

STATE OF ARIZONA

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, August 16, 2007

9:30 a.m.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of July 19, 2007.](#)
- DIRECTOR'S REPORT (if necessary).
- 1. ATTORNEY GENERAL
 - A. [Review of Allocation of Settlement Monies - State v. Purdue Pharma L.P., et al.](#)
 - B. [Review of Allocation of Settlement Monies - State v. Warner Chilcott.](#)
- 2. DEPARTMENT OF HEALTH SERVICES
 - A. [Review of Behavioral Health Title XIX Capitation Rate Changes.](#)
 - B. [Review of Children's Rehabilitative Services Capitation Rate Changes.](#)
 - C. [Review of the Contract Compliance Special Line Item Expenditure Plan.](#)
- 3. DEPARTMENT OF PUBLIC SAFETY - [Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission.](#)
- 4. DEPARTMENT OF ECONOMIC SECURITY -
 - A. [Review of Proposed Implementation of Developmental Disabilities' Provider Rate Increase.](#)
 - B. [Review of FY 2008 Expenditure Plan for Workforce Investment Act Monies.](#)
- 5. GOVERNMENT INFORMATION TECHNOLOGY AGENCY - [Review of Web Portal Contract.](#)
- 6. ADMINISTRATIVE OFFICE OF THE COURTS - [Review of Reimbursement of Appropriated Funds.](#)
- 7. ARIZONA STATE RETIREMENT SYSTEM - [Review of FY 2008 Information Technology Expenditure Plan.](#)

The Chairman reserves the right to set the order of the agenda.

8/8/07

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

July 19, 2007

The Chairman called the meeting to order at 9:40 a.m., Thursday, July 19, 2007, in House Hearing Room 4. The following were present:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Cajero Bedford	Senator Aguirre
	Representative Lopez	Senator Garcia
	Representative Rios	Senator Verschoor
	Representative Yarbrough	
Absent:	Representative Adams	Senator Aboud
	Representative Biggs	Senator Flake
	Representative Boone	Senator Harper
		Senator Waring

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of June 19, 2007, Chairman Pearce stated that the minutes would be adopted.

DEPARTMENT OF ECONOMIC SECURITY – Review of Expenditure Plan for Incentive Funding from the Workforce Investment Act

Mr. Jay Chilton, JLBC Staff, stated that in Federal FY 2006, the Department of Economic Security (DES) met the requirements to be eligible for funds above the normal grant. In FY 2007 they received these monies for the first time and will again receive about \$1.5 million to be expended in FY 2008. The FY 2008 expenditure plan proposes to continue this program which seeks to increase the number of qualified health care workers in the state. Like last year, the grant will be split between ADE's Adult Education Services, the Career and Technical Education Program and the Local Workforce Investment Areas. Last year the Committee also requested that certain performance measures for the program be included in the statewide workforce development annual report. It is expected that results from the performance measures in FY 2007 will be included in the upcoming report which is expected in September.

The JLBC Staff recommends a favorable review of the DES FY 2008 expenditure plan.

Discussion ensued on this item.

Mr. Stephen Pawlowski, Financial Services Administrator, DES, responded to member questions.

Senator Burns moved that the Committee give a favorable review, as recommended by JLBC Staff, to the DES FY 2008 expenditure plan. The Committee also requested that performance measures contained in the expenditure plan be included in the statewide workforce development annual report. The motion carried.

DEPARTMENT OF PUBLIC SAFETY – Review of Microwave Communication System Upgrade Expenditures and Progress.

Ms. Kimberly Cordes-Sween, JLBC Staff, presented the expenditures and progress for the microwave system. She noted that the Department of Public Safety (DPS) did not receive the \$1.6 million in federal Homeland Security funds originally intended for use on the Microwave Communication System (MCS) upgrade for FY 2007. As a result, DPS included a revised expenditure plan and project timeline in the case that no federal Homeland Security funding is received from FY 2007 through FY 2009. Even though DPS is not assuming it will receive federal funds, a document Ms. Cordes-Sween received from the State Department of Homeland Security (SDHS) prior to the meeting indicates their intent to award \$1.6 million in FY 2008 to DPS for the MCS. A copy was given to each Committee member (*Attachment 1*).

Discussion ensued on this item.

Mr. Todd Mason, State Department of Homeland Security, Finance, responded to member questions.

Mr. Kevin Rogers, Department of Public Safety, responded to member questions.

Mr. Curt Knight, Department of Public Safety, responded to member questions.

Senator Burns moved for a favorable review of the DPS expenditures and progress of the upgrade to its microwave communication system. The Committee requested that DPS report back by October 31, 2008 on the status of the microwave communications project and federal Homeland Security grant funding. The motion carried.

DEPARTMENT OF EDUCATION – Review of Research Based Models of Structured English Immersion for English Language Learners.

Mr. Steve Schimpp, JLBC Staff, stated the English Language Learners (ELL) Task Force is requesting Committee review of the models of Structured English Immersion. The Task Force is required to submit the models to the Committee at least 30 days before adopting them. Mr. Schimpp discussed the table in Attachment 1 in the JLBC Staff recommendation memo, which explains the models.

Discussion ensued on this item.

Mr. Alan McGuire, ELL Task Force Chairman, responded to member questions.

There was no action taken by the Committee.

EXECUTIVE SESSION – Arizona Department of Administration – Review for Committee the Planned Contribution Strategy for State Employee and Retiree Health Plans.

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

At 11:58 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 12:40 p.m. the Committee reconvened into open session.

Senator Burns moved to give a favorable review of the planned contribution strategy for each health plan. The motion carried.

Without objection, the meeting adjourned at 12:41p.m.

Respectfully submitted:

Sandy Schumacher, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.



Governor Janet Napolitano

State of Arizona

Department of Homeland Security



Director Leesa Berens Morrison

Background

Laws 2006, Chapter 345 included a legislative intent statement that provided \$1.6 million annually, for three years from Federal Homeland Security grants be appropriated to the Arizona Department of Public Safety (DPS) for use in the Microwave Communication System Upgrade Project. The Office of Homeland Security, under its previous director was notified by U.S. Department of Homeland Security (DHS) that grant funds could not be used to facilitate the lease-purchase of equipment under the project. Accordingly, the Office reallocated those funds to other projects in an effort to maintain compliance with the federal requirement that all grant funds be allocated within 60 days of the award to the state. Since that time, the Arizona Department of Homeland Security (AZDOHS) has been created and granted primacy of the Homeland Security Grant Program from U.S. DHS. Although FFY 2006 Homeland Security Grant Program dollars have been obligated, AZDOHS is awaiting its FFY 2007 (FY 2008) Homeland Security Grant Program allocation and intends to award \$1.6 million to DPS for the Microwave Communication System Upgrade Project.

Funding Mechanism

Depending on the amount of Arizona's grant award, numerous options exist for AZDOHS to complete this grant award. The Homeland Security Grant Program is often referred to as one grant, but is, in fact, five unique grant programs.

<i>Grant Program</i>	<i>FFY 2006 Award Amount</i>	<i>"State Portion" (~ 20%)</i>
State Homeland Security Grant Program (SHSGP)	\$ 8,660,000	\$ 1,732,000
Law Enforcement Terrorism Prevention Program (LETPP)	\$ 6,290,000	\$ 1,258,000
Urban Area Security Initiative (UASI)	\$ 3,920,000	\$ 784,000
Metropolitan Medical Response System (MMRS)	\$ 929,320	\$ 27,880 (only 3% retained)
Citizen Corps Program (CCP)	\$ 371,645	\$ 197,920 (53.3% retained)
Total	\$ 20,170,965	\$ 3,999,800

With the exception of CCP, AZDOHS must pass through at least 80 percent of the grant awards to local units of government. This leaves a maximum of 20 percent for state agency projects or statewide projects such as the Microwave Communication System.

Out of this state portion, the Department funded its own operations for management and administration of grant awards (\$1,656,876), funded the Arizona Division of Emergency Management for critical planning functions for training and exercises conducted on behalf of local units of government and state agencies, as well as planning duties associated with the TOPOFF 4 national exercise (\$1,141,485). Other projects funded include the Arizona Fraudulent Identification Task Force (\$270,000), Arizona State University for Emergency Management Curricula development (\$159,435), ADOA-Capitol Police for enhanced video security at state buildings in Phoenix and Tucson (\$88,348) and reimbursements to local law enforcement agencies participating in Operation Stonegarden in support of U.S. Border Patrol (\$485,736). In addition, \$197,920 was set aside for operation of the State Citizen Corps Council and oversight of the Citizen Corps program.

Possible Funding Scenarios

AZDOHS intends to fund DPS \$1.6 million in each of the subsequent three grant years, but it is difficult to speculate from which specific programs this money will be allocated. The most likely scenario is that both SHSGP and LETPP funding from the "state portion" will be awarded to DPS. In addition, AZDOHS is awaiting further guidance and an eventual grant award from U.S. DHS and the newly created Public Safety Interoperable Communication Grant Program (PSIC). These monies will be distributed from the \$960 million earmarked by U.S. DHS and the U.S. Department of Commerce to improve public safety communications interoperability nationwide. This grant program, depending on the level of funding, may be another option for funding the Microwave Communication System Upgrade project. AZDOHS is planning to award \$1.6 million from the forthcoming FFY 2007 Homeland Security Grant Program award. Notice of this grant award was received Wednesday July 18, 2007:

Grant Funds	FFY2005	FFY2006	FFY2007	% Increase FFY06-07	% Increase FFY05-07
SHSGP	\$ 20,021,731	\$ 8,660,000	\$ 9,120,000	5%	-54%
LETPP	\$ 7,280,630	\$ 6,290,000	\$ 6,520,000	4%	-10%
UASI – Phx	\$ 9,996,463	\$ 3,920,000	\$ 11,900,000	204%	19%
UASI – Tuc			\$ 4,900,000		
MMRS	\$ 910,368	\$ 929,320	\$ 1,032,581	11%	13%
CCP	\$ 254,176	\$ 371,645	\$ 281,549	-24%	11%
PSIC*			\$ 17,713,050		
Total	\$ 38,463,368	\$ 20,170,965	\$ 51,467,180		

* The Public Safety Interoperable Communication (PSIC) Grant program **eligible** amounts were recently announced. Arizona must complete an application, Interoperable Communications plan and investment justification by December, 2007 to receive this full allocation in March, 2008.

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DATE: August 7, 2007

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

THRU: Richard Stavneak, Director

FROM: Leah Ruggieri, Fiscal Analyst

SUBJECT: Attorney General – Review of Allocation of Settlement Monies – State v. Purdue
Pharma L.P., et al.

Request

A footnote in the General Appropriation Act requires the Attorney General (AG) receive Joint Legislative Budget Committee review before allocating or expending monies from a settlement of \$100,000 or more that are not deposited directly into the General Fund. In June 2007, the AG requested Committee review of the department's expenditure plan for monies received from the Purdue Pharma L.P. consent judgment. At their June 19, 2007 meeting, the Committee did not take action on this request. The AG is now providing a response to the Chairman's request for an estimate of the costs incurred during the litigation. The AG will receive \$717,500 as a result of the settlement. Based on hourly rates awarded by the courts for attorney time, total costs incurred by the AG would be no greater than \$28,000.

Recommendation

The Committee has at least the following options:

1. A favorable review.
2. An unfavorable review.

Analysis

In May 2007, the Attorney General and 25 other states entered into a consent judgment with Purdue Pharma as a result of allegations that the company encouraged doctors to prescribe

(Continued)

OxyContin for uses not approved by the FDA and failed to adequately disclose the potential for addiction, abuse, and diversion of OxyContin for illegal uses. OxyContin is a narcotic pain medication prescribed to patients suffering from moderate to severe chronic pain. The total multi-state settlement is \$19.5 million, of which Arizona's share is \$717,500. Additionally, the settlement requires Purdue Pharma to meet specific standards in marketing OxyContin to doctors.

The AG will deposit the \$717,500 into the Consumer Fraud Revolving Fund to finance attorney costs and fees and consumer fraud education. A.R.S. § 44-1531.01 requires the AG to deposit any investigative or court costs, attorney fees or civil penalties recovered as a result of enforcing consumer protection or consumer fraud statutes into the Consumer Fraud Revolving Fund.

During the June 2007 review, the Chairman requested that the AG provide an estimate of the costs incurred during the litigation. Based on the \$200 hourly rate awarded by the courts for attorney time, the amount of time spent by AG attorneys on this case would cost approximately \$16,000. Additionally, using the \$100 hourly rate awarded by the court for a law clerk's time, the time spent by law clerks would amount to a total cost of \$12,000, bringing the overall cost of the litigation to \$28,000. While the hourly rates awarded by the court are designed to reflect both billable hours and overhead expenses such as rent, utilities, and time spent by nonprofessional staff, these reimbursed rates appear to be significantly higher than the actual cost.

In addition, the total \$717,500 settlement amount is significantly higher than the actual costs incurred by the AG's office in representing the state in this settlement. The AG notes that the settlement amount is ultimately designed to deter Purdue Pharma and other pharmaceutical companies from repeating or continuing the conduct that formed the basis for the states' allegations, and not to simply recoup the AG's associated costs. The AG uses settlement monies above actual litigation costs to pursue consumer fraud cases in which monetary recoveries are not made, such as cases in which the AG's office stops or rescinds fraudulent transactions.

RS/LR:sls



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Jennifer A. Boucek
Consumer Protection &
Advocacy Section
Direct: (602) 542-7714
Jennifer.Boucek@azag.gov

July 10, 2007



The Honorable Timothy S. Bee
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007

The Honorable James P. Weiers
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

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

Re: Purdue Pharma, Inc.

Dear Gentlemen:

Arizona recently joined with 25 other state Attorneys General to settle a multi-state action against Purdue Pharma, Inc. ("Purdue") for \$19.5 million based on its advertisement and sale of the prescription drug OxyContin. Arizona's share of the settlement is \$719,500.

OxyContin is a narcotic, which is very similar to morphine. The Attorneys General alleged that Purdue failed to tell doctors about the known risks for OxyContin abuse and addiction and made misrepresentations to doctors about its addictive nature (False claims included the statement, "Less than 1% of patients taking opioids actually become addicted."). Purdue allegedly instructed its representatives to increase the number of prescriptions written by each doctor and to increase the dosages of OxyContin prescribed. Because of these alleged actions and omissions, many thousands of people have died from overdoses, and a minimum of hundreds of thousands of others continue to be addicted to OxyContin.

Purdue initiated the settlement negotiations with the consumer protection multi-state group. It did so at the same time it was settling separate Medicaid recoupment claims with

The Honorable Timothy S. Bee
The Honorable James P. Weiers
The Honorable Russell K. Pearce
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the federal government and the States for \$130 million. The consumer fraud settlement is designed to deter Purdue and other pharmaceutical companies from repeating or continuing the conduct that formed the basis for the States' allegations.

The multistate settlement with Purdue is similar to other multistate settlements arising from misrepresentations pertaining to the benefits and risks of medications. The pharmaceutical companies fully understand that the money they pay the States is punishment for their violations of the States' consumer fraud acts. The States seek settlement amounts that will deter other pharmaceutical companies from committing consumer fraud. National or international pharmaceutical companies will not settle if the States use the word "penalties" in their judgments, however, because the imposition of penalties requires an admission of liability and could lead to further litigation.

Arizona's share of the settlement is required to be deposited in the Consumer Fraud Revolving Fund, pursuant to A.R.S. §44-1531.01 (B). These monies are used pursuant to statute for investigating violations of the Consumer Fraud Act and enforcing its provisions, as well as for consumer education. They cannot be used to compensate or employ attorneys. A.R.S. §44-1531.01 (C).

We understand that the Joint Legislative Budget Committee is interested in the number of hours spent by the Attorney General's Office on this matter. Because our office relied exclusively on our own staff in this case, we were able to ascertain the number of hours spent by our civil attorneys through a review of employee timesheets. Based on those timesheets, the Consumer Litigation Unit Attorneys assigned to this matter spent approximately 80 hours reviewing documents, drafting the consent judgment and settlement agreement and participating in multistate negotiations. In addition, a law clerk spent more than 120 hours reviewing thousands of pages of documents and cataloguing the information. Information gathered by our office in pursuing this litigation included, but is not limited to, information and documents addressing the following:

1. *Oxycodone Involvement in Drug Abuse Deaths, a DAWN-Based Classification Scheme Applied to OxyContin Post Mortem* for thirteen states, including Arizona. The review included *Forensic Toxicology Postmortem Case Evaluations* prepared by medical examiners in the thirteen states.
2. An analysis of the nationwide *Standard Operating Procedures Manual for Sales Representatives and Sales Managers*.
3. *OxyContin* package inserts.
4. Purdue-prepared materials that *OxyContin* sales representatives provided to their targeted doctors.

In addition, the Criminal Division attorneys spent many hours pursuing the separate, but related, claim on behalf of the states for the recoupment of Medicaid costs. Attorneys

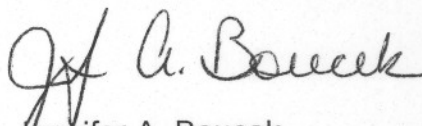
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from the Criminal Division do not bill their time, so it is difficult to pinpoint the number of hours they spent on this matter. In any event, as noted above, the primary purpose of the settlement is to prevent future violations of the law.

Of course, our Consumer Protection staff spends many hundreds of hours on investigation and consultation on multistate cases that do not result in settlements or litigation. To some degree, settlements such as this one with Purdue Pharma allow us to investigate constituent complaints and protect Arizona consumers.

Thank you for your interest in the Consumer Protection and Advocacy Section of this office. We trust this letter provides the information you were seeking. If you have any questions regarding this matter or need further information, please do not hesitate to call (602) 542-7714.

Sincerely,



Jennifer A. Boucek
Section Chief Counsel
Consumer Protection and Advocacy Section

JAB/sp
Enclosure

cc: The Honorable Robert L. Burns
The Honorable Marsha Arzberger
The Honorable Phil Lopes
Mr. Richard Stavneak
Ms. Leah Ruggieri
Mr. Timothy Nelson
Ms. Sheryl Rabin
Mr. John Stevens

#17229

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DATE: August 8, 2007

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

THRU: Richard Stavneak, Director

FROM: Leah Ruggieri, Fiscal Analyst

SUBJECT: Attorney General – Review of Allocation of Settlement Monies – State v. Warner Chilcott

Request

A footnote in the General Appropriation Act requires the Attorney General (AG) to receive Joint Legislative Budget Committee review before allocating or expending monies from a settlement of \$100,000 or more that are not deposited directly into the General Fund. Pursuant to this footnote, the Office of the Attorney General (AG) has notified the Committee of the allocation of monies received from the Warner Chilcott settlement agreement. The AG will receive \$128,000 as a result of the settlement. The actual cost of the litigation is estimated to be no greater than \$33,000.

Recommendation

The Committee has at least the following options:

1. A favorable review.
2. An unfavorable review.

Analysis

In June 2007, the Attorney General entered into a settlement agreement with Warner Chilcott as a result of allegations that Warner Chilcott and Barr Pharmaceuticals, Inc made an agreement that blocked generic distribution of Ovcon, an oral contraceptive. According to the 2005 lawsuit,

(Continued)

after Barr Pharmaceuticals announced its intent to bring the generic version of Ovcon to the market in 2003, Warner Chilcott, the exclusive US distributor of Ovcon, paid Barr Pharmaceuticals \$20 million to prevent distribution of the generic drug.

As a part of the settlement agreement, Warner Chilcott will pay \$5.5 million to litigating states, including \$128,000 to the Arizona Attorney General. Of this total, \$95,000 in civil penalties will be deposited into the Consumer Fraud Revolving Fund to fund future consumer fraud cases. A.R.S. § 44-1531.01 requires the AG to deposit civil penalties recovered as a result of enforcing consumer protection or consumer fraud statutes into the Consumer Fraud Revolving Fund.

As the lawsuit was also based on the enforcement of Arizona's antitrust statutes, the remaining \$33,000 will be deposited into the Antitrust Enforcement Revolving Fund. This amount reflects the court's calculation of attorney costs and cost sharing with other participating states for additional expenses such as taking depositions and expert witness fees. JLBC Staff has requested a break-out of these costs. A.R.S. § 41-191.02 requires monies in the Antitrust Enforcement Revolving Fund to be used for AG costs and expenses for antitrust enforcement. Except for attorney fees due upon the initial recovery of monies, statute prohibits the use of this fund for attorney compensation.

To date, Arizona has not reached a settlement agreement with Barr Pharmaceuticals.

RS/LR:sls



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Nancy M. Bonnell
Antitrust Unit Chief

July 11, 2007

The Honorable Tim Bee
President of the Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable James P. Weiers
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

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



Re: *State of Arizona et al. v. Warner Chilcott et al.*

Dear Gentlemen:

In November 2005, our Office joined 35 other states in filing an antitrust complaint against Warner Chilcott Holdings Company III, Ltd., its related companies (collectively "Warner Chilcott") and Barr Laboratories, Inc. ("Barr"). The lawsuit alleged that Warner Chilcott and Barr entered into an exclusive marketing agreement that effectively eliminated generic competition for the oral contraceptive, Ovcon. We brought the lawsuit as an enforcement action seeking injunctive relief and civil penalties.

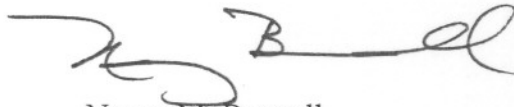
The States have settled their claims against Warner Chilcott for injunctive relief and \$5.5 million in civil penalties and attorneys' fees. Judge Colleen Kollar-Kotelly approved the settlement on June 29, 2007. A copy of the settlement agreement is enclosed for your review. Litigation with Barr is on-going. Arizona's share of the settlement allocation is \$127,972.07, which, pursuant to the court-approved settlement, will be deposited into the Antitrust Enforcement and Consumer Fraud Revolving Funds to cover attorneys' fees, costs and fund future antitrust and consumer protection law enforcement.

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

Please call me at (602) 542-7728 if you have any questions regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'N. Bonnell', with a stylized flourish at the end.

Nancy M. Bonnell
Antitrust Unit Chief

Enclosures

cc: The Honorable Marsha Arzberger
The Honorable Phil Lopes
Mr. Richard Stavneak
Ms. Leah Ruggieri
Mr. Timothy Nelson
Ms. Sheryl Rabin
Mr. John Stevens

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DATE: August 8, 2007

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

THRU: Richard Stavneak, Director

FROM: Jenna Goad, Fiscal Analyst
Amy Upston, 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.

The proposed capitation rates are currently expected to cost approximately \$(4,556,900) less than the FY 2008 General Fund budgeted level.

Summary of Changes

There have been 3 significant changes in the DHS capitation proposal since the end of the legislative session. The first involves the phase-out of the Institutions for Mental Disease (IMD) Waiver. During the session, the Executive branch reported that the federal government would no longer fund services in certain institutions with more than 16 clients. As a result, the FY 2008 budget included \$2,000,000 from the General Fund in anticipation of losing the IMD waiver. The Arizona Health Care Cost Containment System (AHCCCS) however, may have found an alternative means of retaining the federal funding. While discussions of this alternative with the federal government apparently occurred during session, the Legislature does not appear to have been informed of this possibility. As a result, the \$2,000,000 appropriation may no longer be needed. The \$2,000,000 savings would be in addition to the \$4,556,900 in base capitation rate savings.

The second change is that DHS is now stating that the *JK v. Gerard* lawsuit funding will require added annualization funding in FY 2009. The FY 2008 budget added approximately \$8 million from the

(Continued)

General Fund (and \$16 million in Federal Funds) to address the litigation involving behavioral health services provided to children. During budget discussions, DHS did not raise the annualization issue.

The third change relates to DHS administrative costs. The proposed capitation rates include a higher amount of funding for administration than was provided in the FY 2008 budget.

Recommendation

The Committee has at least the following options:

1. A favorable review with no provisions.
2. A favorable review with the following 2 provisions:
 - 1) Administrative costs remain within the FY 2008 budgeted levels.
 - 2) Any capitation rate savings be reverted and not transferred for program expansions.
3. An unfavorable review with 3 provisions. In addition to the administrative costs and capitation rate savings provisions, DHS would be requested to structure their *JK v. Gerard* funding so as to eliminate the need for any FY 2009 annualization.

Given that DHS is proposing to receive additional monies for administrative costs, DHS would be requested to report back to the Committee by September 13, 2007 on whether the excess administrative monies are being reverted or converted to service funding. If the Committee selects option #3, the September 13th report should also include DHS' plan to restructure the *JK v. Gerard* funding to eliminate FY 2009 annualization costs.

Analysis

DHS has received approval from AHCCCS to change the capitation rates for CBH, SMI and GMH/SA, beginning July 1, 2007 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 2008 appropriation was developed using preliminary capitation rate data reported by the department during the session, which assumed a weighted capitation rate increase of 13.4% above FY 2007. Given that the actual increase is only 11.3%, this should generate a General Fund savings of \$4,556,900.

Table 1					
Capitation Rates					
	FY 2007	FY 2008	% Change	FY 2008	% Change
Category	Actual	Budgeted	Above FY 2007	Proposed	Above FY 2007
Children	\$55.85	\$66.88	19.7%	\$63.74	14.1%
SMI	\$70.62	\$75.78	7.3%	\$78.10	10.6%
General Mental Health	\$36.66	\$41.17	12.3%	\$39.84	8.7%

Administrative Costs

Beyond adjustments for statewide technical issues and the funding for contract compliance, the FY 2008 budget did not include any increases for administrative costs. The material submitted by DHS suggests that additional discretionary administrative dollars have been included in the capitation rates.

(Continued)

Program Changes

The capitation rate adjustment for the CBH population included 2 programmatic increases related to the *JK v. Gerard* lawsuit. These adjustments include:

- An increase of 5.5% to increase the ratio of case managers for high-risk kids. This provision would bring the ratio of case managers per child down from 1:68 to 1:27. During session, DHS told the Legislature that the *JK v. Gerard* funding provided in the FY 2008 budget would cover all the costs associated with the lawsuit and would fund a 1:15 ratio. DHS now proposes that the ratio reduction be done in 2 steps. The first step is expected to cost the General Fund \$3,925,600 in FY 2008 and is estimated to decrease the ratio approximately 50%, or to 1:27. If the Legislature decides to reach the 1:15 ratio, additional funding will be required in FY 2009 to complete the second step of the ratio reduction. DHS was unable to provide an estimate of the funding increases that would be needed to reach the 1:15 ratio in FY 2009. The Legislature was not informed of these additional FY 2009 costs during the FY 2008 budget process.
- An increase of 6.6% to add more support and rehabilitative services in the child's home or another community setting for high risk children. These would include skill development and training, respite care services, family support services, peer support services, medication training, personal care training, and home care training. This change results in increased costs of approximately \$4,727,900.

Another program change involves the phase-out of the current waiver for services provided at an IMD. An IMD is defined as a hospital or nursing facility, or other institution with more than 16 beds which is primarily (more than 50% of patients) engaged in providing diagnosis, treatment, or care of persons with behavioral health issues, including medical attention, nursing care and related services. Federal Medicaid laws exclude Federal Financial Participation payments for services provided to individuals aged 21 to 64 at an IMD. As part of Arizona's Medicaid Waiver, however, the state has been able to receive federal reimbursement for services since FY 2001. As a result of this waiver, the federal government has paid for about two-thirds of the cost of care for these individuals.

Beginning in FY 2008, the federal government will cut back its reimbursement to the state by 50%, and in FY 2009, the federal government will no longer provide funding for services for individuals aged 21 to 64 at an IMD. In anticipation of the withdrawal of all Federal Funds, the FY 2008 budget included an additional \$2,000,000 General Fund appropriation to backfill the lost funds.

During the legislative session, AHCCCS was in contact with the Centers for Medicare and Medicaid Services (CMS) regarding a provision whereby members can receive equivalent services in a more cost-effective way. DHS reports that they first learned of the possibility of such a provision in late May. They did not notify the Legislature the state was pursuing such an option. If CMS approves this proposal, DHS will be able to provide services in licensed, alternative inpatient settings, in lieu of services in more expensive inpatient non-specialty hospitals. Related payments would be fully-matched with Federal Funds. This would offset the loss of federal funding as noted above. Moreover, the additional \$2,000,000 General Fund appropriation added to the IMD Special Line Item would no longer be needed for this purpose. This additional \$2,000,000 in cost savings has not been included in the estimated \$4,556,900 in cost savings associated with the capitation rates.

Budget Impact

Table 2 shows the FY 2008 appropriated amounts for each population, as well as the JLBC Staff estimates of the cost by program above the FY 2007 appropriation, based on the enrollment projections that were used in developing the FY 2008 budget. Without changes to the enrollment projections and other assumptions used in developing the FY 2008 appropriation, the capitation rate changes will allow for a savings of approximately \$4,556,900 from the General Fund and \$11,649,000 in Total Funds from the existing FY 2008 appropriation.

(Continued)

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 CAPITATED BEHAVIORAL HEALTH SPENDING				
Category	FY 2008 Appropriation		Estimated Need with Capitation Rate Changes	
	<u>Total Funds</u>	<u>General Fund</u>	<u>Total Funds</u>	<u>General Fund</u>
<u>Children's Behavioral Health</u>				
Title XIX	\$346,792,500	\$116,973,100	\$330,551,000	\$111,503,100
Proposition 204	4,596,200	1,550,300	4,372,800	1,475,100
<u>Seriously Mentally Ill</u>				
Title XIX	170,251,100	57,425,700	178,134,200	60,138,500
Proposition 204	161,672,100	54,532,000	168,835,600	56,952,500
<u>General Mental Health/Substance Abuse</u>				
Title XIX	94,512,600	31,879,100	92,841,000	31,317,600
Proposition 204	87,684,300	29,575,900	86,125,600	29,052,300
Institutions for Mental Disease	8,267,700	4,813,200	2,000,000	2,000,000
Medicaid Special Exemption Payments	<u>18,550,800</u>	<u>6,257,200</u>	<u>17,818,100</u>	<u>6,010,500</u>
Total	\$892,327,300	\$303,006,500	\$ 880,678,300	\$298,449,600
Difference			\$ (11,649,000)^{1/}	\$ (4,556,900)^{1/}

^{1/} If CMS approves the in-lieu of services provision, GF savings will increase by \$2,000,000. This will be offset by a decrease of \$(2,000,000) in TF cost savings due to a corresponding increase in federal funding. If the provision is approved, spending by category may differ from what is shown above.

RS/JG/AU:ss



**Arizona
Department of
Health Services**

Office of the Director

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JANET NAPOLITANO, GOVERNOR
SUSAN GERARD, DIRECTOR

JUL 11 2007

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



Dear Representative Pearce:

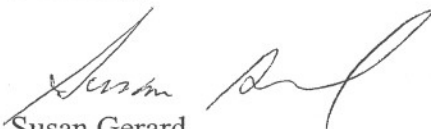
The Arizona Department of Health Services (ADHS) Division of Behavioral Health Services (DBHS) and the Children's Rehabilitative Services (CRS) program respectfully request to be placed on the Joint Legislative Budget Committee's agenda for an upcoming meeting in order to discuss the proposed capitation rates for fiscal year 2008.

The enclosed DBHS rates dated June 6, 2007, were approved by AHCCCS in their letter received June 21, 2007. These rates were sent to the Centers for Medicare & Medicaid Services (CMS) by AHCCCS on June 8, 2007 and have not yet been approved by CMS.

Included in the proposed rates is an in-lieu-of services provision. This provision would allow Arizona to receive federal reimbursement for services provided as a replacement for State Plan services in a more cost effective or efficient way. Only services covered under the State Plan can receive federal reimbursement. Similar in-lieu-of provisions have been approved by CMS in other managed care programs. If approved by CMS for Arizona, the in-lieu-of services provision would allow DBHS to provide services in licensed, alternative inpatient settings, in lieu of services in more expensive inpatient non-specialty hospitals.

If you have any questions, please contact Theresa Garcia, Central Budget Office Director, at 602-542-1266.

Sincerely,



Susan Gerard
Director

SG:tsg:or
Enclosure

- c: Senator Robert Burns, Senate Appropriations Chairman
January Contreras, Policy Advisor, Health/Human Services, Governor's Office
George Cunningham, Deputy Chief of Staff, Finance/Budget
James Apperson, Director, Office of Strategic Planning and Budgeting
Ryan Harper, Budget Analyst, Office of Strategic Planning & Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
John Malloy, Fiscal Analyst, Joint Legislative Budget Committee
Jenna Seplow, Fiscal Analyst, Joint Legislative Budget Committee
Dona Markley, Acting Deputy Director, Department of Health Services
Eddy Broadway, Deputy Director, Department of Health Services, BHS
David Reese, Chief Financial Officer, BHS
Sarah Allen, Assistant Director, DHS, Public Health Division
Joan Agostinelli, OCSHCN Office Chief/CRS Administrator, DHS,
Public Health Division
Cynthia Layne, OCSHCN Chief Financial Officer, DHS, Public Health Division
Shelli Silver, Assistant Director, Division of Health Care Management, AHCCCS,
Division of Health Care Management, BH

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June 6, 2007

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

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Subject:

**Behavioral Health Services State Fiscal Year 2008 Capitation Rates
for the Title XIX Program**

Dear Mr. Reese:

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 2008 (SFY08). 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
Maricopa County RBHA (RFP currently out to bid)	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, 2007, through June 30, 2008, covering SFY08. 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 unusual service utilization changes and provisions for administration and underwriting profit/risk/contingency are applied in order to determine actuarially sound capitation rates.

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

1. Calculate base data

- Collect, analyze, and adjust first half of SFY07 (1HSFY07) RBHA financial statements
- Utilize actual member months from 1HSFY07 and the adjusted 1HSFY07 total claim costs to calculate 1HSFY07 per-member-per-month (PMPM) values
- Adjust the derived 1HSFY07 PMPMs via a seasonality/trend projection factor to generate initial full year SFY07 claim cost PMPMs

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2. Calculate SFY08 actuarially sound rates

- Apply trend factors to bring Base SFY07 claims costs forward to SFY08
- Adjust for any unusual service utilization changes (such as High Needs Children, JK Support Services and IMD Waiver)
- Apply acuity adjustment (if necessary) to account for changes in Behavioral Health penetration rates
- 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 SFY08.

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	Maricopa County	Statewide
Children — Non-CMDP	\$ 37.32	\$ 45.44	\$ 39.89	\$ 29.60	\$ 57.34	\$ 31.41	\$ 35.27
Children — CMDP	\$1,112.31	\$1,346.61	\$ 829.35	\$1,283.35	\$ 794.54	\$ 811.30	\$ 994.93
SMI	\$ 51.05	\$ 64.25	\$ 44.09	\$ 40.39	\$ 55.81	\$ 99.72	\$ 73.70
GMH/SA	\$ 29.33	\$ 46.29	\$ 46.83	\$ 26.00	\$ 56.93	\$ 36.92	\$ 37.76

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, 2006, through December 31, 2006 time period. Given Cenpatico 2 and Cenpatico 4 had in SFY06 replaced Excel and PGBHA respectively, this current timeframe (1HSFY07) 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 Non-CMDP and CMDP children's populations, and for the SMI and GMH/SA populations.

BHS has performed reviews of the RBHA submitted data and has determined that the data do not include any uncovered services.

Seasonality/Trend to SFY07

The base data included adjusted RBHA financial statements received for 1HSFY07. Projection factors to account for seasonality/trend were developed by population in order to project costs forward to a full SFY07 period.

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County
Children — Non-CMDP	1.04	1.04	1.04	1.04	1.04	1.04
Children — CMDP	1.04	1.04	1.04	1.04	1.04	1.04
SMI	1.01	1.01	1.01	1.01	1.01	1.01
GMH/SA	1.05	1.05	1.05	1.05	1.05	1.05

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

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historical financial data and reviewed 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 changes described below. 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 SFY07 base data, bringing it forward 12 months to SFY08. The following trend estimates were used for the capitation rates:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
Children	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
SMI	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
GMH/SA	11.4%	11.4%	11.4%	11.4%	11.4%	11.4%	11.4%

Service Utilization Changes

BHS and Mercer reviewed changes for SFY08 that would unusually affect service utilization. It was determined that due to expected changes in utilization of specific existing Covered Services, adjustments to the base data would need to be made to account for these changes. The following three changes were accounted for in the rate development process.

High Needs Children

The High Needs Children service expansion will fund the ratio of one case manager for 15 high needs children. Of these case managers, the vast majority will be behavioral health technicians and the remainder will be behavioral health professionals. Adequate case management is required to deliver necessary services, especially for children with complex needs. There are currently not enough case managers for children with complex needs to achieve the desired ratio. The current case manager to high needs children ratio is approximately one to 68. The targeted phase-in for this expansion is 50 percent in SFY08, or half of the ultimately needed case managers will be in place during SFY08.

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The PMPM increases applied to the Non-CMDP and CMDP children's populations for this utilization adjustment are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
Non-CMDP	\$2.56	\$3.25	\$2.44	\$1.75	\$2.28	\$0.93	\$1.62
CMDP	\$49.76	\$47.38	\$17.00	\$36.97	\$23.19	\$27.77	\$33.63

JK Support Services

The behavioral health system currently cannot deliver services according to the Jason K. Principles without ready access to direct supports and home-based respite and therapeutic residential support. A select list of 19 procedure codes is expected to have an increased utilization of approximately 15 percent as a result of this settlement.

The PMPM increases applied to the Non-CMDP and CMDP children's populations for this utilization adjustment are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
Non-CMDP	\$1.82	\$3.07	\$0.85	\$1.46	\$2.56	\$1.41	\$1.72
CMDP	\$49.14	\$82.79	\$23.03	\$39.39	\$69.05	\$38.10	\$51.27

IMD Waiver

The IMD waiver that was in place to allow funding for 21-64 year olds will be phased out over the next two fiscal years. The phase-out will be 100 percent FFP until September 30, 2007, and 50 percent FFP for October 1, 2007 to September 30, 2008. Only the portion that will be federally matched can stay in the certified capitation rates. This result is a reduction of about \$3.1 million in claims for the combined SMI and GMH/SA populations. The PMPM decrease applied to the SMI and GMH/SA populations for this utilization adjustment are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
SMI	-\$0.02	-\$0.47	-\$0.04	-\$0.54	-\$0.14	-\$0.49	-\$0.43
GMH/SA	-\$0.01	-\$0.29	-\$0.02	-\$0.33	-\$0.09	-\$0.30	-\$0.26

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In-Lieu of Services

With the phasing out of IMD services, it is expected that many of the services previously provided at an IMD facility would need to be provided at an inpatient non-specialty hospital. State approved FFS rates at inpatient non-specialty hospitals are approximately 101.5% more expensive than those provided in alternative inpatient settings, resulting in a potential increase in claims of about \$4.8 million for the combined SMI and GMH/SA populations. By allowing ADHS/BHS to provide services in alternative inpatient settings that are licensed by ADHS/ALS/OBHL, in lieu of services in an inpatient non-specialty hospital, unit cost savings of approximately 50.4% and total cost savings of approximately \$1.7 million may be realized. The resulting PMPM adjustment applied to the SMI and GMH/SA populations are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
SMI	\$0.02	\$0.47	\$0.04	\$0.54	\$0.14	\$0.49	\$0.43
GMH/SA	\$0.01	\$0.29	\$0.02	\$0.33	\$0.09	\$0.30	\$0.26

Behavioral Health Penetration — Acuity Adjustment

An increase in penetration in some populations of the behavioral health program has been observed and is projected in these 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, as well as any projected decrease in penetration, was applied as an acuity adjustment to the SFY07 PMPM claim costs and represents a difference due to increased or decreased 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	Maricopa County
Non-CMDP	0.987	0.980	0.950	0.988	1.009	0.974
CMDP	0.961	1.036	1.075	1.003	1.082	0.973
SMI	1.036	1.010	0.985	1.030	1.027	1.040
GMH/SA	0.983	0.971	0.984	0.972	1.028	0.912

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White Mountain Apache Tribal Regional Behavioral Health Authority

The White Mountain Apache Tribe is expected to begin as a Tribal Regional Behavioral Health Authority (TRBHA) beginning October 1, 2007. NARBHA is currently serving the members that will become the responsibility of the new TRBHA. The NARBHA capitation rates have been adjusted to account for differences in serving the entire population and the projected population, which excludes those eligibles that would be served by the new TRBHA. Cost, eligibility and enrollment data were reviewed for the zip codes affected by the new TRBHA. The resulting adjustment is an increase to the NARBHA capitation rates; however total dollars projected to be paid to NARBHA are lower due to the eligibles that would no longer be served by NARBHA. The table below summarizes the adjustment to the NARBHA capitation rates by population.

	Non-CMDP	CMDP	SMI	GMH
NARBHA	\$0.22	\$10.79	\$0.39	\$0.03

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 SFY07 capitation rate development.

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 SFY08 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

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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 SFY06. This data was reviewed, projected, and trended forward. BHS also provided additional information related to FFS rate increases that would affect tribal claims. Also, as discussed previously, the White Mountain Apache TRBHA is expected to begin providing services October 1, 2007. This will result in an increase in tribal FFS dollars. Based on this information, Mercer and BHS projected that Title XIX tribal claim costs for SFY08 will be approximately \$37.2 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 SFY08. 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 4.40 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.

Development of Statewide Capitation Rates

Statewide capitation rates were developed by blending the SFY08 capitation rates for each RBHA using projected SFY08 member months, the estimated dollar amount of SFY08 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.

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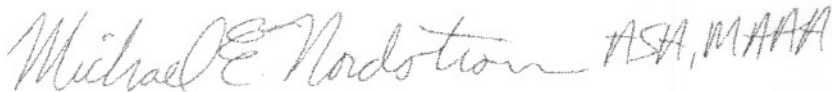
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Arizona Department of Health Services

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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,

Handwritten signature of Michael E. Nordstrom in cursive, followed by the typed text "ASA, MAAA".

Michael E. Nordstrom, ASA, MAAA

MEN/hl

Copy:
Eddy Broadway, BHS
Sundee Easter, Mercer
Amanda Mueller, Mercer

Enclosures

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: August 8, 2007

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

THRU: Richard Stavneak, Director

FROM: Matt Busby, Fiscal Analyst
Amy Upston, 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. Excluding the administrative component, the proposed changes would save the General Fund \$338,000 from the FY 2008 budgeted amount. The weighted average rate change is 9.9% above FY 2007. In comparison, the FY 2008 budget assumed a 10.9% capitation rate increase, excluding administration.

Recommendation

The JLBC Staff recommends that the committee give a favorable review to the DHS CRS capitation adjustments with the following 2 provisions:

- 1) Administrative costs remain within the FY 2008 budgeted levels.
- 2) Any capitation rate savings be reverted and not transferred for program expansions.

Given that DHS is proposing to receive additional monies for administrative costs, DHS would be requested to report back to the Committee by September 13, 2007 on whether the excess administrative monies are being reverted or converted to service funding.

Analysis

The proposed rates are based upon an actuarial study, which is required by the federal government. A.R.S. § 36-2901.06 limits capitation rate adjustments to utilization and inflation unless those changes are

(Continued)

approved by the Legislature or are specifically required by federal law or court mandate. The proposed changes do meet the guidelines outlined in statute.

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 includes a high, medium and low tier, which represent varying degrees of medical acuity. *Attachment A* displays the FY 2008 budgeted and proposed rates by city and medical acuity and details the changes from FY 2007.

The capitation rates include the following adjustments:

- Fabrazyme. CRS contractors identified a new high-cost drug for the treatment of Fabry's disease, an inherited disorder that results from the buildup of a particular type of fat in the body's cells caused by the lack of or a faulty enzyme needed to metabolize lipids. Coverage of this drug will be transferred to AHCCCS on October 1, 2007, but CRS contractors will be responsible for this expense during the first 3 months of FY 2008. To reflect this expense, an annualized adjustment of \$0.75 in both Phoenix and Tucson was made. This adjustment has an estimated Total Funds cost of \$125,700.
- Vertical Expandable Prosthesis Titanium Ribs (VEPTR). VEPTR has recently been identified as a procedure to treat Thoracic Insufficiency Syndrome. The VEPTR device, a curved metal rod, helps straighten the spine and separate the ribs so that lungs can grow and patients will be able to breathe. As a result of adding coverage of this high-cost procedure, capitation rates were adjusted upward \$2.11 in Phoenix and \$3.03 in Tucson. This reflects a 0.6% increase in capitation rates and an estimated Total Funds cost of \$396,200.
- Administrative Expense and Profit/Risk. The FY 2008 contractor administrative expense component is 12.6% of the service component of the capitation rate, down from 13.1% budgeted in FY 2007. A 2.5% profit/risk contingency was also applied uniformly to all CRS contractors, the same percentage as in FY 2007. Contractors can make up to 2.5% in profit or absorb up to 2.5% in losses.
- CRS Administration. A 10.0% DHS-CRS administrative component was added to the capitation rate for DHS-related expenses, but the FY 2008 budget amount only includes a 6.3% administrative component, the amount budgeted for FY 2007. Administrative costs are backed out when calculating the cost of service delivery to this population. If the higher administrative costs are included, the \$338,000 General Fund savings based on current caseloads would become a \$568,400 General Fund cost.

RS/AU:ss
Attachment

Proposed Monthly CRS Capitation Rate Changes, FY 2008					
	<u>FY 2007 Actual Rate</u>	<u>FY 2008 Budgeted Rate</u>	<u>FY 2008 Proposed Rate</u>	<u>FY 2008 Change Above FY 2007</u>	<u>Anticipated State Match Cost/(Savings) ^{1/}</u>
Phoenix					
High	\$529.65	\$595.56	\$603.12	13.87%	77,200
Medium	315.23	354.07	364.42	15.60%	177,900
Low	139.59	157.79	168.12	20.44%	139,900
Tucson					
High	458.47	514.63	488.00	6.44%	(123,700)
Medium	308.55	348.25	297.45	(3.60)%	(247,200)
Low	167.11	187.53	133.34	(20.21)%	(329,300)
Flagstaff					
High	293.90	326.53	316.15	7.57%	(26,400)
Medium	174.60	193.75	222.12	27.22%	44,500
Low	108.19	120.72	105.18	(2.78)%	(37,100)
Yuma					
High	309.81	347.47	352.97	13.93%	5,700
Medium	123.97	140.03	126.38	1.94%	(14,700)
Low	74.54	83.69	76.55	2.70%	(4,800)
Total				9.9% ^{2/}	(338,000)
^{1/} Represents rates for services only. The administrative components of the rates are not shown here. ^{2/} Represents change from FY 2007 Actual Rate to FY 2008 Proposed Rate.					



**Arizona
Department of
Health Services**

Office of the Director

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JANET NAPOLITANO, GOVERNOR
SUSAN GERARD, DIRECTOR

JUL 11 2007

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



Dear Representative Pearce:

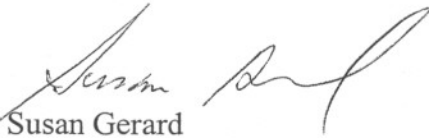
The Arizona Department of Health Services (ADHS) Division of Behavioral Health Services (DBHS) and the Children's Rehabilitative Services (CRS) program respectfully request to be placed on the Joint Legislative Budget Committee's agenda for an upcoming meeting in order to discuss the proposed capitation rates for fiscal year 2008.

The enclosed DBHS rates dated June 6, 2007, were approved by AHCCCS in their letter received June 21, 2007. These rates were sent to the Centers for Medicare & Medicaid Services (CMS) by AHCCCS on June 8, 2007 and have not yet been approved by CMS.

Included in the proposed rates is an in-lieu-of services provision. This provision would allow Arizona to receive federal reimbursement for services provided as a replacement for State Plan services in a more cost effective or efficient way. Only services covered under the State Plan can receive federal reimbursement. Similar in-lieu-of provisions have been approved by CMS in other managed care programs. If approved by CMS for Arizona, the in-lieu-of services provision would allow DBHS to provide services in licensed, alternative inpatient settings, in lieu of services in more expensive inpatient non-specialty hospitals.

If you have any questions, please contact Theresa Garcia, Central Budget Office Director, at 602-542-1266.

Sincerely,



Susan Gerard
Director

SG:tsg:or
Enclosure

- c: Senator Robert Burns, Senate Appropriations Chairman
January Contreras, Policy Advisor, Health/Human Services, Governor's Office
George Cunningham, Deputy Chief of Staff, Finance/Budget
James Apperson, Director, Office of Strategic Planning and Budgeting
Ryan Harper, Budget Analyst, Office of Strategic Planning & Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
John Malloy, Fiscal Analyst, Joint Legislative Budget Committee
Jenna Seplow, Fiscal Analyst, Joint Legislative Budget Committee
Dona Markley, Acting Deputy Director, Department of Health Services
Eddy Broadway, Deputy Director, Department of Health Services, BHS
David Reese, Chief Financial Officer, BHS
Sarah Allen, Assistant Director, DHS, Public Health Division
Joan Agostinelli, OCSHCN Office Chief/CRS Administrator, DHS,
Public Health Division
Cynthia Layne, OCSHCN Chief Financial Officer, DHS, Public Health Division
Shelli Silver, Assistant Director, Division of Health Care Management, AHCCCS,
Division of Health Care Management, BH

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May 25, 2007

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

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Subject:

**Title XIX, Title XXI, and Proposition 204 Capitation Rates for
State Fiscal Year 2008**

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, 2007, and ending June 30, 2008 (SFY 2008), 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



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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 2008.

SFY 2008 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 2008 marks the third year that contractor encounters (from SFY 2005 and SFY 2006) have been used as the base data source. Therefore, the SFY 2008 rates have been re-based.

Base Data

The SFY 2005 and SFY 2006 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. SFY 2005 encounters were trended forward to a "modeled SFY 2006" level, and then this "modeled SFY 2006" was blended with the actual SFY 2006 encounters in order to further enhance the credibility of the base data for each individual contractor.

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With three years of encounter data, SFY 2004 through SFY 2006, 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 2005 and SFY 2006 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.

The CRS program falls under Arizona's 1115 waiver. CRS has performed reviews of the CRS subcontractor submitted data and has determined that the data included an insignificant amount of non-covered services (.0078%) and the results of the analysis had no material impact on the actuarially sound rates.

Base Data Adjustments

1. Known Pended Encounters

In addition to the accepted encounters from SFY 2005 and SFY 2006, CRS Administration was able to determine and analyze known pended encounters. These are encounters that have been submitted and are allowable, but have not yet made it all the way through the CRS encounter system edits. Mercer reviewed the dollar figures of these encounters, and adjusted the base data accordingly. The overall adjustment to SFY 2005 and SFY 2006 to account for these known pended encounters was 2.93 percent.

2. Unpaid Claims Liability

The SFY 2005 and SFY 2006 base data utilizes encounters with dates of service beginning July 1, 2004, and ending June 30, 2006. Encounters were initially analyzed with a run-out period of 6 months beyond the June 30, 2006 endpoint, with data extracted in early January 2007. 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

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claims incurred in the SFY 2005 and SFY 2006 experience period, both claims paid in SFY 2005 and SFY 2006 and the accrued liability for the UCL as of the end of SFY 2006.

A review of the contractor's SFY 2006 encounters at the end of February 2007 indicated that there were outstanding claims as of the early January 2007 data extract. The level of outstanding claims varies by contractor. The overall adjustment for SFY 2005 and SFY 2006 encounters received beyond the early January 2007 data extract was 0.86 percent.

3. 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 to develop factors to apply to the base CRS data to further complete the encounters for these "omissions". Mercer and CRS Administration utilized (with some downward adjustment which lowered the overall impact) 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 3.95 percent.

4. "Non-encounterable" Costs

In addition, the adjusted base SFY 2005 and SFY 2006 data reflects contractor costs not captured by encounters, but typically considered 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 2.86 percent of the base SFY 2005 and SFY 2006 encounters.

5. 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, dental, 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. CRS Administration and Mercer analyzed the impact of the claims where the contractors were forced to pay more than the AHCCCS allowed

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amount, and made a partial upward adjustment to the base data to account for it. The overall impact of this adjustment is 2.21 percent of the base SFY 2005 and SFY 2006 encounters.

6. Medicare Part D, Cerazyme, and Aldurazyme

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.

Effective SFY 2007, the coverage of Cerazyme, a specialty drug used for the treatment of Gaucher's disease, was transferred from CRS to the AHCCCS health plans. Therefore, Mercer removed all Cerazyme costs from the base data.

Effective October 1, 2007, the coverage of Aldurazyme, a specialty enzyme replacement therapy drug used for the treatment of Mucopolysaccharidosis 1 (a genetic disease that prevents enzyme production), will also be transferred from CRS to the AHCCCS health plans. Since this drug was covered by CRS in the base period, Mercer removed three-fourths of the Aldurazyme costs from the SFY 2005 and SFY 2006 base data to account for CRS only being responsible for the drug during the first three months of SFY 2008.

7. Out-of-State Claim Responsibility

Effective SFY 2008, Flagstaff and Yuma will no longer be responsible for the out-of-state claims of their members. This responsibility will be transferred to Phoenix. Therefore, Mercer has moved the out-of-state claim experience in the base data generated by Flagstaff and Yuma members to Phoenix.

Trend to SFY 2008

The SFY 2005 trended (modeled SFY 2006) and SFY 2006 encounter cost data was trended forward twenty-four months to SFY 2008. The trend factors recognize changes in cost per service (unit cost) and utilization of health care services from the SFY 2005 and SFY 2006 base period to SFY 2008. Unique trends were applied separately for ten COS. Trends ranged from a low of 2.8 percent for Lab and Radiology (1.25 percent utilization and 1.5 percent unit cost;

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1.0125 x 1.015 = 1.028) to a high of 16.2 percent for Pharmacy (4.25 percent utilization and 11.5 percent unit cost; 1.0425 x 1.115 = 1.162). The weighted annual trend adjustment for SFY 2005 and SFY 2006 to SFY 2008 was 6.5 percent (1.4 percent utilization and 5.0 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 6.5 percent weighted trend compares favorably (is lower than) historical experience trend.

Service Utilization Increase and Technology Changes from Base Data to SFY 2008

Service utilization increases and technology changes not reflected (or not fully reflected) within the SFY 2005 and SFY 2006 base data will impact the CRS contractors for SFY 2008.

SFY 2007 Change

ADHS 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 continue to provide 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 2008 capitation rates were adjusted to cover the estimated cost of the new services. The PMPM impacts of these adjustments are approximately \$3.81 for Tucson and \$3.34 for Yuma.

SFY 2008 Changes

1. Fabrazyme

The CRS contractors have identified Fabrazyme (for treatment of Fabry's disease) as a new high-cost pharmaceutical expenditure. Coverage of Fabrazyme will be transferred to the AHCCCS health plans effective October 1, 2007, leaving the CRS contractors responsible for three months worth of expenditures. CRS Administration and Mercer reviewed the figures that were presented

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and deemed it appropriate to make an adjustment for these expenses. The PMPM impacts of this adjustment are \$0.75 for both Phoenix and Tucson.

2. Vertical Expandable Prosthetic Titanium Rib (VEPTR)

VEPTR has also been identified as a new high-cost procedure going forward. VEPTR is a surgically implanted device used to treat Thoracic Insufficiency Syndrome (TIS) in pediatric patients. TIS is a congenital condition where severe deformities of the chest, spine, and ribs prevent normal breathing and lung growth and development. The VEPTR device is a curved metal rod that is attached to ribs near the spine using hooks located at both ends of the device. The VEPTR device helps straighten the spine and separate ribs so that the lungs can grow and fill with enough air to breathe. The length of the device can be adjusted as the patient grows. CRS Administration and Mercer have estimated the likelihood of such surgeries for the CRS population, and have made an adjustment to account for the expected procedures. The PMPM impacts of this adjustment are \$2.11 for Phoenix and \$3.03 for Tucson.

Loading for Contractor Administration and Underwriting Profit/Risk/Contingency

CRS contractors range from the relatively large (Phoenix, with projected CRS SFY 2008 revenue of approximately \$48.0 million) to the quite small (Yuma, with projected CRS SFY 2008 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 2008 administrative expense load is 15.1 percent of the capitation rate. This 15.1 percent is down from the comparable SFY 2007 figure of 15.6 percent.

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.

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CRS Administration

AHCCCS has placed CRS Administration at risk for the provision of CRS covered services for SFY 2008. 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 \$76 million program include a 10.0 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 2008.

Certification of Rates

Mercer certifies that the Title XIX, Title XXI, and Proposition 204 CRS capitation rates for SFY 2008 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 and 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	\$670.13	\$404.91	\$186.80
Tucson	\$542.22	\$330.50	\$148.15
Flagstaff	\$351.28	\$246.80	\$116.87
Yuma	\$392.19	\$140.42	\$85.06

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May 25, 2007

Ms. Joan Agostinelli

Children's Rehabilitative Services

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

Sincerely,

A handwritten signature in black ink that reads "Michael E. Nordstrom" followed by "ASA, MAAA" in a slightly less legible script.

Michael E. Nordstrom, ASA, MAAA

MEN/GS

Copy:

Cynthia Layne, CRS

Cheryl Prescott, CRS

Branch McNeal, Mercer

Gabe Smith, Mercer

Andrea Demers, Mercer

Adam Carney, Mercer

Attachments

STATE OF ARIZONA

Joint Legislative Budget Committee

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SENATE

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LINDA J. LOPEZ
PETE RIOS
STEVE YARBROUGH

DATE: August 8, 2007

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

THRU: Richard Stavneak, Director

FROM: Matt Busby, Fiscal Analyst

SUBJECT: Department of Health Services – Review of the Contract Compliance Special Line Item
Expenditure Plan

Request

Pursuant to a footnote in the FY 2008 General Appropriation Act (Laws 2007, Chapter 255), the Department of Health Services (DHS) is submitting an expenditure plan for a \$7.3 million appropriation for Contract Compliance Special Line Item (SLI) to the Committee for review. Of the total, \$2.5 million and 15 FTE Positions were appropriated from the General Fund. The remaining \$4.8 million and 29 FTE Positions are from Federal Title XIX Expenditure Authority. The Contract Compliance SLI was created in the FY 2008 budget. The purpose of the funding is to improve contract monitoring and compliance among the Regional Behavioral Health Authorities (RBHAs) and to ensure that DHS is meeting its obligations in both the *Arnold v. Sarn* and *JK v. Gerard* lawsuits.

Recommendation

The Committee has at least the 2 following options:

1. A favorable review of the DHS \$7.3 million expenditure plan for Contract Compliance with the condition that a favorable review does not constitute an endorsement of General Fund support to expand the program in the future.
2. An unfavorable review. As of this writing, DHS has provided insufficient details on the basis for requested staffing patterns and how the \$1.0 million in indirect costs will be spent. In addition, DHS does not currently have measures in place to assess how the total proposed FTE Positions will assist in resolving the *Arnold v. Sarn* and *JK v. Gerard* lawsuits. DHS reports they will have measures finalized by the end of the week.

Under either option, JLBC Staff recommends the Committee request DHS report back to the Committee by September 13 on 1) how the staffing patterns were derived, 2) how the \$1.0 million in indirect costs will be spent, and 3) the performance measures selected to assess measures.

(Continued)

Analysis

The FY 2008 budget included \$7.3 million intended to assist the State in exiting both the *Arnold v. Sarn* and the *JK vs. Gerard* lawsuits. The lawsuits essentially require that RBHAs provide the appropriate level of services to the behavioral health clients. Specifically, the *Arnold v. Sarn* consent agreement requires DHS to ensure compliance with their Seriously Mentally Ill (SMI) administrative rules by both the RBHAs and their contracted providers through monitoring providers and developing corrective action plans. The *JK v. Gerard* lawsuit requires that the DHS provide additional case managers and to increase the availability of support and rehabilitation services for children. DHS came to the Legislature in April 2007 to request funding for additional contract enforcement and compliance services. These services are expected to expedite the state's exit from the *Arnold v. Sarn* lawsuit and provide additional monitoring and oversight required by the *JK v. Gerard* settlement agreement.

The funding will be used to increase the number of on-site monitoring visits and provide technical assistance to direct care workers. The majority of the appropriation will fund the Personal Services and Employee Related Expenditures of the FTE Positions. *Table 1* below displays the distribution of the funding.

Table 1	
Distribution of Contract Compliance Funding	
Personal Services and Employee Related Expenditures	\$5,539,300
Travel – In State	71,500
Other Operating Expenditures	36,300
Equipment	344,400
IT Direct Costs	268,500
Indirect/Administrative Costs	<u>1,036,500</u>
Total	\$7,296,500

A General Appropriation Act footnote requires that the expenditure plan DHS submitted provides a detailed list of different focus areas and respective funding (*see attachment*). The footnote was included in the budget because there was not detailed information regarding the expenditure of the monies at the time. The expenditure plan includes 29 FTE Positions in addition to the 44 already appropriated, for a total of 73 FTE Positions. In the plan submitted to legislators in April 2007, DHS requested 44 FTE Positions and assumed that some funding would be directed to consulting projects, IT improvements, and pass-through incentives to providers for training and technical assistance. DHS reports that the increase of FTE Positions in the current expenditure plan allows for additional oversight. DHS reports that in FY 2008, current DHS employees will be used to fill the positions. DHS anticipates making a technical request for additional FTE Position authority but no additional money in FY 2009.

The proposed expenditure plan is summarized below. DHS reports that the distribution of the proposed FTE Positions and funding amounts were based on the compliance and oversight objectives included the settlement requirements as well as current staffing levels in each area and where the staff should be supervised. However, DHS did not provide specific workload measures that would support the proposed number of FTE Positions allocated to each function.

- Clinical and Recovery Services - \$2,090,400 and 19 FTE Positions. Improve coordination between DES and RBHAs; ensure that individuals do not remain on the Arizona State Hospital “discharge ready list” beyond 30 days; improve family and client involvement and satisfaction; improve contract compliance in the coordination of care, establishing client and family involvement, and quality of care; ensure full compliance with all network standards and deliverables through regular monthly monitoring; expand employment opportunities to enrolled members with serious mental illness; ensure compliance with AHCCCS training requirements.

(Continued)

- Contract Compliance - \$1,591,100 and 17 FTE Positions. Facilitate the review of all contracts and agreements with providers. Currently, DHS only reviews 50% of the contracts. In addition, this will allow DHS to ensure that they are in compliance with AHCCCS contracts and regulations, develop corrective action plans with providers, follow up and oversee compliance with such plans, and standardize all of DHS auditing procedures.
- Grievance and Appeals - \$867,600 and 10 FTE Positions. Help clients receive behavioral health care; protect rights of clients while receiving care; provide advocacy for clients throughout grievance and appeals processes, and assist clients through complaint resolution process.
- Quality Management - \$805,500 and 8 FTE Positions. Review and analyze current data to compile recommendations to improve the behavioral health system; develop best practices process improvements; develop data measurements for use in *Arnold v. Sarn* and *JK v. Gerard* lawsuits; oversee all record reviews conducted statewide; facilitate data dissemination to stakeholders, and implement statewide performance improvement initiatives.
- Arnold v. Sarn - \$596,100 and 5 FTE Positions. Ensure that behavioral health clients receive the appropriate level of care as required by *Arnold v. Sarn* court order.
- Office of Program Support - \$374,800 and 4 FTE Positions. Increase the number of on-site visits to validate claims data and improve oversight by assuring that behavioral health providers are performing services that are reported.
- Program Integrity/Corporate Compliance - \$350,600 and 4 FTE Positions. Conduct random audits of contractors and subcontractors to identify fraudulent and abusive activity.
- JK v. Gerard - \$322,500 and 3 FTE Positions. Ensure that the *JK v. Gerard* Settlement Agreement is fully implemented within the next 3 years.
- General and Administrative - \$297,900 and 3 FTE Positions. Increase training and preparedness planning and establish mechanisms for coordinating RBHA services with disaster response partners; assist DHS procurement office to expedite contract process and ensure adherence to procurement rules, and provide and assist RBHAs in developing, implementing and promoting culturally appropriate services.

As of this writing, the department has not indicated how the \$1,036,500 for indirect costs will be expended.

RS/MB:sls



Office of the Director

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JANET NAPOLITANO, GOVERNOR
SUSAN GERARD, DIRECTOR

July 30, 2007



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

Dear Representative Pearce:

The Arizona Department of Health Services (ADHS) Division of Behavioral Health Services (DBHS) respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for the August 16th meeting in order to discuss the proposed Fiscal Year 2008 Contract Enforcement and Compliance Expenditure Plan.

I have enclosed the expenditure plan for your review. If you have any questions, please contact Theresa Garcia, Central Budget Office Director, at 602-542-1266.

Sincerely,

A handwritten signature in black ink, appearing to read "Susan Gerard for".

Susan Gerard
Director

Enclosure

- c: Senator Robert Burns, Senate Appropriations Chairman
January Contreras, Policy Advisor, Health/Human Services, Governor's Office
George Cunningham, Deputy Chief of Staff, Finance/Budget
James Apperson, Director, Office of Strategic Planning and Budgeting
Ryan Harper, Budget Analyst, Office of Strategic Planning & Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Amy Upston, Fiscal Analyst, Joint Legislative Budget Committee
Matt Busby, Fiscal Analyst, Joint Legislative Budget Committee
Dona Markley, Acting Deputy Director, Department of Health Services
Eddy Broadway, Deputy Director, Department of Health Services, BHS
David Reese, Chief Financial Officer, BHS
-

DEPARTMENT OF HEALTH SERVICES

CONTRACT ENFORCEMENT AND COMPLIANCE – FY 2008

Context

The Executive is recommending a \$2.5M General Fund increase (when matched with federal funds a \$7.3M total funds increase) for additional FTE positions and incentive grants spread across nine programs in the Department of Health Services.

Reasons to Support

This funding will enable the Department to expand financial reporting requirements, regulatory oversight of providers, corrective action plan development and tracking, and coordination within the Department to ensure requirements are met by each RBHA and their provider networks. Specifically:

Contract Compliance

A \$1,591,090 increase for 17.0 FTE positions to:

1. Review 100% of the contracts and agreements with providers. Currently only 50% of these contracts and agreements are reviewed and the additional staff will ensure that providers follow rules, regulations, and policies.
2. Ensure that the Department is in compliance with AHCCCS contracts and regulations.
3. Develop Corrective Action Plans with providers, when a problem is found, and ensure that the providers comply with these plans. With current staffing levels, no follow up on these plans are provided due to staff shortages.
4. Develop and oversee of the contracting process from inception to execution.
5. Ensure standardization and consistency of all DBHS audits.

The Arnold Team

A \$596,062 increase for 5.0 FTE positions to ensure that behavioral health clients receive the appropriate level of care, as required in the court order, by the Court Monitor, and by the Department.

The JK Team

A \$322,556 increase for 3.0 FTE positions to assure that the Jason K Settlement Agreement is fully implemented within the next three years.

Quality Management

A \$805,555 increase for 8.0 FTE positions to:

1. Review and analyze current data to provide recommendations to improve the behavioral health system.
2. Develop Best Practice process improvements.
3. Develop data measurements to use in the Arnold v. Sarn and Jason K lawsuit.
4. Oversee all record reviews conducted statewide.
5. Facilitate data dissemination to internal and external stakeholders.
6. Implement statewide performance improvement initiatives.

Grievance and Appeals/Human Rights

A \$867,589 increase for 10.0 FTE positions to:

1. Help clients receive behavioral health care.
2. Protect the rights of behavioral health clients while they are receiving care.
3. Provide advocacy for clients through the grievance and appeals process.
4. Assist clients through the complain resolution process.

Clinical & Recovery Services

A \$2,090,391 increased for 19.0 FTE positions to:

1. Improve coordination between the DES/DDD program and the RBHA provider system.
2. Ensure that individuals do not remain on the Arizona State Hospital "discharge ready list" longer than 30 days.
3. Improve family and client involvement and satisfaction.
4. Improve contract compliance in the areas of coordination of care, establishing client and family involvement in care, and improve quality of care.
5. Ensure full compliance with all network standards and deliverables as well as creation of regular monthly monitoring.
6. Build innovative partnerships with community businesses to expand employment opportunities to enrolled members with a serious mental illness.
7. Ensure consistency statewide in trainings and assist in compliance with the AHCCCS training requirements.

Office of Program Support

A \$374,764 increase for 4.0 FTE positions to:

1. Increase the amount of onsite visits to providers to validate claims data.
2. Improve oversight by assuring that behavioral health providers are performing services that are reported.

Program Integrity (Corporate Compliance – Fraud and Program Abuse)

A \$350,598 increase for 4 FTE positions to conduct targeted and random audits of DBHS contractors and subcontractors increasing the chances of identifying fraudulent and abusive activity.

General & Administrative

A \$297,890 increase for 3 FTE positions to:

1. Increase training and preparedness planning as well as to establish mechanisms for coordinating Regional Behavioral Health Authority services across multiple disaster response partners – including Department of Emergency Management, Red Cross, Salvation Army, food banks, faith organizations and others.
2. Assist the ADHS procurement office to expedite the contract process and ensure adherence to procurement rules.
3. Provide oversight of the RBHAs on their strategic plans, policies, operational plans and activities to develop, implement and promote culturally appropriate services.

Summary

With this additional funding the RBHA providers, especially the Maricopa County providers, will meet encounter data targets and the Department will ensure behavioral health clients are receiving the proper services. This funding will help the state exit both the Arnold v. Sarn and the Jason K lawsuit and ensure that state funding is properly spent on the behavioral health community.

Over the last four months, ADHS/DBHS has researched and analyzed the most efficient and beneficial format in which to expend funding appropriated for contract compliance totaling \$7.3 million. During this process, ADHS/DBHS has developed various expenditure plans leading up to the current plan which we believe will provide the optimal outcome for the funding available. Earlier drafts had funding that would have been directed towards consulting projects, IT improvements, and pass-through incentives to providers for training and technical assistance; and the current plan increased the amount of funding that would be used on ADHS/DBHS positions used in oversight. The table below further illustrates this change.

	Original Plan		Current Plan	
	FTE	Funding	FTE	Funding
Personnel (and related expenses)	44	3,446,500	73	7,296,500
Consulting, IT, Pass-Through	-	3,850,000	-	-
Total	44	7,296,500	73	7,296,500

**Contract Compliance Expenditure Plan
Behavioral Health Services Division**

FTE	Position Category	6000 Salary	6100 ERE	6200 P & O	6500 I/S Travel	6600 OOS Travel	6800 ATO	7000 OOE	8400 Cap Eq	8500 Non Cap Eq	9101 IT Direct	9102 Indirect	Total
17	Contract Administration and Compliance	882,351	308,823										1,191,174
19	Clinical and Recovery - Monitoring, Oversight and Performance Improvement	1,207,320	422,562										1,629,882
8	Quality Monitoring	453,079	158,578										611,657
3	Children's System Performance Review	185,070	64,775										249,845
5	Adult System Performance Review	351,760	123,116										474,876
10	Grievance and Appeals/Customer Service	463,123	162,093										625,216
4	Program Integrity (Corporate Compliance - Fraud and Program Abuse	187,888	65,761										253,649
4	Office of Program Support (OPS)	205,789	72,026										277,815
3	General & Administrative	166,799	58,380										225,179
73	Subtotal Title XIX Positions	4,103,179	1,436,113	-	-	-	-	-	-	-	-	-	5,539,292
	In State Travel (Mileage, Motor Pool, Lodging, M&I)				71,550								71,550
	Other Operating (Supplies, Phone, Copy, Training, etc \$500/FTE)							36,250					36,250
	One Time Costs: Cubicle Install/Remodel (\$2,750/FTE)									199,375			199,375
	PC/Laptop Computer & Software Licenses (\$2,000/FTE)									145,000			145,000
	Operating Transfers: IT Direct Charges (4.48167%)										268,518		268,518
	Indirect Charges (17.3%)											1,036,516	1,036,516
	Total All Other Expenditures			-	71,550	-	-	36,250	-	344,375	268,518	1,036,516	1,757,208
	Total Estimated Contract Compliance Expenditures	4,103,179	1,436,113	-	71,550	-	-	36,250	-	344,375	268,518	1,036,516	7,296,500

STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF
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DATE: August 8, 2007

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

THRU: Richard Stavneak, Director

FROM: Kimberly Cordes-Sween, Fiscal Analyst

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

Request

Pursuant to the General Appropriation Act (Laws 2007, Chapter 256), the Department of Public Safety (DPS) is required to submit for review an expenditure plan for their appropriations for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) prior to their expenditure.

DPS has submitted for review a proposal to spend: 1) \$6.9 million for GIITEM local enforcement funding, including the Pima County Sheriff's Office (PCSO), "Border District" Sheriff's Offices and Police Departments, detention facilities/prisons in Southern Arizona, and the Arizona Fraudulent Identification Task Force (AFIT), and 2) \$3.6 million for 23 DPS GIITEM officers.

Recommendation

The Committee has at least the following options:

1. A favorable review. The department's submission is consistent with the authorized purposes established by GIITEM.
2. An unfavorable review of the request. JLBC Staff is seeking additional detail on the distribution of resources to local jurisdictions, ongoing costs, and the department's overall plan for GIITEM.

Under either option, JLBC Staff recommends that future DPS expenditure plans include the total annualized cost for all requested FTE Positions.

Analysis

Laws 2007, Chapter 256 appropriates \$20 million to DPS for immigration enforcement. Of the \$20 million, half is available for local and related law enforcement efforts and half is available directly to DPS.

(Continued)

Non-DPS - Local Grants

The department is proposing to spend an additional \$6.9 million and 59 FTE Positions for 5 initiatives, which are detailed below. To date, the department has received a favorable review for the use of \$6.3 million from its FY 2007 appropriation to fund the purchase of equipment, operating costs associated with 10 federal Border Patrol agents assisting GIITEM, and 3 agreements/contracts with the Maricopa County Sheriff's Office (MCSO), Phoenix Police Department, and Immigrations and Customs Enforcement (ICE). Based on information provided by DPS, it is unclear if the request includes full or partial year costs for the 59 FTE Positions and whether this request accurately reflects the ongoing costs associated with these positions.

Pima County Sheriff's Office

The Pima County Sheriff's Office would receive \$2.3 million for GIITEM border crime and immigration enforcement. This funding would provide 85% of the personal services and employee benefit costs for 20 PCSO sworn positions, 8 hours of overtime per month for each eligible employee, vehicle mileage reimbursement, and a portion of PCSO's start-up equipment costs. The agreement with PCSO is similar to the earlier MCSO agreement; however, in the case of PCSO, DPS will also provide for all-terrain vehicles and office space. PCSO has already applied for 287(g) training with federal Immigration and Customs Enforcement (ICE). Under 287(g), ICE provides state and local law enforcement agencies with training and the authorization to identify, process and detain immigration offenders.

Border County Officers

DPS is planning to use approximately \$1.4 million to fund the costs associated with hiring 10 officers/deputies from Sheriff's Offices and Police Departments in Southern Arizona. They will be assigned to GIITEM "Border District" enforcement. The "Border District" includes the following, Pima County Enforcement and Gang Investigation, Cochise County GIITEM, Yuma County GIITEM, Pinal County GIITEM, and the Border Enforcement Security Task Force (B.E.S.T).

Of the \$1.4 million, \$678,800 provides 85% of the personal services and employee benefit costs for the 10 sworn positions, and the remaining \$765,000 will be used for vehicles, fuel, maintenance, police equipment, and other operating expenditures.

Detention Liaison Officers

DPS intends to use \$743,700 to fund 15 detention and prison positions in Southern Arizona, including 10 correctional/detention officers, 3 investigators and 2 data entry personnel. These correctional GIITEM personnel would attempt to learn information from illegal immigrants and various threat groups in Arizona prisons or jails that have possible ties to human smuggling and border-related crime. Intelligence gathered by officers would be entered into GangNet (GIITEM's intelligence database). All of the \$743,700 requested for these officers would pay for 85% of the personal services and employee benefits.

Regarding funding for PCSO, Border County Officers, and Detention Liaison Officer, it is not clear how the department has determined which local law enforcement agencies would receive GIITEM resources, and what the appropriate level of resources should be.

Arizona Fraudulent Identification Task Force (AFIT)

The department is requesting funding for 12 officers and 2 sergeants for a task force to track down fraudulent identities (ID's) at a cost of \$1.9 million. AFIT is currently operating under the Department of Liquor License and Control and allocation of this funding to DPS would enable DPS to both expand AFIT and assume control of the task force, effective September 15.

(Continued)

During the 2 years since AFIT was created, the task force has been relatively unstable due to various local jurisdictions needing to pull back their AFIT staff in order to meet their own jurisdictional needs. In an effort to stabilize the task force, DPS is planning to fund the entire task force with GIITEM monies rather than relying on the local law enforcement funding. The requested 14 sworn officers would provide GIITEM funding for the existing 11 officers, in addition to the hiring of 3 new officers. All 14 sworn officers would be supervised by a DPS lieutenant that is funded from DPS' portion of the GIITEM budget.

While under the supervision of DPS, AFIT will also be involved with educating employees on the implications of the "Fair and Legal Employment Act" (Laws 2007, Chapter 259), as well as following up on leads received about illegal employment activities. Chapter 259 appropriated \$2.6 million to the Attorney General and county attorneys to enforce illegal immigration. The Department of Motor Vehicles also received \$1 million to investigate fraudulent driver's licenses and motor vehicle documents.

Under supervision of the Department of Liquor License and Control, AFIT targeted all types of falsified documents, including but not limited to human smuggling. Based on information provided, it is unclear whether the AFIT mission will change to focus on only GIITEM-related efforts.

Additional Facilities Costs

Based on the current level of funding provided for the Illegal Immigration Prevention and Apprehension Co-Op Team (IIMPACT), which received a favorable review at the May JLBC meeting, DPS has submitted a request for \$699,800 to provide build-out space. The funding would provide for additional lease costs, building improvements, temporary space, training equipment, and furniture.

DPS FTE Positions

As noted above, Laws 2007, Chapter 256 appropriates \$10 million and 100 FTE Positions for direct DPS personnel, of which 50 are for immigration and border security. In FY 2007, DPS has received a favorable review of 48 sworn officers and \$6.4 million in DPS GIITEM funding. The current request would authorize an additional 23 positions, for a total of 71 "DPS Immigration Personnel", and \$3.6 million in new spending.

Of the 23 positions requested, funding would be provided for 2 lieutenants, one to oversee GangNet and the other to oversee the "Immigration District", and the other 21 are for various operational and support functions. The first Lieutenant will oversee the "Immigration District", which includes 3 IIMPACT squads consisting of DPS, Phoenix Police, Immigration and Customs Enforcement (ICE) officers; the Detention and Transportation Squad; and 2 AFIT squads that are funded from local law enforcement GIITEM monies. The second Lieutenant will oversee GangNet, including 10 employees funded by a separate \$1 million appropriation, Laws 2007, Chapter 287. This position will also supervise the Detention Liaison Officers (DLO's) that were funded with local GIITEM monies, as well as the statewide training program and financial operations.

In addition to new sworn officers, the DPS plan includes \$1.6 million for law enforcement and detention vehicles, mobile data computers (MDCs), vehicle mounted video cameras, video equipment needed for evidentiary purposes, guns, radios etc. The remaining \$306,200 is for travel and operational costs, such as vehicle maintenance and fuel.

RS/KCS:sls

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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



JANET NAPOLITANO
GOVERNOR

ROGER VANDERPOOL
DIRECTOR

August 2, 2007

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007



Dear Representative Pearce:

Laws 2006, Chapter 344 and Laws 2007, Chapter 255 require the Department of Public Safety (DPS) to submit plans to JLBC prior to expending any monies from the Gang Intelligence and Immigration Team Enforcement Mission (GIITEM) Special Line Item not previously reviewed by the Committee. This letter will present additional expenditure plans for the "Local Immigration Enforcement Grants" portion of the FY 2007 and FY 2008 GIITEM appropriations.

FY 2007 Local Immigration Enforcement Grants (lapse June 30, 2008)	\$ 10,000,000
FY 2008 Local Immigration Enforcement Grants (lapse June 30, 2009)	<u>10,000,000</u>
Previously Reviewed Expenditures	<u>(6,261,100)</u>
Current Balance	\$ 13,738,900
New Expenditure Plans	<u>(6,915,700)</u>
Remaining Balance	\$ 6,823,200

The \$6,915,700 in new expenditure plans are composed of five separate initiatives, as described below. The remaining balance of \$6,823,200 would be use to pay for on-going costs of all related programs in FY 2009.

Pima County Sheriff's Office

The Pima County Sheriff's Office (PCSO) and DPS are prepared to enter into an agreement to provide 16 deputies, 2 sergeants, 1 lieutenant, and 1 analyst to GIITEM for border crime/immigration enforcement. PCSO has applied for 287G training through the federal Immigration and Customs Enforcement (ICE) agency. This initiative is similar to the existing agreement with the Maricopa County Sheriff's Office, except that DPS would provide funding for all-terrain vehicles and office space in addition to 85% funding for the positions and associated police equipment.

The following figures summarize the cost of the PCSO initiative:

Line Item	Amount
FTE Positions	20.0
Personal Services	\$932,700
Employee Related Expenditures	419,700
Other Operating Expenditures	461,400
Equipment	445,900
TOTAL	\$2,259,700

Border County Officers

DPS plans to fund 10 officers/deputies from Sheriff's Offices and Police Departments in Southern Arizona. The costs for these positions include 85% funding for the positions, DPS vehicles for the officers, and \$125,000 in operating costs for fuel, vehicle maintenance, and risk management. These officers will be part of the "Border District" reflected in the attached organizational chart.

Line Item	Amount
FTE Positions	10.0
Personal Services	\$518,200
Employee Related Expenditures	160,600
Other Operating Expenditures	125,000
Equipment	550,000
TOTAL	\$1,353,800

Detention Liaison Officers

Arizona's jails and prisons house a significant number of undocumented persons and threat groups with ties to human smuggling and other border-related crimes. In order to glean as much information as possible from inmates, DPS intends to fund 15 detention and prison positions in Southern Arizona. These positions include 10 correctional/detention officers, 3 investigators, and 2 data entry personnel. The data entry personnel will enter the intelligence collected by the officers into GangNet (GIITEM's gang intelligence database).

Funding for the positions consists of 85% of their estimated payroll costs:

Line Item	Amount
FTE Positions	15.0
Personal Services	\$567,700
Employee Related Expenditures	176,000
TOTAL	\$743,700

Arizona Fraudulent Identification Task Force (AFIT)

AFIT was created 2 years ago to attack the use of fraudulent identity documents for crimes, including human smuggling. Based on its experience with fraudulent IDs being used for under-aged alcohol purchases, the task force has been operated by the Department of Liquor License and Control. In order to expand AFIT's size and mission, DPS will be assuming control of the task force on September 15.

Under the direction of DPS, the task force will operate statewide and will be GIITEM's primary vehicle for enforcing the "Fair and Legal Employment Act" (Laws 2007, Chapter 279). As part of this effort, GIITEM is developing a training program to educate employers on the provisions of this act.

GIITEM funding would be used for 12 officers and 2 sergeants. The task force will be overseen by a DPS Lieutenant to be funded from the "DPS Immigration Personnel" portion of the GIITEM budget (see attached organizational chart). First-year costs for the task force are shown below. These figures include 85% funding for positions, as well as equipment, operating, and travel costs.

Line Item	Amount
FTE Positions	14.0
Personal Services	\$754,300
Employee Related Expenditures	233,800
Travel	42,000
Other Operating Expenditures	175,000
Equipment	653,600
TOTAL	\$1,858,700

Additional Facilities Costs

At its meeting on May 10, the JLBC gave a favorable review to the expenditure of \$2,399,900 for start-up costs and first-year operating costs for the Illegal Immigration Prevention and Apprehension Co-Op Team (IIMPACT). This program is a cooperative effort between DPS, the Phoenix Police Department, and ICE.

As we have further developed plans for IIMPACT, added AFIT, and begun the build-out of the space, we have identified the need for further expenditures. These costs are shown below.

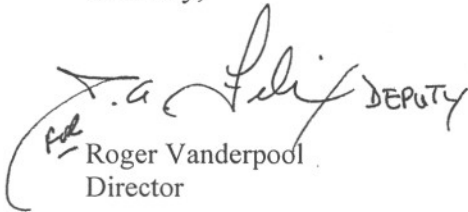
Line Item	Amount
Other Operating Expenditures	\$330,600
Equipment	369,200
TOTAL	\$699,800

The above figures include \$45,500 for additional lease costs, \$317,000 for tenant improvements, \$48,100 for temporary office space until the primary location can be completed in November, \$144,500 for a detainee processing facility, \$67,700 for two multimedia systems for training and search warrant presentations, and \$62,200 for systems furniture.

The Honorable Russell Pearce, Chairman
August 2, 2007
Page 4 of 4

If you have any questions, please contact Chief Pennie Gillette-Stroud, Criminal Investigations, at 602-223-2812 on operational matters or Phil Case, DPS Comptroller, at 602-223-2463 or pcase@azdps.gov on budgetary matters.

Sincerely,

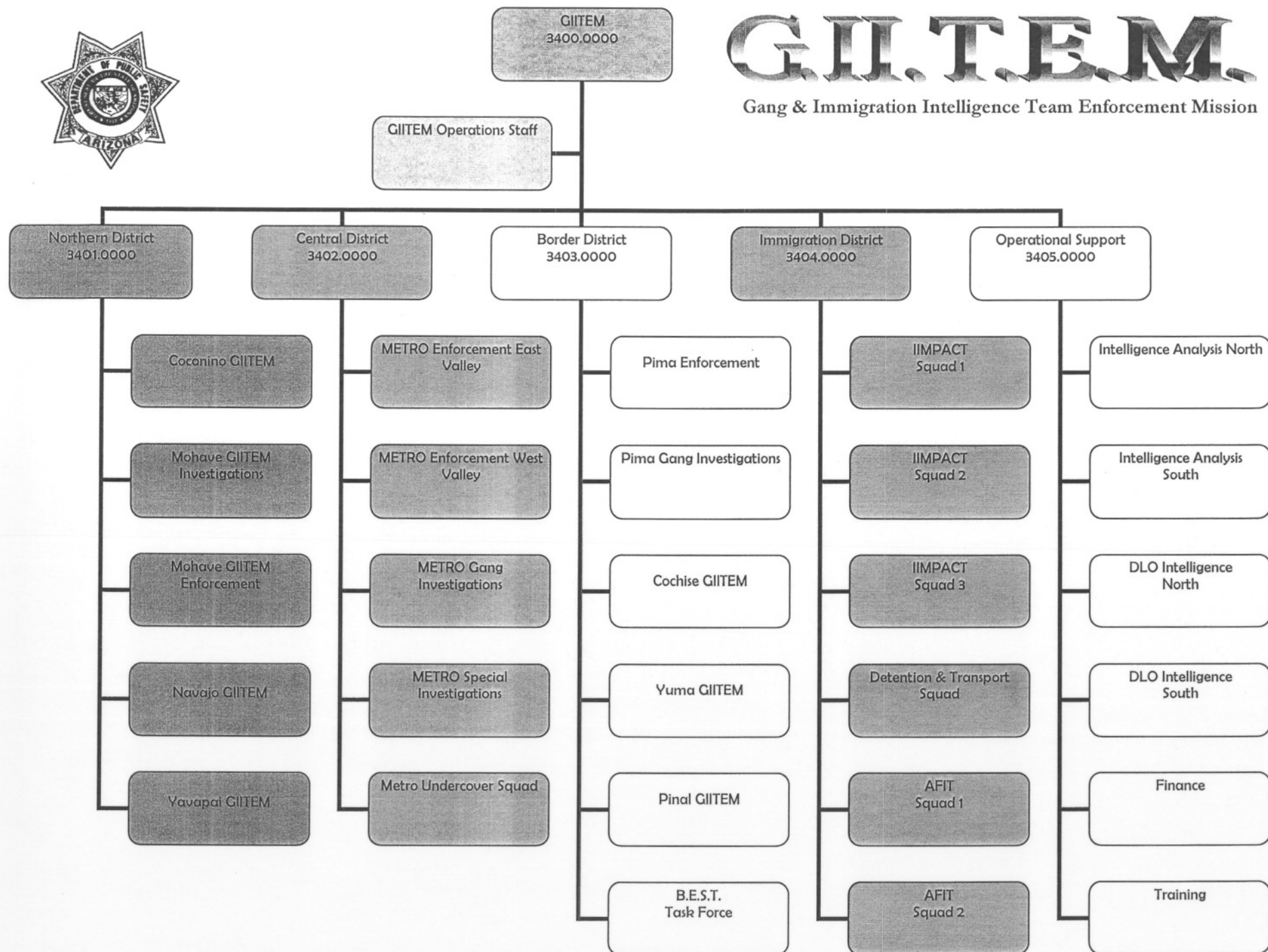
 *R. Vanderpool* DEPUTY
- Roger Vanderpool
Director

xc: James Apperson, OSPB
Richard Stavneak, JLBC



GIITEM

Gang & Immigration Intelligence Team Enforcement Mission



ARIZONA DEPARTMENT OF PUBLIC SAFETY

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JANET NAPOLITANO ROGER VANDERPOOL
GOVERNOR DIRECTOR

August 2, 2007

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007



Dear Representative Pearce:

Laws 2007, Chapter 255 requires the Department to submit plans to the JLBC prior to expending any monies from the Gang Intelligence and Immigration Team Enforcement Mission (GIITEM) Special Line Item not previously reviewed by the Committee. This letter will present additional expenditure plans for the "DPS Immigration Personnel" portion of the FY 2008 GIITEM appropriation.

DPS Immigration Personnel	\$10,045,900
Previously Reviewed Expenditures	(6,216,900)
Current Balance	\$ 3,829,000
New Expenditure Plan	(3,588,700)
Remaining Balance	\$ 240,300

In order to further the mission of GIITEM, DPS intends to fill an additional 23 of the 100 authorized positions. When added to the previously reviewed 48 positions, the total number of DPS positions supported by the \$10 million appropriation for "DPS Immigration Personnel" will be 71. These positions are summarized in the following table:

Classification	Previously Reviewed	New	Total
Lieutenant	1	2	3
Sergeant	11	4	15
Officer	36	9	45
Detention Officer		4	4
Admin. Services Officer		1	1
Admin. Secretary		3	3
TOTAL	48	23	71

As depicted in the attached organizational chart, the two new Lieutenants will have much broader responsibilities than for just some of the new DPS positions shown above. The first Lieutenant will oversee the "Immigration District". This Lieutenant will direct 3 DPS, Phoenix Police Department, and Immigration and Customs Enforcement squads. In addition, the Lieutenant will oversee a detention and transportation squad and 2 squads of the Arizona Fraudulent Identification Task Force (AFIT), which will be supported by the \$10 million appropriation for "Local Immigration Enforcement Grants".

The second Lieutenant will oversee the administration of GangNet, including 10 new employees to be funded from a separate \$1 million appropriation made through Laws 2007, Chapter 287. In addition, this Lieutenant will manage the statewide Detention Liaison Officer (DLO) program, consisting of approximately 17 detention officers in county jails and State prisons. These officers will provide critical gang and immigration intelligence to the task force. The DLO program will be partly supported by the \$10 million appropriation for "Local Immigration Enforcement Grants". Finally, the second Lieutenant will oversee GIITEM's financial operations and the statewide training program.

Beyond the two lieutenants, the other 21 positions will be distributed throughout the GIITEM organizational structure to bolster various operational and support functions. Included in this number are 2 DPS officers who will be part of AFIT.

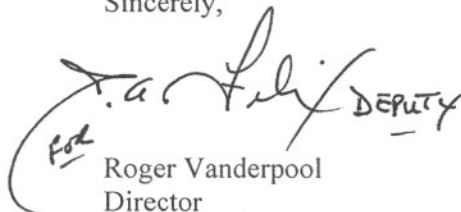
Based on an average hiring date of October 1, 2007, the estimated costs for the new positions are as follows:

Line Item	Amount
FTE Positions	23.0
Personal Services	\$1,100,400
Employee Related Expenditures	542,000
Travel	57,000
Other Operating Expenditures	249,200
Equipment	1,640,100
TOTAL	\$3,588,700

The Other Operating Expenditures line item contains \$136,800 for vehicle maintenance and fuel, and additional funding for risk management and other operational costs. The most substantial component of the Equipment line item is \$1,309,300 for law enforcement vehicles, detention vehicles, mobile data computers, vehicle mounted video cameras, and equipment to manage and maintain videos for evidentiary purposes. The remainder of the Equipment line is for office equipment and police equipment (e.g., guns, radios, cameras). All line items are consistent with expenditures previously reviewed by JLBC.

If you have any questions, please contact Chief Pennie Gillette-Stroud, Criminal Investigations, at 602-223-2812 on operational matters or Phil Case, DPS Comptroller, at 602-223-2463 or pcase@azdps.gov on budgetary matters.

Sincerely,

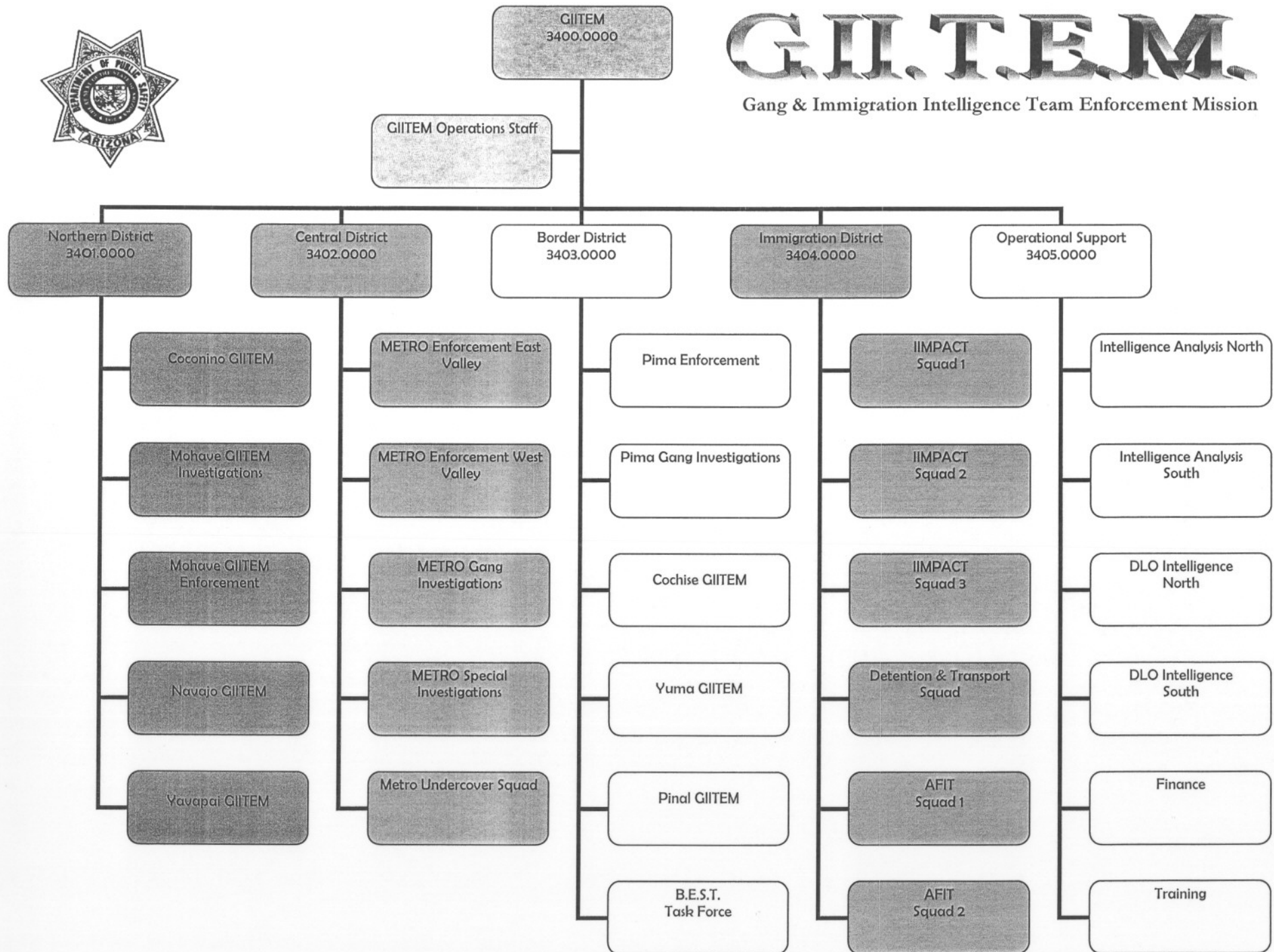
 **DEPUTY**
For
Roger Vanderpool
Director

xc: James Apperson, OSPB
Richard Stavneak, JLBC



GIITEM

Gang & Immigration Intelligence Team Enforcement Mission



STATE OF ARIZONA

Joint Legislative Budget Committee

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STEVE YARBROUGH

DATE: August 8, 2007

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

THRU: Richard Stavneak, Director

FROM: Jay Chilton, Fiscal Analyst

SUBJECT: Department of Economic Security - Review of Proposed Implementation of
Developmental Disabilities Provider Rate Increase

Request

Pursuant to a FY 2008 General Appropriation Act footnote, the Department of Economic Security (DES) is presenting its proposed implementation plan for distributing a developmental disabilities (DD) provider rate increase totaling about \$7 million General Fund (GF) and \$18.6 million Total Funds (TF).

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the proposed plan. All rates meet the requirements of the General Appropriation Act and will be at least 100% of the DES revised benchmark rates.

Analysis

The FY 2008 General Appropriation Act (Laws 2007, Chapter 255) footnote states that the budget for the Division of Developmental Disabilities includes \$7.0 million from the General Fund (\$18.6 million in Total Funds) to raise the rates paid to services providers contracting with the division to at least 100% of the FY 2008 benchmarks. The footnote also indicates legislative intent that the Division should work with the Arizona Health Care Cost Containment System Administration to the make provider rate increases retroactive to July 1, 2007. The footnote requires the Division to reimburse providers for those services no later than September 15, 2007.

As set forth in A.R.S. § 36-2959, benchmark rates for service are determined by a study conducted once every 5 years. The benchmarks represent the going market rate for these services. The benchmark rates were originally set in 2001 and have been adjusted annually for inflation with the help of an independent consulting firm.

(Continued)

DES intends to increase the FY 2008 benchmark and adopted rates by applying a 3.2% increase to the FY 2007 benchmark and adopted rates for most services. While DES provides statewide average rates for each service, actual provider rates can vary based on location, size and occupancy of the provider or on urban versus rural settings and traveling distances.

A few rates did not receive a 3.2% increase. Rates for 4 habilitation services will not receive the 3.2% increase because the adopted rates in FY 2007 were in excess of 100% of the FY 2007 benchmark. As a result, the rates for these services were kept level and the benchmarks were increased by 3.2%. The reimbursement rate for Habilitation, Nursing Supported Group Home is based on the rate paid to Intermediate Care Facilities for the Mentally Retarded and that rate has not changed since FY 2007. Similarly, the rate for Support Coordination (Case Management) is based on the capitation rate paid by the Arizona Health Care Cost Containment System, and the capitation rate has not changed. The rate for Transportation Services for Day Programs was above the benchmark in FY 2007 and will remain so in FY 2008 because the division includes an increase to account for higher fuel costs. The relationships of these rates to the benchmarks in FY 2007 and FY 2008 are illustrated in *Table 1*.

Table 1		
Relationships of Unraised Provider Rates to Benchmarks		
	FY 07 % of FY 07 <u>Benchmarks</u>	FY 08 % of FY 08 <u>Benchmarks</u>
Habilitation, Vendor Supported Developmental Home (Adult)	105.03%	101.78%
Habilitation, Vendor Supported Developmental Home (Child)	105.05%	101.79%
Specialized Habitation, Behavioral (Bachelor's)	112.77%	109.28%
Specialized Habitation, Behavioral (Master's)	109.61%	106.21%
Habilitation, Nursing Supported Group Home	100.00%	100.00% ^{1/}
Support Coordination (Case Management)	100.00%	100.00% ^{1/}
Transportation Services, Day Programs	110.67%	110.34% ^{2/}
^{1/} Benchmarks unchanged.		
^{2/} 2.87% adjustment in rates for high fuel costs.		

DES also reports that the rate methodology employed for therapy services is currently under review. The review will likely result in additional increases to the therapy rates in October. DES does not discuss how it plans to fund any rate increases. A footnote in the FY 2008 General Appropriation Act requires DES to report provider rate increases not already specifically authorized by the Legislature to the JLBC. This footnote was added because provider rate increases have fiscal impacts and in January 2006 DES implemented such an increase and did not inform the Legislature until May.

The JLBC Staff recommends a favorable review of the proposal because all services will be at or above the target of 100% of the FY 2008 benchmarks. DES indicates that it will meet the September 15 deadline to complete retroactive payments to providers.

RS/JCh:ym



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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

Janet Napolitano
Governor

Tracy L. Wareing
Director

JUL 31 2007



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

Dear Mr. Stavneak:

The Department of Economic Security requests to be placed on the Joint Legislative Budget Committee's (JLBC) agenda for review of the Division of Development Disabilities' implementation plan for a provider rate increase pursuant to Laws 2007, Chapter 255, Section 28 which includes the following footnote:

The amounts above include \$6,998,700 from the state general fund and \$11,624,900 from matching federal expenditure authority to raise rates of community service providers and independent service agreement providers contracting with the division of developmental disabilities. This amount is estimated to be the equivalent of one hundred per cent of fiscal year 2007-2008 market rates for all services on the published rate schedule. It is the intent of the legislature that the division request the Arizona health care cost containment system administration to approve a capitation rate increase retroactive to July 1, 2007 to make provider rate increases effective July 1, 2007. By July 1, 2007, the division shall obtain approval for a rate increase implementation proposal from AHCCCS. By August 1, 2007, the division shall submit the implementation plan for review by the joint legislative budget committee. The adjusted rates shall be implemented beginning with provider payments due for services performed in August 2007. Payment for retroactive reimbursement due for services provided in July 2007 shall be paid to providers no later than September 15, 2007.

Since the Division's published rate schedule was implemented in fiscal year 2004 there have been two rates displayed for each service in the schedule. The 'Benchmark' rate represents the Division's estimate of the market rate for a service and the 'Adopted' rate represents the actual rate reimbursed to providers. In fiscal year 2004, the adopted-to-benchmark ratio was set at 93 percent. The discounting of the adopted rate allowed the Division to implement the published rate schedule while remaining within budget constraints. Since its initial implementation, the rate schedule has been updated as the Governor and Legislature have approved provider rate increases. In fiscal year 2007, the adopted-to-benchmark ratio was at 100 percent.

The Division intends to increase to the fiscal year 2008 benchmark and adopted rates by applying a 3.2 percent increase to the fiscal year 2007 benchmark and adopted rates. However, it is important to note that not all rates will receive that level of increase. There were rates for certain services in fiscal year

2007 that were in excess of 100 percent of the benchmark. When the benchmarks for these services were established, the rates being paid were greater than the benchmark and the Department chose not to reduce rates. These rates continue to be in excess of 100 percent of the benchmark in fiscal year 2008. Those services include:

- Habilitation, Vendor Supported Developmental Home (Adult & Child)
- Specialized Habilitation, Behavioral (Bachelor's & Master's)

Additionally, it is important to note that some rates will not receive that level of increase due to the methodology employed to determine the rate. Those services include:

- Habilitation, Nursing Supported Group Home¹
- Support Coordination (Case Management)²
- Transportation services³

Details regarding the specific impact to all published rates are contained in Attachment #1.

The Division also wishes to inform the JLBC that the rate methodology employed for therapy services (physical, occupational, and speech) is currently under review. The result of that review will likely be an increase to the rates for these services in October.

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

Sincerely,



Tracy L. Wareing
Director

Attachment

cc: Members of the Joint Legislative Budget Committee
James Apperson, Director, Governor's Office of Strategic Planning and Budgeting

¹ The Division reimburses Habilitation, Nursing Supported Group Home based upon the rate paid to Intermediate Care Facilities for the Mentally Retarded (ICF/MR). As of the date of this document, the published rate for these services has not changed.

² The Division reimburses Support Coordination (Case Management) based upon the capitation rate paid to the Division by the Arizona Health Care Cost Containment System. As of the date of this document, the capitation rate paid by AHCCCS to the Division has not changed.

³ The Division reimburses Non-Emergency Transportation services based upon the Arizona Health Care Cost Containment System Non-Emergency Ground Transportation Services fee-for-service rate schedule. The rates in effect as of July 1, 2007 will be incorporated into the published rate schedule.

Attachment #1
AZ Department of Economic Security
Division of Developmental Disabilities
Rate Information
SFY 08

Published SFY07 Rates				SFY08 Provider Rate Increase				
				Benchmark % Increase	Benchmark	A-BM Ratio	Adopted	% Change (Adopted)
Benchmark	Adopted	A-BM Ratio ¹						
Home Based Agency Providers								
ATTENDANT CARE (NON-FAM MBR)	\$15.59	\$15.59	100.00%	3.21%	\$16.09	100.00%	\$16.09	3.21%
HABILITATION - HOURLY	\$19.89	\$19.89	100.00%	3.22%	\$20.53	100.00%	\$20.53	3.22%
HABILITATION - INDEP SETTING	\$20.10	\$20.10	100.00%	3.18%	\$20.74	100.00%	\$20.74	3.18%
HOUSEKEEPING	\$14.36	\$14.36	100.00%	3.20%	\$14.82	100.00%	\$14.82	3.20%
RESPITE - DAILY (in excess of 13 hrs)	\$186.83	\$186.83	100.00%	3.20%	\$192.81	100.00%	\$192.81	3.20%
RESPITE - HOURLY	\$15.28	\$15.28	100.00%	3.21%	\$15.77	100.00%	\$15.77	3.21%
Home Based Independent Providers								
All Codes	Varies by client			Varies by client			3.20%	
Day Treatment and Training								
DAY TREATMENT & TRAINING - ADULT (low ratio)	\$10.20	\$10.20	100.00%	3.24%	\$10.53	100.00%	\$10.53	3.24%
DAY TREATMENT & TRAINING- 3 - 18 (low ratio)	\$9.85	\$9.85	100.00%	3.15%	\$10.16	100.00%	\$10.16	3.15%
Residential								
HABILITATION - DEV HM - VENDOR - ADULT	\$104.49	\$109.75	105.03%	3.20%	\$107.83	101.78%	\$109.75	0.00%
HABILITATION - DEV HM - VENDOR - CHILD	\$106.57	\$111.95	105.05%	3.20%	\$109.98	101.79%	\$111.95	0.00%
HABILITATION - NURSING G/H (lowest rate) ²	\$340.00	\$340.00	100.00%	0.00%	\$340.00	100.00%	\$340.00	0.00%
HABILITATION - GROUP HOME - DAILY (lowest rate)	\$161.06	\$161.06	100.00%	3.19%	\$166.20	100.00%	\$166.20	3.19%
HABILITATION - GROUP HOME	\$18.79	\$18.79	100.00%	3.19%	\$19.39	100.00%	\$19.39	3.19%
HAB-COMMUNITY PROTECTION - DAILY (lowest rate)	\$179.14	\$179.14	100.00%	3.21%	\$184.89	100.00%	\$184.89	3.21%
HAB-COMMUNITY PROTECTION - HOURLY	\$20.90	\$20.90	100.00%	3.21%	\$21.57	100.00%	\$21.57	3.21%
RESID. ROOM AND BOARD	Varies by location, size and occupancy. Adopted equals 100% of Benchmark.			Varies based on location, size and occupancy. Adopted equals 100% of Benchmark			3.20%	
Professional								
HOME HEALTH AIDE	\$18.42	\$18.42	100.00%	3.20%	\$19.01	100.00%	\$19.01	3.20%
CERT. HHA - INTERMIT - RN/LPN (lowest rate)	\$39.31	\$39.31	100.00%	3.21%	\$40.57	100.00%	\$40.57	3.21%
CERT. HHA - CONTINUOUS - RN/LPN (lowest rate)	\$629.03	\$629.03	100.00%	3.20%	\$649.16	100.00%	\$649.16	3.20%
OCCUPATIONAL THERAPY - EVALUATION	\$131.38	\$131.38	100.00%	3.20%	\$135.58	100.00%	\$135.58	3.20%
OCCUPATIONAL THERAPY	\$60.85	\$60.85	100.00%	3.20%	\$62.80	100.00%	\$62.80	3.20%
PHYSICAL THERAPY - EVALUATION	\$131.38	\$131.38	100.00%	3.20%	\$135.58	100.00%	\$135.58	3.20%
PHYSICAL THERAPY	\$60.85	\$60.85	100.00%	3.20%	\$62.80	100.00%	\$62.80	3.20%
SPEECH THERAPY - EVALUATION	\$131.38	\$131.38	100.00%	3.20%	\$135.58	100.00%	\$135.58	3.20%
SPEECH THERAPY TREAT/INDIVIDUAL	\$60.85	\$60.85	100.00%	3.20%	\$62.80	100.00%	\$62.80	3.20%
Support Coord.								
SUPPORT COORDINATION	\$101.65	\$101.65	100.00%	0.00%	\$101.65	100.00%	\$101.65	0.00%
TARGETED SUPPORT COORDINATION	\$46.81	\$46.81	100.00%	0.00%	\$46.81	100.00%	\$46.81	0.00%
Employment								
CENTER-BASED EMPLOYMENT (high density)	\$5.34	\$5.34	100.00%	3.18%	\$5.51	100.00%	\$5.51	3.18%
GROUP SUPPORTED EMPLOYMENT (lowest ratio)	\$17.72	\$17.72	100.00%	3.16%	\$18.28	100.00%	\$18.28	3.16%
INDIVIDUAL SUPPORTED EMPLOYMENT (high density)	\$27.17	\$27.17	100.00%	3.20%	\$28.04	100.00%	\$28.04	3.20%
EMPLOYMENT SUPPORT AIDE (lowest rate)	\$15.54	\$15.54	100.00%	3.22%	\$16.04	100.00%	\$16.04	3.22%
Specialized Habilitation								
SPECIALIZED HABILITATION WITH MUSIC COMPONENT	\$38.86	\$38.86	100.00%	3.19%	\$40.10	100.00%	\$40.10	3.19%
SPECIALIZED HABILITATION, BEHAVIORAL-B	\$35.47	\$40.00	112.77%	3.19%	\$36.60	112.77%	\$40.00	0.00%
SPECIALIZED HABILITATION, BEHAVIORAL-M	\$54.74	\$60.00	109.61%	3.20%	\$56.49	109.61%	\$60.00	0.00%
HABILITATION, COMMUNICATION (lowest rate)	\$19.17	\$19.17	100.00%	3.18%	\$19.78	100.00%	\$19.78	3.18%
Transportation								
TRANSPORTATION - DAY PROGRAMS ³	\$8.81	\$9.75	110.67%	3.18%	\$9.09	110.34%	\$10.03	2.87%
TRANSPORTATION - OTHER - NON - DAY PROGRAMS	Varies according to AHCCCS schedule.			Varies according to AHCCCS schedule.				
Other								
PERSON CENTERED PLANNING	\$406.40	\$406.40	100.00%	1.50%	\$419.40	100.00%	\$419.40	3.20%

¹ Adopted-to-Benchmark ratio for SFY07 was set at approximately 100.0 per cent for most services.

² Rates for Habilitation, Nursing Supported Group Home are set to 80 per cent of the current Intermediate Care Facility for the Mentally Retarded (ICF/MR) rates.

³ Rates Transportation - Day Programs have included an adjustment for high fuel costs incorporated that raises the adopted rate to a level higher than the current Benchmark rate.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: August 9, 2007

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

THRU: Richard Stavneak, Director

FROM: Jay Chilton, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of FY 2008 Expenditure Plan for Workforce
Investment Act Monies

Request

Pursuant to a footnote in the FY 2008 General Appropriation Act, the Department of Economic Security (DES) is submitting a FY 2007 expenditure plan for \$2.9 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 \$0.7 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 exception of the increase for Local One Stop offices. The JLBC Staff has requested information on the proposed increase in funding for Local One Stop offices. As of this writing, our office has not received that information and, as a result, cannot make a recommendation regarding this issue.

Analysis

The DES Workforce Development Administration is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. All program activities funded by the FY 2008 expenditure plan are activities that were also funded in FY 2007, when the expenditure plan was favorably reviewed. *Table 1* delineates the proposed FY 2008 level of funding by program and recipient and compares the totals with FY 2007 levels. The expenditure plan represents core functions typically funded by discretionary WIA dollars. As noted from the table, the agency plans to increase spending by \$833,900 over FY 2007 primarily for System Building (Local One Stop offices), while reducing funding by \$(200,000) for 1 program (Automated System Support, formerly called Virtual One Stop Support). Funds in FY 2008 will be passed through to the Arizona Department of Education (ADE), to local workforce investment areas, to the Department of Commerce and to DES' Automated System Support and evaluation programs.

(Continued)

Regarding the substantial increase for Local One Stops, JLBC Staff has requested more information from the Department of Commerce, which staffs the commission that made the recommendations for the WIA expenditure plan. As of this writing JLBC Staff has not received a response. Local One Stop offices provide services to Arizona's unemployed and underemployed workers. They provide job placement services and career training resources, in addition to access to some government services, with the goal of improving the long-term employment outcomes for the individuals receiving services.

Table 1				
Governor's Council Recommendation of 15% Set-Aside				
<u>Program Activities</u>	<u>Agency</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>Net Change</u>
<i>Core Functions</i>				
Eligible Training Provider List & Web site	ADE	\$ 175,000	\$ 183,928	\$ 8,900
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	--
Automated System Support (formerly Virtual One Stop Support)	DES	300,000	100,000	(200,000)
Evaluation	DES	50,000	50,000	--
System Building (Local One Stop offices)	LWIA	350,000	1,175,000	825,000
Apprenticeship	ADOC	130,000	130,000	--
Dept. of Commerce - Governor's Council on Workforce Policy	ADOC	525,000	525,000	--
<i>Additional Programs</i>				
Business Outreach Grants	LWIA	571,825	0	(571,825)
Master Teacher	GOCY	250,000	0	(250,000)
Governor's Office of Children, Youth and Families	GOCY	235,000	0	(235,000)
Subtotal		\$3,336,825	\$2,913,928	\$(422,897)
<i>Unallocated Appropriation</i>		<u>277,175</u>	<u>700,072</u>	<u>422,897</u>
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				

Additional programs were funded in FY 2007 but are not included in the current FY 2008 expenditure plan. The programs were Business Outreach Grants, Master Teacher, and the Governor's Office of Children, Youth, and Families. These could still be funded in FY 2008 with the remaining WIA monies not allocated by the current expenditure plan. The current expenditure plan leaves \$700,072 unallocated, which could be allocated and reviewed by the Committee at a later time. In FY 2007, \$277,175 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.

RS/JCh:ym



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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

Janet Napolitano
Governor

Tracy L. Wareing
Director

AUG 2 2007



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

Dear Mr. Stavneak:

The Arizona Department of Economic Security (DES) requests to be placed on the Joint Legislative Budget Committee's (JLBC) agenda for review of federal Workforce Investment Act (WIA) projects pursuant to Laws 2007, Chapter 255, 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 12, 2007, and identified the issues in the table below to be funded in fiscal year 2008 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.

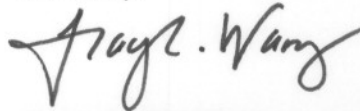
Funded Activities ^{1/}	Benefiting Entity	FY 2007 Funding
Eligible Training Provider List and Website	Department of Education	\$ 183,928
Incentive Grants to Local Workforce Investment Areas	Local Workforce Investment Areas (LWIA)	\$ 350,000
Technical Assistance and Capacity Building	LWIA	\$ 250,000
High Concentration of Eligible Youth	LWIA	\$ 150,000
Automated System Support	DES	\$ 100,000
Evaluation	DES	\$ 50,000
System Building	GCWP	\$ 1,175,000
Apprenticeship Program	Department of Commerce	\$ 130,000
Department of Commerce (staffing the GCWP)	Department of Commerce	\$ 525,000
Total		\$2,913,928

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

Mr. Richard Stavneak
Page 2

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

Sincerely,

A handwritten signature in black ink, appearing to read "Tracy L. Wareing". The signature is fluid and cursive, with the first name "Tracy" being more prominent.

Tracy L. Wareing
Director

cc: Members of the Joint Legislative Budget Committee
James Apperson, Director, Office of Strategic Planning and Budgeting

Recommended by the Governor's Council on Workforce Policy
June 12, 2007

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

\$183,928 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.

The Department 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 the Workforce Investment Act (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), local coordination of activities carried out under the WIA and exemplary performance by local areas on the local performance measures.

The State has traditionally used 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)]

\$1,175,000 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. 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.

Automated System Support [29 U.S.C. § 2864 (a)(2)(B)(v) and 29 U.S.C. § 2871]

\$100,000 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 WIA 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 134 programs, and staffing the Arizona Apprenticeship Advisory Committee established pursuant to Executive Order 2003-24.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: August 8, 2007

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

THRU: Richard Stavneak, Director

FROM: Dan Hunting, Fiscal Analyst

SUBJECT: Government Information Technology Agency - Review of Web Portal Contract

Request

The Government Information Technology Agency (GITA) administers the contract under which the State Web Portal is operated. The Budget Procedures Budget Reconciliation Bill (Laws 2007, Chapter 259) requires that GITA, after executing, but before implementing any new web portal contract, submit the fiscal provisions of the contract to the Joint Legislative Budget Committee for review.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the contract with the provision that GITA provide a list of discretionary projects and activities to the JLBC Staff by October 15. This provision will allow for legislative oversight of agency projects that otherwise would not receive legislative review.

If there are concerns with the projects listed in the October report, the Committee may request that GITA address those concerns at a future meeting. This list will also aid the JLBC Staff and the Governor's Office of Strategic Planning and Budgeting in evaluating agencies' FY 2009 information technology related budget requests.

Analysis

The web portal, also known as Arizona @ Your Service, is accessed through www.az.gov and works with state agencies to provide electronic delivery of government services such as licensing, permitting, data sharing and access to government information. Operated for the past 6 years

(Continued)

under a contract with IBM, the web portal generates over \$5 million annually, primarily through the sale of motor vehicle records to commercial customers.

Under the old contract, this revenue was deposited in the contractor's private account and was retained by the contractor unless used for other web portal projects. In order to give the state greater control over the web portal revenue stream, Laws 2006, Chapter 346 created the Web Portal Fund as an appropriated fund and required that revenue from any web portal contract be deposited in the fund. On June 27, 2007 a new 3-year contract was awarded to NIC, Inc, which will take over operation of the web portal on October 8, 2007.

Under the old contract, IBM was paid on a per-hour or per-unit basis for services delivered. The new contract recognizes that some web portal expenses are relatively fixed, while others are variable.

Fixed Expenses

Fixed expenses include maintenance of web portal applications, customer support, software licensing and infrastructure security. The contract provides \$1,888,500 in the first year for these services, labeled Core Baseline Services, to cover the day-to-day operation of the web portal. Core Baseline Services do not include any Web site or application development or enhancements.

Fixed expenses also include "Transitional Service," including the creation of a test and development system to ensure that existing and new web portal applications will operate properly. These services also include transitioning from proprietary IBM software. Total Transitional Services are estimated at \$380,000.

Discretionary Expenses

The contract allows for additional projects, including enhancement of existing products and development of new applications. Small projects (projects costing less than \$100,000) will be handled by a dedicated staff. Larger projects will be billed on a per-hour basis. Discretionary expenses also include business development and estimation services and support of Core Baseline Services such as hardware and software purchases, backup recovery services and marketing and promotion. GITA has not yet provided an estimate of total discretionary expenses under the contract.

GITA will prepare a more detailed report of expenses under the new contract in October of this year. The JLBC Staff recommends that this report contain a specific list of projects and activities funded through the Web Portal Fund and performed under this contract. This will allow the JLBC Staff and OSPB to reconcile agency budget requests with these existing projects during the FY 2009 budget process.

RS/DH:sls

JANET NAPOLITANO
GOVERNOR

GITA

CHRIS CUMMISKEY
DIRECTOR

STATE OF ARIZONA
GOVERNMENT INFORMATION TECHNOLOGY AGENCY

100 North 15th Avenue, Suite 440
Phoenix, AZ 85007

July 27, 2007

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



Dear Richard:

Pursuant to House Bill 2785 from this year's session, I am enclosing a copy of the financial provisions for the new web portal contract for Committee review.

Please contact me if you have any questions.

Best wishes,

A handwritten signature in black ink, appearing to read "Chris Cummiskey".

Chris Cummiskey
Director, State CIO

Attachment

cc: Andy Miller, GITA
DJ Harper, GITA
Dan Hunting, JLBC



JANET NAPOLITANO
GOVERNOR

CHRIS CUMMISKEY
DIRECTOR

STATE OF ARIZONA
GOVERNMENT INFORMATION TECHNOLOGY AGENCY
100 N. 15th Avenue, Suite 440
Phoenix AZ 85007

Financial Provision Summary of New Web Portal Contract *a GITA Report to the Joint Legislative Budget Committee*

Background:

On February 1, 2007 the State Procurement Office (SPO) issued solicitation EPS070078, Web Portal, with a close date of March 23, 2007. Amendments were issued on February 1, 2007, February 27, 2007, March 8, 2007 and March 9, 2007. A pre-offer conference was held on February 22, 2007. The solicitation closed on March 23, 2007. Three (3) proposals were received as complete by the due date as specified in the solicitation. The contract award was made on June 27, 2007 to NIC, Inc.

The current Web Portal contract with IBM operates under a financial model in which the portal Contractor is paid for all activities on a per hour (or per unit) basis since the amount of services consumed monthly is variable. The State has restructured the new Web Portal contract to gain financial efficiencies by requiring certain functions of development and operation of the Web Portal be migrated to a mixed financial model in which the State contracts for a baseline level of service ('Baseline Services') with an option to procure additional services ('Variable Services') for activities over and above baseline.

Financial Provision Summary:

Revenue:

Fees from sale of motor vehicle records remain unchanged from current contract. The Motor Vehicle Record Request System (MVRRS) is the primary source of web portal usage fees to fund the portal. Web portal usage fees totaled \$5,148,073.15 in CY05 and \$5,206,126.35 in CY06. Web portal usage fees are determined by the type of search function performed. The total amount of web portal usage fees collected is dependent upon the quantity of searches performed by (approximately) 70 commercial customers in any given month.

Financial Provision Summary of New Web Portal Contract

a GITA Report to the Joint Legislative Budget Committee

Expenses:

The new web portal contract has four (4) categories of expenses. The categories are Core Baseline Services, Additional Baseline Services, Variable Services and Transition Services.

Core Baseline Services

Description:

Core Baseline Services are the services required to keep the web portal running on a day to day basis. These 'maintenance mode' services include items such as application break/fix support, customer support, hosting support, software licensing and maintenance, reporting and infrastructure security. Core Baseline Services include operation of appropriate production, test and development environments. Core Baseline Services do not include any web site or application development or enhancements.

Core Baseline Services also include day-to-day operational management of certain web portal services provided by other parties (such as hosting facility floor space and data circuits). Core Baseline Services staff will be located in Phoenix.

Cost of Core Baseline Services:

Year 1	\$1,888,507	(\$157,376 / month)
Year 2	\$1,881,028	(\$156,752 / month)
Year 3	\$1,958,926	(\$163,244 / month)

Additional Baseline Services

Description:

Additional Baseline Services are small project related activities such as application or web site enhancements or new development typically estimated less than \$100,000 per project. Additional Baseline Services include business development and estimation services for all projects, regardless of whether the project is less than or greater than \$100,000 and hosting support for all new applications and enhancements. The State determines the level of Additional Baseline Services required and can periodically adjust the amount to meet its business requirements. Additional Baseline Services staff will be based in Phoenix and is in addition to Core Baseline Services staffing.

As part of the RFP process, the State requested a staffing plan for Additional Baseline Services at levels to include \$1,000,000 / year, \$2,000,000 / year and \$3,000,000 / year. NIC's staffing plan for each level follows:

Financial Provision Summary of New Web Portal Contract

a GITA Report to the Joint Legislative Budget Committee

\$1,000,000 / Year Level

Number of full time equivalent persons by function:

Applications Development	1 (1 Senior Developer)
Project Management	2 (1 Project Manager, 1 Business Analyst)
Web Design	1 (1 Web Designer)
Systems / Network / Security Administration	1 (1 System Administrator)

\$2,000,000 / Year Level

Number of full time equivalent persons by function:

Applications Development	4 (2 Senior Developers, 2 Developers)
Project Management	3 (1 Project Manager, 2 Business Analysts)
Web Design	2 (2 Web Designers)
Help Desk Support	1 (1 Customer Service Representative)
Systems / Network / Security Administration	1 (1 System Administrator)

\$3,000,000 / Year Level

Number of full time equivalent persons by function:

Applications Development	6 (2 Senior Developers, 4 Developers)
Project Management	6 (3 Project Managers, 3 Business Analysts)
Web Design	2 (2 Web Designers)
Help Desk Support	1 (1 Customer Service Representative)
Systems / Network / Security Administration	1 (1 System Administrator)

Financial Provision Summary of New Web Portal Contract

a GITA Report to the Joint Legislative Budget Committee

Variable Services

Description:

Variable Services are discretionary projects, solely determined by the State, and expenditures to advance the goals and objectives of the web portal. This includes services and/or resources that may be provided by the vendor/ partner to the State upon mutual agreement which require resources in addition to Core Baseline Services and Additional Baseline Services. Variable Services are provided on an as-needed, as agreed to basis and documented in one or more Requests for Service.

Other items that are Variable Services include all hardware and software purchases, backup recovery services (such as purchase of backup tapes and offsite storage) and marketing and promotional materials. All purchases will be directly related to the support and operation of the AAYS portal and are to be offered to the State with no markup from the Contractor. Staffing required to plan, administer and execute the items mentioned in this paragraph is part of Core Baseline Services.

The State anticipates that the majority of Variable Services requests will generally be for human resources to enhance existing portal applications and/or to develop new applications that are estimated to be greater than \$100,000. Variable Services staff will be located in Phoenix, to the extent possible.

Financial Provision Summary of New Web Portal Contract *a GITA Report to the Joint Legislative Budget Committee*

Hourly Rates for Variable Services

Applications Development	Senior Architect Senior Developer Developer	\$135 per hour \$122 per hour \$107 per hour
Project Management	Executive Manager Senior Project Manager Business Analyst Project Manager	\$216 per hour \$153 per hour \$153 per hour \$138 per hour
Web Design	Web Designer HTML Designer	\$107 per hour \$77 per hour
Marketing/Promotional Materials	Marketing Executive Marketing Associate Print Designer	\$107 per hour \$77 per hour \$77 per hour
Systems / Network / Security Administration	Database Administrator System Administrator	\$191 per hour \$138 per hour
Administrative Support	Financial Manager/Billing Specialist	\$92 per hour

Financial Provision Summary of New Web Portal Contract

a GITA Report to the Joint Legislative Budget Committee

Transition Services

Transition Services are:

- activities required to assume responsibility for day to day operation of the AZ.gov portal including establishment of appropriate production, development and test environments
- activities required to update AZ.gov computer source code to a position consistent with the licensing provisions listed in Section 9.2.12.1, *Ownership Upon Contract Termination*, of the new contract with NIC

An immediate goal of transition is to ensure a smooth migration of operations from the current contract to the new contract. To ensure this smooth transition, NIC will acquire and make operational a test and development environment to support implementation of future web portal applications.

In addition, the AZ.gov web portal is operated using certain computer source code that is proprietary to the current Contractor. The legal status of this source code is not consistent with the licensing provisions (see Section 9.2.12) of the new contract with NIC. NIC will supply to the State, free of charge, resources necessary to update AZ.gov computer source code. The amount of commitment NIC is providing is nine (9) full-time dedicated technical resources including a Director of Development, three developers, two project managers, two business analysts, and part-time resources with skills in systems administration, database administration and application development totaling one FTE. The total free of charge commitment is 18,000 hours to accomplish the required update of AZ.gov computer source code.

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DATE: August 8, 2007

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

THRU: Richard Stavneak, Director

FROM: Kevin Bates, Fiscal Analyst

SUBJECT: Administrative Office of the Courts – Review of Reimbursement of Appropriated Funds

Request

Pursuant to Laws 2007, Chapter 255 (General Appropriation Act), the Administrative Office of the Courts (AOC) requests review of the expenditure of \$3.8 million in reimbursements.

The Auditor General issued a report in September 2005 stating that AOC had not been properly notifying the JLBC Staff of similar reimbursements in the past. Since that time, a footnote in the General Appropriation Act has required AOC to submit the intended use of these reimbursement monies for Committee review.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the agency request. These projected reimbursements total \$3,784,500. In FY 2007, AOC projected collecting \$3,616,900. Actual collections in FY 2007 totaled \$3,518,700.

Analysis

A.R.S. § 35-142.01 states that if an agency receives a reimbursement from federal or other sources, that agency is permitted to retain and expend those monies as long as the agency director determines that they are necessary for the agency's operation. The agency director also must determine that the Legislature did not specifically consider and reject such reimbursement during the agency's original budget appropriation.

This statute also requires that the agency director shall notify in writing the JLBC, the Governor's Office of Strategic Planning and Budgeting (OSPB) and the state comptroller.

The reimbursements consist of monies received by AOC for services provided to local courts and their personnel. These monies replace appropriated monies that were spent in FY 2007 for the following services:

(Continued)

Arizona Court Automation Project Charge-backs

Courts throughout the state that participate in AOC's statewide automation projects are billed semi-annually for the costs of providing network services. Courts then reimburse AOC for these costs, which include software, hardware, network connections and program development and support. AOC estimates that local courts will reimburse an estimated \$1,600,000 in FY 2008. In FY 2007, AOC projected collecting \$1,500,000. Actual collections were \$1,653,200.

Parental Payments

Parents whose children receive juvenile treatment services are billed after probation departments or juvenile courts determine the parents' ability to pay. Parents usually make payments on a weekly or monthly basis to the local court, which transmits the monies to AOC. AOC estimates that parents will make approximately \$480,600 in payments in FY 2008. In FY 2007, AOC projected collecting \$337,500. Actual collections were \$463,900.

Westlaw

Superior Courts are billed for a portion of the cost of the contract with West Publishing, a firm that publishes legal reference materials used by judges and other court personnel. Maricopa and Pima County Superior Courts are billed twice a year, and Superior Courts in other counties are billed yearly. AOC estimates that Superior Courts will reimburse \$34,900 in FY 2008. In FY 2007, AOC projected collecting \$34,400. Actual collections were \$34,000.

Foster Care

AOC pays for administering and conducting reviews of foster care cases. Federal Title IV-E monies are then sought to assist in funding this program. AOC estimates that \$476,000 will be received in FY 2008. Monies are received monthly. In FY 2007, AOC projected collecting \$700,000. Actual collections were \$436,100.

Juvenile Treatment

AOC pays for costs of contracting with treatment providers to serve juveniles adjudicated as delinquent. Federal regulations allow AOC to seek federal Title IV-E reimbursement for costs related to treatment and administration. Reimbursement for treatment costs is received monthly, and administrative cost reimbursement is received quarterly. AOC estimates that \$511,000 will be reimbursed by the federal government in FY 2008. In FY 2007, AOC projected collecting \$325,000. Actual collections were \$509,700.

Maricopa County Probation – Vehicles

County probation departments use state-owned vehicles to conduct probation business, and the Arizona Department of Administration bills AOC for the motor pool costs associated with each county. However, Laws 2006, Chapter 261 prevents AOC from using state funding for probation services within Maricopa County. Because of this requirement, AOC bills Maricopa County for the cost of its usage of the state vehicle fleet. AOC estimates it will receive \$682,000 from Maricopa County in FY 2008. In FY 2007, AOC projected collecting \$720,000. Actual collections were \$421,800.

Table 1 shows these reimbursements:

Table 1	
AOC Reimbursements	
FY 2008	
<u>Reimbursement</u>	<u>Amount</u>
ACAP Charge-backs	\$1,600,000
Parental Payments	480,600
Westlaw	34,900
Foster Care	476,000
Juvenile Treatment	511,000
Maricopa County Probation – Vehicles	682,000
Total	\$3,784,500



Supreme Court

STATE OF ARIZONA
ADMINISTRATIVE OFFICE OF THE COURTS

Ruth V. McGregor
Chief Justice

David K. Byers
Administrative Director
of the Courts

July 19, 2007

Richard Stavneak, Director
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

James Apperson, Director
Office of Strategic Planning and Budgeting
1700 West Washington, Suite 500
Phoenix, Arizona 85007

Clark Partridge, State Comptroller
General Accounting Office
100 North 15th Avenue, Suite 302
Phoenix, Arizona 85007



Re: Reimbursement of Appropriated Funds

I am sending this letter pursuant to A.R.S. 35-142.01 and GAO Technical Bulletin No. 00-8 to notify you of recurring reimbursements received by the Supreme Court each fiscal year. All reimbursements are necessary for operation of the budget units and were not specifically considered and rejected by the legislature. In addition to various de minimus reimbursements, such as employee-reimbursed personal telephone calls, the Supreme Court receives the following:

1. Arizona Court Automation Project (ACAP) Charge-backs

A) *A description of the transaction or event.*

ACAP Courts are billed semi-annually to participate in (but not fully reimburse) the costs of providing statewide network services.

B) *The frequency with which the transaction occurs.*

Billed in January and July, received throughout the year.

C) *The total dollar amount of the reimbursement.*

\$1.6 million (FY 08 estimate)

D) *The fund or funds to which the reimbursement will be deposited.*

Judicial Collection Enhancement Fund

E) *The source of the reimbursement.*

Aztec/ACAP Courts

F) *The reason for the reimbursement.*

These courts participate in the cost of providing/using the statewide AJIN Network. Costs include software, hardware, network connections, development and support services, internet, intranet, and email.

2. Parental Payments

A) *A description of the transaction or event.*

Parents make payments for juvenile treatment services after being assessed by the probation departments/courts related to their ability to bear the cost for some or all of the treatment services.

B) *The frequency with which the transaction occurs.*

Parents generally make payments on a weekly or monthly basis and the funds are transmitted by the courts to the Supreme Court on a monthly basis.

C) *The total dollar amount of the reimbursement.*

\$480,575 (FY 08 estimate)

D) *The fund or funds to which the reimbursement will be deposited.*

Juvenile Probation Services Fund

E) *The source of the reimbursement.*

Parents of juveniles under treatment.

F) *The reason for the reimbursement.*

See "A" above.

3. Westlaw Reimbursements

A) *A description of the transaction or event.*

The Supreme Court has a contract with West Publishing for Westlaw usage by Superior Court judges. Superior Courts are billed for a portion of this cost.

B) *The frequency with which the transaction occurs.*

The Superior Court in Maricopa and Pima counties are billed each June and December. The Superior Court in other counties are billed only in December.

C) *The total dollar amount of the reimbursement.*

\$34,895 (FY 08 estimate)

D) *The fund or funds to which the reimbursement will be deposited.*

Case Processing Assistance Fund

E) *The source of the reimbursement.*

Superior Courts

F) *The reason for the reimbursement.*

See "A" above.

4. Federal Title IV-E Participation Funds – Foster Care

A) *A description of the transaction or event.*

Through an agreement with DES, the Supreme Court seeks Federal Title IV-E funding for costs associated with administering and conducting foster care administrative reviews.

B) *The frequency with which the transaction occurs.*

Monthly

C) *The total dollar amount of the reimbursement.*

\$476,000 (FY 08 estimate)

D) *The fund or funds to which the reimbursement will be deposited.*

Grants and Special Revenues

E) *The source of the reimbursement.*

Federal Title IV-E Funds

F) *The reason for the reimbursement.*

See "A" above.

5. Federal Title IV-E Participation Funds – Juvenile Treatment

A) *A description of the transaction or event.*

Through an agreement with DES, the Supreme Court seeks Federal Title IV-E funding for qualifying juveniles adjudicated as delinquent. Pursuant to federal regulation, Title IV-E reimbursement may be sought for certain maintenance and administrative costs related to the out-of-home placement of these juveniles.

B) *The frequency with which the transaction occurs.*

Reimbursement for maintenance costs is received monthly.
Reimbursement for administrative costs is received quarterly.

C) *The total dollar amount of the reimbursement.*

\$511,000 (FY 08 estimate)

D) *The fund or funds to which the reimbursement will be deposited.*

Juvenile Probation Services Fund

E) *The source of the reimbursement.*

Federal Title IV-E Funds

F) *The reason for the reimbursement.*

See "A" above.

6. Vehicle Expenses for Maricopa County Probation Department

A) *A description of the transaction or event.*

Pursuant to A.R.S. 12-269(A) (HB 2819) the Administrative Office of the Courts shall not disburse any direct state aid for probation services monies, including motor pool costs, to a county with a population of two million or more persons (Maricopa County). DOA bills the AOC for all of the probation fleet, including vehicles assigned to Maricopa County, the AOC then bills Maricopa County for their share of the motor pool charges.

B) *The frequency with which the transaction occurs.*

Monthly

C) *The total dollar amount of the reimbursement.*

\$682,000 (FY 08 estimate)

D) *The fund or funds to which the reimbursement will be deposited.*

General Fund

E) *The source of the reimbursement.*

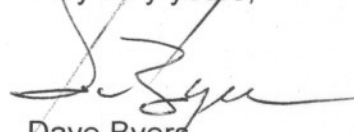
Maricopa County

F) *The reason for the reimbursement.*

See "A" above.

Please contact Kevin Kluge at 452-3395 if you have any questions or need additional information.

Very truly yours,



Dave Byers
Administrative Director

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: August 7, 2007

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

THRU: Richard Stavneak, Director

FROM: Jon McAvoy, Assistant Fiscal Analyst

SUBJECT: Arizona State Retirement System - Review of FY 2008 Information Technology
Expenditure Plan

Request

The Arizona State Retirement System (ASRS) requests Committee review of their FY 2008 Information Technology (IT) Expenditure Plan. ASRS was appropriated \$2,818,500 for FY 2008 for operating expenses associated with upgrades to the information technology system. A General Appropriation Act footnote requires ASRS to seek Committee review of each year's expenditure plan prior to any expenditure.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the FY 2008 expenditure plan. Currently, the IT plan is within budget and the expenditures outlined in the FY 2008 expenditure plan are in line with the expenditures outlined in the Project and Investment Justification (PIJ) document approved by the Information Technology Authorization Committee (ITAC).

Previously, when the project status was downgraded from "green" to "red," the Committee requested that ASRS provide regular updates on the return to "green" status. The Government Information Technology Agency (GITA) has indicated that the project will remain in a "yellow" status until completion to provide increased oversight. As the project is on schedule for completion by the end of FY 2008, the JLBC Staff also recommends that the Committee continue its request for a semi-annual project status update.

Analysis

The footnote requiring the 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 project 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.

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 the Government Information Technology Agency (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.

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 2008, the appropriation is for permanent operational monies. FY 2008 operating expenses are shown in *Table 1*.

ASRS has submitted an expenditure plan for the \$2,818,500 allocated in FY 2008 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 \$2,818,500 allocated in FY 2008.

Table 1 FY 2008 Appropriations Expenditure Plan				
	<u>Original Plan</u>	<u>Document Imaging</u>	<u>Software/ Hardware</u>	<u>Total</u>
FTE Positions	18	2	--	20
Personal Services	\$1,268,600	\$72,500	--	\$1,341,100
Employee Related Expenditures	386,700	26,000	--	412,700
Professional and Outside Services	3,500	200	--	3,700
Other Operating Expenditures	775,500	3,600	31,900	811,000
Equipment	<u>250,000</u>	<u>--</u>	<u>--</u>	<u>250,000</u>
Total	\$2,684,300	\$102,300	\$31,900	\$2,818,500

According to the ASRS expenditure plan, an estimated \$968,400 of the monies appropriated for the development of the IT system will remain unexpended at the end of the project in FY 2008. ASRS has indicated that they will seek to retain these monies for upgrades and maintenance to the system during the FY 2009 budget process.

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 review by an Independent Advisory Consultant (IAC), the project status was upgraded from “red” to “yellow” and GITA requested that the ASRS submit an amendment to the PIJs updating the project schedule to reflect the IAC’s report. According to an independent assessment conducted by the IAC, as of June 2007, the IT plan is on schedule for completion by June 30, 2008 and on budget for completion within the \$46.5 million budget.



ARIZONA STATE RETIREMENT SYSTEM

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contactus@asrs.state.az.us

Paul Matson
Director

July 17, 2007

The Honorable Representative Russell Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007



Dear Chairman Pearce:

RE: JLBC Review of the ASRS IT Expenditure Plan for SFY 08

I am requesting that the Joint Legislative Budget Committee (JLBC), at its next meeting, review the proposed expenditure plan of SFY08 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 staff for review before the expenditure of the appropriation.

Enclosed is the ASRS IT Expenditure Plan for SFY08. The plan outlines expenditures in the areas of IT/User FTEs and Employee-Related Expenditures, Professional and Outside Services, Other Operating Expenditures and Equipment. Also enclosed is an expenditure plan of current year and prior years' appropriations to be spent in the current year as well as prior year balances. The ASRS will request permission for expenditures to continue through SFY 09.

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,

Paul Matson
Director

PM/MNR/em

Enclosures

cc: Senator Robert L. Burns, Chairman, Senate Appropriations
Martha Rozen, ASRS, Administrative Services Division
Jay Chilton, JLBC Analyst
Matt Gottheiner, OSPB Analyst

Special Line Item (SLI) Request - FY 2008

	IT Plan Operating Costs	Records Mgt. Document Imaging	PIJ - Network and Software Upgrade	TOTAL
FTEs	18	2		20
Personal Services	\$1,268,600	\$72,500		\$1,341,100
Employee Related Expenses	\$386,700	\$26,000		\$412,700
Professional and Outside Services	\$3,500	\$200		\$3,700
Travel				\$0
Other Operating Expenses	\$775,500	\$3,600	\$31,900	\$811,000
Equipment	\$250,000			\$250,000
Total	\$2,684,300	\$102,300	\$31,900	\$2,818,500
				\$2,818,500

IT PLAN FY 02															
	Appropriated Amount	Expended Through 6/30/2002	Expended Through 12/31/2002	Expended Through 6/30/2003	Expended Through 12/31/2003	Expended Through 6/30/2004	Expended Through 12/31/2004	Expended Through 6/30/2005	Expended Through 12/31/2005	Expended Through 6/30/2006	Expended Through 12/31/2006	Expended Through 6/30/2007	Projected Expenditures 6/30/2008	Projected Expenditures 6/30/2009	Balance Remaining
Totals	\$9,007,600	\$2,818,600	\$289,000	\$1,123,200	\$1,469,800	\$1,871,900	\$397,100	\$1,037,900							\$100
IT PLAN FY 03															
Totals	\$9,053,400		\$2,777,700	\$2,772,900	\$440,800	\$363,000	(1) (\$41,500)	\$424,200	\$121,200	\$2,195,100					\$0
Note:(1) Costs were reclassified.															
IT PLAN FY 04															
Totals	\$9,039,600				\$633,100	\$1,958,300	\$1,931,000	\$1,915,900	\$625,200	\$1,335,400	\$551,300	\$89,400			\$0
IT PLAN FY 05															
Totals	\$9,051,900						\$637,900	\$867,100	\$100	(2) (\$3,300)	\$2,131,600	\$2,718,400	\$2,700,100		\$0
Note:(2) Refund due to overpayment and returned equipment.															
IT PLAN FY 06															
Totals	\$6,401,600								\$2,515,400	\$1,738,600	\$57,000	\$59,700	\$1,062,500	\$968,400	\$0
IT PLAN FY 07															
Totals	\$3,010,100										\$1,030,200	\$1,961,000	\$18,900		\$0
IT PLAN FY 08															
Totals	\$2,818,500												\$2,818,500		\$0
Total Appropriations	\$48,382,700														
BALANCE REMAINING ALL FISCAL YEARS as of 06/30/07															\$100
TOTAL EXPENDED PER FISCAL YEAR															
FY02	\$2,818,600														
FY03				\$6,962,800											
FY04						\$6,736,900									
FY05								\$7,169,600							
FY06										\$8,527,700					
FY07												\$8,598,600			
FY08													\$6,600,000	\$968,400	
TOTAL EXPENDED ALL FISCAL YEARS as of 06/30/07															\$100



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Paul Matson
Director

July 17, 2007

The Honorable Representative Russell Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007



Dear Chairman Pearce:

RE: Arizona State Retirement System (ASRS) Information Technology (IT) Plan

At its July 27, 2006 meeting, the Joint Legislative Budget Committee (JLBC) gave a favorable review of the ASRS' IT expenditure plan. In its letter to the ASRS to communicate the favorable review, the committee requested that the ASRS provide semi-annual reports on December 31 and June 30 until the agency's "green" status is achieved with the Government Information Technology Agency.

Pursuant to this request, please find enclosed an independent assessments conducted by Provaliant Inc., the Independent Advisory Consultant for the ASRS IT Plan, as of June 2007.

If you have any questions regarding this report, please contact Martha N. Rozen, Chief of Administrative Services, directly at (602) 240-5355.

Thank you in advance for the opportunity to provide the committee with an update.

Sincerely,

Paul Matson

PM/mr/erm

Attachments

cc: Senator Robert L. Burns, Chairman, Senate Appropriations
Richard Stavneak, Director, JLBC

**JLBC Report
IT Plan Progress
Toward a "Green" Status with ITAC
As of June 2007**

Status

- 1) The IT Plan is on schedule for completion by June 30, 2008. It is currently over 85% complete.
- 2) The IT Plan is on budget for completion within the \$46.5 million budget. Approximately 19% of the budget is remaining.

Progress

The following progress has been achieved since the prior report to the JLBC as of March 2007:

- 1) The New Retiree Estimate Check function was implemented. This function provides retirees with an estimate check within a few days of retirement.
- 2) The On-line Contributions Reporting Batch Processing function is ready for implementation. It will automate batch processing of contribution data and update the Public Employees' Retirement Information System (PERIS) database with Automated Clearing House (ACH) data.

Addressing Risks to the IT Plan

1. Staffing levels – PERIS

The market for IT resources continues to be strong, so the probability of future turnover is still high. Nonetheless, recruiting has been going well, turnover among ASRS employees is lower than expected and thorough project plans have been developed for the remainder of the IT Plan.

