

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
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STEVE PIERCE
REBECCA RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

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JOINT LEGISLATIVE BUDGET COMMITTEE

Wednesday, October 6, 2010

9:30 A.M.

Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order
- [Approval of Minutes of August 11, 2010.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
 - A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
 - B. Arizona Department of Administration - Risk Management Annual Report.
- 1. [AHCCCS/DEPARTMENT OF HEALTH SERVICES - Review of Proposed Capitation Rate Changes.](#)
- 2. [ARIZONA BOARD OF REGENTS - Review of FY 2011 Tuition Revenues.](#)
- 3. [ATTORNEY GENERAL - Review of Allocation of Settlement Monies.](#)
- 4. [GOVERNMENT INFORMATION TECHNOLOGY AGENCY - Review of the Arizona Public Safety Communication Advisory Commission.](#)
- 5. [ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Risk Management Deductible.](#)

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

9/28/10

sls

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 926-5491.

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

August 11, 2010

The Chairman called the meeting to order at 11:30 a.m., Wednesday, August 11, 2010, in Senate Appropriations Room 109. The following were present:

Members:	Senator Pearce, Chairman	Representative Kavanagh, Vice-Chairman
	Senator Aboud	Representative Biggs
	Senator Aguirre	Representative Cajero Bedford
	Senator Braswell	Representative Campbell
	Senator Gray	Representative McComish
	Senator Harper	Representative Murphy
	Senator Pierce	
	Senator Rios	

Absent:	Representative Heinz
	Representative Williams

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of April 20, 2010, Chairman Russell Pearce stated that the minutes would stand approved.

DEPARTMENT OF HEALTH SERVICES - Review of Behavioral Health Title XIX Capitation Rate Changes.

Mr. Art Smith, JLBC Staff, stated that this item is a review of the Department of Health Services (DHS) capitation rate changes for the Title XIX Behavioral Health Program. The JLBC Staff presented options to the Committee.

Dr. Laura Nelson, Deputy Director, DHS, Division of Behavioral Health Services responded to member questions.

Mr. David Reese, Chief Financial Officer, DHS, Division of Behavioral Health Services, responded to member questions.

Representative Kavanagh moved that the Committee give an unfavorable review to Seriously Mentally Ill capitation rate changes and a favorable review for the Children and Family Services and General Mental Health Services capitation rate changes. 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 of settlement monies from 2 settlements: 1) a \$250,000 Average Wholesale Price (AWP) settlement agreement with Dey, Inc. and the \$100,000 consent judgment with Avondale Automotive. The JLBC Staff recommended a favorable review.

Representative Kavanagh moved that the Committee give a favorable review to the Attorney General's allocation plans of settlement monies totaling \$350,000. The motion carried.

EXECUTIVE SESSION - Arizona Department of Administration - Risk Management Services - Consideration of Proposed Settlements under Rule 14.

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

At 12:20 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 1:25 p.m. the Committee reconvened into open session.

Representative Kavanagh moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Henderson v. State of Arizona, et al. By a show of hands of 6 ayes and 7 nays, the motion failed.

Representative Kavanagh moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Osorio v. UMC/UPH. The motion carried.

Representative Kavanagh moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Scott v. State, et al. The motion failed.

Without objection, the meeting adjourned at 1:30 p.m.

Respectfully submitted:

Sandy Schumacher, Secretary

Richard Stavneak, Director

Senator Russell Pearce, Chairman

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

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DATE: September 29, 2010

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

THRU: Richard Stavneak, Director

FROM: Amy Upston, Principal Analyst

SUBJECT: AHCCCS/Department of Health Services - Review of Proposed Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) are required to report capitation and fee-for-service inflationary rate changes with a budgetary impact to the Committee for review prior to implementation.

Recommendation

The Committee has at least the following options:

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

The proposed rates would cost \$(30.1) million less from the General Fund than budgeted in FY 2011, assuming budgeted caseloads. In addition, caseloads are not growing as projected, generating additional savings. However, the AHCCCS budget is still projected to have an overall shortfall due to the federal government extending the enhanced matching at a lower rate in the last 6 months of FY 2011.

Analysis

Acute Care

This population represents members who participate in the Traditional Medicaid, Proposition 204, and KidsCare programs. Capitation rates are set at the beginning of the contract year (October 1). These rates would normally remain in effect until the first quarter of FY 2012, but AHCCCS indicates they anticipate provider rate reductions beginning April 1, 2011.

(Continued)

The FY 2011 Acute Care budget assumed no capitation rate growth. Based on budgeted enrollment, the proposed Acute Care capitation rates will decline by (0.7)%. As a result, these rates will cost \$(28.9) million less than budgeted from the General Fund. *Table 1* shows the proposed capitation rates for each patient group.

Long-Term Care (ALTCS)

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.

While the approved FY 2011 budget did not provide for an ALTCS capitation rate increase, AHCCCS is reducing the rates by (3.4)%. Based on budgeted enrollment, these rates would save the General Fund \$(2.8) million and counties \$(4.1) million relative to the budget.

Children's Rehabilitative Services

The CRS program is administered by DHS and provides services for children with chronic and disabling or potentially disabling conditions. The contractor is reimbursed using a per-member/per-month capitation rate that includes a high, medium and low tier, which represent varying degrees of medical acuity. The approved CRS budget did not include a capitation rate increase, but the proposed CRS amount includes a 7.7% increase. Based on budgeted enrollment, this would cost \$1.6 million more than budgeted from the General Fund.

Main Reasons for Rate Changes

Rates for Acute Care, ALTCS, and CRS are composed of adjustments for utilization, provider reimbursement, and policy changes.

Utilization

Utilization rates are expected to increase in the Acute Care program but decrease in the ALTCS program. The ALTCS decrease represents greater use of home and community based services and a reduction in nursing facilities.

Provider Reimbursements

Although the proposed rates do not include a provider rate reduction, AHCCCS stated that they are anticipating the implementation of unspecified reductions to inpatient and outpatient hospital reimbursement effective April 1, 2011. Since 2008, most providers have received a (5)% rate reduction.

Program Changes

In addition to adjustments for utilization, the following changes have been incorporated into capitation rates:

- Elimination of some optional services – The FY 2011 budget required AHCCCS to eliminate a number of benefits including, but not limited to, emergency dental services, some physical therapy services, certain transplants, and orthotics. AHCCCS estimates this will result in FY 2011 General Fund savings of approximately \$(6.7) million between the acute care and ALTCS programs. The FY 2011 budget had assumed General Fund savings of \$(6.3) million for these changes.
- Co-payments – Beginning in October, AHCCCS is implementing copayments on a number of AHCCCS populations. For example, childless adults and the Medicaid “spend down” population would pay \$30 for non-emergency use of the emergency room, \$5 for doctor office visits, \$4 for generic drugs, and \$10 for brand name drugs when there is a generic drug available. Some additional AHCCCS adults will be subject to smaller co-pays. Federal law limits co-pay amounts and prohibits certain AHCCCS populations from being charged a co-pay altogether. Due to a

(Continued)

court injunction, this higher copayment for childless adults and the Medicaid “spend down” population is delayed for at least 1 month. AHCCCS had estimated all co-pay changes would provide FY 2011 General Fund savings of \$(4.0) million. The FY 2011 budget did not incorporate savings from co-pays.

- Ambulatory Surgical Centers – AHCCCS believes that a number of procedures can be performed in ambulatory surgical centers as opposed to more costly outpatient hospital settings. By moving 3% of these procedures to ambulatory surgical centers, AHCCCS estimates this will save the General Fund approximately \$(518,400) in FY 2011. The FY 2011 budget did not include these savings.
- HPV Vaccine – Federal law requires that AHCCCS cover the cost of the human papillomavirus (HPV) vaccine for females and male AHCCCS members under age 21 who elect to receive the vaccine. The cost for providing the vaccine to AHCCCS members under age 19 is paid by DHS. Previously AHCCCS also provided the vaccine for newly enrolled female AHCCCS members ages 21-26, but AHCCCS is eliminating this benefit. This will result in an AHCCCS-estimated FY 2011 General Fund savings of \$(133,600) in the acute care program. No savings were included in the FY 2011 budget for this item.
- CRS Administration - The CRS budget presumes flat administrative funding and a services budget based on the CRS capitation rate. The proposed capitation rate would increase the services component of the capitation rate by changing the “administrative load” of the rate.

Table 1

Monthly Regular Capitation Rates

<u>Populations</u>	<u>Current CYE 10 Rate</u>	<u>Budgeted CYE 11 Rate</u>	<u>Proposed CYE 11 Rate</u>	<u>CYE 10-CYE 11 % Change</u>
Traditional Medicaid/KidsCare				
Age<1	\$ 491.52	\$ 491.52	\$ 513.82	4.5%
Age 1 – 13	112.86	112.86	110.13	(2.4)
Age 14 – 44 (Female only)	245.72	245.72	248.14	1.0
Age 14 – 44 (Male only)	148.11	148.11	158.00	6.7
Age 45+	407.32	407.32	407.19	0.0
SSI with Medicare	157.25	157.25	142.79	(9.2)
SSI without Medicare	753.39	753.39	806.22	7.0
Family Planning	17.38	17.38	14.70	(15.4)
Deliveries	6,629.40	6,629.40	6,612.92	(0.2)
Title XIX Waiver Group				
Prop 204 – TANF	\$ 242.69	\$ 242.69	\$ 242.48	(0.1)
Prop 204 – SSI	195.75	195.75	190.76	(2.5)
Prop 204 – Medically Eligible	1,291.47	1,291.47	1,397.42	8.2
Prop 204 – Conversions/Newly Eligible	523.39	523.39	487.82	(6.8)
Prop 204 – Births	6,629.40	6,629.40	6,612.92	(0.2)
Acute Care Weighted Average				(0.7)%
ALTCS				
Statewide Average Rate	\$3,411.81	\$3,411.81	\$3,295.27	(3.4)%
CRS				
Statewide Average Rate	\$ 384.89	\$ 384.89	\$ 414.53	7.7%

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



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

September 16, 2010

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



Dear Senator Pearce:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to review the following items.

- Long Term Care Capitation Rates for Contract Year Ending 2011
- Acute Care Capitation Rates for Contract Year Ending 2011

As required by the Federal Balanced Budget Act of 1997, Title XIX Managed Care Programs must have actuarially sound capitation rates. The following proposed rate adjustments are in the process of being reviewed by the Centers for Medicare and Medicaid Services (CMS) for an October 1, 2010 implementation.

The budget assumed no growth for both Acute and Long Term Care capitation rates. The legislature provided the administration with the ability to reduce provider rates by up to 5% in order to meet this budgetary expectation. The budget also incorporated several mandated benefit changes.

Long Term Care Capitation Rates

The overall rate adjustment for the ALTCS Elderly and Physically Disabled (EPD) program for Contract Year Ending (CYE) 2011 is negative (2.3%). The five year per member per month trend is an increase of 1.6% for Long Term Care. Three items accounted for the majority of the overall CYE 2011 decrease.

The largest factor was the continued increase in home and community based placements. For CYE 2011, the capitation rates assumed a 2.51% increase in home and community placements resulting in the program surpassing the 70% mark. This places Arizona near the top nationally for this measure.

The second factor impacting the overall reduction was a decrease of \$6.7 million to account for a 2.5% home based service provider rate reduction. These rates were adjusted as part of the standard rate rebase that is calculated every 5 years.

The final factor was a \$1.4 million reduction associated with the mandatory benefit package change.

The capitation rate adjustments reflect the EPD population and do not include the Developmentally Disabled population, which is administered through the Arizona Department of Economic Security. The actuarial memo that has been submitted to CMS for approval is attached for additional information.

Acute Care Capitation Rates

The overall weighted decrease for CYE 2011 acute care capitation rates is a negative (2.9%).

For the AHCCCS acute care population the Title XIX waiver group, established as part of Proposition 204, has an overall prospective rate decrease of (6.0%), and likewise a rate decrease for prior period coverage of (16.7%). The prospective categorical TXIX population has an overall weighted increase of 1.4% and a decrease of (14.8%) for prior period.

The rate reductions reflect the fact that utilization has decreased significantly in select populations as acuity in members declined. This is the result of a significant portion of the Title XIX waiver group members remaining on the program for longer duration as the state moved to 12 month re-determination, as mandated by the federal government.

The rates also reflect reductions of \$32.1 million for mandated benefit changes and \$20.1 million for the imposition of mandatory co-pays for select populations.

The Children Rehabilitative Service (CRS) rates also have been incorporated as part of the overall AHCCCS acute care capitation rates, reducing the overall weighted decrease for CYE 2011 acute care capitation rates from a negative (2.9%) to a negative (2.6%). See the attached actuarial memos that have been submitted to CMS for both acute care and CRS for more information.

The five year Acute Care annual average capitation rates have increased by 3.1%.

Prospective Provider Rate Adjustments

The actuarial certification submitted to CMS included the following language.

AHCCCS is anticipating implementation of significant reductions to inpatient and outpatient hospital reimbursement via rate reductions and adult benefit limitations on April 1, 2011. Other provider types may also be impacted by sizeable rate reductions. AHCCCS expects that the capitation rates for all affected risk groups will be adjusted via a January 1, 2011 contract amendment to account for the savings resulting from these reductions to hospital reimbursement and other possible services.

The Honorable Russell Pierce
September 16, 2010
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In addition to the future rate reductions, AHCCCS also is planning to impose inpatient limits on adult members. As all of these plans are further refined policy-makers and stakeholders will be notified.

Overall Fiscal Impact

With a weighted overall decrease of (2.5%) the total fund annualized savings for CYE 2011 is projected to be (\$152.5) million, of which approximately \$43.4 million is State Match.

The current AHCCCS budget projection for FY 2011 is a General Fund shortfall of \$37 million. The total projected shortfall for Medicaid including Arizona Department of Health Services and the Arizona Department of Economic Security is \$79 million. To address this projected Medicaid shortfall the Executive plans on the following:

1. Utilizing \$56 million in FY 2010 AHCCCS reversions.
2. Relying on \$18 million in CYE 2010 projected health plan contractual reconciliation recoupments.
3. Generating a minimum of \$5 million in capitation rate savings with the implementation of the April 1, 2011 changes.

Policy Changes

Per the legislative mandate in ARS 36-2901.06 and 36-2941 AHCCCS has not included any changes beyond the limits that are now delineated in law.

Should you have any questions on any of these issues please feel free to contact Shelli Silver at (602) 417-4647.

Sincerely,



Thomas J. Betlach
Director

cc: John Arnold, Governor's Office
Richard Stavneak, JLBC

Note: See additional information on JLBC's website.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Budget Impact of FY 2011 Capitation Rate Increases

(Rates Weighted Across All Reinsurance Deductibles)

	Statewide Rates		FY11	SFY10 Rate	SFY11 Rate	Change	Percent
	SFY10	SFY11	Population	with FY 11 Pop.	with FY 11 Pop.	Inc. (Dec.)	Impact
Acute Title XIX							
Title XIX TANF/SOBRA	\$ 187.49	\$ 189.17	10,049,302	1,884,142,500	1,901,011,200	16,868,700	0.9%
Title XIX SSI w/ Medicare	\$ 157.29	\$ 142.79	844,044	132,759,700	120,521,000	(12,238,700)	-9.2%
Title XIX SSI w/o Medicare	\$ 753.95	\$ 806.22	701,051	528,557,300	565,201,200	36,643,900	6.9%
Title XIX AHCCCS Care	\$ 525.23	\$ 487.82	2,643,022	1,388,194,700	1,289,319,200	(98,875,500)	-7.1%
Title XIX MED	\$ 1,298.00	\$ 1,397.42	84,307	109,430,500	117,812,300	8,381,800	7.7%
Title XIX Prior Period	\$ 666.93	\$ 558.11	831,844	554,782,100	464,258,800	(90,523,300)	-16.3%
Title XIX Other	\$ 3,355.62	\$ 3,344.48	73,665	247,191,000	246,370,100	(820,900)	-0.3%
Acute Title XIX Subtotal	\$ 318.18	\$ 308.95	15,227,234	4,845,057,800	4,704,493,800	(140,564,000)	-2.9%
Acute Title XXI							
Title XXI Children	\$ 137.33	\$ 136.95	250,239	34,364,400	34,269,500	(94,900)	-0.3%
Total Acute	\$ 315.26	\$ 306.17	15,477,473	4,879,422,200	4,738,763,300	(140,658,900)	-2.9%
						Acute State Impact	(40,041,300)
						Acute Federal Impact	(100,617,600)
CMDP (Effective 1/1/10)							
Regular	\$ 236.04	\$ 243.52	116,630	27,529,300	28,401,700	872,400	3.2%
PPC	\$ 391.25	\$ 392.20	4,624	1,809,100	1,813,500	4,400	0.2%
	\$ 241.96	\$ 249.19	121,254	29,338,400	30,215,200	876,800	3.0%
						CMDP State Impact	249,600
						CMDP Federal Impact	627,200
CRS							
Title XIX	\$ 397.23	\$ 439.72	271,286	107,761,700	119,289,900	11,528,200	10.7%
						CRS State Impact	3,282,100
						CRS Federal Impact	8,246,100
ALTCS							
ALTCS (EPD)	\$ 3,417.16	\$ 3,336.64	307,684	1,051,407,900	1,026,631,800	(24,776,100)	-2.4%
ALTCS (EPD) Prior Period	\$ 975.35	\$ 1,007.41	10,314	10,059,900	10,390,600	330,700	3.3%
ALTCS Acute Only	\$ 542.05	\$ 578.48	4,646	2,518,200	2,687,500	169,300	6.7%
ALTCS Subtotal	\$ 3,297.71	\$ 3,222.47	322,644	1,063,986,000	1,039,709,900	(24,276,100)	-2.3%
						ALTCS State Impact	(6,911,400)
						ALTCS Federal Impact	(17,364,700)
Total Budget Impact	\$ 375.51	\$ 366.09	16,192,657	6,080,508,300	5,927,978,300	(152,530,000)	-2.51%
						Total State Impact	(43,421,000)
						Total Federal Impact	(109,109,000)

NOTES:

- 1) Population estimates for FY 2011 are taken from the actuarial memo detail
- 2) Federal Share is based on the average Title XIX FMAP (including three quarters of ARRA) and the average Title XXI enhanced FMAP for FFY 2011 of 71.53% for Title XIX and 76.08% for Title XXI.
- 3) CMDP based on Calendar 2010 rate change.

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 is anticipating implementation of significant reductions to inpatient and outpatient hospital reimbursement via rate reductions and adult benefit limitations on April 1, 2011. Other provider types may also be impacted by sizeable rate reductions. AHCCCS expects that the capitation rates for all affected risk groups will be adjusted via a January 1, 2011 contract amendment to account for the savings resulting from these reductions to hospital reimbursement and other possible services. A contract amendment including revised rates is anticipated to be submitted to CMS for approval no later than December 1, 2010.

II. Overview of Rate Setting Methodology

The contract year ending 2011 (CYE11) rates were developed as a rate update from the previously approved contract year ending 2010 (CYE10) capitation rates. The CYE11 rates cover the twelve month contract period of October 1, 2010 through September 30, 2011.

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 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 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 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 the 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 Medical Expense Deduction (MED) rates are reconciled to a maximum 3% profit or loss. Additional payments are made for members giving birth via a Maternity Delivery Payment.

The general process in developing the prospective rates involves trending the CYE10 capitation rates to the midpoint of the effective period, which is April 1, 2011. The next step involves the deduction of the reinsurance offsets. 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 2007 through March 2010. Encounter data experience is from the contract year ending September 2007 through September 2009. 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 CYE10 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 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. In addition, unit cost trend estimates were based on AHCCCS fee schedule changes for the majority of the COS trends. 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	SSI With Medicare	SSI without Medicare	TWG
	Combined			
Hospital Inpatient	0.5%	-3.3%	3.1%	-2.2%
Outpatient Facility	1.9%	2.9%	4.9%	0.1%
Emergency Room	3.7%	0.2%	3.7%	5.2%
Primary Care	7.2%	2.7%	7.0%	2.7%
Referral Physician	7.6%	8.2%	8.6%	4.6%
Other Professional	4.8%	2.9%	4.7%	4.6%
Pharmacy	6.2%	8.2%	7.4%	0.7%
Other	5.3%	3.4%	5.6%	4.9%

Hospital Inpatient Trends

Using the data sources mentioned in Section II and emphasizing the AHCCCS encounter data, the inpatient utilization varied from -5.4 to 1.4 percent annually, depending upon risk group. State legislation, Laws 2010, 7th Special Session, Chapter 10, Section 25, mandates that “for rates effective October 1, 2010 through September 30, 2011, (AHCCCS) shall not increase the institutional or non-institutional schedule rates above the rates in effect on September 30, 2010.” Based on this requirement, AHCCCS used this information as well as encounter data to develop the hospital inpatient unit cost trends which varied from 0.0 to 3.3 percent annually. On a combined basis, the per member per month (PMPM) trends for inpatient hospital have been trended at -3.3 to 3.1 percent, depending upon risk group. These ranges are summarized in Appendix I.

Hospital Outpatient and Emergency Room Trends

Per Arizona administrative Rule, on an annual basis the Outpatient Fee Schedule (OPFS) rates are to be adjusted by multiplying the rates effective during the prior year by the GI or by adjusting rates at varying levels with the total dollar impact equal to that of the GI inflationary increase. However, based on the State legislation to freeze rates noted above, AHCCCS used this information as well as encounter data to develop the hospital outpatient and emergency room unit cost trends. The utilization trends were developed using the data sources mentioned in Section II with emphasis on the AHCCCS encounter data. On a combined basis, the PMPM costs for hospital outpatient and emergency room have been trended at 0.1 to 5.2 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 2.7 to 8.6 percent annually, depending upon risk group and category of service. On a combined basis, the PMPM costs for physicians and other professionals have been trended at 2.7 to 8.6 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 1.8 to 11.8 percent, depending upon risk group. Based on a review of the same sources, unit costs have been trended at -3.2 to 2.2 percent. On a combined basis, the PMPM costs for pharmacy have been trended at 0.7 to 8.2 percent, depending upon risk group. These ranges are summarized in Appendix I.

Smoking Cessation

Starting October 1, 2008, in accordance with Laws 2008, Chapter 131, AHCCCS added coverage for eligible tobacco cessation products which include nicotine replacement therapy (NRT) and tobacco use medications for eligible Title XIX AHCCCS members who wish to stop tobacco use and who are enrolled in a tobacco cessation program offered by the Arizona Department of Health Services. This program has been effective for almost two years, therefore making it possible to review how actual experience compares to the initial projections. The review is based on encounter utilization and costs data for CYE09 and CYE10 (YTD). AHCCCS determined Acute members utilized more services than included in last year's projection. Based upon this analysis, AHCCCS is increasing the amount included for tobacco cessation products in the capitation rates. The statewide impact to the Acute program for CYE11 is an increase of approximately \$2.6 million.

IV. Projected Experience Adjustments

Based on the rapid growth in the AHCCCS population resulting from previously unforeseen economic conditions, AHCCCS is applying an experience adjustment to the CYE11 capitation rates. The projected experience adjustments are calculated by risk group, by GSA for prospective and PPC populations.

The projected experience adjustments are a function of two components: a financial component and an encounter component. The financial component is based on four different views of the health plans' submitted financials: reported profit/loss for CYE09; reported profit/loss through March 31, 2010; reported CYE09 medical expense compared to the CYE09 medical expense built into the capitation rates adjusted for the CYE10 medical impact; and reported CYE10 medical expense (for two quarters) compared to the CYE10 medical expense built into the capitation rates. The encounter component is based on three different views: CYE09 databook encounters (PMMIS point-in-time extract) over CYE09 medical expense built into the capitation rates adjusted for CYE10 medical impact; CYE09 COGNOS encounters (up-to-date extract from data warehouse) over CYE09 medical expense built into the capitation rates adjusted for CYE10 medical impact; and COGNOS encounters for two quarters of CYE10 over CYE10 medical expense in the capitation rates. These components were then analyzed 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 -11.9 to 3.7 percent, depending upon prospective and PPC risk group.

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

Benefit Redesign Change

Effective October 1, 2010 AHCCCS will be implementing the following benefit changes for adult members:

- Eliminate coverage of insulin pumps, percussive vests, bone-anchored hearing aids, cochlear implants and orthotics. Supplies, equipment maintenance and repair of component parts will remain a covered benefit.
- Eliminate coverage of well visits, microprocessor controlled lower limbs and microprocessor controlled joints for lower limbs.
- Eliminate emergency dental except for medical and surgical oral services, that can be provided by a physician or dentist, when those services would be considered a physician service if furnished by a physician.
- Eliminate services provided by a podiatrist.
- Limit outpatient physical therapy to 15 visits per contract year.
- Eliminate coverage of certain transplants (pancreas after kidney transplants, lung transplants, allogeneic unrelated hematopoietic cell (bone marrow) transplants, liver transplants for those with a diagnosis of Hepatitis C, and heart transplants for non-ischemic cardiomyopathies).

For adult members with Medicare, AHCCCS will continue to pay cost-sharing for Qualified Medicare Beneficiaries (QMB) when the services noted above are covered by Medicare. AHCCCS will not pay cost-sharing for excluded services for non-QMB Medicare members.

The estimated savings for the acute program is approximately \$32.1 million statewide.

Copayments

Effective October 1, 2010, AHCCCS is implementing hard (mandatory) copayments on certain services for adults in the Temporary Medical Assistance Program (TMA). At the same time, AHCCCS is reinstating hard copays for adults in the MED and non-MED populations (collectively TWG), after a long-standing court injunction on TWG copays was recently lifted. In addition, AHCCCS is modifying soft copayments (non-mandatory) for adults in the non-TMA/non-TWG Title XIX population. There are a myriad of exclusions for adult copays related to both specific services and specific members as detailed in contract. The estimated savings resulting from these copayments is approximately \$20.1 million statewide.

Behavioral Health Services

Effective October 1, 2010 health plans will no longer be responsible for the first 72 hours of inpatient behavioral health services or behavioral health services provided during the Prior Period Coverage timeframe. These services will be the responsibility of the Arizona Department of Health Services (ADHS) and will be part of the Behavioral Health Services (BHS) capitation rate. This change results in a statewide decrease to the acute care program of approximately \$5.1 million and increases the BHS program by the same amount.

Shift to Ambulatory Surgical Centers

Capitation rates effective October 1, 2010 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 and determined the savings that could be realized by shifting 3% of outpatient hospital claims to ASCs. The estimated savings for the acute program is approximately \$2.6 million.

Human Papillomavirus (HPV) Vaccine Administration

Federal law requires that AHCCCS cover the human papillomavirus (HPV) vaccine as part of the EPSDT benefit package for all females aged 11-20. The law was recently revised to include males aged 11-20. Therefore, the costs for males aged 11-20 has been included in the CYE11 capitation rates.

For males and females through age 18, the vaccine is covered under the Vaccines for Children Program described in Section D: Program Requirements of the contract. Contractors are only responsible for the administration costs through age 18, but are responsible for both vaccine and administration above age 18.

In addition, AHCCCS currently covers the HPV vaccine for women aged 21-26. As of October 1, 2010, AHCCCS will no longer cover this vaccine for women aged 21-26.

AHCCCS estimated the added costs for males to be approximately \$557,000 for CYE11. The cost savings to AHCCCS for CYE11 for eliminating the coverage for females aged 21-26 is approximately \$670,000 statewide.

Hospice and In-Lieu of Services

Hospice coverage for members aged 21 and older was eliminated. However, almost all of the services previously provided as part of the hospice benefit individually remain covered services. Many of these services previously delivered in both inpatient hospice and home settings at the hospice per diem rates will now be delivered in more expensive inpatient settings including acute care hospitals and nursing facilities, as well as in-home settings on a fee basis for each service provided. Using AHCCCS' fee-for-service rates for these settings/services results in an estimated increase in costs of approximately 4.4% to provide the same services. Federal law permits AHCCCS' Contractors to provide services in alternative settings in-lieu of services in more costly inpatient acute care hospitals and nursing facilities, and paying a bundled per diem rate in-lieu of individual fee-for-service rates for in-home care. Allowing use of alternative settings in this instance will result in total cost savings of approximately \$160,000.

ADHS Regulated Transportation

In accordance with Laws 2010, 2nd Regular Session, Chapter 86, Section 7, AHCCCS will pay 76% of ADHS-regulated ambulance rates approved as of September 30, 2010. Ambulance rate increases approved by ADHS from October 1, 2010 through September 30, 2011 will be reduced by AHCCCS by the amount of the authorized increase, not to exceed 5%, per Laws 2010, 7th Special Session, Chapter 10, Section 25(B). AHCCCS will pay 76% of these reduced rates. Since ADHS continues to approve ambulance rate increases (as requested by providers) throughout the contract year, no significant reductions were taken resulting from these reductions.

Institution for Mental Disease (IMD) Waiver and 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 ADHS/ALS/OBHL, 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 CYE10 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 CYE11 utilization, unit costs and net claims PMPMs for each COS and COA.

VII. Prospective Reinsurance Offsets

The CYE10 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 remained at the same deductible levels as CYE10.

VIII. Prospective Administrative Expenses and Risk Contingency

The administrative expense remained at 8.0% for general administration, which was determined to be appropriate to cover the contractors' average expenses. The risk contingency load also remained 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 CYE11 member months and actual health plan reinsurance deductible levels.

X. Risk Adjustment Factor

For CYE11, AHCCCS will be utilizing the final CYE 10 risk factors and applying them to the CYE11 capitation rates.

XI. Maternity Delivery Payment

The methodology followed in developing the Maternity Delivery Payment was similar to the methodology used in the development of the prospective capitation rates. This methodology involves updating CYE10 rates with utilization and unit cost trends and program changes. The impact is a 0.3% decrease per delivery to the overall global maternity payment rate over the CYE10 rate.

XII. Extended Family Planning Services (FPS)

The methodology followed in developing the FPS rate was similar to the methodology used in the development of the prospective capitation rates. This methodology involves updating CYE10 rates with utilization and unit cost trends and program changes. The impact is a 15.3% decrease to the overall global FPS rate over the CYE10 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. 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
- TANF 45+ M&F

XIV. Prior Period Coverage Rates (PPC)

PPC rates cover the period of time from the first day of retroactive eligibility to the date of eligibility determination. 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 prospective, i.e. 8% and 1%, respectively. The overall statewide impact is a decrease of 16.3%. The PPC rates are reconciled to a maximum 2.0% profit or loss in CYE11.

XV. Final Capitation Rates and Their Impact

Table II below summarizes the adjustments made to the CYE10 rates. The impact to contractors ranges from -11.3% to 0.1%. Individual health plan capitation rates will be impacted as shown in Section B of the contracts.

Table II: Adjustments to CYE10 Rates

AHCCCS Medicaid Managed Care Summary			
Adjustments to CYE10 Rates	Prospective	PPC	Weighted Average
Trend:			
1. Utilization	2.11%	-8.22%	1.03%
2. Inflation	0.71%	0.37%	0.67%
Experience Adjustment			
1. Total	-3.33%	-7.75%	-3.78%
Program Changes			
1. Benefit Changes	-0.75%	n/a	-0.68%
2. Copays	-0.47%	n/a	-0.43%
3. Psych data shift to ADHS	-0.02%	-0.87%	-0.11%
4. HPV Male	0.01%	n/a	0.01%
5. ASC	-0.06%	n/a	-0.05%
6. HPV Female (No longer cover 21-26)	-0.02%	n/a	-0.01%
7. Smoking Cessation	0.06%	n/a	0.06%
Total Percentage Change	-1.16%	-16.32%	-2.88%

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 previously approved contract year ending 2010 (CYE10) 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 Sole Source contracting method.

AA.1.5: Risk contract

AHCCCS limits risk for the MED to 3% profit or lost and the NonMED and PPC risk group to 2% profit or loss.

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

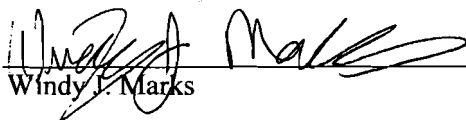
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards 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, 2010.

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. The rates are actuarially sound in aggregate by GSA. Given the distribution of the AHCCCS population, it is not possible to certify that every cell is actuarially sound. Some rate cells do not contain a large enough base of data from which to derive actuarially sound trends.

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

08/31/10
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 &	SSI		TWG
	KidsCare Combined	SSI With Medicare	without Medicare	
Hospital Inpatient	-0.3%	-3.3%	1.4%	-5.4%
Outpatient Facility	1.4%	2.9%	4.2%	0.0%
Emergency Room	3.3%	0.2%	3.7%	5.2%
Primary Care	6.5%	2.7%	6.4%	2.7%
Referral Physician	7.6%	8.2%	8.6%	4.6%
Other Professional	3.9%	2.9%	4.7%	4.6%
Pharmacy	6.1%	11.8%	5.0%	1.8%
Other	n/a	n/a	n/a	n/a

Unit Cost Trends				
Categories of Service	TANF &	SSI		TWG
	KidsCare Combined	SSI With Medicare	without Medicare	
Hospital Inpatient	0.8%	0.0%	1.7%	3.3%
Outpatient Facility	0.5%	0.0%	0.6%	0.1%
Emergency Room	0.4%	0.0%	0.0%	0.0%
Primary Care	0.7%	0.0%	0.6%	0.0%
Referral Physician	0.0%	0.0%	0.0%	0.0%
Other Professional	0.8%	0.0%	0.0%	0.0%
Pharmacy	0.1%	-3.2%	2.2%	-1.0%
Other	n/a	n/a	n/a	n/a

PMPM Trends				
Categories of Service	TANF &	SSI		TWG
	KidsCare Combined	SSI With Medicare	without Medicare	
Hospital Inpatient	0.5%	-3.3%	3.1%	-2.2%
Outpatient Facility	1.9%	2.9%	4.9%	0.1%
Emergency Room	3.7%	0.2%	3.7%	5.2%
Primary Care	7.2%	2.7%	7.0%	2.7%
Referral Physician	7.6%	8.2%	8.6%	4.6%
Other Professional	4.8%	2.9%	4.7%	4.6%
Pharmacy	6.2%	8.2%	7.4%	0.7%
Other	5.3%	3.4%	5.6%	4.9%

Acute Capitation Rate Analysis (Renewal Rates--pending approval)
Point in Time Comparison--no member growth factor
CYE '11
APPENDIX II

			Cap Rate-'10 based on	Total Annual Dollars CYE	Cap Rate-'11 based on	Total Annual Dollars CYE			
		CYE11 Projected	CYE11 Projected Member	'10 based on CYE11	CYE11 Projected	'11 based on CYE11			
		Member Months 1	Months 2	Projected MMs	Member Months 3	Projected MMs	Difference	% Increase	
Title XIX Waiver Group									
	Prospective-MED	84,307	\$ 1,298.00	\$ 109,430,503	\$ 1,397.42	\$ 117,812,307	\$ 8,381,803	7.7%	
	PPC-MED	22,128	\$ 7,245.41	\$ 160,323,270	\$ 6,549.11	\$ 144,915,848	\$ (15,407,422)	-9.6%	
	Total MED	106,435		\$ 269,753,773		\$ 262,728,154	\$ (7,025,619)	-2.6%	
	Prospective-non-MED	2,643,022	\$ 525.23	\$ 1,388,194,667	\$ 487.82	\$ 1,289,319,198	\$ (98,875,469)	-7.1%	
	PPC -non-MED	261,555	\$ 1,089.56	\$ 284,979,407	\$ 864.14	\$ 226,019,774	\$ (58,959,633)	-20.7%	
	Total non-MED	2,904,577		\$ 1,673,174,075		\$ 1,515,338,973	\$ (157,835,102)	-9.4%	
	Total TWG	3,011,012		\$ 1,942,927,848		\$ 1,778,067,127	\$ (164,860,721)	-8.5%	
TXIX									
	<1	607,555	\$ 491.93	\$ 298,874,483	\$ 513.82	\$ 312,173,860	\$ 13,299,377	4.4%	
	1-13	5,304,641	\$ 112.93	\$ 599,053,119	\$ 110.13	\$ 584,200,124	\$ (14,852,995)	-2.5%	
	14-44F	2,650,801	\$ 245.79	\$ 651,540,363	\$ 248.14	\$ 657,769,745	\$ 6,229,382	1.0%	
	14-44M	1,308,848	\$ 148.52	\$ 194,390,049	\$ 158.00	\$ 206,797,924	\$ 12,407,875	6.4%	
	45+	427,696	\$ 407.88	\$ 174,448,526	\$ 407.19	\$ 174,153,416	\$ (295,110)	-0.2%	
	SSI w/Med	844,044	\$ 157.29	\$ 132,759,664	\$ 142.79	\$ 120,521,028	\$ (12,238,636)	-9.2%	
	SSI w/o Med	701,051	\$ 753.95	\$ 528,557,317	\$ 806.22	\$ 565,201,247	\$ 36,643,930	6.9%	
	SFP	36,490	\$ 17.36	\$ 633,466	\$ 14.70	\$ 536,402	\$ (97,063)	-15.3%	
	Delivery Supplemental Payment	37,175	\$ 6,632.39	\$ 246,557,487	\$ 6,612.92	\$ 245,833,694	\$ (723,793)	-0.3%	
	Total Prospective-non-TWG	11,918,300		\$ 2,826,814,473		\$ 2,867,187,440	\$ 40,372,967	1.4%	
	PPC<1	17,337	\$ 1,094.70	\$ 18,978,795	\$ 905.02	\$ 15,690,316	\$ (3,288,479)	-17.3%	
	PPC'1-13	239,395	\$ 67.26	\$ 16,101,727	\$ 58.17	\$ 13,925,623	\$ (2,176,103)	-13.5%	
	PPC '14-44F	161,382	\$ 244.39	\$ 39,440,057	\$ 207.57	\$ 33,497,986	\$ (5,942,072)	-15.1%	
	PPC '14-44M	75,829	\$ 209.84	\$ 15,912,040	\$ 172.08	\$ 13,048,722	\$ (2,863,318)	-18.0%	
	PPC '45+	22,544	\$ 420.94	\$ 9,489,613	\$ 355.17	\$ 8,006,904	\$ (1,482,710)	-15.6%	
	PPC 'SSI w/Med	11,523	\$ 144.59	\$ 1,666,124	\$ 153.78	\$ 1,772,021	\$ 105,897	6.4%	
	PPC 'SSI w/o Med	20,151	\$ 391.59	\$ 7,891,021	\$ 366.31	\$ 7,381,598	\$ (509,423)	-6.5%	
	PPC All non-TWG rate codes	548,161		\$ 109,479,376		\$ 93,323,169	\$ (16,156,207)	-14.8%	
	Total Title XIX-non-TWG	12,466,461		\$ 2,936,293,850		\$ 2,960,510,609	\$ 24,216,760	0.8%	
Grand Total Capitation				\$ 4,879,221,698		\$ 4,738,577,736	\$ (140,643,962)	-2.9%	

¹Population estimates for CYE 2011 are taken from DBF projections.

²Reinsurance levels are the same level for plans in CYE10 as CYE11 with two plans at the \$35,000 level and the rest at \$20,000

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.

AHCCCS is anticipating implementation of significant reductions to inpatient and outpatient hospital reimbursement via rate reductions and adult benefit limitations on April 1, 2011. Other provider types may also be impacted by sizeable rate reductions. AHCCCS expects that the capitation rates for all affected risk groups will be adjusted via a January 1, 2011 contract amendment to account for the savings resulting from these reductions to hospital reimbursement and other possible services. A contract amendment including revised rates is anticipated to be submitted to CMS for approval no later than December 1, 2010.

II. Overview of Rate Setting Methodology:

The contract year ending 2011 (CYE11) rates were developed as a rate update from the previously approved contract year ending 2010 (CYE10) capitation rates and represent the contract period October 1, 2010, through September 30, 2011, which is twelve months.

In updating the ALTCS rates, various sources of information were used including encounter data, audited and quarterly financial statements, fee for service rate adjustments, home based services fee schedule rebase, and changes in placement in home and community based services (HCBS). For the trends, a cap amount was set to limit the negative and positive trends to reasonable levels.

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 will have three rate cells: a prospective rate, a prior period coverage (PPC) rate and an Acute Care Only rate. Arizona Health Care Cost Containment System (AHCCCS) rates for the ALTCS population do not differ by gender and/or age, but do differ by Geographical Service Area (GSA).

The encounter and audited financial experience only include ALTCS Medicaid eligible expenses for ALTCS Medicaid eligible individuals. Non-covered services have been removed from the data. In addition, the experience includes reinsurance amounts and share of cost (SOC).

The general process for the prospective rate calculation involves trending the CYE10 capitation rates to the midpoint of the effective period, which is April 1, 2011, and applying the mix percentage. The next step involves adjustments for share of cost offsets and, if applicable, any program changes. In the final step, the projected administrative expenses, risk/contingency margin and premium tax are added to the projected claim per member per month values (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. Due to experience emerging differently than expected AHCCCS continues to perform a recalibration of the rate cells as well as some recalibrations of the categories of service. The recalibrations were performed by using CYE09 encounter data and CYE10 year-to-date (YTD) financial information, trended forward.

III. Projected Trend Rates

The trend analysis includes both the financial and encounter data experiences. Financial data experience is from October 2006 through March 2010. Encounter data experience is from October 2006 through September 2009. The claim PMPMs were computed on a yearly basis and a trend factor was calculated. These encounter and financial trend factors were compared with trend rates from sources such as the changes to the State's fee-for-service (FFS) schedules and PCs' subcontracted rates. The trend rates developed were used to bring the base encounter data to the effective midpoint of the contract year.

The CYE11 cost trends for the Nursing Facility (NF) and Home and Community Based Services (HCBS) components were selected from changes to the State's FFS schedule effective October 1, 2010 which includes a home based services fee schedule rebase. The historical cost trends were selected from past historical encounter data, PC financial statements, and changes to the FFS schedules over the past few years that are not reflected in the encounter data. Utilization trends for both the NF and HCBS components were based on encounter data experience. For the Acute Care component, the trends were developed using both the encounter data and financial information and future FFS schedule changes. The Case Management trends were developed using the AHCCCS Case Management model as well as looking at financial data. The trend rates used in projecting the claim costs are identified in Table I.

Table I: Average Annual Trend Rate before Mix and SOC

Service Category	Combine
Nursing Facility	4.1%
HCBS	-3.9%
Acute	1.6%
Case Management	-3.0%

Starting October 1, 2008, in accordance with Laws 2008, Chapter 131, AHCCCS added coverage for eligible tobacco cessation products which include nicotine

replacement therapy (NRT) and tobacco use medications for eligible Title XIX AHCCCS members who wish to stop tobacco use and who are enrolled in a tobacco cessation program offered by the Arizona Department of Health Services. This program has been effective for almost two years, therefore making it possible to review how actual experience matches up with the initial projections. The review is based on encounter utilization and costs data for CYE09 and CYE10 (YTD). AHCCCS determined EPD members were utilizing services at a lesser extent than included in last year's projection. Based upon this review AHCCCS is decreasing the amount included for tobacco cessation products in the capitation rates. The statewide impact to the EPD program for CYE11 is a decrease of approximately \$31,000.

IV. Overview of Provider Rates

HCBS Provider Rates

As required by Arizona Revised Statutes §36-2959(C), the AHCCCS Administration has completed a study of reimbursement rates to ALTCS home-based service providers. The last complete study of ALTCS home-based rates was conducted in 2004-2005 for rates effective October 1, 2005.

The AHCCCS study included analysis of programmatic, capital, administrative and indirect, and transportation costs. Cost differences between urban and rural providers were also analyzed. Data sources included provider surveys, cost reports, the US Bureau of Labor Statistics, the Arizona Department of Commerce, and IHS Global Insights.

This study indicated an aggregate home-based services provider rate decrease of 2.5%. This results in a savings of approximately \$6.7 million over a flat provider rate assumption.

All Other Provider Rates

State legislation, Laws 2010, 7th Special Session, Chapter 10, Section 25, mandates that "...for rates effective October 1, 2010 through September 30, 2011, (AHCCCS) shall not increase the institutional or non-institutional schedule rates above the rates in effect on September 30, 2010." This has been factored into the unit cost trends of the capitation rates. It is anticipated that Contractors will implement the same or similar freeze.

V. Projected Gross Claim PMPM

The CYE10 rates reflect the 12-month period of October 1, 2009, through September 30, 2010, therefore, the midpoint of the CYE10 rate period is April 1, 2010. The contract period for CYE11 rates is October 1, 2010, through September 30, 2011, so the midpoint is April 1, 2011. The claims' PMPMs were trended from the midpoint of the CYE10 rate period to the midpoint of the CYE11 rate period.

VI. Mix Percentage

The CYE11 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, over an 18-month period. The HCBS and NF placement percentages can be found in Table II.

Table II: Combined Mix Percentages Weighted

GSA	CYE10		CYE11		Difference HCBS Mix
	NF Mix	HCBS Mix	NF Mix	HCBS Mix	
GSA 40 (Pinal, Gila)	26.00%	74.00%	24.55%	75.45%	1.45%
GSA 42 (LaPaz, Yuma)	45.00%	55.00%	40.65%	59.35%	4.35%
GSA 44 (Apache, Coconino, Mohave, Navajo)	36.00%	64.00%	33.30%	66.70%	2.70%
GSA 46 (Cochise, Graham, Greenlee)	41.00%	59.00%	39.30%	60.70%	1.70%
GSA 48 (Yavapai)	42.00%	58.00%	40.13%	59.87%	1.87%
GSA 50 (Pima, Santa Cruz)	36.00%	64.00%	33.40%	66.60%	2.60%
GSA 52 (Maricopa)	29.17%	70.83%	26.61%	73.39%	2.56%
Statewide	32.04%	67.96%	29.53%	70.47%	2.51%

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

Impacts of several program changes were incorporated in the CYE11 capitation rates due to State and Federal mandates described below.

Benefit Redesign Change

Effective October 1, 2010 AHCCCS will be implementing the following benefit changes for adult members:

- Eliminate coverage of insulin pumps, percussive vests, bone-anchored hearing aids, cochlear implants and orthotics. Supplies, equipment maintenance and repair of component parts will remain a covered benefit.
- Eliminate coverage of well visits, microprocessor controlled lower limbs and microprocessor controlled joints for lower limbs.
- Eliminate emergency dental except for medical and surgical oral services, that can be provided by a physician or dentist, when those services would be considered a physician service if furnished by a physician.
- Eliminate services provided by a podiatrist.
- Limit outpatient physical therapy to 15 visits per contract year.
- Eliminate coverage of certain transplants (pancreas after kidney transplants, lung transplants, allogeneic unrelated hematopoietic cell (bone marrow) transplants, liver transplants for those with a diagnosis of Hepatitis C, and heart transplants for non-ischemic cardiomyopathies).

For adult members with Medicare, AHCCCS will continue to pay cost-sharing for Qualified Medicare Beneficiaries (QMB) when the services noted above are covered

by Medicare. AHCCCS will not pay cost-sharing for excluded services for non-QMB Medicare members.

The estimated savings for the EPD program is approximately \$1.4 million statewide.

Human Papillomavirus (HPV) Vaccine Administration

Federal law requires that AHCCCS cover the human papillomavirus (HPV) vaccine as part of the EPSDT benefit package for all females aged 11-20. The law was recently revised to also include males aged 11-20. For males and females through age 18, the vaccine is covered under the Vaccines for Children Program described in Section D: Program Requirements of the contract. Contractors are only responsible for the administration costs through age 18, but are responsible for both vaccine and administration above age 18. In addition, AHCCCS currently covers women aged 21-26. As of October 1, 2010, AHCCCS will no longer cover women aged 21-26. These offsetting changes result in no impact to the capitation rates.

ADHS Regulated Transportation

In accordance with Laws 2010, 2nd Regular Session, Chapter 86, Section 7, AHCCCS will pay 76% of ADHS-regulated ambulance rates approved as of September 30, 2010. Ambulance rate increases approved by ADHS from October 1, 2010 through September 30, 2011 will be reduced by AHCCCS by the amount of the authorized increase, not to exceed 5%, per Laws 2010, 7th Special Session, Chapter 10, Section 25(B). AHCCCS will pay 76% of these reduced rates. Since ADHS continues to approve ambulance rate increases (as requested by providers) throughout the contract year, no significant reductions were taken resulting from these reductions.

Institution for Mental Disease (IMD) Waiver and 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 ADHS/ALS/OBHL, in lieu of services in an inpatient non-specialty hospital, thus no increase to cap rates is included.

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 PC. (The reinsurance offset is already included in the acute care component of the rates for the EPD population.)

IX. Administrative Expenses and Risk Contingency

The administrative expenses range from 4.5% to 7.8% of medical expenses plus case management. The risk contingency is 1% of the total capitation rate, excluding SOC.

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 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, combining dual and non-dual risk groups.

Table III: Statewide Projected Net Capitation PMPM EPD Combined

Service Category	Gross CYE10 Rate	Mix	Net CYE10 Rate	% Gross Change	% Net Change	Gross CYE11 Rate	Mix	Net CYE11 Rate
Nursing Facility	\$ 5,203.56	32.04%	\$ 1,667.22	4.1%	-4.0%	\$ 5,418.42	29.53%	\$ 1,600.06
Share of Cost			\$ (242.12)		2.2%			\$ (247.44)
Net Nursing Facility			\$ 1,425.10		-5.1%			\$ 1,352.62
Home and Community (HCBS)	\$ 1,701.93	67.96%	\$ 1,156.63	-3.9%	-0.4%	\$ 1,635.06	70.47%	\$ 1,152.23
Case Management			\$ 118.38		-3.0%			\$ 114.80
Acute Care			\$ 406.25		1.6%			\$ 412.61
Administration			\$ 209.30		-1.9%			\$ 205.27
Risk Contingency			\$ 33.16		-2.4%			\$ 32.38
Premium Tax			\$ 68.34		-2.4%			\$ 66.73
Net Capitation PMPM			\$ 3,417.16		-2.4%			\$ 3,336.64

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 ten percent profit/loss corridor.

AHCCCS used the actual PPC cost and PPC enrollment data for CYE07, CYE08 and CYE09 as the base in the development of the CYE11 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 CYE11 projected member months. The adjustments impact contractors ranging from -6.6% to 2.3%. Appendix I shows EPD rates by county and program contractor.

Table IV: Proposed Capitation Rates and Budget Impact

Rate Cell	CYE11 Projected MMs	CYE10 Rate	CYE11 Rate	Based on CYE11 Annualized Projected Member Months		Percentage Impact on CYE 10 estimated capitation
				Estimated CYE10 Capitation	Estimated CYE11 Capitation	
EPD	307,684	\$ 3,417.16	\$ 3,336.64	\$ 1,051,407,859	\$ 1,026,631,824	-2.4%
PPC	10,314	\$ 975.35	\$ 1,007.41	\$ 10,059,938	\$ 10,390,599	3.3%
Acute Only	4,646	\$ 542.05	\$ 578.48	\$ 2,518,237	\$ 2,687,483	6.7%
Total				\$ 1,063,986,034	\$ 1,039,709,906	-2.3%

XIV. CMS Rate Setting Checklist

1. Overview of rate setting methodology

AA.1.0: Overview of rate setting methodology

AHCCCS is performing a rate update from the previously approved contract year ending 2010 (CYE10) 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 Sole Source 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.

XV. Actuarial Certification of the Capitation Rates:

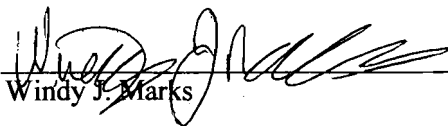
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards 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, 2010.

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.


Windy J. Marks

09/30/10
Date

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

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Pinal LTC</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 40 (Pinal and Gila)		
	Gross	MIX	Net
Nursing Facility	\$ 5,326.66	24.5%	\$ 1,307.43
Share of Cost (Cap)			\$ (212.17)
Net Nursing Facility			\$ 1,095.26
HCBS Home and Community	\$ 1,754.75	75.5%	\$ 1,324.05
Net HCBS			\$ 1,324.05
Acute			\$ 428.03
Case Management			\$ 133.85
Admin			\$ 250.12
Risk/Contingency			\$ 32.31
Net Capitation			\$ 3,263.62
Premium Tax (98% of Final Cap)			\$ 66.60
Net Cap w/ Premium Tax			\$ 3,330.22
Rates are the same for Dual and Nondual members			

APPENDIX I

AHCCCS Capitation Calculation For Rates - Pinal LTC CYE 11 Rates Effective October 1, 2010

Rate Cells	GSA 40 (Pinal and Gila)
Acute Care Only	\$ 624.32
Prior Period Coverage	\$ 995.40
Rates include premium tax Rates are the same for Dual and Nondual members	

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Bridgeway</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 42 (LaPaz and Yuma)		
	Gross	MIX	Net
Nursing Facility	\$ 5,078.68	40.7%	\$ 2,064.48
Share of Cost (Cap)			\$ (290.22)
Net Nursing Facility			\$ 1,774.26
HCBS Home and Community	\$ 1,213.72	59.4%	\$ 720.34
Net HCBS			\$ 720.34
Acute			\$ 300.42
Case Management			\$ 121.78
Admin			\$ 228.12
Risk/Contingency			\$ 31.45
Net Capitation			\$ 3,176.37
Premium Tax (98% of Final Cap)			\$ 64.82
Net Cap w/ Premium Tax			\$ 3,241.19
Rates are the same for Dual and Nondual members			

APPENIDX I

AHCCCS Capitation Calculation For Rates - <u>Bridgeway</u> CYE 11 Rates Effective October 1, 2010	
Rate Cells	GSA 42 (LaPaz and Yuma)
Acute Care Only	\$ 466.31
Prior Period Coverage	\$ 995.40
Rates include premium tax Rates are the same for Dual and Nondual members	

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Evercare</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 44 (Apache, Coconino, Mohave and Navajo)		
	Gross	MIX	Net
Nursing Facility	\$ 5,183.67	33.3%	\$ 1,726.16
Share of Cost (Cap)			\$ (304.75)
Net Nursing Facility			\$ 1,421.41
HCBS Home and Community	\$ 1,054.88	66.7%	\$ 703.60
Net HCBS			\$ 703.60
Acute			\$ 415.19
Case Management			\$ 134.10
Admin			\$ 200.58
Risk/Contingency			\$ 28.75
Net Capitation			\$ 2,903.63
Premium Tax (98% of Final Cap)			\$ 59.26
Net Cap w/ Premium Tax			\$ 2,962.89
Rates are the same for Dual and Nondual members			

APPENDIX I

AHCCCS Capitation Calculation For Rates - <u>Evercare</u> CYE 11 Rates Effective October 1, 2010	
GSA 44	GSA 44 (Apache, Coconino, Mohave and Navajo)
Acute Care Only	\$ 607.27
Prior Period Coverage	\$ 995.40
Rates include premium tax Rates are the same for Dual and Nondual members	

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Cochise LTC</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 46 (Cochise, Graham and Greenlee)		
	Gross	MIX	Net
Nursing Facility	\$ 4,643.66	39.3%	\$ 1,824.96
Share of Cost (Cap)			\$ (343.32)
Net Nursing Facility			\$ 1,481.64
HCBS Home and Community	\$ 1,316.25	60.7%	\$ 798.96
Net HCBS			\$ 798.96
Acute			\$ 377.33
Case Management			\$ 110.20
Admin			\$ 206.51
Risk/Contingency			\$ 29.75
Net Capitation			\$ 3,004.39
Premium Tax (98% of Final Cap)			\$ 61.31
Net Cap w/ Premium Tax			\$ 3,065.70

Rates are the same for Dual and Nondual members

APPENDIX I

AHCCCS Capitation Calculation For Rates - Cochise LTC CYE 11 Rates Effective October 1, 2010

Rate Cells	GSA 46 (Cochise, Graham and Greenlee)
Acute Care Only	\$ 539.72
Prior Period Coverage	\$ 995.40
Rates include premium tax Rates are the same for Dual and Nondual members	

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Yavapai LTC</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 48 (Yavapai)		
	Gross	MIX	Net
Nursing Facility	\$ 5,189.54	40.1%	\$ 2,082.30
Share of Cost (Cap)			\$ (379.10)
Net Nursing Facility			\$ 1,703.20
HCBS Home and Community	\$ 1,730.68	59.9%	\$ 1,036.24
Net HCBS			\$ 1,036.24
Acute			\$ 366.53
Case Management			\$ 97.45
Admin			\$ 250.43
Risk/Contingency			\$ 34.54
Net Capitation			\$ 3,488.39
Premium Tax (98% of Final Cap)			\$ 71.19
Net Cap w/ Premium Tax			\$ 3,559.58
Rates are the same for Dual and Nondual members			

APPENDIX I

**AHCCCS Capitation
Calculation For Rates - Yavapai
LTC CYE 11 Rates Effective
October 1, 2010**

Rate Cells	GSA 48 (Yavapai)
Acute Care Only	\$ 620.81
Prior Period Coverage	\$ 995.40

Rates include premium tax
Rates are the same for Dual and Nondual members

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Pima LTC</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 50 (Pima and Santa Cruz)		
	Gross	MIX	Net
Nursing Facility	\$ 5,510.43	33.4%	\$ 1,840.48
Share of Cost (Cap)			\$ (265.64)
Net Nursing Facility			\$ 1,574.84
HCBS Home and Community	\$ 1,871.12	66.6%	\$ 1,246.17
Net HCBS			\$ 1,246.17
Acute			\$ 398.91
Case Management			\$ 119.49
Admin			\$ 217.51
Risk/Contingency			\$ 35.57
Net Capitation			\$ 3,592.49
Premium Tax (98% of Final Cap)			\$ 73.32
Net Cap w/ Premium Tax			\$ 3,665.81
Rates are the same for Dual and Nondual members			

APPENDIX I

AHCCCS Capitation Calculation For Rates - <u>Pima LTC</u> CYE 11 Rates Effective October 1, 2010	
Rate Cells	GSA 50 (Pima and Santa Cruz)
Acute Care Only	\$ 565.46
Prior Period Coverage	\$ 973.89
Rates include premium tax Rates are the same for Dual and Nondual members	

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Bridgeway</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 52 (Maricopa)		
	Gross	MIX	Net
Nursing Facility	\$ 5,510.12	27.2%	\$ 1,498.75
Share of Cost (Cap)			\$ (232.39)
Net Nursing Facility			\$ 1,266.36
HCBS Home and Community	\$ 1,610.78	72.8%	\$ 1,172.65
Net HCBS			\$ 1,172.65
Acute			\$ 392.88
Case Management			\$ 116.59
Admin			\$ 243.33
Risk/Contingency			\$ 31.92
Net Capitation			\$ 3,223.73
Premium Tax (98% of Final Cap)			\$ 65.79
Net Cap w/ Premium Tax			\$ 3,289.52
Rates are the same for Dual and Nondual members			

APPENDIX I

AHCCCS Capitation Calculation For Rates - Bridgeway CYE 11 Rates Effective October 1, 2010

Rate Cells	GSA 52 (Maricopa)
Acute Care Only	\$ 563.59
Prior Period Coverage	\$ 1,021.40
Rates include premium tax Rates are the same for Dual and Nondual members	

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Evercare</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 52 (Maricopa)		
	Maricopa		
	Gross	MIX	Net
Nursing Facility	\$ 5,477.12	38.2%	\$ 2,091.99
Share of Cost (Cap)			\$ (328.84)
Net Nursing Facility			\$ 1,763.15
HCBS Home and Community	\$ 1,706.11	61.8%	\$ 1,054.46
Net HCBS			\$ 1,054.46
Acute			\$ 230.67
Case Management			\$ 134.80
Admin			\$ 241.25
Risk/Contingency			\$ 34.24
Net Capitation			\$ 3,458.57
Premium Tax (98% of Final Cap)			\$ 70.58
Net Cap w/ Premium Tax			\$ 3,529.15
Rates are the same for Dual and Nondual members			

APPENDIX I

AHCCCS Capitation Calculation For Rates - Evercare CYE 11 Rates Effective October 1, 2010

Rate Cells	GSA 52 (Maricopa)
Acute Care Only	\$ 403.38
Prior Period Coverage	\$ 1,021.40
Rates include premium tax Rates are the same for Dual and Nondual members	

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>Mercy Care</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 52 (Maricopa)		
	Maricopa		
	Gross	MIX	Net
Nursing Facility	\$ 5,541.96	25.6%	\$ 1,417.63
Share of Cost (Cap)			\$ (203.32)
Net Nursing Facility			\$ 1,214.31
HCBS Home and Community	\$ 1,644.03	74.4%	\$ 1,223.49
Net HCBS			\$ 1,223.49
Acute			\$ 459.30
Case Management			\$ 96.02
Admin			\$ 149.81
Risk/Contingency			\$ 31.43
Net Capitation			\$ 3,174.36
Premium Tax (98% of Final Cap)			\$ 64.78
Net Cap w/ Premium Tax			\$ 3,239.14
Rates are the same for Dual and Nondual members			

APPENDIX I

Capitation Calculation For Rates - Mercy Care CYE 11 Rates Effective October 1, 2010

Rate Cells	GSA 52 (Maricopa)
Acute Care Only	\$ 598.53
Prior Period Coverage	\$ 1,021.40
Rates include premium tax Rates are the same for Dual and Nondual members	

APPENDIX I

AHCCCS Capitation Calculation For Rates - Combine Member Rates - <u>SCAN</u> CYE 11 Rates Effective October 1, 2010			
Service Category	GSA 52 (Maricopa)		
	Maricopa		
	Gross	MIX	Net
Nursing Facility	\$ 5,617.47	24.7%	\$ 1,387.52
Share of Cost (Cap)			\$ (226.31)
Net Nursing Facility			\$ 1,161.21
HCBS Home and Community	\$ 1,652.55	75.3%	\$ 1,244.37
Net HCBS			\$ 1,244.37
Acute			\$ 437.47
Case Management			\$ 132.43
Admin			\$ 245.65
Risk/Contingency			\$ 32.21
Net Capitation			\$ 3,253.34
Premium Tax (98% of Final Cap)			\$ 66.39
Net Cap w/ Premium Tax			\$ 3,319.73
Rates are the same for Dual and Nondual members			

APPENDIX I

AHCCCS Capitation Calculation For Rates - SCAN CYE 11 Rates Effective October 1, 2010

Rate Cells	GSA 52 (Maricopa)
Acute Care Only	\$ 629.63
Prior Period Coverage	\$ 1,021.40
Rates include premium tax Rates are the same for Dual and Nondual members	

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Gerry Smedinghoff
Senior Associate

Government Human Services Consulting
3131 East Camelback Road, Suite 300
Phoenix, AZ 85016
602 522 6500 Fax 602 957 9573

August 31, 2010

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



Final and Confidential

Subject: Title XIX, Title XXI and Proposition 204 Capitation Rates for Contract Year 2011

Dear Ms. Agostinelli:

The Arizona Department of Health Services (ADHS), Office for Children with Special Health Care Needs (OCSHCN), Children's Rehabilitative Services (CRS) program contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC to develop capitation rates for the Title XIX, Title XXI and Proposition 204 populations. These rates are used by the Arizona Health Care Cost Containment System (AHCCCS) to compensate CRS and the CRS contractor for CRS members who are Title XIX, Title XXI or Proposition 204 eligible during the Contract Year. For the Contract Year beginning October 1, 2010, and ending September 30, 2011 (Contract Year End (CYE) 2011), Mercer has developed capitation rates following the process described in this letter.

Background

CRS is primarily a children's program for Arizona residents under the age of 21 with chronic and disabling, or potentially disabling, conditions. The program provides services through one statewide contractor. Medical services not related to a child's CRS-eligible condition are provided through the child's AHCCCS health plan.

Three capitation rates are developed for compensating the CRS contractor based upon a member's CRS enrollment diagnosis. The three rates represent compensation for providing services to members with specific diagnoses that have historically represented relatively high, medium and low costs to the CRS contractor. The High, Medium and Low capitation risk group structure includes small numbers of the Qualified Medicare Beneficiary (QMB)

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

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August 31, 2010
Ms. Joan Agostinelli
Arizona Department of Health Services

Plus, Medicaid [non-QMB and non-Specified Low-income Medicare Beneficiary (SLMB)] and SLMB Plus dual eligible populations. No other dual eligible populations are enrolled in the program. In Mercer's opinion, the High, Medium and Low capitation rate cells most appropriately match payment with risk in the CRS program, and hence provide a greater level of actuarial soundness than other approaches. The three-tier rate structure will continue to be used for CYE 2011.

CYE 2011 Capitation Rate Development Methodology – Overview

CYE 2011 marks the sixth year that contractor encounters have been used as the base data source. The CYE 2011 rates have been re-based.

Base Data

The CYEs 2008 and 2009 contractor encounter data were valued using a combination of contractor paid amounts and Medicaid (AHCCCS) fee schedule allowed amounts, incorporating a methodology in conjunction with Third Party Liability (TPL) cost avoidance and any pay-and-chase recoveries. CYE 2008 encounters were trended forward to a "modeled CYE 2009" level and blended with the actual CYE 2009 encounters to further enhance the credibility of the base data.

With three years of encounter data, CYE 2007 through CYE 2009, CRS Administration and Mercer performed a thorough analysis and kept the High, Medium and Low diagnostic groupings consistent with the prior year.

The CRS program falls under Arizona's 1115 waiver. Mercer performed a review of the CRS subcontractor submitted data and determined that the data included a small amount of non-covered services, which have been excluded from the base data.

Base Data Adjustments

1. Unpaid Claims Liability

The CYE 2008 and 2009 base data consist of encounters with dates of service beginning October 1, 2007, and ending September 30, 2009. Encounters were analyzed with a run-out

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period of six months beyond the September 30, 2009 endpoint, from data extracted in April 2010.

The next step in the base data analysis process was a review of the CRS contractors' expense component for claims incurred but unpaid, hereinafter called the unpaid claims liability (UCL). The UCL is the sum of claims incurred but not reported, plus those claims reported but not yet paid. Statutory accounting recognizes an incurred medical expense for the period as the result of the sum of claims paid in the period, plus the change in the accrued liability for the UCL between the beginning and the end of the period. This calculation pushes the correction of the estimation error of the beginning UCL into the expense recognized in the current period. However, the expense that should be recognized in base data development is calculated from claims incurred in the CYEs 2008 and 2009 experience period, both claims paid in CYEs 2008 and 2009 and the accrued liability for the UCL as of the end of CYE 2009.

A review of the contractors' CYE 2009 encounters indicated that there were outstanding claims as of the April 2010 data extract. The overall adjustment for CYE 2009 encounters received beyond the April 2010 data extract was approximately \$1.4 million, or 0.9 percent, over the two-year base period.

2. Completion for "Omissions"

As part of its 1115 waiver provisions, AHCCCS performs annual data validation studies of encounters. AHCCCS tests for completeness, accuracy and timeliness of encounter submissions based upon statistically valid sampling of both professional and facility encounters, comparing them against medical records. Mercer used the results of the most recently completed data validation study to develop factors to apply to the base CRS data to further complete the encounters for these "omissions." Mercer and CRS Administration used (with some downward adjustment which lowered the overall impact) the factors shown by AHCCCS, which vary between facility and professional consolidated categories of service (COS). The overall impact of this correcting adjustment is approximately \$2.0 million, or 1.3 percent, for CYE 2008. No data validation adjustment was applied to CYE 2009 encounters because APIPA provided the source encounter data directly.

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3. AHCCCS Inpatient Outlier Methodology Change

Starting on October 1, 2007, AHCCCS began a three-year phase-in of a new inpatient outlier methodology (specific to the cost-to-charge ratios used to qualify and pay outliers). CYE 2010 marks Year 3 of the phase-in, so the outliers in the base CYE 2008 and CYE 2009 encounters were re-priced using the new methodology. This change reduced the two-year base data by approximately \$1.6 million, or 1.1 percent.

The following table summarizes the adjustments to the two-year base data.

Base Data Adjustment	Dollar Impact	Percent Impact
Unpaid Claims Liability	\$1.4 million	0.9%
Completion for "Omissions"	\$2.0 million	1.3%
IP Outlier Methodology Change	(\$1.6 million)	(1.1%)

Trend to CYE 2011

The CYE 2008 trended (modeled CYE 2009) and CYE 2009 encounter cost data were trended forward 24 months to CYE 2011. The trend factors recognize changes in cost-per-service unit and utilization of health care services from the CYEs 2008 and 2009 base period to CYE 2011. Unique trends were applied separately for ten COS. Trends were developed separately for the first 12 and last 12 months of the 24-month period to account for the unit cost rate caps and reductions mandated by the State legislature effective on October 1, 2009 and 2010. Inpatient and outpatient facility unit cost were frozen at 0.0 percent for both CYE 2009 and 2010, while most of the COS unit cost trends reflect a -5.0 percent reduction effective October 1, 2009. The weighted annual trend adjustment for CYE 2008 and CYE 2009 to CYE 2011 was 1.9 percent (2.9 percent utilization and -0.9 percent unit cost).

Mercer relied heavily on historical CRS encounter information as well as its professional experience in working with other state Medicaid programs, outlooks in the commercial marketplace that influence Medicaid programs, regional and national economic indicators and general price/wage inflation in developing trends. The 1.9 percent annualized weighted trend compares favorably with (is lower than) historical experience trend. Mercer believes the final trend factors selected to be reasonable and appropriate.



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Service Utilization and Technology Changes from Base Data to CYE 2011

Service utilization increases and technology changes not reflected (or not fully reflected) within the CYE 2008 base data will impact the CRS contractor for CYE 2011. Adjustments for CYE 2011 were made only to the CYE 2008 base data for the following items through analyzing data from CRS, the AHCCCS contractors and external sources:

1. Biotech Drugs

Effective CYE 2009, the coverage of the high-cost drugs Aldurazyme, Cerezyme, Elaprase, Fabrazyme, Myozyme and Orfadin was transferred from AHCCCS to CRS. To best account for the actual costs of these new drugs, along with the uniform pricing of the new statewide pharmacy vendor contract, pharmacy utilization and costs for CYE 2008 data under the prior contractors were ignored and CYE 2009 encounters were weighted in the model at 100 percent. Thus, no adjustment was necessary to account for this new benefit in CYE 2009.

2. Cochlear Implants

Effective CYE 2009, the coverage of cochlear implants and related services was transferred from AHCCCS to CRS. The total impact of this change is approximately \$761,000, or 1.0 percent, of the CYE 2008 base period.

Effective CYE 2011, the standard of care for cochlear implants will be expanded to include both ears, instead of only one. The cost of this change is calculated as the incremental increase of surgeries for one implant to two implants for those who normally would receive a cochlear implant during the year, plus the cost of additional cochlear implants into the second ear for some children who already have implants in one ear. The total impact of this change is approximately \$1,550,000 or 1.1 percent of the two-year base period data.

3. Motorized Wheelchairs

Effective CYE 2009, the coverage of motorized wheelchairs related to CRS eligible conditions was transferred from AHCCCS to CRS. The total impact of this change is approximately \$286,000, or 0.4 percent, of the CYE 2008 base period.

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4. CRS Related Conditions

Effective CYE 2009, the coverage of conditions related to or caused by CRS conditions (e.g., diabetes caused by cystic fibrosis and failure to thrive caused by Cerebral Palsy) was transferred from AHCCCS to CRS. The total impact of this change is approximately \$64,000, or less than 0.1 percent, of the CYE 2008 base period.

5. Therapies

Effective CYE 2009, the CRS limit of 24 therapy sessions was lifted. The total impact of lifting the limit is estimated to be \$6,000, or less than 0.01 percent, of the CYE 2008 base period.

6. Emergency Services

The new CRS contractor has a significantly expanded hospital network as compared to the previous contractors which comprise the CYE 2008 base data. As a result of this, the Contractor is financially responsible for coverage of the related emergency services (that result in an inpatient admission) in those facilities effective CYE 2009, previously covered by AHCCCS non-CRS Contractors. The total impact of this change is \$830,000, or 1.2 percent, of the CYE 2008 base period.

7. Transfer Outpatient Emergency Services to AHCCCS

Costs for outpatient emergency services, which do not result in a hospital admission were transferred from the CRS contractor to the AHCCCS contractors effective October 1, 2009. The total impact of this change is approximately \$71,000 or 0.1 percent, of the CYE 2008 base period and \$73,000 or 0.1 percent of the CYE 2009 base.

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The following table summarizes the future benefit adjustments to the CYE 2008 and CYE 2009 base data.

Benefit Adjustment	CYE '08 Dollar Impact	Percent Impact	CYE '09 Dollar Impact	Percent Impact
Biotech Drugs	N/A	N/A	N/A	N/A
Cochlear Implants	\$1,400,000	2.0%	\$780,000	1.1%
Motorized Wheelchairs	\$286,000	0.4%	N/A	N/A
CRS-Related Conditions	\$64,000	0.1%	N/A	N/A
Therapies	\$6,000	< 0.1%	N/A	N/A
Emergency Services	\$830,000	1.2%	N/A	N/A
OP ER Transfer to AHCCCS	(\$71,000)	(0.1%)	(\$73,000)	(0.1%)

Loading for Contractor Administration and Underwriting Profit/Risk/Contingency

The overall CYE 2011 administrative expense load for the CRS Contractor is 9.6 percent. This represents no change from the CYE 2010 loading.

An underwriting profit/risk/contingency loading of 2.0 percent was applied uniformly to all rates. There should be an assumed margin for contribution to entity surplus and adverse claim risk contingency. The 2.0 percent represents a 0.5 percent increase from CYE 2010 and restores the loading to the CYE 2009 level. The risk-sharing mechanism, risk corridor, allowing the State and the contractor to share in gains and losses, has been eliminated for CYE 2011.

CRS Administration

AHCCCS has placed CRS Administration at risk for the provision of CRS-covered services for CYE 2011. Accordingly, the capitation rates were developed to include compensation to CRS for the cost of ensuring the delivery of all CRS-covered services. The capitation rates paid to CRS include a 4.4 percent administrative load. This is down from the 5.6 percent load

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for CYE 2010. The administrative load represents the CRS costs of ensuring the efficient delivery of services in a managed care environment and is based upon historical CRS costs and accounts for continued regulatory oversight cost expectations for CYE 2011.

Reinsurance Offset

CRS Administration has negotiated a reinsurance arrangement with AHCCCS for CYE 2011 that remains the same as it was in CYE 2009 and CYE 2010. The arrangement covers inpatient claims exceeding \$75,000 at 75 percent reimbursement. It also covers the high-cost biotech drugs Aldurazyme, Cerezyme, Elaprase, Fabrazyme, Kuvan, Myozyme and Orfadin at 85 percent reimbursement. Mercer estimated the value of the reinsurance by analyzing data from CRS, the CRS contractor, the AHCCCS contractors and external sources. Reimbursement amounts were estimated for the High, Medium and Low risk groups for CYE 2008 and CYE 2009 and each was trended forward to the CYE 2011 time period. These totals were then blended using a 50-50 weighting on projected CYEs 2008 and 2009 base data.

Hospital Reimbursement and Other Reductions

AHCCCS is anticipating implementation of significant reductions to inpatient and outpatient hospital reimbursement via rate reductions and adult benefit limitations on April 1, 2011. Other provider types may also be impacted by sizeable rate reductions. AHCCCS expects that the capitation rates for all affected risk groups will be adjusted via a January 1, 2011 contract amendment, to account for the savings resulting from these reductions to hospital reimbursement and other possible services. A contract amendment including revised rates is anticipated to be submitted to CMS for approval no later than December 1, 2010.

Certification of Rates

In preparing the Title XIX, Title XXI and Proposition 204 CRS capitation rates shown below, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design and financial data and information supplied by the State. The State is responsible for the validity and completeness of this supplied data and information. Mercer reviewed the data and information for internal consistency and reasonableness but did not audit it. In Mercer's 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.

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Mercer certifies that the CYE 2011 rates, including any 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 CRS 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 Health Maintenance Organization (HMO) costs will differ from these projections. Mercer has developed these rates on behalf of the State to demonstrate compliance with the Centers for Medicare and Medicaid Services (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.

HMOs 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 HMOs for any purpose. Mercer recommends that any HMO considering contracting with the State should analyze its own projected medical expense, administrative expense and any other premium needs for comparison to these rates before deciding whether to contract with the State.

This certification letter assumes the reader is familiar with the CRS program, Medicaid eligibility rules and actuarial rating techniques. It is intended for the State 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.

Risk Category	High	Medium	Low
Statewide Rates	\$1,124.82	\$550.67	\$267.05
AHCCCS Reinsurance	(\$307.17)	(\$14.34)	(\$2.51)
Net Rates After Reinsurance	\$817.65	\$536.33	\$264.54

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Arizona Department of Health Services

If you have any questions or would like to discuss this information further, please call me at
+1 602 522 6555.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Gerry Smedinghoff', with a stylized flourish at the end.

Gerry Smedinghoff, ASA, MAAA

Copy:
Cynthia Layne; David Reese – ADHS
Branch McNeal; Michael Nordstrom; Lisa Deyer – Mercer

Attachments

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: September 29, 2010

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

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Principal Fiscal Analyst

SUBJECT: Arizona Board of Regents - Review of FY 2011 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 2011 General Appropriation Act.

Recommendation

The Committee has at least the following 2 options:

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

Total FY 2011 tuition and fee collections are projected to be \$1.26 billion, or \$144.7 million higher than FY 2010.

Appropriated FY 2011 tuition collections are estimated to be \$771.8 million. This amount is \$60.0 million above the FY 2011 budget and \$87.5 million above FY 2010. The universities primarily plan on using the additional \$60.0 million in their operating budgets for enrollment growth funding and other instructional planning priorities, including faculty promotion and retention and backfilling prior year General Fund budget reductions. To a lesser extent, these monies will also cover miscellaneous academic and support planning priorities.

(Continued)

Non-appropriated locally retained tuition and fees for FY 2011 are estimated at \$486.5 million, \$57.2 million higher than FY 2010. 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 2010 to FY 2011. ABOR policy is to set undergraduate resident tuition at the top of the bottom one-third of all senior public universities.

Table 1 displays FY 2010 and FY 2011 General Fund and tuition/fee monies for the Arizona University System. The FY 2011 budget includes \$711.8 million in appropriated tuition monies, which reflects tuition growth from new students but not tuition rate increases. The higher tuition rates generated \$60.0 million more in appropriated monies than budgeted, for a total of \$771.8 million. The universities have set aside \$486.5 million of the \$1.26 billion for non-appropriated purposes.

In total, General Fund and tuition/fee resources will increase by \$144.7 million from \$1,986.7 million in FY 2010 to \$2,131.4 million in FY 2011 after the tuition/fee increase.

Table 1 Arizona University System FY 2010 and FY 2011 General Fund and Tuition/Fee Revenues (in Millions)			
	<u>FY 2010</u>	<u>FY 2011 Before Tuition Increase</u>	<u>FY 2011 After Tuition Increase</u>
<u>Appropriations</u>			
General Fund	\$ 873.1 ^{1/}	\$ 873.1	\$ 873.1
Tuition/Fees	<u>684.3</u>	<u>711.8</u>	<u>771.8</u>
Subtotal	\$1,557.4	\$1,584.9	\$1,644.9
<u>Non-Appropriated</u>			
Tuition/Fees	<u>\$ 429.3</u>	<u>\$ 429.3 ^{2/}</u>	<u>\$ 486.5</u>
TOTAL	\$1,986.7	\$2,014.2	\$2,131.4
^{1/} This base amount has been adjusted to include the \$100 million previous year payment deferral. ^{2/} The non-appropriated amounts were kept the same as FY 2010 because at the time of publishing, the FY 2011 amounts had not been submitted.			

Tables 2 and 3 present FY 2011 appropriated and non-appropriated estimates of ABOR’s tuition and fee revenues and resulting additional revenues by campus. *Table 2* shows that of the \$60.0 million in additional appropriated tuition, Arizona State University (ASU) received \$24.8 million, Northern Arizona University (NAU) \$3.2 million, and the University of Arizona (UA) \$32.0 million. *Table 3* shows that of the \$57.2 million in additional non-appropriated tuition and fees, ASU received \$23.9 million, NAU \$6.8 million, and UA \$26.5 million.

(Continued)

Table 2 Arizona University System FY 2011 Appropriated Tuition/Fee Revenues by Campus			
<u>Campus</u>	<u>FY 2011 Appropriation</u>	<u>FY 2011 After Tuition Increase</u>	<u>Additional Tuition</u>
ASU-Tempe/DPC	\$334,243,300	\$353,023,900	\$18,780,600
ASU-East	30,792,200	34,329,400	3,537,200
ASU-West	26,906,800	29,399,800	2,493,000
NAU	78,308,200	81,510,100	3,201,900
UofA-Main	219,265,500	248,253,300	28,987,800
UofA-Health Sciences Center	<u>22,259,200</u>	<u>25,258,200</u>	<u>2,999,000</u>
Total	\$711,775,200	\$771,774,700	\$59,999,500

Table 3 Arizona University System FY 2010 & FY 2011 Non-Appropriated Tuition/Fee Revenues by Campus			
<u>Campus</u>	<u>FY 2010 Non- Appropriated</u>	<u>FY 2011 After Tuition Increase</u>	<u>Additional Tuition</u>
ASU-Tempe/DPC	\$179,311,500	\$198,910,300	\$19,598,800
ASU-East	9,507,600	11,164,700	1,657,100
ASU-West	19,001,600	21,695,000	2,693,400
NAU	61,695,700	68,418,200	6,722,500
UofA-Main	158,120,400	183,685,600	25,565,200
UofA-Health Sciences Center	<u>1,662,600</u>	<u>2,594,500</u>	<u>931,900</u>
Total	\$429,299,400	\$486,468,300	\$57,168,900

Table 4 provides some information on the uses of additional appropriated tuition revenues by university. Attached, ABOR has provided further detail.

(Continued)

Table 4		
Arizona University System		
Use of Additional Appropriated Tuition/Fee Revenues by Campus		
		<u>\$ in Millions</u>
ASU	Backfill for Prior Year General Fund Cuts	\$ 4.5
	College/School Support from Special Program Fees	3.9
	Enrollment Growth & General Education Support	8.5
	Promotion, Retention & Faculty Investments	4.1
	Enrollment and Transfer Students Services Support	1.6
	Academic Advising, Enrollment Services & Classroom Support	0.5
	ERE, Utilities & Operation & Maintenance (O&M) Inflation & Cost Increases	<u>1.7</u>
	Subtotal	\$24.8
NAU	Faculty Promotion	\$ 0.1
	Advising, Retention, & Joint Admissions	0.6
	Undergraduate Enrollment Course Support	2.0
	College/School Support from Special Program Fees	<u>0.5</u>
	Subtotal	\$ 3.2
UA	Enrollment Growth and General Education Support	\$15.4
	College of Medicine Tucson Marginal Tuition	2.0
	College of Medicine Phoenix Marginal Tuition	1.6
	Support to Colleges from Differential Tuition Revenue	4.6
	Local Account Operating Support	1.4
	Employee Benefits, Utilities & O&M	<u>7.0</u>
	Subtotal	\$32.0
TOTAL		\$60.0

RS/LMc:sls
Attachment

**Arizona University System
FY 2010 to FY 2011 Undergraduate Tuition and Fees Changes ^{1/}**

	Resident ^{2/}				Non-Resident ^{2/}			
	<u>FY 2010 ^{3/}</u>	<u>FY 2011</u>	<u>\$ Change</u>	<u>% Change</u>	<u>FY 2010 ^{3/}</u>	<u>FY 2011</u>	<u>\$ Change</u>	<u>% Change</u>
ASU-Tempe/DPC	\$6,159 to \$6,840	\$6,942 to \$8,128	\$783 to \$1,288	12.7% to 18.8%	\$19,625	\$20,592	\$967	4.9%
ASU-East/West	\$5,933 to \$6,840	\$6,708 to \$8,128	\$775 to \$1,288	13.1% to 18.8%	\$19,625	\$20,592	\$967	4.9%
NAU	\$5,681 to \$6,627	\$5,848 to \$7,667	\$167 to \$1,040	2.9% to 15.7%	\$16,631 to \$17,854	\$17,764 to \$20,067	\$1,133 to \$2,213	6.8% to 12.4%
NAU-Distance Ed.	\$5,583	\$6,131	\$548	9.8%	\$16,289	\$17,264	\$975	6.0%
UofA-Main/HSC	\$6,842	\$8,237	\$1,395	20.4%	\$22,251	\$24,596	\$2,345	10.5%
UofA-South	\$5,963	\$6,652	\$689	11.6%	\$22,193	\$24,382	\$2,189	9.9%

^{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. A new economic recovery surcharge fee will be charged for FY 2010 only.

^{2/} NAU provides a guaranteed tuition rate for each resident cohort. ASU did provide a guaranteed tuition rate that included a 5% cap on base tuition increases each year, however, they increased tuition by more than 5% for FY 2011. UA has no tuition guarantee.

^{3/} These amounts include the economic recovery surcharge. The following economic recovery surcharges will be charged: ASU Resident \$510, ASU Non-Resident \$710, NAU Resident \$350, NAU Non-Resident \$450, UA Resident \$766, and UA Non-Resident \$966.



Arizona Board of Regents
2020 North Central Avenue, Suite 230
Phoenix, AZ 85004-4593
602-229-2500
Fax 602-229-2555
www.azregents.edu

Arizona State University

Northern Arizona University

University of Arizona

August 20, 2010

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



Dear Senator Pearce:

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 2011 state operating budget as reported to the Board at its August 2010, meeting. The increase in 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 2010.

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

Board Members: Chair Anne Mariucci, Phoenix Ernest Calderón, Phoenix Dennis DeConcini, Tucson
Fred P. DuVal, Phoenix Mark Killian, Mesa LuAnn H. Leonard, Polacca
Bob J. McLendon, Yuma Rick Myers, Tucson
Governor Janice K. Brewer Superintendent of Public Instruction Tom Horne
Student Regents: Jennifer Ginther, NAU William R. Holmes, UA
President Thomas K. Anderes, PhD

**ARIZONA UNIVERSITY SYSTEM
TUITION AND FEES IN SUPPORT OF THE
2010-11 STATE OPERATING BUDGET**

	STATE COLLECTIONS		
	AS REPORTED IN THE 2010-11 INITIAL ALL FUNDS OPERATING BUDGET REPORT	2010-11 APPROPRIATIONS REPORT	CHANGE
Arizona State University Tempe	353,023,900	334,243,300	18,780,600
Arizona State University Polytechnic	34,329,400	30,792,200	3,537,200
Arizona State University West	29,399,800	26,906,800	2,493,000
TOTAL ASU	416,753,100	391,942,300	24,810,800
Northern Arizona University	81,510,100	78,308,200	3,201,900
University of Arizona	248,253,300	219,265,500	28,987,800
University of Arizona Health Sciences Center	25,258,200	22,259,200	2,999,000
TOTAL UA	273,511,500	241,524,700	31,986,800
TOTAL	771,774,700	711,775,200	59,999,500

ARIZONA STATE UNIVERSITY at the TEMPE Campus
FY11 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 Initial All Funds Report	353,023,900	198,910,300
Collections As Reported in the FY11 Appropriations Report	334,243,300	
Base Collections Increase/(Decrease) from FY11 Appropriations Report	<u>18,780,600</u>	<u>198,910,300</u>

ALLOCATIONS BY PROGRAM

Instruction		
Replacement Funding for General Funds Budget Reductions	3,738,100	
College/School Support from Special Program Fees/Differential Tuition	3,941,100	
Enrollment Growth and General Education Support	5,135,200	
Promotion, Retention and Faculty Investments	3,691,400	
Local Account Operating Support		2,842,300
Organized Research		
Local Account Operating Support		0
Public Service		
Local Account Operating Support		301,300
Academic Support		
Enrollment and Transfer Student Services Support	1,585,400	
Local Operating Budget Support		312,000
Student Services		
Local Account Operating Support		1,901,300
Institutional Support		
ERE/Utilities/O&M Inflation and Cost Increases	689,400	
Local Account Operating Support		431,200
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid		59,060,300
Other Financial Aid		80,073,200
Auxiliary Enterprises		
Auxiliary Operating Support		3,931,600
Debt Service		
Debt Service Payments		36,057,100
Plant Funds		
Minor Capital Projects		14,000,000
	<u>18,780,600</u>	<u>198,910,300</u>

2010-11
LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - TEMPE CAMPUS

		MID YEAR UPDATE 2009-10	INCREASE/ (DECREASE)	INITIAL BUDGET 2010-11
D E S I G N A T E D		0		
	American English and Cultural Program - ITA	105,500	(18,000)	87,500
	Associated Students - ASASU	1,035,600	(176,500)	859,100
	Child & Family Services	75,600	(12,900)	62,700
	Constituent Advocacy	150,000	(25,500)	124,500
	Distance Learning Technology	683,500	286,700	970,200
	Environmental Health & Safety	0	182,200	182,200
	Federal Direct Loan Administration	173,600	(29,600)	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	55,000	316,800	371,800
	Interpreters Theatre	35,700	0	35,700
	KASR Radio	22,000	0	22,000
	Library Support	0	312,000	312,000
	Mona Plummer Aquatic Center	141,900	0	141,900
	Special Events	176,800	0	176,800
	Student Affairs Initiatives	275,800	(47,000)	228,800
	Student Financial Assistance Administration	423,000	(72,000)	351,000
	Summer Bridge Program	335,200	0	335,200
	Teaching Assistant Tuition Benefit	10,320,100	1,303,900	11,624,000
	University Minority Culture Program	126,200	(12,400)	113,800
	University Recycling Program	0	83,000	83,000
	Employee Benefit Adjustments/Contingencies	200,000	(34,000)	166,000
A U X I L I A	Subtotal Designated	15,355,400	2,056,700	17,412,100
	ASU Public Events	0		0
	Intercollegiate Athletics	560,000	1,415,300	1,975,300
	Memorial Union	1,129,200		1,129,200
	Recreational Sports	827,100		827,100
	Student Media	0		0
	Subtotal Auxiliary	2,516,300	1,415,300	3,931,600
	Total Operating Funds	17,871,700	3,472,000	21,343,700
F I N A I D	Regents Financial Aid Set-Aside	43,607,700	15,452,600	59,060,300
	Regents Financial Aid Set-Aside - Economic Recovery Surcharge	5,048,300	(5,048,300)	0
	Other Financial Aid - Top 15% AZ HS Grad	8,134,200		8,134,200
	Other F.A. - Institutional FA	50,218,400	1,753,700	51,972,100
	Other Financial Aid - CRESMET/CONACY/NEEP	371,400	(63,200)	308,200
	CONACYT Fellowship Program	144,900	(22,400)	122,500
	Other F.A. - Graduate Scholars Program	600,000	(92,400)	507,600
	Graduate Fellowship Program	1,800,000	(277,300)	1,522,700
	Law Scholarships	1,500,000		1,500,000
	Student Technology Fee FA Set-Aside	1,243,700		1,243,700
	Other F.A - School of Engineering Program	60,000		60,000
	College of Design FA Set-Aside	306,500	(306,500)	0
	College of Business FA Set-Aside	510,400	202,000	712,400
	Walter Cronkite School of Journalism FA Set-Aside	47,200	(2,300)	44,900
	School of Engineering FA Set-Aside	418,600	81,200	499,800
	College of Law FA Set-Aside	1,031,500	194,700	1,226,200
	College of Liberal Arts FA Set-Aside	125,000	(40,700)	84,300
	College of Nursing FA Set-Aside	232,700	180,200	412,900
	Public Programs FA Set-Aside	900	(900)	0
	University College FA Set-Aside	41,300	56,400	97,700
	Subtotal Financial Aid	115,442,700	12,066,800	127,509,500
	Plant Fund - Minor Capital Projects/Start-Up Funds	12,000,000	2,000,000	14,000,000
	Debt Service	33,997,100	2,060,000	36,057,100
TOTAL LOCAL RETENTION		179,311,500	19,598,800	198,910,300

ARIZONA STATE UNIVERSITY at the POLYTECHNIC Campus
FY11 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 Initial All Funds Report	34,329,400	11,164,700
Collections As Reported in the FY11 Appropriations Report	30,792,200	
Base Collections Increase/(Decrease) from FY11 Appropriations Report	3,537,200	11,164,700

ALLOCATIONS BY PROGRAM

Instruction		
Replacement Funding for General Funds Budget Reductions	287,500	
Enrollment Growth and General Education Support	1,374,600	
Promotion, Retention and Faculty Investments	414,900	
Local Account Operating Support		119,000
Organized Research		
n/a		0
Public Service		
Local Account Operating Support		11,000
Academic Support		
Academic Advising, Enrollment Services and Classroom Support	489,900	
Local Account Operating Support		28,400
Student Services		
Local Account Operating Support		1,325,700
Institutional Support		
ERE/Utilities/O&M Inflation and Cost Increases	970,300	
Local Account Operating Support		38,000
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid		6,450,400
Other Financial Aid		2,938,400
Auxiliary Enterprises		
Auxiliary Operating Support		253,800
Debt Service		
Debt Service Payments		0
Plant Funds		
Minor Capital Projects		0
	3,537,200	11,164,700

2010-11
LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - POLYTECHNIC CAMPUS

		MID YEAR UPDATE 2009-10	INCREASE/ (DECREASE)	INITIAL BUDGET 2010-11
D E S I G N A T E D	AACP - International Teaching Assistants	0	8,000	8,000
	Associated Students - ASU		78,200	78,200
	Career Services	48,900		48,900
	Child & Family Services		5,700	5,700
	Constituent Advocacy		11,000	11,000
	Dining Services Management	38,000		38,000
	Distance Learning Technology		88,300	88,300
	Environmental Health & Safety		16,100	16,100
	Federal Direct Loan Administration		13,100	13,100
	Graduate Support Program		16,200	16,200
	Intercampus Shuttle Services	36,000		36,000
	Learning Communities	6,500		6,500
	Library Support		28,400	28,400
	Student Affairs Initiatives		20,800	20,800
	Student Counseling	5,000		5,000
	Student Financial Assistance Administration		31,900	31,900
	Student Health Services	225,000		225,000
	Student Organizations	21,000		21,000
	Student Orientation and Forums	10,600		10,600
	Student Recreation/Intramurals	301,500		301,500
	Student Union/Activities	558,700		558,700
	Teaching Assistant Tuition Benefit	150,700	103,200	253,900
	University Minority Cultural Program	0	5,300	5,300
	University Recycling Program		7,300	7,300
	Employee Benefit Adjustments/Contingencies		14,600	14,600
	Subtotal Designated	1,401,900	448,100	1,850,000
A U X I L I A R Y	Intercollegiate Athletics		179,800	179,800
	Subtotal Auxiliary	0	179,800	179,800
	Total Operating Funds	1,401,900	627,900	2,029,800
F I N A I D	Regents Financial Aid Set-Aside	4,768,200	1,682,200	6,450,400
	Regents Financial Aid Set-Aside - Economic Recovery Surcharge	553,400	(553,400)	0
	Other F.A.- Institutional FA	2,784,100	(221,800)	2,562,300
	Other Financial Aid - CRESMET/CONACY/NEEP		28,000	28,000
	CONACYT Fellowship Program		5,400	5,400
	Other F.A.- Graduate Scholars Program		22,200	22,200
	Graduate Fellowship Program		66,600	66,600
	Subtotal Financial Aid	8,105,700	1,029,200	9,134,900
	Plant Fund			
	Debt Service			
	TOTAL LOCAL RETENTION	9,507,600	1,657,100	11,164,700

ARIZONA STATE UNIVERSITY at the WEST Campus
 FY11 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 Initial All Funds Report	29,399,800	21,695,000
Collections As Reported in the FY11 Appropriations Report	26,906,800	
Base Collections Increase/(Decrease) from FY11 Appropriations Report	2,493,000	21,695,000

ALLOCATIONS BY PROGRAM

Instruction		
Replacement Funding for General Funds Budget Reductions	503,200	
Enrollment Growth and General Education Support	1,989,800	
Local Account Operating Support		255,600
Organized Research		
n/a		0
Public Service		
Local Account Operating Support		34,500
Academic Support		
Local Account Operating Support		35,700
Student Services		
Local Account Operating Support		260,400
Institutional Support		
Local Account Operating Support		55,200
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid		7,596,500
Other Financial Aid		12,231,300
Auxiliary Enterprises		
Auxiliary Operating Support		225,800
Debt Service		
Debt Service Payments		0
Plant Funds		
Minor Capital Projects		1,000,000
	2,493,000	21,695,000

2010-11
LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - WEST CAMPUS

		MID YEAR UPDATE 2009-10	INCREASE/ (DECREASE)	INITIAL BUDGET 2010-11
D E S I G N A T E D	Academic Affairs	5,200		5,200
	AECF - International Teaching Assistants	0	10,000	10,000
	Alumni Association - Devil's West	0		0
	Arts & Sciences Support	0		0
	Associated Students - ASU	0	98,300	98,300
	ASU West Commencement	15,000		15,000
	ASUW Film Series	0		0
	ASUW Fine Arts Program	60,000		60,000
	Campus Environment Team	4,800		4,800
	Child and Family Services	0	7,200	7,200
	Child Development & Visual Perception Lab	0		0
	Constituent Advocacy		14,500	14,500
	Distance Learning Technology		111,000	111,000
	Environmental Health & Safety		21,300	21,300
	Federal Direct Loan Administration		16,500	16,500
	Graduate Support Program		51,400	51,400
	Honors College	3,000		3,000
	Library Support		35,700	35,700
	Life Science Instructional Support	0		0
	Special Events	20,000		20,000
	Student Affairs Initiative		26,200	26,200
	Student Financial Assistance Administration		40,100	40,100
	University Minority Cultural Program		7,100	7,100
	University Recycling Program		9,700	9,700
	Student Government	65,000		65,000
	Teaching Assistant Tuition Benefit		234,100	234,100
	Employee Benefit Adjustments/Contingencies		19,400	19,400
A U X I L I A R Y	Subtotal Designated	173,000	702,500	875,500
	Intercollegiate Athletics	0	225,800	225,800
	Subtotal Auxiliary	0	225,800	225,800
	Total Operating Funds	173,000	928,300	1,101,300
F I N A I D	Regents Financial Aid Set-Aside	6,044,600	1,551,900	7,596,500
	Regents Financial Aid Set-Aside - Economic Recovery Surcharge	743,500	(743,500)	0
	Other F.A. - Institutional FA	6,735,300	628,800	7,364,100
	Other F.A. - CRESMET/CONACYT/NEEP	0	35,200	35,200
	Other FA - Teach for America	4,300,000	0	4,300,000
	Other F.A. - Graduate Scholars Program	0	70,200	70,200
	Business Financial Aid Set-Aside	5,200	(5,200)	0
	CONACYT Fellowship Program		17,000	17,000
	Graduate Fellowship Program		210,700	210,700
	Subtotal Financial Aid	17,828,600	1,765,100	19,593,700
	Plant Fund	1,000,000	0	1,000,000
	Lease Purchase	0	0	0
	TOTAL LOCAL RETENTION	19,001,600	2,693,400	21,695,000

NORTHERN ARIZONA UNIVERSITY
FY11 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
As Reported in the FY11 Initial All Funds Report	81,510,100	68,418,200
As Reported in the FY11 JLBC Appropriations Report	78,308,200	
Amount Reportable	3,201,900	68,418,200

ALLOCATION BY PROGRAM

Instruction		
Faculty Promotion	150,000	
Advising, Retention & Joint Admissions	586,900	
Undergraduate Enrollment Course Support	2,000,000	
College/School Support from Special Program Fees	465,000	
Local Funds Student Operating Support		7,912,000
Scholarships/Fellowships/Financial Aid		
Regent's Financial Aid Set-Aside		18,200,000
Institutional Financial Aid		24,000,000
All Other Financial Aid		527,300
Plant Funds		1,378,200
Debt Service Payments		16,400,700
	3,201,900	68,418,200

2010-11
LOCALLY RETAINED COLLECTIONS

NORTHERN ARIZONA UNIVERSITY

		MID YEAR UPDATE 2009-10	INCREASE/ (DECREASE)	INITIAL BUDGET 2010-11
D E S I G N A T E D	ADA Services	180,000		180,000
	Art Gallery	10,900		10,900
	Child Care	43,900		43,900
	Employee Benefit Adjustments/Contingencies	100,000		100,000
	Financial Aid Office Operations	337,300		337,300
	Graduate Assistant Tuition Remission	1,747,400		1,747,400
	Graduate Operations Support	0		0
	Honors Forum	11,200		11,200
	International Studies	260,000		260,000
	NAU-Yuma	19,900		19,900
	Operations - Credit Card Fees	600,800	(100,000)	500,800
	Performing Arts Series	39,900		39,900
	Performing Arts - Music	58,900		58,900
	Registrar Office	112,400		112,400
	School of Comm Student Radio, Cable & Forensics	30,200		30,200
	Special Events	28,300		28,300
	Stateside Expansion	1,000,000		1,000,000
	Student Activities	285,100		285,100
	SUN (Student Union Network)	65,800		65,800
	Program Fee - MAdm	403,800	(54,400)	349,400
	Program Fee - MBA	89,300	35,200	124,500
	Program Fee - MEng	7,900	(7,900)	0
	Program Fee - MSN	0	7,500	7,500
	Program Fee - Doctor of Physical Therapy (DPT)	72,300	52,200	124,500
	Program Fee - Bachelor BA		149,400	149,400
	Program Fee - Bachelor Dental Hygiene		29,100	29,100
	Program Fee - BSN		31,500	31,500
	Program Fee - UG Engineering/Construction		130,300	130,300
	Yuma Enrollment Support	183,500		183,500
		0		0
A U X I L I A R Y	Subtotal Designated	5,688,800	272,900	5,961,700
	Associated Students (ASNAU)	163,300	(163,300)	0
	Intercollegiate Athletics	1,665,500		1,665,500
	Intramurals/Recreation	63,700		63,700
	Skydome	207,900		207,900
	Mountain Campus ID	13,200		13,200
	Subtotal Auxiliary	2,113,600	(163,300)	1,950,300
	Total Operating Funds	7,802,400	109,600	7,912,000
F I N A I D	Regents Financial Aid Set-Aside	15,352,500	2,847,500	18,200,000
	Regents Financial Aid Set-Aside - Economic Recovery Surcharge	947,500	(947,500)	0
	Set-Aside for Academically Meritorious AZ Residents	15,000		15,000
	DPT- FA Set-Aside	12,800	12,700	25,500
	MAdm - FA Set-Aside	71,300	300	71,600
	MBA - FA Set-Aside	15,800	9,700	25,500
	MEng - FA Set-Aside	1,400	(1,400)	0
	MSN - FA Set-Aside	0	1,500	1,500
	BBA - FA Set-Aside		30,600	30,600
	BDH - FA Set-Aside		6,000	6,000
	BSN - FA Set-Aside		6,500	6,500
	UG Eng/Constrct FA Set-Aside		26,700	26,700
	Student Financial Aid Match (SSIG, SEOG, etc.)	318,400		318,400
	Other Financial Aid - (formerly tuition waivers)	20,004,700	3,995,300	24,000,000
	Subtotal Financial Aid	36,739,400	5,987,900	42,727,300
	Plant Fund	1,378,200	0	1,378,200
	Debt Service	15,775,700	625,000	16,400,700
	TOTAL LOCAL RETENTION	61,695,700	6,722,500	68,418,200

UNIVERSITY OF ARIZONA
FY11 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	<u>STATE COLLECTIONS</u>	<u>LOCAL COLLECTIONS</u>
Base Collections As Reported in the Initial All Funds Report	273,511,500	186,280,100
Collections As Reported in the FY11 Appropriations Report	241,524,700	
Base Collections Increase/(Decrease) from FY11 Appropriations Report	<u>31,986,800</u>	<u>186,280,100</u>
ALLOCATION BY PROGRAM		
Instruction		
Enrollment Growth and General Education Support	15,384,500	
College of Medicine Tucson Marginal Tuition	2,045,400	
College of Medicine Phoenix Marginal Tuition	1,562,900	
Support to Colleges from Differential Tuition Revenue	4,644,000	
Local Account Operating Support		2,733,900
Organized Research		
n/a		
Public Service		
Local Account Operating Support		40,300
Academic Support		
Local Account Operating Support		759,600
Student Services		
Student Retention	1,400,000	
Local Account Operating Support		5,430,600
Institutional Support		
Unfunded General Fund Employee Benefits, Utilities and O&M	6,950,000	
Local Account Operating Support		6,799,500
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		32,418,600
Student Aid Awards (formerly waivers)		89,577,100
Graduate Assistant Tuition Remission		8,393,400
All Other Financial Aid		9,530,800
Auxiliary Enterprises		
n/a		
Debt Service		
Debt Service Payments		28,472,400
Plant Funds		
Minor Capital Project Set Aside		2,123,900
	<u>31,986,800</u>	<u>186,280,100</u>

UNIVERSITY OF ARIZONA

		MID YEAR UPDATE 2009-10	INCREASE/ (DECREASE)	INITIAL BUDGET 2010-11
D E S I G N A T E D	College of Nursing - Accelerated BSN	608,100	(218,100)	390,000
	Eller Evening MBA	1,243,800	(336,700)	907,100
	Multicultural Affairs and Student Success (M.A.S.S.)			
	Admissions Recruiting	398,600	102,900	501,500
	African American Student Affairs	0		0
	Asian Pacific American Student Affairs	0		0
	Early Outreach	19,900	16,600	36,500
	Hispanic Student Affairs	0		0
	Minority Student Recruitment	154,900	25,400	180,300
	Minority Summer Institute for Writing	13,200		13,200
	Multicultural Programs	40,000	(40,000)	0
	Native American Student Affairs	0		0
	Fall Transition/University Learning Center	0		0
	FM Student Recreation O&M	252,800		252,800
	Graduate Teaching Assistants - Tuition Remission	6,393,400	2,000,000	8,393,400
	Graduate College	180,300	(27,200)	153,100
	Graduate and Professional Student Council	63,300		63,300
	Honors College		80,000	80,000
	Interpreting/Disabilities (ADA)	164,200		164,200
	Law College Special Fee	1,275,300	92,100	1,367,400
	Learning Disabilities Mandated Services	128,700		128,700
	Library Acquisitions	461,200		461,200
	Merchant Credit Card Banking Fees	1,733,200		1,733,200
	Special Education Fee Waiver	564,500		564,500
	Student Child Care Voucher Program	83,100		83,100
	Student Travel Support	54,400	(1,400)	53,000
	Student Services	167,900	23,400	191,300
	Sustainability Projects		600,000	600,000
	Utility Costs Reserve	2,166,400	458,400	2,624,800
	Subtotal Designated	16,167,200	2,775,400	18,942,600
A U X I L I A R	Associated Students (ASUA)	274,700		274,700
	Campus Health Service	3,816,500	(284,100)	3,532,400
	Campus Recreation and Intramurals	478,300	(34,300)	444,000
	Student Faculty Relations	0		0
	Student-Related Activities	38,200	(13,400)	24,800
	Student Programs	424,500	(55,200)	369,300
	Student Union	1,197,800	(63,800)	1,134,000
	Subtotal Auxiliary	6,230,000	(450,800)	5,779,200
	Total Operating Funds	22,397,200	2,324,600	24,721,800
F I N A I D	Regents Financial Aid Set-Aside	22,217,100	9,816,200	32,033,300
	UAS (SV) - Regents FA Set-Aside	323,300	62,000	385,300
	Regents Financial Aid Set-Aside - Economic Recovery Surcharge	3,910,000	(3,910,000)	0
	Regents Financial Aid Set-Aside - ERS Add'l	690,000	(690,000)	0
	Supplemental Need-Based Set-Aside	0		0
	Undergraduate Scholars	3,619,300		3,619,300
	Other Financial Aid - (formerly tuition waivers)	74,913,900	14,663,200	89,577,100
	Architecture (Grad) FA Set-Aside	4,900	28,200	33,100
	Architecture (UG) FA Set-Aside	13,100	58,100	71,200
	Eller MBA FA Set-Aside	425,200		425,200
	Eller (UG) FA Set-Aside	221,000	44,200	265,200
	Engineering (UG) FA Set-Aside	81,600	60,700	142,300
	FCS FA Set-Aside		38,000	38,000
	Fine Arts FA Set-Aside		92,600	92,600
	Geography FA Set-Aside		1,800	1,800
	Graduate Scholarships	380,000	255,200	635,200
	Honor College FA Set-Aside		191,300	191,300
	Journalism (UG) FA Set-Aside	27,300	(8,200)	19,100
	Journalism (Grad) FA Set-Aside	2,100		2,100
	Law School FA Set-Aside	854,400	55,100	909,500
	COM FA Set-Aside	505,200	378,400	883,600
	COM - Phoenix - FA Set-Aside	136,200	190,300	326,500
	Optical Science FA Set-Aside	32,000		32,000
	Pharmacy FA Set-Aside	493,900	252,400	746,300
	Philosophy FA Set-Aside		300	300
	Planning FA Set-Aside	11,100	(2,600)	8,500
	Public Health FA Set-Aside	13,600	0	13,600
	Public Health FA Set-Aside (UG)	0	1,700	1,700
	Nursing Accel BSN FA Set-Aside		158,800	158,800
	Nursing (Grad) Special Fee FA	50,000	(22,500)	27,500
	Nursing (UG) Special Fee FA	88,400	(15,300)	73,100
	School of Art - FA Set-Aside		11,200	11,200
	School of Dance - FA Set-Aside		1,000	1,000
	School of Music - FA Set-Aside		20,400	20,400
	SGAPP - MPA Differential Tuition FA	38,300	(18,000)	20,300
	SGAPP - (UG) Differential Tuition FA	10,900	18,400	29,300
	SIRLS FA Set-Aside	126,700	39,600	166,300
	Subtotal Financial Aid	109,189,500	21,772,500	130,962,000
	Plant Fund	0	0	0
	Utility Infrastructure	2,123,900		2,123,900
	Subtotal Plant Funds	2,123,900	0	2,123,900
	Debt Service	26,072,400	2,400,000	28,472,400
TOTAL LOCAL RETENTION		159,783,000	26,497,100	186,280,100

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

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DATE: September 29, 2010

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

THRU: Richard Stavneak, Director

FROM: Marge Zylla, Fiscal Analyst

SUBJECT: Attorney General - Review of Allocation of Settlement Monies

Request

The FY 2011 General Appropriation Act (Laws 2010, Chapter 1) 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 a total of \$809,500 from 2 settlements: 1) a \$300,000 allocation resulting from mediation as part of ongoing Average Wholesale Price (AWP) litigation with pharmaceutical companies, of which \$273,000 will be deposited into the Consumer Protection-Consumer Fraud Revolving Fund; and 2) a \$509,500 settlement with several vitamin manufacturers, \$50,900 of which will be deposited into the Antitrust Enforcement Revolving Fund and \$458,500 that will be distributed to the Arizona Association of Food Banks (AAFB).

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plans from the AWP settlement agreements with Johnson and Johnson Healthcare Systems, and the allocation plans from the vitamin manufacturers' settlement. 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, and A.R.S. § 41-191.02, which relates to the distribution of monies recovered as a result of antitrust enforcement.

(Continued)

Analysis

Average Wholesale Price (AWP) Litigation: Johnson and Johnson Healthcare Systems

In September 2009, February 2010, and August 2010, the Committee favorably reviewed allocations totaling \$2,080,000 from AWP litigation, \$1,882,900 of which was deposited into the Consumer Fraud Revolving Fund.

The AWP of prescription drugs was a widely used benchmark for pricing prescription drugs, determining reimbursement levels for healthcare providers under Medicare and Medicaid programs, and establishing payment amounts due from insurers and consumers under Medicare and private insurance. In December 2005, the AG filed suit against several pharmaceutical manufacturers alleging that the companies reported inaccurate prices to trade publications, which led to inflated reimbursement rates.

The State of Arizona and some additional pharmaceutical companies (Johnson and Johnson Healthcare Systems; Janssen, L.P.; Janssen, Inc.; Centocor-Ortho-Biotech, Inc.; Ortho-Biotech, Inc.; Ortho-McNeil-Janssen, Inc.) have reached an agreement that requires the defendants to pay \$300,000 to Arizona. Of the total, \$27,000 will go toward outside counsel attorney fees. The remaining \$273,000 will be deposited into the Consumer Protection-Consumer Fraud Revolving Fund to support consumer fraud investigations, consumer education, and enforcement of the Consumer Fraud Act. The settlement does not acknowledge any wrongdoing on the part of the pharmaceutical companies.

The lawsuit involving the remaining pharmaceutical companies is still ongoing, as are other AWP cases from different states and a nationwide class action suit that includes Arizona consumers. When the settlements receive final court approval, Arizona consumers will have the opportunity to submit claims for reimbursement.

Vitamin Manufacturers Settlement: Akzo Nobel Inc., et al.

Arizona, along with 21 other states and the District of Columbia, entered into a settlement with the vitamin manufacturers based on antitrust violations including fixing prices of vitamins and vitamin products. The total nationwide settlement amount is about \$25.0 million, which has been divided equally into a consumer pool and a commercial pool, then distributed among the 21 states and the District of Columbia.

Arizona's share of the consumer pool is \$509,500. Of this amount, \$50,900 will be deposited into the Antitrust Enforcement Revolving Fund for attorneys' fees and costs. The remaining \$458,500 will be distributed to the AAFB for food bank program services, in accordance with the settlement's directive that the funds be used by a not for profit enterprise for the improvement of health and/or nutrition of the state's citizens.

The commercial pool funds will be proportionally transferred to businesses based on each business' validated claims.

RS/MZ:mt



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Dena Rosen Epstein
Consumer Protection &
Advocacy Section
Direct: (602) 542-7717
Dena.Epstein@azag.gov

September 21, 2010

The Honorable Robert L. Burns
President of the Senate
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Kirk Adams
Speaker of the House
1700 West Washington Street
Phoenix, AZ 85007

The Honorable John Kavanagh
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, AZ 85007



Re: *State ex rel Goddard v. Abbot Laboratories, et al.*, CV 2005-018711 (Ariz. Sup. Ct.), removed and transferred to *In re Pharmaceutical Industry Average Wholesale Price Litigation*, MDL No. 1456

Gentlemen:

The State of Arizona recently settled a case against Janssen, L.P., Janssen, Inc., Johnson & Johnson Healthcare Systems., Centocor-Ortho-Biotech, Inc., Ortho-Biotech, Inc. and Ortho-McNeil-Janssen Pharmaceuticals, Inc. a/k/a "Johnson and Johnson Group" resolving claims asserted in the Average Wholesale Price Litigation described below.

In December 2005, our Office, through outside counsel, filed suit in Maricopa County Superior Court against several pharmaceutical manufacturers for manipulating the Average Wholesale Price ("AWP") of prescription drugs in connection with the marketing and sale of certain prescription drugs sold in Arizona. AWP has been a widely utilized benchmark for pricing prescription drugs and for reimbursing physicians and other healthcare providers for the administration of certain drugs under the Medicare and Medicaid programs. It has also been used to determine amounts paid by insurers and co-pays by consumers under the Medicare program or through private insurance.

The State's Complaint alleges that the defendants violated the Arizona Consumer Fraud Act (A.R.S. § 44-1521 et seq.) by, among other things, providing false information

about their reported prices to trade publications, which in turn led to inflated reimbursement rates. The lawsuit seeks various forms of relief, including injunctive relief, civil penalties, restitution for Arizona consumers, costs, and attorneys' fees.¹

After the lawsuit was filed, the defendant pharmaceutical manufacturers successfully removed the case to federal district court in Massachusetts. Several other AWP cases are also pending in Massachusetts district court, including a nationwide consumer class action that includes Arizona consumers. Settlements on behalf of the consumer class have been reached with many of the defendants. Arizona consumers will have the opportunity to submit claims for reimbursement once the settlements receive final court approval.

This case is the fourth settlement resulting from court ordered mediation in the Average Wholesale Price litigation. The Joint Legislative Budget Committee favorably reviewed the State's settlement with Abbot Laboratories and others at its September 22, 2009 meeting, the settlement with Bristol Myers Squibb and others at its February 2, 2010 meeting, and the settlement with Dey, Inc. and others at its August 11, 2010 meeting. Litigation against the remaining defendants in the AWP case, Astra Zeneca and B. Braun, continues in federal court.

This settlement agreement requires the Johnson and Johnson Group to pay \$300,000 in exchange for a release of the claims asserted in the lawsuit. As provided in our agreement with outside counsel and as approved by the court, outside counsel received approximately \$27,000 of the settlement amount for their attorneys' fees. Pursuant to A.R.S. § 44-1531.01(B), ninety-one percent, or \$273,000, of the settlement funds were deposited into the Consumer Fraud Revolving Fund to be used for the purposes specified in the statute.

This settlement does not constitute an admission of liability.

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.epstein@azag.gov.

Sincerely,



Dena Rosen Epstein
Section Chief Counsel
Consumer Protection and Advocacy Section

cc: The Honorable Russell K. Pearce
The Honorable Jorge Luis Garcia
The Honorable David Lujan
Mr. Richard S. Stavneak

¹ The industry has moved away from its heavy reliance on AWP as a pricing benchmark in the years since Arizona filed this lawsuit.



Terry Goddard
Attorney General

Office of the Attorney General
State of Arizona

Nancy M. Bonnell
Antitrust Unit Chief

September 13, 2010

The Honorable Robert Burns
President of the Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable Kirk Adams
Speaker of the House
House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable John Kavanaugh
Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007



Re: *State of Arizona et al. v. Akzo Nobel, Inc., et al.*

Dear Gentlemen:

In November 2009, Arizona joined 21 other States, the District of Columbia ("the States") and class plaintiffs (collectively the "Plaintiffs") in filing an antitrust lawsuit against several international vitamins manufacturers for fixing the prices of certain vitamins and vitamin products.

The Plaintiffs recently settled the lawsuit for \$25,033,266. A copy of the settlement agreement is enclosed for your review. The settlement funds have been divided equally into a consumer pool and a business pool, with each pool receiving \$12,516,633.

Because the number of consumers affected by the defendants' conduct was too numerous to make individual monetary payments feasible, the Plaintiffs requested and the court approved a *cy pres* distribution of the consumer settlement funds. The funds have been split among the States on a pro rata basis, based on population. Arizona's pro rata share of the consumer pool is \$509,489.16. As provided in the settlement agreement and approved by the court, \$50,948.92 will be deposited into the Antitrust Enforcement Revolving Fund to reimburse the State for its attorneys' fees and costs, in accordance with A.R.S. §§ 41-191.01(B) and 44-1407. The remaining \$458,540.24 will be

Hon. Robert Burns
Hon. Kirk Adams
Hon. John Kavanaugh
September 13, 2010
Page 2

distributed to the Arizona Association of Food Banks ("AAFB") in accordance with Arizona's court approved *cy pres* plan, which is also enclosed for your review.

The settlement agreement requires that the *cy pres* funds be distributed to political subdivisions, not for profit corporations or charitable organizations for the express purpose of improving the health and nutrition of the participating States' citizens. The State of Arizona proposed and the court approved distribution of the consumers' funds to the AAFB. The AAFB will use ten percent of the funds for its Statewide Gleaning Project, which transports fresh produce to food banks throughout the state and also transports food between food banks to ensure that collected food goes to where it is needed most. AAFB will distribute the remaining funds to its five member regional food banks for program services, including the collection, acquisition, transportation and distribution of food to those in need.

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

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

Sincerely,



Nancy M. Bonnell
Antitrust Unit Chief
Consumer Protection and Advocacy Section

Enclosures

cc: The Russell K. Pearce
The Honorable Jorge Luis Garcia
The Honorable David Lujan
Mr. Richard S. Stavneak
Ms. Marge Zylla (Settlement Agreement and State of Arizona's Distribution Plan enclosed)
Mr. Joe Kanefield
Mr. Greg Stanton
Ms. Jennifer Boucek
Mr. John T. Stevens, Jr.

STATE OF ARIZONA

Joint Legislative Budget Committee

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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
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DATE: September 29, 2010

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

THRU: Richard Stavneak, Director

FROM: Ted Nelson, Assistant Fiscal Analyst

SUBJECT: Government Information Technology Agency - Review of the Arizona Public Safety
Communication Advisory Commission

Request

Pursuant to A.R.S. § 41-3542C, the Government Information Technology Agency (GITA) has submitted for review its FY 2010 fourth quarter report of expenditures and progress for the statewide interoperability design project. GITA's Public Safety Interoperable Communications Office (GITA-PSIC) has also submitted its plan for the use of \$2.2 million in FY 2007-2008 anti-racketeering funds.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the department's FY 2010 fourth quarter report as well as their plan for use of \$2.2 million in anti-racketeering funds.
2. An unfavorable review of the department's submission.

The JLBC Staff also recommends that the Committee next review the project after the fourth quarter of FY 2011. This next report would focus on their accomplishments throughout FY 2011.

FY 2010 expenditures totaled \$488,100 of the \$756,700 in FY 2010 appropriated funding.

There were no FY 2010 expenditures from the \$2.2 million of non-lapsing Anti-Racketeering Fund monies designated for the detailed design of the long-term interoperability solution.

(Continued)

Analysis

Background

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

Activities

In the fourth quarter of FY 2010, the PSCC continued working on a list of strategic initiatives to be included in the Statewide Communications Interoperability Plan (SCIP). This plan provides coordination between agencies, specifies technical objectives, designs training and exercise programs, ensures outreach to communities regarding available interoperable resources, and establishes standard operating procedures for communication.

In previous quarters the PSCC expanded its short-term solution, Arizona Interagency Radio System (AIRS) to 33 sites that cover every county except La Paz County. In the fourth quarter PSCC approved a request from the State Forester to be added to AIRS and completed development of training for the AIRS system. AIRS allows a single conversation among multiple users in a geographical area. The PSCC describes this functionality as “basic interoperability” for first responders. Full-scale interoperability would permit different conversations on multiple channels.

Expenditures

Through the fourth quarter of FY 2010, the PSCC expended \$488,100 for operating costs associated with 3 filled FTE Positions and 3 contracted positions. The PSCC also utilized \$202,800 in federal homeland security grants to help advance interoperable communications in Arizona. A total of \$288,600 remains in allocated funds as of the close of the fourth quarter of FY 2010, in addition to \$2,200,000 in non-lapsing funds from the Anti-Racketeering Fund. A footnote in the 2008 General Appropriation Act specifies legislative intent to use the Anti-Racketeering funds for the detailed design of a long-term interoperability solution. Prior to expending these monies, GITA is required to submit expenditure plans to the Joint Legislative Budget Committee for review.

Anti-Racketeering Funds

In FY 2007, the Legislature appropriated \$2.2 million of Anti-Racketeering funds to produce a “detailed design of the long-term interoperability solution.” Citing a lack of funding for the full implementation of such a design and existing needs for the money, PSCC has proposed to use these monies instead to expand the existing Yuma Regional Communications System (YRCS) network in the 4 border counties. The YRCS allows for different conversations to take place on multiple channels but requires a specific transmitter for use. The PSCC estimates this expansion will increase coverage by 6,500 square miles. *Table 1* shows the proposed expenditures for the expansion.

(Continued)

Table 1	
Anti-Racketeering Expenditure Plan	
State Agency Interoperability	
Site Equipment 6 sites (5 Channel Sites)	\$ 960,000
Antennas at 6 sites with coax and connectivity	35,000
Install materials 6 sites includes antenna install and optimization	120,000
Spares Kit for DPS	25,000
Equipment for State EOC and other strategic connections	25,000
Local Agency Interoperability and Expansion	
Software system upgrade for master controller	\$ 790,000
Hardware system upgrade for site servers	100,000
Training, travel, materials	80,000
PSAP Control stations 10	<u>65,000</u>
Total	\$2,200,000

Table 2 displays expenditures for FY 2010.

Table 2							
	Quarterly Expenditures						
	FY 2010 Funding Available	FY 2010 Q1	FY 2010 Q2	FY 2010 Q3	FY 2010 Q4	FY 2010 Total Expenditures	Remaining Balance
Personal Services	\$474,400	\$ 94,000	\$ 88,400	\$67,700	\$60,800	\$310,900	\$163,500
Employee Related Expenditures	142,500	55,200	16,700	12,800	11,600	96,300	46,200
Professional & Outside Services	31,000	18,000	(17,100)			900	30,100
Travel - In State	5,000	1,200	200	1,300	1,500	4,200	800
Travel - Out of State	5,000	700	800	100	1,100	2,700	2,300
Other Operating Expenditures	89,600	8,300	35,200	7,600	19,200	70,300	19,300
Non-Lapsing Expenditure Authority Equipment	<u>9,200</u>				<u>2,800</u>	<u>2,800</u>	<u>6,400</u>
Total Operating Expenditures	\$756,700	\$177,400	\$124,200	\$89,500	\$97,000	\$488,100	\$268,600

RS/TN:sls

JANICE K. BREWER
GOVERNOR



CHAD KIRKPATRICK
DIRECTOR

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

September 1, 2010

The Honorable John Kavanagh, Chair
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington St.
Phoenix, AZ 85007

The Honorable Russell Pearce, Vice Chair
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington St.
Phoenix, AZ 85007



Gentlemen:

Pursuant to A.R.S. § 41-3542C, the Government Information Technology Agency (GITA) is submitting its FY 2010 fourth quarter report of expenditures and progress of the Public Safety Communications Advisory Commission (PSCC or Commission), including a review of staff operations. This quarterly report covers the activities of the Public Safety Interoperable Communications Office within GITA (GITA-PSIC), the PSCC and the Statewide Interoperability Executive Committee (SIEC), which is the operational/technical sub-committee of the PSCC.

Background

The PSCC was established to make recommendations to GITA-PSIC on the development of a standard based system that provides interoperability of public safety agencies' communications statewide¹. GITA-PSIC and the Commission help to ensure that Arizona's public safety personnel, at all levels of government and within non-governmental organizations, have access to quality interoperable communication systems, are adequately trained, and utilize such systems effectively in multi-disciplinary, multi-jurisdictional incident response.

Executive Summary

Arizona's strategic interoperability initiatives leading to a statewide interoperability system are focused in five key areas: Governance; Standard Operating Procedures; Technology;

¹ A.R.S. § 41-3542C Advisory commission; powers and duties; report

Training/Exercise; and Usage/Outreach. The strategic initiatives in all five areas are published in Arizona's strategic plan for interoperability, entitled the Statewide Communications Interoperability Plan² (SCIP).

Key FY 2010 fourth quarter accomplishments are outlined below and include:

Governance

- Strategic Planning – Development of National Emergency Communications Plan (NECP) Goal Two Assessment Methodology
- State Governance Documentation – Completion of Operating Principles (Charter) document
- Regional Governance Advancement - Governance Assessment for Pima County Wireless Integrated Network (PCWIN)
- Regional Planning – Regional Interoperable Communications Plan (RICP) Development for Cochise and Santa Cruz counties
- Tactical Planning Project Progress – Develop Tactical Interoperable Communications Plan (TICPs) and expand the utilization of Communications Asset Survey and Mapping tool (CASM)

Standard Operating Procedures (SOP)

- Policies, Standards and Procedures (PSP) Framework Project Progress
- 700 MHz Interoperability Channel Usage Plan Development Progress

Technology

- Border Interoperability Demonstration Project (BIDP) Applications
- Arizona State Forestry Division AIRS Connectivity Project Approval
- Project Oversight of Arizona Interagency Radio System (AIRS) Deployment, Statewide Microwave Upgrade & Strategic Technology Reserve Implementation
- Promotion of Functional Regional Systems
- Enhancement of State Agency Operability in Support of Interoperability

Training & Exercise

- Development and Implementation of AIRS Training
- Development of a Communications Unit Leader (COML) Training Program
- Development of Exercise Strategy

Usage & Outreach

- Outreach Plan Development Commencement
- Usage & Outreach Activities Continue, Participate in National and Regional Meetings, Conduct Public Meetings

² <http://www.azgita.gov/psic/initiatives>

Governance

During FY 2010 fourth quarter, GITA-PSIC made solid progress on Statewide Communications Interoperability Plan (SCIP) Initiative #1: Expanding and implementing Arizona's interoperable communications governance model and plan.

Key areas of focus and activities in Governance during the fourth quarter FY2010 include:

- Strategic Planning – Development of National Emergency Communications Plan (NECP) Goal Two Assessment Methodology
- State Governance Documentation – Completion of Operating Principles (Charter) document.
- Regional Governance Advancement - Governance Assessment for Pima County Wireless Integrated Network (PCWIN)
- Regional Planning – Regional Interoperable Communications Plan (RICP) for Cochise and Santa Cruz counties
- Tactical Planning – Develop Tactical Interoperable Communications Plan (TICPs) and expand the utilization of Communications Asset Survey and Mapping tool (CASM)

Strategic Planning – *Development of NECP Goal Two Assessment Methodology*

The National Emergency Communications Plan (NECP) is the Nation's first strategic plan to improve emergency response communications. The Office of Emergency Communications (OEC) at U.S. Department of Homeland Security (DHS) developed the NECP in cooperation with federal agencies, state, local, and tribal governments, emergency response providers and the private sector. The NECP sets forth 3 key goals for improved interoperability, operability, and continuity of communications:

- Goal 1 - By 2010, 90 percent of all high risk urban areas designated within the Urban Area Security Initiative (UASI) are able to demonstrate response level emergency communications within one hour for routine events involving multiple jurisdictions and agencies
- Goal 2 - By 2011, 75 percent of non-UASI jurisdictions are able to demonstrate response level emergency communications within one hour for routine events involving multiple jurisdictions and agencies
- Goal 3 - By 2013, 75 percent of all jurisdictions are able to demonstrate response-level emergency communications within three hours, in the event of a significant incident as outlined in national planning scenarios.

Federal DHS is requiring that each State measure (1) capabilities and (2) performance to demonstrate Goal Two compliance. OEC has developed a (1) capability questionnaire for documenting and reporting county level capability data and (2) a web based tool for measuring county level performance data. Every State must develop a methodology for using these tools to measure NECP Goal Two compliance.

On April 13, 2010 GITA-PSIC hosted an all day, statewide, stakeholder Communications Interoperability Workshop. The workshop gave participants an opportunity to learn about

upcoming federal mandates, discuss issues facing local jurisdictions preparing to meet these deadlines, and provide input on resources local communities need to maximize their efforts. The workshop focused on providing resources to better assist communities in advancing interoperability and implementing the States' Statewide Communications Interoperability Plan (SCIP).

Key issues in interoperability briefed during the workshop included:

- Preparing to prove compliance with National Emergency Communications Plan goals
- Meeting the FCC narrow banding requirements
- Arizona's interoperability goals & SCIP initiatives
- Arizona Interagency Radio System (AIRS) deployment
- Opportunities to advance interoperable communications regionally.

In addition, during the first workshop session GITA-PSIC solicited stakeholder feedback to develop an Education & Outreach Plan in support of advancing interoperable communications statewide in accordance with SCIP Initiative #12 (See Outreach Section below).

During the second workshop session GITA-PSIC solicited feedback on a draft approach/methodology for assessing AZ counties progress toward meeting NECP Goal Two. Every state is required to include its NECP Goal Two Assessment Methodology in its annual SCIP Implementation Report (due to Federal DHS in Fall 2010). GITA-PSIC drafted a methodology with input from Arizona Department of Homeland Security and presented it to stakeholder groups throughout Arizona for comment. In addition to the draft methodology being reviewed by stakeholders at the April 13th statewide workshop, it was also presented to the Public Safety Communications Advisory Commission (PSCC) at its public meeting on April 21st and to the Statewide Interoperability Executive Committee (SIEC) at its public meeting on May 18th. The final version of the NECP Goal Two methodology will be presented to PSCC for approval on July 20, 2010. (See Attachment A: *Arizona Approach for Assessing Non-UASI Counties Progress toward Meeting NECP Goal Two.*)

State Governance Documentation – Completion of Operating Principles (Charter) document.

For governance to be effective, it must be explicit, transparent and understandable. During the fourth quarter of FY 2010, the State completed a draft Operating Principles (charter) document for the State's interoperability governance entities. The document describes the functions and operating guidelines for the PSCC, SIEC, PSIC staff support, and related workgroups and how they will operate subject to alignment with existing statutes. The charter for these groups was significantly out of date, incomplete and in need of improvement. Feedback on the updated charter document was sought from the PSCC, SIEC, PSCC's Governance workgroup and public safety stakeholders statewide. The Operating Principles (charter) document was approved by SIEC at its May 18, 2010 public meeting, and will be presented to the PSCC next quarter at its July public meeting for review and approval.

Regional Governance Advancement - PCWIN Governance Assessment

The PSIC Office continued oversight of federal technical assistance personnel in their work with Pima County Wireless Integrated Network (PCWIN) stakeholders to perform a Regional Governance Structures Assessment. The PCWIN project is currently in the detailed design and implementation phase. As PCWIN is moving closer to the operational phase, new governance issues are arising.

The PC-WIN Governance Structures Assessment has involved a set of meetings in Pima County with multiple stakeholders with the goal of evaluating existing interoperability governance structures and documents for PCWIN and identifying governance issues that need resolution. During the fourth quarter, these meetings brought together members of local governance committees, appointed and elected officials, and communications and public safety staff. The draft results of the assessment were presented to Pima County in June 2010 and will be finalized in the fall of 2010.

Regional Planning - RICP Development for Cochise and Santa Cruz counties

The PSIC Office continued to work with local stakeholders during fourth quarter FY2010 to advance regional communications interoperability governance planning. In particular, PSIC worked with two of Arizona's border counties, Cochise and Santa Cruz, to identify the regions top interoperability priorities. The PSIC Office worked with local stakeholders and Federal DHS Office of Emergency Communications (OEC) technical experts to draft a Regional Interoperable Communications Plan (RICP) for each County. The draft (high-level) RICPs were presented to county stakeholders in June 2010. The PSIC Office will follow up with local stakeholders to evolve more detailed plans for inclusion in these RICPs going forward.

Tactical Planning Project Progress – Develop TICPs and expand the utilization of CASM

During the fourth quarter of FY2010, GITA-PSIC identified staff and consulting support and began planning activities in regard to supporting local jurisdictions in development of Tactical Interoperable Communications Plans (TICP) and utilization of the Communications Asset Survey and Mapping (CASM) tool. These tools enable:

- Collection and maintenance of information on public safety communications assets
- Identification of interoperability gaps between and among agencies and jurisdictions
- Aggregation of information with which to create investment justifications / funding requests to fill communication gaps
- Documentation regarding the level of interoperability between agencies/regions
- Development of plans to close gaps to improve interoperability

Use of CASM and Creation of TICPs is included in Arizona's SCIP Objective 1.3 under Strategic Initiative 1 – Expand and Implement Interoperable Communications Governance Model and Plan. The TICP/CASM project is being funded by a grant from Federal DHS.

Standard Operating Procedures (SOP)

Policies, Standards and Procedures (PSP) Framework Project Progress - During the fourth quarter of FY2010, GITA-PSIC began planning and research on development of a Policies, Standards and Procedures (PSP) Framework for Interoperable Communications in Arizona in accordance with SCIP Initiative #4.

Arizona currently does not have a statewide PSP framework regarding interoperable communications. Although some statewide interoperable communications solutions exist and others are being planned, Arizona has not developed or implemented consistent SOPs regarding the use of these solutions and has not developed templates to ensure that future SOPs are developed in a consistent manner. In order to support interoperable communications statewide, GITA-PSIC will establish a reliable PSP framework that enables stakeholders to implement interoperability projects consistently across the state.

This project is funded by a federal Department of Homeland Security Interoperable Emergency Communications Grant and is expected to be complete in mid 2012.

700 MHz Interoperability Channel Usage Plan Development – The SIEC is responsible for managing the interoperability channels in the 700 MHz public safety band. During the fourth quarter FY2010, the SIEC and their workgroups, with PSIC staff support, advanced efforts to develop a 700 MHz Interoperability Channel Usage Plan. At its May 18, 2010 meeting, the SIEC approved a set of recommendations including adoption of national standards for channel naming for use in Arizona.

The SIEC workgroup (staffed by PSIC) is planning to develop additional standards relating to minimum channel programming, primary and secondary “General Public Safety Service” channels, command interoperability with secondary responder organizations, secondary trunked use of general public safety service channels, and procedures outlining how the SIEC and the Regional Planning Committee (RPC) will interface.

Technology

During FY 2010 fourth quarter, GITA-PSIC made solid progress on advancing Technology related SCIP Initiatives. Key activities in Technology during the fourth quarter FY2010 include:

- Border Interoperability Demonstration Project (BIDP) Applications
- Arizona State Forestry Division AIRS Connectivity Project Approval
- Project Oversight of AIRS Deployment, Statewide Microwave Upgrade & Strategic Technology Reserve Implementation
- Promotion of Functional Regional Systems
- Enhancement of State Agency Operability in Support of Interoperability

Border Interoperability Demonstration Project (BIDP) Applications — During fourth quarter FY2010, GITA-PSIC supported the AZDOHS and local agencies in Cochise, Santa Cruz and Yuma counties in the submission of applications for the Border Interoperability Demonstration Project. BIDP is a \$30 million grant program that will provide funding and technical assistance to U.S. communities located on the international borders with Canada and Mexico to develop innovative approaches for improving interoperable emergency communications. GITA-PSIC reviewed the applications to ensure alignment with the State's SCIP, provided detailed comments to the applicants to improve the applications before submittal and prepared and submitted letters of support on behalf of each application to the federal government. The expected award date for the BIDP program is fall 2010.

Arizona State Forestry Division AIRS Connectivity Project Approval – On May 18, 2010, the SIEC approved a request by the Arizona State Forestry Division to add AIRS into the Forestry Division's Arizona Interagency Dispatch Center (AIDC). This project will allow the Forestry Division, which operates on the VHF spectrum, to coordinate resources statewide from their dispatch center, and communicate with DPS and other agencies on UHF and 800 MHz frequencies. Forestry will continue to use their existing system, but they will now have high level connectivity to AIRS from their dispatch center as well. This will result in the Division having increased interoperability capabilities during multi-jurisdictional multi-agency response, recovery, and mitigation efforts.

Project Oversight of AIRS Deployment, Statewide Microwave Upgrade & Strategic Technology Reserve Implementation

Deployment of AIRS Suites by DPS (SCIP Initiative #5): AIRS suites are currently installed in 33 sites throughout Arizona. The Wireless Systems Bureau of DPS (DPS/WSB) is working with the Lake Havasu Sheriff's office regarding the installation of an additional AIRS suite at the Black Metal site (approved by the SIEC January 19, 2010).

Upgrade the Statewide Microwave Backbone Infrastructure to Digital Technology by DPS (SCIP Initiative #7): GITA-PSIC continues to monitor progress on DPS' statewide Digital Microwave upgrade closely. DPS/WSB is prepared to brief JLBC on the detailed status of this important project.

Implementation of the State STR by Arizona Division of Emergency Management (ADEM) (SCIP Initiative #8): GITA-PSIC continues to monitor progress on the implementation of the Strategic Technology Reserve (STR) project. During the fourth quarter FY2010, ADEM submitted a request to the Governor's Office to house COG satellite phones/radios on their behalf. In addition, ADEM continued to deploy vendor upgrades to STACS units. ADEM is developing a plan to utilize remaining PSIC grant funding and has submitted an extension request to AZDOHS. The extension request include ADEM's request to deploy additional satellite phone and aircard monthly service, as well as additional equipment for county EOCs. ADEM has also proposed purchasing Tri-Band radios as part of the STR cache, a technology that was not available when the STR project began.

Promote Functional Regional Systems (SCIP Initiative #6) - GITA-PSIC continues to work closely with regional/local partners around the State, to further regional interoperability planning. During the fourth quarter FY2010, the PSCC received a detailed updates from the Regional Wireless Cooperative (RWC) in Maricopa County, and the Yuma Regional Communications System (YRCS). The PSCC was also briefed on the results of the NECP Goal 1 assessment of the Phoenix and Tucson Urban Area Security Initiatives. Finally, regional interoperable governance plans - RICPs - were developed for Cochise and Santa Cruz counties during this timeframe (see Governance section).

Enhancement of State Agency Operability in Support of Interoperability (SCIP Initiative #9) - The Department of Public Safety Wireless Systems Bureau (WSB) briefed the PSCC on plans to enhance State agency public safety interoperability through a partnership between DPS, ADOT and the Yuma Regional Communications System (YRCS).

Training & Exercise

Accomplishments during the fourth quarter FY 2010 by GITA-PSIC and its partners regarding Training and Exercise initiatives and objectives are as follows:

Development and Implementation of AIRS Training (SCIP Objective 10.3)

GITA-PSIC continued development of Arizona Interagency Radio System (AIRS) training materials. The statewide training program is designed to promote AIRS by informing agencies about AIRS existence and capabilities, and ensure effective use of AIRS as a statewide interoperable communications asset. AIRS has been underutilized because of a lack of standard operating principles documented for its use as well as a lack of training available on its use.

The PSIC office collaborated with the City of Phoenix Fire Department to produce an eleven minute AIRS training video. Additional training materials developed include a Peace Officer Standards and Training (POST) formatted lesson plan, AIRS Training Presentation, Regional specific training materials, and a sticker showing regional channel assignments that can be inserted into the National Interoperable Field Operations Guide or placed on clipboards, dashboards or dispatch consoles. The AIRS training video will be previewed to the PSCC during the first quarter FY 2011 and AIRS Training roll-out plans will be presented to PSCC for comment at that meeting as well.

Development of a Communications Unit Leader (COML) Training Program (SCIP Objective 10.4)

After a public review period, the SIEC approved a documented process for recognizing Regional Communications Unit Leaders (COMLs) in Arizona on May 18, 2010. A Communication Unit Leader is defined by the Department of Homeland Security (DHS) as a person that plans and manages the technical and operational aspects of the communications function during an all-hazards incident or event. The COML plays a critical role within the National Incident Management System (NIMS). The federal government has left it to each state to determine how its COMLs will be recognized. The Arizona Regional COML Recognition Program was

developed by a SIEC Communication Unit working group staffed and supported by the PSIC. The Arizona Regional COML Recognition Program will be submitted to the PSCC for approval during the first quarter FY 2011.

Exercise Strategy Development (SCIP Initiative #11)

Part of the NECP Goal Two Assessment process (see Governance above), includes evaluation of jurisdictions performance as well as capabilities. Performance will be evaluated based on planned events or exercises selected by local jurisdictions and assessed by the PSIC Office in partnership with the local jurisdictions. This will enable Arizona to use the assessment process to continue to advance interoperability.

Usage & Outreach

Outreach Plan Development Commencement (SCIP Initiative #12)

During the fourth quarter FY2010, GITA-PSIC began development of a statewide Education and Outreach Plan in support of interoperable communications. The PSIC office, in conjunction with OEC, held an Outreach Session as part of its April 13, 2010 Statewide Stakeholder Communications Interoperability Workshop. Key policy areas briefed during the workshop included an OEC Overview, Preparing to Prove Compliance with National Emergency Communications Goals by 2011, Meeting the FCC Narrowbanding Requirements by 2013, Arizona's Interoperability Goals & SCIP Initiatives, Regional Planning, Arizona Interagency Radio System (AIRS), CASM / TICP, and Opportunities for involvement to advance interoperable communications in Arizona. Following presentations on the above topics, attendees participated in breakout sessions designed to identify key local stakeholders and priorities for outreach relevant to these key policy areas. The information gathered during the breakout sessions will serve as the basis for development of outreach strategies, methods for encouraging collaboration and tools to educate policy makers and practitioners to be included in the Statewide Education and Outreach Plan (SCIP Initiative #12).

Usage & Outreach Activities Continue

The PSIC Office conducted outreach to numerous multi-discipline, multi-jurisdiction partners through in-person meetings and regular e-mail communications through its extensive interested parties list.

GITA-PSIC participated in meetings during fourth quarter FY 2010 including:

- Federally assessed NECP Goal One Evaluations for Tucson and Phoenix UASIs (March and April) and after actions meetings and discussions
- Continued participation on a national Interoperability Grants Working Group looking at recommendations for federal grant guideline updates
- Arizona Fire Mutual Aid Meeting – June 2nd
- Phoenix Regional Wireless Consortium Board of Directors Meeting – June 25th
- Eastern Region Communications Tabletop Exercise Planning - June 30th
- Collaboration with technology experts, organization leaders and cross-discipline, cross-jurisdictional first responders
- Interoperability Governance discussions

- National Emergency Communications Plan requirements outreach
- FCC Narrowbanding strategy sessions
- SCIP Initiatives progress meetings
- PSCC, SIEC, and Stakeholder recruitment and support
- Participation in Training and Exercises

Participate in National & Regional Meetings

National & Regional Meetings during fourth quarter FY 2010 included:

- Southwest Border Communications Working Group - May 4th and 5th
- Other states' NECP Goal 1 Evaluations with GITA-PSIC staff as observer [Note: Our participation was fully funded by Federal DHS and many lessons learned from participating will be shared with AZ stakeholders]: Miami Memorial Day Celebrations, Kentucky Derby, Milwaukee Fireworks Celebration
- High Level Consultative Commission/Security Communications Task Group Delegation Meeting - May 25th in El Paso TX
- FEMA-Regional Emergency Communications Coordination Working Group Conference Call, June 2nd
- National Public Safety Telecommunications Council Meeting – June 14th and 15th

Conduct Public Meetings

SCIP Outreach Workshop – April 13, 2010 – Topics covered: OEC Overview, Preparing to Prove Compliance with National Emergency Communications Goals by 2011, Meeting the FCC Narrowbanding Requirements by 2013, Arizona's Interoperability Goals & SCIP Initiatives, Regional Planning, Arizona Interagency Radio System (AIRS), CASM / TICP, and Opportunities for involvement to advance interoperable communications in Arizona.

NECP Planning Meeting – April 13, 2010 – Topics covered: NECP Goal 2 Implementation Overview, The Interoperability Continuum, Response-Level Communications, Documenting Statewide Capabilities, Demonstrating Performance, Review Goal Demonstration Tool, Discussion of Arizona Approach to Goal 2 Implementation Methodology.

PSCC Meeting – April 21, 2010 – Agenda items: Yuma Regional Communications System, Enhancing State Agency Public Safety Interoperability, Statewide Interoperability Executive Committee Update, Regional Wireless Cooperative (RWC), Tucson UASI NECP Goal 1 Observation, Arizona Approach for Assessing Non-UASI Counties Progress toward Meeting NECP Goal Two, PSIC Multiple Project Updates.

SIEC Meeting – May 18, 2010 – Agenda items: 700 MHz Channel Usage Plan, Arizona Regional COML, Arizona State Forestry Division AIRS Connectivity Project, SIEC Operating Principles, National Emergency Communications Plan Goal Two Evaluation, PSIC Multiple Project Updates.

Budget


For FY 2010, \$818,700 was appropriated from the General Fund to the Government Information Technology Agency for the public safety communications program. Laws 2009, 5th Special Session, Chapter 1, SB1001 reduced the appropriation by \$61,400 to \$757,300. Laws 2010, 7th Special Session, Chapter 1, HB2001 further reduced the appropriation by \$600 for FY 2010 legislated salary and furlough reductions bringing the FY 2010 appropriation to \$756,700.

As of June 30, 2010, \$488,105 had been expended or encumbered. A breakdown of expenditures by category is attached as Attachment B: *FY2010 Q4 GITA-PSIC Expenditures*. GITA-PSIC continues to realize vacancy savings and utilize federal (reimbursement) grants whenever possible to support its goal of advancing interoperable communications in Arizona in the most fiscally responsible manner. In this regard \$202,772 was spent in federal homeland security grants by the PSIC office during FY2010 to achieve the results outlined in this report.

Remaining funding consists of the \$2.2M of non-lapsing Anti-Racketeering Fund monies specified in the General Appropriation Act footnote as legislatively intended for use for the detailed design of the long-term interoperability solution. Per the request from JLBC Director Richard Stavneak on April 21, 2010, we are preparing a recommendation memorandum regarding the use of RICO funds (including an expenditure plan) that we will review with the Public Safety Communications Advisory Commission (PSCC) at its public meeting on September 21, 2010. We will send the approved memorandum to JLBC on September 22 and will be prepared to present our recommendation at the October 5th/6th JLBC meeting.

Please don't hesitate to contact me with any questions you might have regarding activities of GITA-PSIC, PSCC and SIEC.

Best wishes,



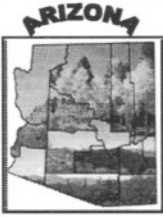
Chad Kirkpatrick
State CIO & Director

Cc: Matt Morales, Director of Communications & Intergovernmental Affairs, GITA
Lisa Dee Meyerson, Manager, PSIC Office, GITA
Ted Nelson, Assistant Fiscal Analyst, Joint Legislative Budget Committee

Attachment A: Arizona Approach for Assessing Non-UASI Counties Progress toward Meeting NECP Goal Two

Attachment B: FY2010 Q4 GITA-PSIC Expenditures

**Attachment A: Arizona Approach for Assessing
Non-UASI Counties Progress
toward Meeting NECP Goal Two**



Public Safety Communications Advisory Commission

Arizona Approach for Assessing Non-UASI Counties

Progress toward Meeting NECP Goal Two

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Distribution Statement: This is a public document documenting the Arizona Approach for Assessing Non-UASI Counties Progress toward Meeting NECP Goal Two. The Point of Contact (POC) for this document is the Public Safety Interoperable Communications (PSIC) Office in the Arizona Government Information Technology Agency (GITA). Additional information on the NECP and current contact information for the PSIC Office can be found at www.azgita.gov/psic/.

Background

The National Emergency Communications Plan (NECP) is the Nation's first strategic plan to improve emergency response communications. The Office of Emergency Communications (OEC) at US Department of Homeland Security (DHS) developed the NECP in cooperation with federal departments and agencies, state, local, and tribal governments, emergency response providers and the private sector. The vision of the NECP is to ensure emergency response personnel at all levels of government and across all disciplines, can communicate as needed, on demand and as authorized through improvements in communications operability, interoperability and continuity nationwide.

The NECP sets forth 3 key goals for improved interoperability, operability, and continuity of communications as follows:

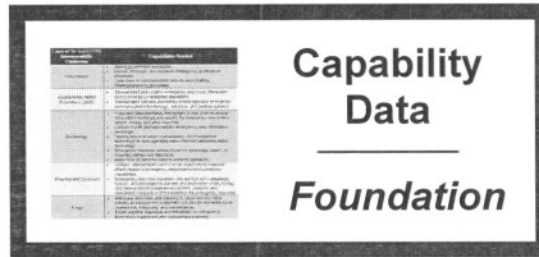
- Goal 1 - By 2010, 90 percent of all high risk urban areas designated within the Urban Area Security Initiative (UASI) are able to demonstrate response level emergency communications within one hour for routine events involving multiple jurisdictions and agencies
- Goal 2 - By 2011, 75 percent of non-UASI jurisdictions are able to demonstrate response-level emergency communications within one hour for routine events involving multiple jurisdictions and agencies
- Goal 3 - By 2013, 75 percent of all jurisdictions are able to demonstrate response-level emergency communications within three hours, in the event of a significant incident as outlined in national planning scenarios.

Emergency Communications is defined by the NECP as the ability of emergency responders to exchange information via data, voice and video, as authorized to complete their missions. Response level emergency communications is defined by the NECP as the capacity of individuals with primary operational leadership responsibility to manage resources and make timely decisions during an incident involving multiple agencies, without technical or procedural communication impediments.

NECP Goal Two Measurement

OEC is requesting that each state measure (a) capabilities and (b) performance to demonstrate Goal Two compliance. OEC has developed a capability questionnaire for purposes of documenting and reporting county level capability data. OEC has also developed a web based tool for measuring county level performance data.

OEC is requesting that each state document their process or methodology for using these tools to measure meeting NECP Goal Two. Arizona must submit our measurement methodology as part of our 2010 SCIP Implementation Report. (Due July 2010)



Documenting NECP Goal Two Capabilities

The National Emergency Communications Plan (NECP) required capabilities data will be collected as part of the annual Target Capabilities Assessment (TCA) update conducted by the Arizona Department of Homeland Security (AZDOHS).

- Use of existing structure will reduce burden on local agencies
- Using 2010 TCA will allow Arizona to get a head start on documenting capabilities

The Public Safety Interoperable Communications Office (PSIC) will extract the county level capabilities data from the communications portion of the TCA for inclusion in the annual SCIP Implementation Report.

The Public Safety Communications Advisory Commission (PSCC) will review and approve the final capabilities reports for inclusion in the 2011 SCIP Implementation Report.

Timeline: *(Estimates, subject to change)*

April – May 2010: PSIC Office solicits comments on proposed assessment methodology

June - July 2010: TCA Data Collection

July 2010: Arizona approach documented in 2010 SCIP Implementation Report and submitted to OEC

September 2010: Final TCA Report Issued

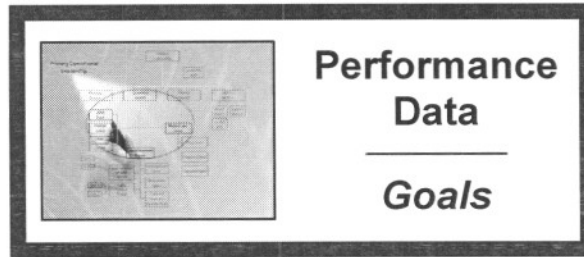
October 2010: PSIC Office extracts county level interoperable communications capability data from TCA

November 2010: OEC publishes final capabilities reporting tool and PSIC Office determines if additional capabilities need to be documented

January – April 2011: Additional capability data collected (only if needed)

May 2011: PSCC reviews and approves capability data for inclusion in 2011 SCIP Implementation Report

July 2011: Capabilities data included in 2011 SCIP Implementation Report submitted to OEC



Demonstrating NECP Goal Two Performance (Proposal)

- Performance will be assessed on a county by county basis in Arizona
- Each Non-UASI county will submit 2 or 3 possible planned events or exercises that could be used to assess their performance
- The PSIC Office will review and publish a list of events or exercises to be assessed statewide (one per county)
- A Point of Contact (POC) for each non-UASI county will be designated by the county to coordinate local performance measurement efforts
- The PSIC Office will help counties with pre-planning for the selected events and exercises
- The PSIC Office will observe and/or help with the selected events and exercises
- As part of the after action process, a session will be conducted by the PSIC Office with local staff to complete the OEC performance reporting tool
- PSCC will review and approve final performance reports for inclusion in the 2011 SCIP Implementation Report

Timeline: (Estimates, subject to change)

April – May 2010: PSIC Office solicits comments on proposed assessment methodology

July 2010: Arizona approach documented in 2010 SCIP Implementation Report and submitted to OEC

September 2010: Non-UASI County POCs identified by the counties; Counties submit 2 or 3 possible events or exercises for assessment

October 2010: PSIC Office publishes lists of events or exercises to be assessed (one per county)

November 2010: OEC publishes final performance reporting tool

November 2010 – May 2011: Non-UASI counties conduct performance assessment and after action sessions with PSIC Office support

May 2011: PSCC reviews and approves assessments for inclusion in 2011 SCIP Implementation Report

July 2011: Performance Assessment data included in 2011 SCIP Implementation Report submitted to OEC

Attachment B: FY2010 Q4 GITA-PSIC Expenditures

PUBLIC SAFETY COMMUNICATIONS COMMISSION BUDGET FY 2010

**FY 10 Quarterly Expenditures
Allocated Funds**

	ALLOCATED AMOUNT	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	REMAINING BALANCE
PERSONAL SERVICES	\$ 474,400.00	\$ 94,004.54	\$ 88,350.52	\$ 67,689.36	\$ 60,781.15	\$ 163,574.43
ERE	\$ 142,500.00	\$ 55,176.51	\$ 16,681.06	\$ 12,803.97	\$ 11,606.79	\$ 46,231.67
PROFESSIONAL/OUTSIDE SVCS	\$ 31,000.00	\$ 18,037.85	\$ (17,083.62)	\$ -	\$ -	\$ 30,045.77
TRAVEL (IN STATE)	\$ 5,000.00	\$ 1,209.35	\$ 233.35	\$ 1,251.13	\$ 1,534.48	\$ 771.69
TRAVEL (OUT OF STATE)	\$ 5,000.00	\$ 750.05	\$ 831.82	\$ 103.28	\$ 1,079.87	\$ 2,234.98
OTHER OPERATING EXPENDITURES	\$ 89,600.00	\$ 8,260.57	\$ 35,207.26	\$ 7,572.95	\$ 19,188.64	\$ 19,370.58
CAPITAL EQUIPMENT	\$ -					\$ -
NON CAPITAL EQUIPMENT	\$ 9,200.00	\$ -	\$ -	\$ -	\$ 2,834.70	\$ 6,365.30
	\$ 756,700.00					\$ 268,594.42
QUARTERLY EXPENDITURES TOTALS		\$ 177,438.87	\$ 124,220.39	\$ 89,420.69	\$ 97,025.63	
				FY 10 TOTAL EXPENDITURES	\$ 488,105.58	

**FY 10 Quarterly Expenditures
Non Lapsing Funds**

	ALLOCATED AMOUNT	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	REMAINING BALANCE
PERSONAL SERVICES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ERE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PROFESSIONAL/OUTSIDE SVCS	\$ 358,500.52	\$ -	\$ -	\$ -	\$ -	\$ 358,500.52
TRAVEL (IN STATE)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TRAVEL (OUT OF STATE)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OTHER OPERATING EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NON CAPITAL EQUIPMENT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CAPITAL EQUIPMENT		\$ -	\$ -	\$ -	\$ -	\$ -
REVERTED BY LEGISLATION	\$ -	\$ -	\$ -	\$ 358,500.52	\$ -	\$ (358,500.52)
	\$ 358,500.52					\$ -
QUARTERLY TOTALS		\$ -	\$ -	\$ 358,500.52	\$ -	
				FY 10 TOTAL REVERSION	\$ 358,500.52	

Note: Laws 2009, 49th Legislature, 1st Regular Session, Chapter 12, HB2643, Section 1 amended Laws 2004, chapter 275, section 67 and reverted the \$358,500.52 in the FY2005 non-lapsing appropriation for design costs associated with a statewide radio interoperability communication to the General Fund.

JANICE K. BREWER
GOVERNOR



CHAD KIRKPATRICK
DIRECTOR

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

September 22, 2010

The Honorable John Kavanagh, Chair
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington St.
Phoenix, AZ 85007



The Honorable Russell Pearce, Vice Chair
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington St.
Phoenix, AZ 85007

Gentlemen:

The Joint Legislative Budget Committee (JLBC) approved GITA-PSIC Third Quarter FY2010 expenditures and progress in a letter dated April 21, 2010. In that letter JLBC requested an update on the plan for use of \$2.2 million in FY 2007-2008 anti-racketeering funds. The Public Safety Interoperable Communications Office (PSIC) in the Government Information Technology Agency (GITA) has developed this recommendation as requested.

GITA-PSIC recommends the anti-racketeering funds be used to expand standards-based P25 communications capability in the southern region utilizing the Yuma Regional Communications System (YRCS) Master Site Controller and supported by the Arizona Department of Public Safety (DPS) upgraded digital microwave system. The proposal would:

- Expand coverage to 4 southern border counties enabling linkage between local and state systems.
- Deliver wide coverage for moderate financial investment - increasing 700 MHz digital coverage in the Southwest border region by approximately 6500 square miles
- Provide high level connectivity for existing and developing communication systems, thus increasing interoperability capabilities during multi-jurisdictional multi-agency response, recovery, and mitigation to critical incidents in high risk areas.

The proposal has been favorably reviewed by key partner agencies involved in communications interoperability – Arizona Department of Public Safety, Arizona Department of Transportation, and Arizona Department of Homeland Security – and their letters of support are attached to this memorandum. In addition, the proposal has been endorsed by the Southern Regional Advisory Council (SRAC) – letter of SRAC support is also attached. Finally, the recommendation was approved by the Public Safety Communications Advisory Commission (PSCC) at their open public meeting on September 21, 2010.

We respectfully request a favorable review of this recommendation.

Funds

In 2007, the State legislature directed \$2.2 million in FY 2007-2008 anti-racketeering funds to be used for “the detailed design of the long-term interoperability solution”. [*Chapter 255, House Bill 2781, page 95.*] At the time, the PSIC and the Public Safety Communications Advisory Commission (PSCC) were housed at the Arizona Department of Public Safety (DPS). The FY2009 State budget passed by the Arizona State Legislature and signed into law in June 2008 transferred PSIC/PSCC from DPS to GITA. This transfer included the RICO funds, along with all other PSIC/PSCC funds. The transition was completed in October 2008.

Statewide Design & Plan

In 2006, DPS (on behalf of PSCC) commissioned a *Radio System Conceptual Design Report* which was completed and delivered on April 23, 2008. The Report calls for “a statewide trunked radio system based on Project 25 (P25) standards, which will provide operability and interoperability for state and local agencies. The (proposed) system is also able to use a high-level network interface to enable interoperability with other systems.” In 2008, a successful demonstration project demonstrated console patch and inter-system connectivity as potential solutions to meet the interoperable communications needs of the State. The cost of the system to be developed based on the conceptual design report was estimated in 2008 at \$217 million (not including separate funding needed to upgrade the State’s microwave system from analog to digital technology).

In January 2010, the PSCC approved an updated Statewide Communications Interoperability Plan (SCIP). The SCIP has 12 strategic initiatives to advance interoperability. At a high level the SCIP describes the linking of regional systems with state systems and with one another to facilitate long term interoperability.

The State has not identified funds to enable implementation of the complete system contemplated by the conceptual design. A detailed design would therefore not be a timely use of the RICO funds. However, the State is making significant progress on component parts of the statewide system contemplated by the conceptual design. The RICO funds could provide tremendous benefit to advancing communications interoperability in keeping with this long term system design as outlined in this recommendation. Therefore, GITA-PSIC proposes use of the RICO funds consistent with Arizona’s SCIP and the conceptual design to advance communications interoperability.

Development of Recommendation

In keeping with its statutory mandates and operating protocols, GITA-PSIC followed the following steps in developing this recommendation:

- April 21, 2010 – Request input from PSCC regarding use of RICO funds
- April 23, 2010 – Receive initial proposal from YRCS
- May 18, 2010 – Request input from Statewide Interoperability Executive Committee (SIEC) regarding use of the RICO Funds
- May 13, 2010 – Received more detailed proposal from YRCS.
- June 8, 2010 – Consult with Arizona Department of Public Safety (AZDPS) as required by statute regarding possible use of RICO Funds. In addition, consult with ADOT and AZDOHS. All favored the YRCS proposal as:
 - Supportive of the long term plan for operability and interoperability for the State
 - Immediately beneficial to key public safety state agencies
 - Building on the State's financial investment in the Microwave upgrade in the Southern part of the State
- June to September 2010 – Consult with public safety partners regarding possible use of RICO funds and develop this Recommendation.
- July 20, 2010 – Second request to PSCC requesting input regarding possible use of RICO funds, including possible use as proposed by YRCS.
- September 15, 2010 – Review draft recommendation with AZDOHS, AZDPS and ADOT before submittal to PSCC.
- September 21, 2010 – This recommendation reviewed and approved by the Public Safety Communications Advisory Commission (PSCC) at their open public meeting.
- September 22, 2010 – Submit Recommendation approved by PSCC to JLBC.

Proposed Detailed Design Build-out

GITA-PSIC received one substantive proposal for use of the RICO funds – a proposal from YRCS (Attachment 1). Alternative uses of the funds suggested by staff or stakeholders were also evaluated by staff (Attachment 2). The YRCS proposal is consistent with the conceptual design report and aligns with SCIP related projects currently endorsed by the PSCC.

Activated on May 31, 2007, YRCS is a standards based P-25 shared system. The system was built with nearly \$17 million in local funds and federal grants. Users of the system include public safety and service agencies for:

- Local – City of Yuma, Yuma County (*5,522 square miles*), City of Somerton, City of San Luis, Town of Welton
- Tribal – Quechan Indian Tribe, Cocopah Indian Tribe
- Federal – FBI, ATF, USCBP (vhf), Marine Corps Air Station, US Army Proving Grounds, Dept of Interior (*in process*)
- State Agencies – DPS (uhf), DEMA (State EOC), ADOT
- NGOs – Rural Metro, Air Medvac, Yuma Regional Medical Center
- Other States – Key exchange IGA with San Diego RCS and Imperial Valley Emergency Communications Association

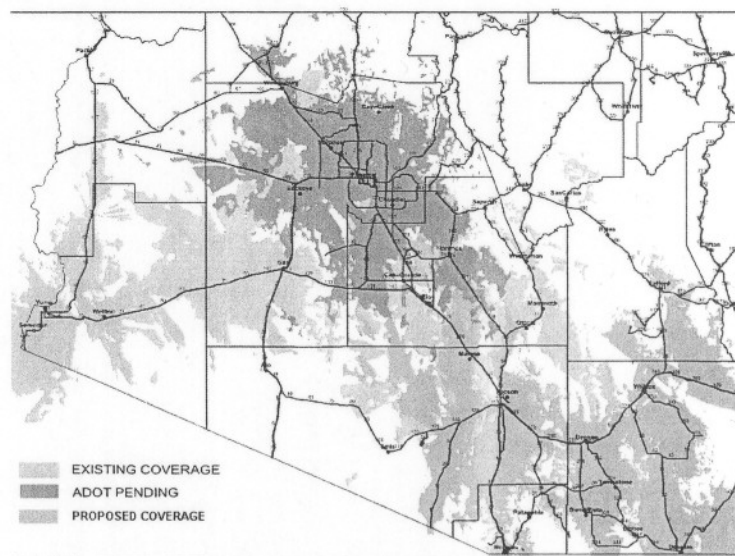
The YRCS proposal calls for a cooperative effort by YRCS and DPS to deploy standards-based P25 communications capability at six key transmitter sites along the southern region supported by DPS' upgraded digital microwave system. The proposed Conventional Channel Gateways to be installed at each transmitter site would enable patching of conventional channels with trunked talkgroups across the UHF, VHF and 700/800 MHz radio spectrum bands. This proposal would provide high level connectivity for existing and developing communication systems, thus increasing interoperability capabilities during multi-jurisdictional multi-agency response, recovery, and mitigation to critical incidents.

The proposed detailed design build-out is modeled after an existing, successful partnership between DPS and the YRCS. DPS operates on a UHF system and needs to connect with local agencies operating on VHF and 700/800 MHz systems. Therefore, DPS entered into a partnership with YRCS to use its master site controller in regard to P25 sites built by DPS and connected by DPS' microwave link at South Mountain (Phoenix) and Mount Lemmon (Tucson). These sites expanded the footprint of the YRCS system and enable interoperability between DPS and YRCS agencies. DPS joint operations taskforces utilize the expanded system today.

The Arizona Department of Transportation (ADOT) received approval from the Information Technology Advisory Council (ITAC) on August 25, 2010 to begin a similar project in partnership with YRCS for 2 other sites – White Tanks and Thompson Peak. ADOT's current system is end of life and utilization of the YRCS partnership between YRCS and DPS is enabling ADOT to jumpstart system replacement for a significantly reduced investment.

The six sites proposed for the detailed design build out are existing DPS transmitter sites that can be enhanced quickly – each site is already configured with battery banks, generators, building and towers as well as microwave connectivity to YRCS site controller. Recommended sites are located at:

1. Keystone Mountain
2. Nogales Hill
3. Texas Canyon
4. Mule Mountain
5. Bernadino Peak
6. Dos Cabezas



These sites would expand coverage to the four southern Arizona border counties enabling linkage between local and state systems and would increase 700 MHz digital coverage (for interoperability) in the Southwest border region by approximately 6500 square miles. (Attachment 3: Coverage Maps) Any operability usage of the system will need to be negotiated jointly with DPS and YRCS.

YRCS presented its proposal to Arizona Department of Homeland Security's Southern Regional Advisory Council (RAC) on June 18, 2010 and the SRAC endorsed the proposal as beneficial to its region. (Attachment 4: Support Letters)

Recommendation

We recommend the YRCS proposal for use of the anti-racketeering funds as we believe it will benefit Arizona as following:

- Build on existing investments:
 - Digital microwave upgrade in Southern Arizona (\$8.6 million)
 - YRCS build-out through use of master site controller (\$17 million)
 - Connection to DPS build out and ADOT planned build out (\$5 million)
- Expand coverage to 4 southern border counties enabling linkage between local and state systems.
- Enable future linkage to PCWIN – Pima County Wireless Integrated Network – being built to similar modern communications specifications.
- Deliver wide coverage - increasing 700 MHz digital coverage in the Southwest border region by approximately 6500 square miles – for moderate financial investment
- Provide high level connectivity for existing and developing communication systems, thus increasing interoperability capabilities during multi-jurisdictional multi-agency response, recovery, and mitigation to critical incidents in high risk areas.

Expenditure Plan

The design configuration for the project was established by DPS and YRCS based on 2 other successful YRCS/DPS projects. The following ASTRO25 repeater equipment would be purchased for each of the six proposed sites:

- One (1) GTR Expandable Site subsystem with five (5) GTR 8000 Base Radios
- Two (2) Site Routers
- One (1) Aux I/O Module
- One (1) Tower Top Amplifier and Base Unit
- One (1) Conventional Channel Gateway (CCGW)

Each CCGW will provide four conventional interfaces to enable cross communications from analog radios to trunked talk groups. These CCGWs can be accessed utilizing existing interface cards and existing DPS microwave connectivity for trunked talk groups to conventional channel patch interfaces.

To support the orderly expansion of the system without negatively impacting existing DPS / YRCS operations, the project will first establish baseline interoperability for state agency users. In early 2011, the installation of the six additional sites will begin. GITA's PSIC Office would also establish the necessary governance structures regarding how, when and who can use the system for interoperability. This includes the development of governance agreements and the creation of interoperability channels. After the installation of the six additional sites, connections with the State Emergency Operations Center (EOC) and other strategic connections would be established.

After establishing baseline interoperability for state agency users, the system would then be expanded to support local agency use of the system. The programming of talk groups and installation of control stations at Public Safety Answering Points (PSAP) would help tie in local agencies to the system for interoperability purposes. Interoperability usage through tie in of dispatch centers will be enabled by DPS and YRCS. In addition, a hardware/software system upgrade would be completed to support future expansion of the system. This expansion could include the addition of a zone controller for DPS and/or additional sites in other locations.

The detailed cost breakdown is included below:

State Agency Interoperability	
Site Equipment 6 sites (5 channel sites)	\$960,000.00
Antennas at 6 sites with coax and connectivity	\$35,000.00
Install materials 6 sites includes antenna install and optimization	\$120,000.00
Spares Kit for DPS	\$25,000.00
Equipment for State EOC and other strategic connections	\$25,000.00
Local Agency Interoperability and Expansion ¹	
Software system upgrade for master controller* to support future expansion of system to include potential add of zone controller and/or additional site expansion*	\$790,000.00
Hardware system upgrade for site servers*	\$100,000.00
Training, travel, materials	\$80,000.00
PSAP Control stations 10 (XTL1500 ps, ant, install)	\$65,000.00
TOTAL BUDGET	\$2,200,000.00

Installation will be provided by YRCS and DPS pursuant to site agreements under an existing Master Interagency Governmental Agreement (IGA). Training will be provided by YRCS staff. All equipment will be owned by DPS and on-going maintenance will be provided by DPS staff.

* In the event that the necessary system upgrades can be funded through other sources, additional sites will be funded with the RICO funds instead in accordance with an updated plan to be submitted by GITA-PSIC with its JLBC quarterly report.

Governance - rules (similar to the Arizona Interagency Radio System Standard Operating Procedures) regarding how, when and who can use the system for interoperability – will be developed by PSIC in consultation with DPS, YRCS, SIEC and PSCC.

Proposed Timeline:

- September – October 2010 – Seek Approval of JLBC (GITA)
- October – December 2010 – Seek Information Technology Authorization Committee (ITAC) Approval (GITA/DPS); Develop Detailed Project Plans; Sign IGAs and/or Site Supplemental Agreements between GITA, YRCS and DPS
- 2011: 6 Site Build-outs (YRCS/DPS led effort); Governance Established (PSIC/PSCC led effort); Creation of Interoperability Zone Plan (PSIC/PSCC led effort)
- First Half of 2012: Once Governance is in place and sites are stable, Program Talk Groups for Local Agencies & Provide Training (YRCS led effort); Perform System Upgrade (YRCS led effort) (or Site Expansion)

Recommendation

GITA-PSIC recommends the \$2.2 million in FY 2007-2008 anti-racketeering funds be used to expand standards-based P25 communications capability in the southern region utilizing the YRCS Master Site Controller and supported by the Arizona Department of Public Safety (DPS) upgraded digital microwave system.

The Government Information Technology Agency respectfully requests a favorable review by the JLBC of this planned use of \$2.2 million in FY 2007-2008 anti-racketeering funds.

Please don't hesitate to contact me with any questions you might have regarding activities of GITA-PSIC, PSCC and SIEC.

Best wishes,



Chad Kirkpatrick
State CIO & Director
Chairman, Public Safety Communications Advisory Commission (PSCC)

Cc: Matt Morales, Director of Communications & Intergovernmental Affairs, GITA
Lisa Dee Meyerson, Manager, PSIC Office, GITA
Ted Nelson, Assistant Fiscal Analyst, Joint Legislative Budget Committee

Attachments:

1. YRCS Proposal
2. Alternatives Considered
3. Coverage Maps (Existing; ADOT Pending; 6 Additional Sites)
4. Letters of Support - AZDOHS, AZDPS, ADOT, SRAC

ADVANCING ARIZONA'S PUBLIC SAFETY COMMUNICATIONS /
ENHANCING OUR BORDER SECURITY

Yuma County Sheriff, Police and Fire Departments from Cities of Yuma, Somerton, San Luis, and town's of Welton, Tacna, and Dateland. Other City County organizations such as Juvenile and Adult probation, Public Works, Parks, IT Dept's, Courts, and Health Dept amongst others.

The YRCS has delivered dramatic improvement in both coverage and day-to-day operations for agencies throughout Yuma County. The project's success has led to the system being named the "Most Effective Municipal/County Security Program, Project or Agency Head" in the 2009 by the Government Security News in the U.S.

We can build upon the successful system in Yuma to enhance our overall communications capabilities in Arizona.

Leveraging the use of existing standards-based systems will:

- Expand operability and interoperability in our high risk areas
- Deliver the most coverage for the dollar expended
- Utilize the State's allocation of the new 700 MHz public safety spectrum

This enhancement can be completed in less than a year with no impact on the state's general fund budget.

The Plan

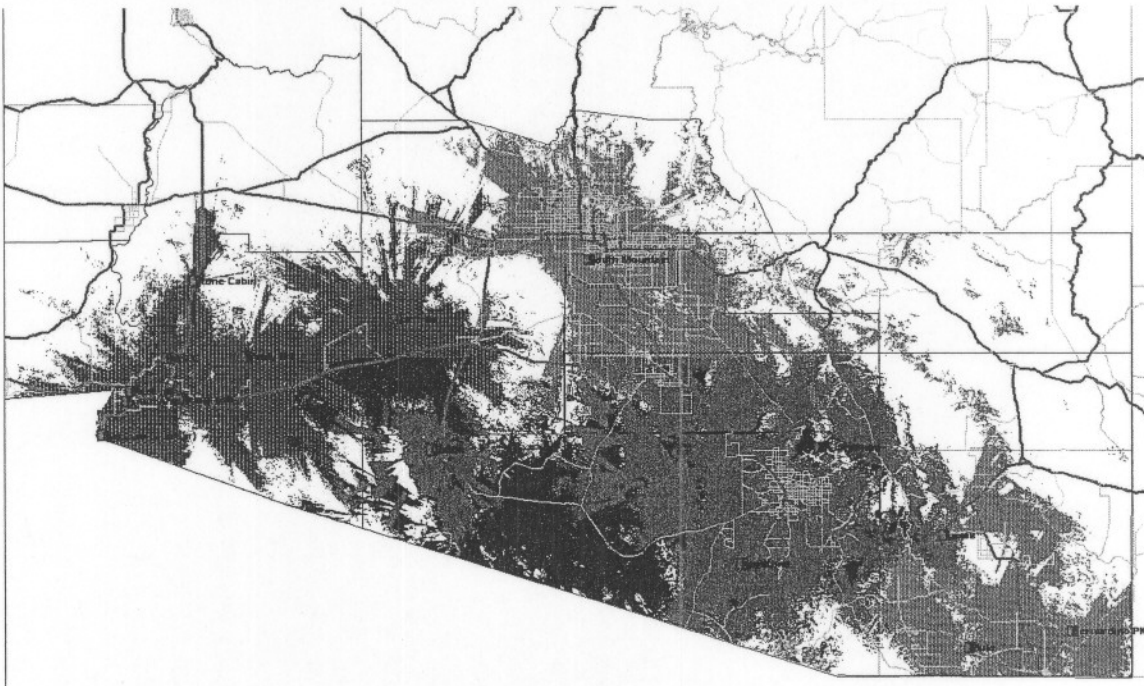
Add P25 700 MHz standards-based communications sites at six existing DPS transmitter sites.

These six sites in combination with two sites already constructed by DPS (using federal interoperability homeland security grants) will provide a near continuous communications capability from Yuma across Phoenix and across our Southern Border. All sites will tie into YRCS existing master site controller. System capabilities will additionally allow connectivity to local radio systems to provide interoperability while also providing operability to many agencies. Additionally with the system in place all four border counties could save millions by jumping direct onto a narrow-banded P25 system that is already in place.

Compatibility with Other Large Standards-Based Networks

Arizona is aware of the Phoenix system being compatible with Yuma but Pima County is building the Pima County Wireless Integrated Network (PCWIN) over the next couple of years which also utilizes the same standards-based communications architecture as the YRCS. When complete it will enable wide area communications capability along our Southern Border.

YRCS with existing DPS Sites, Proposed Sites and pending PCWIN Coverage



Technical Studies Have Been Completed

The Public Safety Communications Advisory Commission (PSCC) engaged independent, national systems engineering and consulting firms specializing in the planning, design, and implementation of state-of-the-art telecommunications systems to evaluate the state's requirements and provide recommendations:

Macro Corporation Report in 2001

Federal Engineering, Inc. Conceptual System Design of 2008

Both independent reports recommend a standards-based communications network utilizing the State's 700 MHz public safety spectrum allocation.

The Need for Immediate Action

Local governments and agencies throughout the State are investing in standards-based networks that maximize the potential for interoperability and sharing of resources.

We have the opportunity to further our communications capabilities.

The RICO funding should be allocated to enable the deployment of additional standards-based communications sites in support of our state-wide operability and interoperability. All equipment will be purchased by YRCS to expedite purchasing and provided to AzDPS under existing Intergovernmental Agreements (IGA). Equipment will be maintained and supported by AzDPS and YRCS as appropriate.

Everything is in place and ready to go to implement.

Additional Information

For additional information regarding this proposal, please contact Greg Wilkinson, City Administrator, City of Yuma at greg.wilkinson@yumaaz.gov or (928)373-5011.

Attachment 2 to RICO Funds Recommendation Memorandum
Alternatives Considered

In developing the Recommendation Memorandum GITA-PSIC evaluated the following alternatives:

1. Commission of a Design Study

Conceptual design studies for a statewide system have already been delivered (Macro Report 2001; Federal Engineering Report 2008). The detailed design of the YRCS proposal was developed by DPS and YRCS (in house) thereby saving the State considerable outside consulting fees for a design study.

2. Purchase of Additional Strategic Technology Reserve Type Assets (ACU 1000, STACs, IPICs, etc.)

We believe use of these funds for reserve assets is not aligned with their intended usage for a long-term interoperability solution for the State. Federal Homeland Security funds can be used for technology reserve purchases if additional such assets are needed.

3. Expansion of Arizona Interagency Radio System (AIRS)

AIRS was built by DPS to provide some basic form of interoperability statewide. GITA-PSIC has supported expansion of AIRS usage through development of a Standard Operating Procedure for the system and a statewide training program which is currently being implemented.

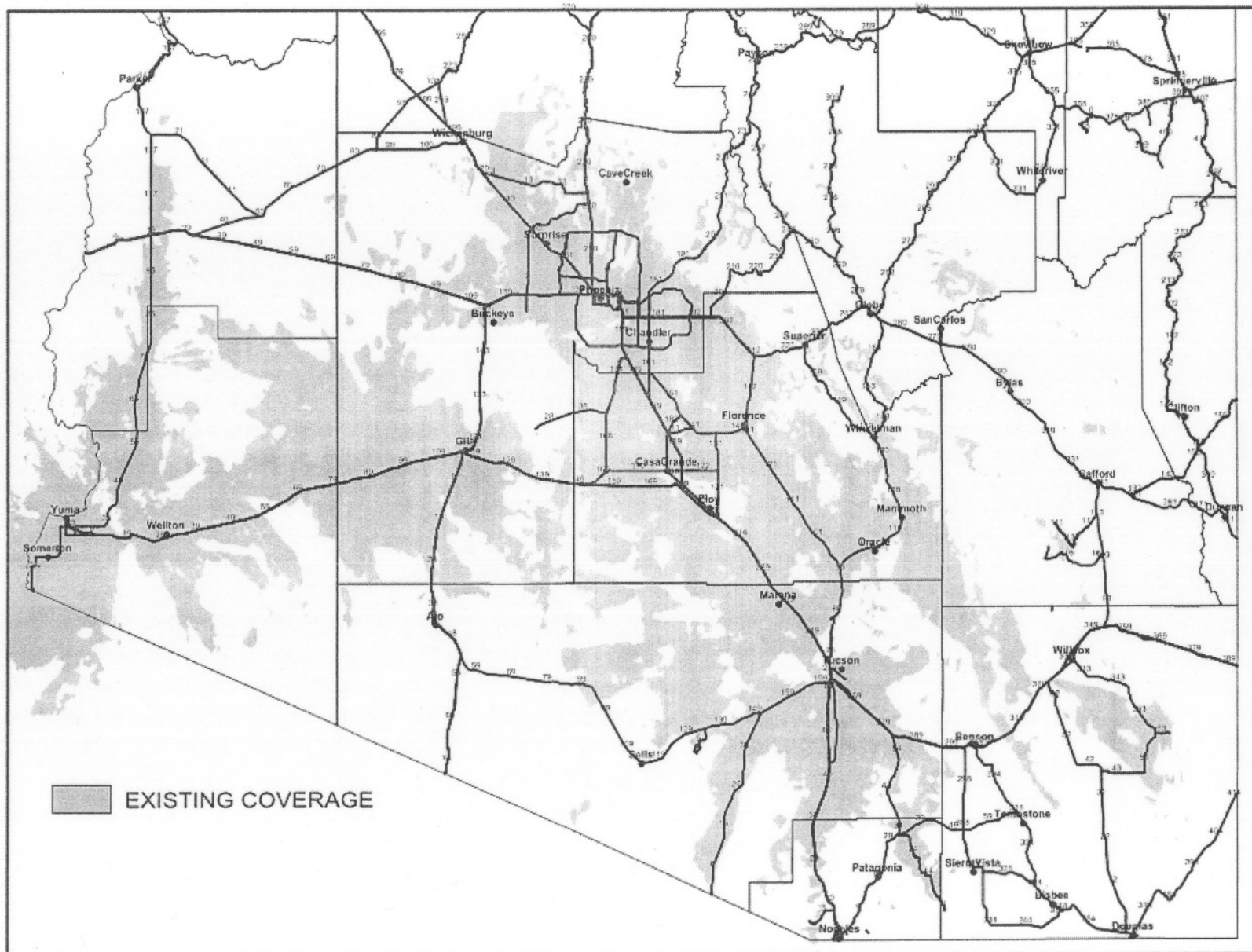
DPS has placed AIRS suites in locations where communication site space is available. From time to time local agencies are able to offer sites to enable further AIRS expansion. AIRS is a good mid-term solution until regional and state systems can be expanded and connected pursuant to the conceptual design. However, AIRS is a single channel solution. To expand beyond this channel would require identifying a vhf/uhf pair statewide which would be difficult with limited frequency availability. In addition a lot of engineering would be required to determine where AIRS could be expanded. Finally, the SIEC is planning to study AIRS usage and limitations and make recommendations to the PSCC regarding whether and how to expand AIRS. Until such an evaluation is complete, investing a significant amount of additional funds in AIRS would not be recommended.

4. Purchasing of a Zone Controller for Phoenix Metro area

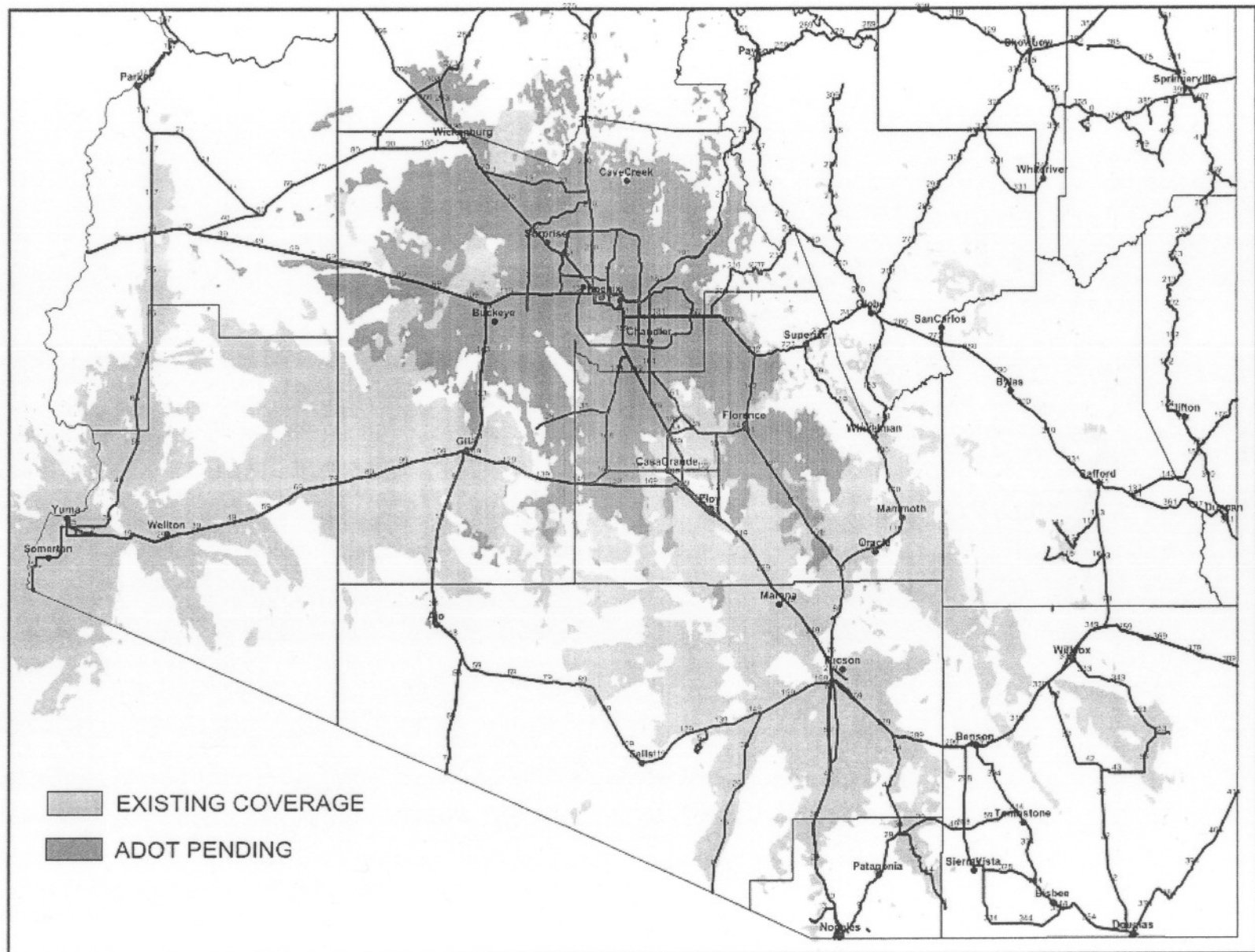
According to DPS, a zone controller is an advisable purchase as a backup to the YRCS controller as the YRCS / DPS / ADOT footprint expands. When such a controller is purchased the software running the YRCS system may need to be upgraded.

DPS and ADOT are looking to other funding sources to fund a second controller. A controller would cost \$2.5 - \$3 million with the accompanying software/hardware upgrade to the existing YRCS controller costing about \$800k.

Attachment 3 to RICO Funds Recommendation Memorandum
Coverage Maps: Existing Coverage



Attachment 3 to RICO Funds Recommendation Memorandum
Coverage Maps: Pending ADOT Coverage



The map displays the state of Arizona with county boundaries and major cities. The legend in the bottom left corner indicates three types of water conservation coverage:

- EXISTING COVERAGE:** Represented by a light gray shaded area.
- ADOT PENDING:** Represented by a medium gray shaded area.
- PROPOSED COVERAGE:** Represented by a dark gray shaded area.

The map shows a high concentration of existing coverage in the central and northern parts of the state, particularly around Phoenix and Tucson. Pending coverage is shown in several areas, including the southern part of the state and some regions in the north. Proposed coverage is indicated in a few specific locations, primarily in the south and west.

Attachment 4 to RICO Funds Recommendation Memorandum
Support Letters



Governor Janice K. Brewer

State of Arizona
Department of Homeland Security



Director Gilbert M. Orrantia

August 27, 2010

Chad Kirkpatrick, State CIO & Director
Government Information Technology Agency
100 N. 15th Avenue, Suite 440
Phoenix, AZ 85007

Dear Chad:

Please accept this letter of support from the Arizona Department of Homeland Security (AZDOHS) for the implementation of the Yuma Regional Communications Systems (YRCS) proposal for use of the anti-racketeering funds by the Public Safety Interoperability Communications (PSIC) Office within the Government Information Technology Agency (GITA).

The full support of AZDOHS, including the South Regional Advisory Council (SRAC) is behind the implementation of this proposal because it not only supports our agency's funding priority of improving communication and interoperability among Arizona first responders, it will also:

- ◆ Build on existing investments in southern Arizona;
- ◆ Expand coverage to four southern border counties;
- ◆ Enable linkages between local and state systems;
- ◆ Increase 700 MHz digital coverage in the Southwest border region, and
- ◆ Provide future linkages to the Pima County Wireless Integrated Network.

This project will also serve the vital need of increasing interoperability capabilities during multi-jurisdictional multi-agency response, recovery, and mitigation.

As always, AZDOHS appreciates and values the partnership and progress we have made together with GITA and PSIC.

Sincerely,

A handwritten signature in black ink, appearing to read "Gilbert M. Orrantia".

Gilbert M. Orrantia
Director

GMO/ama

**Attachment 4 to RICO Funds Recommendation Memorandum
Support Letters**



ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

"Courteous Vigilance"

JANICE K. BREWER ROBERT C. HALLIDAY
Governor Director

August 26, 2010

Mr. Chad Kirkpatrick, Director
Government Information Technology Agency
100 North 15th Avenue, Suite 440
Phoenix, AZ 85007

Dear Director Kirkpatrick:

As you know, in 2006, the Department of Public Safety (DPS) commissioned a high-level, conceptual public safety communications design study. In 2007, the Arizona Legislature directed \$2.2M in FY 2007-2008 anti-racketeering funds be used for "the detailed design of the long-term interoperability solution" for Arizona. The conceptual design study (delivered in 2008) recommended "a statewide trunked radio system based on Project 25 (P25) standards, which will provide operability and interoperability for state and local agencies and use a high-level network interface to enable interoperability with other systems."

GITA's Public Safety Interoperable Communications Office (PSIC) received a proposal from the Yuma Regional Communications Systems (YRCS) regarding possible use of the anti-racketeering funds. The PSIC Office reviewed this proposal with DPS, Arizona Department of Transportation (ADOT), and Arizona Department of Homeland Security on June 8, 2010, and with the Public Safety Communications Advisory Commission (PSCC), on which I serve, on July 20, 2010.

A cooperative effort by the YRCS, supported by DPS' upgraded digital microwave system, can deploy standards-based P25 communications capability at key transmitter sites along the southern region. DPS has a partnership with the YRCS to use its master site controller in regard to P25 sites built by DPS and connected by DPS' microwave link at South Mountain (Phoenix) and Mount Lemmon (Tucson).

The YRCS is a standards-based, P-25 shared system. DPS operates on a UHF system and needs to connect with local agencies operating on VHF and 700/800 MHz systems. Conventional channel gateways are located at each transmitter site to enable patching of conventional channels with trunked talk groups. DPS joint-operations taskforces utilize the YRCS expanded system today. ADOT plans a similar expansion with the YRCS for 2 other sites: White Tanks and Thompson Peak.

The six sites for the YRCS proposed detailed design build out, utilizing the anti-racketeering funds, are existing DPS transmitter sites that can be enhanced quickly. Each proposed site is already configured with battery banks, generators, building and towers, as well as microwave connectivity to the YRCS master site controller.

**Attachment 4 to RICO Funds Recommendation Memorandum
Support Letters**

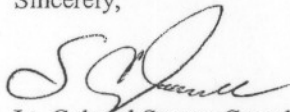
August 26, 2010
Page 2

We would support the PSIC Office moving forward with the YRCS proposal for use of the anti-racketeering funds as it will benefit Arizona in the following ways:

- Build on existing investments
- Digital microwave upgrade in southern Arizona
- YRCS build-out through use of master site controller
- Connection to DPS build out (South Mountain, Mount Lemmon)
- Connection to ADOT planned build out (White Tanks, Thompson Peak)
- Implement detailed design to further prove concept
- Expand existing successful YRCS/DPS partnership
- Expand coverage to 4 southern border counties enabling linkage between local and state systems
- Enable future linkage to PCWIN – Pima County Wireless Integrated Network – being built to similar modern communications specifications.

Feel free to contact me at (602) 223-2080 or scampbell@azdps.gov if you have any questions or require further information.

Sincerely,



Lt. Colonel Steven Campbell
Deputy Director

Attachment 4 to RICO Funds Recommendation Memorandum

Support Letters

AZDOT DIRECTOR OFFICE Fax:6027126941

Aug 30 2010 9:20

P.01



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janice K. Brewer
Governor

John S. Halikowski
Director

August 26, 2010

John A. Bogert
Chief of Operations

John McGee
Executive Director
for Planning & Policy

Chad Kirkpatrick
Director, Government Information Technology Office (GITA)
100 N. 15th Ave., Ste. 440
Phoenix, AZ 85007

Dear Director Kirkpatrick:

In 2007, the Arizona legislature directed \$2.2M in FY2007-2008 anti-racketeering funds be used for "the detailed design of the long-term interoperability solution" for Arizona. A conceptual design study commissioned by Arizona's Department of Public Safety (DPS) and delivered in 2008, recommended "a statewide trunked radio systems based on Project 25 (P25) standards, which will provide operability and interoperability for state and local agencies and use a high-level network interface to enable interoperability with other systems."

The Arizona Department of Transportation's (ADOT) current radio system is significantly out of date and in need of critical upgrade. Yesterday we received approval from the Information Technology Authorization Committee (ITAC) to replace legacy communications equipment and improve digital radio coverage, operability and interoperability in the metro/southwestern portion of the State. We will be leveraging an existing partnership between Arizona Department of Public Safety (DPS) and the Yuma Regional Communications System (YRCS) to build out of a statewide trunked radio system based on Project 25 standards in accordance with the conceptual design.

DPS has a partnership with YRCS to use its master site controller in regard to P25 sites built by DPS and connected by DPS' microwave link at South Mountain – Phoenix and Mount Lemmon – Tucson. YRCS is a standards based P-25 shared system. DPS operates on a UHF system and needs to connect with local agencies operating on VHF and 700/800 MHz systems. Conventional Channel Gateways are located at each transmitter site to enable patching of conventional channels with trunked talk groups. DPS joint operations taskforces utilize the YRCS expanded system today. We plan a similar expansion with YRCS for 2 other sites – White Tanks and Thompson Peak.

GITA's Public Safety Interoperable Communications Office (PSIC) received a proposal from Yuma Regional Communications Systems (YRCS) regarding possible use of the anti-racketeering funds for a statewide interoperability solution on April 23, 2010 and May 13, 2010. PSIC reviewed this proposal with DPS, ADOT and Arizona Department of Homeland Security on June 8, 2010.

Attachment 4 to RICO Funds Recommendation Memorandum

Support Letters

AZDOT DIRECTOR OFFICE Fax:6027126941

Aug 30 2010 9:20

P.02

Chad Kirkpatrick
Director, Government Information Technology Office (GITA)
Page 2

The proposal builds on the cooperative efforts of YRCS, DPS and ADOT and utilizes DPS' upgraded digital microwave system to deploy standards-based P25 communications capability at key transmitter sites in southern AZ. The six proposed sites for the detailed design build out are existing DPS sites that can be enhanced quickly.

We support PSIC moving forward with the YRCS proposal for use of the anti-racketeering funds as we believe it will benefit Arizona as following:

- Build on existing investments:
 - Digital microwave upgrade in Southern AZ
 - YRCS build-out through use of master site controller
 - Connection to DPS build out (South Mountain; Mount Lemmon)
 - Connection to ADOT planned build out (White Tanks; Thompson Peak)
- Implement detailed design to further prove concept.
- Expand existing successful YRCS/DPS/ADOT Partnerships
- Expand coverage to 4 southern border counties enabling linkage between local and state systems.

Should you have any questions, please contact me at (602) 712-7227.

Sincerely,



John S. Halikowski

cc: Brian McNeil, Deputy Chief of Staff, Operations
Page Gonzales, Policy Advisor, Local Government

**Attachment 4 to RICO Funds Recommendation Memorandum
Support Letters**

08/26/2010 16:19 FAX

002/003

**Arizona Homeland Security Regional Advisory Council -
Southern Region**

To Whom It May Concern:

**Subject: Support letter for Yuma Regional Communication System (YRCS) use of
RICO Funds**

In 2007, the Arizona legislature directed \$2.2M in FY2007-2008 anti-racketeering funds be allocated to the Public Safety Communications Commission for "interoperability communications solution" for Arizona. A conceptual design study commissioned by Arizona's Department of Public Safety (DPS) and delivered in 2008, recommended "a statewide trunked radio systems based on Project 25 (P25) standards, which will provide operability and interoperability for state and local agencies and use a high-level network interface to enable interoperability with other systems."

Background

ADOT has received approval from the Information Technology Authorization Committee (ITAC) to replace legacy communications equipment and improve digital radio coverage, operability and interoperability in the metro/southwestern portion of the State. ADOT will be leveraging an existing partnership between Arizona Department of Public Safety (DPS) and the Yuma Regional Communications System (YRCS) to build out of a statewide trunked radio system based on Project 25 standards in accordance with the conceptual design.

DPS has a partnership with YRCS to use its master site controller in regard to P25 sites built by DPS and connected by DPS' microwave link at South Mountain - Phoenix and Mount Lemmon - Tucson. ADOT is planning a similar expansion with YRCS for 2 other sites - White Tanks and Thompson Peak.

Proposal

GITA's Public Safety Interoperable Communications Office (PSIC) received a proposal from Yuma Regional Communications Systems (YRCS) regarding possible use of the anti-racketeering funds for a statewide interoperability solution on April 23, 2010 and May 13, 2010. PSIC reviewed this proposal with DPS, ADOT and Arizona Department of Homeland Security on June 8, 2010. This proposal was also briefed to the Southern Region of the Arizona Homeland Security Advisory Council (RAC) on June 18, 2010.

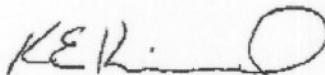
The proposal builds on the cooperative efforts of YRCS, DPS, and ADOT and utilizes DPS' upgraded digital microwave system to deploy standards-based P25 communications capability at key transmitter sites in southern AZ. The six proposed sites for the detailed design build out are existing DPS sites that can be enhanced quickly.

Page 2: Support letter for Yuma Regional Communication System

The proposal was put to a formal vote of the Southern RAC and was supported unanimously. We support PSIC moving forward with the YRCS proposal for use of the anti-racketeering funds as we believe it will benefit Arizona as following:

- Build on existing investments:
 - Digital microwave upgrade in Southern AZ
 - YRCS build-out through use of master site controller
 - Connection to DPS build out (South Mountain; Mount Lemmon)
 - Connection to ADOT planned build out (White Tanks; Thompson Peak)
- Implement detailed design to further prove concept.
- Expand existing successful YRCS/DPS/ADOT Partnerships
- Expand coverage to 4 southern border counties enabling linkage between local and state systems.
- Provide for communications and interoperable communications in areas where is does not currently exist along the Arizona/Mexico border in Cochise, Pima, Santa Cruz, and Pinal Counties in addition to linking in the existing system in Yuma County.

Signed on behalf of the Southern Region Advisory Council, Arizona Department of Homeland Security.



Ken Kimmel
Vice-Chairperson
Arizona Homeland Security
Advisory Council - Southern Region

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUSSELL K. PEARCE
CHAIRMAN 2010
PAULA ABOUD
AMANDA AGUIRRE
DAVID BRASWELL
CHUCK GRAY
JACK HARPER
STEVE PIERCE
REBECCA RIOS

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

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

HOUSE OF
REPRESENTATIVES

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CHAIRMAN 2009
ANDY BIGGS
OLIVIA CAJERO BEDFORD
CLOVES C. CAMPBELL, JR.
MATT HEINZ
JOHN MCCOMISH
RICK MURPHY
VIC WILLIAMS

DATE: September 29, 2010

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

THRU: Richard Stavneak, Director

FROM: Juan Beltran, Senior Fiscal Analyst

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

Request

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

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of continuing the deductible at its current \$10,000 statutory cap.

Analysis

A.R.S. § 41-621 provides that the ADOA Director may impose deductibles of up to \$10,000 per risk management loss on state agencies. Such deductible amounts are subject to annual review by the Joint Legislative Budget Committee.

ADOA may charge a \$10,000 deductible for each claim of \$150,000 or more unless the agency implements an ADOA approved plan to limit or eliminate similar future losses. ADOA may also impose the deductible in cases where there has been a significant violation of agency policy and procedures following a claim of \$150,000 or more. ADOA maintains the right to waive any deductible for just cause or in the best interest of the state. If a deductible is assessed, ADOA assesses it after payment of a settlement or judgment and the actual payment of the deductible is deferred until the final settlement has been reached.

Prior to FY 2007, ADOA had never imposed the deductible. The deductible has been assessed 3 times since then, once in FY 2007, once in FY 2008, and once again in FY 2009. ADOA did not assess the deductible in FY 2010.

RS/JB:sls

JANICE K. BREWER
GOVERNOR



DAVID RABER
INTERIM DIRECTOR

**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT DIVISION**

100 North 15th Ave., Suite 301
PHOENIX, ARIZONA 85007-2635
(602) 542-2182 FAX (602) 542-1473

August 17, 2010

The Honorable Russell K. Pearce, Chairman
The Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007-2890



Dear Senator Pearce:

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

The deductible amount established by the Director is \$10,000 and has not changed for at least the last ten years. Risk Management has used the deductible program as an incentive for state agencies to provide an adequate mitigation plan for large civil liability settlements or judgments. No deductibles have been issued since our prior report.

We do not plan to make any changes to the deductible amount.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ray Di Ciccio".

Ray Di Ciccio
State Risk Manager

cc: David Raber, Interim Director, Department of Administration
Paul Shannon, Assistant Director, Department of Administration
Jennifer Uharriet, Budget Analyst, OSPB
Juan Beltran, Senior Fiscal Analyst, JLBC