STATE OF ARIZONA

# Joint Legislative Budget Committee



1716 WEST ADAMS
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JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, October 4, 2012
1:00 P.M.
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of June 26, 2012.

- DIRECTOR'S REPORT (if necessary).

1. ARIZONA DEPARTMENT OF ADMINISTRATION
   A. Review of Dental Self-Insurance Plan and Planned Contribution Strategy for State Employee and Retiree Dental Plans.
   B. Review of Automation Projects Fund FY 2013 Expenditure Plan.

2. AHCCCS/DEPARTMENT OF ECONOMIC SECURITY - Review of Proposed Capitation Rate Changes.

3. DEPARTMENT OF HEALTH SERVICES - Review of Behavioral Health Medicaid Capitation Rate Changes.

4. ATTORNEY GENERAL - Review of Allocation of Settlement Monies.

5. ARIZONA DEPARTMENT OF CORRECTIONS - Review of FY 2012 Bed Capacity Report.

6. ARIZONA BOARD OF REGENTS - Review of FY 2013 Tuition Revenues.

7. REVIEW OF AGENCY LEGAL SERVICES CHARGES.

The Chairman reserves the right to set the order of the agenda.
9/26/12
lm

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STATE OF ARIZONA

# Joint Legislative Budget Committee


STATE SENATE

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OLIVIA CAJERO BEDFORD
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LORI KLEIN
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HOUSE OF REPRESENTATIVES

JOHN KAVANAGH
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ANNA TOVAR


**REVISED**

## MINUTES OF THE MEETING

## JOINT LEGISLATIVE BUDGET COMMITTEE

June 26, 2012

The Chairman called the meeting to order at 11:10 a.m., Tuesday, June 26, 2012, in Senate Appropriations Room 109. The following were present:

| | | |
|---|---|---|
| Members: | Senator Shooter, Chairman | Representative Kavanagh, Vice-Chairman |
| | Senator Biggs | Representative Alston |
| | Senator Cajero Bedford | Representative Court |
| | Senator Lopez | Representative Fillmore |
| | Senator Yarbrough | Representative Jones |
| Absent: | Senator Klein | Representative Harper |
| | Senator Murphy | Representative Heinz |
| | | Representative Tovar |
| Excused: | Senator Crandall | |

### APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of April 3, 2012, Chairman Don Shooter stated that the minutes would stand approved.

### ARIZONA DEPARTMENT OF ADMINISTRATION

### A. Review of Requested Exchange of Fund Transfers.

Mr. Steve Schimpp, JLBC Staff, stated that this item is a review of the exchange of fund transfers required for FY 2012. He noted that the budget allowed agencies to request an exchange of which funds they would have monies transferred from. Three agencies, the Arizona Department of Education (ADE), the Department of Economic Security (DES), and the Department of Public Safety (DPS) through the Arizona Department of Administration (ADOA) have requested an exchange of funds to take the monies out of different funds for cash flow reasons. He noted that the funds appear on a table in the agenda package.

(Continued)

The JLBC Staff presented options to the Committee.

*Representative Kavanagh moved that the Committee give a favorable review of the exchange of fund transfers as shown in Table 1.* The motion carried.

**Table 1**

**Requested FY 2012 Fund Transfer Exchanges**

| Original Fund [1/] | Agency Proposed Fund [2/] | Proposed Transfer Amount |
|---|---|---|
| **Arizona Department of Education** | | |
| Internal Services Fund | Special Education Fund | $ 795,400 |
| Production Revolving Fund | Special Education Fund | 371,200 |
| *Subtotal* | | *$1,166,600* |
| **Department of Public Safety** | | |
| DPS Licensing Fund | Fingerprint Clearance Card Fund | $150,000 |
| Criminal Justice Enhancement Fund | Fingerprint Clearance Card Fund | 350,000 |
| *Subtotal* | | *$500,000* |
| **Department of Economic Security** | | |
| Industries for the Blind Fund | Special Administration Fund | $244,100 |
| *Subtotal* | | *$244,100* |

1/ Fund source for transfers in budget.
2/ Funds from which agencies are requesting transfers in order to accommodate the mandated transfer.

## B. Review of Automation Projects Fund FY 2013 Expenditure Plan.

Mr. Brett Searle, JLBC Staff, stated that this item is a review of the proposed FY 2013 expenditures from the Automation Projects Fund, which requires JLBC review. The FY 2013 Government Budget Reconciliation Bill established the Automation Projects Fund, which is administered by ADOA.

The JLBC Staff presented options to the Committee and answered questions from members.

*Mr. Aaron Sandine, Chief Information Officer, Deputy Director, ADOA*, responded to member questions. ADOA will return to a future JLBC meeting after canvassing agencies regarding the status of participation in the new Arizona Financial Information System (AFIS).

*Representative Kavanagh moved that the Committee give a favorable review of the ADOA request for $16.4 million in proposed FY 2013 expenditures from the Automation Projects Fund for both ADOA and the Department of Revenue projects with the following provisions:*

1. *ADOA submit a quarterly report that provides an update on the implementation of the 23 projects included in this expenditure plan, as well as any subsequent projects. The report is to include the project's deliverables, the timeline for completion, and the current status.*

2. *If an agency elects not to participate in the new financial accounting system, future submissions to the Committee regarding the replacement of AFIS should outline an agency's reasons for not utilizing the new system.*

The motion carried.

(Continued)

**ATTORNEY GENERAL - Review of Allocation of Settlement Monies.**

Ms. Marge Zylla, JLBC Staff, stated that this item is a review of the allocation plans from 2 settlements based on alleged consumer fraud violations. The first settlement with American Residential Services (heating and air conditioning repair), requires the company to deposit $155,000 into the Attorney General's (AG) Consumer Fraud Revolving Fund and pay $240,000 for consumer restitution. The second settlement with Abbot Laboratories (pharmaceuticals) includes a $1,964,200 deposit into the Consumer Fraud Revolving Fund.

The JLBC Staff recommended a favorable review of this item and answered questions from members.

*Representative Kavanagh moved that the Committee give a favorable of the Attorney General allocation of settlement monies regarding American Residential Services and Abbot Laboratories.* The motion carried.

**ATTORNEY GENERAL - Review of FY 2007 and FY 2008 Uncollectible Debt.**

Ms. Marge Zylla, JLBC Staff, stated that this item is a review of the AG's uncollectible debts report. Upon the Committee's review, these debts can be removed from the state's accounting books. The AG has identified $10.2 million in FY 2007 and $15.9 million in FY 2008.

The JLBC Staff presented options to the Committee.

*Representative Kavanagh moved that the Committee give a favorable review of the FY 2007 and FY 2008 Uncollectible Debt Report with the provision that the AG report back to the Committee by October 31, 2012 on its evaluation of releasing debtor information to credit reporting agencies.*

The motion carried.

**EXECUTIVE SESSION**

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

At 11:38 a.m. the Committee went into Executive Session.

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

At 12:02 p.m. the Committee reconvened into open session.

**A. Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee and Retiree Health Plans as Required under A.R.S. § 38-658A.**

The Committee discussed and received the report.

**B. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.**

*Representative Kavanagh moved that the Committee accept the recommended settlement proposal by the Attorney General's Office in the case of Hall v. State, et al.*

The motion carried.

Without objection, the meeting adjourned at 12:03 p.m.

(Continued)

Respectfully submitted:

_____
Alanna Carabott, Secretary

_____
Richard Stavneak, Director

_____
Senator Don Shooter, Chairman

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

STATE OF ARIZONA

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ANNA TOVAR

DATE: September 27, 2012

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Amy Upston, Principal Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of Dental Self-Insurance Plan and Planned Contribution Strategy for State Employee and Retiree Dental Plans

**Request**

A.R.S. § 38-658A requires that the Arizona Department of Administration (ADOA) meet with and review for the Committee the planned contribution strategy for each dental and health plan at least 10 days prior to entering into or renewing a contract. At its June 26, 2012 JLBC meeting, the Committee reviewed the health insurance contribution strategy.

The dental contracts reduce employee insurance premiums for all plans, with one exception. ADOA is also implementing some new coverage limits.

In addition, Laws 2012, Chapter 299 requires ADOA to submit a plan to the Committee for review prior to switching to a dental self-funded plan. ADOA is implementing a new self-funded PPO dental plan beginning on January 1, 2013. This plan would replace the current fully-insured PPO dental plan.

This item addresses both the review of the dental contribution strategy and the review of the self-funded dental plan. The JLBC is required to review proposed contracts in Executive Session. ADOA approved the contract on September 19, however, in order to begin open enrollment on October 22. As a result, this meeting does not need to occur in Executive Session.

**Recommendation**

The Committee has at least the following options:

1. A favorable review of the dental self-funded program and the planned contribution strategy.

2. An unfavorable review of the dental self-funded program and the planned contribution strategy.

3. Take no action since ADOA has already signed vendor contracts and have publicly released the information.

(Continued)

## Analysis

***Dental Premiums***

ADOA is implementing a new self-funded PPO dental plan beginning on January 1, 2013. The plan will replace the fully-insured PPO dental plan currently administered by Delta Dental. ADOA will continue to contract with Delta Dental as their third party administrator and will utilize Delta Dental's network access.

ADOA estimates $3.6 million in annual savings from changing to a self-funded plan. In switching to a self-funded plan, ADOA seeks to reserve $15.2 million of Health Insurance Trust Fund (HITF) monies ($7.6 million for the incurred but not received expenses and $7.6 million for other unforeseen contingencies). These reserves were already incorporated into the estimated HITF balance presented at the last JLBC meeting.

In addition to the self-funded plan, ADOA will continue to offer the fully-insured Dental Health Maintenance Organization (DHMO) plan. Total Dental Administrators will continue to administer the DHMO plan.

Beginning in Plan Year (PY) 2013 (January - December 2013), dental insurance premiums will move from a 3-tiered structure to a 4-tiered structure similar to the health insurance structure. All employer premiums will remain at the current PY 2012 levels. Employee contributions will decrease for all plans, except for single coverage for the PPO plan which will remain unchanged. When ADOA reviewed the actual experience of each tier, they found that singles were paying less than their actual cost. The discrepancy between costs and premiums results from a high number of retirees that select single dental coverage.

Premiums for employees and employers are shown in *Table 1*. Retirees are responsible for paying both the employee and employer portion of the dental premium.

**Table 1**

**PY 2013 Monthly Dental Premiums**

| | | Employee | Employer | Employee Decrease |
|---|---|---|---|---|
| DHMO | EE only * | $ 4.03 | $ 4.96 | $ (0.97) |
| | EE + Child | 7.59 | 9.92 | (1.41) |
| | EE + Adult | 8.06 | 9.92 | (0.94) |
| | Family | 13.27 | 13.70 | (0.73) |
| PPO | EE only | $ 30.98 | $ 4.96 | $ (0.00) |
| | EE + Child | 50.56 | 9.92 | (20.31) |
| | EE + Adult | 65.71 | 9.92 | (5.16) |
| | Family | 104.56 | 13.70 | (18.56) |

* EE indicates employee. "EE only" is single coverage, "EE + Child" is coverage for an employee with 1 dependent child, etc.

***Dental Benefit Changes***

There are 2 dental benefit changes for PY 2013. ADOA is implementing a 6-month waiting period for major benefits (such as cast crowns, implants, bridges, and dentures) and orthodontic services if members do not select the self-funded dental PPO when it first becomes available to them, in order to discourage members from selecting the PPO plan only when major dental work is needed. This limit does not

(Continued)

apply to those who switch from the DHMO plan to the PPO plan on January 1, 2013. ADOA is also excluding routine services from the annual maximum limit. These changes would result in an estimated combined savings of less than $1 million annually.

***Additional Medical Benefit Changes***

ADOA is implementing 2 additional medical benefit changes which were not discussed at the last JLBC meeting. The health plans will cover compression stockings for lymphedema treatment and wigs and hairpieces for cancer patients and burn victims. These 2 changes would result in an estimated cost of less than $1 million annually.

RS/AU:lm

Janice K. Brewer
Governor

Scott A. Smith
Director

ARIZONA DEPARTMENT OF ADMINISTRATION
OFFICE OF THE DIRECTOR
100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500



August 23, 2012

The Honorable Don Shooter, Chair
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable John Kavanagh, Vice-Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Shooter and Representative Kavanagh:

On June 26, 2012, the Arizona Department of Administration (ADOA) met with the Joint Legislative Budget Committee (JLBC) pursuant to A.R.S. § 38-658(A) to review the Plan Year (PY) 2013 Contribution Strategy. As ADOA was still in the solicitation process for dental insurance, vendors and employee premium amounts were not available at the time of the meeting. This letter provides that information. Please note that the dental contracts have not yet been awarded and this information remains confidential.

At the June 26 meeting, ADOA indicated that the dental contribution strategy would keep employer premiums at the same level as PY 2012 premiums. The contribution strategy also indicated that dental insurance premiums would be moving from a 3-tiered structure to a 4-tiered structure, matching health insurance premiums. *Tables 1* and *2* show the full premium structure for PY 2013.

**Table 1: Active Employee Dental Premiums**

| Plan Type | Tier | PY 2012 Monthly Premium | | | PY 2013 Monthly Premium | | |
|---|---|---|---|---|---|---|---|
| | | Employee | Agency | Total | Employee | Agency | Total |
| DHMO | EE only | $5.00 | $4.96 | $9.96 | $4.03 | $4.96 | $8.99 |
| | EE + Child | $9.00 | $9.92 | $18.92 | $7.59 | $9.92 | $17.51 |
| | EE + Adult | $9.00 | $9.92 | $18.92 | $8.06 | $9.92 | $17.98 |
| | Family | $14.00 | $13.70 | $27.70 | $13.27 | $13.70 | $26.97 |
| PPO | EE only | $30.98 | $4.96 | $35.94 | $30.98 | $4.96 | $35.94 |
| | EE + Child | $70.87 | $9.92 | $80.79 | $50.56 | $9.92 | $60.48 |
| | EE + Adult | $70.87 | $9.92 | $80.79 | $65.71 | $9.92 | $75.63 |
| | Family | $123.12 | $13.70 | $136.82 | $104.56 | $13.70 | $118.26 |

**Table 2: Retiree Dental Premiums**

| Plan Type | Tier | PY 2012 Monthly Premium | PY 2013 Monthly Premium |
|---|---|---|---|
| DHMO | EE only | $9.96 | $8.99 |
| | EE + Child | $18.92 | $17.51 |
| | EE + Adult | $18.92 | $17.98 |
| | Family | $27.70 | $26.97 |
| PPO | EE only | $35.94 | $35.94 |
| | EE + Child | $80.79 | $60.48 |
| | EE + Adult | $80.79 | $75.63 |
| | Family | $136.82 | $118.26 |

As previously indicated, the employer premiums remain unchanged. As a result of self-funding the Dental PPO plan, ADOA estimates $3.6 million in savings, which is reflected as a reduction to the employee and retiree premiums. The self-funded Dental PPO plan will continue to contract with Delta Dental for network access.

The Pre-Paid Dental Health Maintenance Organization (DHMO) plan will remain fully-insured and continue to be administered by Total Dental Administrators. Under the new contract, employee and retiree premiums will also decrease slightly.

As mentioned in the previously submitted contribution strategy, ADOA does plan to implement two changes to the Dental PPO benefit. The first change is to implement a 6-month waiting period for major (Type III) benefits and orthodontic services for members who do not select the Dental PPO when it first becomes available to them or if switching from another dental plan. The proposed waiting period is intended to discourage members from selecting the PPO plan only when major dental work is needed.

The second change is to increase dental preventative benefits by not counting routine services (Type I) towards the annual maximum benefit limit. The total cost of both changes is estimated to be less than $1 million.

In addition, there are two changes to the medical benefits offered under the health insurance plan that were not included in the previously reviewed contribution strategy. For PY 2013, compression stockings will be covered as a treatment for lymphedema, and wigs and hairpieces will be covered for cancer patients and burn victims. The cost of these changes is expected to be less than $1 million.

If you have any questions, please contact me by telephone at 602-542-1500 or by email at scott.smith@azdoa.gov.

Sincerely,

Scott A. Smith
Director

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Amy Upston, Joint Legislative Budget Committee
John Arnold, Director, Office of Strategic Planning and Budgeting
Ken Matthews, Office of Strategic Planning and Budgeting
Paul Shannon, Assistant Director, Budget and Resource Planning, ADOA
Kathy Peckardt, Interim Benefit Services Director, ADOA

**HITF Balance and Reserves**

$ in Millions

| | FY 2007 Actuals | FY 2008 Actuals | FY 2009 Actuals | FY 2010 Actuals | FY 2011 Actuals | FY 2012 Actuals | FY 2013 Projected* | FY 2014 Projected* |
|---|---|---|---|---|---|---|---|---|
| Beginning Balance | 50.6 | 78.5 | 101.4 | 70.6 | 104.5 | 229.0 | 328.5 | 291.3 |
| Revenues | 630.6 | 699.1 | 717.4 | 727.0 | 785.0 | 790.1 | 794.4 | 793.5 |
| Expenditures | 602.7 | 676.2 | 747.8 | 692.9 | 660.2 | 680.6 | 723.9 | 763.3 |
| Structural Balance | 28.0 | 22.9 | (30.4) | 34.1 | 124.8 | 109.5 | 70.5 | 30.2 |
| One-Time Revenues | | | | | | | | |
| 27th Pay Period | - | - | - | - | - | 30.4 | - | - |
| Premium Holiday | - | - | - | - | - | - | (62.6) | - |
| One-Time Expenditures | | | | | | | | |
| Transfers | - | - | 0.5 | 0.3 | 0.3 | 40.4 | 30.0 | - |
| Federal Participation | - | - | - | - | - | - | 15.1 | - |
| Ending Balance | 78.5 | 101.4 | 70.6 | 104.5 | 229.0 | 328.5 | 291.3 | 321.5 |
| Reserves | | | | | | | | |
| Health - IBNR | 61.1 | 79.3 | 65.5 | 68.5 | 75.8 | 88.1 | 99.5 | 105.5 |
| Health - Premium Stability | 61.1 | 79.3 | 65.5 | 68.5 | 75.8 | 88.1 | 99.5 | 105.5 |
| Dental - IBNR | - | - | - | - | - | - | 7.6 | 8.1 |
| Dental - Premium Stability | - | - | - | - | - | - | 7.6 | 8.1 |
| Total Reserves | 122.3 | 158.6 | 131.0 | 137.0 | 151.6 | 176.3 | 214.3 | 227.2 |
| Unreserved | (43.8) | (57.1) | (60.3) | (32.5) | 77.4 | 152.2 | 77.1 | 94.3 |

Janice K. Brewer
Governor

Scott A. Smith
Director

# ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR
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June 14, 2012

The Honorable Don Shooter, Chair
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable John Kavanagh, Vice Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Shooter and Representative Kavanagh:

In accordance with Laws 2012, 2nd Regular Session, Chapter 299, Section 30, please find attached a copy of the required report addressing the actuarial analysis of the self-insured dental plan.

Thank you for your consideration in this matter.

Sincerely,

Scott A. Smith
Director

cc: Richard Stavneak, Director, Joint Legislative Budget Committee ✓
Brett Searle, Joint Legislative Budget Committee Staff
John Arnold, Director, Office of Strategic Planning and Budgeting
Jennifer Uharriet, Office of Strategic Planning and Budgeting
Paul Shannon, ADOA Assistant Director Budget and Resource Planning
Kathy Peckardt, ADOA Interim Benefit Services Director

Attachment

# Actuarial Analysis
# Converting to Self-Insured Dental Plan

**Prepared by:**
**Department of Administration**
**Benefit Services Division**
**March 26, 2012**

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**Executive Summary:**

Arizona Revised Statute § 38-651 grants the authority to the Arizona Department of Administration ("ADOA") to self-fund a dental program. ADOA has completed an extensive actuarial study of self-funding a dental program. Currently ADOA offers two fully-insured dental plans to its enrollees: a preferred provider organization ("PPO") plan with Delta Dental of Arizona ("DDAZ") and a pre-paid dental health maintenance organization ("DHMO") plan with Total Dental Administrators ("TDA").

The results of the study make it clear that future savings could be realized by offering the following:

1) a self-funded nationwide indemnity (PPO) dental product and
2) a statewide fully-insured pre-paid (DHMO) plan.

Realized savings is largely a result of lower fixed and variable administrative costs. Additional savings may be realized with the use of "select" provider networks. Offering select provider networks may also result in deeper provider discounts.

Exhibits II and III summarize the results of the proposed model. Based on DDAZ's self-reported administrative costs and assumptions listed in Appendix 1, the total savings could be up to an average of $3.5 million per year for the next five years.

**Analysis:**

ADOA performed an actuarial study of a proposed self-insured PPO dental plan. Generally accepted actuarial principles were applied to the analysis. The analysis was modeled on a prospective approach using historical data. Reasonable adjustments and assumptions were applied to the data to adjust for future costs.

Historical data sources included the self reported data provided by DDAZ, TDA, and the current plans' demographics. An illustration of the current plans' demographics can be found in Appendix 2. Although the analysis relies on self reported data, reasonable adjustments were made to correct for uncertainties. Exhibit I is an illustration of DDAZ's historical premium and claims experience.

The study also included a sensitivity analysis or stress test to the financial risk of claims, see Exhibit IV. The future expected claims costs was calculated at the $50^{th}$ percentile and at the $95^{th}$ percentile. In other words, for claims costs calculated at the $95^{th}$ percentile, there is a 95% probability that cost will be less than the calculated amount. The results are not unexpected given the dental maximum benefit is $2,000 per year.

Various actuarial tools were used in the analysis. These tools included a trending model, a reserving model, and a pricing tool. Also, used in the analysis was the *Milliman Health Cost Guidelines Dental Model, July 1, 2011.*

*Focus of the Study:*
The study focused on the risk impact to the State as well to the enrollees. The study included products with different benefit levels and structures; such as a low option PPO, the current PPO, and a high option PPO. Also, the study looked at whether or not the self-funded dental product should be tied together with the current medical product offerings. Assumptions of the study are outlined in Appendix 1.

*Key Issues Identified in the Study:*
Inflation (trend) of dental claims: a reasonable annual cost trend estimate of 5.5% was applied to the cost of dental claims for future years. This inflation rate is based on prevailing historical fee levels. It should be noted that the plan's actual experience may differ.

Possibility of anti-selection issues: the potential of anti-selection from the enrollment migration was studied. Another part of the analysis assumed a 3.0% annual enrollment growth of the PPO product. Some of enrollment growth was assumed to be from the pre-paid DHMO plan's members and some of the current retirees enrolled on ADOA's medical plans that did not enroll with the current dental offerings. Also, the possible migrating enrollees' age and gender risk factors were determined not to have a material impact to ADOA's PPO plan.

*Option for Additional Savings:*
Additional savings may be realized with the use of select provider networks. The contracted sub or select provider networks may not provide complete access to dentists so a mix of select and broad networks may be the best approach. Exhibit III is an illustration of an additional aggregate discount of 5.0%; the final network discounts will not be known until after the vendor award.

**Recommendation beginning in Plan Year 2013:**

1. Offer a self-funded nationwide indemnity (PPO) dental product and
2. Continue to offer a fully-insured pre-paid (DHMO) option.

## Exhibit I - ILLUSTRATIVE CLAIMS HISTORY:

Delta Dental Claims History

| 12 month Period | Average Monthly Enrollment (1) | Average Monthly Membership (2) | Rolling 12 month Premium | Rolling 12 month Paid Claims | Loss Ratio |
|---|---|---|---|---|---|
| Oct 2007 - Sep 2008 | 51,145 | 91,417 | $37,351,419 | $32,224,798 | 86.3% |
| Oct 2008 - Sep 2009 | 54,677 | 114,820 | $45,047,097 | $41,454,024 | 92.0% |
| Oct 2009 - Sep 2010 | 45,545 | 90,527 | $37,563,945 | $34,737,677 | 92.5% |
| Oct 2010 - Sep 2011 | 44,763 | 90,168 | $38,170,333 | $31,900,575 | 83.6% |
| Jan 2012 | 42,113 | 85,035 | TBD | TBD | TBD |

(1) Enrollment includes both active and retired employees.
(2) Membership includes: both active and retired employees and their spouses and dependents.

## Exhibit II - ILLUSTRATION OF ADMINISTRATIVE OVERHEAD SAVINGS:

Five Year Forecasted Savings

| Plan Year | Average Enrollment (1) Months | Monthly Fully Insured Delta's Overhead (2) | Monthly Self-Insured ADOA's Overhead (3) | Difference | Annual Savings |
|---|---|---|---|---|---|
| 2013 | 43,400 | $10.86 | $5.23 | $5.63 | $2,933,000 |
| 2014 | 44,700 | $11.46 | $5.52 | $5.94 | $3,187,000 |
| 2015 | 46,000 | $12.09 | $5.82 | $6.27 | $3,462,000 |
| 2016 | 47,400 | $12.76 | $6.14 | $6.62 | $3,763,000 |
| 2017 | 48,800 | $13.46 | $6.48 | $6.98 | $4,086,000 |

(1) Enrollment includes both active and retired employees.
(2) Delta's overhead includes: 9.0% admin fee plus a 4.9% reserve. Source: Delta's response to RFP #EPS080046.
(3) ADOA's over-head includes: a TPA fee, network access fee, and the change in reserve.

**Exhibit III - ILLUSTRATION OF THE SAVINGS IN NETWORK DISCOUNTS:**

Five Year Forecasted Savings

| Plan Year | Average Enrollment (1) Months | Projected Delta Annual claims | Projected ADOA self-insured Annual claims | Annual Savings |
|---|---|---|---|---|
| 2013 | 43,400 | $35,045,000 | $33,293,000 | $1,752,000 |
| 2014 | 44,700 | $38,080,000 | $36,176,000 | $1,904,000 |
| 2015 | 46,000 | $41,343,000 | $39,276,000 | $2,067,000 |
| 2016 | 47,400 | $44,944,000 | $42,697,000 | $2,247,000 |
| 2017 | 48,800 | $48,816,000 | $46,376,000 | $2,440,000 |

(1) Enrollment includes both active and retired employees.

## Exhibit IV - ILLUSTRATION OF THE SENSITIVITY ANALYSIS:

Five Year Sensitivity Analysis

| Plan Year | Average Enrollment (1) Months | PEPM Claims Cost (2) at the 50% CI | PEPM Claims Cost (2) at the 95% CI | Expected Annual Claims Cost at the 50% CI | Expected Annual Claims Cost at the 95% CI |
|---|---|---|---|---|---|
| 2013 | 43,400 | $63.93 | $77.93 | $33,293,000 | $40,588,000 |
| 2014 | 44,700 | $67.44 | $81.79 | $36,176,000 | $43,873,000 |
| 2015 | 46,000 | $71.15 | $85.86 | $39,276,000 | $47,396,000 |
| 2016 | 47,400 | $75.07 | $90.13 | $42,697,000 | $51,264,000 |
| 2017 | 48,800 | $79.19 | $94.63 | $46,376,000 | $55,414,000 |

(1) Enrollment includes both active and retired employees.
(2) PEPM claims cost includes a 5.5% annual inflation.

**Appendix 1:**

The following are the actuarial assumptions in the study:

- 5.5% annual cost trend, 0% utilization trend.
- 5.5% annual premium rate increase.
- 3.0% annual enrollment growth.
- $3-5 per enrollee per month administration/network access fee.
- An aggregate 5.0% discount for the plan's claims using select provider networks.

## Appendix 2:

The following grids were the dental enrollment and membership as of December 2011.

**Delta Dental of Arizona**

| | Single | | Two Party | | | | | | Family | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Male | | | Female | | | Male | | | Female | | |
| Age | E'ee | E'ee | E'ee | Wife | Child | E'ee | Husband | Child | E'ee | Wife | Child | E'ee | Husband | Child |
| To 25 | 241 | 222 | 43 | 57 | 1139 | 46 | 19 | 1160 | 15 | 33 | 10964 | 9 | 12 | 10463 |
| 25-29 | 638 | 763 | 199 | 214 | 53 | 253 | 106 | 36 | 149 | 238 | 263 | 152 | 59 | 246 |
| 30-34 | 640 | 823 | 290 | 223 | 3 | 363 | 181 | 5 | 415 | 528 | 15 | 425 | 258 | 15 |
| 35-39 | 529 | 632 | 262 | 161 | | 344 | 163 | 1 | 829 | 810 | 14 | 724 | 422 | 7 |
| 40-44 | 574 | 690 | 268 | 160 | 2 | 431 | 147 | | 986 | 1029 | 10 | 873 | 637 | 7 |
| 45-49 | 591 | 947 | 347 | 281 | 5 | 589 | 222 | 1 | 994 | 956 | 2 | 838 | 626 | 2 |
| 50-54 | 804 | 1352 | 555 | 575 | 1 | 846 | 409 | 2 | 972 | 802 | 3 | 666 | 577 | 2 |
| 55-59 | 1007 | 1750 | 889 | 965 | | 1056 | 670 | | 679 | 543 | | 406 | 412 | 1 |
| 60-64 | 1011 | 1846 | 1192 | 1208 | | 1008 | 837 | | 376 | 167 | | 121 | 259 | |
| 65+ | 1658 | 3210 | 2378 | 1868 | | 998 | 1495 | | 172 | 55 | | 27 | 115 | |
| Total | 7693 | 12235 | 6423 | 5712 | 1203 | 5934 | 4249 | 1205 | 5587 | 5161 | 11271 | 4241 | 3377 | 10743 |

**Total Dental Administrators**

| | Single | | Two Party | | | | | | Family | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Male | | | Female | | | Male | | | Female | | |
| Age | E'ee | E'ee | E'ee | Wife | Child | E'ee | Husband | Child | E'ee | Wife | Child | E'ee | Husband | Child |
| To 25 | 261 | 201 | 73 | 105 | 625 | 58 | 15 | 636 | 39 | 76 | 6328 | 20 | 7 | 6250 |
| 25-29 | 529 | 616 | 224 | 195 | 18 | 259 | 101 | 14 | 234 | 299 | 121 | 149 | 70 | 103 |
| 30-34 | 441 | 507 | 226 | 179 | 1 | 273 | 178 | 1 | 497 | 549 | 11 | 363 | 223 | 1 |
| 35-39 | 300 | 331 | 201 | 95 | | 234 | 120 | 1 | 608 | 606 | 3 | 520 | 334 | 1 |
| 40-44 | 232 | 254 | 155 | 87 | 1 | 247 | 88 | | 634 | 566 | | 553 | 370 | 2 |
| 45-49 | 254 | 354 | 143 | 118 | 1 | 291 | 124 | | 524 | 438 | | 493 | 358 | |
| 50-54 | 271 | 484 | 221 | 217 | | 364 | 184 | | 382 | 329 | 1 | 328 | 284 | |
| 55-59 | 280 | 497 | 294 | 309 | | 345 | 222 | 1 | 228 | 130 | | 142 | 171 | |
| 60-64 | 217 | 463 | 328 | 280 | | 270 | 277 | | 116 | 43 | | 32 | 86 | |
| 65+ | 266 | 583 | 458 | 354 | | 221 | 329 | | 34 | 14 | | 4 | 32 | |
| Total | 3051 | 4290 | 2323 | 1939 | 646 | 2562 | 1638 | 653 | 3296 | 3050 | 6464 | 2604 | 1935 | 6357 |

STATE OF ARIZONA

# Joint Legislative Budget Committee

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ANNA TOVAR

DATE: September 27, 2012

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brett Searle, Fiscal Analyst

SUBJECT: Arizona Department of Administration - Review of Automation Projects Fund FY 2013 Expenditure Plan

**Request**

Pursuant to the Laws 2012, Chapter 298, Section 1, the Arizona Department of Administration (ADOA) has requested that the Committee review $830,000 in proposed FY 2013 expenditures from the Automation Projects Fund for an Arizona Health Care Cost Containment System (AHCCCS) security enhancement project. This proposal is part of a 4-year $91.1 million automation spending plan approved by the Legislature.

**Recommendation**

The Committee has at least the following options:

1. A favorable review.

2. An unfavorable review.

Under either option, the JLBC Staff recommends that the AHCCCS project be subject to approval by the Arizona Strategic Enterprise Technology Office (ASET), which is the information technology (IT) oversight division within ADOA. ASET is required to approve all state agency IT projects over $25,000.

**Analysis**

Automation Projects Fund Summary

Laws 2012, Chapter 298, Section 1 created the Automation Projects Fund. The General Appropriation Act (Laws 2012, Chapter 294, Section 124) appropriated a total of $28.1 million from the following funds for deposit into the Automation Projects Fund in FY 2013:

(Continued)

- $16.8 million from the General Fund
- $4.2 million from the Automation Operations Fund
- $1.5 million from the Information Technology Fund
- $5.6 million from the State Web Portal Fund

In addition to the FY 2013 funding, the General Appropriation Act appropriated the following amounts from the General Fund in future years to the Automation Projects Fund: $20.0 million in FY 2014, $20.0 million in FY 2015, and $23.0 million in FY 2016. Over 4 years, overall project funding equals $91.1 million.

Monies in the fund are to be used to implement, upgrade, or maintain automation and IT projects for any state agency. The primary project is the replacement of the Arizona Financial Information System (AFIS).

This expenditure plan review is the second for FY 2013. The previous review included a $16.4 million expenditure plan, involving projects managed by ADOA and the Department of Revenue (DOR). Of the $16.4 million in estimated spending, $3 million was designated for planning associated with the replacement of AFIS. With the current review of $830,000, a total of $17.2 million in expenditures from the Automation Projects Fund are planned for FY 2013, leaving $73.9 million for the AFIS replacement. This amount may be sufficient based on experiences in other states, however, the ultimate cost of the project will depend on the results of the upcoming procurement process.

ADOA has indicated that there will be additional requests for review of expenditures from the Automation Projects Fund in FY 2013.

AHCCCS Security Upgrades

AHCCCS is responsible for protecting the Personally Identifiable Information (PII) and Protected Health Information (PHI) of the state's 1.3 million Medicaid participants. As such, AHCCCS has requested $830,000 from the Automation Projects Fund to enhance security related to PII/PHI. The project would include the following components:

- $500,000 for Encryption of Network Data at Rest - This component of the project would focus on encrypting PII/PHI that resides in databases, file systems, and other structured storage methods in accordance with requirements of Health Insurance Portability and Accountability Act (HIPAA).

- $125,000 for Security Information and Event Management - The agency would acquire a tool to automate the reporting functions of network devices (such as firewalls, servers, intrusion detection, workstations, and applications), thereby assisting in monitoring and analyzing network events.

- $80,000 for Firewalls - This component would upgrade existing firewalls. The existing firewalls in the current AHCCCS database are nearly 11 years old and all vendor support ends in March 2013. Typical best practices suggest a replacement cycle of 5 to 7 years for firewalls.

- $50,000 for Penetration Testing - An external 3rd party is to provide a security threat and risk assessment.

- $50,000 for Vulnerability Scanning - A vulnerability scanning tool would be implemented to provide automated assessments of security weaknesses in AHCCCS computer systems, networks, and applications.

(Continued)

- $25,000 for Data Loss Prevention - Two components of a data loss toolset were purchased in April 2011. This purchase would expand data loss prevention capabilities to cover additional threats such as PII/PHI being transferred to USB, CD/DVD, or laptops.

These cost estimates are based on quotes for similar types of products, and as such, actual costs incurred by AHCCCS may differ.

With the exception of the penetration testing, all components of the project would be implemented by AHCCCS staff. Additionally, the project is subject to review by ADOA's Arizona Strategic Enterprise Technology Office (ASET), which reviews all state agency IT projects over $25,000.

RS/BS:ac

Janice K. Brewer
Governor

Scott A. Smith
Director

# ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500



September 13, 2012

The Honorable Don Shooter
Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable John Kavanagh
Vice-Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Shooter and Representative Kavanagh:

In accordance with Laws 2012, 2nd Regular Session, Chapter 298, Section 1 (C), the Arizona Department of Administration (ADOA) is submitting this request for review of an expenditure plan for the monies appropriated in FY 2012-2013 from the Automation Projects Fund.

This request is the second request for the fiscal year and involves projects managed by AHCCCS, which is planning on spending $830,000 on the following projects on security upgrades related to Personally Identifiable Information.

The attached document provides a breakdown by expenditure category of the various amounts in the plan. In some cases the information may be confidential as it relates to an open procurement. We will be happy to meet with your staff to provide further explanation as appropriate.

Sincerely,

Scott A. Smith
Director

Attachment

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Tom Betlach, Director, AHCCCS
John Arnold, Director, Office of Strategic Planning and Budgeting
Brett Searle, JLBC Staff
James Wang, CIO, AHCCCS
Ken Matthews, Office of Strategic Planning and Budgeting
Aaron Sandeen, Deputy Director
Jeff Grant, Deputy Director
Paul Shannon, Assistant Director Budget and Resource Planning

# AHCCCS Security Project

# Automation Projects

# JLBC Review

# Fiscal Year 2013

**Arizona Health Care Cost Containment System (AHCCCS)**
**Arizona Department of Administration (ADOA)**
**Arizona Strategic Enterprise Technology (ASET)**
**Prepared: September 12, 2012**

## Funding Source Information

Senate Bill 1527 establishes the new Automation Projects Fund to implement, upgrade or maintain automation and information technology projects. The Automations Project Fund was funded with the following sources: $16.8 million in General Funds, $1.5 million from the IT Fund (ASET), $5.6 million from the state Web Portal Fund (ASET) and $4.2 from the Automation Operations Fund (ASET). The total funding for the Automations Projects Fund for fiscal year 2013 is $28,100,000.

This request by AHCCCS for $830,000 will be funded from the Automations Project fund in fiscal year 2013. This is the only project for AHCCCS currently in scope.

ADOA – ASET fully supports this initiative and will be co-presenting with AHCCCS for JLBC approval to move forward. This is a critical project to protect our citizens.

## AHCCCS Security Project – $830,000

As administrator of the State's Medicaid program, AHCCCS is responsible for safeguarding and protecting over 1.3 million members' Personally Identifiable Information (PII) including Protected Health Information (PHI) covered under HIPAA. As such, AHCCCS must implement comprehensive privacy and security policies for all our staff, contractors, and IT systems. While we have successfully protected our IT systems to date, diligent and continuous attention is necessary to maintain this level of security.

Our effort is focused on the pro-active identification of potential threats, real time detection of threats, event monitoring/management, and ultimately encryption of our data at rest. To be pro-active in detection of threats, our outdated and out of maintenance firewalls will be upgraded; we will implement a third-party penetration test/assessment; and implement a vulnerability scanning tool. For real time detection of threats, we will upgrade and expand our Data Loss Prevention Toolset. Security event monitoring will be automated. Lastly, we will encrypt our network data at rest.

The following table contains estimated costs:

| Description | Estimated Amount |
|---|---|
| Encryption of Network Data at Rest | $500,000 |
| Firewalls | $80,000 |
| Penetration Testing | $50,000 |
| Vulnerability Scanning | $50,000 |
| Data Loss Prevention | $25,000 |
| Security Information and Event Management | $125,000 |
| **Total** | **$830,000** |

STATE OF ARIZONA

# Joint Legislative Budget Committee

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MATT HEINZ
RUSS JONES
ANNA TOVAR

DATE: September 27, 2012

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Amy Upston, Principal Fiscal Analyst

SUBJECT: AHCCCS/DES - Review of Proposed Capitation Rate Changes

**Request**

Pursuant to footnotes in the FY 2013 General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Economic Security (DES) must present its plan to the Committee for review prior to implementing any changes in capitation rates. The General Appropriation Act also requires JLBC review of any policy changes exceeding $500,000, not otherwise required by federal or state law. AHCCCS submitted this item for both agencies.

**Recommendation**

The Committee has at least the following options:

1. A favorable review.

2. An unfavorable review.

The proposed rates include 1 relevant policy change of more than $500,000, which involves hepatitis C drugs.

The proposed rates would cost $18.2 million, or 1.3%, more from the General Fund in FY 2013 than the current rates. Due to lower than projected enrollment, however, AHCCCS will generate more than sufficient savings to offset cost.

**Analysis**

Capitation rates are developed by actuaries based on information provided to them by the agency. Rates are set for the beginning of the contract year – July 1 for the DES program and October 1 for AHCCCS

(Continued)

programs. They must be approved by the Federal Centers for Medicare and Medicaid Services (CMS). Rates for Medicaid programs are composed of adjustments for trends, experience, and program changes.

These rates would normally remain in effect for a full year, but the agencies indicate they will make additional adjustments beginning January 1, 2013 due to a requirement in Federal health care legislation that primary care physicians are reimbursed at 100% of the Medicare rates from January 1, 2013 to December 31, 2014. The federal government will pay 100% of the cost of increasing rates above what was in effect in July 2009. Since the rates for primary care physicians are now below what the state paid in July 2009, the state will only receive the regular match rate for the cost of restoring rates to the July 2009 level. This requirement winds up increasing state costs over this 2-year period. The cost has yet to be determined.

Capitation rates are adjusted annually for medical expense and utilization trends. Utilization refers to the percentage of eligible individuals who use services and the amount of services each member uses. In developing capitation rates, the actuaries also compare prior rate calculations and assumptions to actual results for medical expenses and utilization. This is referred to as experience adjustments. The acute care rate includes a number program changes *(described below)*. While some of these changes are incorporated into the other programs, rate changes to those programs are immaterial.

Adjustments by Program

*AHCCCS Acute Care*
This population represents members who participate in the Traditional Medicaid, Proposition 204, and KidsCare programs. Overall, the proposed capitation rates for these programs will increase by 2.9% due to medical cost trends and experience adjustments along with other program changes as described below.

- The approval of 2 new drug therapies for hepatitis C is expected to increase General Fund costs by approximately $2.4 million. AHCCCS expects that these drugs will ultimately reduce the need for liver transplants. This is the only policy change exceeding $500,000.
- Rates have been adjusted to include savings from performing certain procedures in ambulatory surgical centers instead of hospitals. AHCCCS estimates this will generate approximately $(2.3) million in General Fund savings.
- On April 1, 2012, AHCCCS changed the way they reimburse community health centers for certain prescription drugs. AHCCCS estimates this will save the General Fund approximately $(1.7) million.
- Rates for certain types of family planning services were increased beginning February 1, 2012. AHCCCS estimates this will cost the General Fund approximately $1 million.
- The Federal government is now requiring AHCCCS to pay cost-sharing for services provided to certain individuals who are enrolled in both Medicare and Medicaid. AHCCCS estimates this will increase General Fund costs by approximately $1 million.
- Beginning on April 1, 2012 childless adults in Maricopa and Pima Counties are charged a $2 mandatory co-pay for taxi services each way. AHCCCS estimates a General Fund savings of approximately $(72,000).

Overall, the change in acute care rates will result in a General Fund cost of $23.0 million based on current caseload projections.

*AHCCCS Long-Term Care (ALTCS) for the Elderly and Physically Disabled*
ALTCS services are provided to the elderly and physically disabled in need of long-term care either in nursing care facilities or in home and community-based settings. The state, counties, and federal government share in the cost of ALTCS services. The proposed capitation rates are 1.9% above last

(Continued)

year's rates. This increase is the result of both increases in utilization and medical expenses due to experience and trends. These increases are partially offset by an increase in members using home and community based settings which are less expensive than nursing facilities. The change in rates will result in a net General Fund cost of $0.4 million, based on current caseload projections.

*Children's Rehabilitative Services (CRS)*
The CRS program is administered by AHCCCS and provides services for children with chronic and disabling or potentially disabling conditions. Rates will go down by (12.8)% from last year, primarily the result of rebasing medical expenses based on actual experience. Based on current caseload projections, this will result in General Fund savings of $(4.1) million.

*Long-Term Care for the Developmentally Disabled (DD)*
DES administers the DD program, providing services for individuals with cognitive disabilities, cerebral palsy, autism, or epilepsy. Rates have been reduced by (0.4)% for CYE 13, primarily from declining institutional trends. Based on current budget projections, this will result in General Fund savings of $(1.2) million.

Monthly Capitation Rates
The table below compares the proposed rates to the current rates for the 4 populations.

**Table 1**

**Monthly Regular Capitation Rates**

| Populations | Current Rates | Proposed Rates | % Change |
|---|---|---|---|
| AHCCCS Acute | $ 226.55 | $ 233.16 | 2.9% |
| AHCCCS Elderly & Physically Disabled | 2,965.97 | 3,022.21 | 1.9 |
| Children's Rehabilitative Services | 424.10 | 369.61 | (12.8) |
| DES Developmentally Disabled | 3,095.80 | 3,084.22 | (0.4) |

RS/AU:ac

**Janice K. Brewer, Governor**
**Thomas J. Betlach, Director**

*801 East Jefferson, Phoenix, AZ 85034*
*PO Box 25520, Phoenix, AZ 85002*
*Phone: 602-417-4000*
www.azahcccs.gov

AHCCCS

***Our first care is your health care***
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM


September 14, 2012

The Honorable Don Shooter
Chairman, Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85005

Dear Senator Shooter:

The Arizona Health Care Cost Containment System (AHCCCS) and the Arizona Department of Economic Security (DES) respectfully request to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to review the capitation rates for Contract Year Ending (CYE) 2013 (October 1, 2012 through September 30, 2013, unless otherwise noted) for the following programs:

- Acute Care
- Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD)
- ALTCS DES/Division of Developmental Disabilities (DDD) (July 1, 2012 through June 30, 2013)
- Children's Rehabilitative Services (CRS)

**Background and Summary**

As required by the Federal Balanced Budget Act of 1997, Title XIX Managed Care Programs must have actuarially sound capitation rates. The proposed rate adjustments are awaiting approval by the Centers for Medicare and Medicaid Services (CMS) for an October 1, 2012 implementation. AHCCCS is still awaiting CMS approval of several significant State Plan Amendments which impact provider reimbursement and, consequently, capitation rates. AHCCCS has historically received CMS approval of proposed capitation rates with no changes. However, should CMS withhold approval of any of the pending State Plan Amendments, capitation rates will need to be amended. AHCCCS will promptly notify JLBC of any changes to the proposed rates.

AHCCCS is Arizona's single state Medicaid agency; however, the Arizona Medicaid system includes state agency subcontractors, the Arizona Department of Health Services (ADHS) for Behavioral Health Services (BHS) and DES for both ALTCS DDD and the Comprehensive Medical and Dental Program (CMDP). Table 1 below displays the CYE 2013 rate changes by program, excluding the rates for BHS (ADHS submitted BHS capitation rates for JLBC review under separate cover) and CMDP (rates will be amended January 1, 2013):

**Table 1**

| Program | Rate Change (over most recently approved rates)* |
|---|---|
| **AHCCCS** | |
| Acute | 2.95% |
| ALTCS EPD | 2.42% |
| CRS | (12.85)% |
| **DES** | |
| DDD | 0.28% |
| **Total** | **1.94%** |

* Rates were most recently approved effective 10/1/2011 except for the ALTCS EPD rates which were changed/approved 5/1/2012 due to one Contractor exiting the AHCCCS program

The five year average capitation rate adjustment across the programs displayed above is (1.52)%.

**Acute Care Capitation Rates**
The overall rate adjustment for the Acute program for CYE 2013 is an increase of 2.95%.

The three largest factors impacting the acute rates are inflationary cost trends, accounting for a 1.22% increase; Managed Care Organization (MCO) adjustments of 0.83% due to a "look-back" analysis comparing prior rate calculations and assumptions used therein, versus actual results (referred to as an experience adjustment); and a rebase of the reinsurance offsets to better align the anticipated reinsurance revenue with actual experience, which further increases the rate by 0.92%. (Because the reinsurance revenue is declining due to cost-saving measures like the 25-day inpatient stay limit, the reinsurance offset is reduced, resulting in an increase in capitation.)

**Elderly and Physically Disabled Long Term Care Capitation Rates**
The overall rate adjustment for the ALTCS EPD program for CYE 2013 is an increase of 2.42%.

The three largest factors impacting the ALTCS EPD rates are utilization and inflationary trends due to change in mix of services, accounting for a 2.18% increase; a rebase of the cap rates from the prior year (CYE 2012) competitive bid, resulting in a 2.42% increase; and an increase in the anticipated mix of Home and Community Based Services (HCBS) placement with a corresponding decrease in Nursing Facility placement, resulting in a downward adjustment to cap rates of (2.03)%. The guiding principle in the ALTCS program to move members to the most integrated, least restrictive, cost-effective setting for their needs contributes tremendously to the success of the program – without this continued increase in HCBS placements, the overall increase to the ALTCS EPD rates would be 4.65%.

**Developmental Disabilities Long Term Care Capitation Rates**
The overall rate adjustment for the ALTCS DDD program for CYE 2013 is an increase of 0.28%.

The largest factor impacting the rates is an increase to the behavioral health component of 15.12% which is primarily driven by a rebase of the expenses accounting for approximately 10% of the growth. Utilization and inflationary trends of 5% applied to this component account for the balance of this rate increase. Also contributing to the overall capitation rate is a 32.66% increase to the Targeted Case Management rate; this rate covers case management services provided by DES/DDD to members in the Acute Care program who do not qualify for ALTCS but who are developmentally disabled. The large increase is primarily attributed to a change in the allocation methodology for indirect costs.

**Children's Rehabilitative Services Capitation Rates**
The overall rate adjustment for the Children's Rehabilitative Services program for CYE 2013 is a decrease of (12.85)%.

This rate change is attributable to a *rebase* of the medical expense projection for CYE 2013. The prior year rate (CYE12) was calculated as a rate *update* from CYE 2011, which entails applying trends and program adjustments to the CYE 2011 medical expense projection. However, actual encounter and financial reporting data for CYE 2011 are below the medical expense projections used in setting rates for those years, thus resulting in this significant decrease for CYE 2013.

**Overall Fiscal Impact**

Table 2 below displays the fiscal impact of the rate changes.

| | Statewide Rates SFY12 | Statewide Rates SFY13 | FY13 Population | SFY12 Rate with FY 13 Pop. | SFY13 Rate with FY 13 Pop. | Change Inc. (Dec.) | Percent Impact |
|---|---|---|---|---|---|---|---|
| AHCCCS Acute | $ 226.55 | $ 233.16 | 13,618,257 | 3,085,265,200 | 3,175,190,200 | 89,925,000 | 2.91% |
| AHCCCS EPD | $ 2,880.74 | $ 2,950.58 | 321,596 | 926,433,400 | 948,893,300 | 22,459,900 | 2.42% |
| CRS | $ 424.10 | $ 369.61 | 303,212 | 128,592,300 | 112,070,100 | (16,522,200) | -12.85% |
| LTC - DD/DES | $ 3,214.73 | $ 3,223.71 | 300,444 | 965,847,300 | 968,544,500 | 2,697,200 | 0.28% |
| Total Budget Impact | $ 351.09 | $ 357.87 | 14,543,509 | 5,106,138,200 | 5,204,698,100 | 98,559,900 | 1.93% |
| | | | | | AHCCCS Total Fund Impact | 95,862,700 | 97.3% |
| | | | | | Pass-through Total Fund Impact | 2,697,200 | 2.7% |
| | | | | | AHCCCS State Impact | 32,388,300 | 97.3% |
| | | | | | Pass-through State Impact | 914,600 | 2.7% |
| | | | | | Total State Impact | 33,302,900 | |
| | | | | | AHCCCS Federal Impact | 63,474,400 | 97.3% |
| | | | | | Pass-through Federal Impact | 1,782,600 | 2.7% |
| | | | | | Total Federal Impact | 65,257,000 | |

**Policy Changes**

Per the legislative mandates in ARS 36-2901.06 and 36-2941, AHCCCS has not included any changes beyond those already approved by the Legislature. Please note that AHCCCS will be

amending all capitation rates effective January 1, 2013, to implement the requirements of the federal Accountable Care Act related to primary care reimbursement. Revised capitation rates will be submitted to you at that time.

The actuarial certifications for the rates are attached. Should you have any questions on any of these issues, please feel free to contact Shelli Silver, Assistant Director, at (602) 417-4647.

Sincerely,

Thomas J. Betlach
Director

cc: The Honorable John Kavanagh, Arizona House of Representatives
John Arnold, Office of Strategic Planning & Budgeting
Richard Stavneak, Joint Legislative Budget Committee

Note: See additional information on JLBC's website.


# Acute Care Actuarial Memorandum

## I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the Acute Care capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

AHCCCS intends to update these capitation rates for January 1, 2013 to include changes to the physician fee schedule resulting from mandated Health Care Reform requirements and any other necessary changes.

## II. Overview of Rate Setting Methodology

The contract year ending 2013 (CYE13) rates were developed as a rate update from the contract year ending 2012 (CYE12) capitation rates. The CYE13 rates cover the twelve month contract period of October 1, 2012 through September 30, 2013.

The Acute Care rates were developed from historical Acute Care data including Arizona Medicaid managed care encounter data (via an extract that provides utilization and cost data, referred to as the "databook"), as well as health plan financial statements. Other data sources include programmatic changes, anticipated Arizona Health Care Cost Containment System (AHCCCS) Fee-For-Service rate changes, anticipated Arizona Department of Health Services (ADHS) transportation increases, Center for Medicare and Medicaid Services (CMS) National Health Expenditure (NHE) Report estimates and Global Insight Prospective Hospital Market Basket Inflation Index (GI) information.

The contract between the AHCCCS and the health plans (HPs) specifies that the HPs may cover additional services. Non-covered services were removed from the databook and not included in the rates.

Trend rates were calculated from the databook and other sources on a unit cost and/or utilization basis by category of service (COS) and a cap was applied to limit the negative and positive trends to a reasonable level. Unit cost trends were further refined by actual and anticipated changes in AHCCCS Fee-For-Service rates. These adjustments also include state mandates, court ordered programs and other program changes, if necessary. Additional analysis was performed on all prospective populations due to shifts in the economy and policy impacts that have caused deviations from the historical encounter data costs and trends. In order to capture these changes AHCCCS used more recent encounter data as well as the most recent financial data and applied an experience adjustment factor to all prospective populations. For more information on trends and experience adjustments see Section III Projected Trend Adjustments and Section IV Projected Experience Adjustments.

The Acute Care program has a large membership base, which allows for the experience data to be analyzed by different rate cells. These rate cells are comprised of members with similar risk characteristics. The rate cells were analyzed by major categories of aid (COA), i.e. risk groups, and COS. In addition, AHCCCS develops rates by Geographic Service Area (GSA).

The experience data includes only Acute Care Medicaid eligible expenses for Acute Care Medicaid eligible individuals, as well as reinsurance amounts. The Prior Period Coverage (PPC) rates and the Non-MED rates are reconciled to a maximum 2% profit or loss. The remainder of the risk groups are reconciled based on a tiered methodology (see Section XVI CMS Rate Setting Checklist for additional information). Additional payments are made for members giving birth via a Maternity Delivery Payment.

The general process in developing the prospective rates involves trending the CYE12 capitation rates to the midpoint of the effective period, which is April 1, 2013. The next step involves applying programmatic and experience adjustments. This creates a CYE13 medical per member per month (PMPM) rate from which the reinsurance offsets are deducted. Following this calculation, the projected administrative expenses, risk/contingency margin and premium tax are added to the projected claim PMPMs to obtain the capitation rates. In the final step, a risk adjustment factor is applied creating budget neutral results. Each step is described in the sections below. In addition there are sections dedicated to the development of other rates including, but not limited to, the Maternity Delivery Payment and PPC rates.

## III. Projected Trend Adjustments

The trend analysis includes both the financial data experience and the encounter data experience. Financial data experience is from the contract year ending September 2009 through March 2012. Encounter data experience is from the contract year ending September 2009 through March 2012. Encounter data was used from those plans that provided reasonably complete and accurate encounter submissions for the trend analysis. The resulting data provides an actuarially sound data set for which to trend the CYE12 rates forward. In addition to using encounter and financial data, AHCCCS used information from CMS NHE Report estimates, GI information, and changes in AHCCCS' Inpatient rates, Professional and Outpatient Fee Schedules, Dental Fee Schedule, Transportation Fee Schedule and other sources. AHCCCS developed utilization and unit cost trend estimates using the encounter data. These trends were developed by major COA and COS, with a cap on the percentage increase and decrease to smooth out exceptional trends.

Inherent in the encounter and financial data are unit cost trends which incorporate Contractors' Coordination of Benefits (COB) activities. AHCCCS provides Contractors with verified commercial and Medicare coverage information for their members which Contractors utilize to ensure payments are not made for medical services that are covered by the other carriers. When Contractors make a payment to cover members' coinsurance, deductibles, or Medicaid-covered services that are not covered by the other carriers, they submit encounters containing these reduced amounts. From state fiscal year (SFY) 2008 to SFY 2011, encounter-reported COB cost avoidance grew by greater than 39%, from $391 million to $544 million. Additionally, Acute Contractors cost-avoided $253 million in SFY 2011 in additional claims for which the Contractor had no financial obligation after the private insurance or Medicare payment was made. Consequently no encounters were submitted to AHCCCS and therefore those services are excluded completely from

capitation expenditure projections. AHCCCS continues to emphasize the importance of COB activities with the Acute Contractors.

Once these trends were developed they were analyzed by comparing the results to reports and studies (for example the CMS NHE report). The utilization and unit cost trend rates used in projecting the claim costs are summarized in Appendix I. The prospective PMPM trends are shown below in Table I. These trends do not reflect the impact of any program changes.

**Table I: Prospective Average Annual PMPM Trends**

| | PMPM Trends | | | |
|---|---|---|---|---|
| Categories of Service | TANF & KidsCare Combined | SSI With Medicare | SSI without Medicare | Non-MED |
| Hospital Inpatient | -0.9% | 2.7% | -2.8% | -0.9% |
| Outpatient Facility | 2.1% | -0.3% | -0.5% | -0.1% |
| Emergency Room | 3.2% | -2.3% | 7.4% | -1.3% |
| Primary Care | 1.4% | 2.1% | 2.5% | -1.5% |
| Referral Physician | 4.0% | 8.7% | 6.1% | -2.0% |
| Other Professional | 5.2% | 4.7% | 3.7% | 0.8% |
| Pharmacy | 6.5% | 3.9% | 3.9% | 2.9% |
| Other | -4.0% | -1.1% | -1.7% | -1.8% |

**Hospital Inpatient Trends**

Using the data sources mentioned in Section II and emphasizing the AHCCCS encounter data, the inpatient utilization varied from -5.2 to -2.0 percent annually, depending upon risk group. AHCCCS used encounter data, as adjusted for prior years' fee schedule rate changes, to develop the hospital inpatient unit cost trends. On a combined basis, the PMPM trends for inpatient hospital have been trended at -2.8 to 2.7 percent, depending upon risk group. These ranges are summarized in Appendix I.

**Hospital Outpatient and Emergency Room Trends**

Using the data sources mentioned in Section II and emphasizing the AHCCCS encounter data, the hospital outpatient and emergency room utilization varied from -5.3 to 5.4 percent annually, depending upon risk group and category of service. On a combined basis, the PMPM costs for hospital outpatient and emergency room have been trended at -2.3 to 7.4 percent, depending upon risk group. These ranges are summarized in Appendix I.

**Physician and Related Service Trends**

Using the data sources mentioned in Section II and emphasizing the AHCCCS encounter data, the assumed utilization for physicians and other professionals ranged from -2.0 to 7.8 percent annually, depending upon risk group and category of service. AHCCCS primarily used encounter data, as adjusted for prior years' fee schedule rate changes, to develop the physician and other professionals unit cost trends. On a combined basis, the PMPM costs for physicians and other professionals have been

trended at -2.0 to 8.7 percent, depending upon risk group. These ranges are summarized in Appendix I.

**Pharmacy Trends**
Using the data sources mentioned in Section II and emphasizing the AHCCCS encounter data, the assumed pharmacy utilization increased by -2.0 to 5.0 percent, depending upon risk group. Based on a review of the same sources, unit costs have been trended at -1.0 to 5.0 percent. On a combined basis, the PMPM costs for pharmacy have been trended at 2.9 to 6.5 percent, depending upon risk group. These ranges are summarized in Appendix I.

## IV. Projected Experience Adjustments

Based on recent changes in the AHCCCS population resulting from previously unforeseen economic conditions which resulted in rapid growth, in addition to the freeze of the non-MED risk group effective July 8, 2011, AHCCCS is applying an experience adjustment to the CYE13 capitation rates. The projected experience adjustments are calculated by risk group, by GSA for the prospective population.

The projected experience adjustments are a function of two components: a financial component and an encounter component. The financial component is based on three different views of the health plans' submitted financials: reported profit/loss for CYE11 adjusted to CYE12; reported profit/loss through March 31, 2012; and reported CYE12 medical expense (for two quarters) compared to the CYE12 medical expense built into the capitation rates. The encounter component is based on three different views: CYE11 databook encounters (PMMIS point-in-time extract) over CYE11 medical expense built into the capitation rates adjusted for CYE12 changes to medical expense; COGNOS encounters for two quarters of CYE12 over CYE12 medical expense in the capitation rates; and COGNOS encounters for two quarters of CYE12 with seasonality applied over CYE12 medical expense in the capitation rates. These components were then analyzed, in conjunction with historical medical PMPMs, to arrive at the necessary experience adjustments. These experience adjustments are applied to the final medical rate, before reinsurance, admin, risk contingency and premium tax. The impact of the experience adjustment on a statewide basis ranges from -9.8 to 19.3 percent, depending upon the risk group and GSA.

## V. State Mandates, Court Ordered Programs, Program Changes and Other Changes

**340B Pharmacy Pricing**
Effective April 2012, all Contractors are required to reimburse claims for 340B drugs consistent with the requirements in AHCCCS Rule A.A.C. R9-22-710 C. In general, this provision requires that claims for drugs identified on the 340B pricing file dispensed by FQHCs and FQHC Look Alike pharmacies be reimbursed at the lesser of: 1) the actual acquisition cost or 2) the 340B ceiling price, plus a dispensing fee listed in the AHCCCS capped fee-for-service (FFS) schedule. For more detail regarding reimbursement of 340B drugs, please refer to the AHCCCS Rule. The estimated statewide savings to the acute program is approximately $5 million.

**Psych Consults**
Effective July 1, 2012, the Acute Care Behavioral Health Contractor (Arizona Department of Health Services/Behavioral Health Services – ADHS/BHS) is responsible for payment of medically necessary psychiatric consultations and evaluations provided to acute care members in inpatient facilities in medical/surgical beds regardless of the bed or floor where the member is placed. This includes emergency departments, even when the member is being treated for other co-morbid physical conditions. The estimated statewide savings to the acute program is approximately $168,000.

**ER Transportation**
Effective July 1, 2012, the Acute Contractors will pay for all emergency transportation for a behavioral health member, unless the emergency transport is to a behavioral health facility. Historically, the RBHAs were financially responsible for emergency transportation for a behavioral health member. The estimated statewide impact to the acute program is an increase of approximately $259,000.

**Taxi Copay**
Beginning April 1, 2012, Childless Adult (non-Med) members in Maricopa and Pima counties will be charged a $2 mandatory copayment for taxi services per one-way trip. Mandatory copayments permit taxi providers to deny services due to lack of member payment. The estimated statewide savings to the acute program is approximately $209,000.

**Family Planning Devices**
Effective February 1, 2012, AHCCCS increased the reimbursement rates for certain family planning services. Rates for two devices, Paragard and Mirena, and for the Essure procedure, were adjusted to address providers' costs related to these cost-effective services. The estimated statewide impact to the acute program is an increase of approximately $3.4 million.

**Out of Network QMB Duals**
CMS published new guidance regarding Medicare cost-sharing for QMB dual eligible members. The guidance clarifies that AHCCCS Contractors are required to pay cost-sharing for all services provided to QMB dual members regardless of a provider's network status, as long as the provider is registered with AHCCCS. The estimated statewide impact to the acute program is an increase of approximately $3 million.

**Hepatitis C**
In May 2011, the FDA granted approval for two new drug therapies for hepatitis C (Incivek and Victrelis). Both drugs were made available to AHCCCS members beginning in early 2012. It is expected that these therapies will reduce the need for liver transplants for hepatitis C patients. The estimated statewide impact to the acute program is an increase of approximately $7 million.

**Claims Processing Standards**
Effective January 1, 2012, Contractors were required to adjust their claims processing systems to recognize two cost-saving standards including multiple surgery occurrences and bundled services. When multiple surgeries occur on the same day, the surgery with the lowest cost is valued at 50% of the standard allowed amount for that surgery. Encounter data identified with status code B reflects bundled services where no additional payment is allowed for certain services that are performed together (e.g. anesthesia provided during an outpatient surgery). The estimated statewide savings to the acute program is approximately $1.3 million.

**Breast and Cervical Cancer Treatment Program (BCCTP)**
Effective August 2, 2012, a change in Arizona law (ARS 36.2901.85) modifies the definition of an eligible person for BCCTP by expanding the number of providers recognized by the Arizona Well Woman Healthcheck Program (WWHP). Prior to this change, only women who were screened and diagnosed through the WWHP qualified for the BCCTP. The new law allows for all women that meet the qualification of the BCCTP, but were diagnosed outside of WWHP, to enroll in the treatment program provided they meet the BCCTP eligibility requirements. The estimated statewide impact to the acute program is an increase of approximately $4.2 million.

**Shift to Ambulatory Surgical Centers (ASCs)**
Capitation rates effective October 1, 2012 include an adjustment to recognize savings that may be generated by transitioning certain procedures that are currently performed in hospital outpatient settings to more cost-effective Ambulatory Surgical Centers (ASC). AHCCCS reviewed the utilization and costs of services that may be performed in both of these outpatient settings, as well as data from ASCs on their available capacity, and determined that such savings could be realized if Contractors increase ASC service utilization by 20% statewide. The estimated savings for the acute program is approximately $6.6 million.

**In-Lieu of Services**
Included in the base rates is funding for "in lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. State approved FFS rates at inpatient non-specialty hospitals are approximately 93.5% more expensive than those provided in alternative inpatient settings. The proposed capitation rates allow for the provision of services in alternative inpatient settings that are licensed by Arizona Department of Health Services/Arizona Licensing Services/Office of Behavioral Health License, in lieu of services in an inpatient non-specialty hospital, thus no increase to cap rates is included.

## VI. Prospective Projected Net Claim PMPM

The CYE12 utilization, unit costs and net claims' PMPMs are trended forward and adjusted for experience trends, state mandates, court ordered programs and program changes to arrive at the CYE13 utilization, unit costs and net claims PMPMs for each COS and COA.

## VII. Prospective Reinsurance Offsets

The CYE12 reinsurance offsets were reviewed by AHCCCS for appropriateness and reasonableness using reinsurance encounter and payment information. Appropriate adjustments were made to the reinsurance offsets based upon this review. All contractors remain at the same deductible levels as CYE12.

## VIII. Prospective Administrative Expenses and Risk Contingency

The administrative expense ratio remains at the ratio in place for the CYE12 rates for general administration, which was determined to be appropriate to cover the contractors' average expenses. The risk contingency load also remains the same for all rate cohorts at 1%.

## IX. Prospective Proposed Capitation Rates and Their Impacts

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VI) less the reinsurance offsets (in section VII) and the projected administrative expenses and risk contingency PMPM (in section VIII), divided by one minus the two percent premium tax. The final adjustment, which is a budget neutral adjustment, is the risk adjustment factor (in Section X). Appendix II contains the proposed capitation rates and the budget impact for all capitation rates using projected CYE13 member months and actual health plan reinsurance deductible levels.

## X. Risk Adjustment Factor

For CYE13, AHCCCS will apply the same risk factors used for the CYE12 capitation rates.

## XI. Maternity Delivery Payment

The methodology followed in developing the Maternity Delivery Payment is similar to the methodology used in the development of the prospective capitation rates. This methodology involves updating CYE12 rates with utilization and unit cost trends and program changes. The impact is a 4.7% increase per delivery to the overall global maternity payment rate over the CYE12 rate.

## XII. Extended Family Planning Services (FPS)

The methodology followed in developing the FPS rate is similar to the methodology used in the development of the prospective capitation rates. This methodology involves updating CYE12 rates with utilization and unit cost trends and program changes. The impact is a 0.1% decrease to the overall global FPS rate over the CYE12 rate.

## XIII. KidsCare Rates

Continuing with the methodology of previous years, AHCCCS contractors will be paid one blended capitation rate that includes experience from both the traditional TANF Medicaid population and the Title XXI SCHIP population. For CYE13, the Title XXI population includes those children enrolled in KidsCare II as well as those members in the traditional KidsCare program. On April 6, 2012, CMS approved a new 2012 Waiver Amendment, which included funding for KidsCare II. KidsCare II provides coverage to children who have income levels up to 175% of the federal poverty level (FPL) and meet other eligibility requirements. The rate cohorts whose experience is blended together are detailed as follows:

- TANF < 1 and KidsCare < 1;
- TANF 1– 13 M&F and KidsCare 1 – 13 M&F;
- TANF 14 – 44 F and KidsCare 14 – 18 F;
- TANF 14 – 44 M and KidsCare 14 – 18 M; and

The related member month, capitation rate and dollar information is as follows:

| KidsCare Info | CYE13 Projected Member Months | Proj Cap Rate-CYE13 | Total Annual Dollars CYE13 based on CYE13 Proj MMs |
|---|---|---|---|
| KC <1 | 391 | $ 482.36 | $ 188,490 |
| KC 1-13 | 244,296 | $ 103.21 | $ 25,213,797 |
| KC 14-44F | 63,138 | $ 225.41 | $ 14,231,844 |
| KC 14-44M | 70,231 | $ 143.02 | $ 10,044,366 |

## XIV. Prior Period Coverage Rates (PPC)

PPC rates cover the period of time from the effective date of eligibility to the day a member is enrolled with the Contractor. PPC rates are established using a similar methodology that was followed in developing the prospective capitation rates. The administration and risk contingency percentages are the same as the prospective rates. The overall statewide impact is an increase of 4.8%. The PPC rates are reconciled to a maximum 2.0% profit or loss in CYE13.

## XV. Final Capitation Rates and Their Impact

Table II below summarizes the adjustments made to the CYE12 rates. The impact to Contractors ranges from 1.6% to 6.0%. Individual health plan capitation rates will be impacted as shown in Section B of the contracts.

**Table II: Adjustments to CYE12 Rates**

| AHCCCS Medicaid Managed Care Summary | | | |
|---|---|---|---|
| Adjustments to CYE12 Rate | Prospective | PPC | Weighted Average |
| Trend: | | | |
| 1. Utilization | -0.39% | 1.58% | -0.35% |
| 2. Inflation | 1.19% | 2.49% | 1.22% |
| Experience Adjustment | | | |
| 1. Total | 0.85% | 0.00% | 0.83% |
| Program Changes | | | |
| 1. ER Transportation | 0.01% | 0.00% | 0.01% |
| 2. 340B Pharmacy Pricing | -0.17% | 0.00% | -0.17% |
| 3. Taxi Copay | -0.01% | 0.00% | -0.01% |
| 4. Family Planning Devices | 0.11% | 0.00% | 0.11% |
| 5. Hepatitis C | 0.24% | 0.00% | 0.23% |
| 6. Claim Processing Standards | -0.04% | 0.00% | -0.04% |
| 7. Psych Consults | -0.01% | 0.00% | -0.01% |
| 8. Out of Network QMB Duals | 0.10% | 0.00% | 0.10% |
| 9. BCCTP | 0.13% | 0.22% | 0.14% |
| 10. ASCs | -0.22% | 0.00% | -0.22% |
| Misc | | | |
| 1. Reinsurance Offset Change | 0.94% | n/a | 0.92% |
| 2. Other Changes (ie Admin, Risk, Prem Tax) | 0.17% | 0.48% | 0.18% |
| Total Percentage Change | 2.91% | 4.77% | 2.95% |

# XVI. CMS Rate Setting Checklist

## 1. Overview of rate setting methodology

### A.A.1.0: Overview of rate setting methodology

AHCCCS is performing a rate update from the rates in effect for contract year ending 2012 (CYE12) under 42 CFR 438.6(c). Please refer to Section II.

### AA.1.1: Actuarial certification

Please refer to Section XVII.

### AA.1.2: Projection of expenditure

Please refer to Appendix II.

### AA.1.3: Procurement, prior approval and rate setting

AHCCCS is operating under the Competitive Procurement contracting method.

### AA.1.5: Risk contract

AHCCCS limits risk for the Non-MED and all PPC risk groups to 2% profit or loss. The remainder of the risk groups are reconciled as follows:

| Profit | MCO Share | State Share | Maximum MCO Profit |
|---|---|---|---|
| <=3% | 100% | 0% | 3% |
| >3% and <=5% | 75% | 25% | 1.5% |
| >5% and <=7% | 50% | 50% | 1.0% |
| >7% and <=9% | 25% | 75% | 0.5% |
| >9% | 0% | 100% | 0% |
| Total | | | 6.0% |

| Loss | MCO Share | State Share | Maximum MCO Loss |
|---|---|---|---|
| <=3% | 100% | 0% | 3% |
| >3% and <=6% | 50% | 50% | 1.5% |
| >6% | 0% | 100% | 0% |
| Total | | | 4.5% |

### AA.1.6: Limit on payment to other providers

AHCCCS makes no additional payment to providers, except for Disproportionate Share Hospital (DSH), Graduate Medical Education (GME) and Critical Access Hospitals. GME is paid in accordance with state plan. DSH and Critical Access Hospital payments are paid in accordance with the Waiver Special Terms and Conditions. None of the additional payments to providers were included in the capitation calculation.

**AA.1.7: Rate modification**

Please refer to Sections II through V, VII, VIII, and X through XIV.

## XVII. Actuarial Certification of the Capitation Rates

I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning October 1, 2012.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by the health plans and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the health plan auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

/Windy J. Marks — 08/30/12

Windy J. Marks — Date

Fellow of the Society of Actuaries
Member, American Academy of Actuaries

# Appendix I

## Prospective Trends

| Utilization per 1,000 trends | | | | |
|---|---|---|---|---|
| Categories of Service | TANF & KidsCare Combined | SSI With Medicare | SSI without Medicare | Non-MED |
| Hospital Inpatient | -3.0% | -5.2% | -2.5% | -2.0% |
| Outpatient Facility | -1.8% | -3.8% | 1.6% | -1.7% |
| Emergency Room | -0.8% | -5.3% | 5.4% | -2.0% |
| Primary Care | -0.1% | 1.3% | 1.3% | -2.0% |
| Referral Physician | 3.4% | 7.8% | 7.0% | -1.6% |
| Other Professional | 3.2% | 3.4% | 1.3% | -1.9% |
| Pharmacy | 5.0% | 1.3% | 4.9% | -2.0% |
| Other | n/a | n/a | n/a | n/a |

| Unit Cost Trends | | | | |
|---|---|---|---|---|
| Categories of Service | TANF & KidsCare Combined | SSI With Medicare | SSI without Medicare | Non-MED |
| Hospital Inpatient | 2.2% | 8.3% | -0.3% | 1.2% |
| Outpatient Facility | 4.0% | 3.7% | -2.1% | 1.6% |
| Emergency Room | 4.0% | 3.2% | 1.9% | 0.7% |
| Primary Care | 1.5% | 0.8% | 1.1% | 0.5% |
| Referral Physician | 0.6% | 0.8% | -0.8% | -0.4% |
| Other Professional | 1.9% | 1.3% | 2.3% | 2.8% |
| Pharmacy | 1.5% | 2.6% | -1.0% | 5.0% |
| Other | n/a | n/a | n/a | n/a |

| PMPM Trends | | | | |
|---|---|---|---|---|
| Categories of Service | TANF & KidsCare Combined | SSI With Medicare | SSI without Medicare | Non-MED |
| Hospital Inpatient | -0.9% | 2.7% | -2.8% | -0.9% |
| Outpatient Facility | 2.1% | -0.3% | -0.5% | -0.1% |
| Emergency Room | 3.2% | -2.3% | 7.4% | -1.3% |
| Primary Care | 1.4% | 2.1% | 2.5% | -1.5% |
| Referral Physician | 4.0% | 8.7% | 6.1% | -2.0% |
| Other Professional | 5.2% | 4.7% | 3.7% | 0.8% |
| Pharmacy | 6.5% | 3.9% | 3.9% | 2.9% |
| Other | -4.0% | -1.1% | -1.7% | -1.8% |

# Acute Capitation Rate Analysis (Renewal Rates--pending approval)
# Point in Time Comparison--no member growth factor
# CYE '13
# APPENDIX II

| | | CYE13 Projected Member Months [1] | Cap Rate- '12 based on CYE13 Proj Member Months [2] | Total Annual Dollars CYE '12 based on CYE13 Proj MMs | Cap Rate- CYE13 based on CYE13 Proj Member Months [2] | Total Annual Dollars CYE13 based on CYE13 Proj MMs | Difference | % Increase |
|---|---|---|---|---|---|---|---|---|
| **Title XIX Waiver Group** | | | | | | | | |
| | Prospective-non-MED | 753,428 | $ 397.38 | $ 299,397,252 | $ 400.69 | $ 301,891,099 | $ 2,493,847 | 0.8% |
| | Total non-MED | 753,428 | | $ 299,397,252 | | $ 301,891,099 | $ 2,493,847 | 0.8% |
| **TXIX** | | | | | | | | |
| | <1 | 567,607 | $ 465.40 | $ 264,164,091 | $ 482.36 | $ 273,790,698 | $ 9,626,607 | 3.6% |
| | 1-13 | 5,424,396 | $ 99.65 | $ 540,541,020 | $ 103.21 | $ 559,851,868 | $ 19,310,848 | 3.6% |
| | 14-44F | 2,739,406 | $ 222.98 | $ 610,832,681 | $ 225.41 | $ 617,489,437 | $ 6,656,756 | 1.1% |
| | 14-44M | 1,339,485 | $ 140.09 | $ 187,648,494 | $ 143.02 | $ 191,573,186 | $ 3,924,692 | 2.1% |
| | 45+ | 455,356 | $ 358.34 | $ 163,172,350 | $ 378.05 | $ 172,147,421 | $ 8,975,071 | 5.5% |
| | SSI w/Med | 982,494 | $ 133.03 | $ 130,701,124 | $ 139.92 | $ 137,470,505 | $ 6,769,381 | 5.2% |
| | SSI w/o Med | 815,065 | $ 713.49 | $ 581,540,904 | $ 737.20 | $ 600,866,101 | $ 19,325,197 | 3.3% |
| | SFP | 51,678 | $ 14.16 | $ 731,755 | $ 14.14 | $ 730,721 | $ (1,034) | -0.1% |
| | Delivery Supplemental Payment | 35,706 | $ 5,813.22 | $ 207,564,657 | $ 6,085.66 | $ 217,292,298 | $ 9,727,641 | 4.7% |
| | Total Prospective-non-TWG | 12,411,191 | | $ 2,686,897,077 | | $ 2,771,212,237 | $ 84,315,159 | 3.1% |
| | PPC'<1 | 11,496 | $ 899.97 | $ 10,346,034 | $ 955.29 | $ 10,981,991 | $ 635,957 | 6.1% |
| | PPC'1-13 | 184,471 | $ 52.95 | $ 9,767,726 | $ 56.41 | $ 10,405,994 | $ 638,269 | 6.5% |
| | PPC '14-44F | 132,754 | $ 184.21 | $ 24,454,692 | $ 187.59 | $ 24,903,402 | $ 448,710 | 1.8% |
| | PPC '14-44M | 58,369 | $ 147.30 | $ 8,597,817 | $ 155.92 | $ 9,100,962 | $ 503,144 | 5.9% |
| | PPC '45+ | 19,510 | $ 293.00 | $ 5,716,331 | $ 305.16 | $ 5,953,569 | $ 237,238 | 4.2% |
| | PPC 'SSI w/Med | 13,456 | $ 119.69 | $ 1,610,501 | $ 118.78 | $ 1,598,257 | $ (12,245) | -0.8% |
| | PPC 'SSI w/o Med | 30,327 | $ 336.17 | $ 10,195,192 | $ 366.44 | $ 11,113,205 | $ 918,013 | 9.0% |
| | PPC All non-TWG rate codes | 450,383 | | $ 70,688,293 | | $ 74,057,379 | $ 3,369,087 | 4.8% |
| | Total Title XIX-non-TWG | 12,861,575 | | $ 2,757,585,370 | | $ 2,845,269,616 | $ 87,684,246 | 3.2% |
| **Grand Total Capitation** | | | | **$ 3,056,982,622** | | **$ 3,147,160,715** | **$ 90,178,093** | 2.9% |

[1]Population estimates for CYE13 are taken from DBF projections.

[2] Reinsurance levels are the same level for plans in CYE13 as CYE12 with two plans at the $35,000 level and the rest at $20,000


# Children's Rehabilitative Services (CRS) Actuarial Memorandum for CYE 2013

## I. Purpose

This memorandum presents a discussion of the revision to the capitation rates for the Children's Rehabilitative Services (CRS) program, for the period October 1, 2012 to September 30, 2013. The purpose of this actuarial memorandum is to demonstrate that the updated capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

Arizona Health Care Cost Containment System (AHCCCS) intends to update these capitation rates for January 1, 2013 to include changes to the physician fee schedule resulting from mandated Health Care Reform requirements and any other necessary changes.

## II. Overview of Rate Setting Methodology and Base Period Experience

The contract year ending 2013 (CYE13) rates were developed as a rate rebase from the contract year ending 2012 (CYE12) capitation rates previously approved by CMS. The CYE13 rates cover the twelve month contract period of October 1, 2012 through September 30, 2013.

Since CRS has a relatively small membership base, multiple years and sources of data were used to increase the statistical credibility. For CYE13 rate development, CRS' encounter data was found to be appropriate for all service categories, except clinic fees. For all categories other than clinic fees the base year experience is the 2009, 2010 and 2011 federal fiscal year encounter data. Completion and credibility factors were added to the encounter data. CRS did not begin encountering clinic fees until January 2011 thus limited encounter data is available for these expenses. Consequently, financial statement data for CYE11 and CYE12, year-to-date, was used to estimate the CYE13 clinic expenses. That forecast also incorporates anticipated changes to clinic reimbursement due to a location and administrative change for the Maricopa County clinic. The per member per month (PMPM) claim costs observed for all categories of service were then adjusted to reflect program changes and reimbursement reductions that were effective subsequent to the experience periods used.

The assumed trend rates were developed from an internal data extract ("databook") that tracks historical enrollment, as well as utilization counts and unit costs for encounters adjudicated by AHCCCS. Other data sources include Contractor financial statements, anticipated AHCCCS Fee-For-Service rate changes, anticipated Arizona Department of Health Services (ADHS) transportation increases, programmatic changes, and BLS statistics on medical inflation.

Because of the relatively small membership base and statewide disbursement of members, segregating the CRS population into different rate cells with similar risk characteristics would lead to a statistical credibility problem. Therefore, AHCCCS believes that a single CRS capitation rate leads to a more actuarially sound rate than creating additional rate cells.

The experience only includes CRS Medicaid eligible expenses for CRS Medicaid eligible individuals. In addition, the experience includes reinsurance amounts. For CYE13 the CRS capitation rates will be reconciled using a tiered reconciliation methodology. See Section X CMS Rate Setting Checklist for additional information. There are no other incentives or risk sharing arrangements.

In general, the base period claim PMPMs are trended to the midpoint of the effective period or April 1, 2013. The next step involves adjusting for program and other changes. In the final step, the projected administrative expenses, risk/contingency margin, reinsurance offset and premium tax are added to the projected claim PMPMs to obtain the capitation rates. Each step is described in the sections below.

## III. Projected Trend Assumptions

Utilization and unit cost trend rates were calculated from the encounter data experience for CYE09, CYE10 and CYE11 dates of service. Financial statements for the same time periods, and CYE12 (YTD) financials, were used to validate the encounter data and trends.

The trend rates used in projecting the claim costs are as follows:

**Table I: Average Trend Rates**

| Service Category | Utilization Trend | Unit Cost Trend | PMPM Trend |
|---|---|---|---|
| Inpatient | -4.61% | -4.61% | -9.00% |
| Outpatient | -7.78% | 10.94% | 2.31% |
| Physician | 5.00% | 0.65% | 5.68% |
| Pharmacy | -7.15% | 6.25% | -1.35% |
| DME | 12.73% | 6.85% | 20.45% |
| Non-Physician Professional | 14.81% | 8.00% | 23.99% |
| Lab/Radiology | -6.21% | 9.53% | 2.73% |
| Clinic | N/A | N/A | N/A |
| Dental | -13.36% | -2.01% | -15.10% |
| Other | -29.32% | 25.18% | -11.52% |
| Total | 2.70% | -1.89% | 0.75% |

Inherent in the encounter and financial data are unit cost trends which incorporate Contractors' Coordination of Benefits (COB) activities. AHCCCS provides Contractors with verified commercial and Medicare coverage information for their members which Contractors utilize to ensure payments are not made for medical

services that are covered by the other carriers. When Contractors make a payment to cover members' coinsurance, deductibles, or Medicaid-covered services that are not covered by the other carriers, they submit encounters containing these reduced amounts. From state fiscal year (SFY) 2008 to SFY 2010, encounter-reported COB cost avoidance grew from $34,000 to $889,000 (no data is available for SFY 2011 as it was reported under the Acute or ALTCS program based on the members' enrollment). Additionally, the CRS Contractor cost-avoided $1.2 million in SFY 2011 in claims for which the Contractor had no financial obligation after the private insurance or Medicare payment was made. Consequently no encounters were submitted to AHCCCS and thus those services are excluded from capitation expenditure projections completely. AHCCCS continues to emphasize the importance of COB activities.

## IV. Projected Gross Claim PMPM

The claims PMPMs were trended from the midpoint of the base claims period to the midpoint of the projected claims period. The midpoint of the projected claims period is April 1, 2013. The midpoint of the base claims period is April 1, 2010.

## V. State Mandates, Court Ordered Programs, Program Changes and Other Changes

**Clinic Fees**

The projected cost for clinic fees includes an adjustment of $5.14 PMPM to reflect movement of clinic services from St. Joseph's Hospital to a new clinic in Maricopa County. The new clinic will be active beginning October 1, 2012. The contracted clinic fee per visit with DMG is higher than that currently paid to St. Joseph's. The impact is an increase of approximately $1,575,720.

**340B Pharmacy Pricing**

Effective April 2012, all Contractors are required to reimburse claims for 340B drugs consistent with the requirements in AHCCCS Rule A.A.C. R9-22-710 C. In general, this provision requires that claims for drugs identified on the 340B pricing file dispensed by FQHCs and FQHC Look Alike pharmacies be reimbursed at the lesser of: 1) the actual acquisition cost or 2) the 340B ceiling price, plus a dispensing fee listed in the AHCCCS capped Fee-For-Service (FFS) schedule. For more detail regarding reimbursement of 340B drugs, please refer to the AHCCCS Rule. The estimated statewide savings to the CRS program was immaterial.

**Claims Processing Standards**

Effective January 1, 2012, Contractors were required to adjust their claims processing systems to recognize two cost-saving standards including multiple surgery occurrences and bundled services. When multiple surgeries occur on the same day, the surgery with the lowest cost is valued at 50% of the standard allowed amount for that surgery. Encounter data identified with status code B reflects bundled services where no additional payment is allowed for certain services that are performed together (e.g. anesthesia provided during an outpatient surgery). The estimated statewide savings to the CRS program was immaterial.

## VI. Projected Net Claim PMPM

The CYE12 utilization, unit costs, and net claims' PMPMs are trended forward and adjusted for AHCCCS fee schedule changes, state mandates, court ordered programs and program changes to arrive at the CYE13 utilization, unit costs and net claims' PMPMs.

## VII. Projected Reinsurance Offsets

The CYE12 reinsurance offsets were reviewed by AHCCCS for appropriateness and reasonableness using reinsurance encounter and payment information. Appropriate adjustments were made to the reinsurance offsets based upon this review.

## VIII. Administrative Expenses and Risk Contingency

The administrative expense remains at 9.64% for general administration, which was determined to be appropriate to cover the contractors' average expenses. The risk contingency load also remains the same at 2%.

## IX. Proposed Capitation Rates and Their Impact

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VI) less the reinsurance offsets (in section VII) and the projected administrative expenses and risk contingency PMPM (in section VIII), divided by one minus two percent for premium tax. Table II below summarizes the changes from the current approved CYE12 capitation rates and the estimated budget impact, effective for CYE13 on a statewide basis.

**Table II. Proposed Capitation Rates and Budget Impact**

| | Based on Projected Member Months October 1, 2012 - September 30, 2013 | CYE12 Current Rate | CYE13 Updated Rate | Based on Projected Member Months October 1, 2012 - September 30, 2013 | |
|---|---|---|---|---|---|
| | | | | Estimated CYE12 Current Capitation | Estimated CYE13 Updated Capitation |
| Statewide Totals | 306,617 | $ 424.10 | $ 369.61 | $130,036,270 | $113,328,709 |
| Dollar Impact | | | | | ($16,707,560) |
| Percentage Impact | | | | | -12.85% |

# X. CMS Rate Setting Checklist

## 1. Overview of rate setting methodology

### AA.1.1: Actuarial certification

Please refer to Section XI.

### AA.1.2: Projection of expenditure

Please refer to Section IX.

### AA.1.3: Procurement, prior approval and rate setting

AHCCCS is operating under the Sole Source contracting method.

### AA.1.5: Risk contract

The contract is an at risk contract, however there are some provisions for reconciliations and reinsurance. The reconciliation is as follows:

| Profit | MCO Share | State Share | Maximum MCO Profit |
|---|---|---|---|
| <=3% | 100% | 0% | 3% |
| >3% and <=5% | 75% | 25% | 1.5% |
| >5% and <=7% | 50% | 50% | 1.0% |
| >7% and <=9% | 25% | 75% | 0.5% |
| >9% | 0% | 100% | 0% |
| Total | | | 6.0% |

| Loss | MCO Share | State Share | Maximum MCO Loss |
|---|---|---|---|
| <=3% | 100% | 0% | 3% |
| >3% and <=6% | 50% | 50% | 1.5% |
| >6% | 0% | 100% | 0% |
| Total | | | 4.5% |

### AA.1.6: Limit on payment to other providers

AHCCCS makes no additional payment to providers, except for DSH, GME, and Critical Access Hospitals. GME is paid in accordance with state plan. DSH and Critical Access Hospital payments are paid in accordance with the Waiver Special Terms and Conditions. None of the additional payments to providers were included in the capitation calculation.

### AA.1.7: Rate modification

Please refer to Sections II, III, V, VII and VIII.

## 2. Base Year Utilization and Cost Data

**AA.2.0: Base year utilization and cost data**

Please refer to Section II.

**AA.2.1: Medicaid eligibles under the contract**

The data includes only those members eligible for managed care.

**AA.2.2: Spenddown**

Not applicable, not covered under this contract.

**AA.2.3: State plan services only**

The contract between AHCCCS and the Contractors specifies that Contractors may cover additional services. Non-covered services were not included in the encounter data used to set the rates.

**AA.2.4: Services that can be covered by a capitated entity out of contract savings.**

Same as AA.2.3

## 3. Adjustments to the Base Year Data

**AA.3.0 Adjustments to base year data**

Please refer to Section II and III.

**AA.3.1 Benefit differences**

There are no changes to the covered benefits. Therefore, no adjustment was made.

**AA.3.2 Administrative cost allowance calculation**

Please refer to Section VIII.

**AA.3.3 Special populations' adjustment**

It is anticipated that the risk characteristics of this population will not change materially from the base period to the effective period of the capitation rates. Therefore, no adjustment was made.

**AA.3.4 Eligibility Adjustments**

No adjustment was made.

**AA.3.5 DSH Payments**

No DSH payments were included in the capitation development

**AA.3.6 Third party Liability (TPL)**

This is a contractual arrangement between AHCCCS and the Contractors. See Section III.

**AA.3.7 Copayments, coinsurance and deductible in the capitated rates**

Not applicable, member cost sharing is not required.

**AA.3.8 Graduate Medical Education (GME)**

The experience excludes any payments for GME.

**AA.3.9 FQHC and RHC reimbursement**

The experience excludes any additional payments that FQHCs may receive from the State.

**AA.3.10 Medical cost/ trend inflation**

Please refer to Section III.

**AA.3.11 Utilization adjustment**

Other than trend, no specific adjustment was made to utilization.

**AA.3.12 Utilization and cost assumptions**

Not applicable, since actual experience was used.

**AA.3.13 Post-eligibility treatment of income (PETI)**

Not applicable, not required to consider PETI.

**AA.3.14 Incomplete data adjustment.**

The FFY11 encounter data was assumed to be 95% complete; therefore a completion factor was added.

## 4. Establish Rate Category Groupings

**AA.4.0: Establish rate category groupings**

Please refer to Section II.

**AA.4.1: Age**

Please refer to Section II.

**AA.4.2: Gender**

Please refer to Section II.

**AA.4.2: Locality/region**

Please refer to Section II.

**AA.4.2: Eligibility category**

Please refer to Section II.

## 5. Data Smoothing, Special Populations and Catastrophic Claims

**AA.5.0: Data smoothing**

Please refer to Section II.

**AA.5.1: Special populations and assessment of the data for distortions**

Data was not adjusted for special populations.

**AA.5.2: Cost-neutral data smoothing adjustments**

There was no cost-neutral data smoothing adjustments

#### AA.5.3: Risk-adjustment

There is no other risk adjustment, except for reconciliation and reinsurance.

## 6. Stop Loss, Reinsurance, or Risk-Sharing arrangements

#### AA.6.1: Commercial reinsurance

There is no commercial reinsurance.

#### AA.6.2: Simple stop loss program

AHCCCS has a reinsurance program. Please refer to Section VII.

#### AA.6.3: Risk corridor program

There is a reconciliation for the CRS population.

## 7. Incentive Arrangements

At this time there are no incentive arrangements.

## XI. Actuarial Certification of the Capitation Rates

I, Matt Varitek, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve month period beginning October 1, 2012.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by the health plan and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the health plan auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations and analyses promulgated from time-to-time through the Actuarial Standards of Practice by the Actuarial Standards Board.

Matthew C. Varitek — 08.29.2012

Matthew C. Varitek — Date

Fellow of the Society of Actuaries
Member, American Academy of Actuaries


# Arizona Long Term Care System (ALTCS), Elderly and Physically Disabled (EPD) Actuarial Memorandum

## I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD) capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

Arizona Health Care Cost Containment System (AHCCCS) intends to update these capitation rates for January 1, 2013 to include changes to the physician fee schedule resulting from mandated Health Care Reform requirements and any other necessary changes.

## II. Overview of Bid and Rate Setting Methodology

The contract year ending 2013 (CYE13) rates were developed as a rebase from the CYE12 rates accepted through an RFP process and approved by CMS. These rates represent the twelve month contract period October 1, 2012, through September 30, 2013.

EPD encounter data for CYE09, CYE10 and CYE11 comprised the experience base used in rate setting. This encounter data was made available to AHCCCS' actuaries via an extract that provides utilization and cost data, referred to as the "databook". Claims' costs observed for all categories of service were then adjusted to reflect program changes and reimbursement reductions that were effective subsequent to the experience periods used, and the May 2012 termination of the EPD contract with the Senior Care Action Network (SCAN) health plan in Maricopa County. Prospective capitation rates for CYE13 are built up separately for members dually eligible for Medicare and Medicaid ("duals") and members not eligible for Medicare ("non-duals"). While CYE12 rates were not split out in this manner, the databook contained the information necessary to distinguish duals from non-duals and thus properly allocate their PMPM claim costs. The dual and non-dual prospective capitation rates are actuarially sound, as are the rates for the Prior Period Coverage (PPC) and Acute Care Only rate cohorts. Those cohorts are not split out into dual and non-dual rates.

Other data sources used in setting the actuarially sound rates and ranges include health plan financial statements and projected changes in HCBS placement.

Trend rates were calculated from the databook and other sources on a unit cost and/or utilization basis by category of service (COS). For more information on trends see Section IV Projected Trend Rates.

Ideally, the experience data should be analyzed by different rate cells which are comprised of members with similar risk characteristics. However, segregating the ALTCS population into different rate cells would lead to a statistical credibility problem due to the statewide disbursement of the relatively small membership base.

The ALTCS program has four rate cells: a prospective dual rate, a prospective non-dual rate, a prior period coverage (PPC) rate and an Acute Care Only rate. Capitation rates for the ALTCS population do not differ by gender and/or age, but do differ by Geographical Service Area (GSA).

The experience data includes only ALTCS Medicaid eligible expenses for ALTCS Medicaid eligible individuals, as well as reinsurance amounts. The Prior Period Coverage (PPC) rates are reconciled to a maximum 5% profit or loss.

The general process in developing the prospective rates involves:

- trending the base data, adjusted for program changes, to the midpoint of the effective period, which is April 1, 2013, and applying the projected mix percentage;
- making adjustments for share of cost offsets and, if applicable, any program changes;
- applying a deduction of the reinsurance offsets;
- adding the projected case management, administrative expenses, risk/contingency and premium tax to the projected claim PMPMs to obtain the capitation rates.

Each step is described in the sections below. There are also separate sections describing the PPC population and the Acute Care Only population.

## III. Base Period Experience

AHCCCS used historical encounter data for the time period from October 1, 2008 through September 30, 2011. The data was reviewed and audited for accuracy, timeliness and completeness through encounter validation studies as well as studies comparing the encounter data to the contractors' financial statements. A final adjustment was to apply completion factors to the encounter data for the more recent years.

## IV. Projected Trend Rates

The trend calculation is based on the time period from October 1, 2008 through September 30, 2011. The claim PMPMs were computed on a yearly basis and a trend factor was calculated. Trend factors are built up separately for dual, non-dual, PPC, and acute care. Trend factors also vary by COS. The trend rates developed were used to bring the base encounter data to the effective midpoint of the contract year.

Inherent in the encounter and financial data are unit cost trends which incorporate Contractors' Coordination of Benefits (COB) activities. AHCCCS provides Contractors with verified commercial and Medicare coverage information for their members which Contractors utilize to ensure payments are not made for medical services that are covered by the other carriers. When Contractors make a payment to cover members' coinsurance, deductibles, or Medicaid-covered services that are not covered by the other carriers, they submit encounters containing these reduced amounts. From state fiscal year (SFY) 2008 to SFY 2011, encounter-reported COB

cost avoidance grew by greater than 93%, from $130 million to $252 million. Additionally, ALTCS EPD Contractors cost-avoided $96 million in SFY 2011 in additional claims for which the Contractor had no financial obligation after the private insurance or Medicare payment was made. Consequently no encounters were submitted to AHCCCS and thus those services are excluded from capitation expenditure projections completely. AHCCCS continues to emphasize the importance of COB activities.

The trend rates used in projecting the claim costs by rate cell and category of service are identified in Table I.

**Table I: Average Annual Trend Rate before Mix and SOC**

| | NF | HCBS | Acute |
|---|---|---|---|
| Prospective Dual | 3.4% | 1.0% | 1.1% |
| Prospective Non-Dual | 2.5% | 0.9% | -0.5% |
| PPC | 1.7% | -3.0% | 19.2% |

## V. Projected Gross Claim PMPM

The contract period for CYE13 rates is October 1, 2012, through September 30, 2013, so the midpoint is April 1, 2013. The claims' PMPMs from the base data were trended to the midpoint of the CYE13 rate period.

## VI. Mix Percentage

The CYE13 combined mix percentages are set using a combination of current placement percentages, program growth/saturation and the number of ALTCS members. These sources were reviewed by contractor and by county. The HCBS mix percentages can be found in Table II.

**Table II: HCBS Mix Percentages (Combined = Weighted Dual and Non-Dual)**

| | | | CYE12 HCBS Mix | CYE13 HCBS Mix | | |
|---|---|---|---|---|---|---|
| GSA | County | Contractor | Combined | Combined | Dual | Non-Dual |
| 40 | Pinal/Gila | Bridgeway | 75.42% | 75.65% | 74.10% | 85.24% |
| 42 | LaPaz/Yuma | Evercare | 60.09% | 63.21% | 61.63% | 74.38% |
| 44 | Apache/Coconino/Mohave/Navajo | Evercare | 67.44% | 70.03% | 68.31% | 80.31% |
| 46 | Cochise/Graham/Greenlee | Bridgeway | 61.40% | 62.25% | 60.54% | 76.45% |
| 48 | Yavapai | Evercare | 63.38% | 63.97% | 61.62% | 78.17% |
| 50 | Pima/Santa Cruz | Evercare | 67.74% | 73.94% | 72.42% | 82.59% |
| 50 | Pima | Mercy Care | 66.45% | 66.82% | 65.60% | 71.64% |
| 52 | Maricopa | Bridgeway | 78.02% | 78.70% | 78.82% | 77.85% |
| 52 | Maricopa | Evercare | 66.39% | 71.03% | 69.58% | 79.16% |
| 52 | Maricopa | Mercy Care | 75.42% | 75.37% | 74.17% | 80.55% |
| Statewide Total | | | 71.71% | 73.15% | 71.96% | 79.44% |

## VII. State Mandates, Court Ordered Programs, Program Changes and Other Changes

**In-Lieu of Services**
Included in the base rates is funding for "in lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. State approved FFS rates at inpatient non-specialty hospitals are approximately 93.5% more expensive than those provided in alternative inpatient settings. The proposed capitation rates allow for the provision of services in alternative inpatient settings that are licensed by Arizona Department of Health Services/Arizona Licensing Services/Office of Behavioral Health License, in lieu of services in an inpatient non-specialty hospital, thus no increase to cap rates is included.

**340B Pharmacy Pricing**
Effective April 2012, all Contractors are required to reimburse claims for 340B drugs consistent with the requirements in AHCCCS Rule A.A.C. R9-22-710 C. In general, this provision requires that claims for drugs identified on the 340B pricing file dispensed by FQHCs and FQHC Look Alike pharmacies be reimbursed at the lesser of: 1) the actual acquisition cost or 2) the 340B ceiling price, plus a dispensing fee listed in the AHCCCS capped fee-for-service (FFS) schedule. For more detail regarding reimbursement of 340B drugs, please refer to the AHCCCS Rule. The estimated statewide savings to the EPD program was immaterial.

**Claims Processing Standards**
Effective January 1, 2012, Contractors were required to adjust their claims processing systems to recognize two cost-saving standards including multiple surgery occurrences and bundled services. When multiple surgeries occur on the same day, the surgery with the lowest cost is valued at 50% of the standard allowed amount for that surgery. Encounter data identified with status code B reflects bundled services where no additional payment is allowed for certain services that are performed together (e.g. anesthesia provided during an outpatient surgery). The estimated statewide savings to the EPD program was immaterial.

## VIII. Projected Net Claim PMPM

The Nursing Facility and Home and Community Based Services projected gross claim PMPMs were adjusted for the mix percentages. The projected gross claims PMPMs were then discounted for the recipients' Share of Cost. The SOC component is fully reconciled with each Contractor. (The reinsurance offset is already included in the acute care component of the rates for the EPD population.) This calculation was performed separately for dual and non-dual members.

## IX. Case Management, Administrative Expenses and Risk Contingency

The Case Management rates represent those rates awarded as part of the CYE12 RFP process, adjusted for expected growth in the HCBS mix, which would increase case management expenses. The administrative expenses also represent rates awarded as part of the RFP process. The risk contingency percentage remains the same as CYE12 at 1%.

## X. Proposed Capitation Rates and Their Impacts

The proposed capitation rates for the EPD population equal the sum of the projected net claim PMPM (in Section VIII) and the projected case management, administrative expenses and risk contingency PMPM (in section IX) divided by one minus the two percent premium tax. Table III shows the proposed capitation rates for the EPD population statewide.

**Table III: Statewide Projected Net Capitation PMPM EPD Combined**

| Service Category | Gross CYE12 Rate | Mix | Net CYE12 Rate | Pct Gross Change | Pct Net Change | Gross CYE13 Rate | Mix | Net CYE13 Rate |
|---|---|---|---|---|---|---|---|---|
| Nursing Facility (NF) | $5,211.34 | 28.29% | $1,474.51 | 9.2% | 3.6% | $5,691.53 | 26.85% | $1,527.91 |
| Share of Cost | | | ($224.20) | | 2.7% | | | ($230.32) |
| Net Nursing Facility | | | $1,250.31 | | 3.8% | | | $1,297.59 |
| Home/Community (HCBS) | $1,388.90 | 71.71% | $995.92 | 4.7% | 6.8% | $1,453.53 | 73.15% | $1,063.32 |
| Case Management | | | $111.95 | | 1.5% | | | $113.66 |
| Acute Care | | | $370.09 | | -11.6% | | | $327.22 |
| Administration | | | $166.18 | | 0.0% | | | $166.18 |
| Risk Contingency | | | $30.87 | | 1.9% | | | $31.46 |
| Premium Tax | | | $59.70 | | 2.5% | | | $61.21 |
| Net Capitation PMPM | | | $2,985.03 | | 2.5% | | | $3,060.64 |

Note: The product of the gross NF or HCBS rate and mix percentages as shown may not equal the net rate due to rounding.

## XI. Acute Care Only Members

As in prior years, for members who are only eligible for acute care services in the ALTCS program, Contractors will be paid the acute care component plus the case management and administrative components. Since the reinsurance policy is the same for these members as for the other ALTCS members, the same reinsurance offset is appropriate.

## XII. Prior Period Coverage (PPC) Rates

PPC rates cover the period of time from the effective date of eligibility to the day a member is enrolled with the Contractor. PPC rates are reconciled to a five percent profit/loss corridor.

AHCCCS used the actual PPC cost and PPC enrollment data for CYE09, CYE10 and CYE11 as the base in the development of the CYE13 PPC rates. Historical trends were developed and reviewed for appropriateness. Due to the relatively short PPC time period, AHCCCS' actuaries analyzed the data by combining rate cohorts or geographic regions to enhance statistical credibility when needed.

## XIII. Proposed Capitation Rates and Budget Impact

Table IV includes the net capitation rates on a statewide basis for all rate cells as well as the estimated budget impact based off of CYE13 projected member months. The adjustments impact contractors ranging from -2.0% to +7.7%. Appendix I shows EPD rates by geographical service area and Contractor.

**Table IV: Proposed Capitation Rates and Budget Impact**

| Rate Cell | CYE13 Projected MMs | CYE12 Rate (5/1) | CYE13 Rate | Estimated CYE12 Capitation | Estimated CYE13 Capitation | Dollar impact on CYE12 estimated current capitation | Pct impact on CYE12 estimated capitation |
|---|---|---|---|---|---|---|---|
| EPD (Prospective) | 308,155 | $2,985.03 | $3,060.64 | $ 919,851,920 | $ 943,151,519 | $ 23,299,600 | 2.5% |
| PPC | 10,702 | $907.74 | $855.56 | $ 9,714,633 | $ 9,156,203 | $ (558,430) | -5.7% |
| Acute Only | 4,829 | $530.13 | $498.83 | $ 2,559,998 | $ 2,408,850 | $ (151,148) | -5.9% |
| Total | | | | $ 932,126,551 | $ 954,716,572 | $ 22,590,021 | 2.4% |

Note: Capitation estimates are based on CYE13 projected member months. The prospective rate is a member-weighted average of the prospective dual and non-dual rates shown in Appendix I.

# XIV. CMS Rate Setting Checklist

## 1. Overview of rate setting methodology

**A.A.1.0: Overview of rate setting methodology**

AHCCCS is performing a rebase from the previously approved contract year ending 2012 (CYE12) rates under 42 CFR 438.6(c). Please refer to Section II.

**AA.1.1: Actuarial certification**

Please refer to Section XV.

**AA.1.2: Projection of expenditure**

Please refer to Section XIII.

**AA.1.3: Procurement, prior approval and rate setting**

AHCCCS is operating under the Competitive Procurement contracting method.

**AA.1.5: Risk contract**

The contract is an at risk contract.

**AA.1.6: Limit on payment to other providers**

AHCCCS makes no additional payment to the providers, except for Disproportionate Share Hospital (DSH), Graduate Medical Education (GME) and Critical Access Hospitals. GME is paid in accordance with state plan. DSH and Critical Access Hospital payments are paid in accordance with Waiver Special Terms and Conditions. None of the additional payments to the providers were included in the capitation calculation.

**AA.1.7: Rate modification**

Please refer to Sections III, IV, VI, VII, VIII, XI, XII, and XIII.

## 2. Base Year Utilization and Cost Data

**AA.2.0: Base year utilization and cost data**

Please refer to Sections II and III.

**AA.2.1: Medicaid eligibles under the contract**

There are dual eligibles.

**AA.2.2: Spenddown**

Not applicable, not covered under this contract.

**AA.2.3: State plan services only**

The contract between AHCCCS and the Contractors specifies that Contractors may cover additional services. Non-covered services were not included in the encounter data used to set the rates.

**AA.2.4: Services that can be covered by a capitated entity out of contract savings.**

Same as AA.2.3

## 3. Adjustments to the Base Year Data

**AA.3.0 Adjustments to base year data**

Please refer to Sections II and III.

**AA.3.1 Benefit differences**

Please refer to Section VII.

**AA.3.2 Administrative cost allowance calculation**

Please refer to Section IX.

**AA.3.3 Special populations' adjustment**

It is anticipated that the risk characteristics of this population will not change materially from the base period to the effective period of the capitation rates. Therefore, no adjustment was made.

**AA.3.4 Eligibility Adjustments**

No adjustment was made.

**AA.3.5 DSH Payments**

No DSH payment was included in the capitation development

**AA.3.6 Third party Liability (TPL)**

This is a contractual arrangement between AHCCCS and the Contractors.

**AA.3.7 Copayments, coinsurance and deductible in the capitated rates**

EPD members do not pay any copays, coinsurance or deductibles, but some do pay SOC. See Section VIII.

**AA.3.8 Graduate Medical Education (GME)**

The experience excludes any payment for GME.

**AA.3.9 FQHC and RHC reimbursement**

The experience excludes any additional payments that FQHCs may receive from the State.

**AA.3.10 Medical cost/ trend inflation**

Please refer to Section IV.

**AA.3.11 Utilization adjustment**

Other than trend, no specific adjustment was made to utilization.

**AA.3.12 Utilization and cost assumptions**

Not applicable, since actual experience was used.

**AA.3.13 Post-eligibility treatment of income (PETI)**

Not applicable, not required to consider PETI.

**AA.3.14 Incomplete data adjustment.**

The CYE11 encounter data was not fully complete. AHCCCS assumed the data was approximately 94% complete and applied the appropriate completion factor to complete the CYE11 data. Completion estimates vary between dual and non-dual and by category of service. The audited financial statements may include outstanding claim liabilities, which were audited and believed to be reasonable by AHCCCS auditors.

## 4. Establish Rate Category Groupings

**AA.4.0: Establish rate category groupings**

Please refer to Section II.

**AA.4.1: Age**

Please refer to Section II.

**AA.4.2: Gender**

Please refer to Section II.

**AA.4.2: Locality/region**

Please refer to Section II.

**AA.4.2: Eligibility category**

Please refer to Section II.

## 5. Data Smoothing, Special Populations and Catastrophic Claims

**AA.5.0: Data smoothing**

Please refer to Sections II, III and IV.

**AA.5.1: Special populations and assessment of the data for distortions**

Data was not adjusted for special populations.

**AA.5.2: Cost-neutral data smoothing adjustments**

There was no cost-neutral data smoothing adjustments

**AA.5.3: Risk-adjustment**

No risk adjustment methodology is currently in place for the EPD population.

## 6. Stop Loss, Reinsurance, or Risk-Sharing arrangements

**AA.6.1: Commercial reinsurance**

There is no commercial reinsurance.

**AA.6.2: Simple stop loss program**

AHCCCS has a reinsurance program. Please refer to Section VIII and XI.

**AA.6.3: Risk corridor program**

There are reconciliations for PPC, HCBS and SOC.

## 7. Incentive Arrangements

At this time there are no incentive arrangements.

## XV. Actuarial Certification of the Capitation Rates

I, Matt Varitek, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning October 1, 2012.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by the Program Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the Program Contractors auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

Matthew C. Varitek 09.30.2012

Matthew C. Varitek Date

Fellow of the Society of Actuaries
Member, American Academy of Actuaries

## Appendix I

| GSA | County | Contractor | EPD Dual | EPD Non-Dual | Acute Only | PPC |
|---|---|---|---|---|---|---|
| 40 | Pinal/Gila | Bridgeway | $3,075.66 | $4,408.61 | $619.91 | $925.11 |
| 42 | LaPaz/Yuma | Evercare | $2,875.27 | $4,353.96 | $521.03 | $925.11 |
| 44 | Apache/Coconino/Mohave/Navajo | Evercare | $2,453.31 | $4,006.83 | $487.31 | $925.11 |
| 46 | Cochise/Graham/Greenlee | Bridgeway | $2,825.76 | $3,758.81 | $438.19 | $925.11 |
| 48 | Yavapai | Evercare | $3,169.44 | $4,373.13 | $491.28 | $925.11 |
| 50 | Pima/Santa Cruz | Evercare | $2,776.78 | $4,118.94 | $378.70 | $784.36 |
| 50 | Pima | Mercy Care | $2,975.30 | $4,562.90 | $430.77 | $784.36 |
| 52 | Maricopa | Bridgeway | $2,464.57 | $4,701.30 | $429.91 | $844.98 |
| 52 | Maricopa | Evercare | $2,742.17 | $4,367.96 | $297.35 | $844.98 |
| 52 | Maricopa | Mercy Care | $2,875.99 | $4,570.14 | $562.22 | $844.98 |


# Department of Economic Security /Division of Developmental Disabilities (DES/DDD) Actuarial Memorandum

## I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

This memorandum presents a discussion of the adjustment to the capitation rates effective from July 1, 2012 through June 30, 2013 (CYE13).

AHCCCS intends to update these capitation rates effective January 1, 2013 to include changes to the physician fee schedule resulting from mandated Health Care Reform requirements. This rate update for July 1, 2012 does not include adjustments for anticipated reimbursement changes with effective dates after July 1, 2012 for certain provider types, or immaterial program changes effective prior to January 1, 2013. AHCCCS will include these adjustments in the rates effective January 1, 2013.

## II. Overview of Rate Setting Methodology

The contract year ending 2013 (CYE13) rates were developed using a hybrid methodology including both a rebase and a rate update. Historical Medicaid managed care encounter data was used as the primary data source in development of the base time period.

Other data sources used in setting the actuarially sound rates include financial statements, supplemental information from DDD, Center for Medicare and Medicaid Services (CMS) National Health Expenditure (NHE) Report estimates and AHCCCS case management model.

Trend rates were calculated from the databook and other sources on a unit cost and/or utilization basis by category of service (COS) and a cap was applied to limit the negative and positive trends to a reasonable level. These adjustments also include state mandates, court ordered programs and other program changes, if necessary.

Ideally, the experience data should be analyzed by different rate cells which are comprised of members with similar risk characteristics. However, segregating the DDD population into different rate cells would lead to a statistical credibility problem due to the statewide disbursement of the relatively small membership base. DDD will have two separate rates – a regular DDD rate and a Behavioral Health rate.

The experience only includes DDD Medicaid eligible expenses for DDD Medicaid eligible individuals. In addition, the experience includes reinsurance amounts and share of cost.

The contract between AHCCCS and DDD specifies that DDD may cover services for members which are not covered under the State Plan; however those services are not included when setting capitation rates. AHCCCS will not include uncovered services in the DDD rates.

The general process in developing the rates involves trending the base data to the midpoint of the effective period, which is January 1, 2013. The next step involves the deduction of the reinsurance offsets and share of cost offset. Following this calculation, the projected case management, administrative expenses, risk contingency margin and premium tax are added to the projected claim per member per month (PMPM) to obtain the capitation rates. Each step is described in the sections below.

## III. Base Period Experience

Since DDD has a relatively small membership base, multiple years and sources of data were used to increase the statistical credibility. For CYE13 rate development, DDD's encounter data was found to be credible for all service categories. For the base period AHCCCS used historical encounter data for the time period from July 1, 2009 through June 30, 2011. The data was reviewed for completeness by comparing the encounter data to the Contractor's financial statements. A final adjustment was made to apply completion factors to the encounter data for the most recent year.

## IV. Projected Trend Rates

The trend analysis includes both the financial data experience and the encounter data experience. Financial data experience is from July 2007 through December 2011. Encounter data experience is from July 2008 through September 2011. Trend data includes a longer time frame than the base period since additional data can provide smoother, more accurate trends. The financial data trends were examined using both year over year and quarterly regression analysis. The encounter data trends were examined using monthly regression analysis, quarterly regression analysis and year over year data. The resulting trend rates were compared with trend rates from sources such as the CMS National Health Expenditures Trend Forecast, the AHCCCS Acute Care trend rates and the AHCCCS ALTCS EPD trend rates. The final utilization trends and historical unit cost trends were selected based on a methodological blend of actuarial judgment and empirical methods. The projected unit cost trends were selected based on changes to provider rates which were assumed to remain flat at this time, except for pharmacy.

The Annual Trend Rates used in projecting the claim costs are identified in Table I. These do not include any impact due to rebasing.

**Table I: Annual Trend Rate**

| Service Category | Average Annual Trend | |
|---|---|---|
| | DDD Rate | Behavioral Health |
| Institutional | -2.50% | N/A |
| HCBS | 0.06% | N/A |
| Acute Care | 0.00% | N/A |
| Behavioral Health | N/A | 5.00% |

## V. Projected Gross Claim PMPM

The base period utilization, unit costs and net claims PMPMs are trended forward to arrive at the CYE13 utilization, unit costs and net claims PMPMs for each component.

## VI. State Mandates, Court Ordered Programs, Program Changes and Other Changes

No new changes are included in the rates at this time. AHCCCS is anticipating changes that will require updated rates and contracts as stated above.

## VII. Projected Net Claim PMPM

The projected gross claim PMPMs were adjusted for the recipients' share of cost (SOC) to obtain the net claim PMPM. The share of cost is $5.20. The share of cost was estimated based off of actual DDD SOC data, and was rebased for CYE13. NOTE: the Reinsurance offset is included in the acute care component of the DDD rates. The acute component and reinsurance offset are not being adjusted at this time due to the anticipated provider reimbursement changes to be implemented later in CYE13. The acute component rate will be adjusted as part of the January 1, 2013 amendment. The projected net claim PMPMs are included in Table II.

**Table II: Projected Net Claim PMPM**

| Service Category | Projected CYE12 Claim Cost PMPM | |
|---|---|---|
| | DDD Rate | Behavioral Health |
| Institutional | $ 105.42 | N/A |
| HCBS | $ 2,202.38 | N/A |
| Acute Care | $ 371.17 | N/A |
| Program Changes | $ - | N/A |
| Behavioral Health | N/A | $ 109.60 |
| Total | $ 2,678.97 | $ 109.60 |
| Less Share of Cost | $ (5.20) | N/A |
| **Net Claim Cost** | $ 2,673.77 | $ 109.60 |

## VIII. Case Management

For DDD members the CYE13 case management PMPM was developed using the AHCCCS case management model as well as looking at financials and supplemental case management cost reports from DDD. This is a similar methodology to previous years. The CYE13 case management PMPM for the DDD population is $140.02.

For the targeted case management (TCM) PMPM the AHCCCS case management model was used as well as actual cost information for this population provided by DDD. The assumptions in the model were refined by using data specific to this population. The CYE13 TCM PMPM is $113.18. The large increase is primarily attributed to changes in the targeted case management model as well as a change in the allocation methodology for indirect costs.

Table III displays the projected case management PMPM values.

**Table III: Projected Case Management**

| Rate Cell | Case Management |
|---|---|
| DDD | $ 140.02 |
| Behavioral Health | N/A |
| Targeted Case Management | $ 113.18 |

## IX. Administrative Expenses and Risk Contingency

For CYE13 administrative expense AHCCCS analyzed DDD's financial statements as well as supplemental information provided by DDD. The CYE13 administrative expense for DDD is remaining the same at $177.76. The risk contingency for DDD is 1.00%.

The Behavioral Health administrative expenses were revised based on financial statements and information from ADHS. The Behavioral Health administrative rate is remaining the same at $7.83. The Behavioral Health risk contingency is 1.00%.

Table IV displays the projected administrative and risk contingency PMPM values.

**Table IV: Administrative Expenses and Risk Contingency**

| Rate Cell | Admin Expenses | Risk Contingency |
|---|---|---|
| DDD | $ 177.76 | $ 28.60 |
| Behavioral Health | $ 7.83 | $ 1.10 |

## X. Proposed Capitation Rates and Their Impacts

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VII), the projected case management (in Section VIII) and administrative expenses and risk contingency PMPM (in section IX), divided by one minus the two percent premium tax. The premium tax for the behavioral health component is included in the DDD capitation rate. Table V shows the current and proposed capitation rates and the budget impact from CYE12 (10/1/11 capitation rate) to CYE13 using CYE13 projected members. The large increase for the behavioral health component is primarily attributed to overall improved encounter data and improved reporting of behavioral health data for DDD members, both of which were used when setting the behavioral health component.

**Table V: Proposed Capitation Rates and Budget Impact**

| | Projected CYE13 | | | Based on Projected CYE13 Member Months | | | |
|---|---|---|---|---|---|---|---|
| Rate Cell | Member Months | CYE12 (10/1/11) Rate | CYE13 Rate | Estimated CYE12 (10/1/11) Capitation | Estimated CYE13 Capitation | Dollar Impact | Percentage Impact |
| DDD | 300,444 | $ 3,095.80 | $ 3,084.22 | $ 930,115,325 | $ 926,635,357 | $ (3,479,968) | -0.37% |
| Behavioral Health | 300,444 | $ 103.31 | $ 118.92 | $ 31,037,654 | $ 35,729,274 | $ 4,691,621 | 15.12% |
| Targeted Case Management | 54,606 | $ 85.96 | $ 113.18 | $ 4,693,932 | $ 6,180,067 | $ 1,486,135 | 31.66% |
| Total | | | | $ 965,846,910 | $ 968,544,698 | $ 2,697,788 | 0.28% |

*BH does not reflect premium tax*

# XI. CMS Rate Setting Checklist

## 1. Overview of rate setting methodology

**AA.1.1: Actuarial certification**

Please refer to Section XII.

**AA.1.2: Projection of expenditure**

Please refer to Section X.

**AA.1.3: Procurement, prior approval and rate setting**

This is a sole source contracting method, between AHCCCS and DES/DDD.

**AA.1.5: Risk contract**

There is no risk sharing between AHCCCS and DES/DDD, in addition to the reinsurance contract. DES/DDD is responsible for all losses, except reinsurance and share of cost.

**AA.1.6: Limit on payment to other providers**

AHCCCS makes no additional payments to providers, except supplemental payments to hospitals including Disproportionate Share Hospital (DSH) payments, Graduate Medical Education (GME) payments, and Critical Access Hospital payments. GME is paid in accordance with state plan. DSH and Critical Access are paid in accordance with operational protocol.

**AA.1.7: Rate modification**

Please refer to Sections III, IV, VI, VII, VIII and IX.

## 2. Base Year Utilization and Cost Data

**AA.2.0: Base year utilization and cost data**

Please refer to Section II and III.

**AA.2.1: Medicaid eligibles under the contract**

The data includes only those members eligible for managed care.

**AA.2.2: Dual Eligibles (DE)**

There are dual eligibles.

**AA.2.3: Spenddown**

Not applicable, not covered under this contract.

**AA.2.4: State plan services only**

The contract between AHCCCS and DDD specifies that DDD may cover additional services. Non-covered services were excluded from the base data and not included in the rates.

**AA.2.5: Services that can be covered by a capitated entity out of contract savings.**

Same as AA.2.4

## 3. Adjustments to the Base Year Data

**AA.3.0 Adjustments to base year data**

Please refer to Section II, III and IV.

**AA.3.1 Benefit differences**

There are no changes to the covered benefits. Therefore, no adjustment was made.

**AA.3.2 Administrative cost allowance calculation**

Please refer to Section IX.

**AA.3.3 Special populations' adjustment**

It is anticipated that the risk characteristics of this population will not change materially from the base period to the effective period of the capitation rates. Therefore, no adjustment was made.

**AA.3.4 Eligibility Adjustments**

No adjustment was made.

**AA.3.5 DSH Payments**

No DSH payments were included in the capitation development

**AA.3.6 Third party Liability (TPL)**

This is a contractual arrangement between AHCCCS and its contractors.

**AA.3.7 Copayments, coinsurance and deductible in the capitated rates**

Not applicable, member cost sharing is not required.

**AA.3.8 Graduate Medical Education (GME)**

The experience excludes any payments for GME.

**AA.3.9 FQHC and RHC reimbursement**

The experience excludes any additional payments that FQHCs may receive from the State.

**AA.3.10 Medical cost/ trend inflation**

Please refer to Section IV.

**AA.3.11 Utilization adjustment**

Other than trend, no specific adjustment was made to utilization.

**AA.3.12 Utilization and cost assumptions**

Not applicable, since actual experience was used.

**AA.3.13 Post-eligibility treatment of income (PETI)**

Not applicable, not required to consider PETI.

**AA.3.14 Incomplete data adjustment.**

The encounter data was not fully complete. AHCCCS applied completion factors to the encounter data. The audited financial statements may include outstanding claim liabilities, which were audited and believed to be reasonable by DDD auditors.

## 4. Establish Rate Category Groupings

**AA.4.0: Establish rate category groupings**

Please refer to Section II.

**AA.4.1: Age**

Please refer to Section II.

**AA.4.2: Gender**

Please refer to Section II.

**AA.4.2: Locality/region**

Please refer to Section II.

**AA.4.2: Eligibility category**

Please refer to Section II.

## 5. Data Smoothing, Special Populations and Catastrophic Claims

**AA.5.0: Data smoothing**

Please refer to Section II, III and IV.

**AA.5.1: Special populations and assessment of the data for distortions**

Please refer to Section II.

**AA.5.2: Cost-neutral data smoothing adjustments**

Please refer to Section VII.

**AA.5.3: Risk-adjustment**

There is no risk adjustment.

## 6. Stop Loss, Reinsurance, or Risk-Sharing arrangements

**AA.6.1: Commercial reinsurance**

There is no commercial reinsurance.

**AA.6.2: Simple stop loss program**

Please refer to Section VII.

**AA.6.3: Risk corridor program**

There is no risk sharing between AHCCCS and DDD, except the stop loss program (ie Reinsurance). DDD assumes all other risks.

## 7. Incentive Arrangements

There is no incentive arrangement between AHCCCS and DDD.

## XII. Actuarial Certification of the Capitation Rates:

I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning July 1, 2012.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by DES/DDD and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the DES/DDD auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

Windy J. Marks — 05/31/12

Windy J. Marks — Date

Fellow of the Society of Actuaries
Member, American Academy of Actuaries

DATE: September 27, 2012

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Art Smith, Senior Fiscal Analyst

SUBJECT: Department of Health Services - Review of Behavioral Health Medicaid Capitation Rate Changes

**Request**

Pursuant to a FY 2013 General Appropriation Act footnote, the Department of Health Services (DHS) must present its plan to the Committee for review prior to implementing any change in capitation rates for the Medicaid Behavioral Health Program. Capitation rates are the flat monthly payments made to managed-care health plans for each Medicaid recipient. The General Appropriation act also requires JLBC review of any policy changes exceeding $500,000.

**Recommendation**

The Committee has at least the following options:

1. A favorable review.

2. An unfavorable review.

The proposed rates include 1 relevant policy change of more than $500,000, which provides expanded behavioral health services to foster children and their parents.

At the budgeted caseload level, the proposed rates could be funded with DHS' 2013 budget and would likely generate savings.

**Analysis**

The proposed rates are based upon an actuarial study. A.R.S. § 36-2901.06 limits capitation rate adjustments to utilization and inflation changes unless those changes are approved by the Legislature or are specifically required by federal law or court mandate. Capitation rates must be approved by the Federal Centers for Medicare and Medicaid Services (CMS). Rates for Medicaid programs are composed of adjustments for trends, experience, and program changes.

(Continued)

Capitation rates are adjusted annually for medical expense and utilization trends. Utilization refers to the percentage of eligible individuals who use services and the amount of services each member uses. In developing capitation rates, the actuaries also compare prior rate calculations and assumptions to actual results for medical expenses and utilization. This is referred to as experience adjustments. The behavioral health rates include a number of program changes, which are described below.

These rates would normally remain in effect for a full year, but DHS has indicated that they will make additional adjustments beginning January 1, 2013 to include changes to the physician fee schedule resulting from federal health care requirements, for Medicare Part D plans to cover additional medications on their formularies, and coverage for dual eligible members to treat epilepsy, cancer, and chronic mental health disorder. Furthermore, DHS states that rates will be updated to include a 2% provider rate increase effective April 1, 2013 that was passed in the FY 2013 budget but has not been incorporated into the agency's current capitation rates.

*Table 1* below shows the FY 2013 budgeted and proposed capitation rates for each program.

**Table 1**

**Monthly Capitation Rate**

| Category | FY 2013 Budgeted | FY 2013 Proposed |
|---|---|---|
| Children | $54.67 | $59.87 |
| SMI | $78.28 | $76.24 |
| General Mental Health | $41.41 | $43.29 |

Program Adjustments

*Provider Fee Schedule Reduction*
On October 1, 2011, DHS implemented a 5% provider rate decrease for all provider types, excluding pharmacy services. Annualizing this adjustment for a full fiscal year is expected to save the General Fund $(12,941,000) in FY 2013.

*Additional Behavioral Health Services for Foster Care*
Beginning July 1, 2011, DHS increased services for at-risk foster children from birth to 3 years of age as part of judicial oversight of the services that they receive. DHS expanded counseling services for both foster children and parents. This program expansion is expected to cost the General Fund $813,000 in FY 2013.

*Other Services*
There are various capitation adjustments with smaller dollar amount impacts that have been described by the agency, including reductions in respite hours and reduced prescription medication prices for health care providers. Also incorporated into these smaller capitation adjustments are a shift of psychiatric consultations of acute care patients from AHCCCS to DHS and a shift of emergency transportation costs from DHS to AHCCCS. The total General Fund impact of these adjustments results in a reduction of $(282,400).

RS/AS:ac

Arizona Department of Health Services

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JANICE K. BREWER, GOVERNOR
WILL HUMBLE, DIRECTOR


August 2, 2012

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

Dear Chairman Shooter:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services (ADHS) respectfully requests to be placed on the Joint Legislative Budget Committee's (JLBC) agenda for its next scheduled meeting to review the proposed changes to the Behavioral Health Services Title XIX capitation rates for contract period July 1, 2012 to September 30, 2013 (CP13).

Enclosed please find the Title XIX behavioral health services capitation rate reports for Children, Seriously Mentally Ill, and General Mental Health/Substance Abuse populations for the year July 1, 2012 to September 30, 2013 (CP13). The behavioral health contracts with the Regional Behavioral Health Authorities (RBHAs) will be moving to a contract year end (September 30), therefore the capitation rates span 15 months.

The contract period 2013 rates are 0.9% lower than the October 1, 2011 weighted rates as displayed in the attachment. The October 1, 2011 Provider Fee Schedule and Respite Hour Reduction adjustments represent reductions to the capitation rates that were first introduced in the October 1, 2011 capitation rates but were not incorporated in the base data due to the timing of these reductions. The 340B Pricing adjustment is a service utilization reduction to the capitation rates. Best for Babies is a best practice for children zero to three in CPS custody that addresses the needs of children exposed to trauma and separation. The remaining service utilization adjustments are budget neutral and represent a transfer of coverage to or from AHCCCS (Psych Consults and ER Transportation). The details of these service utilization adjustments are explained in more detail in the attachment. The following page contains a summary of these service utilization changes listed above and their dollar change from the October 1, 2011 capitation rates (for FY12 adjustments that were not incorporated into the base data) or the new adjustment amount (for CP13 adjustments).

| Service Utilization Adjustments | Capitation Year of Initial Adjustment | Adjustment Amount |
|---|---|---|
| October 1, 2011 Provider FFS decrease adjustment | FY12 | $ 5,600,000 |
| Respite Hour Reduction | FY12 | $ (3,000) |
| Best 4 Babies | CP13 | $ 3,154,930 |
| 340 B Pricing | CP13 | $ (332,071) |
| Psych Consults | CP13 | $ 336,683 |
| ER Transportation | CP13 | $ (511,049) |
| **Total** | | **$ 8,245,493** |

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

If you have any questions please feel free to call Cynthia Layne, Chief Financial Officer for Behavioral Health Services, at (602) 542-2879.

Sincerely,

Will Humble
Director

WH/jh

c: Representative John Kavanagh, House Appropriations Chairman
Richard Stavneak, Director, Joint Legislative Budget Committee
Arthur Smith, Fiscal Analyst, Joint Legislative Budget Committee
Eileen Klein, Chief of Staff, Finance/Budget, Governor's Office
John Arnold, Budget Director, Office of Strategic Planning and Budgeting
Kris Okazaki, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Donald Hughes, Policy Advisor for Health, Governor's Office
Laura Nelson, MD, Deputy Director, ADHS/DBHS
Cynthia Layne, Chief Financial Officer, ADHS/DBHS
Jim Humble, Assistant Director/CFO, ADHS
Colby Bower, Legislative Liaison, ADHS
Shelli Silver, Assistant Director, AHCCCS, Division of Health Care Management

Note: See additional information on JLBC's website.

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**FINAL**

June 6, 2012

**Subject:** Behavioral Health Services July 2012 through September 2013 Capitation Rates for the Title XIX Program

Dear Ms. Layne:

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) contracted with Mercer Government Human Services Consulting (Mercer) to develop actuarially sound capitation rates for each of its Regional Behavioral Health Authorities (RBHAs) for the contract period 2013 (CP13) time period. The CP13 time period begins on July 1, 2012 and ends on September 30, 2013. Rates were developed for the Title XIX program. The overall statewide Title XIX weighted capitation rate change was -0.9% when compared to the BHS capitation rates effective October 1, 2011 through June 30, 2012.

## Provider Reimbursement and Other Benefit Adjustments

ADHS intends to update these capitation rates effective January 1, 2013 to include changes to the physician fee schedule resulting from health care reform requirements and the change in requirement for Part D plans to cover benzodiazepines on their formularies and barbiturates to treat epilepsy, cancer or a chronic mental health disorder for dual eligible members effective January 1, 2013. In addition, ADHS may, at that time, also update the rates for provider increases due to a 2% behavioral health provider reimbursement increase appropriated by the Arizona Legislature to begin April 1, 2013. For clarity, none of the potential adjustments described within this paragraph are included in what follows.

### I. Introduction/Background

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

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

## II. Overview of Rate Setting Methodology

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

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

Actuarially sound capitation rates were developed for the contract period July 1, 2012, through September 30, 2013. Mercer has utilized actuarially sound principles and practices in the development of these capitation rates.

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

1. Calculate base data:
   - Collect, analyze and adjust state fiscal year 2011 (SFY11) RBHA financial statements, as well as SFY11 RBHA-submitted encounter data.
   - Utilize actual member months from SFY11 and the adjusted SFY11 total claim costs to calculate adjusted SFY11 per-member-per-month (PMPM) values.
   - Apply any budget-neutral relational modeling factors (see Section IV).
2. Calculate CP13 actuarially sound rates:
   - Apply trend factors to bring base SFY11 claim costs forward to CP13.
   - Adjust for any changes occurring between the base period and prior to the contract period (such as the October 1, 2011 provider fee schedule (rate) reduction, respite hour reduction, best for babies, 340B pricing, psych consults and emergency room (ER) transportation).
   - Apply a penetration adjustment (if necessary) to account for changes in behavioral health penetration rates.
   - Certify actuarial equivalence of the populations.
   - Add provisions for administration and underwriting profit/risk/contingency.

The end result of this capitation rate development process, completed jointly by BHS and Mercer, is actuarially sound capitation rates for CP13.

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

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| Children – non-CMDP | $39.58 | $48.26 | $41.57 | $35.84 | $49.12 | $28.91 | $34.59 |
| Children – CMDP | $1,636.44 | $1,303.88 | $1,096.99 | $1,585.40 | $721.82 | $615.58 | $893.10 |
| Seriously mentally ill (SMI) | $45.22 | $73.74 | $34.88 | $45.42 | $44.93 | $89.11 | $72.26 |
| General mental health/substance abuse (GMH/SA) | $31.70 | $53.45 | $49.23 | $29.40 | $56.70 | $35.78 | $39.28 |

The rate development schedules are shown in Attachment A.

## III. Base Data

The base data consisted of adjusted financial statements from all RBHAs for the July 1, 2010 through June 30, 2011 time period. The financial statement expenses were reduced by 0.5% for assumed RBHA increased efficiency and effectiveness in the management of service utilization. This 0.5% reduction decreased total SFY11 base costs by $5,037,242.

Four changes, which took place during SFY11, needed to be incorporated within the SFY11 base costs since their financial impact was not fully reflected within the RBHA SFY11 financial statements due to the timing of these changes. These four changes are listed below.

### *First 72 Hours Coverage*

Effective October 1, 2010, the first 72 hours of inpatient coverage became the financial responsibility of the contracted RBHAs. Historically, the Arizona Health Care Cost Containment System (AHCCCS) acute care health plans had been financially responsible for the first 72 hours of inpatient coverage. This adjustment represents a shift of dollars from the AHCCCS program contractors to the RBHAs. No material child dollars (non-CMDP or CMDP) were found in the data, so no adjustment was made for those populations.

The PMPM increases applied to the SMI and GMH/SA populations for this utilization adjustment are as follows:

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| SMI | $0.00 | $0.02 | $0.00 | $0.00 | $0.00 | $0.01 | $0.01 |
| GMH/SA | $0.00 | $0.04 | $0.01 | $0.00 | $0.01 | $0.03 | $0.02 |

The statewide impact to the base data due to this adjustment is an increase of approximately $239,563.

### *Prior Period Coverage*

Effective October 1, 2010, AHCCCS acute care health plans were no longer responsible for behavioral health services provided during the prior period coverage timeframe. These services became the responsibility of ADHS and are now part of the BHS capitation rate. The PMPM increases applied to the GMH/SA population for this utilization adjustment are as follows (this change also affected non-CMDP children, but the amount is negligible):

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| GMH/SA | $0.07 | $0.32 | $0.03 | $0.04 | $0.04 | $0.13 | $0.14 |

The statewide impact to the base data due to this adjustment is an increase of approximately $1,042,072.

### *Copayments*

Effective October 1, 2010, AHCCCS implemented hard (mandatory) copayments on certain services for adults in the Transitional Medical Assistance (TMA) Program. In addition, AHCCCS modified soft copayments (non-mandatory) for adults in the non-TMA/non-Title XIX Waiver Group (TWG) population. These copayments were minimal, and no adjustments were made as a result. However, effective November 1, 2010, AHCCCS reinstated hard copays for adults in the Medical Spend Down Program (MED) and non-MED populations (collectively TWG), after a long-standing court injunction on TWG copays was lifted. There are a myriad of exclusions for adult copays related to both specific services and specific members as detailed in the contract.

The PMPM decreases applied for this unit cost adjustment are as follows:

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| GMH/SA | ($0.06) | ($0.06) | ($0.06) | ($0.06) | ($0.06) | ($0.06) | ($0.06) |

The statewide impact to the base data due to this unit cost adjustment is a decrease of approximately $425,511.

### *4/1/2011 Provider Fee Schedule (Rate) Reduction*

BHS implemented a 5% provider rate decrease effective April 1, 2011 for all provider types, excluding inpatient and pharmacy. The PMPM decreases applied to the Title XIX populations for this unit cost adjustment are as follows:

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| Non-CMDP | ($1.20) | ($1.28) | ($1.22) | ($0.99) | ($1.41) | ($0.77) | ($0.94) |
| CMDP | ($62.47) | ($40.53) | ($31.52) | ($45.30) | ($19.53) | ($16.71) | ($26.17) |
| SMI | ($1.01) | ($1.41) | ($0.82) | ($0.84) | ($0.99) | ($2.19) | ($1.65) |
| GMH/SA | ($0.58) | ($1.17) | ($1.27) | ($0.67) | ($1.45) | ($0.64) | ($0.81) |

The statewide impact to the base data due to the April 1, 2011 provider rate reduction is a decrease of approximately $28,117,461.

### *Encounter Data Completeness*

ADHS/BHS has for several years stressed the importance of timely and accurate encounter data submission by the RBHAs for capitation rate setting (among other valuable uses). An adjustment to the base data was made which incorporated the relative level of completeness of the encounter data submitted by the RBHAs. Two geographic service area (GSAs) were found to have relatively low encounter data dollar amounts submitted. As a result, a 0.98 factor was applied to one of these GSA's adjusted base data and a 0.99 factor was applied to the other GSA's adjusted base data. This adjustment was uniform across all four populations. No encounter data adjustments were made to the remaining four GSAs. The total statewide dollar impact of the adjustment was a decrease of $6,194,921.

### *"In Lieu Of" Services*

Included in the base rates is funding for "in lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. State-approved fee-for-service (FFS) rates at inpatient non-specialty hospitals are approximately 93.5% more expensive than those provided in alternative inpatient settings. The proposed capitation rates allow for the provision of services in alternative inpatient settings that are licensed by Arizona Department of Health Services/Arizona Licensing Services/Office of Behavioral Health Licensure, in lieu of services in an inpatient non-specialty hospital, with unit cost savings of approximately 48.3% and total yearly cost savings of approximately $2.6 million. These savings are already reflected in the base data.

The following table shows the base data PMPM for in lieu of services by RBHA:

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS |
|---|---|---|---|---|---|---|
| Title XIX | $0.06 | $0.10 | $0.02 | $0.09 | $0.07 | $0.14 |

BHS has periodically performed reviews of the RBHA-submitted data and has determined that the data does not include any other non-covered services.

## IV. Budget Neutral Relational Modeling

While, in aggregate, the population and adjusted financial data were fully credible in the base period, there were distortions between one RBHA's costs in different GSAs in the CMDP and GMH/SA populations that required additional smoothing. Mercer applied budget neutral relational modeling to account for these variances. No dollars were gained or lost through this process.

## V. Trend

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

In order to determine actuarially sound capitation rates, Mercer projected the base data forward to reflect utilization and unit cost trend by population. Mercer calculated trends from the historical financial and encounter data. The historical data that was used as a basis for trend development did not appropriately reflect the costs related to the separate service utilization and fee schedule changes described below. Mercer also utilized its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs. Although the trends were developed using several years of historical data, the trend factors were applied only to the SFY11 base data, bringing it forward 25.5 months to CP13. The following trend estimates were used for the capitation rates.

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| Children – non-CMDP | 2.6% | 2.6% | 2.6% | 2.6% | 2.6% | 2.6% | 2.6% |
| Children – CMDP | 3.7% | 3.7% | 3.7% | 3.7% | 3.7% | 3.7% | 3.7% |
| SMI | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% |
| GMH/SA | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% |

## VI. Service Utilization and Fee Schedule Changes

BHS and Mercer reviewed changes made subsequent to the base data period, SFY11, which would unusually affect service utilization or provider unit cost. It was determined that due to expected changes in utilization or unit cost of specific existing covered services, prospective adjustments would need to be made to account for these changes.

## Prospective Adjustments

The following adjustments have taken place after the SFY11 base data period.

## October 1, 2011 Provider Fee Schedule (Rate) Reduction

BHS implemented a 5% provider rate decrease effective October 1, 2011 for all provider types, excluding pharmacy. The PMPM decreases applied to the Title XIX populations for this unit cost adjustment are as follows:

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| Non-CMDP | ($1.72) | ($1.89) | ($1.69) | ($1.46) | ($2.05) | ($1.13) | ($1.38) |
| CMDP | ($89.02) | ($56.22) | ($46.64) | ($67.97) | ($26.47) | ($24.73) | ($37.61) |
| SMI | ($1.54) | ($2.38) | ($1.28) | ($1.47) | ($1.54) | ($3.30) | ($2.56) |
| GMH/SA | ($0.89) | ($1.81) | ($1.82) | ($1.02) | ($2.19) | ($1.14) | ($1.31) |

The estimated impact due to this adjustment is a decrease of $47,418,335 for the CP13 period.

This adjustment was also applied within the development of the October 1, 2011 rates. When the estimated impact from the October 1, 2011 rates is adjusted to be on a 15-month basis, the incremental change from last year's estimated impact to this year's estimated impact is an increase of approximately $5.6 million (i.e., less projected dollars are being taken out of the rates for CP13).

## Respite Hour Reduction

Effective October 1, 2011, the number of respite hours for adults and children receiving BHS services was reduced from 720 to 600 hours per twelve month period, October 1 through September 30 each year.

The PMPM decreases applied to the Title XIX populations for this utilization adjustment are as follows.

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| Non-CMDP | ($0.04) | ($0.06) | ($0.02) | ($0.06) | ($0.03) | ($0.02) | ($0.03) |
| CMDP | ($1.26) | ($0.66) | $0.00 | ($1.57) | ($0.22) | ($0.12) | ($0.39) |
| SMI | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |
| GMH/SA | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |

The statewide impact to the program for the October 1, 2011 respite hour reduction adjustment is a decrease of approximately $327,303 for CP13.

This adjustment was also applied within the development of the October 1, 2011 rates. When the estimated impact from the October 1, 2011 rates is adjusted to be on a 15-month basis, the incremental change from last year's estimated impact to this year's estimated impact is a decrease of approximately $3,000 (i.e., more projected dollars are being taken out of the rates for CP13).

### Best for Babies

Effective July 1, 2011, the Best for Babies initiative was introduced in Maricopa County. The Best for Babies/Court Team Project is a national initiative sponsored by Zero to Three, targeting children from birth to three years of age involved with dependency court. This project is based on best practices in infant mental health to improve outcomes for young dependent children exposed to trauma and separation through greater judicial oversight of their services and time to permanency. Timely assessment and services for both children and parents, emotional care of infants in foster care, addressing health issues and developmental delays, frequent visitation which supports security and skill building for parents and improving child-centered court procedures are all emphasized in the national initiative. This initiative only affects capitation rates for Maricopa County. The cost of this initiative results in an increase to the capitation rates of $3,154,930 for the CP13 contract period.

The PMPM increases only apply to the CMDP population and are as follows:

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| CMDP | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $23.48 | $13.65 |

### 340B Pricing

Beginning in April 2012, the RBHAs began reimbursing claims for 340B drugs, consistent with the requirements in AHCCCS Rule A.A.C. R9-22-710 C. In general, this provision requires that claims for drugs identified on the 340 B pricing file dispensed by federally qualified health centers (FQHCs) and FQHC Look Alike pharmacies be reimbursed at the lesser of the actual acquisition cost or the 340 B ceiling price, plus a dispensing fee listed in the AHCCCS capped FFS schedule. For more detail regarding reimbursement of 340B drugs, please refer to the AHCCCS Rule. The statewide impact due to this adjustment is a decrease of approximately $332,071 for the CP13 contract period.

The PMPM impacts applied to the TXIX populations due to this unit cost adjustment are as follows:

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| Non-CMDP | $0.00 | ($0.02) | $0.00 | ($0.01) | ($0.12) | $0.00 | ($0.01) |
| CMDP | ($0.01) | ($0.20) | $0.00 | ($0.08) | ($0.97) | $0.00 | ($0.12) |
| SMI | $0.00 | ($0.04) | $0.00 | ($0.01) | ($0.11) | $0.00 | ($0.01) |
| GMH/SA | $0.00 | ($0.03) | $0.00 | ($0.01) | ($0.21) | $0.00 | ($0.02) |

## Psych Consults

Effective at the start of the CP13 contract period, the RBHAs are responsible for payment of medically necessary psychiatric consultations and evaluations provided to acute care members in inpatient facilities in medical/surgical beds regardless of the bed or floor where the member is placed, including emergency departments, even if the member is being treated for other co-morbid physical conditions. Historically, the AHCCCS Acute Health Plans were financially responsible for these psychiatric consultations/evaluations. This adjustment represents a shift of dollars from the AHCCCS Acute Health Plans to the RBHAs. The statewide impact due to this adjustment is an increase of $336,683 for the CP13 contract period.

The PMPM increases as a result of this adjustment are as follows (this adjustment applies to the CMDP children, SMI and GMH/SA populations):

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| CMDP | $0.00 | $0.01 | $0.00 | $0.03 | $0.02 | $0.01 | $0.01 |
| SMI | $0.01 | $0.03 | $0.00 | $0.01 | $0.01 | $0.04 | $0.03 |
| GMH/SA | $0.01 | $0.01 | $0.00 | $0.00 | $0.02 | $0.03 | $0.02 |

## ER Transportation

Effective July 1, 2012, the AHCCCS Acute Health Plans will pay for all emergency transportation for a behavioral health member, unless the emergency transport is to a behavioral health facility. Historically, the RBHAs were financially responsible for emergency transportation for a behavioral health member. This adjustment represents a shift of dollars out of the RBHAs and into the AHCCCS Acute Health Plans. The statewide impact due to this adjustment is a decrease of $511,049 for the CP13 contract period.

The PMPM increases as a result of this adjustment are as follows (this adjustment applies to the CMDP children, SMI and GMH/SA populations):

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS | Statewide |
|---|---|---|---|---|---|---|---|
| Non-CMDP | ($0.01) | $0.00 | ($0.09) | $0.00 | ($0.10) | ($0.01) | ($0.02) |
| CMDP | ($0.28) | ($0.04) | ($1.58) | ($0.10) | ($1.20) | ($0.11) | ($0.18) |
| SMI | ($0.02) | ($0.01) | ($0.07) | $0.00 | ($0.12) | ($0.04) | ($0.03) |
| GMH/SA | $0.00 | $0.00 | ($0.06) | $0.00 | ($0.06) | ($0.01) | ($0.01) |

## VII. Behavioral Health Penetration Adjustment

An adjustment was made in the rate development to account for any projected increases or decreases in penetration rate of members utilizing BHS services compared to the entire AHCCCS population for each RBHA and population, since BHS capitation rates are paid for each AHCCCS eligible individual. For the SMI and GMH/SA populations, a phase out of the MED program began on May 1, 2011, and an enrollment freeze in the childless adult population began on July 8, 2011. So while the reductions in AHCCCS eligibles from these two changes will reduce revenue, it is believed that significant and varying percentages of these SMI or GMH/SA individuals will actually be redetermined to be eligible via another aid category and, hence, the underlying risk and costs will not decrease nearly as much as the revenue. Therefore, an adjustment incorporating the most recently available data is required.

For the children populations (non-CMDP and CMDP), the most recent observed penetration rate trends were analyzed and estimated for the contract period. The increases/decreases observed in these populations have contributed to the overall projected increase/decrease in utilization for these populations and are reflected in overall claim costs. These changes were applied as a penetration adjustment to the CP13 PMPM claim costs and represent a difference due to increased or decreased penetration (those enrolled compared to those eligible). This component of the rate development does not adjust for any normal unit cost or utilization trends, which are handled above.

The penetration factors that were applied are as follows:

| Population | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | MHS |
|---|---|---|---|---|---|---|
| Children – non-CMDP | 0.992 | 1.043 | 1.061 | 1.045 | 0.998 | 1.011 |
| Children – CMDP | 0.952 | 1.008 | 1.036 | 1.024 | 0.988 | 1.006 |
| SMI | 1.205 | 1.203 | 1.144 | 1.207 | 1.200 | 1.188 |
| GMH/SA | 1.085 | 1.124 | 1.093 | 1.098 | 1.093 | 1.084 |

The statewide impact to the program for the penetration adjustment is an increase of approximately $105,599,690 for the CP13 period.

This adjustment was also applied within the development of the October 1, 2011 rates. When the estimated impact from the October 1, 2011 rates is adjusted to be on a 15-month basis, the incremental change from last year's estimated impact to this year's estimated impact is an increase of approximately $8.2 million (i.e., more projected dollars are being added to the rates for CP13).

## VIII. Interpretive Services Administration

The actuarially sound capitation rates developed include provisions for RBHA interpretive services administration. Interpretive services are covered by TXIX and are provided by the RBHAs to TXIX members. The interpretive services administrative factors were determined based on aggregate RBHA SFY11 financial experience. A consistent percentage by population was applied to each RBHA.

| Population | Children – non-CMDP | Children -CMDP | SMI | GMH/SA |
|---|---|---|---|---|
| All TXIX | 2.09% | 0.20% | 0.29% | 0.58% |

The statewide impact to the program for interpretive services is an increase of approximately $9,642,221.

This adjustment was also applied within the development of the October 1, 2011 rates. When the estimated impact from the October 1, 2011 rates is adjusted to be on a 15-month basis, the incremental change from last year's estimated impact to this year's estimated impact is an

increase of approximately $1.6 million (i.e., more projected dollars are being added to the rates for CP13).

## IX. Administration and Underwriting Profit/Risk/Contingency

The actuarially sound capitation rates developed include provisions for RBHA administration. Mercer used its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs in determining appropriate loads for administration and underwriting profit/risk/contingency. Mercer also reviewed current RBHA financial reports. The component for administration and underwriting profit/risk/contingency is calculated as a percentage of the final capitation rate. A 9% load was added across all populations, which is the same as was applied to the SFY12 rates.

## X. Risk Corridors and Performance Incentive

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

The proposed CP13 BHS risk corridor approach provides for gain/loss risk-sharing symmetry around the service revenue portion of the capitation rates. This risk corridor model is designed to be cost neutral, with no net aggregate assumed impact across all payments. The RBHAs' contracts also provide for a potential 1% performance incentive. In Mercer's professional opinion, the risk corridor and performance incentive methodologies utilized by BHS are actuarially sound.

## XI. Tribal FFS Claims Estimate

Mercer received and reviewed projected CP13 tribal claims data from BHS. Effective April 1, 2012, AHCCCS assumed responsibility for payment of tribal claims for non-emergency medical transportation and emergency medical transportation services for specific members with diagnosis code 799.9. This adjustment represents a shift of dollars from the BHS capitation rates to AHCCCS in the amount of $46 million. Based on the information received from BHS and the change in transportation responsibility, Mercer and BHS project that Title XIX tribal claim costs for CP13 will be approximately $62 million.

## XII. BHS Administration/Risk/Contingency

AHCCCS has placed BHS administration at financial risk for the provision of BHS covered services for CP13. Accordingly, the capitation rates were developed to include compensation to BHS for the cost of ensuring the delivery of all BHS covered services. The capitation rates paid to BHS include a 3.67% load, which was negotiated between AHCCCS and BHS administration. The

load represents 2% premium tax and a 1.67% administrative load for the BHS costs of ensuring the efficient delivery of services in a managed care environment.

## XIII. Development of Statewide Capitation Rates

Statewide capitation rates were developed by blending the CP13 capitation rates for each RBHA using projected CP13 member months, the estimated dollar amount of CP13 tribal claims and the administrative percentage add-on component for BHS.

The statewide capitation rates are shown in Attachment B.

## XIV. CMS Rate Setting Checklist (July 22, 2003)

| Item #/Description | Reference to Certification Letter Language |
|---|---|
| AA.1.0 Overview of rate setting methodology | Sections I – II |
| AA.1.1 Actuarial certification | Section XV |
| AA.1.2 Projection of expenditures | Attachment C |
| AA.1.3 Procurement, prior approval and rate setting | Contract |
| AA.1.5 Risk contracts | Contract |
| AA.1.6 Limit on payment to other providers | Contract |
| AA.1.7 Rate modifications | N/A |
| AA.2.0 Base year utilization and cost data | Sections III and IV |
| AA.2.1 Medicaid eligibles under the contract | Section III |
| AA.2.2 Dual eligibles | Contract |
| AA.2.3 Spend-down | N/A |
| AA.2.4 State Plan services only | Section III |
| AA.2.5 Services that may be covered by a capitated entity out of contract savings | N/A |
| AA.3.0 Adjustments to the base year data | Sections III – XII |
| AA.3.1 Benefit differences | N/A |
| AA.3.2 Administrative cost allowance calculations | Sections VIII, IX and XII |
| AA.3.3 Special populations' adjustments | Section XI |
| AA.3.4 Eligibility adjustments | N/A |
| AA.3.5 DSH payments | N/A |

| Item #/Description | Reference to Certification Letter Language |
|---|---|
| AA.3.6 Third party liability | Contract |
| AA.3.7 Copayments, coinsurance and deductibles in capitated rates | Contract |
| AA.3.8 Graduate medical education | N/A |
| AA.3.9 FQHC and RHC reimbursement | Contract |
| AA.3.10 Medical cost/trend inflation | Section V |
| AA.3.11 Utilization adjustments | Sections VI and VII |
| AA.3.12 Utilization and cost assumptions | N/A |
| AA.3.13 Post-eligibility treatment of income | N/A |
| AA.3.14 Incomplete data adjustment | Section III |
| AA.4.0 Establish rate category groupings | Section II |
| AA.4.1 Age | Section II |
| AA.4.2 Gender | N/A |
| AA.4.3 Locality/Region | Section I |
| AA.4.4 Eligibility categories | Section II |
| AA.5.0 Data smoothing | Section III |
| AA.5.1 Special populations and assessment of the data for distortions | Section IV |
| AA.5.2 Cost-neutral data smoothing adjustment | Section IV |
| AA.5.3 Risk adjustment | N/A |
| AA.6.0 Stop loss, reinsurance or risk-sharing arrangements | Section X |
| AA.6.1 Commercial reinsurance | N/A |
| AA.6.2 Simple stop loss program | N/A |
| AA.6.3 Risk corridor program | Section X |
| AA.7.0 Incentive arrangements | Section X |

## XV. Certification of Final Rates

In preparing the rates shown above and attached, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design and financial data and information supplied by BHS and the RBHAs. BHS and the RBHAs are responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for internal consistency and reasonableness, but we did not audit it. In our opinion, it is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report may need to be revised accordingly.

Mercer certifies that the above and attached rates, including risk-sharing mechanisms, incentive arrangements or other payments were developed in accordance with generally accepted actuarial practices and principles and are appropriate for the Medicaid covered populations and services under the managed care contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Rates developed by Mercer are actuarial projections of future contingent events. Actual RBHA costs will differ from these projections. Mercer has developed these rates on behalf of BHS to demonstrate compliance with CMS requirements under 42 CFR 438.6(c) and in accordance with applicable law and regulations. Use of these rates for any purpose beyond that stated may not be appropriate.

RBHAs are advised that the use of these rates may not be appropriate for their particular circumstance, and Mercer disclaims any responsibility for the use of these rates by the RBHAs for any purpose. Mercer recommends that any RBHA considering contracting with BHS should analyze its own projected medical expense, administrative expense and other premium needs for comparison to these rates before deciding whether to contract with BHS.

This certification letter assumes the reader is familiar with the BHS program, Medicaid eligibility rules and actuarial rating techniques. It is intended for BHS and CMS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

If you have any questions concerning our rate setting methodology, please feel free to contact me at +1 602 522 6510.

Sincerely,

Michael E. Nordstrom ASA, MAAA

Michael E. Nordstrom, ASA, MAAA
Partner

MEN:beb

Enclosures

Copy:
Sundee Easter, Mercer
Mike Miner, Mercer
Rob O'Brien, Mercer

**Attachment A**
**CP13 (7/1/12 - 9/30/13) DBHS Capitation Rates**
**Title XIX**
**Non-CMDP Children**



| | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | Magellan | Total |
|---|---|---|---|---|---|---|---|
| 1. SFY11 Adjusted BHS Service Expenses | $ 9,385,222 | $ 40,882,169 | $ 10,144,969 | $ 28,285,686 | $ 15,036,465 | $ 102,977,253 | $ 206,711,765 |
| 2. SFY11 Member Months | 266,019 | 1,001,524 | 292,517 | 933,209 | 344,694 | 4,090,375 | 6,928,338 |
| 3. SFY11 PMPM | $ 35.28 | $ 40.82 | $ 34.68 | $ 30.31 | $ 43.62 | $ 25.18 | $ 29.84 |
| 4. Relational Modeling | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 5. SFY11 Adjusted Claim Cost | $ 35.28 | $ 40.82 | $ 34.68 | $ 30.31 | $ 43.62 | $ 25.18 | $ 29.84 |
| 6. Claim Cost Trend Factor | 2.6% | 2.6% | 2.6% | 2.6% | 2.6% | 2.6% | 2.6% |
| 7. CP13 Trended Base Claim Cost | $ 37.26 | $ 43.11 | $ 36.63 | $ 32.01 | $ 46.07 | $ 26.59 | $ 31.51 |
| 8. Provider Fee Schedule (Rate) Reduction - 10/1/2011 | $ (1.72) | $ (1.89) | $ (1.69) | $ (1.46) | $ (2.05) | $ (1.13) | $ (1.38) |
| 9. Respite Hour Reduction | $ (0.04) | $ (0.06) | $ (0.02) | $ (0.06) | $ (0.03) | $ (0.02) | $ (0.03) |
| 10. 340B Pricing | $ (0.00) | $ (0.02) | $ - | $ (0.01) | $ (0.12) | $ - | $ (0.01) |
| 11. ER Transportation | $ (0.01) | $ (0.00) | $ (0.09) | $ (0.00) | $ (0.10) | $ (0.01) | $ (0.02) |
| 12. CP13 Claim Cost With Above Adjustments | $ 35.49 | $ 41.14 | $ 34.82 | $ 30.48 | $ 43.77 | $ 25.43 | $ 30.08 |
| 13. Penetration Factor | 0.992 | 1.043 | 1.061 | 1.045 | 0.998 | 1.011 | 1.023 |
| 14. Base CP13 Claim Costs | $ 35.19 | $ 42.91 | $ 36.96 | $ 31.87 | $ 43.67 | $ 25.71 | $ 30.76 |
| 15. Interpretive Services Administrative Load | 2.09% | 2.09% | 2.09% | 2.09% | 2.09% | 2.09% | 2.09% |
| 16. Non-Interpretive Services Administrative Load | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% |
| 17. CP13 Capitation Rates | $ 39.58 | $ 48.26 | $ 41.57 | $ 35.84 | $ 49.12 | $ 28.91 | $ 34.59 |
| 18. 10/1/2011 Capitation Rates | $ 32.47 | $ 45.38 | $ 42.10 | $ 35.18 | $ 46.81 | $ 29.09 | $ 33.83 |
| 19. % Change | 21.9% | 6.4% | -1.3% | 1.9% | 4.9% | -0.6% | 2.3% |

**Attachment A**
**CP13 (7/1/12 - 9/30/13) DBHS Capitation Rates**
**Title XIX**
**CMDP Children**



| | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | Magellan | Total |
|---|---|---|---|---|---|---|---|
| 1. SFY11 Adjusted BHS Service Expenses | $ 5,207,530 | $ 32,806,352 | $ 1,304,764 | $ 10,946,034 | $ 4,017,827 | $ 34,707,254 | $ 88,989,761 |
| 2. SFY11 Member Months | 3,031 | 28,774 | 1,396 | 8,014 | 7,213 | 67,275 | 115,703 |
| 3. SFY11 PMPM | $ 1,718.09 | $ 1,140.14 | $ 934.64 | $ 1,365.86 | $ 557.03 | $ 515.90 | $ 769.12 |
| 4. Relational Modeling | 0.890 | 1.000 | 1.000 | 1.000 | 1.150 | 1.000 | 1.000 |
| 5. SFY11 Adjusted Claim Cost | $ 1,528.37 | $ 1,140.14 | $ 934.64 | $ 1,365.86 | $ 640.58 | $ 515.90 | $ 769.36 |
| 6. Claim Cost Trend Factor | 3.7% | 3.7% | 3.7% | 3.7% | 3.7% | 3.7% | 3.7% |
| 7. CP13 Trended Base Claim Cost | $ 1,651.05 | $ 1,231.65 | $ 1,009.66 | $ 1,475.49 | $ 692.00 | $ 557.31 | $ 831.11 |
| 8. Provider Fee Schedule (Rate) Reduction - 10/1/2011 | $ (89.02) | $ (56.22) | $ (46.64) | $ (67.97) | $ (26.47) | $ (24.73) | $ (37.61) |
| 9. Respite Hour Reduction | $ (1.26) | $ (0.66) | $ - | $ (1.57) | $ (0.22) | $ (0.12) | $ (0.39) |
| 10. Best 4 Babies | $ - | $ - | $ - | $ - | $ - | $ 23.48 | $ 13.65 |
| 11. 340B Pricing | $ (0.01) | $ (0.20) | $ - | $ (0.08) | $ (0.97) | $ - | $ (0.12) |
| 12. Psych Consults | $ - | $ 0.01 | $ - | $ 0.03 | $ 0.02 | $ 0.01 | $ 0.01 |
| 13. ER Transportation | $ (0.28) | $ (0.04) | $ (1.58) | $ (0.10) | $ (1.20) | $ (0.11) | $ (0.18) |
| 14. CP13 Claim Cost With Above Adjustments | $ 1,560.48 | $ 1,174.54 | $ 961.45 | $ 1,405.80 | $ 663.15 | $ 555.85 | $ 806.48 |
| 15. Penetration Factor | 0.952 | 1.008 | 1.036 | 1.024 | 0.988 | 1.006 | 1.006 |
| 16. Base CP13 Claim Costs | $ 1,485.96 | $ 1,183.98 | $ 996.12 | $ 1,439.61 | $ 655.45 | $ 558.98 | $ 810.97 |
| 17. Interpretive Services Administrative Load | 0.20% | 0.20% | 0.20% | 0.20% | 0.20% | 0.20% | 0.20% |
| 18. Non-Interpretive Services Administrative Load | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% |
| 19. CP13 Capitation Rates | $ 1,636.44 | $ 1,303.88 | $ 1,096.99 | $ 1,585.40 | $ 721.82 | $ 615.58 | $ 893.10 |
| 20. 10/1/2011 Capitation Rates | $ 1,468.80 | $ 1,153.57 | $ 1,099.41 | $ 1,511.70 | $ 680.88 | $ 679.44 | $ 880.83 |
| 21. % Change | 11.4% | 13.0% | -0.2% | 4.9% | 6.0% | -9.4% | 1.4% |

**Attachment A**
**CP13 (7/1/12 - 9/30/13) DBHS Capitation Rates**
**Title XIX**
**Combined Children (For Informational Purposes Only)**



| | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | Magellan | Total |
|---|---|---|---|---|---|---|---|
| 1. SFY11 Adjusted BHS Service Expenses | $ 14,592,752 | $ 73,688,522 | $ 11,449,733 | $ 39,231,720 | $ 19,054,292 | $ 137,684,507 | $ 295,701,526 |
| 2. SFY11 Member Months | 269,050 | 1,030,298 | 293,913 | 941,223 | 351,907 | 4,157,650 | 7,044,041 |
| 3. SFY11 PMPM | $ 54.24 | $ 71.52 | $ 38.96 | $ 41.68 | $ 54.15 | $ 33.12 | $ 41.98 |
| 4. Relational Modeling | 0.961 | 1.000 | 1.000 | 1.000 | 1.032 | 1.000 | 1.000 |
| 5. SFY11 Adjusted Claim Cost | $ 52.10 | $ 71.52 | $ 38.96 | $ 41.68 | $ 55.86 | $ 33.12 | $ 41.98 |
| 6. Claim Cost Trend Factor | 3.0% | 3.1% | 2.7% | 2.9% | 2.9% | 2.9% | 2.9% |
| 7. CP13 Trended Base Claim Cost | $ 55.44 | $ 76.30 | $ 41.25 | $ 44.30 | $ 59.31 | $ 35.17 | $ 44.64 |
| 8. Provider Fee Schedule (Rate) Reduction - 10/1/2011 | $ (2.70) | $ (3.40) | $ (1.91) | $ (2.02) | $ (2.55) | $ (1.52) | $ (1.97) |
| 9. Respite Hour Reduction | $ (0.05) | $ (0.08) | $ (0.02) | $ (0.07) | $ (0.03) | $ (0.02) | $ (0.04) |
| 10. Best 4 Babies | $ - | $ - | $ - | $ - | $ - | $ 0.38 | $ 0.22 |
| 11. 340B Pricing | $ (0.00) | $ (0.03) | $ - | $ (0.01) | $ (0.14) | $ - | $ (0.01) |
| 12. Psych Consults | $ - | $ 0.00 | $ - | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 |
| 13. ER Transportation | $ (0.01) | $ (0.00) | $ (0.09) | $ (0.00) | $ (0.12) | $ (0.01) | $ (0.02) |
| 14. CP13 Claim Cost With Above Adjustments | $ 52.67 | $ 72.79 | $ 39.22 | $ 42.19 | $ 56.47 | $ 34.01 | $ 42.83 |
| 15. Penetration Factor | 0.979 | 1.027 | 1.058 | 1.039 | 0.995 | 1.010 | 1.017 |
| 16. Base CP13 Claim Costs | $ 51.54 | $ 74.78 | $ 41.52 | $ 43.85 | $ 56.21 | $ 34.34 | $ 43.57 |
| 17. Interpretive Services Administrative Load | 1.48% | 1.26% | 1.88% | 1.57% | 1.64% | 1.60% | 1.52% |
| 18. Non-Interpretive Services Administrative Load | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% |
| 19. CP13 Capitation Rates | $ 57.57 | $ 83.33 | $ 46.58 | $ 49.03 | $ 62.90 | $ 38.41 | $ 48.69 |
| 20. 10/1/2011 Capitation Rates | $ 48.65 | $ 76.33 | $ 47.12 | $ 47.76 | $ 59.81 | $ 39.61 | $ 47.74 |
| 21. % Change | 18.3% | 9.2% | -1.1% | 2.7% | 5.2% | -3.0% | 2.0% |

**Attachment A**
**CP13 (7/1/12 - 9/30/13) DBHS Capitation Rates**
**Title XIX**
**SMI**



| | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | Magellan | Total |
|---|---|---|---|---|---|---|---|
| 1. SFY11 Adjusted BHS Service Expenses | $ 12,050,435 | $ 73,445,211 | $ 9,939,180 | $ 44,272,080 | $ 13,987,358 | $ 271,471,620 | $ 425,165,885 |
| 2. SFY11 Member Months | 347,451 | 1,298,303 | 351,321 | 1,274,490 | 401,664 | 3,903,322 | 7,576,551 |
| 3. SFY11 PMPM | $ 34.68 | $ 56.57 | $ 28.29 | $ 34.74 | $ 34.82 | $ 69.55 | $ 56.12 |
| 4. Relational Modeling | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 5. SFY11 Adjusted Claim Cost | $ 34.68 | $ 56.57 | $ 28.29 | $ 34.74 | $ 34.82 | $ 69.55 | $ 56.12 |
| 6. Claim Cost Trend Factor | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% |
| 7. CP13 Trended Base Claim Cost | $ 35.57 | $ 58.02 | $ 29.02 | $ 35.63 | $ 35.72 | $ 71.33 | $ 57.56 |
| 8. Provider Fee Schedule (Rate) Reduction - 10/1/2011 | $ (1.54) | $ (2.38) | $ (1.28) | $ (1.47) | $ (1.54) | $ (3.30) | $ (2.56) |
| 9. Respite Hour Reduction | $ (0.00) | $ (0.00) | $ (0.00) | $ - | $ (0.00) | $ (0.00) | $ (0.00) |
| 10. 340B Pricing | $ (0.00) | $ (0.04) | $ - | $ (0.01) | $ (0.11) | $ - | $ (0.01) |
| 11. Psych Consults | $ 0.01 | $ 0.03 | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.04 | $ 0.03 |
| 12. ER Transportation | $ (0.02) | $ (0.01) | $ (0.07) | $ (0.00) | $ (0.12) | $ (0.04) | $ (0.03) |
| 13. CP13 Claim Cost With Above Adjustments | $ 34.02 | $ 55.62 | $ 27.67 | $ 34.15 | $ 33.96 | $ 68.03 | $ 54.97 |
| 14. Penetration Factor | 1.205 | 1.203 | 1.144 | 1.207 | 1.200 | 1.188 | 1.192 |
| 15. Base CP13 Claim Costs | $ 41.02 | $ 66.89 | $ 31.64 | $ 41.21 | $ 40.76 | $ 80.83 | $ 65.55 |
| 16. Interpretive Services Administrative Load | 0.29% | 0.29% | 0.29% | 0.29% | 0.29% | 0.29% | 0.29% |
| 17. Non-Interpretive Services Administrative Load | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% |
| 18. CP13 Capitation Rates | $ 45.22 | $ 73.74 | $ 34.88 | $ 45.42 | $ 44.93 | $ 89.11 | $ 72.26 |
| 19. 10/1/2011 Capitation Rates | $ 48.60 | $ 65.74 | $ 33.36 | $ 42.57 | $ 47.09 | $ 94.94 | $ 73.61 |
| 20. % Change | -7.0% | 12.2% | 4.6% | 6.7% | -4.6% | -6.1% | -1.8% |

**Attachment A**
**CP13 (7/1/12 - 9/30/13) DBHS Capitation Rates**
**Title XIX**
**GMH/SA**



| | Cenpatico 3 | CPSA | Cenpatico 2 | NARBHA | Cenpatico 4 | Magellan | Total |
|---|---|---|---|---|---|---|---|
| 1. SFY11 Adjusted BHS Service Expenses | $ 7,915,799 | $ 56,491,162 | $ 14,533,744 | $ 31,241,751 | $ 20,557,167 | $ 117,347,905 | $ 248,087,529 |
| 2. SFY11 Member Months | 347,451 | 1,298,303 | 351,321 | 1,274,490 | 401,664 | 3,903,322 | 7,576,551 |
| 3. SFY11 PMPM | $ 22.78 | $ 43.51 | $ 41.37 | $ 24.51 | $ 51.18 | $ 30.06 | $ 32.74 |
| 4. Relational Modeling | 1.164 | 1.000 | 1.000 | 1.000 | 0.936 | 1.000 | 1.000 |
| 5. SFY11 Adjusted Claim Cost | $ 26.51 | $ 43.51 | $ 41.37 | $ 24.51 | $ 47.89 | $ 30.06 | $ 32.74 |
| 6. Claim Cost Trend Factor | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% |
| 7. CP13 Trended Base Claim Cost | $ 27.31 | $ 44.82 | $ 42.61 | $ 25.25 | $ 49.32 | $ 30.97 | $ 33.72 |
| 8. Provider Fee Schedule (Rate) Reduction - 10/1/2011 | $ (0.89) | $ (1.81) | $ (1.82) | $ (1.02) | $ (2.19) | $ (1.14) | $ (1.31) |
| 9. Respite Hour Reduction | $ (0.00) | $ (0.00) | $ - | $ - | $ (0.00) | $ (0.00) | $ (0.00) |
| 10. 340B Pricing | $ (0.00) | $ (0.03) | $ - | $ (0.01) | $ (0.21) | $ - | $ (0.02) |
| 11. Psych Consults | $ 0.01 | $ 0.01 | $ 0.00 | $ 0.00 | $ 0.02 | $ 0.03 | $ 0.02 |
| 12. ER Transportation | $ (0.00) | $ (0.00) | $ (0.06) | $ (0.00) | $ (0.06) | $ (0.01) | $ (0.01) |
| 13. CP13 Claim Cost With Above Adjustments | $ 26.42 | $ 42.99 | $ 40.73 | $ 24.22 | $ 46.88 | $ 29.84 | $ 32.40 |
| 14. Penetration Factor | 1.085 | 1.124 | 1.093 | 1.098 | 1.093 | 1.084 | 1.096 |
| 15. Base CP13 Claim Costs | $ 28.66 | $ 48.33 | $ 44.51 | $ 26.59 | $ 51.27 | $ 32.35 | $ 35.51 |
| 16. Interpretive Services Administrative Load | 0.58% | 0.58% | 0.58% | 0.58% | 0.58% | 0.58% | 0.58% |
| 17. Non-Interpretive Services Administrative Load | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% | 9.0% |
| 18. CP13 Capitation Rates | $ 31.70 | $ 53.45 | $ 49.23 | $ 29.40 | $ 56.70 | $ 35.78 | $ 39.28 |
| 19. 10/1/2011 Capitation Rates | $ 28.34 | $ 50.19 | $ 42.90 | $ 27.80 | $ 54.47 | $ 34.14 | $ 37.04 |
| 20. % Change | 11.9% | 6.5% | 14.8% | 5.8% | 4.1% | 4.8% | 6.0% |

**Attachment B**
**CP13 (7/1/12 - 9/30/13) Statewide Rates**
**15 Month Projection**
**Title XIX**

**Statewide TXIX Rate for Non-CMDP Children**

| RBHA | Col. 1 Proj. 15 mos. Eligibility Member Months | Final Estimate Col. 2 Proposed CP13 Rates | Col. 1 x Col. 2 Total Dollars |
|---|---|---|---|
| Cenpatico 3 | 306,719 | $ 39.58 | $ 12,141,183 |
| CPSA | 1,189,696 | $ 48.26 | $ 57,419,381 |
| Cenpatico 2 | 317,881 | $ 41.57 | $ 13,214,075 |
| NARBHA | 1,116,987 | $ 35.84 | $ 40,032,974 |
| Cenpatico 4 | 409,320 | $ 49.12 | $ 20,104,130 |
| Magellan | 5,188,698 | $ 28.91 | $ 150,026,536 |
| Tribes | | | $ 22,645,188 |
| Subtotal | 8,529,301 | | $ 315,583,467 |
| BHS Administration/R/C of 3.67% | | | $ 12,011,903 |
| Total with BHS Administration/R/C | | | $ 327,595,370 |
| Statewide Capitation Rate | | | $ 38.41 |

**Statewide TXIX Rate for CMDP Children**

| RBHA | Col. 1 Proj. 15 mos. Eligibility Member Months | Final Estimate Col. 2 Proposed CP13 Rates | Col. 1 x Col. 2 Total Dollars |
|---|---|---|---|
| Cenpatico 3 | 5,019 | $ 1,636.44 | $ 8,213,290 |
| CPSA | 46,032 | $ 1,303.88 | $ 60,020,208 |
| Cenpatico 2 | 3,667 | $ 1,096.99 | $ 4,022,675 |
| NARBHA | 14,119 | $ 1,585.40 | $ 22,384,230 |
| Cenpatico 4 | 10,278 | $ 721.82 | $ 7,418,884 |
| Magellan | 134,359 | $ 615.58 | $ 82,709,131 |
| Tribes | | | $ 13,484,176 |
| Subtotal | 213,474 | | $ 198,252,594 |
| BHS Administration/R/C of 3.67% | | | $ 7,545,994 |
| Total with BHS Administration/R/C | | | $ 205,798,588 |
| Statewide Capitation Rate | | | $ 964.05 |

**Attachment B**
**CP13 (7/1/12 - 9/30/13) Statewide Rates**
**15 Month Projection**
**Title XIX**

**Statewide TXIX Rate for SMI**

| RBHA | Col. 1 Proj. 15 mos. Eligibility Member Months | Final Estimate Col. 2 Proposed CP13 Rates | Col. 1 x Col. 2 Total Dollars |
|---|---|---|---|
| Cenpatico 3 | 337,981 | $ 45.22 | $ 15,282,291 |
| CPSA | 1,216,885 | $ 73.74 | $ 89,730,697 |
| Cenpatico 2 | 325,461 | $ 34.88 | $ 11,353,592 |
| NARBHA | 1,209,409 | $ 45.42 | $ 54,936,188 |
| Cenpatico 4 | 380,016 | $ 44.93 | $ 17,075,171 |
| Magellan | 3,753,840 | $ 89.11 | $ 334,505,073 |
| Tribes | | | $ 7,661,878 |
| Subtotal | 7,223,592 | | $ 530,544,890 |
| BHS Administration/R/C of 3.67% | | | $ 20,193,878 |
| Total with BHS Administration/R/C | | | $ 550,738,768 |
| Statewide Capitation Rate | | | $ 76.24 |

**Statewide TXIX Rate for GMH/SA**

| RBHA | Col. 1 Proj. 15 mos. Eligibility Member Months | Final Estimate Col. 2 Proposed CP13 Rates | Col. 1 x Col. 2 Total Dollars |
|---|---|---|---|
| Cenpatico 3 | 337,981 | $ 31.70 | $ 10,713,058 |
| CPSA | 1,216,885 | $ 53.45 | $ 65,047,883 |
| Cenpatico 2 | 325,461 | $ 49.23 | $ 16,021,315 |
| NARBHA | 1,209,409 | $ 29.40 | $ 35,562,334 |
| Cenpatico 4 | 380,016 | $ 56.70 | $ 21,546,786 |
| Magellan | 3,753,840 | $ 35.78 | $ 134,294,153 |
| Tribes | | | $ 18,083,758 |
| Subtotal | 7,223,592 | | $ 301,269,287 |
| BHS Administration/R/C of 3.67% | | | $ 11,467,070 |
| Total with BHS Administration/R/C | | | $ 312,736,357 |
| Statewide Capitation Rate | | | $ 43.29 |

***Attachment C***
***CP13 (7/1/12 - 9/30/13) DBHS Capitation Rates***
***15 Month Projection of Expenditures***
***Title XIX***

**Note: This section uses 7/1/12-9/30/13 (15 month) Projected Member Months applied to both 10/1/2011 and CP13 (7/1/12-9/30/13) Rates.**

| | Statewide Rates 10/1/2011 Rates | Statewide Rates CP13 Rates | 15 Month Projected MMs | 15 Month Projected Expenditures 10/1/2011 Rates | 15 Month Projected Expenditures CP13 Rates | Percent Change |
|---|---|---|---|---|---|---|
| TXIX | | | | | | |
| Children | $ 62.27 | $ 61.01 | 8,742,775 | $ 544,432,340 | $ 533,393,958 | -2.0% |
| SMI | $ 78.28 | $ 76.24 | 7,223,592 | $ 565,456,836 | $ 550,738,768 | -2.6% |
| GMH/SA | $ 41.41 | $ 43.29 | 7,223,592 | $ 299,119,132 | $ 312,736,357 | 4.6% |
| **Total** | | | | **$ 1,409,008,308** | **$ 1,396,869,083** | **-0.9%** |

| | Statewide Rates 10/1/2011 Rates | Statewide Rates CP13 Rates | 15 Month Projected MMs | 15 Month Projected Expenditures 10/1/2011 Rates | 15 Month Projected Expenditures CP13 Rates | Percent Change |
|---|---|---|---|---|---|---|
| TXIX Children | | | | | | |
| Non-CMDP Children | $ 38.75 | $ 38.41 | 8,529,301 | $ 330,547,341 | $ 327,595,370 | -0.9% |
| CMDP Children | $ 1,001.93 | $ 964.05 | 213,474 | $ 213,884,999 | $ 205,798,588 | -3.8% |
| **Total** | **$ 62.27** | **$ 61.01** | **8,742,775** | **$ 544,432,340** | **$ 533,393,958** | **-2.0%** |

Note: This section uses 7/1/12-6/30/13 (12 month) Projected Member Months applied to both 10/1/2011 and CP13 (7/1/12-9/30/13) Rates.

| | Statewide Rates 10/1/2011 Rates | Statewide Rates CP13 Rates | 12 Month Projected MMs | 12 Month Projected Expenditures 10/1/2011 Rates | 12 Month Projected Expenditures CP13 Rates | Percent Change |
|---|---|---|---|---|---|---|
| **TXIX** | | | | | | |
| Children | $ 61.08 | $ 59.87 | 7,025,788 | $ 429,146,541 | $ 420,601,961 | -2.0% |
| SMI | $ 78.28 | $ 76.24 | 5,895,696 | $ 461,510,230 | $ 449,497,750 | -2.6% |
| GMH/SA | $ 41.41 | $ 43.29 | 5,895,696 | $ 244,132,763 | $ 255,246,765 | 4.6% |
| **Total** | | | | **$ 1,134,789,534** | **$ 1,125,346,476** | **-0.8%** |

| | Statewide Rates 10/1/2011 Rates | Statewide Rates CP13 Rates | 12 Month Projected MMs | 12 Month Projected Expenditures 10/1/2011 Rates | 12 Month Projected Expenditures CP13 Rates | Percent Change |
|---|---|---|---|---|---|---|
| **TXIX Children** | | | | | | |
| Non-CMDP Children | $ 38.75 | $ 38.41 | 6,862,923 | $ 265,967,979 | $ 263,592,737 | -0.9% |
| CMDP Children | $ 1,001.93 | $ 964.05 | 162,865 | $ 163,178,562 | $ 157,009,224 | -3.8% |
| **Total** | **$ 61.08** | **$ 59.87** | **7,025,788** | **$ 429,146,541** | **$ 420,601,961** | **-2.0%** |

STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

DON SHOOTER
CHAIRMAN 2012
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DATE: September 27, 2012

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Senior Fiscal Analyst

SUBJECT: Attorney General - Review of Allocation of Settlement Monies

**Request**

The General Appropriation Act (Laws 2011, Chapter 24) contains a footnote that requires Joint Legislative Budget Committee (JLBC) review of the expenditure plan for settlement monies over $100,000 received by the Office of the Attorney General (AG), or any other person on behalf of the State of Arizona, prior to expenditure of the monies. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review.

This request is for review of the expenditure plan for a total of $215,100 from 2 settlements: 1) a $100,000 allocation to the AG from a consent judgment with QuinStreet, Inc., the former owner of the website GIBill.com; and 2) a $115,100 settlement from a consent judgment with Skechers USA, Inc., a footwear company.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of the allocation plans from the $100,000 consent judgment with Quinstreet and the $115,100 settlement with Skechers. The allocation plans are consistent with A.R.S. § 44-1531.01, which relates to the distribution of monies recovered as a result of enforcing consumer protection or consumer fraud statutes.

**Analysis**

<u>QuinStreet, Inc.</u>

In June 2012, the AG and 18 other states entered into an assurance of discontinuance with QuinStreet as a result of their consumer fraud investigation of QuinStreet's management of websites targeting military service members. The investigation alleged that QuinStreet engaged in violations to the Consumer Fraud

(Continued)

Act, which included falsely suggesting that the website GIBill.com was operated or endorsed by the U.S. government and that the website's list of "eligible GI Bill schools" was an exhaustive list when the list was only comprised of QuinStreet clients.

The settlement requires ARS to pay $100,000 to the AG. This amount will be deposited into the Consumer Fraud Revolving Fund for attorney fees, investigation costs, and to support consumer fraud investigations, consumer education, and enforcement of the Consumer Fraud Act and AG operating expenses. The Consumer Fraud Revolving Fund is appropriated and the AG's ability to expend up to the fund's appropriation level of $3.5 million depends on the amount of settlement revenues into the fund.

QuinStreet has relinquished ownership and operation of the GIBill.com website to the U.S. Department of Veterans Affairs, which is currently using the site to provide information about GI Bill benefits. In addition to the payment to the AG, the settlement also requires QuinStreet's military-related sites to contain clear disclosures that the sites are not owned or operated by the U.S. government and that the schools listed are advertisers or pay to appear on the sites and are not the only schools that accept GI Bill benefits.

Skechers USA, Inc.

In May 2012, Arizona, 43 other states, and the District of Columbia entered into a consent judgment with Skechers as a result of allegations that Skechers deceptively marketed and sold toning footwear. The complaint alleged that Skechers claimed that wearing the footwear would have health benefits which included promoting weight loss, burning more calories, reducing cellulite and increasing blood circulation.

The settlement requires Skechers to pay $40 million in consumer refunds, which will be administered by the Federal Trade Commission with additional information on the website www.skecherssettlement.com.

The settlement requires Skechers to pay $115,100 to the AG. This amount will be deposited into the Consumer Fraud Revolving Fund for attorney fees, investigation costs, and to support consumer fraud investigations, consumer education, and enforcement of the Consumer Fraud Act and AG operating expenses. The Consumer Fraud Revolving Fund is appropriated and the AG's ability to expend up to the fund's appropriation level of $3.5 million depends on the amount of settlement revenues into the fund.

The settlement also requires Skechers to avoid misleading claims about certain footwear including avoiding claims of muscle strengthening, weight loss or other fitness benefits, unless they are true claims backed by scientific evidence.

RS/MZ:ac

TOM HORNE
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL
PUBLIC ADVOCACY DIVISION
CONSUMER PROTECTION & ADVOCACY SECTION

DENA ROSEN BENJAMIN
SECTION CHIEF COUNSEL
DIRECT PHONE NO. (602) 542-7717
DENA.BENJAMIN@AZAG.GOV

August 14, 2012

The Honorable Steve Pierce
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007


The Honorable Andy Tobin
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Don Shooter
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, AZ 85007

Re: *State of Arizona v. QuinStreet, Inc.- Pima County, C20124011*

Gentlemen:

The State of Arizona recently settled a case against QuinStreet, Inc. ("QuinStreet") resolving allegations that the company deceptively targeted current and former military service members in its marketing of educational institutions, including for profit colleges.

The settlement, in the form of an Assurance of Discontinuance, was joined by 18 other states. The states alleged that the owner of GIBill.com, QuinStreet,,violated the states' consumer protection laws in the course of operating websites that generate leads primarily for the for-profit education industry. The states alleged that several of the company's sites targeting military service members, including GIBill.com, were deceptive because they falsely suggested that the websites were operated, owned or endorsed by the U.S. government or military. The states also alleged that the sites were misleading in giving the impression that the schools listed as "eligible GI Bill schools" were the only schools at which the veterans' benefits could be utilized. In fact, the list only consisted of QuinStreet clients, which were primarily for-profit colleges.

The Assurance of Discontinuance requires QuinStreet to significantly change its business practices. Under the settlement, QuinStreet has already relinquished ownership and control of the domain GIBill.com and given it to the U.S. Department of Veterans Affairs, which is already utilizing the domain to promote the GI Bill program and educate service members about the program's benefits. The Assurance bars QuinStreet from using any domain names that include the term "GI Bill," and requires the company to shut down Twitter, Facebook or other social media accounts associated with GIBill.com.

The settlement includes these additional terms:

- All QuinStreet military-related sites must have the following:
    - Unavoidable, clear and conspicuous disclosures adjacent to the website logo and website name that clarify the site is not owned or operated by the U.S. government.
    - Disclosures that the schools listed on the sites are not the only schools that accept GIBill benefits, and links to the VA's page that provides a complete list.
- All of QuinStreet's education-related websites must have the following:
    - Disclosures that clarify that schools responsive to a consumers' search are advertisers or pay to appear on the sites.
    - An "About us" page and a FAQ page that clearly explains the site is owned by QuinStreet and must contain identifying information about the company and its business operations.
- QuinStreet will no longer be able to make any claims that the information presented on the site is "neutral" or "unbiased" or that schools are "top" or "best" unless the information comes from an independent source.

The Assurance further requires QuinStreet to pay a total of $2,500,000 to the settling states. Arizona's share is $100,000, which will be deposited into the Consumer Fraud Revolving Fund pursuant to A.R.S. § 44-1531.01 and used for the purposes set forth in statute.

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

If you have any questions, please feel free to contact me at (602) 542-7717 or by e-mail at dena.benjamin@azag.gov.

Sincerely,

Dena R. Benjamin
Section Chief Counsel
Consumer Protection and Advocacy Section

cc: The Honorable John Kavanaugh
The Honorable Chad Campbell
The Honorable David Schapira
Mr. Richard S. Stavneak
Ms. Marge Zylla (Assurance of Discontinuance enclosed)
Mr. Joe Sciarotta
Mr. Art Harding
Ms. Vicki Salazar
Mr. John T. Stevens, Jr.

#2830805

TOM HORNE
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL
PUBLIC ADVOCACY DIVISION
CONSUMER PROTECTION & ADVOCACY SECTION

DENA ROSEN BENJAMIN
SECTION CHIEF COUNSEL
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August 16, 2012


The Honorable Steve Pierce
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Andy Tobin
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Don Shooter
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, AZ 85007

Re: *State of Arizona v. Skechers USA, Inc.- Pima County, C20123141*

Gentlemen:

The State of Arizona recently settled a case against Skechers USA, Inc. dba Skechers ("Skechers") resolving allegations that the company deceptively marketed and sold its Skechers Toning Footwear ("toning shoes") in violation of the Arizona Consumer Fraud Act.

The settlement, in the form of a Consent Judgment, was joined by 43 other states and the District of Columbia. The Federal Trade Commission filed a *Stipulated Final Judgment and Order for Permanent Injunction and Other Relief* against Skechers on the same day. The State's Complaint, filed concurrently with the Consent Judgment, alleged that Skechers deceptively marketed its toning shoes by asserting that wearing them would promote weight loss, burn more calories, reduce cellulite, and improve blood circulation (among other things), although the company lacked scientific support for these claims.

The Consent Judgment bars Skechers from making certain types of claims regarding its toning shoes, unless they are true and backed by reliable and scientific

evidence. These restrictions apply to:

- Claims about muscle strengthening
- Claims that wearing the shoes will cause weight loss, and
- Claims about any other health or fitness related benefits from toning shoes, including claims regarding caloric expenditure, calorie burn, blood circulation, aerobic conditioning, muscle tone, and muscle activation.

The Judgment also bars Skechers from misrepresenting any test, studies, or research results. If Skechers' advertisements refer to studies that are materially connected to the company, the ads must clearly and conspicuously disclose the connection. Skechers must also send a letter to its domestic distributors and retailers who market or sell toning shoes notifying them of the settlement and the required changes to marketing claims.

The settlement requires Skechers to pay $40,000,000 for consumer refunds. The Federal Trade Commission will administer the payment and distribute funds to consumers. Further information is available at www.skecherssettlement.com.

Finally, the Judgment requires payment of $5,000,000 to the settling states. Arizona's share is $115,140, which will be deposited into the Consumer Fraud Revolving Fund pursuant to A.R.S. § 44-1531.01 and used for the purposes set forth in statute.

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

If you have any questions, please feel free to contact me at (602) 542-7717 or by e-mail at dena.benjamin@azag.gov.

Sincerely,

Dena R. Benjamin
Section Chief Counsel
Consumer Protection and Advocacy Section

cc: The Honorable John Kavanaugh
The Honorable Chad Campbell
The Honorable David Schapira
Mr. Richard S. Stavneak
Ms. Marge Zylla (Consent Judgment enclosed)

Mr. Joe Sciarotta
Mr. Art Harding
Ms. Vicki Salazar
Mr. John T. Stevens, Jr.

#2801661

STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

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ANNA TOVAR

DATE: September 27, 2012

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brett Searle, Fiscal Analyst

SUBJECT: Arizona Department of Corrections - Review of FY 2012 Bed Capacity Report

**Request**

Pursuant to a FY 2013 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) has submitted for review its FY 2012 bed capacity report. The report is to explain the reasons for any changes in the level of bed capacity during the past year.

**Recommendation**

The Committee has at least the following 2 options:

1. A favorable review of the department's bed capacity report.

2. An unfavorable review of the department's submission.

During FY 2012, the department reduced its operating capacity by 962 beds, from 42,951 to 41,989. Most of this reduction occurred in temporary beds. Over the same time period, the inmate population decreased from 40,181 to 39,877.

The footnote requires the department to provide bed capacity by funded beds. The funded beds figure has been established by JLBC Staff to evaluate the department's need for additional beds. While ADC reported on "rated" and "temporary" beds, they did not address "funded" beds.

**Analysis**

Apart from any legislative changes, ADC may alter its bed capacity during the year. The department can establish or decommission beds and also has flexibility to shift beds between inmate classifications. These changes would affect its bed capacity during the year, thus impacting calculation of bed surplus and shortfall. To better track the impact of the department's revisions, the FY 2013 General Appropriation Act added this first time reporting requirement.

(Continued)

Operating Capacity

The department's operating capacity is the sum of rated and temporary beds at both state operated and private prisons. Rated beds are, by physical design or as defined by law, a permanent part of a unit. Temporary beds are added to areas that were not originally intended to house inmates or double-bunked beds in areas that were intended for single beds.

During FY 2012, the department's operating capacity was reduced by 962 beds, from 42,951 at the beginning of fiscal year to 41,989 at the end. *Table 1* provides a summary of the adjustments. The elimination of 912 temporary beds accounted for most of the overall reduction in operating capacity. As the overall prison population declined, ADC was able to eliminate use of these temporary beds:

- ADC eliminated 372 minimum custody beds and 195 medium custody beds to enhance staff and inmate safety.
- ADC closed 21 minimum beds and 324 medium security beds due to the deteriorating condition of the units.

**Table 1**

**FY 2012 Operating Capacity Adjustments**

| | Rated | | | Temporary | | | Operating Capacity | | |
|---|---|---|---|---|---|---|---|---|---|
| | June 2011 | Change in Beds | June 2012 | June 2011 | Change in Beds | June 2012 | June 2011 | Change in Beds | June 2012 |
| **State Prisons** | | | | | | | | | |
| Minimum | 11,707 | (130) | 11,577 | 1,611 | (393) | 1,218 | 13,318 | (523) | 12,795 |
| Medium | 11,635 | (400) | 11,235 | 2,992 | (519) | 2,473 | 14,627 | (919) | 13,708 |
| Close | 4,700 | 341 | 5,041 | 30 | 0 | 30 | 4,730 | 341 | 5,071 |
| Maximum | 3,217 | 139 | 3,356 | 521 | 0 | 521 | 3,738 | 139 | 3,877 |
| *Total - State Prisons* | *31,259* | *(50)* | *31,209* | *5,154* | *(912)* | *4,242* | *36,413* | *(962)* | *35,451* |
| **Private Prisons** | | | | | | | | | |
| Minimum | 3,450 | 50 | 3,500 | 300 | (50) | 250 | 3,750 | 0 | 3,750 |
| Medium | 2,400 | 0 | 2,400 | 388 | 0 | 388 | 2,788 | 0 | 2,788 |
| *Total - Private Prisons* | *5,850* | *50* | *5,900* | *688* | *(50)* | *638* | *6,538* | *0* | *6,538* |
| **Total** | | | | | | | | | |
| Minimum | 15,157 | (80) | 15,077 | 1,911 | (443) | 1,468 | 17,068 | (523) | 16,545 |
| Medium | 14,035 | (400) | 13,635 | 3,380 | (519) | 2,861 | 17,415 | (919) | 16,496 |
| Close | 4,700 | 341 | 5,041 | 30 | 0 | 30 | 4,730 | 341 | 5,071 |
| Maximum | 3,217 | 139 | 3,356 | 521 | 0 | 521 | 3,738 | 139 | 3,877 |
| **Total - ADC System** | **37,109** | **0** | **37,109** | **5,842** | **(962)** | **4,880** | **42,951** | **(962)** | **41,989** |

Along with eliminating 912 temporary beds, ADC also reduced its rated capacity by 50 beds:

- 130 minimum beds were closed at the Douglas prison, which allowed for the transfer of 47 staff positions to the reconstructed Yuma Cibola Unit.
- 400 medium custody beds at the Winslow prison were re-designated to close custody.
- 83 close custody beds at the Phoenix and Lewis prisons have been temporarily re-designated as maximum custody beds.
- 24 maximum custody beds were re-designated to close custody at the Perryville prison.

(Continued)

- ADC temporarily designated 80 special use beds at the Eyman Rynning Detention building as maximum custody rated beds. This designation is expected to be reversed once the 500 maximum custody beds, funded in the FY 2013 and FY 2014 budgets, are activated in FY 2015.

The net effect of these rated bed changes was a reduction of (130) minimum custody and (400) medium custody beds, which was largely offset by an increase of 341 close custody and 139 maximum custody beds.

According to the report, only 1 of the private prisons experienced an adjustment. At the Marana prison, 50 minimum security beds shifted from temporary to rated. The adjustment was the result of an amendment to the state's contract with Management and Training Corporation, which consolidated 450 rated beds and 50 emergency beds.

For adjustment detail by prison, see page 1-2 of the department's attachment.

Special Use Beds

In addition to rated and temporary beds, special use beds are used for investigative detention, disciplinary isolation, maximum behavior control, mental health observation, or medical inpatient care. *Table 2* provides a summary of the FY 2012 adjustments to special use beds for both state operated and private prisons. Due to their short term usage, these beds are not counted as part of ADC's operational capacity.

**Table 2**
**FY 2012 Special Use Bed Adjustments**

| | June 2011 | Change in Beds | June 2012 |
|---|---|---|---|
| State Prisons | 1,365 | (56) | 1,309 |
| Private Prisons | 248 | (2) | 246 |
| **Total - ADC System** | **1,613** | **(58)** | **1,555** |

Funded Beds

The department had 38,706 funded beds in FY 2012. The funded beds calculation has been JLBC Staff's approach to tracking bed surpluses and shortfalls. The calculation is the number of beds, rated or temporary, that have been funded by the Legislature. Funded beds increase as the Legislature funds newly constructed rated beds. Also, funded beds may increase when the Legislature accepts agency requests to fund temporary beds. Without legislative action, funded beds remain the same, regardless of changes the department may make to bed counts. ADC indicated in the report that it does not categorize or track funded beds.

Bed Surplus/Shortfall

*Table 3* illustrates 2 different ways to evaluate whether the department is experiencing a bed surplus or shortfall. When counting only rated beds, ADC has a shortfall of (2,768).

Additionally, *Table 3* provides details on the bed surplus or shortfall by inmate classification level. While there is an overall rated bed shortfall, there is actually a surplus of minimum and close beds. The shortfalls occur in medium beds (2,922) and maximum beds (199). The FY 2013 budget addressed this issue by adding 1,000 new private medium beds and 500 new public maximum beds.

(Continued)

The second method of evaluating bed status is to determine ADC's overall bed capacity, including both rated and temporary beds. After adjusting for 4,880 temporary beds in the overall ADC system, the (2,768) rated bed shortfall becomes a 2,112 total bed surplus. In terms of the individual bed types, there is only a shortfall in the medium category (61 beds).

**Table 3**

**End of Year Bed Surplus/Shortfall**

| | **Rated Beds** | **Operating Capacity** (rated + temporary beds) | **Total Beds** (operating capacity + special use beds) | **Inmate Population** | **Rated Beds** Surplus / (Shortfall) | **Operating Capacity** Surplus / (Shortfall) |
|---|---|---|---|---|---|---|
| **State Prisons** | | | | | | |
| Minimum | 11,577 | 12,795 | 13,026 | 11,202 | 375 | 1,593 |
| Medium | 11,235 | 13,708 | 14,308 | 13,760 | (2,525) | (52) |
| Close | 5,041 | 5,071 | 5,329 | 4,987 | 54 | 84 |
| Maximum | 3,356 | 3,877 | 4,097 | 3,555 | (199) | 322 |
| *Total - State Prisons* | *31,209* | *35,451* | *36,760* | *33,504* | *(2,295)* | *1,947* |
| **Private Prisons** | | | | | | |
| Minimum | 3,500 | 3,750 | 3,883 | 3,576 | (76) | 174 |
| Medium | 2,400 | 2,788 | 2,901 | 2,797 | (397) | (9) |
| *Total - Private Prisons* | *5,900* | *6,538* | *6,784* | *6,373* | *(473)* | *165* |
| **ADC System** | | | | | | |
| Minimum | 15,077 | 16,545 | 16,909 | 14,778 | 299 | 1,767 |
| Medium | 13,635 | 16,496 | 17,209 | 16,557 | (2,922) | (61) |
| Close | 5,041 | 5,071 | 5,329 | 4,987 | 54 | 84 |
| Maximum | 3,356 | 3,877 | 4,097 | 3,555 | (199) | 322 |
| **Total - ADC System** | **37,109** | **41,989** | **43,544** | **39,877** | **(2,768)** | **2,112** |

RS/BS:lm

# Arizona Department of Corrections

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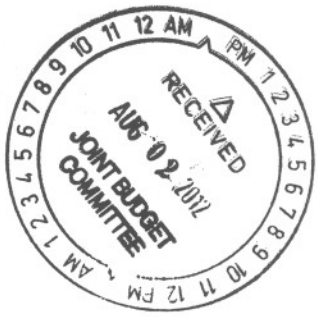
PHOENIX, ARIZONA 85007
(602) 542-5497
www.azcorrections.gov

JANICE K. BREWER
GOVERNOR

CHARLES L. RYAN
DIRECTOR




July 31, 2012

The Honorable Don Shooter, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Senator Shooter:

Enclosed you will find the Arizona Department of Corrections Bed Capacity Report which is being submitted pursuant to Laws 2012, Second Regular Session, Chapter 294 (SB 1523).

As required by statute the report reflects the bed capacity of each custody level at each state-run and private institution, divided by funded, rated and total beds. The reporting period is for June 30, 2011 to June 30, 2012 and includes an explanation for each change that occurred within this time period.

Within the ADC beds are defined, categorized, tracked and used in several different ways. For the purposes of this report and by policy the ADC defines beds as outlined below:

- Rated Beds (R): Rated beds are by physical design or as defined by law or court order, or as determined in relation to staffing level, food service, water and sewage capabilities, and a permanent part of a unit.
- Temporary Beds (T): Temporary beds are added to a unit in addition to rated beds assigned to that unit such as tents, or beds in day rooms. Temporary beds are not part of the physical design of a unit and can result in overcrowding, impact staff and inmate safety and create a strain on the physical plant such as water and sewage capabilities.
- Operating Capacity (R+T=OC): Operating capacity is the sum of rated beds and temporary beds only.
- Special Use Beds (SU): Special use beds are used for maximum behavior control, mental health observation or medical inpatient care, disciplinary isolation, and investigative detention. Special use beds are short-term and not part of the operating capacity.
- Funded Beds (F): Funded beds are being reported for FY 2011 (June 30, 2011) and FY 2012 (June 30, 2012) as published in the FY 2013 Appropriations Report published by JLBC. The ADC does not categorize and track funded beds.

During the course of FY 2012 the ADCs operating capacity (rated beds + temporary beds = operating capacity) was reduced by 962 beds from 42,951 on June 30, 2011 to 41,989 on June 30, 2012. The changes are summarized as follows:

| | Explanation of change | Min. | Med. | Close | Max. | Total |
|---|---|---|---|---|---|---|
| 1. | Temporary beds located in dayrooms, tents, and double bunks | -372 | -195 | | | -567 |
| 2. | Temporary beds closed due to the condition of the physical plant | -21 | -324 | | | -345 |
| 3. | Closure of rated ASPC-Douglas Maricopa Unit beds | -130 | | | | -130 |
| 4. | Temporary usage of detention unit as maximum custody | | | | 80 | 80 |
| 5. | Revision to custody level of existing beds | | -400 | 341 | 59 | 0 |
| | Total Change to Operating Capacity | -523 | -919 | 341 | 139 | -962 |

In addition to the FY 2012 change in operating capacity special use beds were reduced by 58 beds from 1,613 on June 30, 2011 to 1,555 on June 30, 2012.

| | |
|---|---|
| Temporary usage of detention unit to maximum custody beds | -80 |
| Creation of a secured ward at Tempe St. Luke's Hospital | 26 |
| Other minor changes to special use beds | -4 |
| Total Change to Special Use Beds | -58 |

1. Temporary beds located in dayrooms, tents, and double bunks

The slowing and eventual negative growth of the inmate population over the past two years has given ADC the opportunity to assess and review its bed capacity. This analysis resulted in 567 temporary beds (372 minimum custody beds and 195 medium custody beds) that were eliminated to enhance staff and inmate safety by reducing overcrowding within prison units. These beds were scattered throughout the prison system in dayrooms, tents, and double bunks.

2. Temporary beds closed due to the condition of the physical plant

The closure of these beds is a direct result of the condition of the physical plant in two units. ASPC-Safford Fort Grant closed 21 minimum custody beds due to instability of the roof, rendering the housing unit unsafe to house inmates. ASPC-Yuma Cheyenne Unit closed 324 medium custody beds due to roofing and structural issues in kitchen/dining, laundry, and programming space within the unit.

3. Closure of rated ASPC-Douglas Maricopa Unit beds

On March 27, 2012 the ADC appeared before JCCR for review of a plan that would modify the physical plant at ASPC-Yuma Cibola Unit. The modifications included a secure control room, upgrading the existing camera system, and installing security doors between inmate living areas.

In addition, the Cibola Unit required additional security staff for the reconstructed physical plant. Rather than request additional funding from the Legislature, ADC closed ASPC-Douglas Maricopa Unit (130 rated beds and 125 temporary beds) and transferred 47 positions to ASPC-Yuma Cibola. The rate of assaults and the reconstructed physical plant necessitated this change with the objective of increasing both staff and inmate safety.

4. Temporary usage of detention unit as maximum custody

Due to the shortage of maximum custody beds, the ASPC-Eyman Rynning Detention building was temporarily designated as maximum custody. While this temporary change in no way represents a sustainable solution it has provided critical beds for maximum custody inmates. This is a short-term stop gap measure that will be reversed once the 500 maximum custody beds scheduled for activation in FY 2015 can be constructed and activated.

5. Revision to custody level of existing beds

During FY 2012, there were four revisions to custody level of existing beds. Three of these revisions resulted in a net change of 59 close custody beds moving to maximum custody. The changes include the temporary re-designation of 35 close custody male beds at ASPC-Phoenix Flamenco Unit to maximum custody, the temporary re-designation of 48 close custody male beds at ASPC-Lewis Rast Unit to maximum custody, and the re-designation of 24 maximum custody female beds at ASPC-Perryville Lumley Unit to close custody.

As was explained above, the shortage of maximum custody beds required that ADC temporarily re-designate these beds to maximum custody. This stop gap measure provided critical bed space for inmates in need of protective segregation or other specialized bed need until the 500 maximum custody beds scheduled for activation in FY 2015 can be constructed and activated. The timely construction and activation of the new 500 maximum custody beds is imperative so these beds can be returned to their original and proper use.

The last change in custody level was to re-designate 400 beds from the ASPC-Winslow Kaibab Unit from medium custody to close custody. The original physical plant of the ASPC-Winslow Kaibab Unit is close custody and additional close custody beds were needed. As of June 30, 2012, ADC had only 13 vacant close custody male beds (4,729 close custody beds - 4,716 close custody inmates = 13 vacant close custody beds).

As always, if I can provide any additional information, please do not hesitate to contact me.

Sincerely,

Charles L. Ryan
Director

Enclosure

cc: The Honorable John Kavanagh, Vice-Chairman, JLBC
Scott Smith, Deputy Chief of Staff, Operations, Office of the Governor
John Arnold, Director, Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Stefan Shepherd, Deputy Director, Joint Legislative Budget Committee
Brandon Nee, Budget Manager, Office of Strategic Planning and Budgeting
Thomas Adkins, Policy Advisor, Public Safety, Office of the Governor
Jeff Hood, Deputy Director, Arizona Department of Corrections

# Arizona Department of Corrections

## Bed Capacity Report June 30, 2011 to June 30, 2012

## Section I

## Change from June 30, 2011 to June 30, 2012

Prepared By: Bureau of Planning, Budget, and Research
Date Prepared: July 16, 2012

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## ADC Summary - Change from June 30, 2011 to June 30, 2012

Pursuant to Laws 2012, Second Regular Session, Chapter 294 (SB 1523) the ADC is required to "provide a report on bed capacity to the joint legislative budget committee for its review by August 1 annually. The report shall reflect the bed capacity for each security classification at each state-run and private institution, divided by funded, rated and total beds, for June 30 of the previous fiscal year and June 30 of the current fiscal year, and the reasons for any change within that time period. Within the total bed count, the department shall provide the number of temporary and special use beds."

| | Change from June 30, 2011 to June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| **Complex** | **Funded** | **Rated** | **Temporary** | **Operating Capacity** | **Special Use** | **Total Beds** |
| ASPC - State Operated | | | | | | |
| Minimum | | (130) | (393) | (523) | 0 | (523) |
| Medium | | (400) | (519) | (919) | 0 | (919) |
| Close | | 341 | 0 | 341 | (2) | 339 |
| Maximum | | 139 | 0 | 139 | 0 | 139 |
| Other | | 0 | 0 | 0 | (54) | (54) |
| Total ASPC - State Operated | 0 | (50) | (912) | (962) | (56) | (1,018) |
| Private Prisons | | | | | | |
| Minimum | | 50 | (50) | 0 | (2) | (2) |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Private Prisons | 0 | 50 | (50) | 0 | (2) | (2) |
| ADC Summary | | | | | | |
| Minimum | | (80) | (443) | (523) | (2) | (525) |
| Medium | | (400) | (519) | (919) | 0 | (919) |
| Close | | 341 | 0 | 341 | (2) | 339 |
| Maximum | | 139 | 0 | 139 | 0 | 139 |
| Other | | 0 | 0 | 0 | (54) | (54) |
| Total ADC Summary | 0 | 0 | (962) | (962) | (58) | (1,020) |

Prepared By: Bureau of Planning, Budget, and Research
Date Prepared: July 16, 2012

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## State & Privately Operated Prisons - Detail of Bed Changes from June 30, 2011 to June 30, 2012

| Complex | Custody | Reason for Change | Change from June 30, 2011 to June 30, 2012 | | | | |
|---|---|---|---|---|---|---|---|
| | | | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
| ASPC - Douglas | | | | | | | |
| Gila Unit | Minimum | Closure of temporary upper bunks | 0 | (87) | (87) | 0 | (87) |
| Maricopa Unit | Minimum | Closure of temporary tent beds | 0 | (106) | (106) | 0 | (106) |
| Maricopa Unit | Minimum | Closure of temporary beds in dayrooms | 0 | (19) | (19) | 0 | (19) |
| Maricopa Unit | Minimum | Close unit to fund staffing need at ASPC Yuma - Cibola | (130) | 0 | (130) | 0 | (130) |
| Total ASPC - Douglas | | | (130) | (212) | (342) | 0 | (342) |
| ASPC - Eyman | | | | | | | |
| Rynning A46 | Maximum | Temporary designation of detention unit to maximum custody | 80 | 0 | 80 | 0 | 80 |
| SMU I MH Watch | Maximum | Move/convert upper bunks from Watch to PS | (8) | 0 | (8) | 0 | (8) |
| SMU PS | Maximum | Move/convert upper bunks from Watch to PS | 8 | 0 | 8 | 0 | 8 |
| Rynning Detention | Other | Temporary designation of detention unit to maximum custody | 0 | 0 | 0 | (80) | (80) |
| Total ASPC - Eyman | | | 80 | 0 | 80 | (80) | 0 |
| ASPC - Florence | | | | | | | |
| Globe Unit | Minimum | Closure of temporary beds in dayrooms | 0 | (32) | (32) | 0 | (32) |
| North Unit | Minimum | Closure of temporary beds in dayrooms | 0 | (20) | (20) | 0 | (20) |
| East Unit | Medium | Closure of temporary beds in dayrooms | 0 | (46) | (46) | 0 | (46) |
| Central Unit | Maximum | General population beds converted to mental health beds | (184) | 0 | (184) | 0 | (184) |
| Central Unit CB 1 MH | Maximum | General population beds converted to mental health beds | 120 | 0 | 120 | 0 | 120 |
| Kasson MH | Maximum | General population beds converted to mental health beds | 64 | 0 | 64 | 0 | 64 |
| Tempe St. Luke's | Other | Establish a secured ward at Tempe St. Luke's | 0 | 0 | 0 | 26 | 26 |
| Total ASPC - Florence | | | 0 | (98) | (98) | 26 | (72) |
| ASPC - Perryville | | | | | | | |
| Lumley Unit | Close | Conversion of maximum beds to close custody | 24 | 0 | 24 | (2) | 22 |
| Reception & Assessment | Maximum | Conversion of maximum beds to close custody | (24) | 0 | (24) | 0 | (24) |
| Total ASPC - Perryville | | | 0 | 0 | 0 | (2) | (2) |
| ASPC - Phoenix | | | | | | | |
| Flamenco - Male | Close | Temporary designation of detention unit to maximum custody | (35) | 0 | (35) | 0 | (35) |
| Flamenco King - Male | Maximum | Temporary designation of detention unit to maximum custody | 35 | 0 | 35 | 0 | 35 |
| Total ASPC - Phoenix | | | 0 | 0 | 0 | 0 | 0 |
| ASPC - Lewis | | | | | | | |
| Barchey PS | Medium | Yard split in two due to "do not house with" issues | 0 | (122) | (122) | 0 | (122) |
| Barchey PS 2 | Medium | Yard split in two due to "do not house with" issues | 0 | 122 | 122 | 0 | 122 |
| Rast | Close | Temporary designation of close beds to maximum custody | (48) | 0 | (48) | 0 | (48) |
| Rast - PS | Maximum | Temporary designation of close beds to maximum custody | 48 | 0 | 48 | 0 | 48 |
| Total ASPC - Lewis | | | 0 | 0 | 0 | 0 | 0 |
| ASPC - Safford | | | | | | | |
| Fort Grant | Minimum | Closure of temporary beds in dayrooms | 0 | (108) | (108) | 0 | (108) |
| Fort Grant | Minimum | Dorm determined to be unsafe due to roof instability | 0 | (21) | (21) | 0 | (21) |
| Tonto | Medium | Closure of temporary beds in dayrooms | 0 | (21) | (21) | 0 | (21) |
| Total ASPC - Safford | | | 0 | (150) | (150) | 0 | (150) |
| ASPC - Tucson | | | | | | | |
| Winchester | Medium | Closure of temporary beds in dayrooms | 0 | (128) | (128) | 0 | (128) |
| Rincon BHU | Close | Mental health beds converted to medical beds due to need | (16) | 0 | (16) | 0 | (16) |
| Rincon S.N.U. | Close | Mental health beds converted to medical beds due to need | 16 | 0 | 16 | 0 | 16 |
| Total ASPC - Tucson | | | 0 | (128) | (128) | 0 | (128) |
| ASPC - Winslow | | | | | | | |
| Kaibab | Medium | Conversion of medium beds to close custody | (400) | 0 | (400) | 0 | (400) |
| Kaibab | Close | Conversion of medium beds to close custody | 400 | 0 | 400 | 0 | 400 |
| Total ASPC - Winslow | | | 0 | 0 | 0 | 0 | 0 |
| ASPC - Yuma | | | | | | | |
| Cheyenne | Medium | Closure of beds due to state of the physical plant | 0 | (324) | (324) | 0 | (324) |
| Total ASPC - Yuma | | | 0 | (324) | (324) | 0 | (324) |

Prepared By: Bureau of Planning, Budget, and Research
Date Prepared: July 16, 2012

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## State & Privately Operated Prisons - Detail of Bed Changes from June 30, 2011 to June 30, 2012

| Complex | Custody | Reason for Change | Change from June 30, 2011 to June 30, 2012 | | | | |
|---|---|---|---|---|---|---|---|
| | | | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
| ASPC - State Operated | | | | | | | |
| Minimum | | | (130) | (393) | (523) | 0 | (523) |
| Medium | | | (400) | (519) | (919) | 0 | (919) |
| Close | | | 341 | 0 | 341 | (2) | 339 |
| Maximum | | | 139 | 0 | 139 | 0 | 139 |
| Other | | | 0 | 0 | 0 | (54) | (54) |
| Total ASPC - State Operated | | | (50) | (912) | (962) | (56) | (1,018) |
| Private Prisons | | | | | | | |
| Marana | Minimum | Required pursuant to amendment #14 | 50 | (50) | 0 | (2) | (2) |
| Total Private Prisons | | | 50 | (50) | 0 | (2) | (2) |
| All Bed Changes | | | | | | | |
| Minimum | | | (80) | (443) | (523) | (2) | (525) |
| Medium | | | (400) | (519) | (919) | 0 | (919) |
| Close | | | 341 | 0 | 341 | (2) | 339 |
| Maximum | | | 139 | 0 | 139 | 0 | 139 |
| Other | | | 0 | 0 | 0 | (54) | (54) |
| Total Bed Changes | | | 0 | (962) | (962) | (58) | (1,020) |

# Arizona Department of Corrections

## Bed Capacity Report June 30, 2011 to June 30, 2012

## Section II

## State Operated Prisons as of June 30, 2012

Prepared By: Bureau of Planning, Budget, and Research
Date Prepared: July 16, 2012

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## ADC Summary as of June 30, 2012

Pursuant to Laws 2012, Second Regular Session, Chapter 294 (SB 1523) the ADC is required to "provide a report on bed capacity to the joint legislative budget committee for its review by August 1 annually. The report shall reflect the bed capacity for each security classification at each state-run and private institution, divided by funded, rated and total beds, for June 30 of the previous fiscal year and June 30 of the current fiscal year, and the reasons for any change within that time period. Within the total bed count, the department shall provide the number of temporary and special use beds."

| | As of June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| Complex | Funded | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
| ASPC - State Operated | | | | | | |
| Minimum | | 11,577 | 1,218 | 12,795 | 6 | 12,801 |
| Medium | | 11,235 | 2,473 | 13,708 | 2 | 13,710 |
| Close | | 5,041 | 30 | 5,071 | 110 | 5,181 |
| Maximum | | 3,356 | 521 | 3,877 | 47 | 3,924 |
| Other | | 0 | 0 | 0 | 1,144 | 1,144 |
| Total ASPC - State Operated | 32,248 | 31,209 | 4,242 | 35,451 | 1,309 | 36,760 |
| Private Prisons | | | | | | |
| Minimum | | 3,500 | 250 | 3,750 | 133 | 3,883 |
| Medium | | 2,400 | 388 | 2,788 | 113 | 2,901 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Private Prisons | 6,458 | 5,900 | 638 | 6,538 | 246 | 6,784 |
| ADC Summary | | | | | | |
| Minimum | | 15,077 | 1,468 | 16,545 | 139 | 16,684 |
| Medium | | 13,635 | 2,861 | 16,496 | 115 | 16,611 |
| Close | | 5,041 | 30 | 5,071 | 110 | 5,181 |
| Maximum | | 3,356 | 521 | 3,877 | 47 | 3,924 |
| Other | | 0 | 0 | 0 | 1,144 | 1,144 |
| Total ADC Summary | 38,706 | 37,109 | 4,880 | 41,989 | 1,555 | 43,544 |

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## State Operated Prisons as of June 30, 2012

| Complex | As of June 30, 2012 Funded | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
|---|---|---|---|---|---|---|
| ASPC - Douglas | | | | | | |
| Minimum | | 1,122 | 293 | 1,415 | 0 | 1,415 |
| Medium | | 803 | 124 | 927 | 0 | 927 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 89 | 89 |
| Total ASPC - Douglas | 2,270 | 1,925 | 417 | 2,342 | 89 | 2,431 |
| ASPC - Eyman | | | | | | |
| Minimum | | 0 | 0 | 0 | 0 | 0 |
| Medium | | 1,992 | 795 | 2,787 | 0 | 2,787 |
| Close | | 400 | 0 | 400 | 0 | 400 |
| Maximum | | 1,712 | 312 | 2,024 | 8 | 2,032 |
| Other | | 0 | 0 | 0 | 176 | 176 |
| Total ASPC - Eyman | 4,210 | 4,104 | 1,107 | 5,211 | 184 | 5,395 |
| ASPC - Florence | | | | | | |
| Minimum | | 1,426 | 196 | 1,622 | 0 | 1,622 |
| Medium | | 1,144 | 501 | 1,645 | 0 | 1,645 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 1,074 | 0 | 1,074 | 23 | 1,097 |
| Other | | 0 | 0 | 0 | 99 | 99 |
| Total ASPC - Florence | 3,372 | 3,644 | 697 | 4,341 | 122 | 4,463 |
| ASPC - Perryville | | | | | | |
| Minimum | | 2,716 | 0 | 2,716 | 4 | 2,720 |
| Medium | | 960 | 0 | 960 | 2 | 962 |
| Close | | 322 | 0 | 322 | 3 | 325 |
| Maximum | | 204 | 72 | 276 | 0 | 276 |
| Other | | 0 | 0 | 0 | 49 | 49 |
| Total ASPC - Perryville | 4,510 | 4,202 | 72 | 4,274 | 58 | 4,332 |
| ASPC - Phoenix | | | | | | |
| Minimum | | 30 | 25 | 55 | 0 | 55 |
| Medium | | 150 | 0 | 150 | 0 | 150 |
| Close | | 90 | 0 | 90 | 9 | 99 |
| Maximum | | 282 | 137 | 419 | 0 | 419 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total ASPC - Phoenix | 822 | 552 | 162 | 714 | 9 | 723 |
| ASPC - Lewis | | | | | | |
| Minimum | | 1,000 | 152 | 1,152 | 0 | 1,152 |
| Medium | | 1,600 | 478 | 2,078 | 0 | 2,078 |
| Close | | 1,956 | 0 | 1,956 | 32 | 1,988 |
| Maximum | | 48 | 0 | 48 | 0 | 48 |
| Other | | 0 | 0 | 0 | 243 | 243 |
| Total ASPC - Lewis | 4,270 | 4,604 | 630 | 5,234 | 275 | 5,509 |

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## State Operated Prisons as of June 30, 2012

| Complex | As of June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Funded | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
| ASPC - Safford | | | | | | |
| Minimum | | 1,203 | 256 | 1,459 | 0 | 1,459 |
| Medium | | 250 | 60 | 310 | 0 | 310 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 55 | 55 |
| Total ASPC - Safford | 1,548 | 1,453 | 316 | 1,769 | 55 | 1,824 |
| ASPC - Tucson | | | | | | |
| Minimum | | 1,754 | 0 | 1,754 | 2 | 1,756 |
| Medium | | 1,886 | 515 | 2,401 | 0 | 2,401 |
| Close | | 1,073 | 30 | 1,103 | 50 | 1,153 |
| Maximum | | 36 | 0 | 36 | 16 | 52 |
| Other | | 0 | 0 | 0 | 223 | 223 |
| Total ASPC - Tucson | 4,890 | 4,749 | 545 | 5,294 | 291 | 5,585 |
| ASPC - Winslow | | | | | | |
| Minimum | | 826 | 216 | 1,042 | 0 | 1,042 |
| Medium | | 400 | 0 | 400 | 0 | 400 |
| Close | | 400 | 0 | 400 | 0 | 400 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 51 | 51 |
| Total ASPC - Winslow | 1,666 | 1,626 | 216 | 1,842 | 51 | 1,893 |
| ASPC - Yuma | | | | | | |
| Minimum | | 1,500 | 80 | 1,580 | 0 | 1,580 |
| Medium | | 2,050 | 0 | 2,050 | 0 | 2,050 |
| Close | | 800 | 0 | 800 | 16 | 816 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 159 | 159 |
| Total ASPC - Yuma | 4,690 | 4,350 | 80 | 4,430 | 175 | 4,605 |
| ASPC - State Operated | | | | | | |
| Minimum | | 11,577 | 1,218 | 12,795 | 6 | 12,801 |
| Medium | | 11,235 | 2,473 | 13,708 | 2 | 13,710 |
| Close | | 5,041 | 30 | 5,071 | 110 | 5,181 |
| Maximum | | 3,356 | 521 | 3,877 | 47 | 3,924 |
| Other | | 0 | 0 | 0 | 1,144 | 1,144 |
| Total ASPC - State Operated | 32,248 | 31,209 | 4,242 | 35,451 | 1,309 | 36,760 |

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## Private Prisons as of June 30, 2012

| Complex | As of June 30, 2012 Funded | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
|---|---|---|---|---|---|---|
| CACF | | | | | | |
| Minimum | | 0 | 0 | 0 | 0 | 0 |
| Medium | | 1,000 | 280 | 1,280 | 40 | 1,320 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total CACF | 1,200 | 1,000 | 280 | 1,280 | 40 | 1,320 |
| Phoenix West | | | | | | |
| Minimum | | 400 | 100 | 500 | 20 | 520 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Phoenix West | 500 | 400 | 100 | 500 | 20 | 520 |
| Florence West - RTC | | | | | | |
| Minimum | | 200 | 50 | 250 | 8 | 258 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Florence West - RTC | 250 | 200 | 50 | 250 | 8 | 258 |
| Florence West - DWI | | | | | | |
| Minimum | | 400 | 100 | 500 | 17 | 517 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Florence West - DWI | 500 | 400 | 100 | 500 | 17 | 517 |
| Kingman - Hualapai | | | | | | |
| Minimum | | 0 | 0 | 0 | 0 | 0 |
| Medium | | 1,400 | 108 | 1,508 | 73 | 1,581 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Kingman - Hualapai | 1,508 | 1,400 | 108 | 1,508 | 73 | 1,581 |
| Kingman - Cerbat | | | | | | |
| Minimum | | 2,000 | 0 | 2,000 | 80 | 2,080 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Kingman - Cerbat | 2,000 | 2,000 | 0 | 2,000 | 80 | 2,080 |
| Marana | | | | | | |
| Minimum | | 500 | 0 | 500 | 8 | 508 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Marana | 500 | 500 | 0 | 500 | 8 | 508 |

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## Private Prisons as of June 30, 2012

| Complex | As of June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Funded | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
| Private Prisons | | | | | | |
| Minimum | | 3,500 | 250 | 3,750 | 133 | 3,883 |
| Medium | | 2,400 | 388 | 2,788 | 113 | 2,901 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Private Prisons | 6,458 | 5,900 | 638 | 6,538 | 246 | 6,784 |

# Arizona Department of Corrections

## Bed Capacity Report June 30, 2011 to June 30, 2012

## Section III

## State Operated Prisons as of June 30, 2011

Prepared By: Bureau of Planning, Budget, and Research
Date Prepared: July 16, 2012

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## ADC Summary as of June 30, 2011

Pursuant to Laws 2012, Second Regular Session, Chapter 294 (SB 1523) the ADC is required to "provide a report on bed capacity to the joint legislative budget committee for its review by August 1 annually. The report shall reflect the bed capacity for each security classification at each state-run and private institution, divided by funded, rated and total beds, for June 30 of the previous fiscal year and June 30 of the current fiscal year, and the reasons for any change within that time period. Within the total bed count, the department shall provide the number of temporary and special use beds."

| | As of June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| **Complex** | **Funded** | **Rated** | **Temporary** | **Operating Capacity** | **Special Use** | **Total Beds** |
| ASPC - State Operated | | | | | | |
| Minimum | | 11,707 | 1,611 | 13,318 | 6 | 13,324 |
| Medium | | 11,635 | 2,992 | 14,627 | 2 | 14,629 |
| Close | | 4,700 | 30 | 4,730 | 112 | 4,842 |
| Maximum | | 3,217 | 521 | 3,738 | 47 | 3,785 |
| Other | | 0 | 0 | 0 | 1,198 | 1,198 |
| Total ASPC - State Operated | 32,248 | 31,259 | 5,154 | 36,413 | 1,365 | 37,778 |
| Private Prisons | | | | | | |
| Minimum | | 3,450 | 300 | 3,750 | 135 | 3,885 |
| Medium | | 2,400 | 388 | 2,788 | 113 | 2,901 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Private Prisons | 6,458 | 5,850 | 688 | 6,538 | 248 | 6,786 |
| ADC Summary | | | | | | |
| Minimum | | 15,157 | 1,911 | 17,068 | 141 | 17,209 |
| Medium | | 14,035 | 3,380 | 17,415 | 115 | 17,530 |
| Close | | 4,700 | 30 | 4,730 | 112 | 4,842 |
| Maximum | | 3,217 | 521 | 3,738 | 47 | 3,785 |
| Other | | 0 | 0 | 0 | 1,198 | 1,198 |
| Total ADC Summary | 38,706 | 37,109 | 5,842 | 42,951 | 1,613 | 44,564 |

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## State Operated Prisons as of June 30, 2011

| Complex | As of June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Funded | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
| ASPC - Douglas | | | | | | |
| Minimum | | 1,252 | 505 | 1,757 | 0 | 1,757 |
| Medium | | 803 | 124 | 927 | 0 | 927 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 89 | 89 |
| Total ASPC - Douglas | 2,270 | 2,055 | 629 | 2,684 | 89 | 2,773 |
| ASPC - Eyman | | | | | | |
| Minimum | | 0 | 0 | 0 | 0 | 0 |
| Medium | | 1,992 | 795 | 2,787 | 0 | 2,787 |
| Close | | 400 | 0 | 400 | 0 | 400 |
| Maximum | | 1,632 | 312 | 1,944 | 8 | 1,952 |
| Other | | 0 | | 0 | 256 | 256 |
| Total ASPC - Eyman | 4,210 | 4,024 | 1,107 | 5,131 | 264 | 5,395 |
| ASPC - Florence | | | | | | |
| Minimum | | 1,426 | 248 | 1,674 | 0 | 1,674 |
| Medium | | 1,144 | 547 | 1,691 | 0 | 1,691 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 1,074 | 0 | 1,074 | 23 | 1,097 |
| Other | | 0 | 0 | 0 | 73 | 73 |
| Total ASPC - Florence | 3,372 | 3,644 | 795 | 4,439 | 96 | 4,535 |
| ASPC - Perryville | | | | | | |
| Minimum | | 2,716 | 0 | 2,716 | 4 | 2,720 |
| Medium | | 960 | 0 | 960 | 2 | 962 |
| Close | | 298 | 0 | 298 | 5 | 303 |
| Maximum | | 228 | 72 | 300 | 0 | 300 |
| Other | | 0 | 0 | 0 | 49 | 49 |
| Total ASPC - Perryville | 4,510 | 4,202 | 72 | 4,274 | 60 | 4,334 |
| ASPC - Phoenix | | | | | | |
| Minimum | | 30 | 25 | 55 | 0 | 55 |
| Medium | | 150 | 0 | 150 | 0 | 150 |
| Close | | 125 | 0 | 125 | 9 | 134 |
| Maximum | | 247 | 137 | 384 | 0 | 384 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total ASPC - Phoenix | 822 | 552 | 162 | 714 | 9 | 723 |
| ASPC - Lewis | | | | | | |
| Minimum | | 1,000 | 152 | 1,152 | 0 | 1,152 |
| Medium | | 1,600 | 478 | 2,078 | 0 | 2,078 |
| Close | | 2,004 | 0 | 2,004 | 32 | 2,036 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 243 | 243 |
| Total ASPC - Lewis | 4,270 | 4,604 | 630 | 5,234 | 275 | 5,509 |
| ASPC - Safford | | | | | | |
| Minimum | | 1,203 | 385 | 1,588 | 0 | 1,588 |
| Medium | | 250 | 81 | 331 | 0 | 331 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 55 | 55 |
| Total ASPC - Safford | 1,548 | 1,453 | 466 | 1,919 | 55 | 1,974 |

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## State Operated Prisons as of June 30, 2011

| Complex | As of June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Funded | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
| ASPC - Tucson | | | | | | |
| Minimum | | 1,754 | 0 | 1,754 | 2 | 1,756 |
| Medium | | 1,886 | 643 | 2,529 | 0 | 2,529 |
| Close | | 1,073 | 30 | 1,103 | 50 | 1,153 |
| Maximum | | 36 | 0 | 36 | 16 | 52 |
| Other | | 0 | 0 | 0 | 223 | 223 |
| Total ASPC - Tucson | 4,890 | 4,749 | 673 | 5,422 | 291 | 5,713 |
| ASPC - Winslow | | | | | | |
| Minimum | | 826 | 216 | 1,042 | 0 | 1,042 |
| Medium | | 800 | 0 | 800 | 0 | 800 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 51 | 51 |
| Total ASPC - Winslow | 1,666 | 1,626 | 216 | 1,842 | 51 | 1,893 |
| ASPC - Yuma | | | | | | |
| Minimum | | 1,500 | 80 | 1,580 | 0 | 1,580 |
| Medium | | 2,050 | 324 | 2,374 | 0 | 2,374 |
| Close | | 800 | 0 | 800 | 16 | 816 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 159 | 159 |
| Total ASPC - Yuma | 4,690 | 4,350 | 404 | 4,754 | 175 | 4,929 |
| ASPC - State Operated | | | | | | |
| Minimum | | 11,707 | 1,611 | 13,318 | 6 | 13,324 |
| Medium | | 11,635 | 2,992 | 14,627 | 2 | 14,629 |
| Close | | 4,700 | 30 | 4,730 | 112 | 4,842 |
| Maximum | | 3,217 | 521 | 3,738 | 47 | 3,785 |
| Other | | 0 | 0 | 0 | 1,198 | 1,198 |
| Total ASPC - State Operated | 32,248 | 31,259 | 5,154 | 36,413 | 1,365 | 37,778 |

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012
**Private Prisons as of June 30, 2011**

| Complex | As of June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Funded | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
| CACF | | | | | | |
| Minimum | | 0 | 0 | 0 | 0 | 0 |
| Medium | | 1,000 | 280 | 1,280 | 40 | 1,320 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total CACF | 1,200 | 1,000 | 280 | 1,280 | 40 | 1,320 |
| Phoenix West | | | | | | |
| Minimum | | 400 | 100 | 500 | 20 | 520 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Phoenix West | 500 | 400 | 100 | 500 | 20 | 520 |
| Florence West - RTC | | | | | | |
| Minimum | | 200 | 50 | 250 | 8 | 258 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Florence West - RTC | 250 | 200 | 50 | 250 | 8 | 258 |
| Florence West - DWI | | | | | | |
| Minimum | | 400 | 100 | 500 | 17 | 517 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Florence West - DWI | 500 | 400 | 100 | 500 | 17 | 517 |
| Kingman - Hualapai | | | | | | |
| Minimum | | 0 | 0 | 0 | 0 | 0 |
| Medium | | 1,400 | 108 | 1,508 | 73 | 1,581 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Kingman - Hualapai | 1,508 | 1,400 | 108 | 1,508 | 73 | 1,581 |
| Kingman - Cerbat | | | | | | |
| Minimum | | 2,000 | 0 | 2,000 | 80 | 2,080 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Kingman - Cerbat | 2,000 | 2,000 | 0 | 2,000 | 80 | 2,080 |
| Marana | | | | | | |
| Minimum | | 450 | 50 | 500 | 10 | 510 |
| Medium | | 0 | 0 | 0 | 0 | 0 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Marana | 500 | 450 | 50 | 500 | 10 | 510 |

Arizona Department of Corrections
Bed Capacity Report June 30, 2011 to June 30, 2012

## Private Prisons as of June 30, 2011

| Complex | As of June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Funded | Rated | Temporary | Operating Capacity | Special Use | Total Beds |
| Private Prisons | | | | | | |
| Minimum | | 3,450 | 300 | 3,750 | 135 | 3,885 |
| Medium | | 2,400 | 388 | 2,788 | 113 | 2,901 |
| Close | | 0 | 0 | 0 | 0 | 0 |
| Maximum | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Total Private Prisons | 6,458 | 5,850 | 688 | 6,538 | 248 | 6,786 |

STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

DON SHOOTER
CHAIRMAN 2012
ANDY BIGGS
OLIVIA CAJERO BEDFORD
RICH CRANDALL
LORI KLEIN
LINDA LOPEZ
RICK MURPHY
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1716 WEST ADAMS
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HOUSE OF REPRESENTATIVES

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ANNA TOVAR

DATE: September 27, 2012

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Assistant Director

SUBJECT: Arizona Board of Regents - Review of FY 2013 Tuition Revenues

**Request**

The Arizona Board of Regents (ABOR) requests Committee review of its expenditure plan for tuition revenue amounts greater than the amounts appropriated by the Legislature, and all non-appropriated tuition and fee revenue expenditures for the current fiscal year. This review is required by the FY 2013 General Appropriation Act.

**Recommendation**

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Total FY 2013 tuition and fee collections are projected to be $1.59 billion, or $99.3 million higher than FY 2012. These collections are divided into appropriated and non-appropriated funds.

Appropriated FY 2013 tuition collections are estimated to be $949.9 million. This amount is $14.8 million above the original FY 2013 budget and $39.8 million above FY 2012. Northern Arizona University (NAU) and the University of Arizona (UA) plan on using almost half of the additional $14.8 million funding for enrollment growth. Almost all of the remaining additional monies will be spent on investing in science, technology, engineering, and math (STEM) areas by UA, as well as pay raises at NAU (and pay raises at Arizona State University to a lesser extent). UA has not yet responded to our inquiries regarding pay raises.

Non-appropriated locally retained tuition and fees for FY 2013 are estimated at $636.7 million, $59.6 million higher than FY 2012. Of the $636.7 million amount, about $401.9 million will be spent on financial aid, $86.0 million on debt service, $126.8 million on operating budgets, and $22.0 million on

(Continued)

plant funds. Statute allows the universities to retain a portion of tuition collections for expenditures, as approved by ABOR. These "locally" retained tuition monies are considered non-appropriated. Any remaining tuition collections are then submitted as part of each university's operating budget request and are available for appropriation by the Legislature.

## Analysis

Appropriated Tuition

*Attachment 1* shows ABOR changes to resident and non-resident undergraduate tuition from FY 2012 to FY 2013. Prior to April 2011, ABOR policy was to set undergraduate resident tuition at the top of the bottom one-third of all senior public universities. Their current policy is to set tuition and fees based on certain factors, such as the cost of university attendance, tuition costs at peer universities, debt service payments, and Arizona's median family income levels.

*Table 1* displays FY 2012 and FY 2013 General Fund and tuition/fee monies for the Arizona University System. The FY 2013 budget includes $935.1 million in appropriated tuition monies, which reflects tuition growth from new students but not tuition rate increases. The higher tuition rates generated $14.8 million more in appropriated monies than was budgeted, for a total of $949.9 million. The universities have set aside $636.7 million of the $1.59 billion for non-appropriated purposes.

In total, General Fund and tuition/fee resources will increase by $100.4 million from $2,156.3 million in FY 2012 to $2,256.7 million in FY 2013 after the tuition/fee increase.

**Table 1**

**Arizona University System**
**FY 2012 and FY 2013 General Fund and Tuition/Fee Revenues**
**(in Millions)**

| | FY 2012 | FY 2013 Before Tuition Increase | FY 2013 After Tuition Increase |
|---|---|---|---|
| Appropriations | | | |
| General Fund | $ 669.1[1/] | $ 670.1 | $ 670.1 |
| Tuition/Fees | 910.0 | 935.1 | 949.9 |
| **Subtotal** | **$1,579.2** | **$1,605.2** | **$1,620.0** |
| Non-Appropriated | | | |
| Tuition/Fees | $ 577.1 | $ 594.3 | $ 636.7 |
| **TOTAL** | **$2,156.3** | **$2,199.5** | **$2,256.7** |

1/ Excludes costs associated with an additional pay period.

*Tables 2 and 3* present FY 2013 appropriated and non-appropriated estimates of ABOR's tuition and fee revenues, and resulting additional revenues by campus. *Table 2* shows that of the $14.8 million in additional appropriated tuition, Arizona State University (ASU) Tempe is $(15.3) million, ASU East $(2.3) million, ASU West $9.1 million, NAU $7.7 million, UA Main $13.5 million, and UA Health Sciences Center $2.1 million. The decrease in appropriation tuition revenues for ASU Tempe and ASU East is largely due to the movement of online payments from state funds to locally retained tuition collections and is due to a lesser extent to the movement of debt service and financial aid expenditures from state funds to locally retained tuition collections. *Table 3* shows that of the $59.6 million in additional non-appropriated tuition and fees, ASU received $38.3 million, NAU $6.3 million, and UA $15.0 million. *Table 4* provides some information on the uses of additional appropriated tuition revenues by university. ABOR has provided further detail in *Attachment 1*.

(Continued)

**Table 2**

**Arizona University System**
**FY 2013 Appropriated Tuition/Fee Revenues by Campus**

| Campus | FY 2013 Appropriation | Additional Tuition | FY 2013 After Tuition Increase |
|---|---|---|---|
| ASU-Tempe/DPC | $468,010,300 | $(15,325,300) | $452,685,000 |
| ASU-East | 37,924,800 | (2,333,900) | 35,590,900 |
| ASU-West | 31,330,800 | 9,059,400 | 40,390,200 |
| NAU | 99,660,700 | 7,748,400 | 107,409,100 |
| UofA-Main | 256,404,000 | 13,514,000 | 269,918,000 |
| UofA-Health Sciences Center | 41,786,200 | 2,134,200 | 43,920,400 |
| **Total** | **$935,116,800** | **$14,796,800** | **$949,913,600** |

**Table 3**

**Arizona University System**
**FY 2012 & FY 2013 Non-Appropriated Tuition/Fee Revenues by Campus**

| Campus | FY 2012 Non-Appropriated | Additional Tuition | FY 2013 After Tuition Increase |
|---|---|---|---|
| ASU-Tempe/DPC | $255,630,000 | $29,972,900 | $285,602,900 |
| ASU-East | 13,365,500 | 9,340,900 | 22,706,400 |
| ASU-West | 24,236,500 | (1,147,400) | 23,089,100 |
| NAU | 73,758,900 | 6,348,700 | 80,107,600 |
| UofA-Main | 207,231,700 | 13,353,700 | 220,585,400 |
| UofA-Health Sciences Center | 2,904,400 | 1,686,500 | 4,590,900 |
| **Total** | **$577,127,000** | **$59,555,300** | **$636,682,300** |

**Table 4**

**Arizona University System**
**Use of Additional Appropriated Tuition/Fee Revenues by Campus**

| | | $ in Millions |
|---|---|---|
| ASU | Movement of online payments from state funds to locally retained tuition collections | $(8.5) |
| NAU | Faculty Enterprise Investment | $ 3.5 |
| | Undergraduate Enrollment Growth & Course Support | 1.7 |
| | Health Care Program Continuation/Expansion | 1.5 |
| | Utility Cost Increases | 0.6 |
| | Employee Related Expenditures | 0.4 |
| | **Subtotal** | **$ 7.7** |
| UA | Investment in STEM Areas | $ 4.4 |
| | Enrollment Growth & General Education Support | 4.3 |
| | College of Medicine in Tucson & Phoenix | 2.5 |
| | Support to Colleges from Differential Tuition Revenue | 2.0 |
| | Backfill State Appropriation Reduction | 1.7 |
| | Unfunded ASRS Actuarial Requirement | 0.7 |
| | **Subtotal** | **$15.6** |
| | **TOTAL** | **$14.8** |

RS/LMc:ac
Attachment

Attachment 1

**Arizona University System**
**FY 2012 to FY 2013 Undergraduate Tuition and Fees Changes** [1/]

| | Resident [2/] | | | | Non-Resident [2/] | | | |
|---|---|---|---|---|---|---|---|---|
| | **FY 2012** | **FY 2013** | **$ Change** | **% Change** | **FY 2012** | **FY 2013** | **$ Change** | **% Change** |
| ASU | $8,736 to $9,716 | $8,740 to $9,720 | $4 | 0.0004% | $22,315 | $22,973 | $658 | 2.9% |
| ASU-Distance Ed. | N/A | $6,490 | N/A | N/A | N/A | $9,490 | N/A | N/A |
| NAU | $5,960 to $8,824 | $6,909 to $9,271 | $447 to $949 | 5.1% to 15.9% | $17,058 to $21,179 | $18,136 to $21,626 | $447 to $1,078 | 2.1% to 6.3% |
| NAU-Distance Ed. | $4,803 to $6,317 | $4,948 to $6,508 | $145 to $191 | 3.0% | $14,283 to $17,650 | $14,715 to $18,190 | $432 to $540 | 3.0% |
| UofA-Main/HSC | $10,035 | $10,035 | $0 | 0% | $25,494 | $26,231 | $737 | 2.9% |
| UofA-South | $7,941 | $7,941 | $0 | 0% | $25,071 | $25,808 | $737 | 2.9% |

1/ The amounts represent combined full-time tuition for fall and spring semesters, as well as mandatory fees. Undergraduates must take at least 12 credit hours to qualify for full-time status. Mandatory fees include AFAT and student recreation charges, but do not include special class or program fees.

2/ NAU provides a guaranteed tuition rate for each incoming class. ASU previously had a tuition commitment rate for each incoming class, however, both ASU and UA currently do not have tuition guarantees.

Arizona Board of Regents
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*Arizona State University* *Northern Arizona University* *University of Arizona*


June 27, 2012

The Honorable Don Shooter, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Shooter:

A footnote included in the General Appropriations Act requires that the Arizona Board of Regents report to the Joint Legislative Budget Committee of any tuition revenue amounts which are different from the amounts appropriated by the legislature, and all tuition and fee revenues retained locally by the universities.

Enclosed for your information is a summary report of tuition revenues that support the FY 2013 state operating budget as reported to the Board at its June 2012 meeting. The increase of $89.4 million in new tuition and fees revenues can be attributed to a combination of increased student enrollments from the estimates made last fall during the budget process, and tuition and fee rate increases approved by the Board of Regents in April 2012.

The current tuition and fee revenue estimate presented in this report is $1.586 billion. These revenues are allocated between state appropriated funds and the universities' local funds as shown on the attached schedules.

If you have any questions, please do not hesitate to call me at 229-2505.

Sincerely,

Thomas Anderes, PhD
President

xc: Richard Stavneak, Director, JLBC
John Arnold, Director, OSPB

# ARIZONA UNIVERSITY SYSTEM
# TUITION AND FEES IN SUPPORT OF THE
# 2012-13 STATE OPERATING BUDGET

| | STATE COLLECTIONS | | |
|---|---|---|---|
| | AS REPORTED IN THE 2012-13 ANNUAL OPERATING BUDGET REPORT | 2012-13 APPROPRIATIONS REPORT | CHANGE |
| Arizona State University Tempe | 452,685,000 | 468,010,300 | (15,325,300) |
| Arizona State University Polytechnic | 35,590,900 | 37,924,800 | (2,333,900) |
| Arizona State University West | 40,390,200 | 31,330,800 | 9,059,400 |
| TOTAL ASU | 528,666,100 | 537,265,900 | (8,599,800) |
| Northern Arizona University | 107,409,100 | 99,660,700 | 7,748,400 |
| University of Arizona | 269,918,000 | 256,404,000 | 13,514,000 |
| University of Arizona Health Sciences Center | 43,920,400 | 41,786,200 | 2,134,200 |
| TOTAL UA | 313,838,400 | 298,190,200 | 15,648,200 |
| TOTAL | 949,913,600 | 935,116,800 | 14,796,800 |

| | |
|---|---|
| Total State Collections | 949,913,600 |
| Total Locally Retained Collections | 636,682,200 |
| **Total Estimated Tuition Revenue** | **1,586,595,800** |

ARIZONA STATE UNIVERSITY
FY13 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

| | STATE COLLECTIONS | LOCAL COLLECTIONS |
|---|---|---|
| **Base Collections As Reported in the Annual Operating Budget Report** | 528,666,100 | 331,398,300 |
| **Collections As Reported in the FY13 Appropriations Report** | 537,265,900 | |
| **Base Collections Increase/(Decrease) from FY13 Appropriations Report** | **(8,599,800)** | **331,398,300** |
| **Amount Reportable (1)** | **0** | |
| **ALLOCATIONS BY PROGRAM** | | |
| Instruction | | |
| ASU Online Partnership/Management Payments | | 28,889,700 |
| ASU Online Program Allocation for Direct Expenses | | 10,619,500 |
| Local Support for Academic/Administrative Units | | 11,537,200 |
| Overseas Study Abroad Program Costs | | 1,525,600 |
| Local Account Operating Support | | 3,993,700 |
| Organized Research | | |
| n/a | | |
| Public Service | | |
| Local Account Operating Support | | 346,800 |
| Academic Support | | |
| Local Account Operating Support | | 376,100 |
| Student Services | | |
| Local Account Operating Support | | 3,487,400 |
| Institutional Support | | |
| Local Account Operating Support | | 524,400 |
| Scholarships/Fellowships/Financial Aid | | |
| Financial Aid | | 205,328,100 |
| Auxiliary Enterprises | | |
| Auxiliary Operating Support | | 4,411,200 |
| Debt Service | | |
| Debt Service Payments | | 45,358,600 |
| Plant Funds | | |
| Minor Capital Projects | | 15,000,000 |
| | **0** | **331,398,300** |

NOTE:
(1) Amount not reportable. Annual Operating Budget base Collections amount is less than the appropriated amount.

2012-13

LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - TEMPE/DOWNTOWN CAMPUS

| | | BUDGET 2011-12 | INCREASE/ (DECREASE) | BUDGET 2012-13 |
|---|---|---|---|---|
| DESIGNATED | American English and Cultural Program - ITA | 87,500 | 0 | 87,500 |
| | Associated Students - ASASU | 859,100 | 0 | 859,100 |
| | Child & Family Services | 62,700 | 0 | 62,700 |
| | Constituent Advocacy | 124,500 | 0 | 124,500 |
| | Distance Learning Technology | 970,200 | 0 | 970,200 |
| | Environmental Health & Safety | 182,200 | 0 | 182,200 |
| | Federal Direct Loan Administration | 144,000 | 0 | 144,000 |
| | Fine Arts Activities | 307,900 | 0 | 307,900 |
| | Fine Arts Theatres | 605,900 | 0 | 605,900 |
| | Forensics | 106,100 | 0 | 106,100 |
| | Graduate Support Program | 371,800 | 0 | 371,800 |
| | Interpreters Theatre | 35,700 | 0 | 35,700 |
| | KASR Radio | 22,000 | 0 | 22,000 |
| | Library Support | 312,000 | 0 | 312,000 |
| | Local Support for Academic/Administrative Units | 10,025,200 | 2,288,800 | 12,314,000 |
| | Mona Plummer Aquatic Center | 141,900 | 0 | 141,900 |
| | Online Partnership/Management Payments | 7,200,100 | 11,606,200 | 18,806,300 |
| | Online Program Allocation for Direct Expenses | | 8,814,400 | 8,814,400 |
| | Overseas Study Abroad Program | 0 | 1,525,600 | 1,525,600 |
| | Special Events | 176,800 | 0 | 176,800 |
| | Student Affairs Initiatives | 228,800 | 0 | 228,800 |
| | Student Financial Assistance Administration | 351,000 | 0 | 351,000 |
| | Summer Bridge Program | 335,200 | 0 | 335,200 |
| | Teaching Assistant Tuition Benefit | 14,293,700 | 467,200 | 14,760,900 |
| | University Minority Culture Program | 113,800 | 0 | 113,800 |
| | University Recycling Program | 83,000 | 0 | 83,000 |
| | Employee Benefit Adjustments/Contingencies | 166,000 | 0 | 166,000 |
| | | | 0 | |
| | Subtotal Designated | 37,307,100 | 24,702,200 | 62,009,300 |
| AUXILIARY | ASU Public Events | 0 | | 0 |
| | Intercollegiate Athletics | 1,975,300 | | 1,975,300 |
| | Memorial Union | 1,129,200 | | 1,129,200 |
| | Recreational Sports | 827,100 | | 827,100 |
| | Student Media | 0 | | 0 |
| | Subtotal Auxiliary | 3,931,600 | 0 | 3,931,600 |
| | Total Operating Funds | 41,238,700 | 24,702,200 | 65,940,900 |
| FIN AID | Regents Financial Aid Set-Aside | 74,092,800 | 3,744,100 | 77,836,900 |
| | Other F.A.- Institutional FA | 71,212,600 | 947,100 | 72,159,700 |
| | Other Financial Aid - CRESMET/CONACY/NEEP | 308,200 | 0 | 308,200 |
| | CONACYT Fellowship Program | 122,500 | 0 | 122,500 |
| | Other F.A.- Graduate Scholars Program | 507,600 | 0 | 507,600 |
| | Other F.A - School of Engineering Program | 860,000 | 400,000 | 1,260,000 |
| | Graduate Fellowship Program | 1,522,700 | 0 | 1,522,700 |
| | Law Scholarhips | 1,500,000 | (1,500,000) | 0 |
| | Student Technology Fee FA Set-Aside | 1,276,200 | 86,200 | 1,362,400 |
| | College of Business FA Set-Aside | 729,300 | (66,700) | 662,600 |
| | Walter Cronkite School of Journalism FA Set-Aside | 77,000 | 37,800 | 114,800 |
| | School of Engineering FA Set-Aside | 736,500 | 25,300 | 761,800 |
| | College of Law FA Set-Aside | 1,406,700 | 92,700 | 1,499,400 |
| | College of Liberal Arts FA Set-Aside | 1,988,000 | (828,400) | 1,159,600 |
| | College of Nursing FA Set-Aside | 765,000 | 116,500 | 881,500 |
| | University College FA Set-Aside | 104,600 | 39,100 | 143,700 |
| | Subtotal Financial Aid | 157,209,700 | 3,093,700 | 160,303,400 |
| | Plant Fund - Minor Capital Projects | 17,506,000 | 0 | 17,506,000 |
| | Debt Service | 39,675,600 | 2,177,000 | 41,852,600 |
| TOTAL LOCAL RETENTION | | 255,630,000 | 29,972,900 | 285,602,900 |

2012-13

LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - POLYTECHNIC CAMPUS

| | | BUDGET 2011-12 | INCREASE/ (DECREASE) | BUDGET 2012-13 |
|---|---|---|---|---|
| DESIGNATED | AECP - International Teaching Assistants | 8,000 | 0 | 8,000 |
| | Associated Students - ASU | 78,200 | 0 | 78,200 |
| | Career Services | 48,900 | 0 | 48,900 |
| | Child & Family Services | 5,700 | 0 | 5,700 |
| | Constituent Advocacy | 11,000 | 0 | 11,000 |
| | Dining Services Management | 38,000 | 0 | 38,000 |
| | Distance Learning Technology | 88,300 | 0 | 88,300 |
| | Environmental Health & Safety | 16,100 | 0 | 16,100 |
| | Federal Direct Loan Administration | 13,100 | 0 | 13,100 |
| | Graduate Support Program | 16,200 | 0 | 16,200 |
| | Intercampus Shuttle Services | 36,000 | 0 | 36,000 |
| | Learning Communities | 6,500 | 0 | 6,500 |
| | Library Support | 28,400 | 0 | 28,400 |
| | Online Partnership/Management Payments | 1,080,700 | 5,870,200 | 6,950,900 |
| | Online Program Allocation for Direct Expenses | | 179,400 | 179,400 |
| | Student Affairs Initiatives | 20,800 | 0 | 20,800 |
| | Student Counseling | 5,000 | 0 | 5,000 |
| | Student Financial Assistance Administration | 31,900 | 0 | 31,900 |
| | Student Health Services | 225,000 | 0 | 225,000 |
| | Student Organizations | 21,000 | 0 | 21,000 |
| | Student Orientation and Forums | 10,600 | 0 | 10,600 |
| | Student Recreation/Intramurals | 301,500 | 0 | 301,500 |
| | Student Union/Activities | 558,700 | 0 | 558,700 |
| | Undergraduate Business Program | 0 | 0 | 0 |
| | Teaching Assistant Tuition Benefit | 334,700 | (121,100) | 213,600 |
| | University Minority Cultural Program | 5,300 | 0 | 5,300 |
| | University Recycling Program | 7,300 | 0 | 7,300 |
| | Employee Benefit Adjustments/Contingencies | 14,600 | 0 | 14,600 |
| | | | 0 | |
| | | | 0 | |
| | Subtotal Designated | 3,011,500 | 5,928,500 | 8,940,000 |
| AUXILIARY | Intercollegiate Athletics | 179,800 | 0 | 179,800 |
| | Subtotal Auxiliary | 179,800 | 0 | 179,800 |
| | | | | |
| | Total Operating Funds | 3,191,300 | 5,928,500 | 9,119,800 |
| FIN AID | Regents Financial Aid Set-Aside | 7,262,200 | 1,068,100 | 8,330,300 |
| | Other F.A.- Institutional FA | 2,789,800 | 2,344,300 | 5,134,100 |
| | Other Financial Aid - CRESMET/CONACY/NEEP | 28,000 | 0 | 28,000 |
| | CONACYT Fellowship Program | 5,400 | 0 | 5,400 |
| | Other F.A.- Graduate Scholars Program | 22,200 | 0 | 22,200 |
| | Graduate Fellowship Program | 66,600 | 0 | 66,600 |
| | | | 0 | |
| | | | 0 | |
| | Subtotal Financial Aid | 10,174,200 | 3,412,400 | 13,586,600 |
| | | | | |
| | Plant Fund | | | |
| | | | | |
| | Debt Service | | | |
| | | | | |
| TOTAL LOCAL RETENTION | | 13,365,500 | 9,340,900 | 22,706,400 |

2012-13

LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - WEST CAMPUS

| | | BUDGET 2011-12 | INCREASE/ (DECREASE) | BUDGET 2012-13 |
|---|---|---|---|---|
| DESIGNATED | Academic Affairs | 5,200 | 0 | 5,200 |
| | AECP - International Teaching Assistants | 10,000 | 0 | 10,000 |
| | Associated Students - ASU | 98,300 | 0 | 98,300 |
| | ASU West Commencement | 15,000 | 0 | 15,000 |
| | ASUW Film Series | 0 | 0 | 0 |
| | ASUW Fine Arts Program | 60,000 | 0 | 60,000 |
| | Campus Environment Team | 4,800 | 0 | 4,800 |
| | Child and Family Services | 7,200 | 0 | 7,200 |
| | Child Development & Visual Perception Lab | 0 | 0 | 0 |
| | Constituent Advocacy | 14,500 | 0 | 14,500 |
| | Distance Learning Technology | 111,000 | 0 | 111,000 |
| | Environmental Health & Safety | 21,300 | 0 | 21,300 |
| | Federal Direct Loan Administration | 16,500 | 0 | 16,500 |
| | Graduate Support Program | 51,400 | 0 | 51,400 |
| | Honors College | 3,000 | 0 | 3,000 |
| | Library Support | 35,700 | 0 | 35,700 |
| | Online Partnership/Management Payments | 1,008,900 | 2,123,600 | 3,132,500 |
| | Online Program Allocation for Direct Expenses | | 1,625,700 | 1,625,700 |
| | Special Events | 20,000 | 0 | 20,000 |
| | Student Affairs Initiative | 26,200 | 0 | 26,200 |
| | Student Financial Assistance Administration | 40,100 | 0 | 40,100 |
| | University Minority Cultural Program | 7,100 | 0 | 7,100 |
| | University Recycling Program | 9,700 | 0 | 9,700 |
| | Student Government | 65,000 | 0 | 65,000 |
| | Teaching Assistant Tuition Benefit | 409,700 | 0 | 409,700 |
| | Employee Benefit Adjustments/Contingencies | 19,400 | 0 | 19,400 |
| | | | 0 | |
| | | | 0 | |
| AUXILIARY | Subtotal Designated | 2,060,000 | 3,749,300 | 5,809,300 |
| | Intercollegiate Athletics | 225,800 | 0 | 225,800 |
| | Subtotal Auxiliary | 225,800 | 0 | 225,800 |
| | Total Operating Funds | 2,285,800 | 3,749,300 | 6,035,100 |
| FIN AID | Regents Financial Aid Set-Aside | 8,309,700 | 1,053,700 | 9,363,400 |
| | Other F.A.- Institutional FA | 8,007,800 | (1,750,400) | 6,257,400 |
| | Other F.A, - CRESMET/CONACYT/NEEP | 35,200 | 0 | 35,200 |
| | Other FA - Teach for America | 4,300,000 | (4,200,000) | 100,000 |
| | Other F.A. - Graduate Scholars Program | 70,200 | 0 | 70,200 |
| | Business Financial Aid Set-Aside | 0 | 0 | 0 |
| | CONACYT Fellowship Program | 17,000 | 0 | 17,000 |
| | Graduate Fellowship Program | 210,700 | 0 | 210,700 |
| | | | 0 | |
| | Subtotal Financial Aid | 20,950,600 | (4,896,700) | 16,053,900 |
| | Plant Fund | 1,000,000 | 0 | 1,000,000 |
| | Debt Service/Lease Purchase | 0 | 0 | 0 |
| TOTAL LOCAL RETENTION | | 24,236,400 | (1,147,400) | 23,089,000 |

NORTHERN ARIZONA UNIVERSITY

FY13 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

| | STATE COLLECTIONS | TOTAL LOCAL RETAINED |
|---|---|---|
| As Reported in the FY13 Operating Budget | 107,409,100 | 80,107,600 |
| As Reported in the FY13 JLBC Appropriations Report | 99,660,700 | |
| Amount Reportable | 7,748,400 | 80,107,600 |
| STATE COLLECTIONS INCREASE ALLOCATION BY PROGRAM | | |
| Instruction | | |
| Undergraduate Enrollment Growth and Course Support | 1,788,000 | |
| Health Care Program Continuation and Expansion | 1,500,000 | |
| Faculty Enterprise Investment | 3,500,000 | |
| All Programs | | |
| Employee Related Expenses | 370,000 | |
| Institutional Support | | |
| Mandatory Cost Increases - Utilities | 590,400 | |
| LOCAL RETAINED COLLECTIONS | | |
| Local Funds Student Operating Support | | 8,680,600 |
| Scholarships/Fellowships/Financial Aid | | 55,601,100 |
| Plant Funds | | 1,378,200 |
| Debt Service Payments | | 14,447,700 |
| | 7,748,400 | 80,107,600 |

2012-13
LOCALLY RETAINED COLLECTIONS

NORTHERN ARIZONA UNIVERSITY

| | | BUDGET 2011-12 | INCREASE/ (DECREASE) | BUDGET 2012-13 |
|---|---|---|---|---|
| DESIGNATED | ADA Services | 250,000 | 0 | 250,000 |
| | Art Gallery | 10,900 | 0 | 10,900 |
| | Child Care | 43,900 | 0 | 43,900 |
| | Employee Benefit Adjustments/Contingencies | 100,000 | 0 | 100,000 |
| | Financial Aid Office Operations | 337,300 | 0 | 337,300 |
| | Graduate Assistant Tuition Remission | 2,300,000 | 0 | 2,300,000 |
| | Graduate Operations Support | 0 | 0 | 0 |
| | Honors Forum | 11,200 | 0 | 11,200 |
| | International Studies | 0 | 0 | 0 |
| | NAU-Yuma | 19,900 | 0 | 19,900 |
| | Operations - Credit Card Fees | 500,800 | 0 | 500,800 |
| | Peer Mentoring and Retention Program | | 540,000 | 540,000 |
| | Performing Arts Series | 39,900 | 0 | 39,900 |
| | Performing Arts - Music | 58,900 | 0 | 58,900 |
| | Registrar Office | 112,400 | 0 | 112,400 |
| | School of Comm Student Radio, Cable & Forensics | 30,200 | 0 | 30,200 |
| | Special Events | 28,300 | (28,300) | 0 |
| | Stateside Expansion | 1,800,000 | 0 | 1,800,000 |
| | Student Activities | 285,100 | 0 | 285,100 |
| | SUN (Student Union Network) | 65,800 | (65,800) | 0 |
| | Program Fee - MAdm | 0 | 0 | 0 |
| | Program Fee - MBA | 0 | 0 | 0 |
| | Program Fee - MEng | 0 | 0 | 0 |
| | Program Fee - MSN | 0 | 0 | 0 |
| | Program Fee - Physicians Assistant (PA) | | 45,000 | 45,000 |
| | Program Fee - Doctor of Physical Therapy (DPT) | 0 | 125,000 | 125,000 |
| | Program Fee - Bachelor BA | 0 | 0 | 0 |
| | Program Fee - Bachelor Dental Hygiene | 0 | 0 | 0 |
| | Program Fee - BSN | 0 | 0 | 0 |
| | Program Fee - UG Engineering/Construction | 0 | 0 | 0 |
| | Yuma Enrollment Support | 183,500 | 0 | 183,500 |
| | | 0 | 0 | 0 |
| | Subtotal Designated | 6,178,100 | 615,900 | 6,794,000 |
| AUXILIARY | | | | |
| | Associated Students (ASNAU) | 0 | 0 | 0 |
| | Intercollegiate Athletics | 1,665,500 | 0 | 1,665,500 |
| | Intramurals/Recreation | 63,700 | (63,700) | 0 |
| | Skydome | 207,900 | 0 | 207,900 |
| | Mountain Campus ID | 13,200 | 0 | 13,200 |
| | | | 0 | |
| | Subtotal Auxiliary | 1,950,300 | (63,700) | 1,886,600 |
| | | | | |
| | Total Operating Funds | 8,128,400 | 552,200 | 8,680,600 |
| FIN AID | | | | |
| | Regents Financial Aid Set-Aside | 20,100,000 | 400,000 | 20,500,000 |
| | Set-Aside for Academically Meritorious AZ Residents | 15,000 | 0 | 15,000 |
| | Student Financial Aid Match (SSIG, SEOG, etc.) | 318,400 | 0 | 318,400 |
| | Other Financial Aid - (formerly tuition waivers) | 29,100,000 | 5,600,000 | 34,700,000 |
| | DPT- FA Set-Aside | 28,400 | 1,000 | 29,400 |
| | MAdm - FA Set-Aside | 65,500 | -65,500 | 0 |
| | MBA - FA Set-Aside | 30,900 | -30,900 | 0 |
| | MEng - FA Set-Aside | 0 | 0 | 0 |
| | MSN - FA Set-Aside | 4,300 | -4,300 | 0 |
| | Physician Assistant (PA) - FA Set-Aside | 0 | 38,300 | 38,300 |
| | BBA - FA Set-Aside | 70,600 | -70,600 | 0 |
| | BDH - FA Set-Aside | 4,300 | -4,300 | 0 |
| | BSN - FA Set-Aside | 11,900 | -11,900 | 0 |
| | UG Eng/Constrct FA Set-Aside | 42,500 | -42,500 | 0 |
| | GIS - FA Set-Aside | 0 | 0 | 0 |
| | UG Honors Program | 12,800 | -12,800 | 0 |
| | Subtotal Financial Aid | 49,804,600 | 5,796,500 | 55,601,100 |
| | | | | |
| | Plant Fund | 1,378,200 | 0 | 1,378,200 |
| | | | | |
| | Debt Service | 14,447,700 | 0 | 14,447,700 |
| | | | | |
| TOTAL LOCAL RETENTION | | 73,758,900 | 6,348,700 | 80,107,600 |

UNIVERSITY OF ARIZONA
FY13 PLANNED USES OF ESTIMATED STATE COLLECTIONS
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

| | STATE COLLECTIONS | LOCAL COLLECTIONS |
|---|---|---|
| **Base Collections As Reported in the Initial All Funds Report** | 313,838,400 | 225,176,300 |
| **Collections As Reported in the FY13 Appropriations Report** | 298,190,200 | |
| **Base Collections Increase/(Decrease) from FY13 Appropriations Report** | 15,648,200 | 225,176,300 |
| **ALLOCATION BY PROGRAM** | | |
| Instruction | | |
| Enrollment Growth and General Education Support | 4,309,400 | |
| College of Medicine Marginal Collections | 2,486,400 | |
| Support to Colleges from Differential Tuition Revenue | 2,014,200 | |
| Investment in STEM Areas | 4,400,000 | |
| Backfill State Appropriation Reduction | 1,707,400 | |
| Unfunded ASRS Actuarial Requirement | 730,800 | |
| Local Account Operating Support | | 11,701,900 |
| Organized Research | | |
| n/a | | |
| Public Service | | |
| Local Account Operating Support | | 24,600 |
| Academic Support | | |
| Local Account Operating Support | | 2,051,100 |
| Student Services | | |
| Local Account Operating Support | | 3,034,700 |
| Institutional Support | | |
| Local Account Operating Support | | 8,187,100 |
| Scholarships/Fellowships/Financial Aid | | |
| ABOR Financial Aid Set Aside | | 40,151,900 |
| Student Aid Awards (formerly waivers) | | 106,014,800 |
| Graduate Assistant Tuition Remission | | 12,208,500 |
| All Other Financial Aid | | 10,005,400 |
| Auxiliary Enterprises | | |
| n/a | | |
| Debt Service | | |
| Debt Service Payments | | 29,672,400 |
| Plant Funds | | |
| Minor Capital Project Set Aside | | 2,123,900 |
| | 15,648,200 | 225,176,300 |

2012-13

LOCALLY RETAINED COLLECTIONS

UNIVERSITY OF ARIZONA

| | | INITIAL BUDGET 2011-12 | INCREASE/ (DECREASE) | BUDGET 2012-13 |
|---|---|---|---|---|
| DESIGNATED | AZ Outreach College | 7,500,000 | 0 | 7,500,000 |
| | College of Nursing - Accelerated BSN | 182,000 | (182,000) | 0 |
| | Eller Evening MBA | 1,581,600 | 12,100 | 1,593,700 |
| | Multicultural Affairs and Student Success (M.A.S.S.) | | | |
| | Admissions Recruiting | 765,300 | 10,200 | 775,500 |
| | Early Outreach | 36,700 | 400 | 37,100 |
| | Minority Student Recruitment | 181,600 | 3,600 | 185,200 |
| | Minority Summer Institute for Writing | 13,300 | 200 | 13,500 |
| | FM Student Recreation O&M | 255,000 | 4,300 | 259,300 |
| | Graduate Teaching Assistants -Tuition Remission | 12,208,500 | 0 | 12,208,500 |
| | Graduate College | 342,500 | 4,200 | 346,700 |
| | Graduate and Professional Student Council | 63,400 | (3,400) | 60,000 |
| | Honors College | 328,500 | 994,600 | 1,323,100 |
| | Interpreting/Disabilities (ADA) | 164,200 | 0 | 164,200 |
| | Law College Special Fee | 2,356,000 | 6,300 | 2,362,300 |
| | Learning Disabilities Mandated Services | 129,700 | 2,100 | 131,800 |
| | Library Acquisitions | 461,200 | 0 | 461,200 |
| | Merchant Credit Card Banking Fees | 2,533,200 | 700,000 | 3,233,200 |
| | Special Education Fee Waiver | 0 | 0 | 0 |
| | Student Child Care Voucher Program | 83,100 | 0 | 83,100 |
| | Student Travel Support | 53,000 | (2,700) | 50,300 |
| | Student Services | 194,500 | 29,400 | 223,900 |
| | Sustainability Projects | 600,000 | 0 | 600,000 |
| | UA Presents | 40,300 | (15,700) | 24,600 |
| | Utility Costs Reserve | 2,624,100 | (35,600) | 2,588,500 |
| | Subtotal Designated | 32,697,700 | 1,528,000 | 34,225,700 |
| AUXILIARY | Associated Students (ASUA) | 277,900 | (10,100) | 267,800 |
| | Campus Health Service | 2,204,300 | (2,204,300) | 0 |
| | Campus Recreation and Intramurals | 45,500 | (45,500) | 0 |
| | Student-Related Activities | 25,000 | (9,200) | 15,800 |
| | Student Programs | 479,000 | 942,400 | 1,421,400 |
| | Student Union | 1,142,200 | (28,200) | 1,114,000 |
| | Subtotal Auxiliary | 4,173,900 | (1,354,900) | 2,819,000 |
| | Total Operating Funds | 36,871,600 | 173,100 | 37,044,700 |
| FIN AID | Regents Financial Aid Set-Aside | 34,427,900 | 5,191,300 | 39,619,200 |
| | UAS (SV) - Regents FA Set-Aside | 396,000 | 136,700 | 532,700 |
| | Undergraduate Scholars | 3,619,300 | 0 | 3,619,300 |
| | Other Financial Aid - (formerly tuition waivers) | 98,285,800 | 7,510,600 | 105,796,400 |
| | Architecture (Grad) FA Set-Aside | 35,400 | 14,400 | 49,800 |
| | Architecture (UG) FA Set-Aside | 65,500 | 13,600 | 79,100 |
| | COM FA Set-Aside | 948,500 | 110,400 | 1,058,900 |
| | COM - Phoenix - FA Set-Aside | 448,400 | 250,400 | 698,800 |
| | Eller MBA FA Set-Aside | 442,000 | 17,000 | 459,000 |
| | Eller (UG) FA Set-Aside | 306,000 | 17,000 | 323,000 |
| | Engineering (UG) FA Set-Aside | 210,800 | 85,000 | 295,800 |
| | FCS FA Set-Aside | 36,200 | 0 | 36,200 |
| | Fine Arts FA Set-Aside | 92,600 | 0 | 92,600 |
| | Geography FA Set-Aside | 3,100 | 0 | 3,100 |
| | Graduate Scholarships | 635,200 | 163,400 | 798,600 |
| | Honor College FA Set-Aside | 228,500 | 78,300 | 306,800 |
| | Journalism (UG) FA Set-Aside | 14,400 | 0 | 14,400 |
| | Journalism (Grad) FA Set-Aside | 2,100 | 0 | 2,100 |
| | Law School FA Set-Aside | 1,139,000 | 14,200 | 1,153,200 |
| | Linguistic Differential Tuition FA | 200 | 0 | 200 |
| | Nursing Accl BSN FA Set-Aside | 170,000 | (27,500) | 142,500 |
| | Nursing (Grad) Special Fee FA | 32,300 | (24,700) | 7,600 |
| | Nursing (UG) Special Fee FA | 56,500 | 10,800 | 67,300 |
| | Optical Science FA Set-Aside | 32,000 | 0 | 32,000 |
| | Pharmacy FA Set-Aside | 748,100 | 34,000 | 782,100 |
| | Philosophy FA Set-Aside | 1,300 | 0 | 1,300 |
| | Planning FA Set-Aside | 10,600 | 3,300 | 13,900 |
| | Public Health FA Set-Aside | 20,400 | 9,400 | 29,800 |
| | Public Health FA Set-Aside (UG) | 3,400 | 8,500 | 11,900 |
| | School of Art - FA Set-Aside | 11,200 | 0 | 11,200 |
| | School of Dance - FA Set-Aside | 1,000 | 0 | 1,000 |
| | School of Music - FA Set-Aside | 20,400 | 0 | 20,400 |
| | SGAPP - MPA Differential Tuition FA | 29,200 | 0 | 29,200 |
| | SGAPP - (UG) Differential Tuition FA | 43,300 | 51,000 | 94,300 |
| | SIRLS FA Set-Aside | 151,600 | 0 | 151,600 |
| | Subtotal Financial Aid | 142,668,200 | 13,667,100 | 156,335,300 |
| | Plant Funds/Utility Infrastructure | 2,123,900 | 0 | 2,123,900 |
| | Debt Service | 28,472,400 | 1,200,000 | 29,672,400 |
| TOTAL LOCAL RETENTION | | 210,136,100 | 15,040,200 | 225,176,300 |

STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

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DATE: September 27, 2012

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Senior Fiscal Analyst

SUBJECT: Review of Agency Legal Services Charges

**Request**

The FY 2013 Criminal Justice Budget Reconciliation Bill (BRB) requires the Joint Legislative Budget Committee (JLBC) to review agencies' identified funding sources for the Attorney General (AG) legal services charges for general agency counsel.

The Criminal Justice BRB eliminated the 0.675% Pro Rata Personal Services charge and replaced the Pro Rata charge with a flat dollar amount charge. The flat charge amounts were provided by the Executive and are specified in the FY 2013 General Appropriation Act. Agencies are required to pay this charge from non-General Fund sources and cannot include funding sources that are Federal Funds or other funds that are legally restricted from making the legal services payment.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of the fund source reports for the AG legal services charges with the recommendation that the following 4 agencies be exempt from the charge: Office of Tourism, School Facilities Board, Governor's Office of Equal Opportunity, and the State Mine Inspector. These agencies do not have relevant fund sources to pay the charge. The payment ability of a 5th agency, the Department of Emergency and Military Affairs (DEMA), has yet to be resolved.

**Analysis**

The FY 2013 General Appropriation Act specifies the required payments from state agencies, which total $1,906,600. The attachment shows the fund source detail for specific agencies.

Four agencies (Office of Tourism, School Facilities Board, Governor's Office of Equal Opportunity, and the State Mine Inspector) do not have fund sources that would allow payment of the charges from non-

(Continued)

General Fund sources that do not include Federal Funds or other funds that are legally restricted from making the legal services payment. The elimination of the payments from the 4 agencies would result in a total reduction of $(11,800) to the overall payment to the AG, which would result in a total AG payment of $1,894,800.

DEMA has a legal services charge of $115,300. Discussions with the Governor's Office of Strategic Planning and Budgeting are ongoing to assess if DEMA has any or sufficient applicable fund sources to make the legal services payments. If DEMA does not pay the charge, the AG payment would be decreased by $(115,300) and would total $1,779,500.

RS/MZ:ts
Attachment

# FY 2013 Legal Services Charges

| Agencies and Fund Sources | Legal Services Charge |
|---|---|
| **Arizona Department of Administration** | |
| Capital Outlay Stabilization Fund | $29,300 |
| Corrections Fund | $1,100 |
| Special Employee Health Insurance Trust Fund | $10,500 |
| Personnel Division Fund | $24,700 |
| Automation Operations Fund | $32,800 |
| Telecommunications Fund | $3,300 |
| Information Technology Fund | $5,100 |
| Special Services Revolving Fund | $1,100 |
| State Surplus Materials Revolving Fund | $3,200 |
| Motor Vehicle Pool Revolving Fund | $3,800 |
| State Employee Travel Reduction Fund | $1,000 |
| IGA and ISA Fund | $3,300 |
| Administration - AFIS II Collections Fund | $2,000 |
| Co-Op State Purchasing Agreement Fund | $4,000 |
| Emergency Telecommunication Services Revolving Fund | $1,400 |
| Construction Insurance Fund | $1,100 |
| *Subtotal* | *$127,700* |
| **Arizona Department Administrative Hearings** | |
| IGA and ISA Fund | $3,000 |
| *Subtotal* | *$3,000* |
| **Arizona Commission on the Arts** | |
| Arts Special Revenues Fund | $3,100 |
| *Subtotal* | *$3,100* |
| **Automobile Theft Authority** | |
| Automobile Theft Authority Fund | $1,400 |
| *Subtotal* | *$1,400* |
| **Citizens Clean Elections Commission** | |
| Citizens Clean Elections Fund | $2,700 |
| *Subtotal* | *$2,700* |
| **State Department of Corrections** | |
| Inmate Store Proceeds Fund | $2,000 |
| *Subtotal* | *$2,000* |
| **Arizona Criminal Justice Commission** | |
| Drug and Gang Enforcement Account | $8,700 |
| *Subtotal* | *$8,700* |
| **Arizona State Schools for the Deaf and Blind** | |
| Regional Cooperatives Fund | $50,100 |
| Schools for the Deaf and Blind Fund | $50,100 |
| *Subtotal* | *$100,200* |
| **Commission for the Deaf and the Hard of Hearing** | |
| Telecommunication Fund for the Deaf | $4,100 |
| *Subtotal* | *$4,100* |
| **Arizona Early Childhood Development & Health Board** | |
| Early Childhood Development & Development & Health Fund | $47,100 |
| *Subtotal* | *$47,100* |

## FY 2013 Legal Services Charges

| Agencies and Fund Sources | Legal Services Charge |
|---|---|
| **Department of Education** | |
| Indirect Cost Recovery Fund | $132,000 |
| *Subtotal* | *$132,000* |
| **Department of Environmental Quality** | |
| Underground Storage Tank Revolving Fund | $135,600 |
| *Subtotal* | *$135,600* |
| **Arizona Exposition and State Fair Board** | |
| Arizona Exposition and State Fair Fund | $20,900 |
| *Subtotal* | *$20,900* |
| **Department of Financial Institutions** | |
| Financial Services Fund | $1,600 |
| IGA and ISA Fund | $300 |
| *Subtotal* | *$1,900* |
| **Department of Fire, Building and Life Safety** | |
| Mobile Home Relocation Fund | $2,500 |
| *Subtotal* | *$2,500* |
| **State Forester** | |
| Cooperative Forestry Fund | $12,100 |
| *Subtotal* | *$12,100* |
| **Department of Gaming** | |
| Arizona Benefits Fund | $35,000 |
| *Subtotal* | *$35,000* |
| **Arizona Geological Survey** | |
| Geological Survey Fund | $6,800 |
| *Subtotal* | *$6,800* |
| **Department of Health Services** | |
| Tobacco Tax and Healthcare Fund | $400 |
| Health Services Licensing Fund | $1,900 |
| Disease Control Research Fund | $100 |
| Emergency Medical Services Operating Fund | $800 |
| Newborn Screening Program Fund | $500 |
| IGA and ISA Fund | $4,800 |
| Smoke Free Arizona Fund | $200 |
| Medical Marijuana Fund | $159,000 |
| Environmental Laboratory Licensure Revolving Fund | $200 |
| Vital Records Electronic Systems Fund | $500 |
| Hearing and Speech Professionals Fund | $100 |
| Arizona State Hospital Fund | $600 |
| Indirect Cost Fund | $900 |
| *Subtotal* | *$170,000* |
| **Arizona Historical Society** | |
| Permanent Arizona Historical Society Revolving Fund | $700 |
| *Subtotal* | *$700* |
| **Arizona Department of Housing** | |
| Housing Program Fund | $18,100 |
| *Subtotal* | *$18,100* |

## FY 2013 Legal Services Charges

| Agencies and Fund Sources | Legal Services Charge |
|---|---|
| **Department of Insurance** | |
| Insurance Examiners Revolving Fund | $7,100 |
| Assessment Fund for Voluntary Plans | $900 |
| Captive Insurance Regulatory and Supervision Fund | $800 |
| Health Care Appeals Fund | $500 |
| Financial Surveillance Fund | $900 |
| Receivership Liquidation Fund | $300 |
| *Subtotal* | *$10,500* |
| **Department of Juvenile Corrections** | |
| Juvenile Corrections Fund | $9,400 |
| *Subtotal* | *$9,400* |
| **State Land Department** | |
| Trust Land Management Fund | $2,100 |
| *Subtotal* | *$2,100* |
| **Department of Liquor Licenses and Control** | |
| Liquor Licenses Fund | $8,600 |
| Audit Surcharge Fund | $800 |
| Enforcement Surcharge - Enforcement Unit Fund | $1,000 |
| Enforcement Surcharge - Multiple Complaints Fund | $1,000 |
| *Subtotal* | *$11,400* |
| **Arizona State Lottery Commission** | |
| State Lottery Fund | $24,800 |
| *Subtotal* | *$24,800* |
| **Arizona State Parks Board** | |
| State Parks Revenue Fund | $38,400 |
| State Lake Improvement Fund | $6,900 |
| Off Highway Vehicle Recreation Fund | $400 |
| Land Conservation Fund | $100 |
| *Subtotal* | *$45,800* |
| **Personnel Board** | |
| Personnel Division Fund - Personnel Board Account | $600 |
| *Subtotal* | *$600* |
| **Arizona Pioneers' Home** | |
| State Charitable Fund | $12,100 |
| *Subtotal* | *$12,100* |
| **Commission for Postsecondary Education** | |
| Family College Savings Program Trust Fund | $1,800 |
| *Subtotal* | *$1,800* |
| **Department of Public Safety** | |
| Highway Patrol Fund | $217,400 |
| Crime Laboratory Operations Fund | $34,500 |
| Highway User Revenue Fund | $425,500 |
| *Subtotal* | *$677,400* |
| **Arizona Department of Racing** | |
| Racing Regulation Fund | $2,300 |
| *Subtotal* | *$2,300* |
| **Radiation Regulatory Agency** | |
| Radiation Regulatory Fee Fund | $3,800 |
| *Subtotal* | *$3,800* |

## FY 2013 Legal Services Charges

| Agencies and Fund Sources | Legal Services Charge |
|---|---|
| **Arizona State Retirement System** | |
| Retirement System Administration Account | $69,100 |
| *Subtotal* | *$69,100* |
| | |
| **Department of Revenue** | |
| Department of Revenue Administrative Fund | $4,600 |
| Tobacco Tax and Health Care Fund | $200 |
| Liability Setoff Fund | $100 |
| *Subtotal* | *$4,900* |
| | |
| **Department of State - Secretary of State** | |
| Data Processing Acquisition Fund | $1,800 |
| *Subtotal* | *$1,800* |
| | |
| **State Treasurer** | |
| State Treasurer's Operating Fund | $9,200 |
| *Subtotal* | *$9,200* |
| | |
| **Department of Veterans' Services** | |
| Home for Veterans' Trust Fund | $52,700 |
| *Subtotal* | *$52,700* |
| | |
| **Department of Weights and Measures** | |
| Air Quality Fund | $3,400 |
| Motor Vehicle Liability Insurance Enforcement Fund | $800 |
| *Subtotal* | *$4,200* |
| | |
| **Total Reported Legal Services Charges** | **$1,779,500** |
| | |
| *Recommended Eliminated Legal Services Charges* | |
| Governor's Office of Equal Opportunity | $100 |
| State Mine Inspector | $1,200 |
| School Facilities Board | $2,400 |
| Office of Tourism | $8,100 |
| *Subtotal* | *$11,800* |
| | |
| *Legal Services Charges To Be Determined* | |
| Department of Emergency and Military Affairs | $115,300 |
| | |
| **Total Legal Services Charges in FY 2013 General Appropriations Act** | **$1,906,600** |