agencies. Sub-grantees will include:

1) Arizona Department of Education (ADE)
    a. Adult Education Services $236,539
    b. Career and Technical Education $236,539

2) DES/Local Workforce Investment Areas (LWIAs) $236,540

The participating partners and planned activities are:

Partner / *Authority*	Serving	Activities
Adult Education Services (AES) *AEFLA*	Individuals needing ABE, ASE and/or ELAA who are 16 years or older and out of school.	1) Referrals to: • CTE for post-secondary medical skills training • WIA for training, mentoring, job shadowing, work experience, on the job training (OJT) 2) ABE, ASE and ELAA courses in cooperation or co-location with One-Stops
Career & Technical Education (CTE) *Carl Perkins Act*	In school and out of school secondary students through age 18 and post-secondary students	1) Identification of major occupational needs in allied and health care careers in AZ and employer established performance criteria 2) Identification of schools providing CTE allied and health care programs 3) Referrals to WIA of exiting CTE students for higher level certificate, degree, credential programs and employment 4) Web-based delivery of assessments for targeted populations across Arizona 5) Occupational skills in allied and health care disciplines 6) Stakeholder group from industry, education providers and AWC partners to provide input related to the assessment system
Local Workforce Investment Areas (LWIAs) and Local One-Stops *WIA Title I*	Youth, adults and dislocated workers who are low income, displaced homemakers, entry-level employed workers, basic skills deficient or monolingual individuals	1) Referrals to: • ABE, ASE and ELAA courses • CTE for assessments • Secondary and post-secondary programs for medical terminology, introduction to medical careers, and skills training • Medical facilities for on-site job shadowing, mentoring, etc. • Wagner-Peyser for job search and placements 2) Initial identification and assessment of individual candidates, including WIA eligibility 3) Mentoring/Tutoring in Healthcare Professions 4) Healthcare Workplace Preparation Training 5) Work Experience/OJTs/Customized Training 6) Allied and Health Career Counseling 7) Space for adult education programs when/if is available 8) Business services staff will coordinate linkages with local health care providers
Commerce *WIA Title I*	Health care communities statewide	1) Coordination of project for Interagency Team 2) Marketing through the Governor's Council on Workforce Policy (GCWP)

Collaboration and Innovation:

AES, CTE, and WIA have collaborated to design a program targeted for allied and health care occupations. This project provides a comprehensive process to improve system performance and address the needs of Arizona in innovative ways by providing:

- funding for appropriate, industry-based assessments available by a web-based system to any individual in the AWC system, CTE and AES programs
- improved adult education services by funding increased capacity and coordination with WIA services
- referrals for secondary CTE students to a continuum of post-secondary occupational training and employment opportunities and services through the AWC system
- on-site, job specific introductions to health careers with local practitioners and providers
- funding to allow unemployed, underemployed and entry-level workers an opportunity to achieve new, updated skills and to embrace medical career opportunities through occupational programs and increased literacy
- increased partnerships amongst education, workforce and health care communities to better meet these critical employment needs
- Arizona's health care community with the means to attract, retain and develop quality workers which will provide improved access to health care services throughout the state
- integration of literacy and occupational training to create a qualified workforce to meet demands of this high growth/high demand industry
- funding to provide the opportunity for youth to participate in WIA and CTE activities

Performance Indicators:

Goal 1:
This grant will assist WIA partners in improving performance levels in youth numeracy and literacy gains, youth/adult/dislocated worker credential attainments, entered employment and retention rates.

Goal 2:
This grant will assist AES partners in increasing the number of participants who enter, retain, and/or improve employment or placement into post-secondary education or other training.

Goal 3:
This grant will assist CTE partners in increasing the percentage of client access to industry based assessments, participants meeting industry standards, and individuals entering employment in the allied and health care occupations.

Additional Benefits:

By creating a more responsive workforce development system the partnership will deliver qualified workers to fuel economic growth in Arizona for years to come. Partners will increase synergy by gaining awareness and understanding amongst project entities about each others' program goals, indicators of performance, client populations, characteristics and needs. Further, this partnership will foster an examination of how stakeholders can work together and assist partner programs in meeting their program goals and service objectives. The dissemination of information about these efforts to existing direct service providers will generate an improved delivery system to Arizona residents who are seeking self-sufficiency.

Consultation with Stakeholder Groups:

Representatives from AES, CTE, and both state and local area WIA staff met with the State Interagency Team (comprised of staff from the Arizona Governor's Office and Departments of Education, Economic Security and Commerce) to discuss the award of the incentive funds and proposed activities. A consensus project was identified that met the goals and needs of partners. A task force was then assigned to develop the application for incentive funds. The task force included the following members:

- Director of Workforce Policy, Arizona Department of Commerce
- Chair of the State Career and Technical Education Advisory Committee to the State Board of Education
- Deputy Associate Superintendent and State Director for Career and Technical Education, ADE
- Deputy Associate Superintendent and State Director for Adult Education, and GED State Administrator, ADE
- Director of Workforce Development, ADE
- Assistant Director of Workforce Development, ADE
- WIA Field Operations Manager, DES/Employment Administration
- LWIA One-Stop Coordinator, City of Phoenix
- State of Arizona, WIA Equal Opportunity Officer, DES/Employment Administration
- Adult Education Program Administrator of Academic Support and Compliance, ADE
- Education Program Specialist for Academic Support and Compliance, ADE

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

HOUSE OF REPRESENTATIVES

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LINDA J. LOPEZ
STEPHEN TULLY

DATE: July 19, 2006

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

THRU: Richard Stavneak, Director

FROM: Jeremy Olsen, Fiscal Analyst

SUBJECT: Arizona Game and Fish Department – Review of Watercraft Operation Under the Influence (OUI) Equipment Expenditure Plan

Request

The FY 2007 General Appropriation Act (Laws 2006, Chapter 344) requires the Arizona Game and Fish Department (AGFD) to submit an expenditure plan for a $160,000 appropriation for Watercraft OUI Enforcement equipment to the Committee for review before any of these funds can be expended.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the AGFD $160,000 expenditure plan for Watercraft OUI equipment.

Analysis

The AGFD provides watercraft enforcement and administers boating safety programs for recreational watercraft statewide. When probable cause exists to arrest a boater for operating a watercraft while intoxicated, watercraft officers are required by A.R.S. § 5-395(A)(2) to obtain an evidentiary breath test within 2 hours. If an analysis is not conducted within 2 hours, probable cause can be established through a retro calculation. However, this is usually done only in accidents resulting in injury or death. Typically, all subjects who are tested after the 2-hour period are released.

The department intends to purchase 2 field station mobile operating command post trailers, each equipped with evidentiary breath testing instruments. Currently, the AGFD has 1 mobile operating command post. The mobile command trailers can be transported by any of the agency's existing ¾-ton long-bed patrol vehicles to remote locations and will also be made available to other watercraft law enforcement agencies. The department anticipates that the command trailers will be used mainly on the Colorado River, Lake Powell, and at lakes on the Salt River.

(Continued)

The department estimates that with the 2 additional trailers, commuting times by Watercraft Officers to obtain evidentiary breath tests could be reduced by 45 to 100 minutes, depending upon the locations of the officer and the command post. With the decreased travel times, the department anticipates that the number of OUI arrests will increase over prior years, but does not have an estimate for the magnitude of this increase. However, AGFD does not anticipate a significant increase in the number of tests which will be administered.

The department reports that 41% of all watercraft accident fatalities since 1998 have involved alcohol. Recent boating statistics reported by the department are listed in the table below.

	2003	**2004**	**2005**
Accidents	289	254	266
Arrests	325	438	375
Fatalities	6	4	2

The agency received a supplemental appropriation of $160,000 from the Watercraft Licensing Fund in FY 2007 to purchase 2 field station mobile OUI operating command post trailers. Each mobile command post is expected to cost $72,000, while each breath analyzer is expected to cost $8,000, for a total per trailer cost of $80,000. Cost estimates provided by AGFD are based on price quotes from a law enforcement equipment distributor.

RS/JO:ss

THE STATE OF ARIZONA
GAME AND FISH DEPARTMENT
2221 West Greenway Road, Phoenix, AZ 85023-4399
(602) 942-3000 • azgfd.gov

RECEIVED
JUN 30 2006
JOINT BUDGET COMMITTEE

MEMORANDUM

TO: Senator Robert Burns, Chairman – Joint Legislative Budget Committee

CC: Representative Russell Pearce, Speaker Jim Weiers, President Ken Bennett, Marcel Benberou, Richard Stavneak

FROM: Duane L. Shroufe, Director

SUBJECT: **FY 07 Supplemental OUI $160,000 Expenditure Plan**

DATE: June 30, 2006

Laws 2006, Chapter 344, (House Bill 2863, Section 42) requires the Arizona Game and Fish Department to submit to the Joint Legislative Budget Committee (JLBC) an expenditure plan for $160,000 allocated for watercraft operation under the influence (OUI) enforcement equipment prior to the expenditures of these monies. The report is attached.

Thank you for your concern regarding this issue. Please don't hesitate to contact the Department in the future with questions relating to OUI or other Department related subject matter.

Arizona Game and Fish Department Fiscal Year 2007 $160,000 Supplemental Watercraft Fund Appropriation for Operating Under the Influence Law Enforcement Equipment

Expenditure Plan
Joint Legislative Budget Committee Review

I. EXECUTIVE SUMMARY

Laws 2006, Chapter 344, (House Bill 2863, Section 42) requires the Arizona Game and Fish Department to submit to the Joint Legislative Budget Committee (JLBC) an expenditure plan for $160,000 allocated for watercraft operation under the influence (OUI) enforcement equipment prior to the expenditures of these monies.

The AGFD is the primary watercraft enforcement and boating safety agency in the State of Arizona and annually plans, tracks and participates in inter-agency OUI enforcement projects. AGFD will utilize $160,000 to procure two field station mobile operating command post trailers with attached Intoxilyzer 8000 evidentiary breath testing instruments to be used in the remote, statewide detection, investigation, and prosecution of OUI boat operators. Each field station OUI command post is projected to cost approximately $80,000. Mobile operating units will be used in heavy watercraft use areas and will be deployed regionally which will reflect a much more efficient use of the state's resources and watercraft officer time.

II. BACKGROUND

The Arizona Game and Fish Department (AGFD) is the primary watercraft enforcement and boating safety agency in the State of Arizona. AGFD administratively manages boating safety and enforcement programs on a statewide basis and is also the administrative agency for compiling watercraft-related accident data in Arizona. Initial reports and investigations are completed by the jurisdictional agency and submitted to the Department. Statistics indicate that a significant number of boating accidents continue to occur along the Colorado River basin, which includes Lake Powell, Lake Mead, Lake Mohave, Lake Havasu and stretches of the Colorado River. A number of these accidents are directly related to the use of drugs and alcohol by operators of watercraft.

In an effort to reduce the number of accidents, federal, state, county and local law enforcement agencies focus much of their efforts on the detection and removal of impaired boat operators. Boat accident and OUI special project data both indicate that operating under the influence continues to be a major

Statewide OUI Arrests

2003	**325 arrests**
2004	**438 arrests**
2005	**375 arrests**

problem in Arizona. For example, 26.6% of all watercraft operators contacted during the 83 OUI special projects held since 1998, admitted to consuming alcohol while they boat. Furthermore, historical boat accident data from 1998 to the present indicates that 41% of all watercraft accident fatalities (31 out of 76) involved alcohol. While the 2006 data is still coming in, it is important to note that 3 out of the 7 fatalities involved alcohol.

III. NECESSITY

Whenever an individual is suspected of operating under the influence (OUI), watercraft officers will establish probable cause for arrest for OUI while on the water. Once an individual is arrested and removed from the water, watercraft officers have a finite amount of time (two hours per A.R.S. §5-395A2) to obtain an evidentiary breath test. Mobile OUI command post trailers with their self contained evidentiary breath testing equipment, give law enforcement officers the ability to perform OUI special projects in remote locations well away from established facilities, on isolated stretches of waterways up-lake heavy use areas, or variable elevation lakes (i.e. Roosevelt and Bartlett Lakes). Mobile command post trailers also allow for greater enforcement flexibility by reducing investigation and transport times to establish evidentiary breath testing locations.

IV. PROCUREMENT PLAN - OUI ENFORCEMENT EQUIPMENT

The AGFD supplemental appropriation of $160,000 for procurement of two field station mobile operating command post trailers with attached Intoxilyzer 8000 evidentiary breath testing instruments will be used in the remote, statewide detection, investigation, and prosecution of OUI boat operators.

Each field station OUI command post is projected to cost approximately $72,000 (contingent upon state procurement laws and solicitation process).

Each trailer will also have a permanently installed Intoxilyzer 8000 estimated to cost $8,000. Combined, the two trailers and two associated Intoxilyzer 8000s will total $160,000. Each trailer will be designed such that any of AGFD's existing ¾ ton long-bed patrol vehicles can transport them to special project details and will be made available for other watercraft law enforcement agency use.

Costs per Trailer

$72,000 – estimated purchase price
$8,000 – Intoxilyzer 8000
$80,000 – cost per trailer

Times (2X) Two Trailers - $160,000

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

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LINDA J. LOPEZ
STEPHEN TULLY

DATE: July 19, 2006

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

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Arizona State Retirement System – Review of FY 2007 Information Technology Expenditure Plan

Request

The Arizona State Retirement System (ASRS) requests Committee review of their FY 2007 Information Technology (IT) Expenditure Plan. ASRS was appropriated $3,010,100 for FY 2007 to upgrade their current information technology system. A General Appropriation Act footnote requires ASRS to seek Committee review of each year's expenditure plan prior to any expenditures.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the FY 2007 expenditure plan submitted for the agency's IT plan. The agency's proposed expenditure plan submitted for Committee review is in line with the expenditures outlined in the Project and Investment Justification (PIJ) document approved by the Information Technology Authorization Committee (ITAC).

Last year, the Committee approved the IT Plan, but expressed concern that the Government Information Technology Agency (GITA) changed the project status from "green," indicating the project is expected to be completed as planned, to "red," indicating a serious risk to project completion by the planned date. The Committee requested that ASRS provide an update by the end of each calendar quarter as to progress made towards bringing the IT plan back to a "green" status until that status is achieved. As project status has since been upgraded to "yellow," the JLBC Staff recommends that the Committee modify their request to semi-annual progress reports by December 31 and June 30 until the project status is "green."

Analysis

The footnote requiring JLBC review of the expenditure plan was added to the General Appropriation Act because of the magnitude and importance of the IT Plan for the agency. The ASRS Plan is meant to address IT inefficiencies and to position the agency for the increases in the longevity of retirees and actual number of retirees as the "baby boomer" generation reaches retirement.

(Continued)

This integrated functionality has been split into 3 separate task components: the Public Employees Retirement Information System (PERIS), a document imaging system, and a financial management system. In FY 2006, a 2-year software and hardware development component was also added, with a cost of $295,600 in FY 2007. This includes new software tools and upgraded network hardware to assist in the development of the plan as well as future upgrades to the project. Of the appropriated amount, $31,900 will be for on going operational expenses beyond FY 2007. An additional 2 FTEs were also added for document imaging in FY 2006.

Implementation of the IT Plan began in FY 2002. Until FY 2006, the project proceeded largely on schedule and budget, and there were no significant changes to the original Project and Investment Justification (PIJ) documents. A PIJ is the required project plan submitted to GITA for technical approval of the scope, costs, benefits and risk of the project. On April 20, 2006, GITA approved an amendment to the PIJ documents which extended the project completion time through FY 2008 and shifted monies from the document imaging and financial management projects to the PERIS system, as some of those functions have been incorporated into the PERIS project. The total development cost in the PIJ documents over the lifetime of the projects remains at $40.6 million.

FY 2006 was the last year for which the department was appropriated major development funding. While the project will continue its actual development through FY 2008, the funding that has been received thus far should be sufficient to cover those costs. As a result, in FY 2007, the bulk of the appropriation is for permanent operational monies. FY 2007 operating expenses are shown in *Table 1*, and on going expenses will be comparable.

ASRS has submitted an expenditure plan for the $3,010,100 allocated in FY 2007 for the IT Plan, which includes 20 FTE Positions. These expenditures are in line with the cost estimates included in the PIJ, which were determined reasonable by GITA and ITAC as part of their approval process. *Table 1* details the components of the $3,010,100 allocated in FY 2007.

Table 1

FY 2006 Appropriation Expenditure Plan[1/]

	Development Expenses	**Operating Expenses**			**Total**
	Software/ Hardware	Original Plan	Document Imaging	Software/ Hardware	
FTEs	--	18	2	--	**20**
Personal Services	--	$1,228,667	$70,233	--	**$1,298,900**
Employee Related Expenditures	--	362,123	24,377	--	**386,500**
Professional Services	161,000	--	--	--	**161,000**
License/Maintenance and OOE	--	775,500	3,600	29,000	**808,100**
Equipment	105,600	250,000	--	--	**355,600**
Total	**$266,600**	**$2,616,290**	**$98,210**	**$29,000**	**$3,010,100**

1/ Amounts include appropriations for technical adjustments not in the agency submission

In FY 2006, there were some concerns raised as to the progress of the IT plan. These concerns caused GITA to change the project status from "green," indicating the project is expected to be completed as planned, to "red," indicating a serious risk to project phase completion by the planned date. After a review by an Independent Advisory Consultant (IAC), the project status was upgraded from "red" to "yellow" and GITA requested that ASRS submit an amendment to the PIJs updating the project schedule to reflect the IAC's report. As mentioned above, the amended PIJs have been approved. With the new schedules in place, GITA has indicated that they will reexamine the entire

(Continued)

project status after the completion of some project milestones this summer. The document imaging component has already returned to "green" status. The JLBC Staff recommends that ASRS continue to report back to the Committee on the status of their projects semi-annually, by December 31 and June 30, until the entire project status returns to "green."

RS/EJ:ar

ARIZONA STATE RETIREMENT SYSTEM

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contactus@asrs.state.az.us

Paul Matson
Director

June 27, 2006

RECEIVED
JUL 11 2006
JOINT BUDGET COMMITTEE

The Honorable Robert L. Burns
Chairman, Joint Legislative Budget Committee
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

RE: JLBC Review of the ASRS IT Expenditure Plan for FY 07

Dear Chairman Burns:

I am requesting that the Joint Legislative Budget Committee (JLBC), at its next meeting, review the proposed expenditure plan of FY07 appropriations for the Arizona State Retirement System (ASRS) Information Technology (IT) Plan. Pursuant to the footnote to the agency's appropriation, the ASRS is required to submit an expenditure plan to the JLBC for review before the expenditure of the appropriation.

Enclosed is the ASRS IT Expenditure Plan for FY07. The plan outlines expenditures in the areas of IT/User FTEs and Employee-Related Expenditures, Professional and Outside Services, Other Operating Expenditures and Equipment. This plan is in line with the cost estimates included in the Project Investment Justifications (PIJ) and assumes project expenditures will continue through FY 08.

If you have any questions or need additional information, please contact Martha Rozen at (602) 240-5355. Thank you in advance for the Committee's consideration.

Sincerely,

PMatson

Paul Matson
Director

PM/MNR/mcc

Enclosures:

- Special Line Item (SLI) Appropriation - FY07
- Project Status Report – RT 01002 – ASRS Imaging System
- Project Status Report – RT 03001 – ASRS Financial Accounting System
- Project Status Report – RT 01001 – Public Employees Retirement Information System (PERIS)
- Project & Investment Justification – PERIS (Amended)
- Project & Investment Justification – ASRS Imaging System (Amended)
- Project & Investment Justification – ASRS Financial Accounting System (Amended)
- Project & Investment Justification – Network & Software Upgrade

C: Martha Rozen, Administrative Services
Eric Jorgensen, JLBC Analyst
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Arizona State Retirement System
Administrative Services Division
IT Expenditure Plan FY 2007
Prepared by: Martha Rozen
6/12/2006

Special Line Item (SLI) Appropriation - FY07

Fiscal Year 2007	IT Plan Operating Costs	Records Mgt. Document Imaging	PIJ-Network and Software Upgrade	TOTAL
FTEs	18	2		**20**
Personal Services	$1,228,667	$70,233		$1,298,900
Employee Related Expenses	$354,023	$24,377		$378,400
Professional & Outside Svcs.			$161,000	$161,000
Travel				
Other Operating Expenses	$765,100	$3,600	$29,000	$797,700
Equipment	$250,000		$105,600	$355,600
Total	$2,597,790	$98,210	$295,600	**$2,991,600**

$2,991,600

Staffing 18 FTEs to support the IT Plan
2 FTEs for Records Management
Ongoing maintenance and licensing costs and software costs associated with FTEs.

Equipment Purchase/replace identified software and hardware according to Project Investment Justification documents.