STATE OF ARIZONA

# Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, August 24, 2006
10:00 a.m.
Senate Appropriations Room 109

## MEETING NOTICE

- Call to Order

- Approval of Minutes of July 27, 2006.

- DIRECTOR'S REPORT (if necessary).

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

1. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Risk Management Deductible.

2. ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Third Party Quality Assurance Report.

3. DEPARTMENT OF ECONOMIC SECURITY
    - A. Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase.
    - B. Review of Long Term Care Capitation Rate Changes.

4. DEPARTMENT OF PUBLIC SAFETY - Quarterly Review of the Arizona Public Safety Communications Advisory Commission.

The Chairman reserves the right to set the order of the agenda.
08/16/06

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HOUSE OF REPRESENTATIVES



## MINUTES OF THE MEETING

## JOINT LEGISLATIVE BUDGET COMMITTEE

July 27, 2006

The Chairman called the meeting to order at 9:48 a.m., Wednesday, July 27, 2006, in Senate Appropriations Room 109. The following were present:

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

**APPROVAL OF MINUTES**

Hearing no objections from the members of the Committee to the minutes of June 14, 2006, Senator Burns stated the minutes would stand approved.

**DEPARTMENT OF HEALTH SERVICES**

**A. Review of Behavioral Health Title XIX Capitation Rate Changes**

Mr. John Malloy, JLBC Staff, said that this is a review of the capitation rate adjustments from the Department of Health Services (DHS) for the Title XIX eligible behavioral health population. The capitation rate adjustment is expected to cost the General Fund approximately $900,000 in FY 2007. Caseloads are below budgeted levels for this population and further reductions could offset the potential cost in the current fiscal year. The department's capitation rate adjustment also includes 2 program changes. This past session the Legislature added statutory language that would limit capitation rate adjustments to utilization or inflation unless the changes were specifically approved by the full Legislature or were mandated by federal law or required by the courts.

The first program change involves an increase in methamphetamine treatment provided to the SMI population in the state. This program change could be viewed either as increased utilization for this population or as a program expansion. The second program change includes increased treatment teams for SMI's in Maricopa County. This change is in accordance with the plaintiffs in the *Arnold v. Sarn* lawsuit. This would most likely be an adjustment due to a court mandate.

The JLBC Staff has offered 3 options:

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

The JLBC Staff does recommend that DHS report by August 31, 2006 on how the agency plans on integrating the monies allocated for the increased methamphetamine treatments through the capitation rate, with the monies appropriated by the Legislature in this past session for a similar purpose. The Legislature appropriated $3 million to DHS for increased methamphetamine treatment over and above the increase being sought by the agency. The JLBC Staff also recommends that the department report on how the agency plans on integrating those 2 monies as well as evaluating the effectiveness of the overall methamphetamine funding.

Representative Pearce asked if the capitation rates would still be actuarially sound without the 2 adjustments.

Mr. Malloy stated that the capitation rate could be considered actuarially sound if the 2 program changes were not implemented into the capitation rates. DHS specifically asked the actuaries to include the 2 adjustments.

Mr. Chris Petkiewicz, DHS, Division of Behavioral Health, responded by disagreeing with Mr. Malloy. If the department intended on making changes in the system, he does not believe that the rates would be actuarially sound. They would not account for the expected costs of those changes.

Mr. Malloy stated that if DHS implemented increased methamphetamine treatment to the SMI's and the Legislature did not fund it, then it would not be actuarially sound. However, DHS does not have to provide this service to the population; it is a decision that is made by DHS to do so.

Mr. Petkiewicz disagreed again and explained that due to a court decree the department is required to have 18 treatment teams in Maricopa County, one for every 1,000 SMI members. The department is going from 12 to 18.

Mr. Malloy responded by saying that there are 2 different issues being discussed. JLBC Staff is referring to the increased methamphetamine treatment to the SMI population. Mr. Petkiewicz is talking about the ACT teams. DHS specifically told the actuaries that the department wants to provide enhanced services to the SMI population for methamphetamine treatment and they made that adjustment. The Committee has to fund that if the department wants to provide the increased services. However, the actuaries would not have made that adjustment on their own.

Ms. Susan Gerard, Director, DHS, stated that this issue is Title 19 related and has nothing to do with any lawsuit. The department is required to provide medically necessary services to the behavioral health community. Everyone is aware that methamphetamine is the latest drug of choice. The treatment for people who are addicted to methamphetamine is much more intensive, so more units of service is needed. There is no question that utilization is going to increase for this kind of addiction as opposed to the addiction of alcohol.

When our actuaries figure rates, they take trends into account. This is not a new service but more intensive and requires higher utilization which clearly is going to have an effect on what the rates are.

Representative Pearce asked how the money is going to be used in terms of the increased treatment and what is funded.

Ms. Gerard replied by saying that the treatment lasts longer than it does for other addictions. Utilization increases because people need to be in programs longer. They also use an intensive out-patient program, which means people will have more contact with counselors and therapists to try to keep people off the drug when they are back in homes, and potentially, exposed to the same things that cause them to use drugs.

Representative Pearce asked how will the increased methamphetamine money be integrated with the $3 million added by the Legislature.

Ms. Gerard stated that the Legislature did not say that the $3 million in methamphetamine monies should be used as state match for Title XIX dollars. The department's assumption was that the money is for people who are not Title XIX eligible. It is also for mainly rural and tribal areas for detoxification centers because there is greater need to provide the service.

There was discussion about the *Arnold v. Sarn* lawsuit.

Ms. Gerard stated as long as the methamphetamine problem is getting so much attention and using so many resources, it means that resources are not available for the other forms of addiction.

Representative Burton Cahill stated that to see not only how it affects people in treatment but look at the larger number impact as to how it affects our communities, crime rate and the homelessness rate.

*Representative Pearce moved that the Committee give a favorable review with the stipulation that the favorable review does not constitute an endorsement of a supplemental request. The Committee further recommends that DHS 1) provide the Committee by August 31, 2006 with an explanation of how the increased methamphetamine funding in the capitation rate will be coordinated with the Chapter 337 funding and 2) how DHS will evaluate the effectiveness of this funding.* The motion carried.

**B. Review of Requested Transfer of Appropriations between Special Line Items and Report on Arizona State Hospital Expenditure Plan.**

Mr. Matt Busby, JLBC Staff, said that DHS is requesting the Committee review the transfer of $540,000 from the Arizona State Hospital (ASH) operating budget to the Sexually Violent Persons (SVP) Special Line Item (SLI) for Direct Care Workers salary increases. The Legislature appropriated $3.1 million to ASH for salary increases to all Direct Care Workers in FY 2007. Some of the Direct Care Workers are funded through the SVP SLI. This transfer would be a technical shift so $3.1 million can be disbursed according to the original plan. The JLBC Staff recommends a favorable review of the request.

In addition to the request, DHS also submitted a report on how they intend to allocate these monies in ASH. The expenditure plan is for information only and no Committee action is required.

An amount of $2.5 million will go to the civil and forensic hospital and will provide salary increases to approximately 400 employees. 100 are registered nurses that will receive a 20% increase in their salary and 270 various Direct Care Workers will also receive a 10% increase.

An amount of $540,000 will go to the Arizona Community Protection and Treatment Center which is funded through the SVP SLI and it will affect approximately 95 current employees. Sixty-two Resident Program Specialists will receive a 9% salary increase. Any monies that are not used to give salary increases to current employees will be used to increase the starting salaries of new employees.

Representative Pearce asked how ASH employees will compare to the market.

Mr. Busby stated that he asked the department and did not get a response from them.

Ms. Gerard stated the 20% will bring the department to the Department of Correction's Nurse salary. The department was losing nurses to the Department of Corrections, so we will be the same as other state agencies. In the private sector, the pay rate will still be higher.

*Representative Pearce moved the JLBC Staff recommendation to give a favorable review of the request. Of the $3,100,000 appropriation for salary increases $538,900 would be distributed to the SVP SLI for the direct care workers at the Arizona Community Protection and Treatment Center.* The motion carried.

**C. Review of Children's Rehabilitation Services Capitation Rate Changes.**

Mr. John Malloy, JLBC Staff, stated this item is a review of the capitation rate for the Children's Rehabilitative Services (CRS). The rates are within budget and JLBC Staff recommends a favorable review.

*Representative Pearce moved the JLBC Staff recommendation to give a favorable review to the DHS CRS capitation adjustments.* The motion carried.

**ARIZONA DEPARTMENT OF PUBLIC SAFETY**

**A. Review of Expenditure Plan for Staffing of Additional Highway Patrol Positions and Sworn Officer Salary Increases.**

Mr. Martin Lorenzo, JLBC Staff, stated this item is a review of Department of Public Safety (DPS) expenditure plans relating to $5.5 million appropriated for an additional 46 highway patrol positions and $2.8 million appropriated for sworn officer salary adjustments.

In FY 2006 DPS received roughly $3.5 million for 28 positions. Of that amount, the department diverted $1.2 million which would have funded Personal Services and Employee Related Expenditures for 25 positions, to provide an additional pay raise. As a result, 25 positions remain vacant and the FY 2007 General Appropriation Act includes a legislative footnote indicating that DPS fill all 25 positions.

DPS' plan proposes to use $387,800 of the $2.8 million for salary adjustments to fund and fill 6 of the 25 positions held vacant. The remaining $2.3 million would be used to achieve internal parity to the top 5 highest paying law enforcement agencies in the state, resulting in the additional DPS salaries being 3.6% below the average salary for the 5 highest paying agencies. In general, supervisor positions receive between 10% and 17% and officer positions will receive between 6.5% and 9.5%. With respect to the $5.5 million for 46 officer positions, DPS has allocated these monies and positions consistent with the JLBC recommendation. The monies would fund 37 officers, 4 sergeants and 5 support positions.

As a result of their expenditure plans, JLBC Staff believes the Committee has 2 options: 1) A favorable review of both expenditure plans as DPS has assigned the 46 positions as intended and they have distributed the pay adjustments to be more equivalent to the market, 2) an unfavorable review of the request. Under either option, JLBC Staff recommends that DPS report to the Committee by November 1, 2006 on the updated salary comparison by classification based on both the top 5 highest paid markets as well as the markets with more than 100 sworn positions. The purpose of the 100 plus employee comparison is to provide an indication of the agencies DPS is most competitive with. JLBC Staff also recommends that the report include information of new jobs taken by sworn officers when they leave DPS.

Representative Pearce asked about slimming down on the heavy administration and focus on boots on the ground, patrol cars on the street, and officers on patrol.

Mr. Roger Vanderpool, Director, DPS, stated that when he came to the department they had more vacancies than the department could hire in a year. This prompted the monies for the 25 to go into the mid-level officer and the top level officer. Last year DPS hired 20 lateral officers and to date there are 37 more DPS officers working today than a year ago. That is taking into account the normal attribution rate that the department has over a year, which runs anywhere from 70 to 80 people. DPS has converted some high end command positions to civilian positions. The same work is being done just with a lower employee related expense. Last month and this month are the first 2 months DPS has had the Delayed Retirement Option Program (DROP), which senior commanders are going out. The intent is to fill every position as the department can. DPS has moved sworn officers out of administrative positions into line positions and will continue to do that without missing a beat to the service that is provided to the taxpayers, but also getting more cops on the road. Recruitment is tough due to limited numbers of applicants that meet the background investigation and drug testing. The department is looking into stepping up the recruitment efforts to other areas in the Northwest, Central, and Southeast United States, where there may be more qualified individuals.

Representative Pearce asked about the lateral transfers and if it is a more cost efficient process.

Mr. Vanderpool said yes and the department has streamlined the lateral process of getting lateral officers out on the street. DPS is also bringing in officers with special skills. DPS' hiring process has been implemented into an electronic system; everything can be filled out online. The goal is to get the hiring process down to 60 days, and eventually, 30 days from the time an individual fills out paperwork to the time the job is offered.

At the National Law Enforcement Explorers Conference in Flagstaff, there were officers from different states interested in working for DPS. The department is working aggressively toward recruiting those individuals, especially individuals with a Gang Immigration Team Enforcement Mission (GITEM) background.

Representative Pearce asked about the conditional hiring.

Mr. Vanderpool stated that DPS has not done the process with the new hires, however, the department has speeded up the process with the lateral officers. The department is bringing the laterals on before the hiring process is completed.

Senator Martin asked how many positions are being converted from management to boots on the ground.
Mr. Vanderpool said that the department has converted 3 senior commanders from a sworn position to a civilian position. Every position is subject to review to see what is the best use of that position for DPS and the citizens of Arizona.

Senator Martin asked how many will the department be able to convert by the end of the year.

Mr. Vanderpool responded by saying 1 or 2 more. DPS can report back to the Committee with better numbers after the DROP.

Senator Martin asked DPS how long it will take to fill the 28 positions.

Mr. Vanderpool stated one of the things we were looking at with the pay parity compensation was utilizing monies from 6 of those officers to help fill those positions. They gave a pay jump at the jump start and now they can subtract some of that money to fill those positions. We have 150 vacancies and it's about filling them.

Senator Martin said that he understood that DPS had to clear their additional vacancies that occur as a natural part of operating an agency of their size; however, he would like to see a long-term plan for when the 28 positions can be filled.

There was discussion on marked patrol vehicles.

*Representative Pearce moved a favorable review of the expenditure plans as outlined in option 1 with the qualifying footnote that DPS report to the Committee by November 1, 2006 on the updated salary comparison by classification based on both the top 5 highest paid markets as well as the markets with more than 100 sworn positions. The report is also to include information on the new jobs taken by sworn officers when they leave DPS* The motion carried.

**B. Review of Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission.**

Mr. Lorenzo said this is a review of DPS' expenditure plan relating to the $17 million appropriated to GITEM, including $7 million for an additional 100 sworn personnel, of which 50 will be border security and border enforcement and $10 million is for additional agreements with local governments and provide services for GITEM and other border security issues. DPS did not provide a comprehensive plan for expending the $17 million, however, they did identify a portion of each of those monies.

First, DPS intends to spend $1 million to purchase additional license plate readers as well as expand and integrate their GangNet system with other existing systems. The GangNet system is a gang member identification and tracking system and the additional license plate readers would be fixed to GITEM vehicles and they would be able to identify stolen vehicles. With respect to the $7 million appropriation, the department intends to expend $410,000 to expand their recruiting efforts. They indicated this will help them hire the additional personnel the Committee has appropriated in FY 2007.

Related to both expenditure plans, the JLBC Staff believes there are 3 options: The first would be a favorable review of the department's request requiring no further Committee approval. The second option would be favorable review of the $1 million appropriation for license plate readers and to expand the capabilities of the GangNet system and as well as the $410,000 for recruiting efforts. The third option is an unfavorable review of the request because the department has only identified the $1.4 million and not provided a comprehensive plan for the $17 million. If the Committee chooses option 2 or 3 there are a few requests that JLBC Staff has that include requiring DPS to submit a comprehensive expenditure plan related to the remaining monies, allow the department to expend approximately $500,000 to begin hiring personnel between now and their next report, and request that the next quarterly report include a timeline for hiring all additional personnel as well as how they attempt to accomplish their objectives of the legislation.

Representative Pearce spoke about the catch and release program. He further stated that DPS needs to negotiate with border safety on creating and funding a regional holding facility for illegal immigrants. The facility would retain anyone who gets caught in the state illegally.

Mr. Vanderpool said the department can incorporate that into the arrangement with the sheriff's office since they have the jails, detention officers, and the transportation. It will allow the detention officers who are trained to transport in order to keep police officers out on patrol.

Representative Burton Cahill asked what kind of response and participation has the department got from local entities and GITEM.

Mr. Vanderpool stated that the response has not been overwhelming and it is not the Arizona law enforcement or the Arizona sheriff's. Last year DPS attempted to enter into a 287 Memorandum of Understanding (MOU) with Immigration and Customs Enforcement (ICE) for transportation. DPS and ICE have meetings set up to discuss detention removal. Detention and removal are the people who drive the vans and take care of the immigrants from ICE.

Representative Pearce said the intent was that there are agencies that are willing to do the job of enforcing, which they have the authority to do so. The purpose for the 287 memorandum is for grant money for the jails. It was intended to give resources and additional help to local law enforcement. Agencies will be granted monies if they take more of an aggressive role with that enforcement activity.

Representative Burton Cahill asked about the effect of the existing language on the department's ability since there is not high participation from local entities until is it correct.

Mr. Vanderpool stated that there is local interest in GITEM. Several years ago the state had financial problems and GITEM was eliminated. GITEM will take time to rebuild and the chiefs and sheriffs understand and are willing to participate. The department has had issues with the 287 memorandum and ICE.

Representative Pearce moved *option 2 to give a favorable review of $1 million (of the $10 million) to purchase license plate readers and to expand the capabilities of the GangNet system, and $410,000 (of the $7 million) for recruiting efforts. The review would be with the provision that the GangNet and license plate reader improvements receive Project Investment Justification (PIJ) approval from the Government Information Technology Agency. Further, Representative Pearce moved the following:*

- *Require DPS to submit an expenditure plan prior to expending any additional monies beyond the reviewed expenditures. As a transitional measure, DPS could expend up to $500,000 to hire additional staff prior to the Committee reviewing the more complete expenditure plan.*
- *Request the next quarterly report include a timeline for hiring the additional personnel and accomplishing other objectives of the legislation.*
- *Subject to the conditions expressed in Laws 2006, Chapter 344, the Committee requests that the DPS pursue negotiations with a local law enforcement jurisdiction to establish a regional holding facility near the Arizona-Mexico border. The new facility shall act as a temporary holding facility for illegal aliens solely arrested for being in the country illegally. The facility may be used by federal, state, and local law enforcement agency so as to help bring an end to the catch-and-release practice in Arizona. The facility, however, can only accept individuals from a federal law enforcement agency if the federal government pays a per diem to directly defray the cost of operating the facility. The facility is intended to house illegal aliens until the federal Department of Homeland Security's Immigration and Customs Enforcement (ICE) or other qualified agency can take custody of, and remove the illegal alien from the United States. Prior to entering into a final agreement for the regional holding facility, DPS shall present the proposed provisions to the Joint Legislative Budget Committee for review.*
- *DPS is also requested to report on the concept of using a portion of the $10 million to assist local law enforcement in transporting illegal aliens to the United States Border Patrol or other qualified agency when the federal government otherwise refuses to take custody in a timely fashion. This information, including preliminary costs estimates, would be included in the first quarter FY 2007 report*. The motion carried.

**C. Review of the Expenditure Plan and Project Timeline of the Microwave Communications System Upgrade.**

Mr. Lorenzo stated this is a review of DPS' expenditure plan and project timeline for the microwave communication system. DPS currently operates a microwave communications system which is a series of towers and equipment, which comprise of 3 separate, but integrated loops located in southern, western, and northern portions of the state. The system transports voice and data over long distance throughout the state of Arizona. The Capital Outlay Bill appropriated a total of $12.4 million to upgrade the southern loop, which includes $4.1 million annually in FY 2007, FY 2008, and FY 2009. This consists of $2.5 million in state appropriations and $1.6 million in federal homeland security monies. The department's expenditure plan would upgrade the system in 3 fiscal years beginning in FY 2007 and commencing in FY 2009 and fund the construction of 3 new sites in the southern loop and the refurbishment of 16 sites in the southern loop and digital equipment for 15 sites. In addition, the department has identified 3 locations outside of the southern loop that are in need of repairs and the expenditure plan also funds the refurbishment of those sites.

Based on their timeline, DPS expects to hire a project manager by October 2006 and finish renovating the Phoenix Microwave room by January 2007. Additionally, the department anticipates awarding all RFP's for each of the specific sites by June 2007. The JLBC Staff recommends that the Committee give a favorable review of the department's request with the following provisions:

1. DPS is to provide an updated cost estimate for both the southern loop and the entire project in its December 31 report.
2. Request that the Committee review any expenditure from the contingency the department has identified. In their expenditure plan they have included $1.2 million as contingency, being they have not issued RFP's. This would require any expenditures above $100,000 from that contingency.

Mr. Pearce asked about the $1.6 million from Federal Homeland Security monies allocated to DPS.

Mr. Frank Navarrete, Director, Office of Homeland Security, said the deal was cut last year in writing and the department appropriated $1.6 million to the project and the federal government turned it down under the plan that DPS proposed. Given the federal guidelines the money had to be obligated so that money will not be reverted back to the federal government. The funds were reduced by 50% of the Homeland Security allocation for the entire state. The department is also looking into getting funds from other sources such as a direct funding process.

Senator Martin asked what was done with the $1.6 million from last year.

Mr. Navarrete stated it was reallocated to the 3 main priorities for the state based upon the state Homeland Security strategy. It was a continuation of interoperability program, exercises and training, and critical infrastructure protection.

Senator Martin asked if all of those monies have been expended and for a breakdown on the amount of monies were put into each program and if the money can be given back. He also asked what projects Homeland Security is funding rather than the microwave system.

Mr. Navarrete stated the money can be pulled back and it has been reallocated to our constituents throughout the state. They would have to sign a MOU with the department stating that their money can be used to fund this project. The department is also looking into federal 2007 money.

*Representative Pearce moved the JLBC Staff recommendation to give a favorable review of the request with the following provisions: DPS submit an updated cost estimate on the southern loop and the entire project in its December 31 report and DPS request Committee review of any expenditure from the $1.2 million contingency greater than $100,000.* The motion carried.

**AHCCCS – Review of KidsCare Behavioral Health Capitation Rate Changes.**

Mr. John Malloy, JLBC Staff, said this item is a review of a capitation rate adjustment for behavioral health services delivered to the KidsCare program. The capitation rate changes are estimated to cost the General Fund just under $200,000 in FY 2007. The Committee has 3 options; a favorable review with a stipulation that it does not constitute an endorsement of a supplemental request and an unfavorable review.

*Representative Pearce moved that the Committee give a favorable review with the stipulation that the favorable review does not constitute an endorsement of a supplemental request.* The motion carried.

**DEPARTMENT OF ECONOMIC SECURITY**

**A. Review of FY 2007 Expenditure Plan for Workforce Investment Act Monies.**

Mr. Eric Jorgensen, JLBC Staff, stated this is the annual appropriation of Workforce Investment Act (WIA) monies. Federal law does require that WIA monies be appropriated by the Legislature and a footnote in the budget requires that the JLBC review the expenditure plan prior to any expenditures from those appropriated funds. For FY 2007 DES was appropriated $3.6 million of the WIA monies. The expenditure plan includes $3.4 million. The remaining monies can be reviewed and expended at a later date. In FY 2006, there was $1.2 million that was never reviewed or expended. The current expenditure level is possible because of these unexpended monies from past years. The federal grant is expected to decline for FY 2007 and did decline in FY 2006. Of the proposed expenditure plan $2.6 million is for the core functions of the WIA program which have been reviewed and approved in previous years.

There is $1 million for 3 new programs in the WIA program. The first program is the Business Outreach Grants, this provides about $572,000 to increase employee participation in One-Stop activities and services, identify workforce needs and provide some tools and surveys for use by the One-Stop and WIA programs. The second item is the Master Teacher Program, where $250,000 is appropriated. This program appears to be like the Teach for America program that was appropriated $2 million in the last budget. It provides professional development to teachers in public schools who are in high poverty areas in the attempt to "train and retain these teachers". JLBC Staff recommends that the Committee request information on how this program interacts with Arizona Department of Education (ADE) monies included in the FY 2007 budget for Teach for America. The final item is $235,000 for the Governor's Office of Youth and Families to provide workforce development activities targeting youth, women, and early childhood professionals. The JLBC Staff recommends a favorable review of the expenditure plan and also that GCWP and DES report back to the Committee on the Master Teacher program and also that the performance measures that were included in the agency submission be included in the statewide workforce development annual report as well as the actual results from the evaluation process that is funded through the WIA monies.

Representative Pearce asked why the funding for the program evaluations are declining even as new programs are being added.

Ms Jodi Ryan, Director of Workforce Policy, Department of Commerce, stated the line item for program evaluation is declining due to the overall decrease of the federal allocation. The department did not utilize all of the initial funds from the evaluation last year. DES manages this program and cut the staffing. The department used 1 full-time employee and 1 consultant and this year only using 1 full-time employee.

Representative Pearce asked why the Master Teacher program is housed in the Governor's Office this year when previously housed in ADE.

Ms. Ryan stated there was an error when previous expenditure plans were submitted and it should have not stated that these monies were for ADE. Previously, the Department of Commerce administered the funding, now the Governor's Office will provide the administration. The money does not stay in the Governor's Office, but rather is passed through to a program housed at Northern Arizona University. There is no connection between ADE and Master Teacher program.

*Representative Pearce moved the JLBC Staff recommendation to give a favorable review of DES' expenditure plan with the exception of the Master Teacher program until the Committee gets further clarification.* The motion carried.

**B. Review of Incentive Funding from the Workforce Investment Act.**

Mr. Jorgensen stated this agenda item is a review of the expenditure plan for the incentive funds earned by meeting performance criteria in the WIA program in the Federal FY 2005. The plan is to spend $700,000 to develop the state health care workforce. The monies are split between ADE's Adult Education Services, the Career and Technical Education program, and local workforce investment areas and One-Stop. JLBC Staff recommends a favorable review of the expenditure plan and also recommends that the performance measures in the agency submission be reported back to the Committee in the statewide workforce development annual report.

*Representative Pearce moved the JLBC Staff recommendation to give a favorable review of DES' expenditure plan and that suggested performance measures be reported back to the Committee in the statewide workforce development annual report.* The motion carried.

**ARIZONA GAME AND FISH DEPARTMENT – Review of the Watercraft Operation Under the Influence Equipment Expenditure Plan**

Mr. Jeremy Olsen, JLBC Staff, stated this is a review of the Watercraft Operation Under the Influence (OUI) equipment expenditure plan for the Game and Fish Department. In FY 2007 the department received $160,000 for additional Watercraft Operation Under the Influence equipment. The department will use this appropriation to purchase 2 mobile trailers. The trailers will be equipped with blood alcohol content breath analysis testing equipment. JLBC Staff recommends a favorable review of the request.

Senator Burns asked if any other agencies or local governments have access to this equipment or is it strictly Game and Fish.

Mr. Mike Senn, Assistant Director of Field Operations, Game and Fish Department, stated that the equipment is available to any agencies that request to use them.

Senator Burns asked about the accuracy of the equipment on the trailers.

Mr. Senn responded by saying the equipment has to be certified and there are certain requirements from the Department of Health Services. The department gets them certified and they have their own internal calibration equipment. The equipment will not be on the trailer while it is being transported.

Mr. Pearce asked if the equipment is used for rural Arizona.

Mr. Senn responded by saying the equipment is used at remote facilities and to supplement existing facilities.

*Representative Pearce moved the JLBC Staff recommendation to give a favorable review of to the Game and Fish Department $160,000 expenditure plan for Watercraft OUI equipment.* The motion carried.

**ARIZONA STATE RETIREMENT SYSTEM – Review of FY 2007 Information Technology Expenditure Plan.**

Mr. Eric Jorgensen, JLBC Staff, stated this is a review of the Arizona State Retirement System (ASRS) FY 2007 Information Technology (IT) Plan. This plan has been ongoing for several years. The expenditure plan is mainly for the operating costs of the IT system that is being developed, as the last year of the development funds were appropriated in

FY 2006. The total development costs are estimated at $40.6 million and the money has been received at this point. Project completion is expected by the end of FY 2008. Last year there was concern that the project would not be completed on time. This caused the Government Information Technology Agency to change the project status from "green," which indicated that the project is expected to be completed as planned, to a "red" status, which indicates a serious risk to project phase completion by the planned date. There has been some reevaluation and adjustments to the project plan and the status has been moved to a yellow status and is likely to remain at yellow to provide GITA with enhanced oversight of the project.

The JLBC Staff recommends a favorable review of the expenditure plan and also recommends that the Committee modify their request to semi-annual progress reports by December 31 and June 30 until the project status is "green."

There was some discussion about Personal Services and Employee Related Expenditures.

Senator Burns asked when a "green" status is expected.

<u>Mr. Bob Solhime, Independent Advisory Consultant, ASRS</u>, said the project will remain on a "yellow" status because of the magnitude and complexity of the project. GITA would like to continue a significant level of oversight.

*<u>Representative Pearce moved</u> the JLBC Staff recommendation to give a favorable review of the FY 2007 expenditure plan submitted for the agency's IT Plan and that ASRS provide semi-annual reports on December 31 and June 30 until the agency's status "green" is achieved.* The motion carried.

**EXECUTIVE SESSION**

**ARIZONA DEPARTMENT OF ADMINISTRATION - Review for Committee the Planned Contribution Strategy for State Employee Health Plans as required under A.R.S. § 38-658A.**

*<u>Representative Pearce moved</u> that the Committee go into Executive Session.* The motion carried.

At 11:53 a.m. the Joint Legislative Budget Committee went into Executive Session.

*<u>Representative Pearce moved</u> that the Committee reconvene into open session.* The motion carried.

At 12:40 p.m. the Committee reconvened into open session. No Committee action was required on this item.

The meeting adjourned at 12:40 p.m.

Respectfully submitted:

________________________________________
Amanda Ruiz, Secretary

________________________________________
Richard Stavneak, Director

________________________________________
Senator Robert Burns, Chairman

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

STATE OF ARIZONA

# Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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



DATE: August 16, 2006

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

THRU: Richard Stavneak, Director

FROM: Tyler Palmer, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of Risk Management Deductible

**Request**

Deductible amounts charged to agencies for property, liability, or workers' compensation losses are subject to annual review in accordance with A.R.S. § 41-621. ADOA recommends a continuation of the current $10,000 deductible, and requests Committee review of this request.

As the deductible amounts have not changed for several years, ADOA also requests that future Committee reviews be limited to occasions in which changes in the deductible amounts are requested.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of the $10,000 deductible amount. With regards to future annual reviews, the Committee has at least the following options:

1. Grant the ADOA request to limit future Committee review to occasions in which ADOA proposes changes in the deductible amounts. The $10,000 deductible amount has not been changed at least since 1998.
2. Continue to require the annual review. Some members previously expressed concerns about ADOA having never applied a deductible against an agency and have used the annual review as a means to promote discussion of this issue.

(Continued)

**Analysis**

A.R.S. § 41-621 provides that the ADOA Director may impose deductibles of up to $10,000 per risk management loss on state agencies. Such deductible amounts are subject to annual review by the Joint Legislative Budget Committee (JLBC). ADOA maintains the right to waive any deductible for just cause or in the best interests of the state. To date, ADOA has not assessed any deductibles.

The deductible program has 3 components, as described below:

1) <u>Rule 14 Settlements and Judgments</u>
ADOA will charge a $10,000 deductible for each claim of $250,000 or more (those claims requiring JLBC approval under Rule 14), unless the agency implements an ADOA approved plan to limit or eliminate similar future losses. ADOA helps agencies develop these plans.

2) <u>Workers' Compensation Early Notification</u>
ADOA requires state agencies to report workers' compensation claims within 10 days of the employee's incident notification to a supervisor or other agency representative. If an agency fails to report within 10 days, Risk Management would charge a deductible of 20% of the claim, up to $10,000. If an agency reports 75% of all occurrences of industrial injury or illness within 2 days of the employee's notification to a supervisor or other agency representative, Risk Management will waive this deductible. ADOA provides extensive training to agencies on early reporting.

3) <u>Opportunistic Loss Prevention</u>
ADOA and each agency reach agreements on the agency's most significant opportunity for loss prevention. ADOA will assess a $10,000 deductible for each loss of this type unless the agency implements an approved loss prevention plan. All state agencies have submitted such plans. ADOA continues to work with agencies to update and improve those plans.

RS/TP:ym

JANET NAPOLITANO
GOVERNOR

WILLIAM BELL
DIRECTOR

**ARIZONA DEPARTMENT OF ADMINISTRATION**
RISK MANAGEMENT SECTION
100 North 15th Ave., Suite 301
PHOENIX, ARIZONA 85007-2635
(602) 542-2182 FAX (602) 542-1473

RECEIVED
JUL 27 2006
JOINT BUDGET COMMITTEE

July 27, 2006

The Honorable Robert Burns
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

Dear Senator Burns:

Pursuant to ARS 41-621E, the Director of the Department of Administration may impose on state departments, agencies, boards and commissions a deductible of not more than ten thousand dollars per loss that arises out of a property, liability or workers' compensation loss pursuant to this subsection. Deductible amounts established by the Director shall be subject to annual review by the Joint Legislative Budget Committee

The deductible amount established by the Director is $10,000 and has not changed for at least the last five years. Risk Management has used the deductible program as an incentive for state agencies to provide an adequate mitigation plan for large civil liability settlements that have been presented to the Committee. No deductibles have been issued during fiscal year 2006.

We do not plan to make any changes to the deductible amount. Going forward we respectfully request future Committee reviews be performed when deductible amounts change.

Sincerely,

Ray Di Ciccio

Ray Di Ciccio
State Risk Manager

xc: Representative Tom Boone, Vice Chairman
Charlotte Hossieni, ADOA Deputy Director
Paul Shannon, Budget Manager, Department of Administration
Tyler Palmer, Budget Analyst, JLBC
Matt Gottheiner, Budget Analyst, OSPB

STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

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

HOUSE OF REPRESENTATIVES



DATE: August 16, 2006

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Arizona Department of Transportation – Review of Third Party Quality Assurance Report

**Request**

The Arizona Department of Transportation (ADOT) requests review of its third party quality assurance. The General Appropriation Act for FY 2006 (Laws 2005, Chapter 286) included an increase of $140,000 and 3 FTE Positions for increased workload in the third party quality assurance program. ADOT is required to submit quarterly progress reports within 30 days after the end of each calendar quarter regarding increasing third party transactions, the status of third party quality assurance staffing, workload, backlog and the moratorium on accepting new third parties.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of the report, given the progress ADOT has made in reducing the third party quality assurance backlog and removing the moratorium on new third parties to conduct title transactions. The JLBC Staff recommends that the next quarterly report include the status of the 118 third parties that had previously been listed on the waiting list.

At its June 14, 2006 meeting, the Committee gave a favorable review of the third quarter FY 2006 report.

The General Appropriation Act for FY 2007 (Laws 2006, Chapter 344) would reduce or eliminate ADOT's third party waiting lists and improve ADOT's quarterly reports as follows:

- Adds $265,200 and 6 FTE Positions in FY 2007 for the Motor Vehicle Division (MVD) staff to contract with 145 authorized title and registration third parties.
- Adds $88,400 and 2 FTE Positions in FY 2007 for the MVD staff to eliminate the vehicle identification number inspections waiting list.
- Expands the current third party reporting footnote to include data and waiting lists for other third parties besides the title and registration third parties.

(Continued)

- Adds a footnote requiring that ADOT report to the Joint Legislative Budget Committee for review by November 30, 2006, whether ADOT can review less than 10% of the third party title and registration transactions and still retain statistical validity.

**Analysis**

MVD's third party quality assurance section has 23 approved FTE Positions in FY 2006 to check third party title transactions. The number of filled positions has decreased from 22 to 19 since the last quarterly report, due to 3 employees leaving. ADOT reports that they interviewed for the 4 vacant positions in July, and they have been filled. In addition, the General Appropriation Act adds 8 new FTE Positions in FY 2007 for MVD's third party section, including 6 new FTE Positions to contract with 145 authorized title and registration third parties and 2 new FTE Positions to eliminate the vehicle identification number inspections waiting list. ADOT will report on filling the 8 new FTE Positions next quarter.

ADOT reports that they reviewed 50,010, or 13.8%, of the 363,047 third party title transactions in the fourth quarter of FY 2006. It has been ADOT's policy that third party quality assurance reviews 10% of the title transactions for third parties who achieve 95% accuracy, and 100% of the work for those who do not. They had a backlog of 19,531 transactions to review, or 13 business days. ADOT reports that the backlog of title transactions to review does not equate to the backlog in business days, due to monthly variations in the volume of third party transactions. The following table shows this information for FY 2005 and FY 2006.

**Third Party Title Transactions Quality Assurance**

| | FY 2005 | | | | FY 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
| FTE Positions | | | | | | | | |
| Approved | 20 | 20 | 20 | 20 | 23 | 23 | 23 | 23 |
| Filled | 18 | 18 | 20 | 19 | 17 | 20 | 22 | 19 |
| 3rd Party Transactions | 261,508 | 287,846 | 299,835 | 325,218 | 374,190 | 327,112 | 381,926 | 363,047 |
| Number Reviewed | 43,447 | 46,558 | 34,582 | 46,125 | 41,829 | 50,673 | 57,592 | 50,010 |
| % Reviewed 1/ | 16.6% | 16.2% | 11.5% | 14.2% | 11.2% | 15.5% | 15.1% | 13.8% |
| Review Backlog 2/ | 50,895 | 53,564 | 47,673 | 46,175 | 38,604 | 37,286 | 39,930 | 19,531 |
| Business Days 2/ | 47 | 38 | 59 | 35 | 41 | 39 | 31 | 13 |
| 3rd Party Waiting List | 40 | 67 | 76 | 76 | 106 | 106 | 118 | 0 |

1/ Third party quality assurance reviews 10% of the title transactions for third parties who achieve 95% accuracy, and 100% of the work for those who do not.
2/ ADOT reports that the backlog of title transactions to review does not equate to the backlog in business days, due to monthly variations in the volume of third party transactions.

ADOT reports that the decrease in fourth quarter backlog is due to changes in the percent of work being quality controlled. ADOT began a pilot project to reduce the backlog. Under the pilot, ADOT checks 5% of transactions instead of 10% for entities with less than 10,000 transactions per month and meeting the standards, 2% of transactions instead of 5% for entities with more than 10,000 transactions per month and meeting the standards, and 50% of transactions instead of 100% for entities not meeting the standards. A footnote in the General Appropriation Act for FY 2007 requires that ADOT report to the Joint Legislative

(Continued)

Budget Committee for review by November 30, 2006, whether ADOT can review less than 10% of the third party title and registration transactions and still retain statistical validity.

ADOT reports that they have removed the moratorium for new third parties to conduct title transactions. They have tried to contact all of the 118 parties on the third quarter waiting list, and are processing the applications for those who are still interested. ADOT has reviewed and approved updated business plans for 7 of 78 entities. Effective August 15, 2006, one branch office has opened for business. Any new entities expressing interest in becoming a third party to conduct title transactions are told how to apply. ADOT categorizes the disposition of the 118 as follows:

**Disposition of 118 Entities on the Third Party Title Transactions Waiting List**

| Disposition | Entities |
|---|---|
| Updated Their Business Plans 1/ | 78 |
| Not Interested | 4 |
| Not In Business | 2 |
| Unreachable | 17 |
| No Response | 17 |
| | 118 |

1/ ADOT has reviewed and approved updated business plans for 7 of 78 entities. Effective August 15, 2006, one branch office has opened for business.

The following table shows the types and number of businesses on the third party title transactions waiting list for the second and third quarters of FY 2006.

**Third Party Title Transactions Waiting List**

| | FY 2006 | |
|---|---|---|
| | **2nd Qtr** | **3rd Qtr** |
| Individual Entrepreneurs | 32 | 37 |
| Check Cashing Companies | 26 | 27 |
| Automobile Dealerships | 14 | 15 |
| Title Service Companies | 11 | 12 |
| Income Tax Preparers | 5 | 5 |
| Insurance Companies | 4 | 4 |
| Credit Unions | 3 | 3 |
| Convenience Stores | 3 | 3 |
| Notary Services | 3 | 3 |
| Auto Recycling Dealers | 2 | 2 |
| Pay Day Loan Companies | 2 | 2 |
| INS Claims and Legal Document Preparation Companies | 1 | 1 |
| Driving Schools | 0 | 1 |
| Traffic Survival Schools | 0 | 1 |
| Trucking Companies | 0 | 1 |
| Private Investigations | 0 | 1 |
| **Total** | **106** | **118** |

In addition, MVD's appropriation also includes $250,000 and 5 FTE Positions in FY 2006 from the Highway User Revenue Fund to allow commercial driver schools and up to 15 motorcycle dealers to become authorized third parties to administer their respective driver license examination. These entities

(Continued)

constitute a second type of third parties, for whom MVD provides oversight of work that is not MVD work, such as driver training schools and traffic survival schools.  ADOT does not report on this type of third party in their quarterly reports required by the Chapter 286 footnote.

RS/BH:ym

# Arizona Department of Transportation

## Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

ADOT

Janet Napolitano
*Governor*

Victor M. Mendez
*Director*

David P. Jankofsky
*Deputy Director*


July 31, 2006


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JOINT BUDGET COMMITTEE


The Honorable Robert Burns
Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Senator Burns:

Laws of 2005, Chapter 286, Section 98 requires that the Department of Transportation report to the Joint Legislative Budget Committee on the progress of increasing third party transactions, the status of third party quality assurance staffing, workload, backlog and the moratorium on accepting new third parties.

<u>Progress on Increasing Third Party Transactions:</u>

- A 12% increase in third party title transactions over 3rd quarter FY05.

***3rd Party Transactions***

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|---|---|---|---|---|
| ***FY2006*** | 374,190 | 327,112 | 381,926 | 363,047 |
| ***FY2005*** | 261,508 | 287,846 | 299,835 | 325,218 |

For all of FY 2006 our transactions increased 23.1%, 271,868 transactions.

<u>Status of Third Party Quality Assurance Staffing:</u>

The Third Party Management Support Unit has 23 authorized FTEs. In the fourth quarter of FY 2006, 19 positions were filled. The four (4) vacant positions have been advertised; interviews will be completed by the end of July 2006.

***Q/A Staff Status***

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|---|---|---|---|---|
| ***FY2006*** | 16 | 17 | 22 | 19 |

In the fourth quarter we lost 3 employees; one employee resigned to move back east, another resigned with no explanation and the third became vacant due to a death.

Workload:

- Number of Third Party Transactions Reviewed
  - A 9% increase for reviewed transactions over 4th quarter FY05.

***Transactions Reviewed***

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|---|---|---|---|---|
| ***FY2006*** | 41,829 | 50,673 | 57,592 | 50,010 |
| ***FY2005*** | 43,447 | 46,558 | 34,582 | 46,125 |

For all of FY 2006 third party transactions reviewed increased 17.2%, 29,392 more reviews.

- Average Number of Reviews Per Employee Per Month:
  - A 20% increase for the number of reviews per employee over 4th quarter FY05.

***Average Review Per Employee***

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|---|---|---|---|---|
| ***FY2006*** | 1,092 | 1,876 | 1,600 | 1,667 |
| ***FY2005*** | 1,299 | 1,411 | 1,153 | 1,398 |

Over the full fiscal year the average number of reviews per employee rose from 1,315 per month to 1,559 per month, an 18.6% increase.

- Response to E-Mail Inquires:
  - A 7% increase for the number of e-mail responses pertaining to quality assurance review over 4th quarter FY05.

***Average E-mail Response***

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|---|---|---|---|---|
| ***FY2006*** | 2,600 | 2,657 | 3,235 | 3,183 |
| ***FY2005*** | 2,024 | 2,400 | 2,484 | 2,979 |

In FY 2006 staff responded to 18.1% more e-mails, a 1,788 increase.

Backlog:

- Fourth quarter of FY 2006, there was a 13-business day backlog of 19,531 title transactions reporting a 63% decrease pertaining to transactions (this decrease is due to changes in the percent of work to be quality controlled).

***Backlog in Business Days***

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|---|---|---|---|---|
| ***FY2006*** | 41 | 39 | 31 | 13 |
| ***FY2005*** | 47 | 38 | 59 | 35 |

***Backlog in Title Transactions***

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|---|---|---|---|---|
| ***FY2006*** | 38,604 | 37,286 | 39,930 | 19,531 |
| ***FY2005*** | 50,895 | 53,564 | 47,673 | 46,175 |

In the 4th quarter we devoted additional staff resources to this effort and have reduced it to its lowest point in the last 2 fiscal years.

Status of the Moratorium:

The elimination of the moratorium is a 4 phase process:

Phase 1: Waiting list is scrubbed to determine continued interest.
Phase 2: A selection panel reviews applicants
Phase 3: Provider application and implementation.
Phase 4: Third party opens or business

Phase I-Waiting List. We have contacted all of the interested applicants who were on the waiting list to confirm their continued interest in the program. Some of the applicants were no longer interested, no longer in business, or unreachable. However, the majority of the applicants verified their continued interest in the program and have forwarded updated business plans as requested.

Everyone on the waiting list who expressed a continued interest is now in Phase 2.

Phase 2-Selection Panel. Once we receive updated business plans, a selection panel reviews the applicant's business plan. Once approved an applicant is moved to the implementation phase, Phase 3.

Phase 3- Application Process and Implementation. The application and implementation phase consumes the most time, approximately 2 to 3 months. It is very comprehensive and includes the installation of data lines, creation of a bank account for daily deposits, ordering and configuration of networking equipment, site visits, ordering supplies, training, criminal records checks, certification, contract review and completion, review and approval of signage, coordinating with the Information Technology Group to create office identification numbers, batch numbers, user identification numbers, etc.

Phase 4-Third Party Opens for Business.

At this time, those applicants who were on the waiting list as a result of the moratorium are no longer on the list. The list has been eliminated. Those that expressed a continuing interest are now in phase 2 or phase 3.

Any new applicants that express interest in the program are no longer placed on a waiting list and are provided instructions to prepare an application.

***Moratorium***

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|---|---|---|---|---|
| ***FY2006*** | 106 | 106 | 118 | 0 |
| ***FY2005*** | 40 | 67 | 76 | 76 |

If you have any questions, please contact Terry Trost at 602-712-8981.

Sincerely,

Victor M. Mendez

cc: Representative Russell Pearce, Vice-Chairman, JLBC
Richard Stavneak, Director, JLBC
Gary Yaquinto, Director, OSPB
Bob Hull, Principal Research/Fiscal Analyst, JLBC
Marcel Benberou, Principal Budget Analyst, OSPB

STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

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STEVE HUFFMAN
LINDA J. LOPEZ
STEPHEN TULLY

DATE: August 16, 2006

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

THRU: Richard Stavneak, Director

FROM: Russell Frandsen, Fiscal Analyst

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

**Request**

Pursuant to a 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 $8.2 million General Fund (GF) and $21.8 million Total Funds (TF).

**Recommendation**

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

The recommended provisions are as follows:

1. DES notify the Committee of all future statewide provider rate adjustments in advance of their implementation, along with information on their budgetary impact. This would include any provider rate categories still under review by the department.

2. By October 31, 2006, DES report to the Committee its recommendations for an inflationary index to be used when adjusting the benchmarks.

**Analysis**

The FY 2007 General Appropriation Act (Laws 2006, Chapter 344) includes the following footnote in the DES budget:

(Continued)

> "The amounts above include $8,171,200 from the state General Fund and $13,596,200 from matching federal expenditure authority to raise rates of community service providers and independent service agreement providers contracting with the Division of Developmental Disabilities to the equivalent of 99.69% of FY 2006 market rates for all services on the published rate schedule. It is the intent of the Legislature that the division request the AHCCCS to approve a capitation rate increase retroactive to July 1, 2006 to make provider rate increases effective July 1, 2006. By July 1, 2006, the division shall have obtained approval for a rate increase implementation proposal from the Arizona Health Care Cost Containment System. By August 1, 2006 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 2006. Payment for retroactive reimbursement due for services provided in July 2006 shall be paid to providers no later than September 15, 2006."

As referenced in the footnote above, the Legislature added $8.2 million from the General Fund ($21.8 million in Total Funds) to help DES pay higher rates to providers for services. The additional monies were intended to bring reimbursement levels to at least 99.69% of the FY 2006 benchmark.

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. DES has apparently used different methodologies over the years to make these adjustments. As a result, the JLBC Staff has recommended that DES report to the Committee by October 31 on the use of a standard inflation index for future benchmark adjustments.

As seen in *Table 1*, 9 different provider rate categories are being raised: Home-Based Services, Day Treatment, Group Homes, Nursing/Home Health, Specialized Habilitation, Person Centered Planning, Therapies, Transportation and Employment Services.

- Home-Based Services provide qualified individuals to perform various hygiene and supervisory tasks for clients in their homes.
- Day Treatment programs help clients maximize their abilities through therapeutic activities and learning life skills.
- Group Homes provide clients with shelter, food and supervision.
- Nursing/Home Health serves the medical needs of clients.
- Therapies include occupational, physical and speech therapies.
- Specialized Habilitation provides behavioral, music and communication therapy.
- Person Centered Planning pays for the development of a service plan tailored to the client.
- Transportation provides clients with transportation to their day treatment programs.
- Employment Services supervises and coordinates employment opportunities for clients.

All rates will receive an upward adjustment, except for some categories of habilitation, which in FY 2006 were paid at 106.72% to 114.58% of the benchmark rate. DES has indicated that rates for support coordination, therapy, and daily community protection are currently under review. Support coordination did not receive an increase, while therapy and community protection have already received an 8.45% and 8.23% increase, respectively. JLBC Staff has asked DES to explain how they would fund any rate increases and to notify Staff when the rates are finalized.

(Continued)

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.

**Table 1**

**Developmentally Disabled Provider Rates**

| | FY 06 % of FY 05 Benchmarks | FY 07 % of FY 07 Benchmarks |
|---|---|---|
| Home-Based Services | 97.61% | 100.00% |
| - Habilitation (Individuals) | 112.09% | 105.05% |
| Day Treatment | 97.61% | 100.00% |
| Group Home | 97.61% | 100.00% |
| Nursing/Home Health | 97.61% | 100.00% |
| Specialized Habitation | 106.06% | 105.60% |
| Person Centered Planning | 100.00% | 100.00% |
| Therapies | 101.94% | 100.00% |
| Day Treatment Transportation | 97.61% | 110.57% |
| Employment Services | 97.61% | 100.00% |

Currently there is no legislative requirement for DES to report provider rate increases unconnected to appropriations; however, an increase in provider rates represents an increase in the state's financial obligations. In its FY 2007 budget, DES requested provider rate increases to adjust for inflation in FY 2006 and FY 2007. Subsequent to its budget request, DES raised provider rates 4.00% on January 1, 2006 without amending its budget request or notifying the Committee. DES did not inform JLBC Staff of the change until May 2006. JLBC Staff recommends requiring DES to submit a plan for committee review before implementing any future raises in statewide provider rates.

The JLBC Staff recommends a favorable review of the proposal because all services will be brought to at least the target of 99.69% of the FY 2006 benchmark. Because DES lowered the FY 2006 inflation from 3.20% to 2.00%, rates will be paid at 100% of the revised FY 2007 benchmark rates. DES indicates that it will meet the September 15th deadline to complete retroactive payments to providers.

RS/RF:ar

xc: LMo, Kt, GSh
orig: RS


**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

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

Janet Napolitano
Governor

Tracy L. Wareing
Director


AUG 1 2006

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JOINT BUDGET COMMITTEE

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

Dear Senator Burns:

The Department of Economic Security requests to be placed on the Joint Legislative Budget Committee's agenda for review of the Division of Developmental Disabilities' (DDD) implementation plan for a provider rate increase pursuant to Laws 2006, Chapter 344, Section 10 which includes the following footnote:

> The amounts above include $8,171,200 from the state general fund and $13,596,200 from matching federal expenditure authority to raise rates of community service providers and independent service agreement providers contracting with the division of developmental disabilities to the equivalent of 99.69 per cent of fiscal year 2005-2006 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 to approve a capitation rate increase retroactive to July 1, 2006 to make provider rate increases effective July 1, 2006. By July 1, 2006, the division shall obtain approval for a rate increase implementation proposal from the Arizona health care cost containment system. By August 1, 2006, 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 2006. Payment for retroactive reimbursement due for services provided in July 2006 shall be paid to providers no later than September 15, 2006.

Laws 2005, Chapter 286, Section 29 provided funding to raise provider rates to 97.61 percent of the fiscal year 2005 benchmark rates. The JLBC favorably reviewed the Department's implementation plan for this increase in September 2005. Subsequent to that adjustment, published provider rates were increased by 4 percent on January 1, 2006. A 4 percent rate boost for six months is roughly equivalent to increasing rates by 2 percent for a full year. That increase did not change the percent of benchmark, but was intended to account for inflation so that rates remained at the same percent of benchmark. One-half of that amount was applicable to fiscal year 2007 inflation.

Using the funding provided in the fiscal year 2007 budget, rates will be increased 1.6 percent for fiscal year 2007 inflation (the 3.6 percent average annual trend rate identified in AHCCCS' actuarial memorandum less the 2 percent included in the January 1, 2006 increase). Additionally, rates will be moved from 97.61 percent of the fiscal year 2007 benchmark to 100 percent. In total, most provider rates will increase approximately 4.1 percent.

Services that already exceeded 97.61 percent of the benchmark rates will not receive a benchmark increase, but will be increased for inflation. Employment support services previously were set at 99.00 percent of the benchmark and will receive a 1 percent increase in addition to the inflationary adjustment. Services previously set at 100 percent of the benchmarks will only be adjusted for inflation. These services include:

- Habilitation, Vendor Supported Adult and Child Developmental Home
- Habilitation, Nursing Supported Group Home
- Occupational, Physical and Speech Therapy
- Occupational, Physical and Speech Therapy Evaluation
- Support Coordination (Case Management)
- Specialized Habilitation, Behavioral (both Bachelor's and Master's)
- Habilitation, Communication (all levels)
- Transportation services
- Person Centered Planning

A new published rate schedule reflecting this methodology will be released in August. We anticipate that providers will begin filing claims with the new rates in September for services delivered in August. Retroactive payments for services delivered in July and billed in August will be made by September 15. Details regarding the specific impact to all published rates are attached.

Though therapy services are currently reimbursed at 100 percent of the benchmark, these rates are under review. The result of that review will likely be an increase to the rates for these services. Therapy services will receive the inflationary adjustment and will likely receive another prospective increase when the new benchmark rates are implemented.

The benchmark rates for support coordination and daily community protection are also under review. Support coordination rates are benchmarked to the rates paid to the Department by AHCCCS. These rates will be adjusted after a review of the new rates from AHCCCS. Daily community protection rates will be increased for inflation and the benchmark adjustment. This service is currently under review and prospective changes will be reflected in a contract amendment.

It has been a long term goal of the Department to bring adopted rates to 100 percent of the benchmark and to annually adjust the benchmark rates for inflation. The Department is appreciative of the support from the Governor's Office and the Legislature that has allowed the realization of this goal.

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

Sincerely,

Tracy L. Wareing

Attachment

c: Representative Tom Boone, Vice Chairman
Senator Marsha Arzberger
Senator Timothy Bee
Representative Andy Biggs
Representative Meg Burton Cahill
Senator Robert Cannell
Senator Jorge Luis Garcia
Representative Pamela Gorman
Senator Jack Harper
Representative Steve Huffman
Representative Linda Lopez
Senator Dean Martin
Representative Russell Pearce
Representative Stephen Tully
Senator Jim Waring
Richard Stavneak, Director, Joint Legislative Budget Committee
Gary Yaquinto, Director, Governor's Office of Strategic Planning and Budgeting

| | Published SFY06 Rates | | | SFY07 Provider Rate Increase | | | | |
|---|---|---|---|---|---|---|---|---|
| | Benchmark | Adopted | A-BM Ratio [1] | Benchmark % Increase | Benchmark | A-BM Ratio | Adopted | % Change (Adopted) |
| **Home Based Agency Providers** | | | | | | | | |
| Attendant Care (Non-Fam Mbr) | $15.34 | $14.97 | 97.59% | 1.60% | $15.59 | 100.00% | $15.59 | 4.11% |
| Habilitation - Hourly | $19.58 | $19.11 | 97.60% | 1.60% | $19.89 | 100.00% | $19.89 | 4.10% |
| Habilitation - Indep Setting | $19.79 | $19.31 | 97.57% | 1.60% | $20.11 | 100.00% | $20.11 | 4.13% |
| Housekeeping | $14.13 | $13.80 | 97.66% | 1.60% | $14.36 | 100.00% | $14.36 | 4.03% |
| Respite - Daily (in excess of 13 hrs) | $183.89 | $179.50 | 97.61% | 1.60% | $186.83 | 100.00% | $186.83 | 4.08% |
| Respite - Hourly | $15.04 | $14.68 | 97.61% | 1.60% | $15.28 | 100.00% | $15.28 | 4.09% |
| **Home Based Independent Providers** | | | | | | | | |
| All Codes | Varies by client | | | Varies by client | | | | 4.00% |
| **Day Treatment and Training** | | | | | | | | |
| Day Treatment & Training - Adult (low ratio) | $10.04 | $9.80 | 97.61% | 1.60% | $10.20 | 100.00% | $10.20 | 4.09% |
| Day Treatment & Training - 3-18 (low ratio) | $9.69 | $9.46 | 97.63% | 1.60% | $9.85 | 100.00% | $9.85 | 4.07% |
| **Residential** | | | | | | | | |
| Habilitation - Dev Hm - Vendor - Adult | $102.84 | $109.75 | 106.72% | 1.60% | $104.49 | 105.04% | $109.75 | 0.00% |
| Habilitation - Dev Hm - Vendor - Child | $104.89 | $111.95 | 106.73% | 1.60% | $106.57 | 105.05% | $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) | $158.57 | $154.71 | 97.57% | 1.60% | $161.11 | 100.00% | $161.11 | 4.13% |
| Habilitation - Group Home | $18.50 | $18.05 | 97.57% | 1.60% | $18.80 | 100.00% | $18.80 | 4.13% |
| Hab-Community Protection - Daily (lowest rate) | $176.31 | $172.11 | 97.62% | 1.60% | $179.13 | 100.00% | $179.13 | 4.08% |
| Hab-Community Protection - Hourly | $20.57 | $20.08 | 97.62% | 1.60% | $20.90 | 100.00% | $20.90 | 4.08% |
| Resid. Room and Board | Varies by location, size and occupancy. Adopted equals 97.61% | | | Varies based on location, size and occupancy. Adopted at least 100% of Benchmark | | | | 4.00% |
| **Professional** | | | | | | | | |
| Home Health Aide | $18.13 | $17.69 | 97.57% | 1.60% | $18.42 | 100.00% | $18.42 | 4.13% |
| Cert. HHA - Intermit - RN/LPN (lowest rate) | $38.70 | $37.77 | 97.60% | 1.60% | $39.32 | 100.00% | $39.32 | 4.10% |
| Cert. HHA - Continuous - RN/LPN (lowest rate) | $619.12 | $604.32 | 97.61% | 1.60% | $629.03 | 100.00% | $629.03 | 4.09% |
| Occupation Therapy - Evaluation | $129.31 | $129.31 | 100.00% | 1.60% | $131.38 | 100.00% | $131.38 | 1.60% |
| Occupational Therapy | $59.89 | $59.89 | 100.00% | 1.60% | $60.85 | 100.00% | $60.85 | 1.60% |
| Physical Therapy - Evaluation | $129.31 | $129.31 | 100.00% | 1.60% | $131.38 | 100.00% | $131.38 | 1.60% |
| Physical Therapy | $59.89 | $59.89 | 100.00% | 1.60% | $60.85 | 100.00% | $60.85 | 1.60% |
| Speech Therapy - Evaluation | $129.31 | $129.31 | 100.00% | 1.60% | $131.38 | 100.00% | $131.38 | 1.60% |
| Speech Therapy Treat/ Individual | $59.89 | $59.89 | 100.00% | 1.60% | $60.85 | 100.00% | $60.85 | 1.60% |
| **Support Coord.** | | | | | | | | |
| Support Coordination | Varies. Adopted equals 100% of Benchmark. | | | Varies. Adopted equals 100% of Benchmark. | | | | 0.00% |
| **Employment** | | | | | | | | |
| Center-Based Employment (high density) | $5.26 | $5.21 | 99.05% | 1.60% | $5.34 | 100.00% | $5.34 | 2.58% |
| Group Supported Employment (lowest ratio) | $17.44 | $17.26 | 98.97% | 1.60% | $17.72 | 100.00% | $17.72 | 2.66% |
| Individual Supported Employment (high density) | $26.74 | $26.47 | 98.99% | 1.60% | $27.17 | 100.00% | $27.17 | 2.64% |
| Employment Support Aide (lowest rate) | $15.30 | $15.14 | 98.95% | 1.60% | $15.54 | 100.00% | $15.54 | 2.67% |
| **Specialized Habilitation** | | | | | | | | |
| Specialized Habilitation with Music Component | $38.25 | $37.34 | 97.62% | 1.60% | $38.86 | 100.00% | $38.86 | 4.08% |
| Specialized Habilitation, Behavioral-B | $34.91 | $40.00 | 114.58% | 1.60% | $35.47 | 112.78% | $40.00 | 0.00% |
| Specialized Habilitation, Behavioral-M | $53.88 | $60.00 | 111.36% | 1.60% | $54.74 | 109.60% | $60.00 | 0.00% |
| Habilitation, Communication (lowest rate) | $18.87 | $19.00 | 100.69% | 1.60% | $19.17 | 100.00% | $19.15 | 0.79% |
| **Transportation** | | | | | | | | |
| Transportation - Day Programs3 | $8.67 | $9.41 | 108.54% | 1.60% | $8.81 | 110.57% | $9.74 | 3.51% |
| Transportation - Other - Non-Day Programs | Varies according to AHCCCS | | | Varies according to AHCCCS schedule. | | | | |
| **Other** | | | | | | | | |
| Person Centered Planning | $400.00 | $400.00 | 100.00% | 1.60% | $406.40 | 100.00% | $406.40 | 1.60% |

[1] Adopted-to-Benchmark ratio for SFY06 was set at approximatly 97.61 per cent for most services.

[2] Rates for Habilitation, Nursing Supported Group Home are set to 80 per cent of the current Intermediate Care Facitliy 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 16, 2006

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

THRU: Richard Stavneak, Director

FROM: Russell Frandsen, Fiscal Analyst

SUBJECT: Department of Economic Security - Review of Long Term Care Capitation Rate Changes

**Request**

Pursuant to a FY 2007 General Appropriation Act footnote, the Department of Economic Security (DES) is presenting its expenditure plan for proposed capitation rate adjustments in the federal Title XIX Long Term Care (LTC) program. Capitation rates are a fixed amount paid for every person in the Developmentally Disabled Long Term Care Program. The proposed capitation adjustments are related to medical inflation and utilization increases and compliance with the *Ekloff v. Rodgers* lawsuit, but do not reflect provider rate increases. The provider rate increases are addressed in a separate memo.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of DES' capitation rate changes with the provision that the favorable review does not constitute an endorsement of a supplemental request. The proposed rates appear to be funded from the existing DES budget, but we are having further discussions with DES on whether the proposed adjustments will require a supplemental. The DES capitation rate provides a 5.8% increase in funds over FY 2006.

**Analysis**

DES uses actuarial staff at the Arizona Health Care Cost Containment System (AHCCCS) to determine their capitation rates. The actuaries use claims, encounter data, and projected enrollment to determine the actual costs of services and recommend changes in the capitation rates.

The proposed rates reflect 4 primary adjustments:

1. A $23.7 million, or 3.7%, increase for medical inflation and utilization ($7.9 million General Fund (GF) and $15.8 million Federal).
2. A $7.0 million, or 1.1%, increase to provide incontinence briefs ($2.3 million GF and $4.7 million Federal) as mandated by the *Ekloff v Rodgers* case.

(Continued)

3. A $4.7 million, or 0.7%, increase for the Chapter 1 salary increase ($1.6 million GF and $3.1 million Federal).
4. A $1.9 million, or 0.3%, increase in administrative costs ($600,000 GF and $1.3 million Federal). The FY 2007 budget did not include an increase for additional administrative staff. These monies, however, would be available for increased state employee health and retirement costs.

The revised per member per month (PMPM) rates are shown below. Almost all clients served by DES in the LTC program are categorized as enrolled.

| **Category** | **Current 1/1/06-6/30/06 Rate** | **New 7/1/06-6/30/07 Rate** | **% Change** |
|---|---|---|---|
| Enrolled (Non-Ventilator Dependent) | $ 2,973.54 | $ 3,142.13 | 5.7% |
| Ventilator Dependent | $11,949.53 | $12,176.43 | 1.9% |

The increases in the Enrolled category are allocated as follows:

| **Category** | **Current 1/1/06-6/30/06 Rate** | **New 7/1/06-6/30/07 Rate** | **% Change** |
|---|---|---|---|
| Aid to Individuals | $2,198.56 | $2,328.29 | 5.90% |
| Acute Care Services | 326.17 | 350.15 | 7.35% |
| Case Management Services | 127.13 | 144.53 | 13.69% |
| Administration | 220.10 | 211.72 | (3.81)% |
| Risk/Profit | 43.09 | 45.52 | 5.64% |
| Share of Cost | -2.88 | -2.98 | 3.47% |
| Premium Tax | 61.37 | 64.90 | 5.75% |
| **Total - DES LTC** | **$2,973.54** | **$3,142.13** | **5.67%** |
| Behavioral Health (DHS pass-through) | 95.03 | 102.88 | 8.26% |
| **Total Enrolled Rate** | **$3,068.57** | **$3,245.01** | **5.75%** |

All categories reflect increases for medical inflation and utilization. The increases in the Aid to Individuals also reflect the new inclusion of incontinence briefs. The Share of Cost category reflects a pass-through to AHCCCS for its portion of the services.

The $23.7 million ($7.9 million GF) for medical inflation and utilization represents a 3.7% increase over the FY 2006 rates. The approved FY 2007 budget includes a 3.0% growth estimate for medical inflation and utilization.

At its May 2, 2006 meeting, the Committee received information regarding the status of the *Ekloff v. Rodgers* incontinence brief lawsuit. At that time, the state was appealing the decision reached by the courts that the state was responsible for the cost of incontinence briefs. Effective July 1, 2006 the state has agreed to cover up to 240 incontinence briefs a month for clients age 3 to 21. DES has included incontinence brief costs of $7.0 million ($2.3 million GF) in its FY 2007 capitation rate. Laws 2006, Chapter 331, added statutory language that limits capitation rate adjustments to utilization of existing services and inflation unless those changes are approved by the Legislature or specifically required by federal law or court mandate. As there was no money budgeted in FY 2007 for costs associated with *Ekloff v. Rodgers*, it is unclear how DES is financing these costs. JLBC Staff has asked DES for a clarification of this issue.

RS/RF:ar

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

Janet Napolitano
Governor

Tracy L. Wareing
Director

RECEIVED
JUL 21 2006
JOINT BUDGET COMMITTEE

JUL 21 2006

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

Dear Senator Burns:

The Department of Economic Security (DES) requests to be placed on the Joint Legislative Budget Committee's agenda for review of the Division of Developmental Disabilities' (DDD) fiscal year 2007 capitation rates pursuant to Laws 2005, Chapter 286 which includes the following footnote:

> The department shall report to the joint legislative budget committee by March 31 of each year on preliminary actuarial estimates of the capitation rate increases for the following fiscal year. Before implementation of any changes in capitation rates for the long-term care program, the department of economic security shall report its expenditure plan to the joint legislative budget committee for its review. Unless required for compliance with federal law, before the department implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of $500,000 or greater for a given fiscal year, the department shall submit the policy changes to the joint legislative budget committee for review. The department shall also report quarterly to the joint legislative budget committee itemizing all policy changes with fiscal impacts of less than $500,000 in state costs.

In a March 30, 2006 letter addressed to Richard Stavneak, the Department provided a preliminary estimate that projected capitation rate growth of between four and six percent. As requested, additional background was provided in a letter to Mr. Stavneak dated April 11, 2006. That letter indicated that the Arizona Health Care Cost Containment System's (AHCCCS) actuary staff developed the rates using inflation and trend analysis, including both financial and encounter data. The resulting rates were then submitted to the federal Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS). CMS has recently approved the AHCCCS proposed DDD capitation rates.

The following table outlines the rates in effect through June 30, 2006 and those that have been approved for state fiscal year 2007, excluding the behavioral health component. Additionally, more detailed breakdowns of the components of the capitation rates are attached.

| | Rate Through June 30, 2006 | Approved Rate for SFY 2007 |
|---|---|---|
| Non-Ventilator Dependent | $ 2,973.54 | $ 3,142.13 |
| Ventilator Dependent | $ 11,949.53 | $ 12,176.43 |

The 5.67 percent growth in the non-ventilator dependent capitation rate is greater than the 3.00 percent estimated by the JLBC staff and ultimately incorporated in the fiscal year 2007 appropriations act. Three factors account for the majority of the difference. First, for the second consecutive year, the increase in the administrative component of the rate has not been funded. Second, the state employee pay raise appropriated in Laws 2006, Chapter 001 was not included in the JLBC's funding recommendation. Third, in its March 2006 decision in Ekloff vs. Rodgers, the United States District Court ruled that Arizona must pay for prescribed incontinence briefs for Medicaid-eligible individuals under twenty-one years of age. Excluding these differences, the capitation rate would have increased by less than four percent.

This capitation rate is independent of the provider rate increase included in Laws 2006, Chapter 344. The implementation plan for the provider rate increase will be submitted to the JLBC for review by August 1, 2006.

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

Sincerely,

Tracy L. Wareing

Tracy L. Wareing

Attachments

c: Representative Tom Boone, Vice Chairman
Senator Marsha Arzberger
Senator Timothy S. Bee
Representative Andy Biggs
Representative Meg Burton Cahill
Senator Robert Cannell
Senator Jorge Luis Garcia
Representative Pamela Gorman
Senator Jack W. Harper
Representative Steve Huffman
Representative Linda J. Lopez
Senator Dean Martin

## Arizona Health Care Cost Containment System (AHCCCS)

**Department of Economic Security / Department of Developmental Disabilities**
**Contract Period 07/01/2006 - 06/30/2007 Capitation Rate Development**
**Non-Ventilator Dependent**

**Previous Period:** 01/1/2005 - 06/30/2006
**Contract Period:** 07/01/2006 - 06/30/2007
**Trend Months:** 15
**Projected Member Months[1]:** 219,962

| | CY06 Capitation Rate PMPM | CY07 Capitation Rate PMPM | Effective Percentage Change from Current Rate |
|---|---|---|---|
| **Institutional Services** | | | |
| Institutional - Coolidge | $ 67.30 | $ 69.60 | |
| Institutional - Provider Services | $ 48.14 | $ 49.78 | |
| **Total Institutional Services** | $ 115.44 | $ 119.38 | 3.41% |
| **Home and Community Based Services** | | | |
| HCBS | $ 2,083.12 | $ 2,177.28 | |
| **Sub-Total Home and Community Based Services** | $ 2,083.12 | $ 2,177.28 | 4.52% |
| **Court Ordered Program** | | | |
| **Incontinent[2]** | $ - | $ 31.63 | |
| **Total Institutional and Home and Community Based Services** | $ 2,198.56 | $ 2,328.29 | 5.90% |
| **Acute Care Services[3]** | | | |
| **Total Acute Care Services** | $ 326.17 | $ 350.15 | 7.35% |
| **Case Management Services** | $ 127.13 | $ 144.53 | 13.69% |
| **Administration[4]** | | | |
| Administration Load | $ 217.99 | $ 211.72 | |
| **Total Administration** | $ 217.99 | $ 211.72 | -2.88% |
| *Calculated using (Total NF + HCBS + Acute Care + Case Mgmt)* | | | |
| **Risk / Contingency[5]** | $ 43.05 | $ 45.52 | 5.74% |
| *Calculated using (Total NF + HCBS + Acute Care + Case Mgmt + Administration)* | | | |
| **Share of Cost** | $ (2.88) | $ (2.98) | 3.47% |
| **Total DES/DDD Non-Ventilator Rate** | $ 2,910.02 | $ 3,077.23 | 5.75% |
| **Total Behavioral Health Rate** | $ 95.03 | $ 102.88 | 8.26% |
| **Premium Tax (2%)** | $ 61.33 | $ 64.90 | 5.82% |
| **Grand Total Non-Ventilator and Behavioral Health Rate** | $ 3,066.38 | $ 3,245.01 | 5.83% |
| **Grand Total DES/DDD Non-Ventilator Rate[6]** | $ 2,971.35 | $ 3,142.13 | 5.75% |
| **Grand Total Behavioral Health Rate** | $ 95.03 | $ 102.88 | 8.26% |

*1 - Projected Member Months represents the 12 month period from 07/01/2006 - 06/30/2007.*
*2 - Incontinent Briefs and Diapers.*
*3 - Acute PMPM is net of reinsurance and net of Part D.*
*4 - Administration includes: 7.50% for general administration*
*5 - Risk / Contingency at 1.50%.*
*6 - Grand Total DES/DD Non-Ventilator Rate reflects the full premium tax.*

## Arizona Health Care Cost Containment System (AHCCCS)

**Department of Economic Security / Department of Developmental Disabilities**
**Contract Period 07/01/2006 - 06/30/2007 Capitation Rate Development**
**Behavioral Health**

**Previous Period:** 01/1/2005 - 06/30/2006
**Contract Period:** 07/01/2006 - 06/30/2007
**Trend Months:** 15
**Projected Member Months[1]:** 221,301

| | CY06 Capitation Rate PMPM | CY07 Capitation Rate PMPM | Effective Percentage Change from Current Rate |
|---|---|---|---|
| **Behavioral Health Services** | | | |
| Behavioral Health Pass Through PMPM | $ 86.15 | $ 94.56 | 9.76% |
| **Behavioral Health Administration[2]** | | | |
| Administration Load | $ 2.85 | $ 3.12 | |
| RBHS | $ 3.45 | $ 3.78 | |
| **Total Administration** | $ 6.30 | $ 6.90 | 9.52% |
| **Risk / Contingency[3]** | $ 2.58 | $ 1.42 | -44.96% |
| **Total Behavioral Health Rate** | $ 95.03 | $ 102.88 | 8.26% |

*1 - Projected Member Months represents the 12 month period from 07/01/2006 - 06/30/2007.*
*2 - Behavioral Health Services Administration includes: 3.3% for general administration, and 4.0% for RBHS administration*
*3 - Risk / Contingency at 1.50%*

**Arizona Health Care Cost Containment System (AHCCCS)**
**Department of Economic Security / Department of Developmental Disabilities**
**Contract Period 07/01/2006 - 06/30/2007 Capitation Rate Development**
**Ventilator Dependent**

**Previous Period:** 01/1/2005 - 06/30/2006
**Contract Period:** 07/01/2006 - 06/30/2007
**Trend Months:** 15
**Projected Member Months[1]:** 1,339

| | CY06 Capitation Rate PMPM | CY07 Capitation Rate PMPM | Effective Percentage Change from Current Rate |
|---|---|---|---|
| **Ventilator Dependent Health Care Services** | | | |
| **Ventilator Dependent Services** | $ 11,535.62 | $ 11,723.38 | |
| **Total Ventilator Services PMPM** | $ 11,535.62 | $ 11,723.38 | 1.63% |
| **Court Ordered Program** | | | |
| **Incontinent[2]** | $ - | $ 31.63 | |
| **Risk / Contingency[3]** | $ 173.03 | $ 175.85 | 1.63% |
| **Share of Cost** | $ (0.02) | $ (0.02) | |
| **Total DES/DDD Ventilator Rate** | $ 11,708.63 | $ 11,930.84 | 1.90% |
| **Total Behavioral Health Rate** | $ 95.03 | $ 102.88 | 8.26% |
| **Premium Tax (2%)** | $ 240.89 | $ 245.59 | 1.95% |
| **Grand Total Ventilator and Behavioral Health Rate** | $ 12,044.56 | $ 12,279.31 | 1.95% |
| **Grand Total DES/DDD Ventilator Rate[5]** | $ 11,949.53 | $ 12,176.43 | 1.90% |
| **Grand Total Behavioral Health Rate** | $ 95.03 | $ 102.88 | 8.26% |

*1 - Projected Member Months represents the 12 month period from 07/01/2006 - 06/30/2007.*
*2 - Incontinent Briefs and Diapers.*
*3 - Risk / Contingency calculated by multiplying 1.50% to the Total Ventilator Services PMPM.*
*4 - Administration for Vent is included in Non-Vent admin.*
*5 - Grand Total DES/DD Ventilator Rate reflects the full premium tax.*

STATE OF ARIZONA

# Joint Legislative Budget Committee

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HOUSE OF
REPRESENTATIVES



DATE: August 16, 2006

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

THRU: Richard Stavneak, Director

FROM: Jay Chilton, Fiscal Analyst

SUBJECT: Department of Public Safety – Quarterly Review of the Arizona Public Safety Communication Advisory Commission

**Request**

Pursuant to Laws 2004, Chapter 281, the Department of Public Safety (DPS) has submitted for review their FY 2006 fourth quarter expenditures and progress for the statewide interoperability design project.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of the request. Fourth quarter expenditures totaled $197,500 of nearly $4.3 million in FY 2006 funding. Through the fourth quarter, FY 2006 expenditures totaled $618,700. Activities in the fourth quarter addressed projects identified in the PSCC timeline relating to both the "short-term" and "long-term" interoperable solutions.

**Analysis**

*Background*
The Arizona Public Safety Communication Advisory Commission (PSCC) was established to develop a statewide standard based interoperability system that allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency as well as daily emergencies. Construction costs of a statewide interoperability communication system have been estimated to be as high as $300 million. The PSCC timeline (*see attachment A*) targets the establishment of a financing and development plan for the system by July 2008.

*Activities*
PSCC progress in the fourth quarter regarding the timeline and the "short-term" interoperable solution included the following:

(Continued)

- Continued efforts with Department of Emergency and Military Affairs (DEMA) to develop the "outreach and education" presentation for participants of the Arizona Emergency Radio System (AERS) project (Milestone 4). AERS is a "short-term" interoperable solution that integrates existing equipment and technologies.
- AERS equipment has been installed at 8 remote communications sites in the state and the DPS Wireless Systems Bureau, with support from DEMA, has planned installations at 10 additional sites by December 2006 (Milestone 9).
- Completed a Memorandum of Understanding to formalize protocol, procedures, obligations and mutual aid channel use guidelines between DPS and 20 AERS user agencies (Milestone 9).

With respect to the "long-term" interoperable solution, the Request for Proposal (RFP) to contract with a vendor to provide design and engineering services for the Public Safety Land Mobile Radio and Microwave Communications System has been completed, with the final award going to Federal Engineering on July 27, 2006. The RFP includes just under $985,000, which will be expended from the PSCC's non-lapsing funds. The RFP has 2 phases, which are as follows:

Phase 1: The development of a conceptual design for the land mobile radio system and microwave communications system, to be completed by the end of FY 2007 (Milestone 10). Of the total $985,000 contract with Federal Engineering, $647,000 is to cover the cost of Phase 1.

Phase 2: The remaining $338,000 of the contract with Federal Engineering will be used for preparation of final design and construction documents. Approximately $2 million from the PSCC's non-lapsing funds will then be allocated for the release of an RFP to contract with a vendor to implement a demonstration project of the concept developed in Phase 1 (Milestone 14). This phase is to be completed by the end of FY 2008.

In addition to the development of the design for the project, the 2 phases will identify the estimated cost of the project by refining budgetary estimates as each phase progresses (Milestone 13).

*Expenditures*

Laws 2004, Chapter 275 appropriated $5 million from the General Fund (of which $3 million was non-lapsing) to DPS in FY 2005 for design costs of a statewide radio interoperability communication system. Of this amount, approximately $1.5 million reverted back to the General Fund and $3,000,000 was available in FY 2006 for expenditure. The FY 2006 General Appropriation Act appropriated an additional $1,258,100 from the General Fund for the PSCC through the Statewide Interoperability Special Line Item. Therefore, there was a total of $4,258,100 in available monies for expenditure in FY 2006.

In the fourth quarter, the PSCC expended roughly $197,500 for costs associated with the 6 filled staff positions. The PSCC filled none of the remaining 3 vacant FTE Positions (2 telecommunication engineer positions and the technical writer position).

Total FY 2006 expenditures were $618,700, of which $12,500 came from the PSCC's non-lapsing funds for Professional and Outside Services in order to make the final payment to the consultant that prepared the Concept of Operations document. This leaves $651,900 of the $1,258,100 FY 2006 appropriation to revert to the General Fund.

The FY 2007 appropriation for Statewide Interoperability Design is $1,335,000. Combined with the remaining non-lapsing funds, the PSCC will have $4,332,500 available to expend for FY 2007. Of this amount, the PSCC has already encumbered $647,000 for Phase 1 of the "long-term" interoperable solution.

(Continued)

*Table 1* indicates the FY 2006 appropriation and the quarterly and FY 2006 year-end actuals.

**Table 1**

**FY 2006 PSCC Expenditures**

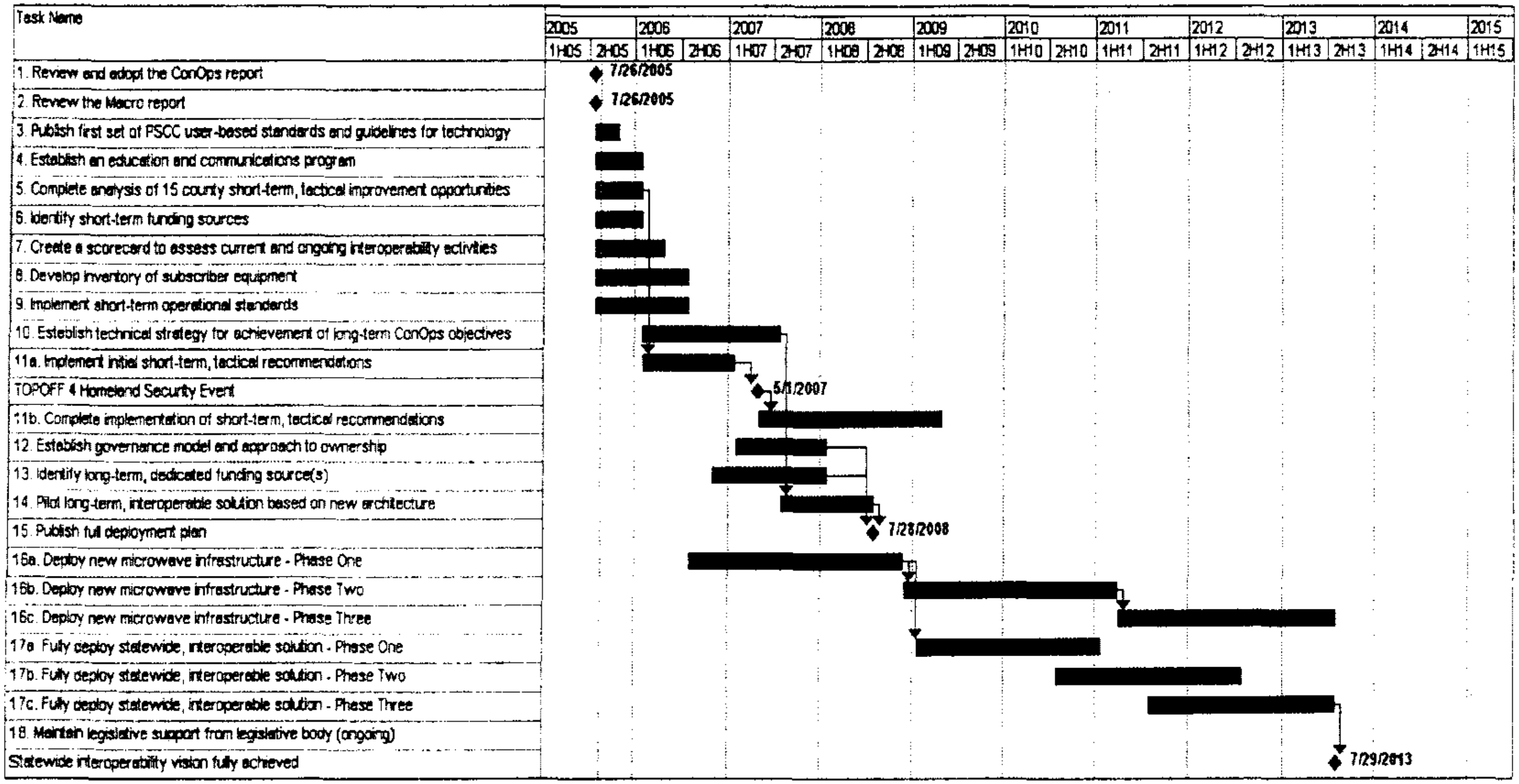
| | **FY 2006 Funding** | **1st Quarter** | **2nd Quarter** | **3rd Quarter** | **4th Quarter** | **Total Expenditures** |
|---|---|---|---|---|---|---|
| Personal Services | $672,500 | $95,300 | $90,600 | $114,200 | $153,900 | $454,000 |
| Employee Related Expenditures | 218,000 | 14,200 | 13,100 | 17,400 | 15,400 | 60,100 |
| Professional & Outside Services | 3,000,000 [1/] | - | - | - | 12,800 [2/] | 12,800 |
| Travel - In State | 41,400 | 100 | 1,000 | 200 | 1,000 | 2,300 |
| Travel – Out of State | 26,600 | 1,500 | - | - | 1,100 | 2,600 |
| Other Operating Expenditures | 299,600 | 45,800 | 4,800 | 19,100 | 10,200 | 79,900 |
| Equipment | - | 3,300 | 400 | 200 | 3,100 | 7,000 |
| **Total Operating Expenditures** | **$4,258,100** | **$160,200** | **$109,900** | **$151,100** | **$197,500** | **$618,700** [3/] |

1/ The additional $3 million in non-lapsing monies are included in the Professional & Outside Services line.
2/ Of the 4th Quarter Professional & Outside Services expenditure, $12,500 came from the commission's non-lapsing funds and $300 came from the FY 2006 General Fund appropriation.
3/ The PSCC expended $606,200 of its $1,258,100 appropriation in FY 2006, leaving $651,900 to revert to the General Fund.

RS/JC:ss

The following project plan conveys the major components of the short- and long-term strategies for achieving statewide interoperability in the State of Arizona. Through execution of this plan, the State can address the critical communications issues facing public safety and realize the vision for radio interoperability shared by the PSCC and the State of Arizona.

**Figure 2. Arizona Statewide Interoperability Project Plan**




Attachment A

# 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, 2006

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

Dear Mr. Stavneak:

Attached is our fourth quarter report for the Arizona Public Safety Communications Commission (PSCC). Included is a narrative of our activities and progress relative to milestones identified in our Concept of Operations document for the reporting period of April 1, 2006 through June 30, 2006.

If we can answer any questions or assist you or your staff in any manner, please contact Mr. Curt B. Knight, Executive Director, PSCC at (602) 271-7400.

Sincerely,

T.G. Felix Deputy
for
Roger Vanderpool
Director

HB

Attachments

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AUG 11 2006
JOINT BUDGET COMMITTEE

**PSCC Concept of Operations Milestone Activities:**

The following quarterly activities provide an update of progress on the milestones and timeframes established in the Arizona Public Safety Communications Commission Concept of Operations document.

## Milestone 4 – Education and Communication Program:

The PSCC Support Office and Division of Emergency and Military Affairs (DEMA) continue their efforts with the "outreach and education" presentation for participants of the Arizona Emergency Radio System (AERS) project. Meetings have been conducted with the Tohono O'Odham Nation, Mohave, Yuma, Cochise and Santa Cruz Counties.

## Milestone 9 – Implement Short-Term Operational Standards:
## Milestone 11 – Implement Short-Term Tactical Recommendations:

To date, AERS equipment has been installed at eight remote communications sites: Bill Williams, Elden, Navajo, Schnebly Hill, Hualapai, Christmas Tree, Havasu, and Telegraph. The DPS Wireless Systems Bureau, with the support of DEMA, has scheduled the installation of ten additional sites through December 2006. A total of 18 operational sites throughout the state will then provide basic interoperability to first responders. The operational plan and all related technical documentation on the mutual aid frequencies can be found on the PSCC website: http://www.azdps.gov/pscc/standards.asp.

The Memorandum of Understanding (MOU) between the AZ DPS/PSCC Support Office and 20 AERS user agencies are finalized. Currently, the various organizations participating in the AERS project include: one Emergency Management, six Law Enforcement, four Fire Service, one Emergency Medical, two Public Works, one Public Health, and five State Agencies.

## Milestone 10 – Establish Technical Strategy for Long-Term Objectives:
## Milestone 14 – Pilot Long-Term Solution:

The Request for Proposal (RFP), Solicitation #L6-026, Public Safety Land Mobile Radio Communications System Design and Engineering Services was released last quarter. A pre-proposal conference was held on Friday, April 28 with 25 attendees representing 19 consulting firms. Five consulting firms submitted their proposals by the May 19, 2006 due date. Bid evaluations and final interviews with qualified vendors were conducted on June 28-29 with a final award to Federal Engineering on July 27, 2006.

The proposal evaluation committee was comprised of five members representing public safety as a whole; two from law enforcement service, one from fire/EMS service, and two serve as large communications system managers. These selected members had experience in not only the RFP process, but operational and technical expertise as well.

As reported last quarter, the conceptual design and engineering services for a land mobile radio system will be completed as Phase I by June 30, 2007. Phase II will prepare final design documents for construction and implementation of a demonstration project based on the concept developed in Phase I. Phase II must be completed by June 30, 2008. An optional third phase has been included to complete the statewide detailed design based on the PSCC's Concept of Operation and user and operational feedback from the pilot system operation.

## Milestone 13 – Identify Long-Term Funding Sources:

Current budget estimates for Arizona's statewide interoperable system are based on previous efforts, professional knowledge, and current radio interoperability planning in other states, as well as Arizona's municipal and county efforts. Budgetary estimates will be refined throughout the early concepts and design criteria developed from Phase I. Phase II will further refine budgetary figures with the knowledge and experience gained in a detailed design and procurement for a demonstration project.

To maintain the published timeline in the Concept of Operations, while also maintaining synchronization with the statewide microwave system deployment, the PSCC Support Office will present FY 2008/09 budget requests to expand the scope of Phase II as well as to fund the optional phase of a statewide detailed design.

## Milestone 16 – Deploy New Microwave Infrastructure:

As one of the critical paths to interoperability, the state must replace its microwave backbone over the next seven years to maintain the PSCC's published timeline for radio interoperability. As the first crucial step, JLBC's favorable review of the Department's expenditure plan allows the Department to begin the much needed replacement and upgrade of Arizona's core microwave system. However, with current funding sources committed for only three years and possibly hampered by delays or lack of Department of Homeland Security funds, a regular continuous funding source needs to be established to replace the entire state microwave network in order to comply with the schedule for interoperability.

## Staffing:

Advertising, recruiting and testing efforts continue to hire the experienced skills required of the remaining three staff positions in the PSCC.

**Future PSCC meetings:**

Tuesday, October 24, 2006 at 1:00 p.m.
Burton Barr Central Library
1221 North Central Avenue
Phoenix, Arizona

Tuesday, January 23, 2007 at 1:00 p.m.
Location: TBA

**Budget:**

Expenditures for the fourth quarter of FY 06 totaled $184,982.79. A proposed Decision Package Budget has been completed and submitted to the DPS Comptroller's Office for consideration of funding for Fiscal Year 2008-2009 totaling $1,429,537.