

STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

## JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, October 19, 2000

1:30 p.m.

Senate Appropriations Room 109

### AGENDA

- Call to Order
- [Approval of Minutes of September 14, 2000.](#)
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- DIRECTOR'S REPORT (if necessary).
- 1. DEPARTMENT OF HEALTH SERVICES
  - A. [Review of Capitation Rate Changes.](#)
  - B. [Review of Plan to Distribute \\$50M for SMI Services and \\$20M for Children's Behavioral Health Services of Tobacco Settlement Monies.](#)
- 2. [STATE PARKS BOARD - Review Intended Use of Reservation Surcharge Monies.](#)
- 3. [DEPARTMENT OF CORRECTIONS - Reconsider Review of Private Prison Request for Proposals.](#)
- 4. [JOINT LEGISLATIVE BUDGET COMMITTEE - Consider Approval of Year 2001-2002 Strategic Program Area Review Candidates.](#)
- 5. [SCHOOL FACILITIES BOARD - Report on Deficiencies Corrections and Computer Purchases.](#)
- 6. DEPARTMENT OF ECONOMIC SECURITY
  - A. [Report on Case Management Satisfaction Survey.](#)
  - B. [Report on Annual Child Care Expenditures.](#)
  - C. [Bimonthly Report on Arizona Works.](#)
  - D. [Report on Domestic Violence Baseline Cost-Effectiveness.](#)
- 7. [OFFICE OF THE ATTORNEY GENERAL - Report of Plan to Spend Portion of Interagency Service Agreements Appropriation.](#)

8. ARIZONA DEPARTMENT OF TRANSPORTATION - Reports on Ports of Entry.
9. AHCCCS - Report on Capitation Rate Changes.

The Chairman reserves the right to set the order of the agenda.  
10/12/00

**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) 542-5491.**

STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

## MINUTES OF THE MEETING

### JOINT LEGISLATIVE BUDGET COMMITTEE

September 14, 2000

The Chairman called the meeting to order at 1:35 p.m., Thursday, September 14, 2000, in Senate Appropriations Room 109.  
The following were present:

Members:	Senator Gnant, Chairman Senator Arzberger Senator Bowers Senator Bundgaard Senator Cirillo Senator Jackson Senator Lopez Senator Wettaw	Representative Burns, Vice-Chairman Representative Blewster Representative Gonzales Representative McGrath Representative McLendon Representative Weason
Absent:		Representative Daniels Representative McGibbon
Staff:	Richard Stavneak, Director Patrick Fearon Gina Guarascio Rebecca Hecksel Indya Kincannon Lorenzo Martinez Tom Mikesell Stefan Shepherd	Cheryl Kestner, Secretary Steve Grunig Bob Hull Beth Kohler Pat Mah Paul Shannon Lynne Smith Jennifer Vermeer
Others:	Dr. Philip E. Geiger	School Facilities Board

## APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of August 10, 2000, Senator Gnant stated that the minutes would be approved as submitted.

### **SCHOOL FACILITIES BOARD (SFB) - Consider Approval of Index for Constructing New School Facilities and Report on Status of Deficiencies Corrections Assessment.**

Mr. Richard Stavneak, Director, JLBC Staff, stated that the JLBC Staff recommended that the Committee approve the request. He also mentioned that Dr. Geiger, Director of the School Facilities Board, was available to answer any questions that the Committee may have regarding the on-going process of the school assessment.

Senator Gnant asked if they were any questions regarding this specific item on the agenda.

Representative Burns moved that the Committee approve the JLBC Staff recommendation to approve the use of the Marshall Valuation Service index for July 2000 for adjusting the cost per square foot for new school construction. The motion carried.

Senator Cirillo asked if there is any procedure in place to review the actual standards since several schools have been built.

Dr. Philip E. Geiger, Director, School Facilities Board, stated that that is one of the items they are going to address. There are a number of agenda items for their retreat which will be held in Bullhead City on October 6, 2000. He indicated that he would forward copies of that agenda to the Committee. Dr. Geiger said that until the end of this year they are exempt from the rule making process, which makes it easier to change the guidelines. They will be having a hearing in Holbrook, September 30, to discuss that particular provision on the remoteness of districts. They will probably come back again and ask for an extension of their exemption to complete some of those changes that need to be made.

Representative Weason asked if the Legislature had fully funded for inflation, would the SFB be making this request. Dr. Geiger said that he suspected not. The intention is to maintain the original cost at today's current prices so that this is an inflationary increase based on the construction industry.

Representative Weason asked if FlexTech had been involved in any of the evaluations or assisted in finding any of the information that the SFB needs. Dr. Geiger said yes, and he had a report that had been submitted to the Committee (Attachment 1) which describes FlexTech's participation. FlexTech is now housed in the SFB's office at 1700 W. Washington and they are working closely with them. There have now been 52 reports completed on the school districts. They will have their first awards in October and will complete those by the end of the year. FlexTech people will be off the job sometime in December.

Representative Weason asked when the deficiencies corrections assessment will be completed and what progress has been made. Dr. Geiger stated that at the December Board meeting it is expected to be completed. There are 228 school districts and by October approximately 60 of those school districts will be completed. Another 60-70 will be finished in November and the final ones in December.

Senator Gnant noted that in the interest of full and open disclosure it would have been difficult for the Legislature to fully fund capital until the passage of Students First. It was simply a local responsibility.

Representative Blewster asked about the meeting being held in Bullhead City. Dr. Geiger said that there will be a board meeting in Kingman October 5. On October 6 they are having an open public forum with about 30 items on the board retreat agenda. Representative Blewster asked, of the 228 school districts, how many are actually functioning school districts. Dr. Geiger said that a little over 200 are functioning school districts that they will be assessing.

Representative McLendon asked if it was correct that they are not going to ask for a supplemental appropriation in 2001, but have plans to do so in 2002. Dr. Geiger stated that was correct. Representative McLendon asked Dr. Geiger to clarify how that is going to work, and whether Dr. Geiger was comfortable waiting until 2002. Dr. Geiger said that the laws are unique in that regard but the SFB has the opportunity to go to the Treasurer to transfer funds without legislative appropriation. They have attempted to be prudent and conservative in requesting funds but assured the Committee the districts are being properly served and the laws are being fulfilled. They have indicated on the issue of new schools, for example, that they will probably need additional funding.

Senator Wettaw asked if JLBC Staff has a list of districts that are asking for deficiency funding money to be compared with how much money that has been transferred from capital to maintenance and operation monies (M&O). Dr. Geiger stated that they did not have a list like that, however, they could provide a list of projects that have been approved by the SFB. However, it does not have a correlation to any transfer of funds at the school district level. Senator Wettaw said that would be something the Committee would be interested in, in the future.

Senator Bowers asked the Chairman how the Committee could find out how much has been transferred from capital to M&O in the last 6 years. Senator Wettaw suggested some of that information could come from the Department of Education. Senator Gnant said he and JLBC Staff will work to come up with something at the next meeting.

Senator Lopez said that there is a provision in Students First that allows school districts to bond beyond standards that have been set. Senator Lopez said that rich school districts are going to be able to bond and still build more elaborate facilities



leading to disparity. Dr. Geiger said that is an excellent issue and one that they grapple with regularly. The reality is, Students First ultimately was to provide the necessary elements for a proper educational environment. If a school district chooses to provide what the Students First provides they will have a fully functional school and a satisfactory building with all the necessary accouterments to make it a safe, secure proper educational facility. Senator Lopez said that in the final analysis the tax dollars are sufficient to provide a proper educational environment and that should be enough for all school districts. Allowing school districts to bond beyond is a local decision but it is still tax dollars.

Senator Wettaw asked if there was a list available of schools districts that do not believe the standards are adequate. Dr. Geiger said he could give the Committee a list of districts that have enhanced their purchases or their schools, but no one has complained that the state has not adequately funded their school. Senator Gnant asked Dr. Geiger to provide that to JLBC Staff.

Dr. Geiger referenced a memo that was distributed by a legislator regarding a \$10 million projected savings in their purchasing of computers for the school districts. Dr. Geiger handed out a memo (Attachment 2) which showed 3 ways a school district can purchase in the state.

Senator Bowers said that in the absence of that legislator it would be best to table the issue until both the member and Dr. Geiger were available to present their views. Senator Gnant said that this would be placed on the next agenda.

#### **ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Review of Proposed FY 2001 Classification Maintenance Review (CMR) Adjustments.**

Mr. Stavneak stated that an additional memo was distributed to Committee members regarding this issue. At the time the agenda book was sent out there was insufficient information to make a recommendation. However, the JLBC Staff ultimately recommended a favorable review of this item. The CMR adjustments covers about 24 job categories in the amount of about \$9.7 million. ADOA is not sure at this point how much the classifications cost because some of the positions do not have a funding source with them. If ADOA discovers they have exceeded their General Fund allocation, it was suggested they come back to the Committee and explain how they are going to solve that problem. Mr. Stavneak noted that the Committee should not view these as the most critical salary needs in state government. For example, when you look at issues like correctional service officers, you probably have a larger problem there in terms of retaining people in those facilities. It would take up most of the money if you attempted to address that issue out of this pot of money.

Senator Cirillo commented that you can not look at CMR recommendations out of context. For instance, Mr. Stavneak mentioned DOC, and you have to look at what has been done for them in the last couple of years. We have had a significant change in the DOC pay package. That took up most of the money from the other state agencies 2 years ago. As you look at who get these adjustments you have to understand who got a large chunk of money recently.

Representative Weason had a procedural question regarding the CMR adjustments requiring Committee review. The JLBC Staff memos often say review or approve. She asked whether the Committee has the authority to approve or does the Committee just review and can not modify or change the recommendation. Mr. Stavneak stated that there are cases in statute where it actually says to approve something. For example, in the previous item on the SFB's index, it shows that the Committee should identify, which the JLBC Staff has taken to mean to approve. In other cases the statute says review, which means to give the best advice or guidance to an agency. That is what we are dealing with in this circumstance. ADOA does not actually present the job classifications to JLBC Staff at the time they make the request for the dollars. The thought was that they will tell us what the dollars are, find the classifications, and then come back and inform the Committee what those are before they are implemented. Then if there is serious enough concern, it can be conveyed to ADOA, however, there is no binding requirement that ADOA accept the Committee's actions.

Because JLBC Staff is recommending a favorable review, Senator Lopez wanted clarification on whether ADOA would now be able to implement the CMR adjustments without any further review. Mr. Stavneak said that would be correct. These items are scheduled to go into effect January 1. Senator Lopez stated that in the context of needs throughout the state he is not so sure that he would not choose other priorities, and would like to be able to make those choices with whatever money is available. He asked if this is a pot of money that was already approved or is it a part of a big pay package that will have to be determined. Mr. Stavneak said that it is part of monies that have already been approved. Mr. Stavneak said that is a legitimate concern, because we decide to give them a dollar amount without knowing what specific classifications they are going to fund out of it. An alternative that the Committee can consider in the upcoming budget process, with any new CMRs, is whether or not the Committee wants to be more specific on the categories that should receive the adjustments. If the Committee wants more input it would need to be done beforehand as opposed to later.

Senator Cirillo wanted to add that the agency was not only given dollars but also criteria. What they have done to the best of their ability is give the Committee a list using specific criteria. Mr. Stavneak agreed with that but there is some discussion with regard to what is the greatest problem.

Representative McLendon asked what happens if the agency has criteria and that criteria is not followed. He noted that we do have a budget process, and footnotes, and have the authority, as a Legislature, to make sure those things are addressed in the future. Mr. Stavneak said if there is something on this list that the Legislature did not like, he was not sure there was the ability to correct that problem unless you go into the next budget and somehow take away salary adjustments that someone has already received. Representative McLendon said that in the future then if a certain agency has not followed the criteria for the CMR adjustments as the Committee requested then the Legislature does have something they can do about it. Mr. Stavneak agreed with that.

*Representative Burns moved the Committee give a favorable review as recommended by JLBC Staff to the Department of Administration's proposed FY 2001 CMR adjustments. If the adjustments end up exceeding the appropriation level, ADOA is to return to the Committee with its proposal for revising the CMR adjustments to stay within the appropriated amounts. The motion carried.*

**DEPARTMENT OF ENVIRONMENTAL QUALITY (ADEQ) - Review of Request for Proposals on the Vehicle Emissions Inspection Program Contract.**

Mr. Chris Earnest, JLBC Staff, stated that in the addendum memo that was distributed to the Committee, it states that JLBC Staff has reviewed the RFP and is recommending a favorable review. The JLBC Staff is also recommending that ADEQ report back to the Committee with regards to cost information prior to the contract being finalized. In particular, the JLBC Staff has concerns with some of the enhanced provisions of the new contract as shown in the 4 bullets listed in the memo. While they are good provisions, they may carry incremental cost components and the JLBC Staff would like to have some information as to those costs for the Committee to better evaluate the RFP and contract.

Representative Burns said that when he discussed this issue earlier with Mr. Earnest he mentioned the change in the way the money would be collected as opposed to how it is collected now. Right now it would be coming to the Department as opposed to the contractor and would be appropriated by the Legislature. He does not see a real problem with that other than it may cause some concern for the contractor. They may want to provide a little insurance for themselves because of that added uncertainty. When inspection prices go up the Legislature hears about it and it becomes a political "hot potato."

Mr. Earnest stated that all the monies will now be deposited into the Vehicle Emissions Inspection Fund, which is an appropriated fund. The Legislature will have to appropriate monies if there is a fee increase. The additional appropriation would then allow the contractor to receive the additional revenues from the fee increase.

Representative Burns said that if he were a contractor and there were some uncertainty he would want to make the price a little higher to cover himself. He felt the Committee should be aware of the ramifications of a fee increase.

Senator Bowers asked if we have done an analysis as to what the increased costs for the added responsibilities to the contractor are. Mr. Earnest said those provisions have been analyzed in the past, we have had those in statute, and will be included in this new contract. These types of things are what we are asking the agency to come back and report on. We have not done any analysis yet because there have not been any bids.

Senator Bowers asked if the Committee would then have an opportunity to vote to accept, or perhaps intercede, on the acceptance of a contract. Senator Gnant said the agency does not need the Committee's approval to go forward. Mr. Stavneak indicated that is correct. They simply submit it for review.

Representative Blewster asked if the contract has to be for 10 years or can it be for 2 to 5 years. Mr. Earnest said the statute that was passed this past session required the contract to be between 5 and 7 years. That is what has been done with this contract; 5 years with 2 optional years. They are then asked to submit price information for both the 5- and 7-year contract. ADEQ has the discretion to choose either the 5- or 7-year contract. Representative Blewster commented that she does not like to see the Legislature subsidizing these because the taxpayers need to know how much these programs are costing them.

Senator Bowers said when it was first required to have the enhanced testing procedures for the IM-147 in January, we noticed there was no change in wait times. Through the summer months there was gradually increased times spent testing the vehicles and we see a higher failure rate. He asked if the JLBC Staff could take a calendar and list the failure rate and the

temperature by day and see if there is any correlation between sitting in hot weather and getting your car tested versus in cooler weather. Mr. Earnest said that the JLBC Staff could take a look at that.

Senator Lopez stated that he remembered reading in the paper that the RFP was sent to 3 contractors. Mr. Earnest said that when the RFP was first submitted to the JLBC Staff it was thought that it was proprietary information and would need to be brought forth into Executive Session. In discussing this, it was determined that 3 copies had been released to potential bidders, which raised some concerns. The JLBC Staff had conversations with the Attorney General's office as well as Legislative Council. They indicated that by releasing the draft RFP to JLBC, it essentially was a public document. Therefore, if potential bidders or other interested parties were to submit a public information request for the document they would be entitled to receive it. It is not the official RFP and no one else to our knowledge has asked for one.

Senator Lopez said there has been a tremendous amount of discussion about the cost of these tests and the effect it has on poor people. Legislation has been introduced to put limits on the cost of testing and he would like the actual cost to be determined before the Committee approves it. He is not sure the public is getting the benefits from the increased costs. Senator Gnant said that this item is for review only and the agency can go ahead with their plan.

Mr. Stavneak said that there is a point where the Legislature does insert itself in the process. It would be during the next appropriation cycle where the dollar level for the Emissions Inspection Fund is approved. This is more significant now than in the past because all the monies will now flow into the state. In making that appropriation you have to make an assumption as to how many people are going to come in and what the average cost per person, or fee, is going to be. If ADEQ ultimately accepts a contract that is at a much higher level than the Committee wants, and an appropriation is passed that is not sufficient, he is not sure what would happen at that point.

Senator Gnant said that it is likely that any contract that gets entered into is going to contemplate the likelihood of the Legislature choosing not to fund it, and will have some sort of assurances built into it. The best the Legislature can do is convey to the agency that a contract that may have the intent of obligating sufficient amounts of state money might not be something one or more legislators would approve of. If that causes any change to the contract they were warned that some substantial percentage of the body is not in favor of continued and perhaps increased subsidies.

Mr. Stavneak said that the JLBC Staff recommendation of having the agency report back on these cost components, was to provide that input to ADEQ once we actually have some real numbers to back up these provisions.

Representative Weason asked if the provision for performance contract and liquidated damages in this RFP is a requirement by the Feds. Mr. Earnest said that he believes ADEQ added this to ensure wait times and performance measures are enforced and carried out. Representative Weason said since we are adding the shift of burden to the contractor, they are obviously going to hike up their prices to compensate for these additional measures. Since the Legislature has oversight for these increased costs she feels it is a problem that needs to be resolved before they go any further. Also, she wondered with the Clean Air Act if they were to expand this testing from area A and B to statewide whether it would have any impact on this contract. Mr. Earnest said it could, however, there would have to be an amendment to the contract to expand it statewide.

*Representative Burns moved that the Committee give a favorable review as recommended by JLBC Staff to the Arizona Department of Environmental Quality's RFP to be used to hire the contractor to operate the vehicle emissions inspection program beginning January 2, 2002. The Committee requested that ADEQ report on the proposed contract's test fees to the Committee before finalizing the contract. The motion carried.*

#### **OFFICE OF THE ATTORNEY GENERAL - Review Allocation of Settlement Monies (Nine West Group, Inc.)**

There was no discussion on this item.

*Representative Burns moved that the Committee give a favorable review as recommended by JLBC Staff to the Attorney General's allocation plan for the funds received from the Nine West Group, Inc. settlement. The motion carried.*

#### **JOINT LEGISLATIVE BUDGET COMMITTEE - Consider Approval of Year 2002 Strategic Program Area Review Candidates**

Richard Stavneak stated that one of the new responsibilities of the Committee is to select the Strategic Program Area Reviews (SPARS). The JLBC Staff will be collecting information with agency input during 2001 and that the Legislature will consider them in 2002. Previously, a bill went through the Legislature that specified those programs. Now this

Committee has been given that authority. The JLBC Staff is not recommending that the Committee make any decisions with regards to those items at this point. As shown in the memo in the agenda book, the JLBC Staff has put together a list of some fairly broad, very crosscutting ideas. We have also shown what the Auditor General is going to do in the next couple of years. Mr. Stavneak commented that he thought it would be beneficial if the candidates were generated from the legislators.

Representative Weason asked whether an agency selected for a SPAR would conflict with an agency undergoing an Auditor General Performance Audit, such as DOC. Mr. Stavneak said in that case he felt it would be useful to have conversations with the Auditor General. In a Performance Audit with an agency the size of DOC, they are not going to cover every aspect of the DOC operation. In that instance it would be useful to find out what the Auditor General is going to do and then coordinate that with what a SPAR could cover. He said that there are enough issues within any large agency that you could do a Performance Audit and a SPAR, as long as they were not the same area.

Senator Lopez asked if the Committee is to choose a certain number from the list. Mr. Stavneak said that it is not indicated in statute and it does not provide guidance. Previously, there was a total of 3 SPARS, 1 per Appropriations Subcommittee. Mr. Stavneak said that the number probably depends on the size of the area. The larger the area chosen, with more crosscutting and involving more agencies, one may be sufficient.

Senator Lopez asked Mr. Stavneak how many should be chosen. Mr. Stavneak said that if you are going to do something very broad like the ones on the JLBC Staff list, 1 may be sufficient. One like prescription drugs will take quite a bit of time to delve into. If you do a much narrower area, 2 or 3 per subcommittee should be sufficient.

Senator Lopez asked how long it would take to do one on state-owned aircraft. Mr. Stavneak said that that would probably be in the smaller category.

Senator Lopez asked what will occur in putting the list together. Senator Gnant said that Mr. Stavneak will meet with each Committee member and get their ideas. He then will meet with Senator Gnant and finalize the list.

Senator Cirillo asked if they are limited to the agencies on the list. Mr. Stavneak said no, and that he would prefer that members generate the list of SPAR candidates.

#### **NATUROPATHIC PHYSICIANS BOARD OF MEDICAL EXAMINERS - Report on Expenditures for Inspections.**

There was no discussion on this item and no Committee action was required.

#### **DEPARTMENT OF JUVENILE CORRECTIONS - Report on Education Technology Pilot Program Expansion.**

There was no discussion on this item and no Committee action was required.

#### **ARIZONA BOARD OF REGENTS - Report on University Faculty Teaching Loads.**

There was no discussion on this item and no Committee action was required.

#### **ARIZONA DEPARTMENT OF TRANSPORTATION**

##### **A. Report on Highway Maintenance Levels of Service.**

There was no discussion on this item and no Committee action was required.

##### **B. Report on Motor Vehicle Division - Special Projects.**

There was no discussion on this item and no Committee action was required.

#### **DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - Report on Camp Navajo Fund.**

There was no discussion on this item and no Committee action was required.

**DEPARTMENT OF ECONOMIC SECURITY**

**A. Report on Long Term Care System Fund Fiscal Issues.**

Mr. Stefan Shepherd, JLBC Staff, commented that the department is going to issue a Request for Proposal (RFP) in October; the deadline for responses is December, which means they will not have an analysis of the fiscal impact until February. DES would not be able to meet the November 1 deadline for a fiscal impact analysis because they will not have responses back from the providers. He said that the RFP would take effect July 1, 2001, but the costs that are generated by the new RFP are probably not going to be known in a timely fashion with regards to the FY 2002-2003 budget process.

**B. Report Intended Use of Domestic Violence Shelter Fund.**

There was no discussion on this item and no Committee action was required.

**C. Report on the Electronic Benefits Transfer (EBT) Project.**

There was no discussion on this item and no Committee action was required.

Without objection, the meeting adjourned at 2:40 p.m.

Respectfully submitted:

---

Cheryl Kestner, Secretary

---

Richard Stavneak, Director

---

Senator Randall Gnant, Chairman

## STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES - REVIEW OF CAPITATION RATE  
CHANGES

**Request**

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX behavioral health programs.

DHS has received approval from the Arizona Health Care Cost Containment System (AHCCCS) to change the capitation rates for the Children's Behavioral Health (CBH), Seriously Mentally Ill (SMI) and General Mental Health/Substance Abuse (GMH/SA) line items retroactive to October 1, 2000, and has submitted a plan showing the estimated cost of the rate changes for the Committee's review. DHS also received approval from AHCCCS to change the capitation rate for these same programs on December 1, 2000. The following table shows the budgeted, current and new capitation rates and JLBC Staff estimates for the General Fund (GF) cost impact by program based on the enrollment projections used in developing the FY 2001 appropriations:

<b><u>Statewide Monthly Capitation Rates by Program</u></b>						
<b><u>Program</u></b>	<b><u>FY 2001 Budgeted Rate</u></b>	<b><u>FY 2001 Current Rate</u></b>	<b><u>FY 2001 Oct. 1 Rate</u></b>	<b><u>FY 2001 Dec. 1 Rate</u></b>	<b><u>% Change <sup>1/</sup></u></b>	<b><u>FY 2001 GF Cost/(Savings)</u></b>
CBH	\$24.43	\$24.15	\$23.98	\$24.04	(0.46)	\$(177,900)
SMI	52.48	51.83	54.09	54.26	4.69	791,100
GMH/SA	13.33	13.36	13.78	13.88	3.89	257,200
<b>TOTAL</b>						<b>\$ 870,400</b>

<sup>1/</sup> Reflects change from current rate to December rate.

(Continued)

## **Recommendation**

The JLBC Staff recommends a favorable review of the request, since the proposed capitation rate changes are based upon an actuarial study. In the prior regular session, we had set aside \$9,835,200 from the General Fund for DHS enrollment and capitation changes. However, the capitation rate changes and higher than projected enrollment growth are likely to require a further increase in the General Fund supplemental beyond what was set aside in the FY 2001 budget.

In total, we currently project that the DHS supplemental requirement will exceed that amount by \$4 million. Of that amount, \$870,400 is related solely to the higher capitation rates. The JLBC Staff further recommends that DHS submit proper notification of a projected deficit as required by A.R.S. § 35-131D.

## **Analysis**

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims and encounter data and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DHS requests a change in rates, the new rates must be approved by AHCCCS. AHCCCS generally consults with their own actuaries to evaluate DHS's requests.

As mentioned above, a footnote in the General Appropriation Act requires DHS to submit an expenditure plan to the Committee prior to implementing any change in capitation rates in the Title XIX behavioral health programs. In the past, capitation rate changes were implemented without notification of the Legislature. The footnote was added so that legislators would be made aware of these changes and the potential budget impacts before the new rates are implemented.

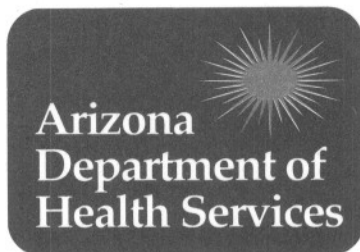
In June, JLBC favorably reviewed a capitation rate change for FY 2001 based on costs associated with renewed contracts with all Regional Behavioral Health Authorities (RBHAs) except Value Options, the Maricopa County RBHA. At that time, DHS anticipated further adjustment to the capitated rates. Value Options' rates were reviewed, and DHS has completed the actuarial process and has received AHCCCS's approval for new statewide rates retroactive to October 1, 2000. This rate change reflects costs associated with a new contract with Value Options, as well as costs associated with a recently approved AHCCCS waiver. DHS has also received approval to adjust a rural add-on rate, which will result in a change in the statewide rate, effective December 1, 2000.

Based on enrollment projections used in developing the FY 2001 appropriations, the capitation rate changes will create a savings of (\$177,900) associated with the children's programs, an increase of \$791,100 associated with the SMI program, and an increase of \$257,200 for general mental health. These costs and savings are relative to the FY 2001 supplemental General Fund set-asides of \$4,903,100 for the children's program, \$3,499,000 for the SMI program, and \$1,432,200 for General Mental Health. (The Legislature did not formally appropriate a FY 2001 supplemental to DHS, but set aside General Fund monies to cover their anticipated costs.)

Enrollment has been sharply exceeding projections for each of the three programs. Using data through September 1, 2000, JLBC Staff revised Title XIX population estimates to reflect the recent trend. The JLBC Staff estimates that the revised population projections, combined with the capitation rate changes, will result in a increased cost to the General Fund of \$13,843,000, or \$4,007,800 above the FY 2001 set-aside of \$9,835,200.

Since the rates are based upon an actuarial calculation required by federal law, the JLBC Staff recommends that the Committee give the rates a favorable review.

RS:GG:ck



## *Office of the Director*

1740 W. Adams Street  
Phoenix, Arizona 85007-2670  
(602) 542-1025  
(602) 542-1062 FAX

JANE DEE HULL, GOVERNOR  
CATHERINE R. EDEN, DIRECTOR

OCT 06 2000



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

Dear Senator Gnant:

The Arizona Department of Health Services, Division of Behavioral Health Services respectfully requests placement on the Joint Legislative Budget Committee's agenda for its next scheduled meeting on October 19, 2000, to discuss (1) the proposed changes in the capitation rates for FY 2001, pursuant to Senate Bill 1001, 44<sup>th</sup> Legislature, 1<sup>st</sup> Special Session, the General Appropriations Act; and (2) the Department's plan for expending the additional appropriations received through HB2003, 44<sup>th</sup> Legislature, 5<sup>th</sup> Special Session, the General Appropriations Act.

The capitation rate adjustments are being made pursuant to the following:

1. ValueOptions October 1, 2000 annual adjustment as required by contract (Please note that ValueOptions was the only RBHA not part of the non-Maricopa county statewide RFP effective July 1, 2000)
2. IMD Waiver for Title XIX adults approved by HCFA
3. Rural Add-on for Yuma and La Paz counties to make the rural rates commensurate with the other rural area rates

The SFY 2001 impact of the above rate adjustments is estimated to be approximately \$1.4 million of General Fund monies, representing approximately \$4.0 million of total fund monies.

*Leadership for a Healthy Arizona*



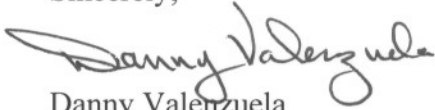
OCT 06 2000

The Honorable Randall Gnant, Chairman

Page 2

If you have any questions please contact me at 542-1025 or Leslie Schwalbe, Acting Assistant Director, Behavioral Health Services at (602)381-8999.

Sincerely,

A handwritten signature in dark ink, appearing to read "Danny Valenzuela", with a stylized, flowing script.

Danny Valenzuela  
Deputy Director

DV:PV:ah

c: Catherine R. Eden, Director, ADHS  
Danny Valenzuela, Deputy Director, ADHS  
Leslie Schwalbe, Acting Assistant Director, Behavioral Health Services, ADHS  
Maria Black, Administrator, Central Budget Office, ADHS  
Peter Vazquez, Budget Analyst, Central Budget Office, ADHS  
Michael Fett, Chief, Bureau of Financial Operations, Behavioral Health Services, ADHS

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – REVIEW OF PLAN TO  
DISTRIBUTE \$50 MILLION FOR SMI SERVICES AND \$20 MILLION FOR  
CHILDREN’S BEHAVIORAL HEALTH SERVICES OF TOBACCO  
SETTLEMENT MONIES

**Request**

Laws 2000, Chapter 2, 5<sup>th</sup> Special Session, appropriated \$50 million from the tobacco settlement to the Department of Health Services (DHS) to provide community housing, vocational rehabilitation, and other recovery support services for the seriously mentally ill (SMI). The law requires that before DHS spends these monies they must submit a plan, including performance measures, to the Joint Legislative Budget Committee (JLBC) for review. The law further appropriated \$20 million from the tobacco settlement for Children’s Behavioral Health Services. The law does not specify that JLBC must review a plan for this appropriation, and DHS has submitted a plan for information only.

**Recommendation**

JLBC Staff recommends a favorable review of the SMI plan. As we did not receive the complete plan until October 10, the Staff has not had time to analyze the plan in depth. If we have further comments, we will send an additional memo by October 17, 2000. The plan appears to be generally consistent with the intent of Chapter 2, and the performance measures identified are specific and outcome based. A substantial portion of this one-time appropriation will be used to provide intensive recovery and support services for the seriously mentally ill to help move them to a higher level of functionality. DHS believes that the need for intensive services for these particular individuals will be reduced over time. If this approach is not successful in a timely fashion, the state may need to consider whether to provide on-going funding for these programs.

If the voters approve either of the propositions allocating the tobacco settlement, these monies would not be available for this purpose on an on-going basis.

The Children's plan is submitted for information only; no committee action is required. JLBC Staff has yet to receive Regional Behavioral Health Authority (RBHA) plans detailing expenditures for the Children's appropriation. While Chapter 2 clearly states that funding for the SMI program is intended for one-time purposes, the Children's \$20 million appropriation does not reference a one-time funding requirement. We understand from discussions with other legislative staff, however, that the appropriation for Children's programs was intended to be one-time funding. Depending upon the approach taken by the RBHAs, an on-going need for funding could exist. If DHS and the RBHAs choose to tie the additional dollars to a cohort of children, rather than expanding services for all children in its target group, one-time funding could be sufficient.

JLBC Staff further recommends that DHS provide a report to the Committee in December with more specific information regarding the number of housing units that will be built or purchased, as well as the number of people that will be served by each program providing specialized recovery support and vocational rehabilitation services. As described below, we currently have broad information regarding the proposals broad dollar allocations, but we lack important details.

## **Analysis**

### Seriously Mentally Ill Services Plan

Laws 2000, Chapter 2, 5<sup>th</sup> Special Session created the Serious Mental Illness Service Fund and appropriated \$50 million from the tobacco settlement for programs designed to serve adults with serious mental illness and assist them to achieve their highest possible level of self-sufficiency. The legislation further specified that the monies were to be used for the development of programs and services that are of a one-time nature, but that DHS may implement over several years. Finally, the legislation requires that \$300,000 be used for a performance evaluation by the Office of the Auditor General to measure the effectiveness of the program.

DHS required each RBHA it contracts with to submit a plan that would meet the requirements of the legislation and most effectively utilize the monies within each RBHA. Funding will be allocated to each RBHA based upon population. DHS requires that programs be operational by July 1, 2001 and must remain in operation through June 30, 2003. DHS specified that a RBHA may use the funds to purchase housing stock or create a rental subsidy program to increase housing stock. Plans for housing purchase, ownership or construction by the RBHA or its subcontractor must be sustained for at least 15 years without additional funding.

DHS has received and approved expenditure plans from all RBHAs. In total, DHS estimates that \$16,975,700 will be spent on housing programs, \$26,609,000 will be spent on recovery support and vocational rehabilitation services, \$1,316,300 will be spent on specialized assessment, \$940,700 will be spent on training, and \$3,858,300 will be used for administration or as "profit" by the RBHAs. DHS generally allows each RBHA 8% of a total contract for administration costs and an additional 4% for "profit". In this context, "profit" represents the excess of state reimbursement over actual operating costs. Profits are generally available for reinvestment in RBHA programs. In addition, \$300,000 will be transferred to the Office of the Auditor General for a performance evaluation of the program.

Each RBHA will collect and submit baseline control data for the SMI clients enrolled on July 1, 2000. Based on that data, DHS will establish performance targets for housing, recovery support services, and the other program components. Each RBHA will then submit data on improvements in symptoms, health status, functioning, housing, employment, and health and recovery status to DHS semi-annually. DHS will also collect data regarding average cost per client stratified by diagnosis from each RBHA. Table 1 summarizes each of the programs identified in the legislation, the evaluation and performance measures for each program, as well as selected RBHA projects to meet each program goal.

Performance measures for the SMI program are outcome based and specific. DHS has met with the Auditor General regarding the evaluation component and the Auditor General is satisfied that the performance measures established for each program and the data required from each RBHA will allow for a through review of each program's performance.

Chapter 2 clearly states that these funds are for the development of programs that are of a one-time nature and that the program terminates on January 1, 2005. DHS's approach to complying with this requirement has been twofold. First, most of the \$17.0 million proposed for housing will be used to purchase properties outright that will be reserved, by deed restriction, for the seriously mentally ill for at least the next fifteen years. Second, intensive services will be provided based upon a recovery model with the idea that those that are most severely mentally ill, while they will likely continue to require on-going behavioral health services, they can achieve a greater level of self-sufficiency and increased functioning within the timeframe of the funding. Therefore, the need for the intensive and expensive services funded by the legislation will be reduced. If this approach does not prove successful in a timely fashion, the state may need to consider whether to provide on-going funding for these programs. If the voters approve either of the propositions allocating tobacco settlement monies, these monies would not be available for this purpose on an on-going basis.

#### Children's Services Plan

Chapter 2 also appropriated \$20,000,000 for Children's Behavioral Health Services. This legislation does not require JLBC review of the plan or its performance measures. Chapter 2 requires that monies be used to provide behavioral health services to families whose children receive behavioral health services through DHS, the Department of Economic Security (DES), the Department of Juvenile Corrections (DJC), and the Administrative Office of the Courts (AOC). Funds may also be used for telemedicine programs. An additional \$150,000 will be transferred to the Office of the Auditor General to be used for a performance evaluation to measure the effectiveness of the program.

DHS again required each RBHA it contracts with to submit a plan that would meet the requirements of the legislation and most effectively utilize the monies within each RBHA. Funding will be allocated to each RBHA based upon population. DHS requires that programs be operational by July 1, 2001, and must remain in operation through June 30, 2003. DHS has not yet received or approved RBHA plans for the Children's programs. DHS further required that 30% of the funds available in each RBHA be used for children involved in the juvenile justice system. DHS will reserve \$2 million for development and delivery of a uniform statewide training program.

Baseline data will be collected for both the Children's groups identified above, as well as a control group. From the baseline data, DHS will select targets for each program. The evaluation is designed to measure improvements in symptoms, functioning, system efficiency, and family satisfaction. Service costs and any barriers to implementation will also be addressed in the evaluation. Performance measures are outcome based and specific. DHS has met with the Auditor General regarding the evaluation component, and the Auditor General is satisfied that the performance measures established and the data required from each RBHA will allow for a thorough review of the program's performance. Specifically, the following outcome measures have been identified:

- Improvement of symptoms.
- Improvement of school performance.
- Improvement of social functioning.
- Decrease in family burden.
- Improvement in Family Living Environment.
- Decrease in restrictiveness of child residential setting.
- Improvement in number of arrests.
- Number of single case plans completed for multi-agency kids.
- Number of non-Title XIX Adult family members served.
- Decrease in substance abuse.

While Chapter 2 is clear that funding for the SMI program is intended for one-time purposes, the Children's appropriation does not reference a one-time funding requirement. However, it is our understanding that the appropriation was intended to be one time. As of the date of this memo, DHS has not received proposals for implementation of the Children's program from the RBHAs. Proposals are due to DHS on October 16, 2000. Without this information, it is difficult to determine whether the RBHAs' plans will involve one-time expenditures or whether they will create an on-going obligation for the General Fund. If DHS and the RBHAs choose to tie the additional dollars to a cohort of children rather than expanding services for all children in its target group, one-time funding could be sufficient. Thus, depending upon the approach taken by the RBHAs, an on-going need for funding could exist.

RS:GG:ck

**Table 1**

<b>SMI Programs Projects and Measures</b>		
<b>Program Description</b>	<b>Evaluation &amp; Performance Measures</b>	<b>Selected RBHA projects</b>
<b>Housing</b>	<p>--Improvement in physical and mental health status stratified by diagnosis and substance abuse status.</p> <p>--Number of homeless persons, people in jail, in ASH, in 24 hour residential, and semi-independent living moved to: independent living, semi-independent living and 24 hour residential.</p>	<p>--Acquisition or purchase of single family homes.</p> <p>--Acquisition or purchase of small and large apartment complexes.</p> <p>--Assistance with security and utility deposits.</p> <p>--Acquisition or purchase of a supervised living facility.</p> <p>--Maintenance of housing stock.</p>
<p><b>Recovery Support Services and Vocational Rehabilitation</b></p> <p>Includes community, social and peer support, independent living skills training, symptom and relapse self-management, and assessment, training, and on-going support related to a client's ability to get and keep a job, and/or pursue higher education.</p>	<p>--Improvement in physical and mental health status stratified by diagnosis and substance abuse status.</p> <p>--Improvement of symptoms stratified by diagnosis and substance abuse status.</p> <p>--Number of unemployed persons, who are become employed full time, part time, who participate in supported employment, or who volunteer., stratified by diagnosis.</p>	<p>--In-home stabilization teams to reduce hospital stays and reduce inappropriate hospitalization.</p> <p>--Purchase of land to provide urgent care and substance abuse services in the East Valley.</p> <p>--Adult Foster Care.</p> <p>--Development and expansion of clinical treatment teams.</p> <p>--Purchase of vans to transport clients to and from services.</p> <p>--Assistance with locating and maintaining employment.</p> <p>--Job coaching at individual worksites.</p> <p>--Expansion of social rehabilitation programs.</p> <p>--Expansion of telemedicine programs.</p>
<p><b>Specialized Assessment</b></p> <p>One time intensive diagnostic and treatment protocol. May identify previously undetected by readily treatable psychiatric, neurological and/or medical illnesses that have interfered with diagnosis and treatment.</p>	<p>--Number of persons for whom specialized assessments are conducted.</p> <p>--Documentation of diagnosis immediately prior to assessment</p> <p>--Change in diagnosis based on assessment.</p> <p>--Change in treatment regimen based on assessment.</p>	<p>--Value Options is the only RBHA who will perform specialized assessments.</p> <p>-- Value Options estimates that 12 consumers a year for 2 years or nearly 300 consumers will receive a specialized assessment.</p>
<b>Training</b>	Evaluation component does not yet include evaluation of training.	--Training of clinical staff in recovery based model.
<b>Administration</b>		--Total profit and administration is limited to 8% for each RBHA.

*Office of the Director*

1740 W. Adams Street  
Phoenix, Arizona 85007-2670  
(602) 542-1025  
(602) 542-1062 FAX

JANE DEE HULL, GOVERNOR  
CATHERINE R. EDEN, DIRECTOR

OCT 06 2000

OCT - 6 2000

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

Dear Senator Gnant:

The Arizona Department of Health Services, Division of Behavioral Health Services respectfully requests placement on the Joint Legislative Budget Committee's agenda for its next scheduled meeting on October 19, 2000, to discuss (1) the proposed changes in the capitation rates for FY 2001, pursuant to Senate Bill 1001, 44<sup>th</sup> Legislature, 1<sup>st</sup> Special Session, the General Appropriations Act; and (2) the Department's plan for expending the additional appropriations received through HB2003, 44<sup>th</sup> Legislature, 5<sup>th</sup> Special Session, the General Appropriations Act.

The capitation rate adjustments are being made pursuant to the following:

1. ValueOptions October 1, 2000 annual adjustment as required by contract (Please note that ValueOptions was the only RBHA not part of the non-Maricopa county statewide RFP effective July 1, 2000)
2. IMD Waiver for Title XIX adults approved by HCFA
3. Rural Add-on for Yuma and La Paz counties to make the rural rates commensurate with the other rural area rates

The SFY 2001 impact of the above rate adjustments is estimated to be approximately \$1.4 million of General Fund monies, representing approximately \$4.0 million of total fund monies.

*Leadership for a Healthy Arizona*

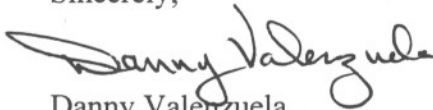
OCT 06 2000

The Honorable Randall Gnant, Chairman

Page 2

If you have any questions please contact me at 542-1025 or Leslie Schwalbe, Acting Assistant Director, Behavioral Health Services at (602)381-8999.

Sincerely,

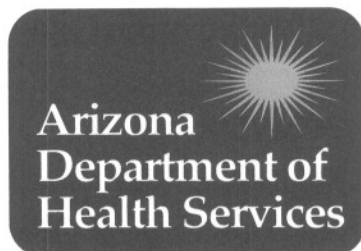
A handwritten signature in black ink, appearing to read "Danny Valenzuela", with a stylized flourish at the end.

Danny Valenzuela  
Deputy Director

DV:PV:ah

c: Catherine R. Eden, Director, ADHS  
Danny Valenzuela, Deputy Director, ADHS  
Leslie Schwalbe, Acting Assistant Director, Behavioral Health Services, ADHS  
Maria Black, Administrator, Central Budget Office, ADHS  
Peter Vazquez, Budget Analyst, Central Budget Office, ADHS  
Michael Fett, Chief, Bureau of Financial Operations, Behavioral Health Services, ADHS





***Division of Behavioral Health Services***  
***Office of the Assistant Director***

2122 E. Highland  
Phoenix, Arizona 85016-4740  
(602) 381-8999  
(602) 553-9140 FAX  
Internet: [www.hs.state.az.us/bhs](http://www.hs.state.az.us/bhs)

JANE DEE HULL, GOVERNOR  
CATHERINE R. EDEN, DIRECTOR

October 10, 2000

Ms. Gina Guarascio, Fiscal Analyst  
Joint Legislative Budget Committee Staff  
1716 W. Adams  
Phoenix, AZ 85007

Dear Ms. Guarascio:

Pursuant to the Department of Health Services' request for the Joint Legislative Budget Committee (JLBC) review of estimated expenditures from the Serious Mentally Ill Services Fund established by the Laws 2000, 5<sup>th</sup> Special Session, Chapter XXX (HB2003), attached please find the following documents which are described later in this correspondence:

- 1) Summary of Estimated Expenditures in the amount of \$49,700,000 by Geographic Service Area(GSA)/Regional Behavioral Health Authority (RBHA);
- 2) Detail of Estimated Expenditures in the amount of \$49,700,000 by Geographic Service Area(GSA)/Regional Behavioral Health Authority (RBHA);
- 3) The Department of Health Services Plan Specifications including evaluation standards to the RHBAs for \$49,700,000 for services to persons with serious mental illness; and
- 4) The Department of Health Services Plan Specifications including evaluation standards to the RHBAs for \$17,850,000 for children's behavioral health services.

**Background** HB 2003 established the Serious Mental Illness (SMI) Services Fund to provide community housing, vocational rehabilitation and other recovery support services to persons with serious mental illness. The monies in the fund are intended for the development of programs that are of a one-time nature, however, the Department may implement the programs and services over several years. Prior to expending monies from the fund, the Department is required to submit a plan to the JLBC.

This same bill appropriated \$50,000,000 from the Tobacco Litigation Settlement account to the SMI Services Fund for these purposes. From the \$50,000,000 appropriation, the Department has

transferred \$300,000 to the Auditor General for the purpose of conducting a performance audit. The plans for JLBC review are included in documents #1, #2, and #3.

HB 2003 also appropriated \$20,000,000 to the Department for children's behavioral health services. Funds are to be used to provide behavioral health services and related services to families whose children receive behavioral health services through the Department of Health Services, the Department of Economic Security (DES), the Department of Juvenile Corrections or the Administrative Office of the Courts. Of the \$20,000,000, the Department has transferred \$150,000 to the Auditor General for the purpose of conducting a performance audit.

**Document #1** This summarizes estimated SMI Services Fund Expenditures by GSA/RBHA and by service category. The services include housing, recovery support, vocational rehabilitation, specialized assessment, training and administration. Planned administration/profit has been capped at 8% as compared to 12% of other state-funded programs. The Excel Group of Yuma has proposed no administrative spending.

**Document #2** This details estimated SMI Services Fund Expenditures by GSA/RBHA and by service category. These pages further define service category expenditures including number of persons to receive services. Funds in service categories are estimates and may be moved between categories.

*Plan Highlights* In Maricopa County, approximately 85% of the 1,600 persons to be served are part of the priority class in the *Arnold v. Sarn* lawsuit. Additionally, the Maricopa County RBHA proposes to purchase land to locate urgent care, crisis stabilization, and co-occurring treatment facilities in the East Valley.

Several RBHAs propose the use of specialized clinical teams to focus on the recovery of clients who are the most significantly disabled. Many of these teams will provide added coverage during evenings and weekends to their identified clients and in Maricopa County for example, additional specialists with expertise in substance abuse treatment and vocational services will be added to the team composition. And finally, almost \$17,000,000 is proposed for the purchase of long-term housing, housing subsidy, and other housing supports statewide.

The Department of Commerce has offered their expertise to assist in developing housing opportunities under this plan. We are developing an Intergovernmental Agreement to that end. Additionally, we will work with DES in order to match eligible vocational rehabilitative service dollars with federal funds – which may result in up to a \$1.00 (state) to \$4.00 (federal) matching scenario.

Due to contract limitations, expenditures under this appropriation from the SMI Services Fund are expected to last through June 30, 2003. All appropriations are of a one-time nature, therefore a large amount of funding is proposed for housing, vocational rehabilitation and infrastructure building. Where funds are proposed for more traditional services, RBHAs should ensure that when funding ends persons have completed their treatment.

**Document #3** This document represents the Department's instructions to the RBHAs for plan development and evaluation of the \$49,700,000 appropriation from the Serious Mental Illness Services Fund. An extensive evaluation component, including performance measurement, has been built into the plan development requirements and has been shared with the Auditor General.

**Document #4** This document represents the Department's instructions to the RBHAs for plan development and evaluation for \$17,850,000 appropriated for children's behavioral health. The RBHAs have been working with the other state agencies to determine the best use of these funds. The plans are due to the Department by October 16, 2000.

If you have any questions or need additional information, please do not hesitate to contact me at (602) 553-9002.

Sincerely,

A handwritten signature in cursive script that reads "Leslie Schwalbe".

Leslie Schwalbe  
Deputy Director

Copy:

Catherine R. Eden, DHS Director  
Danny Valenzuela, DHS Deputy Director  
Maria Black, DHS Budget Administrator  
Liana Martin, DHS Legislative Liaison  
Mike Fronske, Office of Arnold v. Sarn  
Carol Smallwood, DHS/BHS Deputy Assistant Director  
Amy Belon, DHS/BHS Executive Consultant  
Dr. Michael Franczak, DHS/BHS Chief, Bureau of Persons with Serious Mental Illness  
Thomas Betlach, OSPB Director  
Bob Chapko, OSPB Budget Manager  
Christine Sato, OSPB Budget Analyst  
Richard Stavneak, JLBC Director  
Jennifer Vermeer, JLBC Deputy Director  
Deborah Davenport, Auditor General

Document No. 1  
Arizona Department of Health Services  
Summary of Estimated Expenditures  
HB 2003 - Seriously Mentally Ill Services Fund  
**\$50,000,000**

	GSA 6 ValueOptions	GSA 5	GSA 3	Subtotal	GSA 1 NARBHA	GSA 4 PGBHA	GSA 2 EXCEL	Auditor General	Total
				CPSA					
Housing	\$7,817,360	\$4,200,000	\$1,335,000	\$5,535,000	\$1,300,000	\$1,000,000	\$1,323,350	\$0	\$16,975,710
Recovery Support									
Clinical Team Expansion	5,925,795	3,421,081	331,173	3,752,254	2,917,616	368,258	0	0	12,963,923
Telemedicine	0	0	60,000	60,000	0	250,000	0	0	310,000
Other Recovery	7,790,915	300,000	0	300,000	0	0	140,000	0	8,230,915
Recovery Support Subtotal	13,716,710	3,721,081	391,173	4,112,254	2,917,616	618,258	140,000	0	21,504,838
Vocational Rehabilitation	4,240,170	300,000	106,500	406,500	200,000	250,000	7,500	0	5,104,170
Specialized Assessment	1,316,261	0	0	0	0	0	0	0	1,316,261
Training	840,690	0	0	0	100,000	0	0	0	940,690
RBHA Administration	2,428,798	714,877	159,363	874,240	392,836	162,457	0	0	3,858,331
<b>Service/RBHA Subtotal</b>	<b>30,359,989</b>	<b>8,935,958</b>	<b>1,992,036</b>	10,927,994	<b>4,910,452</b>	<b>2,030,715</b>	<b>1,470,850</b>	<b>0</b>	<b>49,700,000</b>
Auditor General Performance Review								300,000	300,000
<b>Total</b>	<b>\$30,359,989</b>	<b>\$8,935,958</b>	<b>\$1,992,036</b>	<b>\$10,927,994</b>	<b>\$4,910,452</b>	<b>\$2,030,715</b>	<b>\$1,470,850</b>	<b>\$300,000</b>	<b>\$50,000,000</b>

Note - This plan is estimated. Funds may move between categories.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Chris Earnest, Senior Fiscal Analyst

SUBJECT: STATE PARKS BOARD - REVIEW INTENDED USE OF RESERVATION  
SURCHARGE MONIES

**Request**

Pursuant to a General Appropriations Act footnote, the Arizona State Parks Board requests that the Committee review its expenditure plan for additional FY 2001 Reservation Surcharge Fund revenues of \$50,000.

**Recommendation**

The JLBC Staff recommends the Committee give a favorable review of the request. Parks Staff intend to expend the additional \$50,000 on 2 FTE Positions that will take reservations over the phone, thus reducing caller wait times.

**Analysis**

A.R.S. § 41-511.24 established the Reservation Surcharge Fund for the purpose of planning and administering an automated reservation system for park visitors. Subject to appropriation, the fund may be used for staff and system operating costs. Monies in the fund are non-lapsing except that any amount over \$12,500 at the end of each fiscal year is to revert to the General Fund.

(Continued)

The Reservation Surcharge Fund became active when an automated reservation system was implemented last year for tours at Kartchner Caverns State Park. Revenues are derived from a \$2.00 per ticket surcharge on tickets purchased using the system. Based on FY 2000 revenues of \$263,000, Parks Staff estimate surcharge revenues to be \$250,000 in FY 2001. The fund's FY 2001 appropriation, however, is currently only \$200,000. A General Appropriations Act footnote, does allow Parks Staff to expend the additional revenue after it is reviewed by the Committee.

Parks Staff propose using the additional revenue to fund 2 FTE Positions. The positions will provide customer service over the phone and schedule reservations. These positions are intended to reduce the time that callers are on hold, which at points has reached 1 hour. The expenditure detail of the additional \$50,000 is listed below:

	<b><u>FY 2001</u></b>
FTE Positions	2.0
Personal Services	\$41,800
ERE	<u>8,200</u>
Total Expenditures	\$50,000

With the additional positions, a total of 6 FTE Positions will be funded from Reservation Surcharge Fund revenue in FY 2001. Four of the positions will answer telephones and establish reservations, one will maintain the computer system, and one will manage the unit and account for funds received. Fund revenue will also be used for software maintenance, phone and network charges, as well as ticket printing and postage. The proposed FY 2001 total expenditure amounts are delineated below:

	<b><u>FY 2001</u></b>
FTE Positions	6.0
Personal Services	\$128,900
ERE	23,200
All Other Operating Expenditures	<u>88,900</u>
Total Expenditures	\$250,000

The JLBC Staff recommends a favorable review to the intended use of the additional FY 2001 revenue.

RS:CE:ss



September 27, 2000

Senator Randall Gnant  
Joint Legislative Budget Committee  
1700 West Washington  
Phoenix, AZ 85007



Jane Dee Hull  
Governor

State Parks  
Board Members

Chair  
Vernon Roudebush  
Safford

Walter D. Armer, Jr.  
Benson

Suzanne Pfister  
Phoenix

Joseph H. Holmwood  
Mesa

John U. Hays  
Yarnell

Sheri J. Graham  
Sedona

Michael E. Anable  
State Land  
Commissioner

Kenneth E. Travous  
Executive Director

Arizona State Parks  
1300 W. Washington  
Phoenix, AZ 85007

Tel & TTY: 602.542.4174  
www.pr.state.az.us

800.285.3703  
from (520) area code

General Fax:  
602.542.4180

Director's Office Fax:  
602.542.4188

RE: JLBC Request - Reservation Surcharge Fund

Dear Senator Gnant:

Arizona State Parks' requests to be placed on the next agenda of the Joint Legislative Budget Committee (JLBC) for review of expenditures of Reservation Surcharge monies in excess of \$200,000 in FY 2001. The General Appropriation Act footnote, as amended by Laws 2000, Chapter 3, requires that before the expenditure of any Reservation Surcharge monies in excess of \$200,000 in FY 2001, the Arizona State Parks Board shall submit the intended use of the monies for review by the JLBC.

A.R.S. § 41-511.24 established the Reservation Surcharge Fund to administer a reservation system for park visitors. The Board to fund staff and operating costs for the planning and administration of a reservation system may use these monies.

ASP currently has 6 people in the Business Unit. Four staff are currently answering telephones and reserving between \$5,000 to \$9,000 worth of tickets daily. A computer support person is required to maintain the reservation system, as well as a Business Manager to oversee the operation and account for funds received and reservations booked. To fund personal services and the maintenance contract is estimated to cost \$250,000 in FY 2001. The attachment provides a more detailed breakout of expenditures.

Your continued support of this project and our staff is greatly appreciated. Please give me a call should you have any questions or if I may be of assistance to you or your staff.

Sincerely,

Kenneth E. Travous  
Executive Director

Senator Randall Gnant  
September 27, 2000  
Page 2

Attachment

Copy: Representative Robert Burns,  
Richard Stavneak, Director, JLBC  
Thomas Betlach, Director, OSPB  
Maria Baier, Office of the Governor  
Chris Earnest, JLBC  
Marcel Benberou, OSPB



## Attachment

### FY 2001, FY 2002 and FY 2003 Budget Estimates Reservation Surcharge Fund

Source of Funds	FY 2000 Actual	Revised FY 2001 Budget Estimate	FY 2002 Budget Estimate	FY 2003 Budget Estimate
Balance Forward - Operating Fund	\$ -	\$ 12,500	\$ 12,500	\$ 12,500
Revenue	263,900	250,000	250,000	250,000
<b>Total - Source of Funds</b>	<b>\$ 263,900</b>	<b>\$ 262,500</b>	<b>\$ 262,500</b>	<b>\$ 262,500</b>
<b>Disposition of Funds</b>				
FTE Positions	1.50	6.00	6.00	6.00
Personal Services	\$ 13,800	\$ 128,900	\$ 131,300	\$ 133,900
Employee Related Expenditures (ERE)	2,000	\$ 32,200	\$ 32,800	\$ 33,500
Subtotal - Personal Services/ERE	\$ 15,800	\$ 161,100	\$ 164,100	\$ 167,400
Professional & Outside Services	\$ -	\$ -	\$ -	\$ -
Travel - In State	-	2,500	2,500	2,500
Travel - Out State	-	-	-	-
Other Operating Expenditures	44,900	72,000	72,000	72,000
Agency Reserve	-	14,400	11,400	8,100
Equipment	50,100	-	-	-
Subtotal - All Other Operating Expenditures	\$ 95,000	\$ 88,900	\$ 85,900	\$ 82,600
<b>Total - Disposition of Funds</b>	<b>\$ 110,800</b>	<b>\$ 250,000</b>	<b>\$ 250,000</b>	<b>\$ 250,000</b>
Reservsion to General Fund	\$ 140,600	\$ -	\$ -	\$ -
Variance - Balance Forward	\$ 12,500	\$ 12,500	\$ 12,500	\$ 12,500

#### Notes and Adjustments:

Personal Services/ERE includes April 1, 2000, 2001, 2002 and 2003 2% merit.

A.R.S. 41-511.24 states that monies in excess of \$12,500 at the end of the fiscal year shall revert to the General Fund.

FY 2000 footnote requires expenditures in excess of \$154,700 have prior approval of the Joint Legislative Budget Committee

FY 2001 footnote requires expenditures in excess of \$200,000 have prior approval of the Joint Legislative Budget Committee

**All Other Operating Expenditure Projection**

All Other Operating Expenditures	FY 2000	FY 2001
Hardware	14,400	20,000
Ticket Printing	2,500	7,500
Software Maintenance	8,000	16,500
Software	36,500	0
KCSP Printing/Postage	32,000	23,400
Phone and Network Charges	0	15,000
Software Training	0	4,000
Miscellaneous	1,600	0
Total	95,000	86,400

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF CORRECTIONS - RECONSIDER REVIEW OF PRIVATE  
PRISON REQUEST FOR PROPOSALS

**Request**

At its meeting held on August 10, 2000, the Committee gave a favorable review of an Arizona Department of Corrections (ADC) Request for Proposals (RFP) for a 1,000 bed privately-operated facility to house non-U.S. National inmates. Senator Lopez has requested that the Committee revisit the RFP in light of an opinion by Legislative Council on the legality of the RFP.

**Background**

The 1999 General Appropriation Act appropriated General Fund monies to ADC to contract for a 1,000-bed privately-operated prison facility. The appropriation also contained a footnote requiring that "the State Department of Corrections shall submit its plan for the category of beds to be privatized to the Joint Legislative Budget Committee for review and the beds shall not be segregated by race, ethnicity or nationality." The RFP reviewed by the Committee at the August meeting was entitled "Criminal Aliens Subject to United States Immigration and Naturalization Services Hearings and/or Deportation."

ADC believes that a privately-operated prison to house non-U.S. National inmates complies with the footnote by segregating all types of foreign national inmates instead of foreign nationals from one specific country (Mexico). At its meeting held on August 10, the Committee gave a favorable review of the RFP for a 1,000 bed privately-operated facility to house non-U.S. National inmates.

Subsequent to that review, Senator Rios requested a formal opinion from Legislative Council regarding whether the RFP violated state law by disregarding the footnote. Legislative Council concluded that “DOC’s proposed segregation of prison beds according to alienage status violates both the footnote and the Constitution’s equal protection guarantee.” The entire Legislative Council opinion is attached.

Given Legislative Council’s opinion, Senator Lopez has requested that the Committee revisit the issue.

RS/BR:ck



## Arizona State Senate

# MEMORANDUM

From the office of...

**Senator Joe Eddie Lopez**

To: Senator Randall Gnant, Chairman  
Representative Bob Burns, Vice Chairman  
Members of the Joint Legislative Budget Committee

From: Senator Joe Eddie Lopez *JEL*

Date: September 21, 2000

Re: Private Prison RFP



At its August 10, 2000 meeting, the Joint Legislative Budget Committee granted the Department of Corrections a favorable review of its RFP for a private prison for foreign nationals. The committee did so over the strong objections of both Senator Rios and myself. Following the meeting, Senator Rios requested that Legislative Council review the department's plans for the prison and determine whether or not it violated state law by disregarding the budgetary footnote.

Legislative Council staff indicated in their response to Senator Rios' request that the Department of Corrections' plan for this private prison not only violated state law by ignoring the budgetary footnote, but also federal law by violating the equal protection guarantees in the Constitution. I have attached a copy of this memo for your review.

I respectfully request that the matter be included on the October agenda of the Joint Legislative Budget Committee so that the committee might revisit this matter in light of Legislative Council's analysis.

cc: Richard Stavneak  
Kim Baker  
Michael Bradley  
Melodie Jones  
Travis Mallen  
Reed Spangler

Susan Anable  
Tom Betlach, Director, OSPB  
Greg Gemson  
Debbie Johnston  
Chad Norris  
Richard Travis

# ARIZONA LEGISLATIVE COUNCIL

## MEMO

September 13, 2000

**TO:** Senator Peter Rios  
**FROM:** Ricki Kaplan, Council Attorney  
**RE:** Footnotes in Appropriations Bills; Prison Segregation (R-44-183)

### BACKGROUND

The 1999 general appropriations bill appropriated monies to the Department of Corrections (DOC) to contract for a privately operated 1,000 bed facility. A footnote in the appropriations bill provided that "the beds shall not be segregated by race, ethnicity or nationality." DOC recently issued a request for proposals for construction of the 1,000 bed prison, which provides that the facility will be used to house aliens who are subject to Immigration and Naturalization Services hearings or deportation after completing their sentences.

### QUESTIONS

1. Does a footnote in the general appropriations bill have the same force and effect as legislation passed in a regular House or Senate Bill?
2. Does DOC's planned segregation of prisoners based on their citizenship violate the law?

### ANSWERS

1. The general appropriations bill may only include appropriations for the operation of state government and other provisions that are *incidental to or explanatory of* the appropriations it contains. While budget footnotes may not create substantive law of general application, they may lawfully attach conditions to the expenditures they relate to.

2. Probably. State laws that classify persons based on alienage are subject to strict scrutiny. Courts will uphold such laws only if they are necessary to achieve a compelling government purpose. Even if the purpose is permissible, courts will examine whether there are less burdensome means to accomplish the same goals. Most state actions examined under this test fail.

## DISCUSSION

### 1. The budget footnote in question is a valid restriction on the appropriation to DOC.

Article IV, part. 2, section 20, Constitution of Arizona, provides in part that "the general appropriation bill shall embrace nothing but appropriations for the different departments of the state, for state institutions, for public schools, and for interest on the public debt." Accordingly, Arizona courts have ruled that the Legislature may *not* include substantive legislation in the general appropriations bill. See e.g., Litchfield Elementary School Dist. No. 79 v. Babbitt, 125 Ariz. 215, 223 (Ct. App. 1980) ("The appropriations process cannot be used for legislation.").

In State v. Angle, 54 Ariz. 13, 21 (1939), the Arizona Supreme Court articulated the following general standard regarding the permissible contents of general appropriations bills:

The general appropriations bill can contain nothing but the appropriation of money for specific purposes, and such other matters as are merely incidental and necessary to seeing that the money is properly expended for that purpose only. Any attempt at any other legislation in the bill is void.

Thus, pursuant to case law, provisions (including footnotes) in the general appropriations bill cannot effectuate "general legislation." However, budget footnotes *can* establish qualifications and regulations for the expenditure of monies appropriated in the bill.

In the situation at hand, the budget footnote imposes conditions on the expenditure of general fund monies appropriated to DOC to build private prison beds. It is a legislative instruction on the expenditure of a specific sum of money. The footnote does not attempt to create substantive law applicable to *all* DOC expenditures, but only those covered by this appropriation. It does not contravene any existing statutes or create a new general requirement.

You asked our office if this footnote is "equivalent to legislation in a regular bill." We conclude that while the effect of the footnote is not the same as general legislation because it does not have general application, it does apply to the DOC appropriation in the general appropriations bill and has the same force and effect that a statutory law would have. In other words, a court should enforce the application of this restriction to DOC expenditures of these particular funds.

**2. DOC's segregation of prisoners based on nationality violates the budget footnote and likely violates the Equal Protection Clause.**

As stated above, we conclude that the footnote validly applies to the money appropriated to DOC to build 1,000 new prison beds. However, regardless of the footnote, it is unlikely that DOC could segregate prison inmates based on their country of citizenship. As you may be aware, courts apply one of three standards when examining challenges to government action on equal protection grounds. The most stringent standard is known as "strict scrutiny." If a suspect classification (i.e. race) or a fundamental right (i.e. privacy, freedom of speech) is involved, courts will apply the strict scrutiny standard and strike down the classification unless the government can prove that the action is *necessary* to achieve a *compelling government interest*. Not surprisingly, few government actions can meet this rigorous standard.<sup>1</sup>

National origin and alienage are suspect classifications. Accordingly, courts use the strict scrutiny standard when examining state laws that classify persons according to their country of citizenship. See, e.g., Bernal v. Fainter, 467 U.S. 216 (1984); Graham v. Richardson, 403 U.S. 365 (1971) (striking down state restrictions on welfare benefits based on alienage classifications); Hernandez v. Texas, 347 U.S. 475 (1954) (Court held that state law excluding persons of Mexican descent from juries violated the Equal Protection Clause). As stated above, states must show that the classifications are necessary to meet a compelling government interest and that no less burdensome action can meet the government interest.

Interestingly, classifications based on alienage by the *federal government* are subject only to the rational basis test. The United States Supreme Court has held that because Congress has plenary power over immigration matters, courts should give great deference to congressional action in this area. See Matthews v. Diaz, 426 U.S. 67, 78-80 (1976). Accordingly, if federal prison authorities house aliens who are subject to deportation upon release separately from the rest of the prison population, courts will judge their actions under the lenient rational basis test. In fact, courts have upheld federal prison regulations that treat non-U.S. citizens differently than U.S. citizens in numerous instances. See Lizarraga-Lopez v. U.S., 89 F. Supp.2d 1166 (S.D. Cal. 2000) (upholding disparate treatment of deportable aliens and prisoners who were not deportable aliens); Marshall v. Reno, 915 F. Supp. 426 (D.D.C. 1996) (federal regulation denying noncitizens access to early release programs does not violate the Equal Protection Clause).

---

<sup>1</sup> Intermediate scrutiny is applied when "quasi-suspect" classifications (i.e. gender, illegitimacy) are involved. Courts judge other classifications pursuant to the "rational basis test." Government action will be upheld under this test unless it is not *rationally* related to any *legitimate government interest*.



According to DOC, some federal prisons do house foreign nationals separately from prisoners who are U. S. citizens. As stated above, courts will likely uphold such action under the rational basis test. DOC may claim that since its policies mimic federal policies, its classification should also be judged by the lenient rational basis test. In Barannikova v. Town of Greenwich, 643 A.2d 251 (Conn. 1994), the state argued that its policy of requiring that the income of an alien's sponsor should be deemed income of the alien for purposes of calculating the alien's welfare benefits should be examined under the deferential rational basis test because the policy paralleled federal laws. However, the court ruled that in the absence of federal legislation requiring states to enact similar laws, it would not create an exception for state laws that parallel federal laws. Accordingly, even if DOC classifies prisoners who are foreign nationals in a manner similar to the federal government, the agency's actions should still be subject to the strict scrutiny standard.

## CONCLUSION

The anti-segregation footnote in the 1999 general appropriations bill is incidental to the appropriation to DOC to build private prison beds. While footnotes are not substantive laws of general application, they are enforceable with regard to the specific appropriations to which they apply.

DOC's proposed segregation of prison beds according to alienage status violates both the footnote and the Constitution's equal protection guarantees. Unless the department can demonstrate that the separation furthers a compelling government interest and that there is no less burdensome way to meet that interest, the classification will be struck down.

Please contact our office if you have further questions on this matter.

cc: Guadalupe Valencia



STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Stefan Shepherd, Senior Fiscal Analyst *SS*

SUBJECT: JOINT LEGISLATIVE BUDGET COMMITTEE - CONSIDER APPROVAL OF YEAR  
2001-2002 STRATEGIC PROGRAM AREA REVIEW CANDIDATES

### Request

The Joint Legislative Budget Committee (JLBC) Staff requests that the Committee approve the list of program areas to be reviewed in the Year 2001-2002 Strategic Program Area Review (SPAR) process.

At the September meeting, we provided Committee members with our own suggestions and recommendations from agencies.

In response, Senator Gnant requested that we contact members about their preferences. The 4 programs that generated the most interest from legislators, along with their relevant agencies, were:

- Job Training: Department of Economic Security (DES), Arizona Department of Education (ADE), Department of Commerce, and State Board for Community Colleges
- County Assistance: Arizona Health Care Cost Containment System (AHCCCS), Department of Health Services (DHS), Judiciary, Arizona Criminal Justice Commission (ACJC), Department of Water Resources (DWR), and Revenue Sharing
- Prescription Drugs: Arizona Pioneers' Home, Department of Veterans' Services, University of Arizona Medical School, DHS (including Arizona State Hospital), Department of Juvenile Corrections (DJC), Department of Corrections, AHCCCS, and DES.
- Aircraft Operations: Arizona Department of Transportation (ADOT), Department of Public Safety (DPS), and Game and Fish Department.

In addition, A.R.S. § 49-282H requires that Water Quality Assurance Revolving Fund (WQARF) operated by DEQ undergo the "Program Authorization Review" process starting in the year 2002 and every five years thereafter. If the Committee decides not to select WQARF as a 2001-2002 SPAR candidate, the JLBC Staff recommends that legislation be introduced, either as a separate bill or as part of an Omnibus Reconciliation Bill (ORB) to delay this requirement.

(Continued)

## Analysis

### SPAR Process

A.R.S. § 41-1275 provides that the JLBC shall determine which program areas will be subject to each biennial SPAR process. (In prior years, the programs were named in a bill.) The JLBC Staff, in consultation with the Governor's Office of Strategic Planning and Budgeting (OSPB), shall recommend a list of program areas for the SPAR process to the JLBC by January 1 of each odd-numbered year. The statute also provides that state agencies may submit SPAR candidates. The attached list of program area suggestions (Attachments A and B) reflect these recommendations and were presented to the Committee at its September 19, 2000 meeting for initial review.

### Selection of SPAR Candidates

After the September Committee meeting, JLBC Staff continued to solicit suggestions from legislators as well as OSPB. Based on discussions with legislators and legislative staff, we have added 3 possible topics to the "JLBC Staff" list (Attachment A):

- Children's Delivery System: DES, DHS, AHCCCS, ADE, DJC, and Judiciary. (Focus on provision of case management and other services to children with multiple diagnoses.)
- Advertising: Lottery, Tourism, DHS (Tobacco Tax, Teen Pregnancy Prevention), Department of Administration, and AHCCCS. (Examine if there are most cost-effective methods of advertising.)
- Developmental Disabilities Home and Community Based Services: DES. (Investigate reasons for caseload and expenditure growth in this program.)

OSPB suggested the following 3 SPARs:

- Prescription Drugs
- Water Quality Assurance Revolving Fund
- DD Home and Community Based Services: DES.

OSPB's comments on these 3 suggestions and on the other JLBC Staff suggestions may be found in Attachment C.

We would recommend that the Committee select at least 3 SPARs, which might allow each of the existing 3 Appropriations Subcommittees to focus on a SPAR. Some of the proposed SPARs are significantly more complex than others. We believe that of the 4 SPARs most commonly mentioned by legislators, all of them except Aircraft Operations belong to that category of "significantly complex." We recommend that if the Committee selects one of these complex SPARs, that that particular SPAR be the only one selected for a particular subcommittee.

### Future SPAR Actions

Once the Committee selects the Year 2001-2002 SPARs, JLBC Staff and OSPB will send out instructions to the agencies participating in the process. Agency self-assessments and responses to special questions raised by JLBC Staff and OSPB will be due to our offices by June 1, 2001. The self-assessment shall address the efficiency and effectiveness of each operation and whether current operations are consistent with legislative intent. By January 1, 2002, the JLBC Staff and OSPB shall evaluate the program areas and jointly produce a report of their findings and recommendations.

A.R.S. § 41-1275 provides that the Speaker of the House and President of the Senate shall assign all SPARs to the Appropriations Committees. The President and Speaker may additionally assign a SPAR to a standing committee. Per statute, the committees shall hold at least 1 public hearing to receive public input and develop recommendations to retain, eliminate, or modify funding and related statutory references.

**Possible 2001-2002 SPAR Topics**  
**JLBC Staff**

<b><u>Agency</u></b>	<b><u>Program Area</u></b>	<b><u>Description of Program</u></b>
Land Dept., State Mines & Mineral Resource, Dept. of Mines Inspector, Dept. of Geological Survey, Arizona	Dept. of Natural Resources	These agencies perform related functions. In some states these functions are centralized in one agency.
Economic Security, Dept. of Education, Dept. of Commerce, Dept. of Community Colleges, St. Board of	Job Training	All of these agencies provide some type of job training.
AHCCCS Health Services, Dept. of Courts Criminal Justice Commission, AZ Revenue Sharing Water Resources, Dept. of	County Assistance	State monies pass-through all of these agencies. SPAR could research whether it might be more efficient to consolidate the funding.
Pioneers' Home, AZ Veterans' Services, Dept. of U of A Medical School/Hospital Arizona State Hospital Juvenile Corrections, Dept. of Corrections, State Dept. of Health Services, Dept. of AHCCCS Economic Security, Dept. of	Prescription Drugs	All of these agencies purchase prescription drugs or contract with providers who purchase prescription drugs. Given the high cost of medication, the SPAR could examine implementing bulk purchasing or group discounts.
Commerce, Dept. of Environmental Quality, Dept. of	Greater AZ Development Authority/Water Infrastructure Finance Authority	The 2 agencies operate similar types of programs. The SPAR could research the effectiveness of this type of program.
Health Services, Dept. of Judiciary	Children's Behavioral Health	Both agencies contract for behavioral health services for, at times, similar populations.
Parks Board, Arizona State AZ State Museum in ABOR	Cultural Preservation	Both agencies perform cultural preservation. In some states this function is centralized.
Environmental Quality, Dept. of	Water Quality Assurance Revolving Fund (WQARF)	A.R.S. § 49-282H requires that the WQARF program undergo the PAR process at specified intervals, including 2002. PARs have subsequently been changed to SPARs.

Economic Security, Dept. of  
Health Services, Dept. of  
AHCCCS  
Education, Dept. of  
Juvenile Corrections, Dept. of  
Courts

Children's Delivery  
System

All of these agencies provide case management and other services to children. Because of size of issue SPAR could focus on one particular type of client (e.g., clients who are developmentally disabled, regardless of their other diagnoses.)

Lottery Commission, Arizona State  
Tourism, Dept. of  
AHCCCS  
Health Services, Dept. of  
Administration, Dept. of

Advertising

All of these agencies contract for significant amounts of advertising funds. The SPAR could examine if there are more cost-effective ways of conducting advertising.

Economic Security, Dept. of

DD Home and  
Community Based  
Services

SPAR could focus on finding reasons for significant growth in caseload and expenditures in this program.

**2001-2002 SPAR Topics**  
**Agency Nominations<sup>1/</sup>**

<b><u>Agency</u></b>	<b><u>Program Area</u></b>	<b><u>Description of Program</u></b>
Administration, AZ Dept. of	Travel Reduction	Promotes a reduction in state employees' travel in single occupancy vehicles. There are also travel reduction requirements for the private sector and schools.
Suggested by the Auditor General	Investigators of Civil Enforcement	Numerous commissions and boards have complaint investigators. A SPAR could evaluate whether it would be more efficient to centralize the investigative role similar to the Office of Administrative Hearings.
Suggested by the Auditor General	Aircraft Operations	The Auditor General suggested reviewing the use of state aircraft and other aircraft programs at the Dept of Transportation, Dept. of Public Safety and the Game and Fish Dept.
Corporation Commission	Railroad Safety	Enforces railroad safety relating to track maintenance, equipment safety, and rail-highway crossings. This would be a single program/agency SPAR. Could also include ADOT with regard to rail-highway crossings.
	Corporations Division	Regulates public utilities and the securities industry, grants corporate status, and ensures safe railroads and gas pipelines. Could also include the Secretary of State's Business Services program, which is responsible for corporate filings and trademark registration.
Economic Security, Dept. of	Home & Community Based Services (DACS)	Provides home and community based services such as respite, housekeeping, and attendant care. Could also include home and community based services provided in AHCCCS and DHS.
	Coordinated Homeless Programs	Planning and coordination of community based organizations that provide services to assist the homeless. Could also include DHS behavioral health and housing programs provided by the Regional Behavioral Health Authorities and the Dept. of Commerce housing programs.
Game and Fish Dept., AZ	Game Management	Manages game-wildlife populations by regulating hunting and assessing habitats.
Regents, AZ Board	University Library Operations	Provides library services to the universities.

<sup>1/</sup> Unless otherwise noted, each agency nominated its own programs.

Tax Appeals, State Board of	Appeals process	Provides a process for taxpayers to appeal decisions by the Department of Revenue (DOR) and the Office of Administrative Hearings (OAH). SPAR could also include DOR and OAH.
Transportation, Dept. of	MVD 3 <sup>rd</sup> Party	This would be a single agency SPAR and might include comparing the efficiency of using 3 <sup>rd</sup> Parties vs. doing the activity in-house.
	Highways Administration Traffic Operations	This would be a single agency SPAR and might include comparing the use of technology to relieve traffic congestion vs. building more roads.
Treasurer, State	Credit card usage	Bill passed during the 2000 legislative session allows agencies to accept credit cards. The State Treasurer suggested that a <u>2003-2004</u> SPAR could include the primary agencies that decide to take advantage of the new process.



Attachment C

**Jane Dee Hull**  
**Governor**

**GOVERNOR'S OFFICE OF  
STRATEGIC PLANNING AND BUDGETING**  
1700 West Washington, Suite 500, Phoenix, Arizona 85007  
(602) 542-5381 • FAX: (602) 542-0868

**Thomas Betlach**  
**Director**

October 12, 2000

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



Dear Mr. Stavneak:

Pursuant to A.R.S. 41-1275, the Governor's Office of Strategic Planning and Budgeting is forwarding the following recommendations to your office for the FY 2002 Strategic Program Area Review (SPAR) process. We have arrived at these recommendations as a result of reviewing agency nominations, internally reviewing program area possibilities, and considering your possible SPAR topics advanced at the September 14<sup>th</sup> JLBC meeting.

To summarize our recommendations, the strategic program areas of Prescription Drugs and the Water Quality Assurance Revolving Fund from the JLBC list of *Possible 2001-2002 SPAR Topics* and the Home and Community Based Services program within the Division of Developmental Disabilities of the Department of Economic Security appear to hold the most potential for productive evaluation. Further, the OSPB staff is including comments on the other JLBC-suggested program areas where, based on our opinion, the negatives either balance or outweigh the positives of a self-evaluation. These program areas include: Dept. of Natural Resources, Job Training, County Assistance, Greater AZ Development Authority/Water Infrastructure Finance Authority, Children's Behavioral Health, and Cultural Preservation. Detailed comments follow.



**Potential SPAR Candidates**

**Agency:** AZ Pioneers' Home, Dept. of Veterans' Services, U of A Medical School/Hospital, Dept. of Juvenile Corrections, Arizona Dept. of Corrections, Dept. of Health Services, AHCCCS, Dept. of Economic Security

**Program Area:** Prescription Drugs

**Comments:** All of these agencies purchase prescription drugs or contract with providers who purchase prescription drugs. Given the high cost of medication, the SPAR could examine implementing bulk purchasing or group discounts. Note: This was a JLBC possible SPAR topic.

There are currently three proposals circulating in Congress related to prescription drugs. A prescription drug SPAR would need to track the federal direction so that a state-recommended program is compatible with any federal program or Medicare reform. Several of the agencies targeted for the SPAR serve elderly clients, which is another reason why a wrap-around approach to a surrounding federal program may seem more appropriate.

It is important to note that if Prop 200 and Prop 204 pass, AHCCCS will be trying to bring up expansion programs during the same time they would be required to work on the SPAR. However, the special nature of this target SPAR may not become a significant drain on any of the agencies' resources. Until the formal procedures for this SPAR process are developed and agreed upon, it will not be possible to estimate agency resource requirements.

The scope of the above SPAR may be sufficiently large in nature that it would involve considerable staff resources to complete and, therefore, this SPAR could justifiably stand as a single SPAR for the upcoming year.

---

**Agency:** Dept. of Economic Security (DES), Division of Developmental Disabilities (DDD)

**Program Area:** Home & Community Based Services (HCBS)

**Comments:** The DDD/Long Term Care (LTC) HCBS program has experienced tremendous caseload growth over the last several years (i.e., 10% a year) and with a corresponding increase in expenditures of 5 to 7%. While the LTC program is a federal entitlement, the causes behind the increasing caseload growth have been difficult to identify. While this would constitute only a single program SPAR, the self-evaluation could focus on caseload growth reasons, thus helping the agency, OSPB, and JLBC better explain and forecast future funding requirements. Note: The agency recommended the Division of Aging & Community Services (DACS) HCBS program.

---

**Agency:** Dept. of Environmental Quality

**Program Area:** Water Quality Assurance Revolving Fund (WQARF)

**Comments:** This program was restructured in 1997 by the Legislature. It underwent a performance audit from the Auditor General's Office in 1999. They stated in late November of that year, *"It is too early to determine the full effect of the changes to Arizona's program."* After an additional two years of program performance, FY 2001 may be an appropriate year to now assess performance. In addition, A.R.S. 49-282H requires that the WQARF program fund undergo an evaluation once every five years, beginning in 2002. This A.R.S. citation is based on a statute reference (A.R.S. 35-114) that contained language pertaining to the PAR process. Note: This was a JLBC possible SPAR topic.

---

---

There are other program areas suggested by JLBC staff where the opportunity for return on the self-assessment may be met with varying degrees of success.

### **Second-Tier Candidates**

**Agency:** State Land Dept., Dept. of Mines & Mineral Resource, Dept. of Mines Inspector, and Arizona Geological Survey

**Program Area:** Dept. of Natural Resources

**Comments:** A study of the potential for consolidating the four departments into a single Department of Natural Resources could be a possibility, but the study's scope might benefit from being expanded. OSPB staff performed a quick check of nearby states and found that Utah, Colorado, and Minnesota are organized with one centralized agency. Conversely, New Mexico is organized similarly to Arizona. The centralized models in Utah and Colorado included agencies such as State Parks, Game and Fish, Water Resources, Geological Survey, Land, and Mine Inspector. A centralized department of this scope may be worth exploring.

The Department of Mines and Minerals is focused more on economic development as demonstrated by their mission statement: *"To promote the development of the mineral resources of the state through technical outreach and education. The purpose of this promotion is to encourage economic development in the mining and minerals development industry."* As such, other alternatives may be more appropriate.

As an historical note, this type of centralization has been proposed several times in recent years as part of budget recommendations from the budget offices and has been avidly opposed by Game and Fish upon each occasion.

---

**Agency:** Dept. of Economic Security, Dept. of Education (DOE), Dept. of Commerce, and St. Board of Community Colleges

**Program Area:** Job Training

**Comments:** DES has the Workforce Investment Act (WIA) program and the Jobs program that purchase job training for their clients. These two programs have recently merged into the same administration and are currently working to find more ways to collaborate. The Rehabilitation Services Administration (RSA) purchases similar services, but for a population with special needs.

DOE and the Community Colleges provide training, some of which DES purchases, but not a substantial amount since the DES priority is to find a person a job, not have them spend two to four years in school. OSPB staff contact with DOE staff discovered a favorable reaction to a possible evaluation process. DOE staff believe that there has been a significant change in the federal funding mechanism related to WIA for the various job training programs, which could be utilized to ensure the job training arena is not fragmented or overlapping.

A Program Authorization Review (PAR) was conducted in 1997 of the Department of Education's School to Work program. At that time, *"...employers indicate that the skills of students who complete this program meet or exceed their expectations."* The School to Work PAR encompassed the Vocational Technological Education, Workforce Development Resource Unit, and Single Parents and Displaced Homemakers programs.

Commerce helps to fund job training related to a new or expanding business' workforce.

While these four entities have somewhat different roles in the area of job training, the coordination of training workers, whether it be in the provision of training by DOE or the Community College system or through the purchase of training by DES, to meet the needs of the emerging job market, as known by Commerce, should be the focal point of the SPAR process. After all, offering training or training low-income workers for jobs that do not exist, is not a fiscally sound practice. However, based on limited resources, this program area is not as high a priority as the others referenced above at this time.

---

**Agency:** AHCCCS, Dept. of Health Services, Courts, AZ Criminal Justice Commission, Revenue Sharing, and Dept. of Water Resources

**Program Area:** County Assistance

**Comments:** Normally, consolidating funding is a good idea, if no subjective judgments or evaluations of the outcomes of the funding are required by the group allocating the grants or if the intent of the funding is not too widely divergent. However, this may not be the situation with the given group of agencies.

AHCCCS is unique in its relationship with the counties with regard to county assistance. County funds are used as an offset for the state match for the Acute and Long-Term Care programs. The monies are matched with Federal funds and disbursed to program contractors, who in some cases are the counties themselves.

Additionally, counties do receive AHCCCS-authorized assistance from the state through the Disproportionate Share Hospital (DSH) program, which is distributed based on very complex legal requirements. These funds provide supplementary payments to hospitals serving large numbers of low-income patients. Federal requirements limit the amount of time that can lapse between the time funds are drawn down and paid out. Centralization of these activities with an agency other than the AHCCCS may result in non-compliance with the federal statute.

The Department of Health Services funding addresses local, county health. ADHS has the specific expertise necessary to evaluate whether or not health needs are being met and whether the funds are being expended appropriately. If funds are blended, the value of this specialized oversight may be lost.

No funds from the Department of Revenue are distributed solely to counties. For instance, some sales tax dollars go to counties, but also to cities.

OSPB staff are uncertain as to the JLBC reasoning for the inclusion of the Department of Water Resources to this list.

---

**Agency:** Dept. of Commerce and Dept. of Water Resources

**Program Area:** Greater AZ Development Authority (GADA)/Water Infrastructure Finance Authority (WIFA)

**Comments:** While GADA finances infrastructure projects, including water-related ones, and WIFA finances water-related infrastructure projects, the benefit of an assessment on each Board does not appear to justify any substantial return. In addition, WIFA is funded through the Department of Environmental Quality, not the Department of Water Resources.

---

**Agency:** Dept. of Health Services and Judiciary

**Program Area:** Children's Behavioral Health

**Comments:** Children's Behavioral Health has been studied extensively for a number of years. Consideration of moving DES' Developmental Disability program to ADHS because of shared mental health components has been evaluated more than once. During the past couple of sessions, Rep. Knaperek has had numerous meetings as part of a proposal to consolidate various agencies, and CBH has been a significant part of these discussions. This past summer, policy advisors from the Governor's Office along with department representatives from DES, AHCCCS, and DHS formed a workgroup that has recently drafted recommendations on children's behavioral health issues for CPS kids. Throughout, the ADHS has dedicated significant resources to these studies, inquiries, and workgroups. These efforts in combination with their activities in responding to the JK lawsuit will tax the allocation of resources for a SPAR at this time.

---

**Agency:** Arizona State Parks Board and AZ State Museum in ABOR

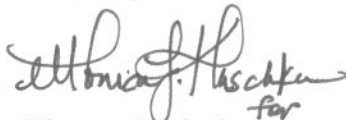
**Program Area:** Cultural Preservation

**Comments:** OSPB staff question any gains in efficiency from centralizing museum operations. However, if this program area receives serious consideration, it might be appropriate to include the Arizona and Prescott Historical Museums and the many historical groups that receive funding from the Arizona Historical Society.

---

Thank you for your attention to this recommendation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Thomas Betlach", with a small "for" written below it.

Thomas Betlach  
Director

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Lynne Smith, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REPORT ON DEFICIENCIES  
CORRECTIONS AND COMPUTER PURCHASES

**Request**

Senator Gnant has invited both the School Facilities Board and Representative Galen Updike to appear before the Committee to provide an update on issues concerning the School Facilities Board. We have invited Representative Updike to discuss the board's process for school computer purchases. We have asked the board to address the following two issues: 1) the board's response to Representative Updike's concerns and 2) the status of the assessment process to evaluate school facility capital needs. This packet does not include any materials on the assessment update issue.

**Recommendation**

This item is for information only and no Committee action is required.

**Background**

Attached is a September 12, 2000 letter to all legislators from Representative Updike (Attachment 1). Also attached is a September 14, 2000 response from the Executive Director of the School Facilities Board (SFB) that was distributed at the last JLBC meeting (Attachment 2). The subject of these letters is the purchase of approximately 36,000 computers for K-12 school districts through the SFB Deficiencies Correction Process.

(Continued)

Representative Updike states that 1) a \$10 million savings figure cited by the SFB is misleading and inaccurate because the SFB compared prices to state contract rather than to the lowest available market prices; 2) the state could have leveraged the computer purchases for better volume discounts; and 3) the SFB should have given districts an incentive to buy the lower-priced computers on state contract, rather than allowing vendors to offer add-ons which may induce districts to choose higher priced computers (up to \$277 cost difference per computer). Attachment 1 provides a full explanation and tables to illustrate these concerns. The letter concludes that the state could have saved an additional \$3 million to \$10 million.

In its response letter to JLBC (Attachment 2), the SFB states that its \$10 million savings figure is correct. Because school districts can only acquire the computers through direct bid, a consortium, or state contract, SFB believes that the cost comparison should be against those sources. Since no district went to bid directly for the same computers and the Mohave Educational Service (consortium) could not offer lower rates, the SFB calculated the savings as the reduction from state contract prices.

RS:LS:ss  
Attachments



GALEN M. UPDIKE  
1700 WEST WASHINGTON  
PHOENIX, ARIZONA 85007-2844  
CAPITOL PHONE: (602) 542-5760  
TOLL FREE: 1-800-352-8404  
CAPITOL FAX: (602) 542-4030  
TDD: (602) 542-6241  
gupdike@azleg.state.az.us



Attachment 1

COMMITTEE:

APPROPRIATIONS

District 29

**Arizona House of Representatives**  
**Phoenix, Arizona 85007**



To: The Honorable Members of the Arizona State Legislature

From: Representative Galen Updike *L. Updike*

Subject: Arizona School Facilities Board Statewide Technology Purchase

Date: 09-12-2000

CC: Governor Jane Dee Hull, Joint Legislative Budget Committee, House and Senate Staff, State Auditor General, State Procurement Dept., School Facilities Board

Dear Fellow Legislators:

You have received at least two, and maybe three communications from Dr. Philip Geiger, Director of the School Facilities Board (SFB) regarding the acquisition of some 30,000 - 50,000 computers. In one of those communications, a nine-page memo dated June 29, and again in the same memo, dated July 25, Dr. Geiger states that he wants to "respond to comments being made" by me, Galen Updike, to other legislators, and "to set the record straight." He goes into great detail to describe the process of the bid and concludes boldly that **\$10 Million** was saved over State Contract prices for these computers.

**Brief Overview of this Memo**

It is my belief that his conclusion regarding savings is misleading and inaccurate. The information and tables included below show that: 1) \$10 Million was not saved when compared to competitive "quantity one" prices from other venues, or with "normal" prices from the Arizona State Contract for Micro Computers; and 2) with the huge number of computers to be purchased, the State could have leveraged the numbers for much better prices.

I am also concerned that computers are being given to School Districts with little concern for thriftiness. With a difference of almost \$300 between the lowest and highest priced computers awarded in this bid, potential savings is great. But Taxpayers' interests have not been protected by any incentive within the distribution process to draw Schools to the lower-priced systems.

Lastly, in his memo to the Legislature, Dr. Geiger's characterizations of my company, CLH, and of myself are inaccurate and unfair. Contrary to Dr. Geiger's assertions, I have no personal interest in any of CLH's dealings with the SFB regarding this bid. I've raised concerns to a few of you because of the great deal of money involved, not because of a personal interest in the outcome.

My reasons for expressing these concerns are long range. By relating the details regarding the "numbers" for this bid, I hope to heighten interest in making specific changes in the process so that fewer taxpayer dollars will be spent when purchases of this scope are made in the future. As to the purchases yet to be made under the current SFB bid, I would hope the SFB and school districts would take whatever action is necessary to optimize taxpayer savings.

The discussion below defines those concerns. Also included below, in an Appendix, are some price tables which take the numbers provided in Dr. Geiger's report to you, restates them for clarification (Table 1), and then compares them to prices derived from other Arizona contracts and from Internet sources (Table 2).

**My Background**

My concern has consistently been about saving taxpayer dollars. I first became aware of the SFB computer bid after the May 24th "Kickoff meeting" for the award of the bid, where details of the acquisition process were fully explained.



Hearing those details, I called some trusted friends in Education. These officials had similar concerns based on their own reports regarding that event. Drawing impetus from their concerns, and after some further inquiries, I began my initial discourse with a few legislators, and subsequently shared my concerns with Dr. Geiger.

In addition to my role as a legislator, I work for CLH International, one of the bidders for the above-mentioned computers. However, since becoming a legislator in early June, my role at CLH has been greatly reduced. Included in Dr. Geiger's memo to the Legislature is mention of a letter from CLH sent to GITA, where it is stated that my activities regarding this dispute are *"...separate from CLH/ACT and do not reflect the position of CLH..."*. The letter also clearly acknowledges that I have had only a peripheral knowledge of CLH's involvement in the SFB Bid. Now, in fact, some of the outcomes I'm pursuing are in conflict with their interests.

While I have no pecuniary interest in the outcome of the SFB bid, I do have specific knowledge and substantial expertise regarding the configurations and pricing that make up the bid. I also have expert knowledge regarding the State Contract for Microcomputers. In the time since becoming aware of the SFB bid on May 24, I have done considerable research, including the background of this bid and many other contracts.

### **Background regarding the SFB Bid - Prior to May24th**

The School Facilities Board documentation regarding this bid is extensive, indicative of the comprehensive planning necessary to acquire 50,000 (now about 35,000) computers for 228 school districts. It is one of the largest single acquisitions of computers in recent memory. Certainly it is the largest Microcomputer acquisition in the history of Arizona education. To place so many computers in such a relatively short time (May 24 to Oct. 15), special handling is required. I am in agreement that using the existing State Contract for Microcomputers (AD990005) was both timely and correct. Selecting multiple vendors and multiple brands of computers was in the State's best interest and necessary to accommodate the disparate needs of the school districts.

Sometime before the RFQ was sent to the vendors, SFB determined that the average computer price for this purchase should be about \$1,000 per system. This expectation was stated in a press release April 24th : "50,000 computers for \$50 Million". Expectations for even lower prices were mentioned in the pre-bid documentation and meetings.

### **Pricing Concerns - Price not commensurate with Quantity**

It cannot be emphasized enough that the SFB bid was for **50,000 computers to be purchased in a relatively short period of time**. Incredible leverage on pricing is available for such situations. As the price submissions were first being analyzed, red flags should have gone up. Though some prices came in lower than the \$1000 expectation (CLH and Transource pricing at \$945 and \$967 respectively), most were markedly higher. The offerings from Dell, Tangent, and Acer should have immediately seemed out of character. The accepted IBM price for the Windows 98 version was \$1169. Compaq's price was \$1173. Tangent pricing was at \$1139. Acer was at \$1184. Dell's offering was the highest accepted price of all systems at \$1221, (See price tables, below) Typically in competitive situations, including the 1998 State Contract bid for Microcomputers, these last three brands come in substantially lower in price than comparable Compaq or IBM models.

If such a rearrangement of competitive positioning were explained by extraordinary prices offered by IBM and Compaq, I wouldn't have been so concerned. But that wasn't the case. My own inquiries after May 24 show IBM and Compaq prices offered in other less competitive venues to be only slightly higher than those offered to the SFB. In my opinion, Dell prices could have been much lower. So could have Acer's prices. Tangent's prices also seemed high, but the point is moot because the Tangent vendor was dropped from both the SFB and State Contract in June.

Searching the Internet reveals numerous examples of education prices near the offered SFB hardware prices. Examples of comparative Compaq prices range from \$1227 to \$1280, including 3-year on-site warranties. But all are QUANTITY ONE prices. Some of these configurations even exceeded SFB's minimum standard for Memory (64MB). That price offset going from 128MB to 64MB (about an \$80 value) covers much of the cost of the SFB software and training add-ons. Yet the SFB bid was for **50,000 systems**. SFB appears to have received only minimal benefits from the massive quantities involved. (See price tables below.)

## About that \$10 MILLION in Savings

"With nearly 30,000 computers allocated to date, we estimate that we have saved more than \$10 million through the statewide contract over standard contract pricing" is the format and text of how SFB reported their conclusions about computer prices to JLBC, on the first page of the report. The total savings figure is derived by multiplying the estimated 30,000 computers by an interpolated average "savings" over Arizona State Contract pricing of about \$300 per computer. The actual unit "savings" (shown in table format in the JLBC report) came from vendor worksheets filled out in early to mid-June.

My initial reaction to the reported savings was **shock**. If the reported "savings" were an accurate reflection of what the State is otherwise paying for certain brands of computers off the State Contract, then one can legitimately say that that Contract needs serious evaluation. For example, in some instances SFB's reported State Contract prices are higher than Manufacturer listed retail prices. Such comparisons do not engender confidence in the State Contract. Fortunately, after some research, it became apparent that the reported SFB "State Contract" prices in question were somewhat exaggerated.

The worksheet used to derive SFB's reported savings is detailed to a fault. But it compared "apples and oranges". The worksheet mixed "formula driven, quantity-one" contract terms with "real world, non-formula, cost-based" discounting terms. A close analysis shows that though the calculations were accurate, they reflected **the maximum allowable costs** each vendor could add to any given system, per each vendor's respective terms and conditions on the State contract. Typically such costs are only used in special non-competitive or quantity-one situations. (For example, the add-on for 3 Year **On-site** Warranty can add many hundreds of dollars per system.) In competitive situations most vendors choose not to use them. In this bid, these and other pricing terms were set aside by SPO for this one-of-a-kind SFB purchase under the State Contract. Vendors were asked to get special prices from manufacturers. It was explained in the Pre-bid meetings that NO precedence would be set for future price expectations from the vendors as a result of this bid. To compare savings from **Quantity-One** pricing formulas, derived from maximum allowable terms, with **Quantity Fifty Thousand** pricing formulas, has no real meaning, unless you just want to justify high prices.

The only truly valid comparison would have been a comparison with a contract of similar size and scope. Absent such a contract of similar scope, the next most valid comparison would be a unit price comparison with other statewide and multi-state (MESC, WSCA) contracts, that are often used by Education and other political subdivisions, and where volume is a key component. No such comparisons were reported, other than a "feel good" anecdotal statement from one vendor.

Based on my own limited comparisons of quantity-one prices in other venues, if there were savings, they were minimal. (See Table 2). Adjusting for the add-ons for such prices gives "apple to apple" comparison opportunities. The highest SFB price for a Win98 Computer is \$1221 and the lowest adjusted price from another co-operative contract commonly used in Arizona for the same model \$1299. Average savings for the SFB item is \$78. SFB savings for other models range up to \$230. The overall average unit savings would then be about \$150 for all models. Multiplying overall average savings by the approximate 30,000+ computers results in a total estimated SFB savings of, at most, \$4.5 Million. This is comparing SFB prices to **Quantity-One** prices available to any Arizona government entity. **The reported \$10 Million in savings is fiction.** (See the Tables below to draw your own conclusions.)

## Quote unfairly attributed to me

Dr. Geiger inaccurately states in his memo the following: *"One vendor, CLH, through one of its representatives, Galen Updike, recommended that every school that purchases ACT computers sold by CLH should get additional funding beyond the price of the computer and beyond the state guidelines in order to encourage the districts to buy the ACT computer at a lower price."* (Geiger memo, page 5, answer to question 3)

At no time have I ever made such a recommendation. First, I don't represent CLH regarding the SFB bid. Second, it would be foolish to be so blatantly self-serving. Such a "recommendation" can only be attributable to me IF a pejorative conclusion as to my motive is "spun" with part of a suggestion that I and others have made regarding incentives for thriftiness. The gist of the suggestion is that school districts choosing to be "given" the lower-priced systems also be rewarded with some upgrade, up to some limit. Different school district representatives aired a couple

of derivations of the suggestion at the May 24 "Kickoff meeting". One wanted to use the maximum price difference between the highest-priced computer and the chosen computer as the limit. Others suggested using some average of the high and low price. That way, thrifty schools choosing the lower-priced computers would not be penalized for their thriftiness, and real hardware value would be received for the dollars spent. It is unfortunate that the recommendation, offered by others and repeated by me on occasion, for the purpose of encouraging schools to be thrifty, has been "spun" into the above misquote.

### **Incentives and Technical Considerations**

In earlier meetings, in written communications, and at the May 24 "Kickoff meeting", GITA personnel repeatedly assured schools that there were no technical differences between computers, and that all awarded computers were equally acceptable. The oft-repeated advice of "you pay for what you get" does not apply here. Higher prices in this case do not mean better computers.

Unfortunately after the award, taxpayers' interest seems to have taken a back seat in the process. Schools with no prior need for a particular brand have an unrestrained choice to receive any system on the list. There was no acknowledgement of a need for an incentive to offset the natural tendency to choose the higher-priced models. In a worst case scenario, if every school district chose the highest priced computers, with a \$300 difference between highest and lowest prices, taxpayers would be asked to spend up to \$10 Million more than is technically necessary. Conversely, up to \$10 Million would be saved if all districts could be persuaded to buy the lower-priced computers.

In my conversation with Dr. Geiger and others, I've repeatedly emphasized that to expect ALL schools to choose the lower-priced computers isn't feasible. Forcing districts into a different brand or into new vendor relationships foreign to their current situations is both bad policy and inappropriate. However, acknowledging the needs of a few districts where brand is an issue doesn't relieve all the other Districts or SFB of their fiduciary responsibilities to spend no more than is necessary. Incentives should have been structured to maximize thriftiness. Even saving an average of \$100 per computer over the entire acquisition would mean that nearly \$3 Million dollars could be saved. \$3 Million equals the entire budget for many State agencies.

Such incentives could be "negative" (Districts must justify their choice of a higher-priced model before reimbursement is approved.) or "positive" (Districts choosing the lower priced systems get an extra \$50 - \$100 reimbursement from SFB to upgrade those systems to a faster CPU, etc.) Incentives could have been carefully constructed to optimize savings. Dr. Geiger's only counter to this suggestion by me and others was that it was not the School Facilities Board's role to "...help a vendor sell computers or to enrich a district beyond the state regulation". To the contrary, encouraging frugality is a core responsibility for the SFB.

Unfortunately, it now appears that many districts have **unnecessarily** chosen to be "given" the higher-priced computers. Even a little incentive, positive or negative, would have counteracted the natural attraction of being "given" a higher-priced computer. With such large numbers at stake, it is irresponsible management not to have tried something.

### **The Problem of Add-ons**

Perhaps to counter some of their high prices, after the bid was awarded, Vendors were allowed to quote their system prices and include free add-ons. Dr. Geiger makes a considerable point regarding these "free" add-ons, saying, *"many of the other contractors and manufacturers offered considerable value added services to the schools ranging from free educational software bundles to free printers, to enhanced features, to free learning labs."*

The word "other" in his quote refers to vendors other than CLH, who Dr. Geiger singles out as not offering many "freebies". Not only does he **not** acknowledge the value of their \$300 lower price, he infers a criticism of that low price by quoting from GITA's Website, a statement made two years earlier. The quote, "Least cost in the case of computers may not always be the best value to the procuring entity" is used to justify SFB's failure to formally encourage Districts to choose the lowest-priced computer.

As it relates to the SFB bid, such a statement is unwarranted. Purportedly, all extraneous "value-add" concerns were equalized before the bid. Every system included a 3-year On-site Warranty, software, turn-key setup at all school

locations, certified quality products and a training credit. The State Contractors selected had already proven their abilities to provide statewide service and one-stop shopping for the products they offer. Singling out and then criticizing CLH for their low price is very unfair and inappropriate.

### **More Unfairness because of "Freebies"**

Finally, it is very inappropriate to create an "auction" environment after a bid of this type is awarded. It has been reported to me that vendors are now being asked by schools for add-ons or premiums above and beyond the contracted for system, before a district will choose their product. The true value of these add-ons is unknown. At best, value is highly subjective. In this environment, a vendor who has already given up significant margin through a lower initial price is at a disadvantage, because under the contract they cannot raise their prices to accommodate for "freebies" now being offered by others. The higher-priced computer vendors have room to submit all kinds of "approved" value-adds. Of course the school districts negotiating for these "freebies" don't pay for anything, and can choose a system without regard to price. But Taxpayers pay. They pay for the computers and the "freebies". Current emphasis on the value-adds or "freebies" has added cost, uncertainty and confusion to the process. It has created a suspicion that maybe even more "freebies" can be wrung out of the vendors. It has also opened the door for more egregious abuses.

To this point, one can legitimately ask the question, "If prices are so low, why is there is room to give away even more product or service?" Before the bid, State Procurement and GITA repeatedly emphasized that the bid prices were to be as low as possible. Now, by saying that vendors are providing "considerable value added services" or product is an admission that initial prices were higher than they should have been. This just supports my original contention regarding those high prices. Red Flags should be going up all over the State about those "freebies".

### **Conclusion**

For all their hard work, SFB could have done a better job in getting lower prices for the volumes involved. Because it was not a formal bid, but was tied to the State Contract for Microcomputers, many procedural freedoms existed for SFB in this particular process.

Though it's certainly apparent that SFB prices provided some savings over State Contract prices, **\$10 Million was not saved**. And when compared with pricing in other competitive venues, savings may have been even less. But we'll never know. Such a comparison of those venues was not done. Most importantly, **my concern was not how much was saved**, but whether or not the SFB and Taxpayers got the lowest prices possible from the Vendors and Manufacturers involved. Taxpayers expect the SFB to provide quality and cost effective solutions to meet the educational needs of Arizona's children.

Other concerns are also raised:

- Why were there no incentives built into the process to encourage School Districts to be frugal?
- Why was the process structured in such a way to give advantage to vendors who could offer more "freebies" instead of lower prices? Is auctioneering after a bid is awarded healthy? Is it legal?
- Why were no comparisons offered to contrast prices from other "venues" or with "Street" price?
- If Dr. Geiger's numbers regarding the State Contract for Microcomputers are correct, does that merit a close price review of that Contract?
- Are the numbers and processes used by SFB to show savings accurate?
- Does SFB have the knowledge and capacity to get the best prices for other large scale purchases?
- How best can vendors be held responsible for their prices?
- To what extent, if any, is legislative review merited?

As a post-mortem on the process, I'm recommending that there be specific inquiry into the issues raised above.



## APPENDIX SHOWING DETAILED PRICE COMPARISONS

There are two types of vendors on the State Contract, Value Added Resellers (VAR's), and Direct Manufacturers (DM's). In their respective State Contracts, computer prices are based on a bid formula or percentage. VAR's have contracted to not price products above a percentage over Manufacturers' invoiced costs (IKON - 7%, CompUSA - 7% & 8%, MicroAge - 7%). DM's must price systems below a minimum discount percentage off their MSRP (CLH-15% off MSRP, Transource-17% off MSRP).

The table below combines each vendors' SFB Price (Column 1) with the SFB Listed Savings (Column 2). The resulting total is the SFB Calculated State Contract Price (Column 3). The next three columns are the respective vendor State Contract authorized prices for the Add-on software, services and training. These values come from the worksheet SFB and GITA required Vendors to complete the first part of June. These values are then deducted from the Calculated SFB State Contract prices to derive an interim Hardware price with a 3-year Onsite Warranty (Column 7). To obtain the "bare" SFB State Contract price, the authorized allowable Vendor warranty price (Column 8) is deducted from the interim Hardware price. The final "adjusted" SFB State Contract Price (Column 9), along with prices in Column 1 and Column 3 can then be compared with non-State Contract prices, shown in Table 2, for selected brands of computers.

**Table 1 - Combined SFB and Derived SFB Computer Prices**

		1) Win 98	2) SFB Listed	3) SFB Calculated	4) SFB Cost	5) Install	6) Asset	7) SFB Calculated	8) SFB 3 yr.	9) NET Calculated
Vendor	Model	SFB Price	Savings	Comparable	Software	& Setup	Training	Hardware	Warranty	Hardware
				State Price				Only Price	Costs	Base Price
CLH	Ovation	\$944.77	\$233.40	\$1,178.17	\$47.39	\$70.00	\$60.00	\$1,000.78	138.04	\$862.74
CompUSA	ACER	\$1,184.16	\$189.83	\$1,373.99	\$47.27	\$89.25	\$60.00	\$1,177.47	138.04	\$1,039.43
IKON	Toshiba V3300D	\$1,161.98	\$263.41	\$1,425.39	\$47.62	\$72.50	\$60.00	\$1,245.27	162.82	\$1,082.45
IKON	IBM PC 300	\$1,169.07	\$579.94	\$1,749.01	\$47.62	\$72.50	\$60.00	\$1,568.89	214.64	\$1,354.25
IKON	HP Vectra P600 EB	\$1,172.55	\$656.45	\$1,829.00	\$47.62	\$72.50	\$60.00	\$1,648.88	215.07	\$1,433.81
IKON	Compaq Deskpro EP 6667+	\$1,173.02	\$965.10	\$2,138.12	\$47.62	\$72.50	\$60.00	\$1,958.00	255.39	\$1,702.61
Inacom	Tangent (Now Off Bid)	\$1,139.18	\$266.56	\$1,405.74	\$47.39	\$81.00	\$60.00	\$1,217.35	35.37	\$1,181.98
MicroAge	Dell Optiplex GX110 L	\$1,221.40	\$661.01	\$1,882.41	\$47.39	\$81.00	\$60.00	\$1,694.02	232.03	\$1,461.99
Transource	Mirage EP 600	\$966.62	\$478.00	\$1,444.62	\$47.15	\$25.00	\$60.00	\$1,312.47	140.64	\$1,171.83
Transource	Mirage P 650	\$998.62	\$521.00	\$1,519.62	\$47.15	\$25.00	\$60.00	\$1,387.47	148.70	\$1,238.77

### NO \$10 Million in Savings over alleged State Contract Prices.

The final SFB bid prices are as much as 35-45% below SFB's derived State Contract pricing (Dell and Compaq respectively). One particular example (Compaq) shows an alleged SFB savings of \$965.10 per system. If that discounted "savings" amount is added back to the SFP bid price for that model (\$1,173) one sees the alleged current calculated State Contract price for that model would to be \$2,138 (price column 3).

Compaq's retail price (quantity one) from their Website is \$1,668, including a 3 year on-site Warranty. Adding the service and training total of \$157 (sum of Columns 4,5,6) results in a RETAIL comparison price of \$1825, which is about 20% **below** IKON's reported SFB State Contract price of \$2,138. Certainly a State Contract Price should not be higher than a Manufacturer's retail price. Nor is it.

IKON's own website shows their current State Contract quantity-one price for a Compaq EP667 and Monitor to be \$1,549. Add the Service and Training add-ons (\$157) to this price and the total comes to \$1706, again substantially below the \$2138 IKON calculated in their SFB savings worksheet, from which Dr. Geiger takes his numbers. Thankfully, it is also below Compaq's Website price. The lowest price I have seen for a comparable Compaq system in a State Contract context is \$1,390 (a competitive quote situation) including 3 year on-site Warranty. Add \$157 for the SFB additional services, and this resulting State Contract price is \$1,547, almost \$600 below the reported SFB State Contract prices.

A comparison between the SFB "State Contract price (Column 3) and Dell's website price is just as instructive. Dell's web price is \$1365 including a 3Year Warranty. **Any person in the world can buy at that price.** Adding the service and training component of \$132 (Columns 4,5,6) gives a price of \$1,497. Unless MicroAge is blatantly misrepresenting its prices from Dell, this is far below the \$1,882 reported as being MicroAge's State Contract price for this item.

Let me repeat. The alleged State Contract prices as reported per Dr. Geiger's justification Worksheet are tremendously high. The prices do not stand up under scrutiny. Nor are they an accurate reflection of today's competitive environments, not compared to examples from State Contractor Web-Sites, or directly from Manufacturers' Web-Sites.

### Prices for SFB could have been better

An example from Dell illustrates the point. Dell is provided through MicroAge. SFB reported the Dell State Contract price to be \$1,450. (Per their State contract, MicroAge's reported cost for this item is \$1,355). Add the required add-ons and on-site 3-year Warranty and the price goes to \$1882. For the SFB contract MicroAge bid \$1221 (including all add-ons), seemingly a sizable discount.

However, that same system is available from Dell via the WSCA contract, May 25 at \$1168, including a 3-year on-site warranty. For comparison, add the quoted add-on price of \$131.46 to the WSCA **quantity one** contract pricing for Dell results in a potential Dell price of about \$1299, **quantity one price (not quantity 50,000)**. (bold added for emphasis)

A contemporary Dell price to the University of Arizona for a similarly configured computer was priced at \$1,250 just a little higher than WSCA prices. Prices quoted to UofA were via the State Contract and were for 11 systems.

Dell's price via their Website for this product is currently \$1,365, also including a 3 year on-site Warranty (versus the SFB bid for 50,000 at \$1,221). To be fair, one should deduct the \$60 for ASSET training, which the vendor doesn't keep, and the \$41 cost of two software licenses, leaving a net comparable SFB price of \$1,120. To be really fair, one has to consider shipping and setup, (not high cost item when bidding quantities) which are also included in that price. But not including shipping and set up, Dell only provided 18% off their website retail price (\$1120/\$1365), for a 50,000 unit computer bid.

Numerous other Website based contracts were looked at regarding Dell, IBM, and Compaq prices. They are also included in the Table below.

**Table 2**  
**COMPARISONS OF SFB PRICES (without ADDONS) to Competitive Prices from Other Govt. Based Bids**

		3) SFB Derived	7) SFB Calculated	9) SFB Derived	Compar- ative	Selected Comparative Prices 3 yr. Onsite Warranty					
		State Contract Price	State Contract Price	State Contract Price	Vendor Website or Bid	Manu- Factory's Website	Prices in In BOLD ADD		2ndRow include -ONS**		
Vendor	Model	With all Addons	w/o any Addons	w/o Warranty	Qty 1 AD990005	Qty 1 w/ 3 Yr Warranty					
CLH	Ovation	<b>\$1,178.17</b>	\$1,000.78	\$862.74	\$1,025						
CompUSA	ACER	<b>\$1,373.99</b>	\$1,177.47	\$1,039.43	\$1,175						
IKON	Toshiba V3300D	<b>\$1,425.39</b>	\$1,245.27	\$1,082.45							
IKON	IBM PC 300	<b>\$1,749.01</b>	\$1,568.89	\$1,354.25	\$1,653	\$1,383			\$1,242 <b>\$1,399**</b>		
IKON	HP Vectra P600	<b>\$1,829.00</b>	\$1,648.88	\$1,433.81							
									Daly-128mb 10gb p11667		
IKON	Compaq Deskpro EP 6667+	<b>\$2,138.12</b>	\$1,958.00	\$1,702.61	\$1,549	\$1,668			\$1,227. <b>\$1,384**</b>		
Inacom	Tangent (Now off Bid)	<b>\$1,405.74</b>	\$1,217.35	\$1,181.98							
					UofA Bid Qty 11	Dell Website	AZ State WSCA	MU	Loyola NT 128mb 10gb	MSU-128 10gb	Colonial- 15gb, 128
MicroAge	Dell Optiplex GX110 L	<b>\$1,882.41</b>	\$1,694.02	\$1,461.99	\$1,250 <b>\$1,382</b>	\$1,365	\$1,168 <b>\$1,299</b>	\$1,280 <b>\$1,411</b>	\$1,348 <b>\$1,479</b>	\$1,223 <b>\$1354</b>	\$1,195 <b>\$1,326</b>
Transource	Mirage EP 600	<b>\$1,444.62</b>	\$1,312.47	\$1,171.83	\$1,073						
Transource	Mirage P 650	<b>\$1,519.62</b>	\$1,387.47	\$1,238.77	\$1,128						

**\*\* (Note: Prices in Table 1 - Column 5 are soft costs and range substantially from Vendor to Vendor. The State Contract price for "install and setup" is not a true reflection of what actual unit costs for those items would be in a bid for 50,000 computers. Comparisons with other venue's prices need to be adjusted accordingly)**



---

STATE OF ARIZONA SCHOOL FACILITIES BOARD  
INTEROFFICE MEMORANDUM

---

TO: JOINT LEGISLATIVE BUDGET COMMITTEE  
FROM: DR. PHILIP E. GEIGER, EXECUTIVE DIRECTOR  
SUBJECT: STATEWIDE COMPUTER PURCHASE  
DATE: 9/14/00  
CC: SCHOOL FACILITIES BOARD MEMBERS, MEMBERS OF THE ARIZONA STATE  
LEGISLATURE, GOVERNOR JANE DEE HULL

---

Several months ago, The State of Arizona School Facilities Board decided to utilize the statewide computer bid prepared by State Procurement and the Government Information Technology Agency to expedite the purchase of 30,000-50,000 computers to remedy the technology deficiency for all of Arizona's public schools. We knew that procuring the computers on a statewide basis rather than each district trying to bid these computers would save the state money, assure quality purchases, provide necessary training and software, provide three-year on-site warranty, and assure set-up and removal of all packaging. We estimated the savings to be \$10 million based on 50,000 computers being purchased, or about 20% less than the price available through State Procurement.

Since the school districts only have three choices by which to acquire their goods and services: direct bid, purchase through a consortium, or State Procurement, our comparison of costs can realistically only be through one of those sources. No district bid the same computers or received a better price for the same configuration. Mohave Educational Services stated in a June 12<sup>th</sup> letter that they could not "beat" these prices. Our comparison for the purpose of demonstrating savings comes from a comparison of prices under the School Facilities Board statewide purchase vs. the State Procurement bid from which all other state agencies purchase their computers. Even though we are buying only 36,074 computers, our estimate of \$10 million savings stands.

Would there be greater savings if school districts did not have to follow state procurement rules? Perhaps. However, until the state legislature exempts schools from following procurement rules, our best estimate is that we will save \$10 million by purchasing computers through a statewide education contract instead of purchasing through one of the other methods noted above.

GALEN M. UPDIKE  
1700 WEST WASHINGTON  
PHOENIX, ARIZONA 85007-2844  
CAPITOL PHONE: (602) 542-5760  
TOLL FREE: 1-800-352-8404  
CAPITOL FAX: (602) 542-4030  
TDD: (602) 542-6241  
gupdike@azleg.state.az.us

Attachment 1  
COMMITTEE:  
  
APPROPRIATIONS

District 29

To: The Honorable Members of the Arizona State Legislature  
From: Representative Galen Updike  
Subject: Arizona School Facilities Board Statewide Technology Purchase  
Date: 09-12-2000  
CC: Governor Jane Dee Hull, Joint Legislative Budget Committee, House and Senate Staff, State Auditor General, State Procurement Dept., School Facilities Board

---

Dear Fellow Legislators:

You have received at least two, and maybe three communications from Dr. Philip Geiger, Director of the School Facilities Board (SFB) regarding the acquisition of some 30,000 - 50,000 computers. In one of those communications, a nine-page memo dated June 29, and again in the same memo, dated July 25, Dr. Geiger states that he wants to "respond to comments being made" by me, Galen Updike, to other legislators, and "to set the record straight." He goes into great detail to describe the process of the bid and concludes boldly that **\$10 Million** was saved over State Contract prices for these computers.

### **Brief Overview of this Memo**

It is my belief that his conclusion regarding savings is misleading and inaccurate. The information and tables included below show that: 1) \$10 Million was not saved when compared to competitive "quantity one" prices from other venues, or with "normal" prices from the Arizona State Contract for Micro Computers; and 2) with the huge number of computers to be purchased, the State could have leveraged the numbers for much better prices.

I am also concerned that computers are being given to School Districts with little concern for thriftiness. With a difference of almost \$300 between the lowest and highest priced computers awarded in this bid, potential savings is great. But Taxpayers' interests have not been protected by any incentive within the distribution process to draw Schools to the lower-priced systems.

Lastly, in his memo to the Legislature, Dr. Geiger's characterizations of my company, CLH, and of myself are inaccurate and unfair. Contrary to Dr. Geiger's assertions, I have no personal interest in any of CLH's dealings with the SFB regarding this bid. I've raised concerns to a few of you because of the great deal of money involved, not because of a personal interest in the outcome.

My reasons for expressing these concerns are long range. By relating the details regarding the "numbers" for this bid, I hope to heighten interest in making specific changes in the process so that fewer taxpayer dollars will be spent when purchases of this scope are made in the future. As to the purchases yet to be made under the current SFB bid, I would hope the SFB and school districts would take whatever action is necessary to optimize taxpayer savings.

The discussion below defines those concerns. Also included below, in an Appendix, are some price tables which take the numbers provided in Dr. Geiger's report to you, restates them for clarification (Table 1), and then compares them to prices derived from other Arizona contracts and from Internet sources (Table 2).

### **My Background**

My concern has consistently been about saving taxpayer dollars. I first became aware of the SFB computer bid after the May 24th "Kickoff meeting" for the award of the bid, where details of the acquisition process were fully explained.



Hearing those details, I called some trusted friends in Education. These officials had similar concerns based on their own reports regarding that event. Drawing impetus from their concerns, and after some further inquiries, I began my initial discourse with a few legislators, and subsequently shared my concerns with Dr. Geiger.

In addition to my role as a legislator, I work for CLH International, one of the bidders for the above-mentioned computers. However, since becoming a legislator in early June, my role at CLH has been greatly reduced. Included in Dr. Geiger's memo to the Legislature is mention of a letter from CLH sent to GITA, where it is stated that my activities regarding this dispute are *"...separate from CLH/ACT and do not reflect the position of CLH..."*. The letter also clearly acknowledges that I have had only a peripheral knowledge of CLH's involvement in the SFB Bid. Now, in fact, some of the outcomes I'm pursuing are in conflict with their interests.

While I have no pecuniary interest in the outcome of the SFB bid, I do have specific knowledge and substantial expertise regarding the configurations and pricing that make up the bid. I also have expert knowledge regarding the State Contract for Microcomputers. In the time since becoming aware of the SFB bid on May 24, I have done considerable research, including the background of this bid and many other contracts.

### **Background regarding the SFB Bid - Prior to May24th**

The School Facilities Board documentation regarding this bid is extensive, indicative of the comprehensive planning necessary to acquire 50,000 (now about 35,000) computers for 228 school districts. It is one of the largest single acquisitions of computers in recent memory. Certainly it is the largest Microcomputer acquisition in the history of Arizona education. To place so many computers in such a relatively short time (May 24 to Oct. 15), special handling is required. I am in agreement that using the existing State Contract for Microcomputers (AD990005) was both timely and correct. Selecting multiple vendors and multiple brands of computers was in the State's best interest and necessary to accommodate the disparate needs of the school districts.

Sometime before the RFQ was sent to the vendors, SFB determined that the average computer price for this purchase should be about \$1,000 per system. This expectation was stated in a press release April 24th : "50,000 computers for \$50 Million". Expectations for even lower prices were mentioned in the pre-bid documentation and meetings.

### **Pricing Concerns - Price not commensurate with Quantity**

It cannot be emphasized enough that the SFB bid was for **50,000 computers to be purchased in a relatively short period of time**. Incredible leverage on pricing is available for such situations. As the price submissions were first being analyzed, red flags should have gone up. Though some prices came in lower than the \$1000 expectation (CLH and Transource pricing at \$945 and \$967 respectively), most were markedly higher. The offerings from Dell, Tangent, and Acer should have immediately seemed out of character. The accepted IBM price for the Windows 98 version was \$1169. Compaq's price was \$1173. Tangent pricing was at \$1139. Acer was at \$1184. Dell's offering was the highest accepted price of all systems at \$1221, (See price tables, below) Typically in competitive situations, including the 1998 State Contract bid for Microcomputers, these last three brands come in substantially lower in price than comparable Compaq or IBM models.

If such a rearrangement of competitive positioning were explained by extraordinary prices offered by IBM and Compaq, I wouldn't have been so concerned. But that wasn't the case. My own inquiries after May 24 show IBM and Compaq prices offered in other less competitive venues to be only slightly higher than those offered to the SFB. In my opinion, Dell prices could have been much lower. So could have Acer's prices. Tangent's prices also seemed high, but the point is moot because the Tangent vendor was dropped from both the SFB and State Contract in June.

Searching the Internet reveals numerous examples of education prices near the offered SFB hardware prices. Examples of comparative Compaq prices range from \$1227 to \$1280, including 3-year on-site warranties. But all are QUANTITY ONE prices. Some of these configurations even exceeded SFB's minimum standard for Memory (64MB). That price offset going from 128MB to 64MB (about an \$80 value) covers much of the cost of the SFB software and training add-ons. Yet the SFB bid was for **50,000 systems**. SFB appears to have received only minimal

benefits from the massive quantities involved. (See price tables below.)

### About that \$10 MILLION in Savings

**"With nearly 30,000 computers allocated to date, we estimate that we have saved more than \$10 million through the statewide contract over standard contract pricing"** is the format and text of how SFB reported their conclusions about computer prices to JLBC, on the first page of the report. The total savings figure is derived by multiplying the estimated 30,000 computers by an interpolated average "savings" over Arizona State Contract pricing of about \$300 per computer. The actual unit "savings" (shown in table format in the JLBC report) came from vendor worksheets filled out in early to mid-June.

My initial reaction to the reported savings was **shock**. If the reported "savings" were an accurate reflection of what the State is otherwise paying for certain brands of computers off the State Contract, then one can legitimately say that that Contract needs serious evaluation. For example, in some instances SFB's reported State Contract prices are higher than Manufacturer listed retail prices. Such comparisons do not engender confidence in the State Contract. Fortunately, after some research, it became apparent that the reported SFB "State Contract" prices in question were somewhat exaggerated.

The worksheet used to derive SFB's reported savings is detailed to a fault. But it compared "apples and oranges". The worksheet mixed "formula driven, quantity-one" contract terms with "real world, non-formula, cost-based" discounting terms. A close analysis shows that though the calculations were accurate, they reflected **the maximum allowable costs** each vendor could add to any given system, per each vendor's respective terms and conditions on the State contract. Typically such costs are only used in special non-competitive or quantity-one situations. (For example, the add-on for 3 Year **On-site** Warranty can add many hundreds of dollars per system.) In competitive situations most vendors choose not to use them. In this bid, these and other pricing terms were set aside by SPO for this one-of-a-kind SFB purchase under the State Contract. Vendors were asked to get special prices from manufacturers. It was explained in the Pre-bid meetings that NO precedence would be set for future price expectations from the vendors as a result of this bid. To compare savings from **Quantity-One** pricing formulas, derived from maximum allowable terms, with **Quantity Fifty Thousand** pricing formulas, has no real meaning, unless you just want to justify high prices.

The only truly valid comparison would have been a comparison with a contract of similar size and scope. Absent such a contract of similar scope, the next most valid comparison would be a unit price comparison with other statewide and multi-state (MESC, WSCA) contracts, that are often used by Education and other political subdivisions, and where volume is a key component. No such comparisons were reported, other than a "feel good" anecdotal statement from one vendor.

Based on my own limited comparisons of quantity-one prices in other venues, if there were savings, they were minimal. (See Table 2). Adjusting for the add-ons for such prices gives "apple to apple" comparison opportunities. The highest SFB price for a Win98 Computer is \$1221 and the lowest adjusted price from another co-operative contract commonly used in Arizona for the same model \$1299. Average savings for the SFB item is \$78. SFB savings for other models range up to \$230. The overall average unit savings would then be about \$150 for all models. Multiplying overall average savings by the approximate 30,000+ computers results in a total estimated SFB savings of, at most, \$4.5 Million. This is comparing SFB prices to **Quantity-One** prices available to any Arizona government entity. **The reported \$10 Million in savings is fiction.** (See the Tables below to draw your own conclusions.)

### Quote unfairly attributed to me

Dr. Geiger inaccurately states in his memo the following: *"One vendor, CLH, through one of its representatives, Galen Updike, recommended that every school that purchases ACT computers sold by CLH should get additional funding beyond the price of the computer and beyond the state guidelines in order to encourage the districts to buy the ACT computer at a lower price."* (Geiger memo, page 5, answer to question 3)

At no time have I ever made such a recommendation. First, I don't represent CLH regarding the SFB bid. Second, it would be foolish to be so blatantly self-serving. Such a "recommendation" can only be attributable to me IF a pejorative

conclusion as to my motive is "spun" with part of a suggestion that I and others have made regarding incentives for thriftiness. The gist of the suggestion is that school districts choosing to be "given" the lower-priced systems also be rewarded with some upgrade, up to some limit. Different school district representatives aired a couple of derivations of the suggestion at the May 24 "Kickoff meeting". One wanted to use the maximum price difference between the highest-priced computer and the chosen computer as the limit. Others suggested using some average of the high and low price. That way, thrifty schools choosing the lower-priced computers would not be penalized for their thriftiness, and real hardware value would be received for the dollars spent. It is unfortunate that the recommendation, offered by others and repeated by me on occasion, for the purpose of encouraging schools to be thrifty, has been "spun" into the above misquote.

### **Incentives and Technical Considerations**

In earlier meetings, in written communications, and at the May 24 "Kickoff meeting", GITA personnel repeatedly assured schools that there were no technical differences between computers, and that all awarded computers were equally acceptable. The oft-repeated advice of "you pay for what you get" does not apply here. Higher prices in this case do not mean better computers.

Unfortunately after the award, taxpayers' interest seems to have taken a back seat in the process. Schools with no prior need for a particular brand have an unrestrained choice to receive any system on the list. There was no acknowledgement of a need for an incentive to offset the natural tendency to choose the higher-priced models. In a worst case scenario, if every school district chose the highest priced computers, with a \$300 difference between highest and lowest prices, taxpayers would be asked to spend up to \$10 Million more than is technically necessary. Conversely, up to \$10 Million would be saved if all districts could be persuaded to buy the lower-priced computers.

In my conversation with Dr. Geiger and others, I've repeatedly emphasized that to expect ALL schools to choose the lower-priced computers isn't feasible. Forcing districts into a different brand or into new vendor relationships foreign to their current situations is both bad policy and inappropriate. However, acknowledging the needs of a few districts where brand **is** an issue doesn't relieve all the other Districts or SFB of their fiduciary responsibilities to spend no more than is necessary. Incentives should have been structured to maximize thriftiness. Even saving an average of \$100 per computer over the entire acquisition would mean that nearly \$3 Million dollars could be saved. \$3 Million equals the entire budget for many State agencies.

Such incentives could be "negative" (Districts must justify their choice of a higher-priced model before reimbursement is approved.) or "positive" (Districts choosing the lower priced systems get an extra \$50 - \$100 reimbursement from SFB to upgrade those systems to a faster CPU, etc.) Incentives could have been carefully constructed to optimize savings. Dr. Geiger's only counter to this suggestion by me and others was that it was not the School Facilities Board's role to "...help a vendor sell computers or to enrich a district beyond the state regulation". To the contrary, encouraging frugality is a core responsibility for the SFB.

Unfortunately, it now appears that many districts have **unnecessarily** chosen to be "given" the higher-priced computers. Even a little incentive, positive or negative, would have counteracted the natural attraction of being "given" a higher-priced computer. With such large numbers at stake, it is irresponsible management not to have tried something.

### **The Problem of Add-ons**

Perhaps to counter some of their high prices, after the bid was awarded, Vendors were allowed to quote their system prices and include free add-ons. Dr. Geiger makes a considerable point regarding these "free" add-ons, saying, *"many of the other contractors and manufacturers offered considerable value added services to the schools ranging from free educational software bundles to free printers, to enhanced features, to free learning labs."*

The word "other" in his quote refers to vendors other than CLH, who Dr. Geiger singles out as not offering many "freebies". Not only does he **not** acknowledge the value of their \$300 lower price, he infers a criticism of that low price by quoting from GITA's Website, a statement made two years earlier. The quote, "Least cost in the case of computers

may not always be the best value to the procuring entity" is used to justify SFB's failure to formally encourage Districts to choose the lowest-priced computer.

As it relates to the SFB bid, such a statement is unwarranted. Purportedly, all extraneous "value-add" concerns were equalized before the bid. Every system included a 3-year On-site Warranty, software, turn-key setup at all school locations, certified quality products and a training credit. The State Contractors selected had already proven their abilities to provide statewide service and one-stop shopping for the products they offer. Singling out and then criticizing CLH for their low price is very unfair and inappropriate.

### **More Unfairness because of "Freebies"**

Finally, it is very inappropriate to create an "auction" environment after a bid of this type is awarded. It has been reported to me that vendors are now being asked by schools for add-ons or premiums above and beyond the contracted for system, before a district will choose their product. The true value of these add-ons is unknown. At best, value is highly subjective. In this environment, a vendor who has already given up significant margin through a lower initial price is at a disadvantage, because under the contract they cannot raise their prices to accommodate for "freebies" now being offered by others. The higher-priced computer vendors have room to submit all kinds of "approved" value-adds. Of course the school districts negotiating for these "freebies" don't pay for anything, and can choose a system without regard to price. But Taxpayers pay. They pay for the computers and the "freebies". Current emphasis on the value-adds or "freebies" has added cost, uncertainty and confusion to the process. It has created a suspicion that maybe even more "freebies" can be wrung out of the vendors. It has also opened the door for more egregious abuses.

To this point, one can legitimately ask the question, "If prices are so low, why is there is room to give away even more product or service?" Before the bid, State Procurement and GITA repeatedly emphasized that the bid prices were to be as low as possible. Now, by saying that vendors are providing "considerable value added services" or product is an admission that initial prices were higher than they should have been. This just supports my original contention regarding those high prices. Red Flags should be going up all over the State about those "freebies".

### **Conclusion**

For all their hard work, SFB could have done a better job in getting lower prices for the volumes involved. Because it was not a formal bid, but was tied to the State Contract for Microcomputers, many procedural freedoms existed for SFB in this particular process.

Though it's certainly apparent that SFB prices provided some savings over State Contract prices, **\$10 Million was not saved**. And when compared with pricing in other competitive venues, savings may have been even less. But we'll never know. Such a comparison of those venues was not done. Most importantly, **my concern was not how much was saved**, but whether or not the SFB and Taxpayers got the lowest prices possible from the Vendors and Manufacturers involved. Taxpayers expect the SFB to provide quality and cost effective solutions to meet the educational needs of Arizona's children.

Other concerns are also raised:

- Why were there no incentives built into the process to encourage School Districts to be frugal?
- Why was the process structured in such a way to give advantage to vendors who could offer more "freebies" instead of lower prices? Is auctioneering after a bid is awarded healthy? Is it legal?
- Why were no comparisons offered to contrast prices from other "venues" or with "Street" price?
- If Dr. Geiger's numbers regarding the State Contract for Microcomputers are correct, does that merit a close price review of that Contract?
- Are the numbers and processes used by SFB to show savings accurate?
- Does SFB have the knowledge and capacity to get the best prices for other large scale purchases?
- How best can vendors be held responsible for their prices?
- To what extent, if any, is legislative review merited?

As a post-mortem on the process, I'm recommending that there be specific inquiry into the issues raised above.

### APPENDIX SHOWING DETAILED PRICE COMPARISONS

There are two types of vendors on the State Contract, Value Added Resellers (VAR's), and Direct Manufacturers (DM's). In their respective State Contracts, computer prices are based on a bid formula or percentage. VAR's have contracted to not price products above a percentage over Manufacturers' invoiced costs (IKON - 7%, CompUSA - 7% & 8%, MicroAge - 7%). DM's must price systems below a minimum discount percentage off their MSRP (CLH-15% off MSRP, Transource-17% off MSRP).

The table below combines each vendors' SFB Price (Column 1) with the SFB Listed Savings (Column 2). The resulting total is the SFB Calculated State Contract Price (Column 3). The next three columns are the respective vendor State Contract authorized prices for the Add-on software, services and training. These values come from the worksheet SFB and GITA required Vendors to complete the first part of June. These values are then deducted from the Calculated SFB State Contract prices to derive an interim Hardware price with a 3-year Onsite Warranty (Column 7). To obtain the "bare" SFB State Contract price, the authorized allowable Vendor warranty price (Column 8) is deducted from the interim Hardware price. The final "adjusted" SFB State Contract Price (Column 9), along with prices in Column 1 and Column 3 can then be compared with non-State Contract prices, shown in Table 2, for selected brands of computers.

**Table 1 - Combined SFB and Derived SFB Computer Prices**

		1) Win 98	2) SFB Listed	3) SFB Calculated	4) SFB Cost	5) Install	6) Asset	7) SFB Calculated	8) SFB 3 yr.	9) NET Calculated
<b>Vendor</b>	<b>Model</b>	<b>SFB Price</b>	<b>Savings</b>	<b>Comparable State Price</b>	<b>Software</b>	<b>&amp; Setup</b>	<b>Training</b>	<b>Hardware</b>	<b>Warranty</b>	<b>Hardware</b>
								<b>Only Price</b>	<b>Costs</b>	<b>Base Price</b>
CLH	Ovation	<b>\$944.77</b>	\$233.40	<b>\$1,178.17</b>	\$47.39	\$70.00	\$60.00	<b>\$1,000.78</b>	138.04	<b>\$862.74</b>
CompUSA	ACER	<b>\$1,184.16</b>	\$189.83	<b>\$1,373.99</b>	\$47.27	\$89.25	\$60.00	<b>\$1,177.47</b>	138.04	<b>\$1,039.43</b>
IKON	Toshiba V3300D	<b>\$1,161.98</b>	\$263.41	<b>\$1,425.39</b>	\$47.62	\$72.50	\$60.00	<b>\$1,245.27</b>	162.82	<b>\$1,082.45</b>
IKON	IBM PC 300	<b>\$1,169.07</b>	\$579.94	<b>\$1,749.01</b>	\$47.62	\$72.50	\$60.00	<b>\$1,568.89</b>	214.64	<b>\$1,354.25</b>
IKON	HP Vectra P600 EB	<b>\$1,172.55</b>	\$656.45	<b>\$1,829.00</b>	\$47.62	\$72.50	\$60.00	<b>\$1,648.88</b>	215.07	<b>\$1,433.81</b>
IKON	Compaq Deskpro EP 6667+	<b>\$1,173.02</b>	\$965.10	<b>\$2,138.12</b>	\$47.62	\$72.50	\$60.00	<b>\$1,958.00</b>	255.39	<b>\$1,702.61</b>
Inacom	Tangent (Now Off Bid)	<b>\$1,139.18</b>	\$266.56	<b>\$1,405.74</b>	\$47.39	\$81.00	\$60.00	<b>\$1,217.35</b>	35.37	<b>\$1,181.98</b>
MicroAge	Dell Optiplex GX110 L	<b>\$1,221.40</b>	\$661.01	<b>\$1,882.41</b>	\$47.39	\$81.00	\$60.00	<b>\$1,694.02</b>	232.03	<b>\$1,461.99</b>
Transource	Mirage EP 600	<b>\$966.62</b>	\$478.00	<b>\$1,444.62</b>	\$47.15	\$25.00	\$60.00	<b>\$1,312.47</b>	140.64	<b>\$1,171.83</b>
Transource	Mirage P 650	<b>\$998.62</b>	\$521.00	<b>\$1,519.62</b>	\$47.15	\$25.00	\$60.00	<b>\$1,387.47</b>	148.70	<b>\$1,238.77</b>

#### **NO \$10 Million in Savings over alleged State Contract Prices.**

The final SFB bid prices are as much as 35-45% below SFB's derived State Contract pricing (Dell and Compaq respectively). One particular example (Compaq) shows an alleged SFB savings of \$965.10 per system. If that discounted "savings" amount is added back to the SFP bid price for that model (\$1,173) one sees the alleged current calculated State Contract price for that model would be \$2,138 (price column 3).

Compaq's retail price (quantity one) from their Website is \$1,668, including a 3 year on-site Warranty. Adding the service and training total of \$157 (sum of Columns 4,5,6) results in a RETAIL comparison price of \$1825, which is about 20% **below** IKON's reported SFB State Contract price of \$2,138. Certainly a State Contract Price should not be higher than a Manufacturer's retail price. Nor is it.

IKON's own website shows their current State Contract quantity-one price for a Compaq EP667 and Monitor to be \$1,549. Add the Service and Training add-ons (\$157) to this price and the total comes to \$1706, again substantially below the \$2138 IKON calculated in their SFB savings worksheet, from which Dr. Geiger takes his numbers. Thankfully, it is also below Compaq's Website price. The lowest price I have seen for a comparable Compaq system in a State Contract context is \$1,390 (a competitive quote situation) including 3 year on-site Warranty. Add \$157 for the SFB additional services, and this resulting State Contract price is \$1,547, almost \$600 below the reported SFB State Contract prices.

A comparison between the SFB "State Contract price (Column 3) and Dell's website price is just as instructive. Dell's web price is \$1365 including a 3Year Warranty. **Any person in the world can buy at that price.** Adding the service and

training component of \$132 (Columns 4,5,6) gives a price of \$1,497. Unless MicroAge is blatantly misrepresenting its prices from Dell, this is far below the \$1,882 reported as being MicroAge's State Contract price for this item.

Let me repeat. The alleged State Contract prices as reported per Dr. Geiger's justification Worksheet are tremendously high. The prices do not stand up under scrutiny. Nor are they an accurate reflection of today's competitive environments, not compared to examples from State Contractor Web-Sites, or directly from Manufacturers' Web-Sites.

### Prices for SFB could have been better

An example from Dell illustrates the point. Dell is provided through MicroAge. SFB reported the Dell State Contract price to be \$1,450. (Per their State contract, MicroAge's reported cost for this item is \$1,355). Add the required add-ons and on-site 3-year Warranty and the price goes to \$1882. For the SFB contract MicroAge bid \$1221 (including all add-ons), seemingly a sizable discount.

However, that same system is available from Dell via the WSCA contract, May 25 at \$1168, including a 3-year on-site warranty. For comparison, add the quoted add-on price of \$131.46 to the WSCA **quantity one** contract pricing for Dell results in a potential Dell price of about \$1299, **quantity one price (not quantity 50,000)**. (bold added for emphasis)

A contemporary Dell price to the University of Arizona for a similarly configured computer was priced at \$1,250 just a little higher than WSCA prices. Prices quoted to UofA were via the State Contract and were for 11 systems.

Dell's price via their Website for this product is currently \$1,365, also including a 3 year on-site Warranty (versus the SFB bid for 50,000 at \$1,221). To be fair, one should deduct the \$60 for ASSET training, which the vendor doesn't keep, and the \$41 cost of two software licenses, leaving a net comparable SFB price of \$1,120. To be really fair, one has to consider shipping and setup, (not high cost item when bidding quantities) which are also included in that price. But not including shipping and set up, Dell only provided 18% off their website retail price (\$1120/\$1365), for a 50,000 unit computer bid.

Numerous other Website based contracts were looked at regarding Dell, IBM, and Compaq prices. They are also included in the Table below.

**Table 2**  
**COMPARISONS OF SFB PRICES (without ADDONS) to Competitive Prices from Other Govt. Based Bids**

		3) SFB Derived	7) SFB Calculated	9) SFB Derived	Compar- ative	Selected Comparative Prices 3 yr. Onsite Warranty					
		State Contract Price	State Contract Price	State Contract Price	Vendor Website or Bid	Manu- facture's Website	Prices in In BOLD ADD		2 <sup>nd</sup> Row include -ONS**		
Vendor	Model	With all Addons	w/o any Addons	w/o Warranty	Qty 1 AD990005	Qty 1 w/ 3 Yr Warranty					
CLH	Ovation	<b>\$1,178.17</b>	\$1,000.78	\$862.74	\$1,025						
CompUSA	ACER	<b>\$1,373.99</b>	\$1,177.47	\$1,039.43	\$1,175						
IKON	Toshiba V3300D	<b>\$1,425.39</b>	\$1,245.27	\$1,082.45							
IKON	IBM PC 300	<b>\$1,749.01</b>	\$1,568.89	\$1,354.25	\$1,653	\$1,383			\$1,242 <b>\$1,399**</b>		
IKON	HP Vectra P600	<b>\$1,829.00</b>	\$1,648.88	\$1,433.81							
									<b>Daly-128mb 10gb pII667</b>		
IKON	Compaq Deskpro EP 6667+	<b>\$2,138.12</b>	\$1,958.00	\$1,702.61	\$1,549	\$1,668			\$1,227. <b>\$1,384**</b>		
Inacom	<i>Tangent (Now off Bid)</i>	<b>\$1,405.74</b>	\$1,217.35	\$1,181.98							
					UofA Bid Qty 11	Dell Website	AZ State WSCA	MU	Loyola NT 128mb 10gb	MSU-128 10gb	Colonial -15gb, 128

MicroAge	Dell Optiplex GX110 L	<b>\$1,882.41</b>	\$1,694.02	\$1,461.99	\$1,250 <b>\$1,382</b>	\$1,365	\$1,168 <b>\$1,299</b>	\$1,280 <b>\$1,411</b>	\$1,348 <b>\$1,479</b>	\$1,223 <b>\$1,354</b>	\$1,195 <b>\$1,326</b>
Transource	Mirage EP 600	<b>\$1,444.62</b>	\$1,312.47	\$1,171.83	\$1,073						
Transource	Mirage P 650	<b>\$1,519.62</b>	\$1,387.47	\$1,238.77	\$1,128						

\*\*(Note: Prices in **Table I -Column 5** are soft costs and range substantially from Vendor to Vendor. The State Contract price for "install and setup" is not a true reflection of what actual unit costs for those items would be in a bid for 50,000 computers. Comparisons with other venue's prices need to be adjusted accordingly)



---

**STATE OF ARIZONA SCHOOL FACILITIES BOARD**  
**INTEROFFICE MEMORANDUM**

---

**TO:** JOINT LEGISLATIVE BUDGET COMMITTEE  
**FROM:** DR. PHILIP E. GEIGER, EXECUTIVE DIRECTOR  
**SUBJECT:** STATEWIDE COMPUTER PURCHASE  
**DATE:** 10/16/00  
**CC:** SCHOOL FACILITIES BOARD MEMBERS, MEMBERS OF THE ARIZONA STATE  
LEGISLATURE, GOVERNOR JANE DEE HULL

---

Several months ago, The State of Arizona School Facilities Board decided to utilize the statewide computer bid prepared by State Procurement and the Government Information Technology Agency to expedite the purchase of 30,000-50,000 computers to remedy the technology deficiency for all of Arizona's public schools. We knew that procuring the computers on a statewide basis rather than each district trying to bid these computers would save the state money, assure quality purchases, provide necessary training and software, provide three-year on-site warranty, and assure set-up and removal of all packaging. We estimated the savings to be \$10 million based on 50,000 computers being purchased, or about 20% less than the price available through State Procurement.

Since the school districts only have three choices by which to acquire their goods and services: direct bid, purchase through a consortium, or State Procurement, our comparison of costs can realistically only be through one of those sources. No district bid the same computers or received a better price for the same configuration. Mohave Educational Services stated in a June 12<sup>th</sup> letter that they could not "beat" these prices. Our comparison for the purpose of demonstrating savings comes from a comparison of prices under the School Facilities Board statewide purchase vs. the State Procurement bid from which all other state agencies purchase their computers. Even though we are buying only 36,074 computers, our estimate of \$10 million savings stands.

Would there be greater savings if school districts did not have to follow state procurement rules? Perhaps. However, until the state legislature exempts schools from following procurement rules, our best estimate is that we will save \$10 million by purchasing computers through a statewide education contract instead of purchasing through one of the methods noted above.



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON CASE MANAGEMENT  
SATISFACTION SURVEY

**Request**

Pursuant to a request made by the Committee at its August 17 meeting, the Department of Economic Security (DES) is presenting the updated results of a developmental disabilities case management satisfaction survey designed by the Developmental Disabilities Case Management Pilot Projects Committee as established by Laws 1999, Chapter 292.

**Recommendation**

This item is for information only and no Committee action is required. The baseline survey conducted by DES indicates general satisfaction with case management services from the Division of Developmental Disabilities (DDD). Approximately 63% of developmentally disabled clients rate DDD case management services as "excellent." Approximately 66% of developmentally disabled clients would select DDD case management services if given a choice between DDD, a family member, themselves, or a non-DDD individual.

**Analysis**

Laws 1999, Chapter 292, Section 5 requires DES to present to the Committee the results of a developmental disabilities case management satisfaction survey designed by the Developmental Disabilities Case Management Pilot Projects Committee as established by Laws 1999, Chapter 292. At the August 17 meeting, DES presented its report to the Committee. Although the report provided valuable background on the pilot project, it only discussed results from a small "field test" of the baseline survey, and not the results from the baseline survey itself. Because Laws 1999, Chapter 292 requires the report to include the results of this baseline survey, the Committee asked that DES to update its report with the full results by October 1.

DES has submitted its updated report, which is attached to this memorandum, along with the JLBC Staff analysis of the original report. Aside from minor editing changes, the updated report differs from the original report in two major ways: the inclusion of full baseline survey results and a status report of actions that have occurred since the original report. The updated report also contains a pair of new appendices related to federal Health Care Financing Administration (HCFA) questions and a case management task analysis.

### Survey Results

The department contacted a total of 1,160 persons by telephone for the survey. These persons were all clients of the department's Division of Developmental Disabilities (DDD). Of the 1,160 persons on the randomly-selected survey list, a total of 553, or nearly 48%, answered survey questions. Given the size of the total DDD population and the number of respondents, the results can be assumed to be a fairly representative reflection of current satisfaction with DDD case management.

The survey shows that a majority of DDD clients are satisfied with DDD case management services. When asked to rate the overall quality of case management services, nearly 63% of respondents rated their case manager a 5, or "excellent." Another 21% respondents rated their case manager a 4, or "good." This compares to the 9% of respondents who rated their case manager a 1 or 2, "very poor" or "poor." When asked about their case manager's ability in a variety of areas (e.g., speed, knowledge of available, availability to understand my needs), roughly 60% of respondents gave their case manager an "excellent" rating. The only areas in which the proportion of clients rating their case manager as "excellent" dipped below 50% were areas such as education, employment, and mental health in which a large number of persons responded "not applicable."

When asked who they would choose to provide case management if presented with that option, about two-thirds (66%) of respondents said they would choose DDD. The remaining 34% said they would choose someone besides DDD – 16% would choose a family member and 9% each would choose themselves or another individual not employed by DDD.

These results and others in the survey will help the Developmental Disabilities Case Management Pilot Projects (DD) Committee evaluate the success of the case management pilot programs. The purpose of the pilot is to expand the range of case management choices available to DD clients. The DD Committee will monitor client satisfaction and access to services during the pilot. The results of the pilot will be included in a report by the DD Committee to be completed by November 15, 2002; JLBC will receive a copy of this report.

### Project Update

Since the original report was submitted by DES, there have been a number of developments in the pilot's status. Most significantly, the federal HCFA responded to a waiver request by DDD and the Arizona Health Care Cost Containment System (AHCCCS) with a series of questions. DDD and AHCCCS have submitted a response and are awaiting word back from HCFA. A waiver is required because the pilot will affect Title XIX clients subject to HCFA rules. The department still believes that the pilot will begin in January 2001.

In addition, a Request for Proposals to establish case management contracts will be released this month. The DD Committee has also been working on a draft evaluation plan for the pilot, along with a marketing plan to promote the pilot. Finally, a case management task analysis tool has been developed to help those families and individuals who wish to assume case management responsibilities.

Attachments  
RS:SSH:jb



**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

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

Jane Dee Hull  
Governor

John L. Clayton  
Director

OCT 4 2000



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

Dear Mr. Stavneak:

Pursuant to House Bill 2077 (Laws 1999, Chapter 292, Section 5) please find the second report which updates the findings of the Case Management Satisfaction Survey.

If you have any questions, please call Eric Zaharia, Assistant Director for the Division of Developmental Disabilities at (602) 542-6857.

Sincerely,

  
John L. Clayton

Enclosure

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

**DIVISION OF DEVELOPMENTAL DISABILITIES**

**CASE MANAGEMENT PILOT**

**REPORT NUMBER 2**

**September 30, 2000**

**TABLE OF CONTENTS**

OCT 2 - 2000

<b>PILOT OVERVIEW</b>	<b>3</b>
<b>PILOT STATUS REPORT</b>	<b>6</b>
<b>SATISFACTION SURVEY DESIGN AND PROCESS</b>	<b>7</b>
<b>SURVEY RESULTS</b>	<b>8</b>
<b>RESPONSE TO HCFA WAIVER QUESTIONS</b>	<b>Appendix 1</b>
<b>CASE MANAGEMENT TASK ANALYSIS TOOL</b>	<b>Appendix 2</b>

## **DIVISION OF DEVELOPMENTAL DISABILITIES**

### **CASE MANAGEMENT PILOT**

#### **OVERVIEW**

##### **Background**

The Department of Economic Security (DES), Division of Developmental Disabilities (DDD) is pursuing various projects to enhance family and consumer choice regarding the provision of services including self-determination, fair and equitable rates, and electronic benefits transfers. A policy is already in place which encourages DDD eligible individuals to select their own case manager.

During the 1999 Legislative session, House Bill 2077 (Laws 1999, Chapter 292) was passed and required the establishment of case management pilot projects. Since the law's enactment, a committee, whose diverse membership was specified in the bill, has met to provide recommendations on the implementation of the case management pilots.

##### **Case Management Pilot Scope and Design**

The Case Management Pilot provides a range of choices for the provision of case management services by offering families and individuals the following options:

1. Employees of the DDD
2. Community agencies under contract with the DDD
3. Individuals under contract with the DDD
4. Family members of service recipients
5. Individuals receiving services (consumer)

The Case Management Pilot Committee has recommended three pilot sites within which the various case management options will be available. The pilot sites include the western area of Maricopa County (District I), Pima County (District II), and Graham, Cochise, Greenlee, and Santa Cruz Counties (District VI).

Case Management services provided through agencies and individuals and through a family member or consumer will include Individual Program Plan Development, Plan Implementation and Coordination, and Monitoring of Service Delivery. The same services will be available through DDD case management staff who will also perform Intake, Eligibility Determination, and Service Authorization functions for all DDD eligible individuals.

The pilot will begin July 1, 2000 and end July 1, 2002.

## **Pilot Project Constraints**

The Pilot will be subject to the following constraints which are required by legislation:

- The DDD shall continue to perform intake, eligibility determinations, service authorizations, and monitoring of service delivery.
- Persons who perform case management services shall comply with Title XIX of the Social Security Act and pilot program requirements determined by the DDD.
- If a consumer, parent or family member is unable to comply with a specific service requirement, the DDD shall perform that function.
- A consumer, parent or family member who provides case management services shall be trained by the DDD and shall not be paid to provide these services.
- An agency or individual that is contracted to provide case management services shall not provide other services to the same consumer except as provided by Public Law 105-17, Part C, Section 637 for children who are under four years of age.
- The Pilot Project shall be conducted within and is limited by the existing appropriation made to the DDD.
- The Pilot is subject to the approval of the federal Health Care Financing Administration (HCFA).

## **Pilot Project Oversight**

Primary oversight and monitoring of the case management pilot rests with the DDD. Additionally, the legislation established a Case Management Pilot Committee. The Director of the DES appoints fifteen members of the Committee. One member is appointed by the Governor representing the Governor's Office of Strategic Planning and Budgeting, and one is appointed by the President of the Senate and the Speaker of the House representing the Joint Legislative Budget Committee.

The Case Management Pilot Committee is charged with:

- The development of recommendations regarding training needs of person who will provide case management services.
- The identification of the pilot sites.
- The design of pilot projects.
- The establishment of quality assurance measures.
- The evaluation of the pilot.

### **Evaluation of Pilot Projects**

The primary mechanism for the pilot evaluation is specified in the legislation. This will be a Consumer Satisfaction Survey of the current case management system. The survey will be conducted through telephone interviews of a random sample of pilot site participants. The survey will provide baseline information for the pilot and will also be used to assess changes in consumer satisfaction following implementation of the pilot.

Additional evaluation components will be developed with input from the Case Management Pilot Committee. The Committee will also monitor the progress of the pilot.



## **CASE MANAGEMENT PILOT**

### **STATUS REPORT**

The following action has been taken to implement the Case Management Pilot Plan since the last report dated March 30, 2000.

1. The Case Management Satisfaction Survey has been completed with a random sample of individuals and families in the three pilot sites. The results of the survey are contained in this report.
2. The waiver request was developed by DDD and submitted through AHCCCS to the Health Care Financing Administration (HCFA). This resulted in a response from HCFA asking for additional information before the waiver could be approved. A copy of the DDD reply to HCFA is contained in this report (Appendix 1).
3. A Request for Proposals to establish case management contracts has been developed and will be published in October, 2000.
4. The Pilot Evaluation Sub-Committee has submitted a draft evaluation plan for consideration by the Case Management Pilot Committee. A final report will be presented to the Committee at its meeting in October, 2000.
5. The Marketing Sub-Committee has met to develop a marketing plan to promote the pilot. The marketing plan will be presented to the Case Management Pilot Committee at its meeting in October, 2000.
6. A case management task analysis tool been developed for use by families and individuals who wish to assume case management responsibilities. This instrument will help in the identification of specific tasks to be performed and will determine the training and supports needed by the family member or individual. A copy of the task analysis tool is included in this report (Appendix 2).

## **CASE MANAGEMENT SATISFACTION SURVEY**

### **DESIGN AND PROCESS**

A Case Management Satisfaction Survey is required by legislation to establish a baseline prior to the start of the pilot. It is the primary mechanism that will be used to evaluate consumer and parent response to the introduction of various case management options. The DES Office of Evaluation provided technical assistance to the Case Management Pilot Committee in the design of the Survey Instrument and Process. The DES Volunteer Services provided individuals to conduct the survey. The survey focused on a random sample of all individuals who are enrolled with the DDD in the three pilot sites.

An initial telephone survey was conducted in each pilot site to field test the survey instrument and the surveyor script. As a result of this initial survey, modifications were made to the script and the survey approach.

The full survey was conducted across three groups in each of the three pilot sites. The groups are:

1. All individuals who are eligible for the Arizona Long Term Care System (ALTCS).
2. All individuals who are eligible for Targeted Case Management.
3. All individuals who are eligible only for state funded services.

The random sample of potential pilot site participants was identified utilizing survey protocols recommended by the DES Office of Evaluation. All individuals in the sample groups were contacted by telephone.

## CASE MANAGEMENT SATISFACTION

### SURVEY RESULTS

#### THE SURVEY PARTICIPANTS

The potential survey participants were contacted by telephone and provided the following information:

*The Division is considering making some changes in the way case management services are offered to individuals with developmental disabilities. Before we make these changes, however, we are asking people who have requested services—or their parents or guardians—to let us know what they think about these services.*

*Would you be willing to answer a few questions?*

The response was as follows:

<u>TOTAL SAMPLE SIZE</u>	<u>WILLING TO ANSWER QUESTIONS</u>	<u>NOT WILLING TO ANSWER QUESTIONS</u>	<u>NO RESPONSE</u>
1160	553	476	131

**PARTICIPANTS WHO WERE WILLING TO ANSWER QUESTIONS DID NOT RESPOND TO ALL QUESTIONS IN THE SURVEY.**

#### CASE MANAGEMENT SATISFACTION

*On a scale of one to five, with 1 being 'very poor' and 5 being 'excellent,' how would you rate your case manager in the following areas?*

##### Availability to answer my questions

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	16	3.65
2	11	2.51
3	37	8.45
4	84	19.18
5	284	64.84
NA	6	1.37

**Knowledge of available resources**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	9	2.07
2	15	3.45
3	34	7.82
4	93	21.38
5	270	62.07
NA	14	3.22

**Ability to understand my needs**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	12	2.78
2	9	2.08
3	25	5.79
4	83	19.21
5	293	67.82
NA	10	2.31

**Ability to help me with education issues**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	13	2.99
2	15	3.45
3	29	6.67
4	66	15.17
5	213	48.97
NA	99	22.76

**Ability to help me with employment issues**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	13	3.01
2	8	1.85
3	15	3.47
4	29	6.71
5	115	26.62
NA	252	58.33

**Ability to help me with mental health issues**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	15	3.46
2	14	3.23
3	18	4.16
4	54	12.47
5	179	41.34
NA	153	35.33

**Ability to help me with health services**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	14	3.22
2	10	2.30
3	28	6.44
4	63	14.48
5	223	51.26
NA	97	22.30

**Skill in advocating for my needs**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	17	3.93
2	18	4.16
3	29	6.70
4	67	15.47
5	279	64.43
NA	23	5.31

**Courtesy toward my family and myself**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	7	1.61
2	5	1.15
3	12	2.76
4	36	8.28
5	369	84.83
NA	6	1.38

**Speed in responding to my needs**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	18	4.18
2	14	3.25
3	33	7.66
4	80	18.56
5	273	63.34
NA	13	3.02

**Ability to provide thorough information regarding services available to me**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	14	3.25
2	16	3.71
3	30	6.96
4	90	20.88
5	265	61.48
NA	16	3.71

**Amount of time my case manager spends with me**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	20	4.67
2	20	4.67
3	43	10.05
4	89	20.79
5	237	55.37
NA	19	4.44

**Overall quality of case management services**

<u>Level of Satisfaction</u>	<u>Respondents</u>	<u>Percentage</u>
1	15	3.46
2	23	5.31
3	29	6.70
4	91	21.02
5	271	62.59
NA	4	.92

## ELECTRONIC BENEFITS TRANSFER

*The Division of Developmental Disabilities is planning to pilot an electronic benefits transfer system. This system will allow clients to manage their own budgets, deal directly with any authorized service provider, and to make, within limits, changes in the mix of services being purchased on a day to day basis. We anticipate that information about the types of services used and the remaining budget would be available on the Internet, by fax, or by a voice response system.*

The responses are as follows:

<u>Responses</u>	<u>Respondents</u>	<u>Percentage</u>
Definitely use it	90	17.44
Probably use it	111	21.51
Consider using it	140	27.13
Probably not use it	103	19.96
Definitely not use it	72	13.95

## CASE MANAGEMENT OPTIONS

*On a pilot basis, the Division will be offering different choices for Case Management services.*

*When these choices are available, which **one** of the following would you most likely choose?*

The responses are as follows:

<u>Choices</u>	<u>Respondents</u>	<u>Percentage</u>
Case Management provided by Division of Developmental Disabilities	352	66.4
Case Management provided by individual Who is not an employee of the Division	46	8.7
Case Management provided by a family member	83	15.7
Case Management provided by the person Receiving services	49	9.2







STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: August 3, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director *RS*

FROM: Stefan Shepherd, Senior Fiscal Analyst *SS*

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON CASE  
MANAGEMENT SATISFACTION SURVEY

### Request

Pursuant to a provision in Laws 1999, Chapter 292, Section 5, the Department of Economic Security (DES) is presenting the results of a developmental disabilities case management satisfaction survey designed by the Developmental Disabilities Case Management Pilot Projects Committee as established by Laws 1999, Chapter 292.

### Recommendation

This item is for information only and no Committee action is required. Since the report only discusses results from a small "field test" and not from the full baseline survey sent out to many families, however, JLBC Staff recommends that DES submit an updated report to the Committee by October 1. Since DES has completed the full baseline survey and expects to finish compiling the results by the end of August or beginning of September, this should be sufficient time for DES to include the results from the full baseline survey in the updated report.

Most of the people who responded to the "field test" survey rated their current case manager highly in areas such as knowledge of available resources, ability to understand their needs, and courtesy toward family and self. A total of 87% of those responded indicated they would choose case management provided by a DES employee; the other 13% indicated they would choose an agency or individual provider for those services. We would note, however, that these results are based on the responses of just 17 clients and, therefore, cannot present an accurate picture of current satisfaction with DD case management.

(Continued)

## Analysis

Part of Laws 1999, Chapter 292 created a Developmental Disabilities Case Management Pilot Projects (DD) Committee, consisting of a broad range of members with interests in the area of developmental disabilities. With the exception of Senator Bowers, who was the representative of the Joint Legislative Budget Committee as required by the legislation, the DD Committee was made up of parents, clients, providers, and staff. One task of the DD Committee was to design a survey to determine the degree of satisfaction with the current case management system for developmentally disabled clients. This survey was to be conducted by DES and mailed to parents by November 1, 1999. The DD Committee would then present the results of the survey to JLBC and other entities on or before March 30, 2000.

The attached report provides an overview of the case management pilot, which will be overseen by the DD Committee and implemented by DES. The chief feature of the pilot is that it will provide clients the opportunity to choose one of the following groups to provide them case management services: Division of Developmental Disabilities (DDD) employees, community agencies under contract with DDD, individuals under contract with DDD, parents of clients, or clients themselves. The pilot sites include the western area of Maricopa County, Pima County, and Graham, Cochise, Greenlee, and Santa Cruz Counties. We would note that although the report indicates the pilot would start on July 1, 2000, DES indicates that the pilot has not yet received a waiver from the federal Health Care Financing Authority (HCFA). Since the pilot will affect Title XIX clients subject to HCFA rules, a HCFA waiver is necessary for the pilot to begin. DES has indicated that they believe the pilot may now start in December 2000 or January 2001.

The discussion of the satisfaction survey begins on page 5 of the attached report. It explains the purpose of the survey, which is to collect "baseline" information on case management satisfaction so that the impact of the case management pilot may be better evaluated. It discusses how the survey was "field tested" with a telephone survey. The results of this telephone survey can be found on page 6 of the attached report. Although they seem to indicate general satisfaction with current case management practices, we would note that these results are based on the responses of just 17 clients who responded (out of the 40 clients surveyed by telephone.) As a result, JLBC Staff believes that the figures presented in the report cannot provide an accurate picture of current satisfaction with DD case management. The telephone survey did, however, help the DD Committee and DES refine their survey, which they conducted earlier this summer.

No Committee action is required for this item. While JLBC Staff would commend DES for the background provided in the attached report and the effort in designing the survey, we believe that the spirit of Laws 1999, Chapter 292, Section 5 intended for the Committee to receive full baseline survey data, which is not provided in the attached report. As a result, JLBC Staff recommends that DES submit an updated report to the Committee by October 1. Since DES has now completed the full baseline survey and expects to finish compiling the results by the end of August or beginning of September, this should be sufficient time for DES to include the results from the full baseline survey in the updated report.

RS:SSh:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON ANNUAL CHILD  
CARE EXPENDITURES

**Request**

Pursuant to a provision in A.R.S. § 46-810, the Department of Economic Security (DES) is submitting its annual child care report.

**Recommendation**

This item is for information only and no Committee action is required. Comparing this child care report to previous reports indicates that the number of children receiving child care subsidies has increased since FY 1997, as has the total amount of subsidy expenditures.

**Analysis**

Laws 1997, Chapter 300 included a series of welfare reform-related requirements. Section 63 of that bill added a new statutory requirement in A.R.S. § 46-810 stating that DES shall provide a report with child care data to Committee members by October 1 yearly. The statute specifies a series of data to be provided in each report. In the analysis below, we provide information on each set of data from the first report submitted October 1, 1997 through the attached report.

*Average Number of Families and Children Served Monthly*

From FY 1997 to FY 2000, the average number of families served monthly increased 17.3% while the number of children increased 29.0%. In general, participation in Temporary Assistance for Needy Families (TANF)-related child care has decreased from FY 1997 to FY 2000, though transitional child care participation has remained relatively stable. This reflects the overall decline in the number of TANF Cash Benefit recipients over the same time period. Participation in low-income working child care has increased significantly since FY 1998 (from 12,860 children in FY 1998 to 20,933 children in FY 2000,

an increase of 62.8%), in part because the maximum income level has been increased to 165% of the Federal Poverty Level (FPL).

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
<b>Families</b>	18,275	18,359	17,890	21,445
<b>Children</b>	29,624	32,467	36,594	38,227

#### Amount Spent on Child Care Programs

From FY 1997 to FY 2000, the total amount expended on child care subsidies (excluding “quality”-related expenditures) has increased 95.7%. This increase reflects both increases in the number of children as discussed above, legislatively-approved increases in maximum reimbursement rates to providers, and providers raising their rates within those maximum reimbursement levels. As can be seen in the table below, the average monthly subsidy per child (using figures from the previous table) has increased from \$162.40 in FY 1997 to \$246.32 in FY 2000, an increase of 51.7%.

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
<b>Total (State and Federal) Expenditures on Subsidies</b>	\$57,728,900	\$74,158,200	\$85,295,100	\$112,992,400
<b>Average Monthly Subsidies/Child</b>	\$ 162.40	\$ 190.34	\$ 194.24	\$ 246.32

#### Number of Persons Eligible for Transitional Medical and Child Care Benefits, Number of Recipients

The statute requires information on persons eligible for transitional medical assistance (TMA) and transitional child care (TCC) as well as actual recipients. The first question revolves around eligibility. All persons eligible for TMA are enrolled in TMA, so that percentage has remained at 100% from FY 1997 to FY 2000. The percentage of TCC-eligible clients using TCC has increased dramatically from FY 1997 to FY 2000, from 44% to 83%. The number of persons actually using the program has varied in each program. Transitional Medical Assistance participation has varied from year to year and within the first 12 months and second 12 months of eligibility. We would note that FY 2000 figure masks a dramatic increase in participation by participants in their first 12 months of eligibility: June 2000 participation has increased 96.3% from June 1999. Transitional Child Care participation, on the other hand, has remained relatively steady since FY 1998.

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
<b>Transitional Medical Recipients</b>	23,903	23,547	18,202	20,505
<b>Transitional Child Care (TCC) Recipients</b>	7,164	9,299	8,574	8,568
<b>% of Eligible TCC Children Using TCC</b>	44%	62%	87%	83%

#### Number of Persons on Waiting List

Since April 1997, there has been no waiting list for child care subsidies.

#### Co-Payment Levels

Since FY 1997, co-payment levels for low-income working child care recipients or TCC recipients have been unchanged for those under 135% FPL. Laws 1998, Chapter 208 increased the maximum eligible income level in statute to 165% FPL starting in FY 1999, and co-payment levels were added for those clients. The table below indicates the current maximum monthly income for each fee level for a parent and one child and the co-payment per day for full-day care for that child. We would note that since the Federal Poverty Level is adjusted slightly each year, the maximum monthly income is also adjusted slightly.

	<u>&lt;85% FPL</u>	<u>86-100% FPL</u>	<u>101-135% FPL</u>	<u>136-145% FPL</u>	<u>146-155% FPL</u>	<u>156-165% FPL</u>
<b>Maximum Monthly Income</b>	\$784	\$922	\$1,245	\$1,337	\$1,430	\$1,522
<b>Daily Required Co-Payment - Full Day</b>	\$1.00	\$2.00	\$3.00	\$5.00	\$7.00	\$10.00

### Co-Payment Money Collected by DES

The amount of money collected as co-payments has more than quadrupled from FY 1997 to FY 2000. This increase is not surprising, given the increase in the number of clients and the expansion of the eligibility levels beyond 135% FPL and their relatively high levels of required co-payments compared to those in eligibility levels below 135% FPL.

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
<b>Co-Payment Monies Collected</b>	\$2,929,400	\$6,144,300	\$6,148,200	\$12,838,300

### Payments to Relatives

After a dramatic drop from FY 1997 to FY 1998, the number of children in child care with relatives paid for providing those services in FY 2000 exceeded the FY 1997 levels by 11.1%. From FY 1997 to FY 2000, however, the amount paid to relatives for the child care has more than tripled. The amounts listed below are adjusted after the publication of the yearly report to reflect claims submitted after publication, so the unadjusted figures listed below are likely less than the final figures.

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
<b>Children in Relative Care</b>	6,167	3,726	4,531	6,849
<b>Total Amount Paid to Relatives (Unadjusted)</b>	\$2,929,400	\$7,209,700	\$8,427,100	\$9,363,600

### Payment Rates and Maximum Provider Rates

Maximum payment rates in FY 1997 and FY 1998 were set at the 75<sup>th</sup> percentile of all rates set in a 1989 market rate survey. (This means that the maximum rate DES would pay any provider was set at the rate charged for a particular type of care – for example, an infant in a Pima County child care center – by 75% of all providers in 1989.) These rates were increased to the 75<sup>th</sup> percentile of the 1996 market rate survey in FY 2000. The impact of these increases has varied depending on the type of child care provider (i.e., center, group home, certified home, relatives), geographic region, age of child, and full-day vs. part-day. Most maximum rates, however, increased 30-35%.

### Families Providing Child Care as a Work Activity

Federal law permits states to allow welfare clients to provide child care to meet their work requirements. States may count such clients as working for the purposes of calculating work participation rates. Arizona statute does not include this as a “work activity.”

In April 1998, DES established a special child care orientation and training curriculum open to welfare clients with interest and aptitude in child care employment. An estimated 50 individuals completed this training in FY 1999; 100 individuals completed the training in FY 2000.

RS:SSH:jb  
Attachments

*Office of the Director*

1740 W. Adams Street  
Phoenix, Arizona 85007-2670  
(602) 542-1025  
(602) 542-1062 FAX

JANE DEE HULL, GOVERNOR  
CATHERINE R. EDEN, DIRECTOR

OCT 06 2000

OCT - 6 2000

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

Dear Senator Gnant:

The Arizona Department of Health Services, Division of Behavioral Health Services respectfully requests placement on the Joint Legislative Budget Committee's agenda for its next scheduled meeting on October 19, 2000, to discuss (1) the proposed changes in the capitation rates for FY 2001, pursuant to Senate Bill 1001, 44<sup>th</sup> Legislature, 1<sup>st</sup> Special Session, the General Appropriations Act; and (2) the Department's plan for expending the additional appropriations received through HB2003, 44<sup>th</sup> Legislature, 5<sup>th</sup> Special Session, the General Appropriations Act.

The capitation rate adjustments are being made pursuant to the following:

1. ValueOptions October 1, 2000 annual adjustment as required by contract (Please note that ValueOptions was the only RBHA not part of the non-Maricopa county statewide RFP effective July 1, 2000)
2. IMD Waiver for Title XIX adults approved by HCFA
3. Rural Add-on for Yuma and La Paz counties to make the rural rates commensurate with the other rural area rates

The SFY 2001 impact of the above rate adjustments is estimated to be approximately \$1.4 million of General Fund monies, representing approximately \$4.0 million of total fund monies.

*Leadership for a Healthy Arizona*

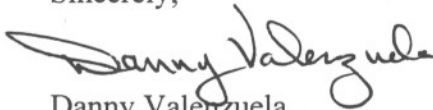
OCT 06 2000

The Honorable Randall Gnant, Chairman

Page 2

If you have any questions please contact me at 542-1025 or Leslie Schwalbe, Acting Assistant Director, Behavioral Health Services at (602)381-8999.

Sincerely,

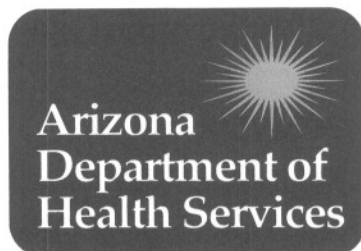
A handwritten signature in black ink, appearing to read "Danny Valenzuela", with a stylized flourish at the end.

Danny Valenzuela  
Deputy Director

DV:PV:ah

c: Catherine R. Eden, Director, ADHS  
Danny Valenzuela, Deputy Director, ADHS  
Leslie Schwalbe, Acting Assistant Director, Behavioral Health Services, ADHS  
Maria Black, Administrator, Central Budget Office, ADHS  
Peter Vazquez, Budget Analyst, Central Budget Office, ADHS  
Michael Fett, Chief, Bureau of Financial Operations, Behavioral Health Services, ADHS





*Division of Behavioral Health Services*  
*Office of the Assistant Director*

2122 E. Highland  
Phoenix, Arizona 85016-4740  
(602) 381-8999  
(602) 553-9140 FAX  
Internet: [www.hs.state.az.us/bhs](http://www.hs.state.az.us/bhs)

JANE DEE HULL, GOVERNOR  
CATHERINE R. EDEN, DIRECTOR

October 10, 2000

Ms. Gina Guarascio, Fiscal Analyst  
Joint Legislative Budget Committee Staff  
1716 W. Adams  
Phoenix, AZ 85007

Dear Ms. Guarascio:

Pursuant to the Department of Health Services' request for the Joint Legislative Budget Committee (JLBC) review of estimated expenditures from the Serious Mentally Ill Services Fund established by the Laws 2000, 5<sup>th</sup> Special Session, Chapter XXX (HB2003), attached please find the following documents which are described later in this correspondence:

- 1) Summary of Estimated Expenditures in the amount of \$49,700,000 by Geographic Service Area(GSA)/Regional Behavioral Health Authority (RBHA);
- 2) Detail of Estimated Expenditures in the amount of \$49,700,000 by Geographic Service Area(GSA)/Regional Behavioral Health Authority (RBHA);
- 3) The Department of Health Services Plan Specifications including evaluation standards to the RHBAs for \$49,700,000 for services to persons with serious mental illness; and
- 4) The Department of Health Services Plan Specifications including evaluation standards to the RHBAs for \$17,850,000 for children's behavioral health services.

**Background** HB 2003 established the Serious Mental Illness (SMI) Services Fund to provide community housing, vocational rehabilitation and other recovery support services to persons with serious mental illness. The monies in the fund are intended for the development of programs that are of a one-time nature, however, the Department may implement the programs and services over several years. Prior to expending monies from the fund, the Department is required to submit a plan to the JLBC.

This same bill appropriated \$50,000,000 from the Tobacco Litigation Settlement account to the SMI Services Fund for these purposes. From the \$50,000,000 appropriation, the Department has

transferred \$300,000 to the Auditor General for the purpose of conducting a performance audit. The plans for JLBC review are included in documents #1, #2, and #3.

HB 2003 also appropriated \$20,000,000 to the Department for children's behavioral health services. Funds are to be used to provide behavioral health services and related services to families whose children receive behavioral health services through the Department of Health Services, the Department of Economic Security (DES), the Department of Juvenile Corrections or the Administrative Office of the Courts. Of the \$20,000,000, the Department has transferred \$150,000 to the Auditor General for the purpose of conducting a performance audit.

**Document #1** This summarizes estimated SMI Services Fund Expenditures by GSA/RBHA and by service category. The services include housing, recovery support, vocational rehabilitation, specialized assessment, training and administration. Planned administration/profit has been capped at 8% as compared to 12% of other state-funded programs. The Excel Group of Yuma has proposed no administrative spending.

**Document #2** This details estimated SMI Services Fund Expenditures by GSA/RBHA and by service category. These pages further define service category expenditures including number of persons to receive services. Funds in service categories are estimates and may be moved between categories.

*Plan Highlights* In Maricopa County, approximately 85% of the 1,600 persons to be served are part of the priority class in the *Arnold v. Sarn* lawsuit. Additionally, the Maricopa County RBHA proposes to purchase land to locate urgent care, crisis stabilization, and co-occurring treatment facilities in the East Valley.

Several RBHAs propose the use of specialized clinical teams to focus on the recovery of clients who are the most significantly disabled. Many of these teams will provide added coverage during evenings and weekends to their identified clients and in Maricopa County for example, additional specialists with expertise in substance abuse treatment and vocational services will be added to the team composition. And finally, almost \$17,000,000 is proposed for the purchase of long-term housing, housing subsidy, and other housing supports statewide.

The Department of Commerce has offered their expertise to assist in developing housing opportunities under this plan. We are developing an Intergovernmental Agreement to that end. Additionally, we will work with DES in order to match eligible vocational rehabilitative service dollars with federal funds – which may result in up to a \$1.00 (state) to \$4.00 (federal) matching scenario.

Due to contract limitations, expenditures under this appropriation from the SMI Services Fund are expected to last through June 30, 2003. All appropriations are of a one-time nature, therefore a large amount of funding is proposed for housing, vocational rehabilitation and infrastructure building. Where funds are proposed for more traditional services, RBHAs should ensure that when funding ends persons have completed their treatment.

**Document #3** This document represents the Department's instructions to the RBHAs for plan development and evaluation of the \$49,700,000 appropriation from the Serious Mental Illness Services Fund. An extensive evaluation component, including performance measurement, has been built into the plan development requirements and has been shared with the Auditor General.

**Document #4** This document represents the Department's instructions to the RBHAs for plan development and evaluation for \$17,850,000 appropriated for children's behavioral health. The RBHAs have been working with the other state agencies to determine the best use of these funds. The plans are due to the Department by October 16, 2000.

If you have any questions or need additional information, please do not hesitate to contact me at (602) 553-9002.

Sincerely,

A handwritten signature in cursive script that reads "Leslie Schwalbe".

Leslie Schwalbe  
Deputy Director

Copy:

Catherine R. Eden, DHS Director  
Danny Valenzuela, DHS Deputy Director  
Maria Black, DHS Budget Administrator  
Liana Martin, DHS Legislative Liaison  
Mike Fronske, Office of Arnold v. Sarn  
Carol Smallwood, DHS/BHS Deputy Assistant Director  
Amy Belon, DHS/BHS Executive Consultant  
Dr. Michael Franczak, DHS/BHS Chief, Bureau of Persons with Serious Mental Illness  
Thomas Betlach, OSPB Director  
Bob Chapko, OSPB Budget Manager  
Christine Sato, OSPB Budget Analyst  
Richard Stavneak, JLBC Director  
Jennifer Vermeer, JLBC Deputy Director  
Deborah Davenport, Auditor General

Document No. 1  
Arizona Department of Health Services  
Summary of Estimated Expenditures  
HB 2003 - Seriously Mentally Ill Services Fund  
**\$50,000,000**

	GSA 6 ValueOptions	GSA 5	GSA 3	Subtotal	GSA 1 NARBHA	GSA 4 PGBHA	GSA 2 EXCEL	Auditor General	Total
				CPSA					
Housing	\$7,817,360	\$4,200,000	\$1,335,000	\$5,535,000	\$1,300,000	\$1,000,000	\$1,323,350	\$0	\$16,975,710
Recovery Support									
Clinical Team Expansion	5,925,795	3,421,081	331,173	3,752,254	2,917,616	368,258	0	0	12,963,923
Telemedicine	0	0	60,000	60,000	0	250,000	0	0	310,000
Other Recovery	7,790,915	300,000	0	300,000	0	0	140,000	0	8,230,915
Recovery Support Subtotal	13,716,710	3,721,081	391,173	4,112,254	2,917,616	618,258	140,000	0	21,504,838
Vocational Rehabilitation	4,240,170	300,000	106,500	406,500	200,000	250,000	7,500	0	5,104,170
Specialized Assessment	1,316,261	0	0	0	0	0	0	0	1,316,261
Training	840,690	0	0	0	100,000	0	0	0	940,690
RBHA Administration	2,428,798	714,877	159,363	874,240	392,836	162,457	0	0	3,858,331
<b>Service/RBHA Subtotal</b>	<b>30,359,989</b>	<b>8,935,958</b>	<b>1,992,036</b>	10,927,994	<b>4,910,452</b>	<b>2,030,715</b>	<b>1,470,850</b>	<b>0</b>	<b>49,700,000</b>
Auditor General Performance Review								300,000	300,000
<b>Total</b>	<b>\$30,359,989</b>	<b>\$8,935,958</b>	<b>\$1,992,036</b>	<b>\$10,927,994</b>	<b>\$4,910,452</b>	<b>\$2,030,715</b>	<b>\$1,470,850</b>	<b>\$300,000</b>	<b>\$50,000,000</b>

Note - This plan is estimated. Funds may move between categories.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - BIMONTHLY REPORT ON  
ARIZONA WORKS

**Request**

Pursuant to a provision in A.R.S. § 46-344, the vendor for the Arizona Works pilot welfare program is providing its bimonthly report on the Arizona Works program.

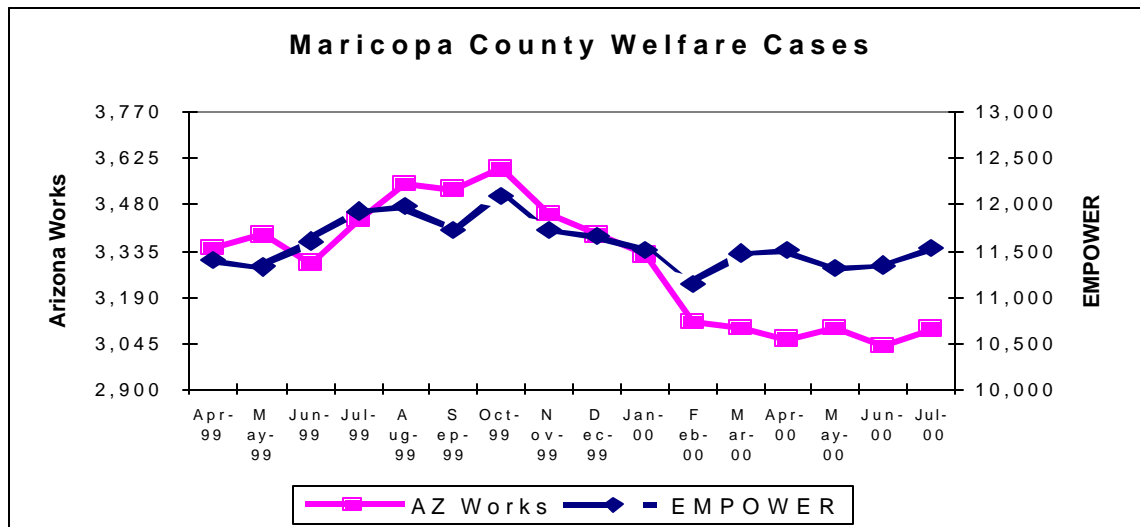
**Recommendation**

This item is for information only and no Committee action is required. Overall caseloads in the Arizona Works pilot area continue to be slightly less than EMPOWER Redesign caseloads in the rest of Maricopa County, compared to caseload levels in April 1999.

**Analysis**

The Arizona Works pilot program, which replaced the DES EMPOWER Redesign welfare program in DES District I-E (eastern Maricopa County), is operated by the private vendor MAXIMUS. The attached report covers caseload data through the end of July.

The graph on the following pages compares the total number of cases in the Arizona Works program with the caseload in the rest of Maricopa County. The total caseload in Arizona Works remains slightly less than the EMPOWER Redesign caseload, compared to caseload levels in April 1999. As in past updates, we would note that this graph includes cases in which there are no adults subject to Temporary Assistance for Needy Families (TANF) work requirements and tribal cases. These "no work requirement" cases comprise 40-45% of the total caseload and tribal cases comprise another 1-2%; their presence in the above figures may skew the results for cases with employable adults subject to work requirements, especially if "no work requirement" caseloads are responding differently in each area.



The following table provides information on the total number of Arizona Works cases by type over the past year. The table shows that the total population has remained fairly stable since February. The TANF population, which had been the source of earlier population declines, has also remained stable in recent months, though July 2000 caseloads were 26.6% below the August 1999 figure. We would note that the number of cases for which no work participation is required remains greater than the number of TANF cases, and is 4.5% above the July 2000 figure.

<b>ARIZONA WORKS PROGRAM: TOTAL CASES BY TYPE</b>				
<b>Month</b>	<b>TANF</b>	<b>No Work Participation</b>	<b>New Transfer In</b>	<b>Total</b>
August	2,011	1,473	59	3,543
September	1,994	1,483	51	3,528
October	2,027	1,516	50	3,593
November	1,848	1,542	56	3,446
December	1,798	1,536	53	3,387
January	1,708	1,518	95	3,321
February	1,564	1,501	46	3,111
March	1,513	1,515	68	3,096
April	1,475	1,534	50	3,059
May	1,508	1,546	43	3,097
June	1,460	1,520	55	3,035
July	1,476	1,539	73	3,088

The MAXIMUS report contains information on the Arizona Works program in addition to the data discussed above. It notes that MAXIMUS has begun preparing for its role in operating the second Arizona Works pilot site, which will be Mohave County. The second pilot will begin on January 1, 2001. In addition, the report also notes that customer satisfaction surveys continue to show very little variance, with responses ranging between “Good” and “Excellent.”

Attachment  
RS:SSH:jb

SEP 20 2000

September 19, 2000

Chairman Randall Gnant  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, Arizona 85007

Dear Chairman:

Attached is the September 15, 2000 report submitted to the Arizona Works Procurement Board by MAXIMUS, Inc.

FOX Systems will continue to work with MAXIMUS to update and revise this report as necessary to provide requested information to JLBC.

If you need further assistance or information, please feel free to call me at (480) 423-8184 extension 204.

Thank you,



Sherry Scott  
Project Analyst

cc:

Senator Bob Burns

Mr. Stefan Shepard ✓



Administered by MAXIMUS

September 12<sup>th</sup>, 2000

Mr. Alfredo Gutierrez, Chairman  
Arizona Works Procurement Board  
C/O Desh Ahuja  
Fox Systems, Inc.  
4110 N. Scottsdale Road, Suite 345  
Scottsdale, Arizona 85251

Dear Chairman Gutierrez:

Attached is the report that JLBC has requested as an Arizona Works project deliverable due on September 15<sup>th</sup>, 2000. The report reflects progress made since the last report dated July 15<sup>th</sup>, 2000.

Should you have any questions, or if I can be of further assistance, please do not hesitate to contact me at 480.668.4998.

Sincerely,

Beth Hicks  
Program Manager  
Welfare Reform Division

BH/ct



## MAXIMUS ARIZONA WORKS PROGRESS REPORT SEPTEMBER 15, 2000

### OPERATIONS

- o Support Services:
  - o The new fiscal year budget for transportation went into effect in July. An estimated \$22,000 was allocated for each month of services.
  - o Transportation policies and procedures continue to be reviewed for improvement in service delivery.
  - o To date there have been 16 total applications for Wheels to Work submitted.
    - o 2 applications were dropped by Wheels to Work (failed background check).
    - o 7 applications results in a car placement.
    - o 7 applications are pending.
  - o For July, Transitional Childcare (TCC) cases had a slight increase from the previous month.
- o Facilities
  - o MAXIMUS continues to coordinate with DES to locate a new Administrative Office building. Until a new location is identified and secured, MAXIMUS Administrative Offices remain at the current location, 305 E. Main.
- o Grant Diversion
  - o No additional grant diversion cases have been approved.

### COMMUNITY OUTREACH

- o Rural county rollout activities have begun in a variety of areas.
- o Identification of community-based organizations, community college representatives, and current DES/JOBS contractors has begun for Mohave County.
- o Presentations for the public as well as DES employees are in the planning phase.
- o MAXIMUS IT and Facilities staff visited DES offices located in Mohave County.
- o New developed and executed contracts for July included provision of services for Character Training, Faith Community services, and additional Transportation services.
- o Contracts under development include: assessment workshops, parenting skills, homelessness services, and dental services to name just a few.
- o As of July, MAXIMUS has 26 provider contracts that afford a wide range of support services for our participants.

### COORDINATING COMMITTEE

- o The Arizona Works Coordinating Committee meetings are held quarterly.
- o The meeting scheduled for August 29<sup>th</sup> was rescheduled. Attendee availability is being coordinated.

## CUSTOMER SATISFACTION

- o The attached Customer Satisfaction Survey compilation and Participant Comments demonstrate that satisfaction continues to run above average. *See Attachment I and Attachment II*

## QUALITY ASSURANCE

- o No agency grievances were reversed during the month of July.
- o During the month of July, training occurred in the follow areas:
  - o New Hire Case Management Training Development
  - o Appeals Training
  - o Excel and Access
  - o Novell-Netware
- o The overpayment procedures are in draft format and the review process is in its final stage.
- o Internal TANF cash case reads for the month of July, resulted in 96.5% dollar accuracy.
- o Internal General Assistance case reads for the month of July, resulted in 100% dollar accuracy.

## OTHER

- o In July, MAXIMUS assisted with a Back to School Fair at Enterprise Academy. The fair included free food, raffle prizes, immunizations, vision screening, eye care vouchers and school supplies. There was also a gently used clothing exchange. MAXIMUS provided the food and had an information booth.
- o MAXIMUS also sponsored another back to school drive with a local church. Backpacks filled with school supplies were donated to the Gilbert CAP office to be distributed to the children.
- o A mentoring project is being developed. Mentors would spend two hours per month with children at the East Valley School in Mesa.
- o Ongoing MAXIMUS employee donations for clothing, shoes, etc continue for distribution to the Autumn House or to the East Valley School.

## SUMMARY OF SURVEYS

**DATE:** Jun-00

Scale Point: (1) Poor (2) Average (3) Good (4) Excellent					
Survey Forms	1st YTD*	Apr-00	May-00	Jun-00	2nd YTD
Orientation Participant Survey	3.59	3.55	3.61	3.6	3.59
Customer Service Survey	3.74	3.77	3.79	3.71	3.76
Case Manager Satisfaction Survey	3.79	3.98	3.8	3.93	3.81
MAXAcademy Satisfaction Surveys	3.82	3.84	3.87	3.75	8.82

**DATE:** Jul-00

Scale Point: (1) Poor (2) Average (3) Good (4) Excellent				
Survey Forms	1st YTD*	1st QRT	Jul-00	2nd YTD*
Orientation Participant Survey	3.59	3.59	3.58	3.59
Customer Service Survey	3.74	3.76	3.73	3.75
Case Manager Satisfaction Survey	3.79	3.81	3.86	3.81
MAXAcademy Satisfaction Surveys	3.82	3.82	3.69	3.81

\* Year To Date (YTD) figures are weighted averages, based on number of surveys submitted per month.

## ARIZONA WORKS QUANTITATIVE REPORT

Participant Activities*	As of July 31, 2000		As of June 30, 2000	
	Assigned	% of Total Assigned	Assigned	% of Total Assigned
<b>Full Time Paid Employment**</b>				
Unsubsidized (L1)	625	24.9%	633	25.7%
Subsidized (L2)	0	0.0%	0	0.0%
<b>Employed Full Time - Follow Up Status</b>				
30 Day	72	3.0%	81	3.0%
60 Day	34	1.0%	48	2.0%
90 Day	288	11.0%	327	13.0%
<b>Part Time Paid Employment</b>				
Unsubsidized (L3)	472	18.8%	490	19.9%
<b>Unpaid Employment</b>				
Unpaid Work Exp (L3)	297	11.8%	264	10.7%
Community Service (L4)	16	0.6%	11	0.4%
<b>Other Activities</b>				
Job Readiness	241	9.6%	181	7.4%
Training (Vocational/Skills)	96	3.8%	99	4.0%
Basic Skills	56	2.2%	52	2.1%
Other****	313	12.5%	275	11.2%
<b>TOTAL</b>	<b>2511</b>		<b>2461</b>	
<b>PT &amp; Subsidized (L2) Follow up Status***</b>				
30 Day	50		62	
60 Day	34		39	
90 Day	187		206	

\*Data reflects actual placement in an activity of all active (cash case open) participants as of the end of the reporting month (with the exception of FT follow-up data these may be closed).

\*\*Throughout report, FT emp. means 40hrs/wk.

\*\*\*Data is a subset of L2 (Paid FT Subsidized) and L3 (Paid PT Unsubsidized), not included in TOTAL.

\*\*\*\*The Other category includes those activities/services not specified above. Examples of what 'Other' includes: Assessments, Character Trng, Childcare Trng, Life Skills, Counseling, Parenting Skills, Domestic Violence Life Skills, etc

## PARTICIPANTS TEMPORARILY EXCUSED

Reason	As of July 31, 2000		As of June 30, 2000	
	Number	% of Clients	Number	% of Clients
<b>Deferred</b>				
Domestic Violence	9	2.2%	9	2.3%
Health Problems	178	43.3%	173	44.0%
Family Emergency	3	0.7%	2	0.5%
Childbirth	89	21.7%	84	21.4%
Other - Caretaker of Disabled family member, Teen Parent w/ child >12 weeks, Parent w/ child >1yr	132	32.1%	125	31.8%
<b>Temporarily Excused</b>				
Child Care Not Available	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>411</b>	<b>100.0%</b>	<b>393</b>	<b>100.0%</b>

## NEW EMPLOYMENT PLACEMENTS - June\*

Type of Placement	New Placements			Wage Range						Emp. Health Ins			
	Number	% of Total	YTD***	< \$5.15	YTD	\$5.15 - \$8.14	YTD	> \$8.14	YTD	Yes	YTD	No	YTD
<b>Paid Employed FT</b>													
Unsubsidized (L1)	116	39.3%	344	2	5	55	172	60	170	87	192	29	153
Subsidized (L2)	0	0.0%	0	0	0	0	0	0	0	0	0	0	0
<b>Paid Employed PT</b>													
Unsubsidized (L3)	41	13.9%	163	1	10	26	103	15	42	24	52	18	102
<b>Subtotal</b>	<b>157</b>	<b>53.2%</b>		<b>3</b>	<b>15</b>	<b>81</b>	<b>275</b>	<b>75</b>	<b>212</b>	<b>111</b>	<b>244</b>	<b>47</b>	<b>255</b>
<b>Unpaid Work Experience**</b>													
Unpaid Work Exp (L3)	132	44.7%											
Community Service (L4)	6	2.0%											
<b>Subtotal</b>	<b>138</b>	<b>100.0%</b>											
<b>TOTAL</b>	<b>295</b>	<b>100.0%</b>	<b>507</b>										

## NEW EMPLOYMENT PLACEMENTS - July\*

Type of Placement	New Placements			Wage Range						Emp. Health Ins			
	Number	% of Total	YTD***	< \$5.15	YTD	\$5.15 - \$8.14	YTD	> \$8.14	YTD	Yes	YTD	No	YTD
<b>Paid Employed FT</b>													
Unsubsidized (L1)	90	29.6%	434	2	7	46	218	43	213	70	262	21	174
Subsidized (L2)	0	0.0%	0	0	0	0	0	0	0	0	0	0	0
<b>Paid Employed PT</b>													
Unsubsidized (L3)	46	15.1%	209	0	10	39	142	7	49	25	77	21	123
<b>Subtotal</b>	<b>136</b>	<b>44.7%</b>		<b>2</b>	<b>17</b>	<b>85</b>	<b>360</b>	<b>50</b>	<b>262</b>	<b>95</b>	<b>339</b>	<b>42</b>	<b>297</b>
<b>Unpaid Work Experience**</b>													
Unpaid Work Exp (L3)	155	51.0%											
Community Service (L4)	13	4.3%											
<b>Subtotal</b>	<b>168</b>	<b>100.0%</b>											
<b>TOTAL</b>	<b>304</b>	<b>100.0%</b>	<b>643</b>										

\*Start date of employment/unpaid work experience fell within month

\*\*Unpaid does not include individuals in training or other non-employment activities

\*\*\*YTD totals 4/99 -thru- Current month's data

## SANCTIONS\*

Sanction Type	As of July 31, 2000				As of June 30, 2000			
	Employment	Child Support	Total	% of Total	Employment	Child Support	Total	% of Total
<b>Failure/Refusal to Participate***</b>								
25%	66	14	80	42.11%	41	22	63	37.06%
50%	35	15	50	26.32%	28	10	38	22.35%
100%	40	20	60	31.58%	48	21	69	40.59%
<b>TOTAL</b>	141	49	190	100.00%	117	53	170	100.00%
<b>Failure/Refusal to Participate</b>								
Hourly**	0	0	0	0.00%	0	0	0	0.00%

\*Reported sanctions are only those which have actually caused a reduction in the assistance benefit.

\*\*If case has both a percentage sanction and hourly sanction, the hourly sanction is not reported to avoid duplication.

\*\*\*Preliminary Data - Contingent on internal/external validation

## COOPERATING EMPLOYERS

Type of Employer	As of July 31, 2000		As of June 30, 2000	
	New	Total - YTD*	New	Total - YTD
Subsidized	0	0	0	0
Unpaid	10	22	4	12

## WORKMAN'S COMPENSATION

	As of July 31, 2000		As of June 30, 2000	
	New	Total -YTD	New	Total - YTD
Number of Participants Covered	56	153	46	97

## FAIR HEARINGS

Action	As of July 31, 2000		As of June 30, 2000	
	Number	Total - YTD	Number	Total - YTD
<b>Fair Hearing Requests</b>				
TANF	9	118	6	109
General Assistance	0	36	4	36
Child Care	1	9	0	8
<b>Total Requests</b>	<b>10</b>	<b>163</b>	<b>10</b>	<b>153</b>
<b>Fair Hearing Dispositions</b>				
Pending	8		8	
Withdrawn	6		6	
Agency Upheld	3		3	
Agency Reversed	0		0	
<b>Total Decisions</b>	<b>3</b>		<b>3</b>	
<b>Appeals Requested</b>				
Pending	1		0	
Withdrawn	0		0	
Agency Upheld	0		1	
Agency Reversed	0		0	
<b>Total</b>	<b>1</b>		<b>1</b>	

\*YTD Totals begin 4/00



## TOTAL CASES BY TYPE

Case Type	As of July 31, 2000		As of June 30, 2000	
	Number	% of Total	Number	% of Total
<b>TANF</b>				
Pending Assignment	0	0.0%	0	0.0%
Unsubsidized (L1)	3	0.1%	3	0.1%
Subsidized (L2)	0	0.0%	0	0.0%
Work Exp (L3)	1230	40.8%	1239	41.6%
Community Service (L4)	243	8.1%	218	7.3%
<b>Subtotal</b>	<b>1476</b>	<b>49.0%</b>	<b>1460</b>	<b>49.0%</b>
<b>No Work Participation Required</b>				
Unwed Minor Parent Case	0	0.0%	0	0.0%
Child Only Case	1539	51.0%	1520	51.0%
<b>Subtotal</b>	<b>1539</b>	<b>51.0%</b>	<b>1520</b>	<b>51.0%</b>
New Transfer In	73		55	
<b>TOTAL</b>	<b>3088</b>	<b>100.0%</b>	<b>3035</b>	<b>100.0%</b>
General Assistance	290		296	
Grant Diversion	0		0	
FSET**	545		676	

\*Data reflects actual payment level indicator of the case (not placement in an activity)

\*\*Data is for a number of PARTICIPANTS not CASES

## CHILD CARE

	As of June 2000	
	FAMILIES	CHILDREN
<b>Number Served</b>		
JOBS Child Care - JB	291	503
AFDC Employed Child Care - EA	122	222
Transitional Child Care 1-12 months (TC)	596	1093
Transitional Child Care 13-24 months (WT)	313	664
<b>TOTAL</b>	<b>1322</b>	<b>2482</b>
<b>Number Eligible</b>		
JOBS Child Care (JB)		479
AFDC Employed Child Care (EA)		81
Transitional Child Care 1-12 months (TC)		1292
Transitional Child Care 13-24 months (WT)		783
<b>TOTAL</b>		<b>2635</b>
<b>Co-Payments Collected</b>		
Transitional Child Care 1-12 months (TC)	\$40,184.00	
Transitional Child Care 13-24 months (WT)	\$26,092.00	
<b>TOTAL</b>	<b>\$66,276.00</b>	

\*As of 11/99 source of data changed to Child Care Expenditure Report which is provided by DES approx. 45 days after the end of the month

## CHILD CARE CO-PAYMENT LEVELS\*

	Fee Level - L1		Fee Level - L2		Fee Level - L3		Fee Level - L4		Fee Level - L5		Fee Level - L6	
	Full Day	Part Day	Full Day	Part Day	Full Day	Part Day	Full Day	Part Day	Full Day	Part Day	Full Day	Part Day
<b>1st Child</b>	\$1.00	\$0.50	\$2.00	\$1.00	\$3.00	\$1.50	\$5.00	\$2.50	\$7.00	\$3.50	\$10.00	\$5.00
<b>2nd Child</b>	\$0.50	\$0.25	\$1.00	\$0.50	\$1.50	\$0.75	\$2.50	\$1.25	\$3.50	\$1.75	\$5.00	\$2.50
<b>3rd Child</b>	\$0.50	\$0.25	\$1.00	\$0.50	\$1.50	\$0.75	\$2.50	\$1.25	\$3.50	\$1.75	\$5.00	\$2.50
<b>4th Child</b>	No minimum required co-pay for 4th (or more) children in care											

\*The only Child Care program administered by Arizona Works that requires a co-payment is the Transitional Child Care program.

## FINANCIAL DATA

	JUNE 2000	JULY 2000
ADMINISTRATIVE	\$371,261.00	\$385,364.00
CHILD CARE**	\$0.00	\$0.00
SUPPORT SERVICES	\$276,707.46	\$162,628.71

\*\*Child Care dollars are no longer reported to DES separately, these dollars are included in the Support Services amounts as requested by DES.



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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

Jane Dee Hull  
Governor

John L. Clayton  
Director

OCT 06 2000

Stefan Shepherd  
Senior Fiscal Analyst  
Joint Legislative Budget Committee  
1716 W. Adams  
Phoenix, AZ. 85007

OCT - 6 2000

Dear Mr. Shepherd:

The DES comparison data for July 2000, as requested, is attached.

If you have any questions, please contact Greg Wetz, Project Manager,  
Arizona Works, at (602) 542-6017.

Sincerely,

Karen McLaughlin  
Administrator  
Financial Services Administration

Attachment



1998 PIONEER AWARD FOR QUALITY

## DES EMPOWER COMPARISON QUANTITATIVE REPORT FOR JLBC

As of July 31, 2000

### Assigned Activity by Participant

Employment Assigned	As of July 31, 2000		As of June 30, 2000	
	Assigned	% of Total Assigned	Assigned	% of Total Assigned

### Paid Employed Full time

Unsubsidized	246	10.9%	315	13.7%
Subsidized	0	0.0%	0	0.0%

### FT Employed Follow Up Status

30 Day	69	3.0%	81	3.5%
60 Day	225	10.0%	225	9.8%
90 Day	572	25.4%	536	23.3%

### Paid Employed Part Time

Unsubsidized	217	9.6%	242	10.5%
--------------	-----	------	-----	-------

### Unpaid Employment

Unpaid Work Exp	140	6.2%	139	6.0%
Community Service	1	0.0%	3	0.1%

### Other Activities

Job Readiness	242	10.7%	261	11.3%
Training	104	4.6%	78	3.4%
Basic Skills	39	1.7%	42	1.8%
Other	388	17.2%	369	16.1%

### TOTAL

2244		2291	
------	--	------	--

**Participants Temporarily Excused**

Reason	Current Month - As of July 31, 2000		Previous Month - As of June 30, 1999	
	Number	% of Clients	Number	% of Clients

**Deferred**

Domestic Violence	21	1.2%	17	0.9%
Disability	579	33.1%	529	30.4%
Caretaker of Disabled Family	208	11.8%	187	10.7%
Parent/Caretaker of child under 1	936	53.4%	1000	57.5%
Teen parent w/child under 12 wks.	5	0.2%	5	0.2%

**Total**

<b>1749</b>		<b>1738</b>	
-------------	--	-------------	--

## New Employment Placements – Current\* Period

Placements	New Placements			Wage Range			Emp. Health Ins	
	Number	% of Total	YTD***	< \$5.15	\$5.15 - \$8.14	> \$8.14	YES	NO

No Comparison to AZW

## Paid Employed FT

Unsubsidized	292	59.2%		4	172	116	9	283
Subsidized	0	0.0%		0	0	0	0	0

## Paid Employed PT

Unsubsidized	84	17.0%		7	59	18	2	82
--------------	----	-------	--	---	----	----	---	----

<b>Subtotal Paid Employment</b>	376	76.2%		11	232	134	11	365
---------------------------------	-----	-------	--	----	-----	-----	----	-----

## Unpaid Work Experience

Unpaid Work Exp	114	23.1%						
Community Service	2	0.4%						

<b>Subtotal Unpaid Employment</b>	116	23.5%						
-----------------------------------	-----	-------	--	--	--	--	--	--

<b>TOTAL</b>	492							
--------------	-----	--	--	--	--	--	--	--

**Sanctions – Current Period**

	Current Month - As of July 31, 2000				Previous Month - As of June 30, 2000			
	Employment	Child Support	Total	% of Total	Employment	Child Support	Total	% of Total

**Sanctions****Failure/Refusal to Participate**

25%	167	30	197	32.2%	221	44	265	35.0%
50%	155	27	182	29.7%	175	22	197	26.0%
100%	213	20	233	38.1%	266	30	296	39.0%

TOTAL	535	77	612	100.0%	662	96	758	100.0%
-------	-----	----	-----	--------	-----	----	-----	--------



**Cooperating Employers – Current Period**

Not Tracked				
Type of Employer	Current Month - As of July 31, 2000		Previous Month - As of June 30, 1999	
	New	Total - YTD	New	Total - YTD
Subsidized				
Unpaid				

**Fair Hearings**

There is no comparison to AZW on Fair Hearings as the AZW Fair Hearing process is completely different from the ADES.

Action	Current Month - As of July 31, 2000		Previous Month - As of June 30, 1999	
	Number	Total - YTD	Number	Total - YTD

**Fair Hearing Requests**

TANF				
General Assistance				
Child Care				
<b>Total Requests</b>				

**Fair Hearing Dispositions**

Pending				
Withdrawn				
Agency Upheld				
Agency Reversed				
<b>Total Decisions</b>				

**Appeals Requested**

Pending				
Withdrawn				
Agency Upheld				
Agency Reversed				
<b>Total</b>				

**Total Cases by Type**

	Current Month - As of July 31, 2000		Previous Month-As of June 30,1999	
	Number	% of Total	Number	% of Total

**TANF Cases**

Total Cases	11,529	n/a	11,352	n/a
Total Adults	7,689	n/a	7,323	n/a
Total Children	21,176	n/a	21,093	n/a

**No Work Participation Required**

Unwed Minor Parent Case	17		16	
Child Only Case	6,095*		6026*	
<b>Total</b>	6,112		6,042	

\*Indicates a true comparison to AZW definition of a child only case

General Assistance	661		673	
Grant Diversion	0		0	
Transitional Child Care	1255		1291	
Other TANF Child Care	839		687	
FSET**Referrals	469		449	

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Pat Mah, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON DOMESTIC  
VIOLENCE BASELINE COST-EFFECTIVENESS

### **Request**

Pursuant to Laws 2000, Chapter 122, the Department of Economic Security (DES) submitted for domestic violence programs its written report on baseline cost-effectiveness information and other recommended outcome measures that need to be developed with other state agencies and interested stakeholders.

### **Recommendation**

This item is for information only but JLBC Staff recommends that DES report back to the Committee after developing its outcome measures. DES is still in its initial stages of collecting expenditure data and needs time to evaluate and plan cost-effective usage of the data. DES is also in the process of obtaining input from other state agencies and interested stakeholders on the outcome measures. As a result, we have recommended that DES report back to the Committee after receiving this input.

### **Analysis**

Laws 2000, Chapter 122 is the end result of a Strategic Program Area Review (SPAR) that was conducted on domestic violence pursuant to Laws 1999, Chapter 148. The SPAR recommended that DES report to the Governor and Legislature its baseline cost-effectiveness information that

(Continued)

was being collected because of a recommendation in a 1997 Joint Program Authorization Review (PAR) that was presented to the 1998 Legislature.

As a result, DES submitted the attached report. It provides background information on the department's 1998 pilot project for establishing a data collection tool to collect baseline costs of shelters that receive state funding from DES. The bulk of the report is a copy of the data collection tool and graphics of expenditure data collected for the first six months of FY 2000. The graphics show expenditure data for all shelters, shelters over 22 beds, and shelters with 22 or less beds.

The department reports that the six months of FY 2000 expenditure data in its report is all that the agency has been able to compile to date. The department is still in the beginning stages of collecting the data. Therefore, it is too early to evaluate whether the expenditure data will prove to be baseline information that assist the agency in achieving cost-effectiveness. DES agrees that reporting of the data alone will not provide cost-effective benefits. DES intends to develop a plan that will use the data to demonstrate cost-effectiveness for its program.

According to DES, its goal is to develop outcome measures that link the expenditure data for costs of services to actual benefits received. DES has begun this task by requiring all of its domestic violence grant recipients to include outcome measures in their proposals for FY 2001 contracts. Contract recipients have to evaluate and report on their performance to determine whether they have met their outcomes. The department will monitor and analyze the results to assist it in developing standard measures for use in future contracts. DES also reports that it hopes to use the expenditure data to compare service levels rendered by different providers. This information can then be used to determine whether service rates are cost-effective and what rates should be used when issuing any future Request for Proposals for service contracts.

Laws 2000, Chapter 122 also required that DES include in its report to the Committee some recommendations for domestic violence outcome measures which need to be developed with other state agencies and interested stakeholders. The report contains the following three "examples" of measures that were put together by DES Staff to reflect a systems approach to preventing and responding to domestic violence:

- Increase the safety of victims and their children by reducing the numbers of victims who are unable to access shelter and increasing the number of victims who receive shelter and support services upon request.
- Increase effective consequences and treatment to perpetrators as measured by increasing the numbers of perpetrators involved in the criminal justice system and increasing the cessation of violence for those involved in the Offender Treatment Programs.
- Increase community response to domestic violence as measured by increasing the number of communities in Arizona that have developed protocols for a coordinated domestic violence response, increasing public awareness of the community's response, and measuring public attitudes and opinions regarding domestic violence.

(Continued)

DES reports that it does not have the expertise needed to develop systemwide measures. It needs input from other state agencies and interested stakeholders to make the measures achievable. DES plans to get this input from the Domestic Violence and Sexual Assault State Plan Task

Force that was established by Laws 2000, Chapter 122. The department will begin by submitting its own domestic violence program draft measures that can be blended with measures from other states agencies and interested stakeholders by the Task Force to form systemwide measures.

The Task Force's first meeting is tentatively scheduled for October 27, 2000. Members are to consist of individuals from the public and private sectors who are required to develop a consolidated state plan to ensure coordinated and efficient use of resources to address domestic violence and sexual assault prevention, prosecution, and supportive services to victims. Among other things, the state plan is to include outcome goals, gaps in services and resources, and methods to ensure coordination and collaboration between state agencies and other interested parties. The Task Force is to issue a state plan and report of findings and recommendation to the Governor and legislative leadership by December 1, 2000.

The report submitted by DES meets the requirements outlined in Laws 2000, Chapter 122. However, the report has very limited content because the agency is in the initial stages of collecting expenditure data and needs time to evaluate and plan cost effective usage of the data.

With regard to outcome measures, we agree that DES does not have the expertise needed to develop systemwide measures. A suitable forum for this is the new Domestic Violence Task Force. DES could have been more proactive in forming outcome measures for this particular report, however, by soliciting the opinions of experts in other state agencies.

The JLBC Staff plans to monitor DES' progress in meeting its goals. The JLBC Staff also recommends that DES report back to the Committee after outcome measures are established to achieve the agency's goals. DES indicates that it should be able to document its progress in meeting its goals in about 12 to 18 months.

RS:PM:ss  
Attachments



**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

1717 West Jefferson • P.O. Box 6123 • Phoenix, Arizona 85005

Jane Dee Hull  
Governor

John L. Clayton  
Director

SEP 27 2000



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

Dear Mr. Stavneak:

Pursuant to Laws 2000, Chapter 122, Section 1, the Department is submitting a revised report on baseline cost-effectiveness information and other recommended outcome measures for domestic violence programs.

If you have any questions, please contact Nancy Mendoza, Deputy Director, at 542-3873.

Sincerely,

A handwritten signature in cursive script that reads "John L. Clayton".  
John L. Clayton

Enclosure

Report on Baseline Costs and Outcome Measures  
For Domestic Violence Programs

Arizona Department of Economic Security  
September 1, 2000  
John L. Clayton, Director

### **BASELINE COST EFFECTIVENESS INFORMATION**

Based on the recommendations of the Joint Program Authorization Review (PAR) Committee in FY1998, the Department of Economic Security (DES)-Community Services Administration (CSA) was to collect expenditure data from shelters for each activity, to include cost of beds, counseling, and educational presentations and to add outcome measures to monitor the cost effectiveness of shelters' activities.

To establish a baseline cost for various shelter activities, a work group of CSA staff and domestic violence shelter providers identified discrete shelter activities and developed a format to report the costs of these activities. Reporting categories for cost of selected shelter activities were determined and a pilot of the reporting process was conducted with contractors. Data from the pilot was analyzed for integrity and consistency, and the data collection tool and process were modified.

After modifications based on the pilot, the actual cost data was collected from shelter contractors covering the first six months of FY 2000 (July 1 to December 31, 1999) and baseline costs have been established. These costs are presented on the attached pages. The data collection tool is also attached which provides detailed information about each activity—its components and associated cost categories. Contractors are required to report their costs by activity through FY2002. These costs will be compared to the baseline costs. The outcome of cost data analysis will be the development of a range of costs necessary to provide emergency shelter. CSA will use this range of costs to allocate resources and evaluate contractors' budgets.

### **OUTCOME PERFORMANCE MEASURES**

Specific to DES, CSA required all domestic violence shelter offerors to include outcome measures in the proposals for FY2001 contracts. The contractors are required to report performance on their outcomes. CSA will monitor this performance and analyze the results. Standard outcome measures will be developed for use with future contracts.

The DES further recommends that a set of uniform outcome measures be developed in consultation with the other state agencies and interested stakeholders that takes a systems approach to preventing and responding to domestic violence. The following are examples:

1. Increase the safety of victims and their children as measured by:
  - Reduction in the numbers of victims who are unable to access shelter
  - Increase in the number of victims who receive shelter and support services upon request
2. Increase effective consequences and treatment to perpetrators as measured by:
  - Increase in the numbers of perpetrators involved in the criminal justice system
  - Increase in cessation of violence for those involved in the Offender Treatment Programs



3. Increase in community response to domestic violence as measured by:
  - Increase in number of communities in Arizona that have developed protocols for a coordinated domestic violence response.
  - Increase in public awareness of the community's response.
  - Measurement of the public's attitudes and opinions regarding domestic violence.

# DATA COLLECTION FORM

AGENCY NAME \_\_\_\_\_ COUNTY \_\_\_\_\_

☐ BASELINE COSTS ASSOCIATED WITH SHELTER ACTIVITIES

1<sup>st</sup> Qtr ☐ 2<sup>nd</sup> Qtr ☐ 3<sup>rd</sup> Qtr ☐ 4<sup>th</sup> Qtr ☐

## 1. CLIENT SERVICES

ACTIVITY	COMPONENTS	ASSOCIATED COSTS	COST ALLOCATION METHOD	ENTER ONE COST FOR ACTIVITY Please note if activity is not applicable
Hotline	<ol style="list-style-type: none"> <li>1. Phone log</li> <li>2. Assessment/Risk evaluation</li> <li>3. Screening</li> <li>4. Information and Referral</li> <li>5. Staffing</li> <li>6. Crisis management</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Professional fees</li> <li>▪ Fingerprinting</li> </ul>		
Intake	<ol style="list-style-type: none"> <li>1. Form completion</li> <li>2. Setting up file</li> <li>3. Preparing client room</li> <li>4. Client orientation</li> <li>5. Staffing</li> <li>6. Crisis management</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Professional fees</li> <li>▪ Fingerprinting</li> </ul>		
Case Management/Client Advocacy/Client Education	<ol style="list-style-type: none"> <li>1. ISP development and monitoring</li> <li>2. Client resource development</li> <li>3. Client assessment</li> <li>4. Staff transportation</li> <li>5. Belonging retrieval</li> <li>6. Advocacy</li> <li>7. Staffing</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Professional fees</li> <li>▪ Fingerprinting</li> <li>▪ Staff mileage reimbursement</li> </ul>		

1. CLIENT SERVICES, CONT.

ACTIVITY	COMPONENTS	ASSOCIATED COSTS*	COST ALLOCATION METHOD	ENTER ONE COST FOR ACTIVITY Please note if activity is not applicable
Therapeutic Counseling Services	<ol style="list-style-type: none"> <li>1. Clinical supervision</li> <li>2. One-on-one therapy</li> <li>3. Treatment group facilitation</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Professional fees</li> <li>▪ Fingerprinting</li> <li>▪ Staff mileage reimbursement</li> </ul>		
Childcare	<p>Criteria to consider:</p> <ol style="list-style-type: none"> <li>1. Do you have a separate childcare center? <i>and if so,</i></li> <li>2. Childcare workers? <i>and if so,</i></li> <li>3. Is childcare an additional staff responsibility? <i>and if so,</i></li> <li>4. Is childcare a cost to the client that the shelter may pay for?</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Professional fees</li> <li>▪ Food</li> <li>▪ Fingerprinting</li> </ul>		
Training	<ol style="list-style-type: none"> <li>1. Orientation and training</li> <li>2. On-going education</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Professional fees</li> <li>▪ Conferences/Seminars</li> <li>▪ Travel expenses</li> <li>▪ Mileage reimbursement</li> </ul>		

## 2. SHELTER NIGHT

ACTIVITY	COMPONENTS	ASSOCIATED COSTS	COST ALLOCATION METHOD	ENTER ONE COST FOR ACTIVITY Please note if activity is not applicable
Shelter	<ol style="list-style-type: none"> <li>1. Facilities</li> <li>2. Meals/Food</li> <li>3. Materials</li> <li>4. Equipment</li> <li>5. Staff</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Professional fees</li> <li>▪ Fingerprinting</li> <li>▪ Food</li> <li>▪ Mileage reimbursement</li> </ul>		
Individual Expenses	<ol style="list-style-type: none"> <li>1. Individual client expenses</li> </ol>	<p>For example:</p> <ul style="list-style-type: none"> <li>▪ Substance abuse screening</li> <li>▪ Prescriptions</li> <li>▪ Birth certificates/ID</li> <li>▪ School supplies</li> <li>▪ Kids clothing</li> <li>▪ Medical visits</li> <li>▪ Car repairs/Gasoline</li> <li>▪ Move-in costs</li> <li>▪ School lunch money</li> <li>▪ Miscellaneous</li> </ul>		
Donations Examples: clothing, food, supplies, equipment, money, furniture, etc.	<ol style="list-style-type: none"> <li>1. Soliciting donations</li> <li>2. Gift acceptance</li> <li>3. Sorting</li> <li>4. Distribution</li> <li>5. Storage</li> <li>6. Disposal</li> <li>7. Thank you(s)</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Thrift store operations</li> <li>▪ Mileage</li> </ul>		

3. **COMMUNITY ACTIVITIES**

ACTIVITY	COMPONENTS	ASSOCIATED COSTS	COST ALLOCATION METHOD	ENTER ONE COST FOR ACTIVITY Please note if activity is not applicable
Community Education Presentations	<ol style="list-style-type: none"> <li>1. Scheduling</li> <li>2. Planning</li> <li>3. Presenting</li> <li>4. Follow-up</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Professional fees</li> <li>▪ Fingerprinting</li> <li>▪ Mileage reimbursement</li> </ul>		
Coordinated Community Response	<ol style="list-style-type: none"> <li>1. Developing and maintaining partnerships</li> <li>2. Attending meetings</li> <li>3. Scheduling</li> <li>4. Planning</li> <li>5. Presenting</li> <li>6. Follow-up</li> <li>7. Program development</li> </ol>	<ul style="list-style-type: none"> <li>▪ Personnel salary/wages</li> <li>▪ ERE</li> <li>▪ Occupancy cost</li> <li>▪ Operating costs</li> <li>▪ Equipment</li> <li>▪ Materials/Supplies</li> <li>▪ Professional fees</li> <li>▪ Mileage reimbursement</li> <li>▪ Travel expenses</li> </ul>		

#### 4. MISCELLANEOUS ACTIVITIES

ACTIVITY	COMPONENTS	ASSOCIATED COSTS	COST ALLOCATION METHOD	ENTER ONE COST FOR ACTIVITY Please note if activity is not applicable
Administration	1. Human resources 2. Financial management	<ul style="list-style-type: none"> <li>Personnel salary/wages</li> <li>ERE</li> <li>Occupancy cost</li> <li>Operating costs</li> <li>Equipment</li> <li>Materials/Supplies</li> <li>Professional fees</li> </ul>		
Resource Development	1. Fundraising 2. Special events 3. Board development	<ul style="list-style-type: none"> <li>Personnel salary/wages</li> <li>ERE</li> <li>Occupancy cost</li> <li>Operating costs</li> <li>Equipment</li> <li>Materials/Supplies</li> <li>Professional fees</li> </ul>		
Data Collection and Reporting	1. Data entry 2. Generation of reports	<ul style="list-style-type: none"> <li>Personnel salary/wages</li> <li>ERE</li> <li>Occupancy cost</li> <li>Operating costs</li> <li>Equipment</li> <li>Materials/Supplies</li> <li>Professional fees</li> </ul>		

##### \*Examples of Operating Costs

Phones  
Maintenance  
Membership dues  
Employment ads

Insurance  
Subscriptions  
Storage  
Delivery

##### Examples of Equipment Costs

Lease or Purchase Rent  
Depreciation  
Repairs

##### Examples of Occupancy Costs

Utilities  
Rent  
Depreciation  
Maintenance

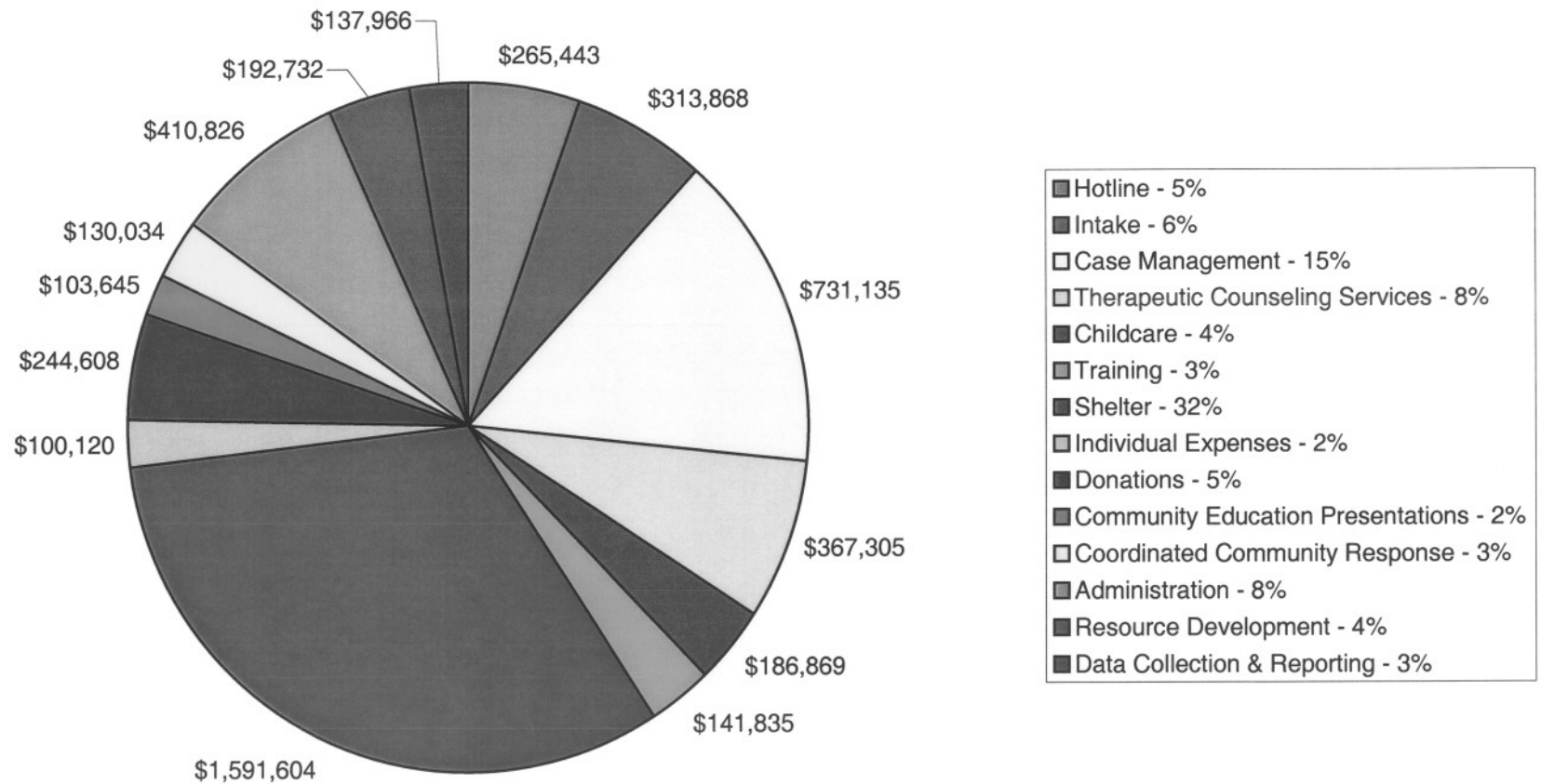
##### Examples of Materials/Supplies

Printing  
Postage  
Program Supplies

## DOMESTIC VIOLENCE EMERGENCY SHELTER ACTIVITIES - STATEWIDE

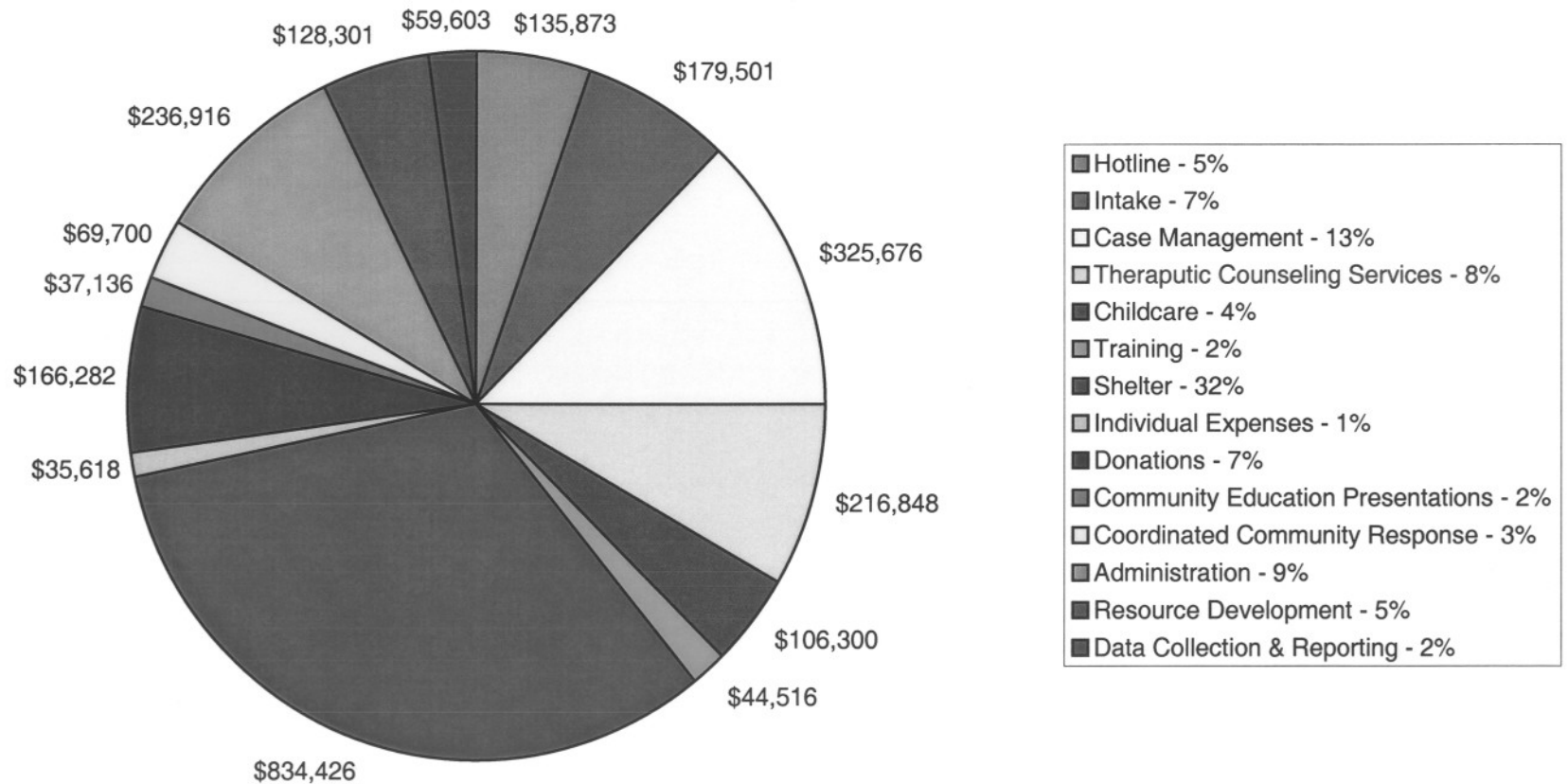
### Expenditures by Activity

July 1, 1999 through December 31, 1999



Total Expenditures - \$4,917,992

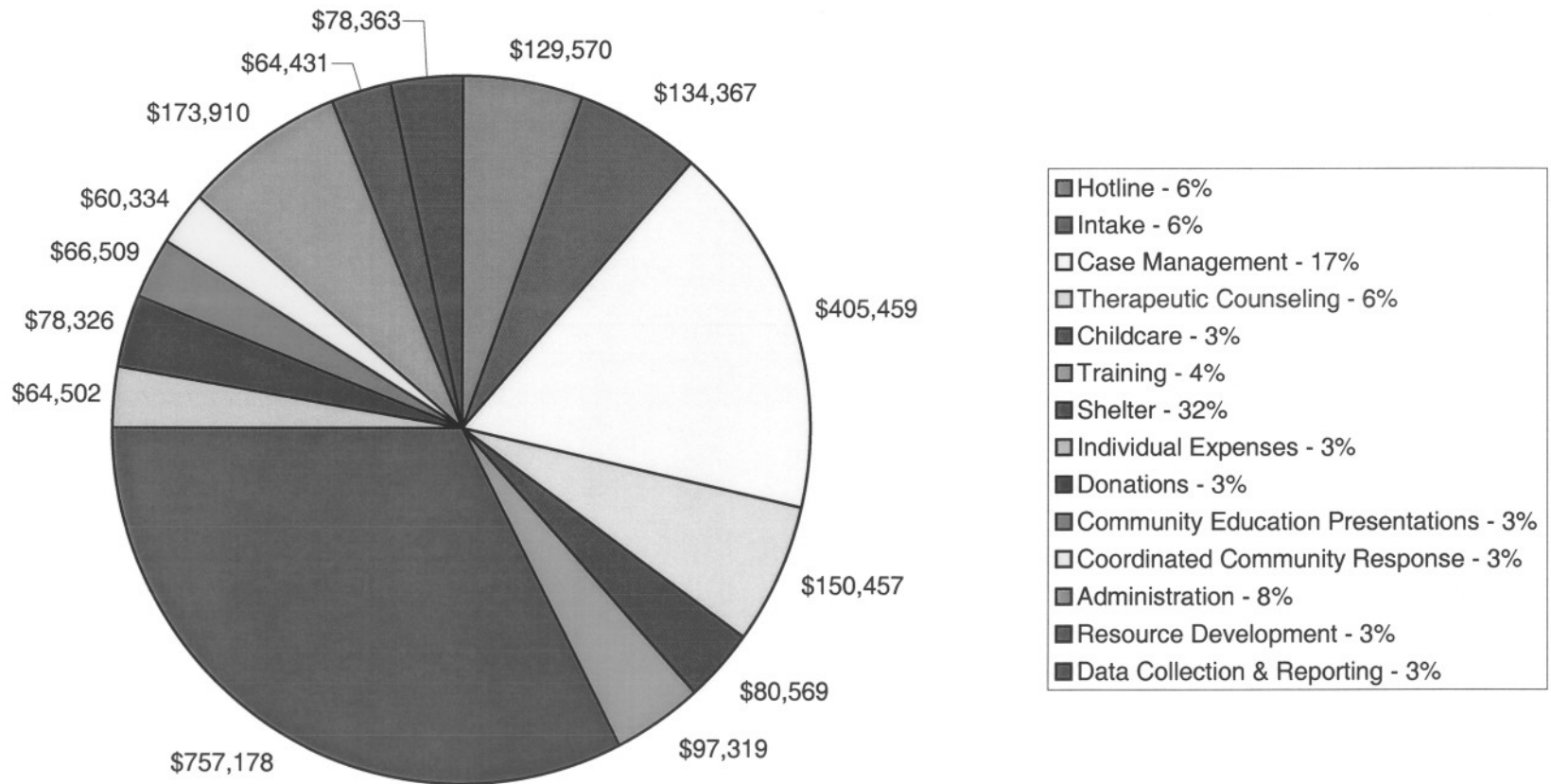
**DOMESTIC VIOLENCE EMERGENCY SHELTER ACTIVITIES**  
**Expenditures for Large Shelters (more than 22 beds)**  
**July 1, 1999 through December 31, 1999**



Total Expenditures - \$2,576,696

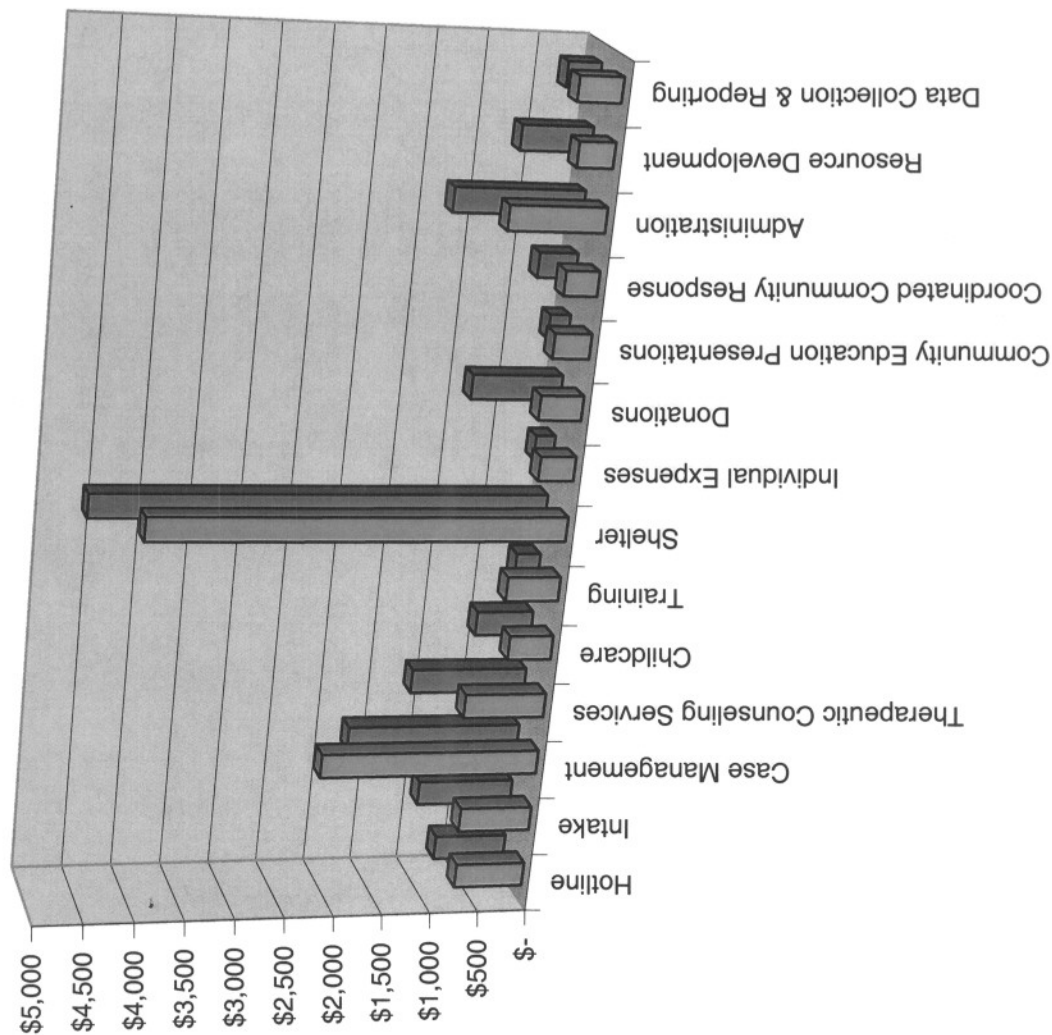


**DOMESTIC VIOLENCE EMERGENCY SHELTER ACTIVITIES**  
**Expenditures for Small Shelters (22 beds or less)**  
**July 1, 1999 through December 31, 1999**



Total Expenditures - \$2,341,296

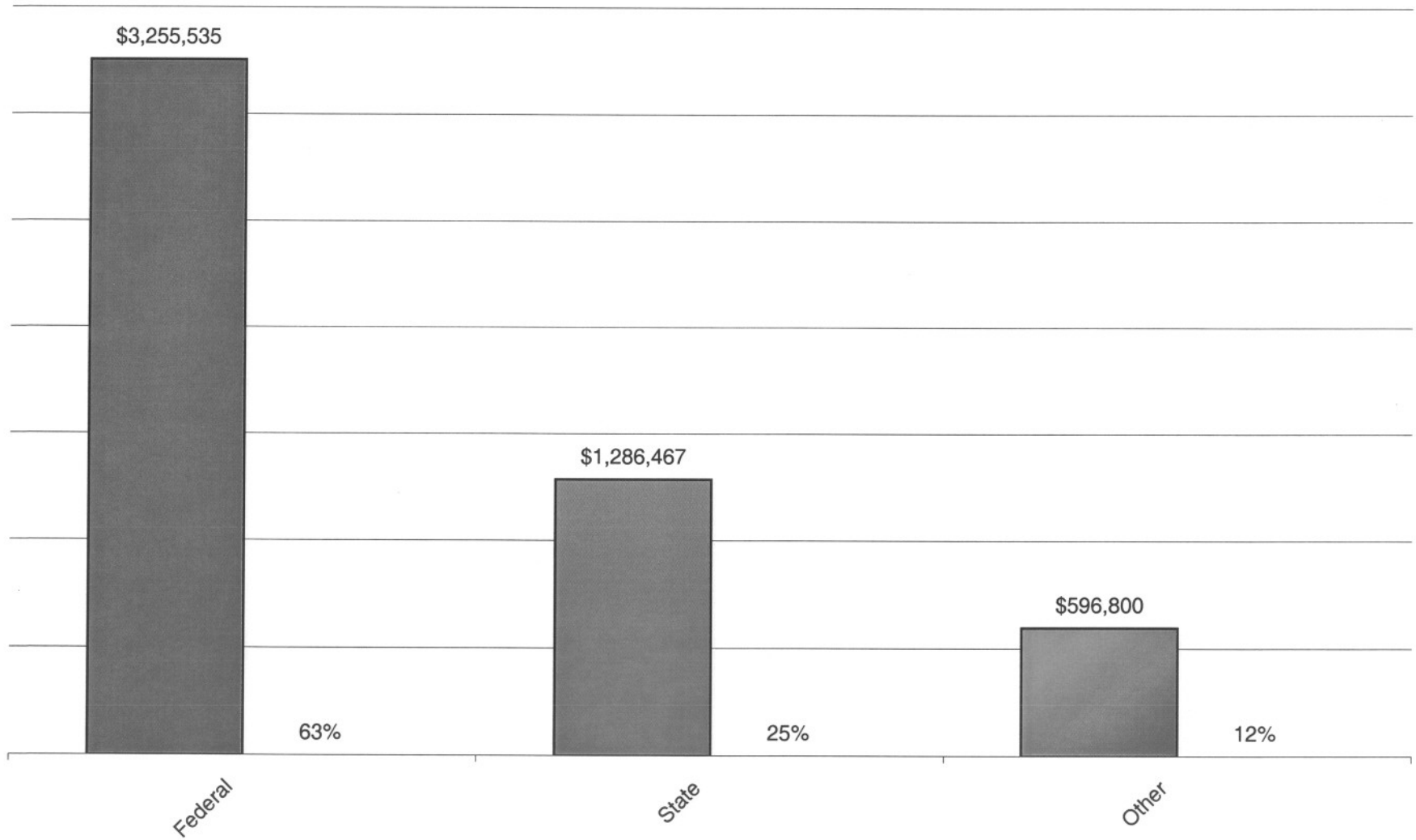
# DOMESTIC VIOLENCE SHELTER ACTIVITIES MEDIAN EXPENDITURES PER BED BY ACTIVITY July 1, 1999 through December 31, 1999



■ Small Shelters - 22 beds or less ■ Large Shelters - more than 22 beds

Median expenditures per bed for all activities - \$8,816

**DOMESTIC VIOLENCE EMERGENCY SHELTER  
DES Funding by Fund Source - State Fiscal Year 2000**



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL - REPORT OF PLAN TO SPEND  
PORTION OF INTERAGENCY SERVICE AGREEMENTS APPROPRIATION

**Request**

In FY 2001, \$775,700 and 12 FTE Positions were appropriated in a General Appropriation Act footnote from the Interagency Service Agreements (ISA) Fund for new or expanded Interagency Agreements. The footnote requires that the Attorney General report to JLBC when a new or expanded ISA will require expenditures from the additional appropriation. The Attorney General reports that additional ISAs have been established that will require expenditures totaling \$323,500 from the additional \$775,700 appropriated from the ISA Fund.

**Recommendation**

This report is for information only and no Committee action is required. The Attorney General reports that \$323,500 and 5.75 FTE Positions will be used for new and expanded ISAs.

**Analysis**

Following is a list of the agencies, amounts and FTE Positions associated with new or expanded ISAs that will require expenditure from this additional appropriation:

<u>Agency</u>	<u>Amount</u>	<u>FTE Position</u>	<u>Reason</u>
Arizona State Lottery Commission	\$ 25,100	0	Increased workload
Board of Medical Examiners	119,800	1.75	New ISA
Citizens Clean Elections Commission	51,800	1	Increased workload
Department of Economic Security - Rehabilitation Services Administration	5,000	0	New ISA
State Board of Accountancy	<u>121,800</u>	<u>3</u>	Increased workload
<b>TOTAL</b>	<b>\$323,500</b>	<b>5.75</b>	

This report complies with the requirement of the General Appropriation Act footnote.

RS:GG:ck



STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

JANET NAPOLITANO  
ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX, AZ. 85007-2926



MAIN PHONE: (602) 542-5025  
FACSIMILE: (602) 542-4085

September 13, 2000

The Honorable Randall Gnant  
Chairman, Joint Legislative Budget Committee  
Arizona State Senate  
1700 West Washington  
Phoenix AZ 85007

Dear Senator Gnant:

Pursuant to Footnote 5 in the Department of Law's section of the General Appropriations Act, as recorded in the Appropriations Report for FY00/01 (Supplemental Adjustments), this letter is written to report that the following Interagency Service Agreements are being expanded or added during FY01 and will require expenditures totaling \$323,458 from the additional \$775,700 appropriated from the Interagency Service Agreements Fund:

<u>Agency</u>	<u>Amount</u>	<u>FTEs</u>	<u>Reason</u>
Arizona State Lottery Commission	\$ 25,108	-	Expansion
Board of Medical Examiners	119,800	1.75	New ISA
Citizens Clean Elections Commission	51,750	1.00	Expansion & annualization
Department of Economic Security - Rehabilitation Services Administration	5,000	-	New ISA
State Board of Accountancy	<u>121,800</u>	<u>3.00</u>	Expansion of the Accounting Enforcement Unit ISA
Total	<u>\$323,458</u>	<u>5.75</u>	

I can be reached at 542-8031 should additional information be required.

Very truly yours,

John T. Stevens, Jr.  
Director, Budget and Finance

cc: Robert Burns, Vice-Chairman, JLBC  
Richard S. Stavneak, Director, JLBC  
Thomas J. Betlach, Executive Director, OSPB  
Gina Guarascio, Budget Analyst, JLBC  
Keith Fallstrom, Budget Analyst, OSPB

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF TRANSPORTATION - REPORTS ON PORTS OF ENTRY

**Request**

The Arizona Department of Transportation (ADOT) is presenting 2 reports on Arizona ports of entry, which resulted from a Strategic Program Area Review (SPAR) of the ports. The reports are required by Laws 2000, Chapter 343, and were due by September 1, 2000.

**Recommendation**

This report is for information only and no Committee action is required. The ports of entry SPAR has focused the attention and increased the awareness of ADOT, the Department of Public Safety (DPS), and the Arizona Department of Agriculture (ADA) on their inter-relationships at the ports. ADOT's first report indicates that the 3 agencies have conducted meetings, are cooperating to improve issues and employee cross-training, and will continue to meet at least every 3 months to discuss operational issues and methods improvements.

The second report, ADOT's 5-Year Port Plan for FY 2001-2005 provides some information on individual ports and on the program. However, ADOT still needs to establish baseline data in FY 2001 for 3 of the 4 performance measures specified in Laws 2000, Chapter 343 (the number of vehicles weighed, the number of overweight vehicles, and the operating budget expenditures for both fixed ports and mobile units).

The JLBC Staff will continue to evaluate ADOT's progress regarding this program, as updated performance measures and new data become available. ADOT's third report required by Chapter 343, on how they have improved their collection, analysis and use of the specified performance measures is due by September 1, 2001.

(Continued)

## Analysis

A SPAR of Arizona's non-international ports of entry was conducted during the summer of 1999 by the staffs of the Joint Legislative Budget Committee and the Office of Strategic Planning and Budgeting. The SPAR found that ADOT, DPS and ADA each has its own areas of primary responsibility, as well as having certain overlapping secondary responsibilities and common concerns regarding port operations. ADOT's Motor Vehicle Division concentrates on truck size and weight enforcement, DPS is the lead agency for truck safety, and ADA handles agriculture and horticulture inspections. The SPAR found that it is useful for the 3 agencies to share ADOT's port facilities. However, the cooperation level among the 3 agencies has varied, and there were definite opportunities for increased cooperation. As a result, Laws 2000, Chapter 343, requires ADOT with cooperation from DPS and ADA to report their progress in improving inter-agency cooperation, cross-training, and the use of interagency agreements to foster effective and efficient cooperation by September 1, 2000. ADOT's report follows this memo.

In summary, ADOT reports that the 3 agencies have met several times, giving each agency a clearer understanding of the others' needs. The 3 agencies have agreed to continue meeting at least every 3 months to discuss operational issues and methods improvements. ADOT reports that the agencies are undertaking several cooperative actions, including the following: DPS and ADOT are improving their scheduling and coordinating of joint mobile details for truck size, weight and safety enforcement; DPS has agreed to train and certify 10 additional ADOT personnel to perform truck safety inspections, beyond the 26 already trained; ADOT has invited the other 2 agencies to share the space at any of its ports; ADA and ADOT will review each other's performance measures to help coordinate their efforts; and, the 3 agencies have agreed to try to address ADA's dissatisfaction with the electronic screening (PrePass) system which allows the trucks of participating firms to bypass selected ports. All 3 agencies expressed a desire for more staffing.

Employee cross-training has included the following: ADOT provided hazardous materials awareness training for the 3 agencies and various other law enforcement agencies to improve port safety; ADA has agreed to present an infestation recognition training course to ADOT employees; and, ADOT will train ADA employees to enhance size, weight and safety screening. Drafts of a memorandum of understanding between ADOT and DPS, and of an intergovernmental agreement between ADOT and ADA which detail various points of cooperation between the agencies are under legal review. For a practical demonstration of employee cross-training, ADOT cites employee response to 2 hazardous materials incidents, ADOT employees screening trucks for agricultural loads at ports not staffed by ADA, and ADA assisting ADOT in screening trucks during busy times.

The SPAR also found that ADOT's 5-Year Master Port Plan was last updated in 1989. Chapter 343, requires ADOT to submit an updated 5-Year Master Port Plan by September 1, 2000, including data on the number of vehicles weighed, the number of overweight vehicles, the revenue generated and the operating budget expenditures for its fixed ports and its mobile units. In order to help improve the future evaluation of the direction of the program, including the best use and mix of fixed scales, mobile scales and newer technologies, Chapter 343, requires ADOT to make a third report. ADOT is to report how they have improved their collection, analysis and use of the preceding data by September 1, 2001.

ADOT's new Ports of Entry 5-Year Plan, Fiscal Years 2001-2005, dated August 2000, provides some information on individual ports and on the program, including the amount of revenue generated in FY 2000 at each port. However, ADOT still needs to establish baseline data in FY 2001 for 3 of

(Continued)

the 4 performance measures specified in Chapter 343 (the number of vehicles weighed, the number of overweight vehicles, and the operating budget expenditures for both fixed ports and mobile units). We have asked ADOT to clarify and reconcile the number of FTE Positions which they reported for the ports. A copy of the new 5-Year Plan is available on request from ADOT. The JLBC Staff will use the new 5-Year Plan in conjunction with other information, and the third report that is due by September 1, 2001, to help evaluate future ADOT operating and capital budget requests for the ports.

In summary, the ports of entry SPAR has focused the attention and increased the awareness of ADOT, DPS, and ADA on their inter-relationships at the ports. ADOT's first report indicates that the 3 agencies have conducted meetings, are cooperating to improve issues and employee cross-training, and will continue to meet at least every 3 months to discuss operational issues and methods improvements. The second report, ADOT's 5-Year Port Plan for FY 2001-2005 provides some information on individual ports and on the program. However, ADOT still needs to establish baseline data in FY 2001 for 3 of the 4 performance measures specified in Chapter 343 (the number of vehicles weighed, the number of overweight vehicles, and the operating budget expenditures for both fixed ports and mobile units).

The JLBC Staff will continue to evaluate ADOT's progress regarding this program, as updated performance measures and new data become available. ADOT's third report required by Chapter 343, on how they have improved their collection, analysis and use of the specified performance measures is due by September 1, 2001.

RS:BH:jb





Jane Dee Hull  
Governor

Mary E. Peters  
Director

# Arizona Department of Transportation

Office of the Director  
206 S. 17<sup>th</sup> Ave. Phoenix, Arizona 85007-3213  
Phone 602.712.7226 FAX 602.712.6941

Victor M. Mendez  
Deputy Director

September 1, 2000

Randall Gnant, Chairman, Senate Appropriations Committee  
Keith Bee, Chairman, Senate Transportation Committee  
Robert Burns, Chairman, House Appropriations Committee  
Jerry Overton, Chairman, House Transportation Committee  
Richard Stavneak, Director, JLBC  
Thomas Betlach, Director, OSPB:



Pursuant to Laws 2000, Chapter 343, Section 70.A the Department of Transportation, with cooperation from the Departments of Public Safety and Agriculture, is required to submit a progress report to the Director of the Joint Legislative Budget Committee, the Director of the Governor's Office of Strategic Planning and Budget, and the Chairmen of both the Senate and House Transportation Committees by September 1, 2000. The following items are included in the enclosed report:

1. The specific actions taken by the three agencies to operate more efficiently and effectively at ports of entry and the cost effective recommendations designed to enhance the efficient and effective operations and customer service of the ports.
2. The actions taken to further practical cross-training and development of employees and how the agencies are using interagency agreements to foster effective and efficient cooperation.
3. Copies of the interagency agreements among the agencies.
4. A demonstration of the practical use of cross-training of employees to streamline the procedures, costs and time of inspections and the use of interagency team building activities at the ports of entry.

If you have any questions, please call Stacey Stanton, Director, Motor Vehicle Division, at 712 - 8152, or me at 712 - 8981.

Sincerely,

  
David P. Jankofsky, Manager  
Office of Strategic Planning and Budgeting

Cc: Stacey Stanton, Director, MVD  
Marcel Benberou, OSPB  
Bob Hull, Fiscal Analyst, JLBC

Enclosure



## Arizona Department of Transportation

### MEMORANDUM

**To:** Mary Peters  
Director  
Arizona Department of Transportation

**Date:** August 31, 2000

**From:** Stacey K. Stanton *Q# for SKS*  
Division Director  
Motor Vehicle Division

**Subject:** Laws 2000, Chapter 343 Progress Report

According to Laws 2000, Chapter 343 Section 70.(A), "the Department of Transportation, with cooperation from the Department of Public Safety and the Arizona Department of Agriculture shall submit a progress report to the Director of the Joint Legislative Budget Committee, the Director of the Governor's Office of Strategic Planning and Budgeting, the Chairman of the House of Representatives and the Senate Appropriation Committees, the Chairman of the House of Representatives and the Senate Transportation Committees on or before September 1, 2000. The report shall include at least the following:

1. The specific actions the three agencies have taken to operate more efficiently and effectively at ports of entry in this state and, as appropriate, cost-effective recommendations designed to enhance the efficient and effective operations and customer service of the ports.
2. The actions the agencies have taken to further practical cross-training and development of employees and how the agencies are using interagency agreements to foster effective and efficient cooperation.
3. Copies of the interagency agreements among the agencies.
4. A demonstration of the practical use of cross-training of employees to streamline the procedures, costs and time of inspections and the use of interagency team building activities at the ports of entry.

The narrative provided below is the progress report required by Chapter 343. Information specifically responding to the four points is presented separately.

#### Overview

In response to the requirements of Laws 2000, Chapter 343, top-level representatives from the Arizona Department of Public Safety (DPS), the Arizona Department of Agriculture (ADA) and the Arizona Department of Transportation Motor Vehicle Division (ADOT/MVD) met and identified the needs and wants of their respective agency and suggested specific contributions their respective agency could make to streamline overall processes at the ports. A number of meetings were held over the past four months.

Initially, each agency did not have a clear understanding of the other two agencies' mandates, mission, goals or objectives. During subsequent meetings, this information has been and will continue to be shared among the three agencies.

DPS is recognized as the lead agency in commercial vehicle safety, while MVD concentrates its enforcement efforts on size and weight. ADA directs its agency regulatory functions on agricultural and horticulture products transported within this state. Although each agency's duties and responsibilities are significantly different, it was agreed that certain functions can be jointly shared and performed independent from the specialized agency to assist each other to enhance the efficient and effective operations as well as customer service at the ports and mobile enforcement details.

**1) The specific actions the three agencies have taken to operate more efficiently and effectively at ports of entry (POE) in this state and, as appropriate, cost-effective recommendations designed to enhance the efficient and effective operations and customer service of the ports.**

- DPS and MVD have combined resources to enforce motor carrier laws on Arizona's intrastate roads. This allows for DPS and MVD to inspect commercial vehicles for size, weight and safety in a single stop. The scheduling of these details is recognized by both DPS and MVD as needing improvement. It was agreed that DPS and MVD would assign designated "Commanders/Managers" to coordinate mobile enforcement details and other common interest enforcement activities. ADA has expressed interest in having a presence at future mobile enforcement details.
- MVD extended an invitation to both ADA and DPS to share its fixed facilities at any of its twenty-two ports of entry. Whenever feasible, office and/or workstation space is provided for each of the agencies on request. Currently, DPS shares MVD's port facilities at Ehrenberg, Kingman, Nogales, Yuma, Sanders, San Simon, and Parker. ADA shares MVD's facilities at Ehrenberg, Sanders, San Simon, Yuma, Duncan and Douglas. Based on recent discussions ADA will also share space at Topock and Kingman in the future. Future construction or remodeling of MVD's ports of entry will take into consideration and make space available for potential ADA and DPS presence.
- MVD funds all facility and maintenance costs for both ADA and DPS space at the fixed ports. MVD has worked with DPS and ADA by providing additional space and/or construction modifications to meet their needs. In 1999, ADA requested modifications of its operations at both the Sanders and San Simon facilities. Trailers were placed adjacent to the permanent structures at these ports to house ADA personnel. These enhancements resulted in safer movement of the commercial vehicles through these ports, while at the same time providing the customer with a one-stop shopping location.
- ADA, DPS and MVD jointly participate and share in the use of electronic screening (PrePass) at selected ports of entry. PrePass is a voluntary, multi-state service that enables state motor carrier enforcement agencies to electronically validate participant carriers and vehicles for safety and credential compliance. In exchange for this higher level of compliance checking, participating states allow PrePass carriers to bypass open weigh stations and ports of entry without stopping (except for system generated random checks). This improves the efficiency at the ports for all three agencies. In concept, PrePass allows the compliant vehicles to be eliminated from the

inspection process so that all three agencies can concentrate more effort toward the non-compliant vehicles. As more carriers subscribe to electronic clearance, the traffic volume at the ports is reduced, which helps prevent occasional congestion.

Although this concept has proven effective for size, weight and safety issues, it adversely impacts ADA. ADA has expressed its dissatisfaction with PrePass because it allows for pre-clearance of vehicles carrying agricultural products and livestock. These vehicles are required to submit to an inspection by ADA but are routinely and increasingly entering Arizona unchecked as a result of being pre-cleared.

DPS, MVD and ADA are arranging to meet with the administrators of PrePass to address ADA's concerns in an attempt to determine what modifications can be made for PrePass to be beneficial to all three agencies.

- ADA will review MVD's performance measures and MVD will review ADA's. These reviews will be done to ensure the two agencies reflect a coordinated effort at the Ports of Entry and that all appropriate measurements are accurately reported.
- ADA requested that DPS provide as much presence as possible at the ports of entry to provide an added measure of security, and to pursue vehicles which "run the ports". DPS indicated that its presence cannot be full-time because of other duties and responsibilities of the officer(s). DPS did offer to provide MVD and ADA a regional contact list for requesting DPS assistance.
- During recent meetings, each agency representative shared the following information relative to their particular agency: specific roles; what the agency could do to enhance joint operations; and agency limitations. The most significant limitation expressed by all three agencies was shortage of staffing. MVD informed DPS and ADA that due to budget constraints, certain shifts and/or ports will be periodically closed over the fiscal year. It was agreed that MVD will provide as much notice as possible before any closures take place.
- Although MVD primarily focuses on regulatory functions, there are many instances of an officer suspecting an unsafe or hazardous commercial vehicle. A limited number of Motor Vehicle Enforcement Services (MVES) officers are trained to perform safety inspections and are certified to place the vehicle and/or driver out of service if a serious violation exists. Currently, if a MVES CVSI (Commercial Vehicle Safety Inspection) inspector is unavailable, DPS is called to the port or scene to perform the inspection. Several hours may pass before the dispatched DPS officer can arrive and perform the inspection causing an excessive delay for the customer.

DPS has already invited MVD to attend six of their North American Standard Level I Commercial Vehicle Safety classes. To date, DPS has trained and certified 26 MVD officers to perform these comprehensive safety inspections. As a continuing team building effort, DPS has agreed to fund and train an additional ten MVES officers to assist in these inspections. The 80-hour training course provides the officer with a nationally recognized certification to perform all levels of commercial vehicle safety inspections. This additional training will benefit both MVD and DPS in operating more effectively at the ports and mobile details.

- Program specific issues which may be of interest to the other two agencies are not routinely discussed. MVD requested that the interagency communications be improved. It was agreed



that each agency representative would meet at least once every three months to discuss ongoing operational issues and methods to improve overall processes. The next joint agency meeting is scheduled for November 2000.

- Since MVD is unable to regularly enforce areas where bypass violations are suspected, additional DPS assistance was requested. However, DPS is also faced with a shortage of personnel and can make no assurances that coverage will always be available. With shared resource plans to enhance joint agency mobile enforcement activities, these bypass routes will be increasingly enforced.

#### **Other**

- DPS, MVD, and the Attorney General's Office have been working together to coordinate the processing of civil penalty fines assessed to motor carriers. Past processing efforts allowing violators to stagger payments has proven to be ineffective. Continued discussions will address methods to improve coordinated efforts and possible changes in how penalties are received. ADA has no issue regarding this.
- MVD has recently assigned staff from the MVD Rules Unit to research, draft, and submit rules related to Motor Carrier issues to the Governor's Regulatory Review Council.

#### **2) The actions the agencies have taken to further practical cross-training and development of employees and how the agencies are using interagency agreements to foster effective and efficient cooperation**

- All three agencies have met regularly to discuss methods and actions each agency will commit to further practical cross training among its employees. Expected results will enhance the overall operations for all three agencies as well as provide a better level of customer service at the ports.
- In January 2000, MVES and the ADOT Safety Office embarked on a partnership to provide a statewide HAZMAT Awareness training course. This training was designed to provide consistent and up-to-date training for MVD, ADA, DPS and other members of the law enforcement community who interact with ports of entry. From January through April 2000, 16 classes were held around the state. Attendance totaled 300, which included: 129 MVES officers; 27 other ADOT employees; 1 DPS officer, 25 ADA employees, and 118 law enforcement employees from various agencies. The primary objective for this training was to improve the safety at our ports of entry by providing the attendees recognition awareness and containment techniques of hazardous materials. Continuous up-to-date HAZMAT training will be presented by either DPS or ADOT/MVD with ADA among the invitees.
- ADA has agreed to present an "Infestation Recognition" training course to MVD officers at the ports of entry for screening agricultural carriers for pests. ADA currently has a number of training programs in place on ways MVD could assist (ADA) and is ready to present to port personnel.
- MVD will provide additional training to ADA inspectors to further enhance the size and weight and safety screening. This cross-training effort is expected to benefit ADA, MVD and DPS by having added assistance at the ports during certain periods.

### **3) Copies of the interagency agreements among the agencies**

- A Memorandum of Understanding (MOU) was drafted between Arizona Department of Transportation Motor Vehicle Division and the Department of Public Safety. An Intergovernmental agreement (IGA) was drafted between Arizona Department of Transportation Motor Vehicle Division and the Department of Agriculture. Both of these documents are currently under legal review. Attached to this report are unsigned versions of each.

### **4) A demonstration of the practical use of cross-training of employees to streamline the procedures, costs and time of inspections and the use of interagency team building activities at the ports of entry.**

- Shortly after the HazMat First Responder Assistance Training, hazardous material incidents occurred at the San Simon and the Sanders POEs. As a result of the cross-training, personnel recognized and contained a potential hazard preventing the risk of injury to the employees and the general public.
- In FY 2000, MVD officers were involved in the recovery of 1,053 stolen vehicles valued more than six million dollars through VIN (Vehicle Identification Number) verification inspections. VIN inspections also provide leads for the Auto Theft Authority (ATA), which is under the command of DPS to investigate auto theft rings and "chop shop" activities. MVES officers, including those assigned at the ports of entry, are trained and recognized by the law enforcement community as experts in the field of VIN verification, which is crucial in the detection of stolen vehicles. (Since 1997, MVD and ATA have had an intergovernmental agreement whereby MVD provides assistance to ATA to combat the auto theft problem.)
- Due to staffing shortages, ADA is unable to provide a presence at ports during all hours of operation. Through cross-training efforts facilitated by ADA, MVD staff are able to assist in checking credentials of carriers transporting agricultural products when ADA staff are unavailable. MVD routinely faxes copies of carrier's manifests to ADA to alert them of the carrier's destination(s) so that ADA inspections can be performed. When suspect loads are encountered, MVD notifies the designated ADA agent and then follows through with any procedures given.
- Due to MVD staffing shortages or during times of high traffic volume, cross-trained ADA inspectors, routinely assist MVD by screening commercial vehicles as needed. This screening includes checking vehicle and driver credentials to ensure all required documents are current and proper permits obtained.

#### **Attachments:**

List of agency representatives

Draft MOU - Department of Transportation and Department of Public Safety

Draft IGA - Department of Transportation and Department of Agriculture



### **Agency Representatives**

#### **Department of Transportation - Motor Vehicle Division**

Stacey K. Stanton, Director

Ric Athey, Assistant Director, Motor Vehicle Enforcement Services

Michael Veucasovic, Deputy Assistant Director, Motor Vehicle Enforcement Services

#### **Arizona Department of Public Safety**

Dennis Garrett, Director

C.R. "Beau" Johnson, Commander

#### **Arizona Department of Agriculture**

Sheldon R. Jones, Director

Joe Sigg, Deputy Director

Lois Marks, Ports Manager

## **MEMORANDUM OF UNDERSTANDING FOR MUTUAL AID IN LAW ENFORCEMENT**

This Memorandum of Understanding (MOU) is entered into between the Arizona Department of Public Safety, hereinafter referred to as "DPS", and the Arizona Department of Transportation, Motor Vehicle Division, hereinafter referred to as "ADOT/MVD".

The purpose of this agreement shall be to enhance working relations, and shared resources between ADOT/MVD and DPS in order to achieve maximum coordination of enforcement and regulatory services relating to the proper credentialing and safe movement of commercial vehicles through the ports of entry and on Arizona's highways. This shall be accomplished through the cooperative efforts of the parties to this agreement.

DPS is authorized and empowered to enter into this MOU pursuant to ARS §41-1713B.3 and ADOT/MVD is authorized and empowered to enter into this MOU pursuant to ARS §28-363 and §28-401.

The parties to this agreement agree to the following terms and conditions.

### **I. Participation**

ADOT/MVD agrees to share its facilities and resources with DPS and support the DPS Motor Carrier Unit's mission of commercial vehicle enforcement. Conversely, DPS agrees to provide assistance, and support ADOT/MVD Enforcement Service's mission of credential compliance and weight enforcement, which shall include, but not be limited, to the following areas of mutual concern:

- Jointly operated mobile weight enforcement/credential check details;
- Utilization by DPS of office space at the MVD Ports of Entry, as needed;
- Assistance by each agency in conducting commercial vehicle safety inspections; and
- Sharing of equipment resources as needed, on a temporary basis (i.e., platform scales, portable weigh-in-motion pads, SPRINT Port trailers, hand scales, etc.).

### **II. Equipment and Financing**

ADOT/MVD shall provide all necessary supplies, equipment and facilities for its personnel to complete their assigned tasks. DPS shall provide all necessary supplies, equipment and facilities for its personnel. Supplies, materials, equipment and facilities may be shared by the parties as appropriate for mutual operations. Each agency shall provide for payment of all salaries, employee-related expenses, costs and other expenses for each of its employees during the duration of this agreement.

### **III. Indemnification**

Each agency shall be responsible and liable for claims, demands or judgments (including costs, expenses and attorney's fees) resulting from personal injury to any person, damage to any property or economic loss, arising from the negligent performance, intentional act or omission of its employees assigned to the commercial vehicle task force.



#### IV. Termination

Either party may terminate this agreement for convenience or cause upon thirty (30) days written notice to the other party. All property shall be returned to the owning party upon termination.

#### V. Cancellation

All parties are hereby put on notice that this MOU is subject to cancellation by the Governor for conflicts of interest, pursuant to ARS §38-511.

#### VI. Fees

In no event shall either party charge the other for any administrative fees for any work performed pursuant to this agreement.

#### VII. Jurisdiction

Nothing in this agreement shall be construed as either limiting or extending the lawful jurisdiction of either party hereto, other than as expressly set forth herein.

#### VIII. Workmen's Compensation Benefits

Pursuant to ARS §23-1022.D, for the purposes of Workmen's Compensation coverage, all employees covered by this agreement shall be deemed to be an employee of both agencies. The primary employer shall be solely liable for payment of Workmen's Compensation Benefits.

IN WITNESS WHEREOF, the parties hereby subscribe their names this \_\_\_\_\_ day of \_\_\_\_\_, 2000.

Arizona Department of Public Safety

Arizona Department of Transportation

By: \_\_\_\_\_  
Director

\_\_\_\_\_  
Director

Reference A.G. Contract No. KR00-1751-TRN  
INTERAGENCY AGREEMENT  
BETWEEN THE  
ARIZONA DEPARTMENT OF TRANSPORTATION  
AND  
ARIZONA DEPARTMENT OF AGRICULTURE

I. Recitals

This is an Agreement made this \_\_\_\_ day of \_\_\_\_\_ 2000 at Phoenix, Arizona, between the Arizona Department of Transportation, hereinafter called "ADOT" and the Arizona Department of Agriculture, hereinafter called "ADA".

WHEREAS, the State of Arizona by and through the Arizona Department of Transportation, is or will be the owner or co-owner of certain ports of entry which are now or will be used by both ADOT and ADA.

WHEREAS, the parties are authorized to enter into an Interagency Agreement pursuant to A.R.S. § 11-951, et seq;

WHEREAS, ADA is authorized to enter into this Agreement pursuant to A.R.S. §§ 3-107(A)(4) and 3-216(C), and ADOT is authorized to enter into this Agreement pursuant to A.R.S. § 28-401;

WHEREAS, both agencies are desirous of sharing the facilities of designated ports of entry totally owned by the State of Arizona or jointly owned with an adjoining state, and the Arizona portion of which is, or will be, shared by this Agreement;

WHEREAS, ADOT, subject to legislative appropriations, is conditionally willing to pay the cost of construction, maintenance and repair of each new jointly occupied port of entry facility; any addition to an existing jointly occupied port of entry facility; and the cost of certain operational expenses at jointly occupied facilities, such as utilities, waste disposal services, etc.; and

WHEREAS, the sharing of said ports of entry by both parties will prove beneficial and economical to the State of Arizona.

II. Scope

NOW, THEREFORE, in consideration of these premises, it is hereby jointly resolved;

A. That the parties shall share in performing some general functions which are mutually applicable to the inspection, control and regulation of commercial vehicles passing through the ports of entry. These shared work responsibilities include:

1. Screening and sorting commercial vehicles and credentials for each agency's inspection requirements, which involves observations of overall vehicle condition, type, and/or content. Screening is the basis for determining whether further action is required.

2. Inspection of Credentials and Trucks: Inspection of truck credentials involves examination of those documents required by each agency for entry into or operation within the State of Arizona. Physical inspection of commercial vehicles (or others as required) involves examination of vehicle contents or the vehicle themselves for those requirements as necessary to gain compliance for each agency's tasks or responsibilities.
3. Directing commercial vehicles when required, to appropriate parking or inspection facilities to complete processing requirements by the applicable agency.
4. Determining commodity destination: Determining commodity destination involves examination of the truck manifest/bill of lading and driver response to inquiry of destination.
5. Data collection/verification/conveyance: Data collection requires certain documentation of specific tasks or the collection of certain information that each agency may require for federal or state required reports or studies to be accurately captured and conveyed to agencies as needed and agreed upon by consensus.

B. ADOT and ADA shall conduct cross-training programs for the employees of ADOT and ADA who are to perform commercial vehicle screening and processing.

C. ADOT's and/or ADA's Ports Supervisor(s) may call for a joint conference for the purpose of issuing instructions and resolving issues. Any problems that cannot be resolved will be reported verbally or in writing to the next management level. When an impasse is reached, the issue will be submitted in writing to the agency directors.

D. The ADOT Port Supervisor will address any emergency traffic or safety situation, with immediate notification to the ADA Port Supervisor as to the plan of action.

E. Concurrence must be obtained from agency directors prior to instituting measures that could significantly alter the operations of either agency, or present health, safety, security or liability problems.

F. When feasible, the amount of space to be occupied by ADA at each joint port of entry facility shall be sufficient to securely house ADA equipment and personnel.

### III. Miscellaneous Provisions

A. Termination and amendment. This Agreement shall remain in force and effect for one year and be automatically renewed each year unless terminated by either agency by giving the other agency thirty days written notice thereof. This Agreement may also be amended upon mutual written agreement of the agencies.

B. Effective Date. This Agreement shall be effective upon filing with the Secretary of State.

C. Audit and Inspection of Records. All books, accounts, reports, files and other records relating to this Agreement shall be subject to inspection and audit by both agencies for five years after the completion of this Agreement.

D. Equal Opportunity. The parties to this Agreement each agree to be bound by applicable state and federal rules, regulations and laws dealing with non-discrimination and equal employment opportunity. Executive Order No. 75.5.

E. Non-appropriation. This Agreement recognizes that the performance by each agency may be dependent upon the appropriation of the necessary funds by the State Legislature of the State of Arizona. Should the Legislature fail to appropriate the funds necessary for either agency's performance, that agency may cancel this Agreement without further duty or obligation. Either agency shall give the other as much notice as is reasonably possible of the unavailability of funds for the performance of this Agreement.

F. Notices. All notices and demands upon any agency to this Agreement shall be in writing and shall be delivered in person or sent by mail addressed as follows:

Arizona Department of Transportation  
Director, Motor Vehicles Division  
1801 West Jefferson St., Mail Drop 500M  
Phoenix, AZ 85007-3224

Arizona Department of Agriculture  
Director  
1688 West Adams  
Phoenix, AZ 85007

G. Each party shall be solely responsible and liable for claims, demands, or judgments (including costs, expenses and attorney's fees) resulting from personal injury to any person or damage to any property arising out of the negligent performance, intentional act or omission of its employees.

IN WITNESS WHEREOF, the parties have executed this Agreement the day and year affixed herein.

STATE OF ARIZONA

DEPARTMENT OF TRANSPORTATION

DEPARTMENT OF AGRICULTURE

By \_\_\_\_\_

By \_\_\_\_\_

By \_\_\_\_\_

By \_\_\_\_\_

Approved as to form this \_\_\_\_\_ day of \_\_\_\_\_ 2000.

\_\_\_\_\_  
Attorney General

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE  
SENATE

RANDALL GNANT  
CHAIRMAN 2000  
GUS ARZBERGER  
RUSSELL W. "RUSTY" BOWERS  
SCOTT BUNDGAARD  
EDWARD J. CIRILLO  
JACK C. JACKSON  
JOE EDDIE LOPEZ  
JOHN WETTAW

1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

PHONE (602) 542-5491

FAX (602) 542-1616

<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF  
REPRESENTATIVES

BOB BURNS  
CHAIRMAN 1999  
BARBARA BLEWSTER  
LORI S. DANIELS  
SALLY ANN GONZALES  
BILL MCGIBBON  
JEAN HOUGH MCGRATH  
BOB MCLENDON  
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gretchen Logan, Fiscal Analyst

SUBJECT: AHCCCS – REPORT ON CAPITATION RATES

**Request**

A footnote in the General Appropriation Act requires the Arizona Health Care Cost Containment System (AHCCCS) to report to the Joint Legislative Budget Committee (JLBC) before making capitation rate changes to current fee-for-service programs that may have a budgetary impact in FY 2000 or FY 2001. The capitation rate changes AHCCCS is currently implementing are not related to the fee-for-service program, so JLBC review is not required. The Department of Health Services and the Department of Economic Security budgets have similar footnotes that require JLBC review before implementing new capitation rates. These three footnotes were added at the same time to inform the JLBC when changes are made to capitation rates that may result in a future budget impact. Given this legislative concern, AHCCCS has agreed to present its current changes to the Committee for information, although review is not required.

**Recommendation**

This item is for information only and no Committee action is required. Beginning October 1, 2000, the AHCCCS capitation rates will increase on average by 7.3%. This contributes to the growth in the estimated FY 2001 supplemental requirement, which has increased from \$50.1 million to the current estimate of \$66.9 million.

**Analysis**

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are "actuarially sound," capitation rates are not set by the Legislature. AHCCCS contracts with an actuarial firm, which uses claims, expenditure, and encounter data to determine the actual cost of services and thereby, recommends increases or decreases in the capitation rates. New capitation rates generally become effective on October 1 because that is the beginning of both the federal fiscal year (FFY) and the contract year with the health plans.

(Continued)

AHCCCS has two sets of capitation rates for Acute Care. The first set of rates covers the period prior to enrollment in a health plan. This is called “prior period coverage” (PPC) and includes some amount of retroactive coverage depending upon eligibility. The second set of rates, referred to as “regular” capitation, take effect after enrollment in the health plan. The following table shows the rate changes for both PPC and regular capitation. The rates shown reflect a weighted average of the rates paid per member per month to the health plans.

<b>Monthly Capitation Rates</b>						
<b><u>Population</u></b>	<b><u>Prior to Enrollment in Health Plan</u></b>			<b><u>Regular</u></b>		
	<b><u>Previous Rate</u></b>	<b><u>New Rate</u></b>	<b><u>%</u></b>	<b><u>Previous Rate</u></b>	<b><u>New Rate</u></b>	<b><u>%</u></b>
Age <1	\$997.26	No Change	--	\$323.01	\$330.93	2.5
Age 1-13	34.78	No Change	--	66.98	74.25	10.9
Age 14-44 (Female only)	139.36	No Change	--	113.80	117.82	3.5
Age 14-44 (Male only)	77.46	No Change	--	91.82	95.98	4.5
Age 45+	198.68	No Change	--	218.88	237.42	8.5
SSI with Medicare	14.51	No Change	--	150.48	171.54	14.0
SSI without Medicare	57.27	No Change	--	323.80	341.24	5.4
<i>State-only:</i>						
MN/MI	\$14,584.62	\$19,536.16	34.0%	\$481.19	\$576.53	19.8%
Average Rate Increase			34.0%			7.3%

The average regular capitation rate increase across all populations equates to 7.3%. As shown in the table above, the largest increases are in the Medically Needy/Medically Indigent (MN/MI) population, which is 100% state funded. This population is also the most costly since a large proportion of this population “spend down” into the program. This means that the person’s expenditures for health care costs are such that when they are compared against the individual’s annual salary, the person would have annual income of \$3,192 or less, which equates to 38% of the Federal Poverty Level. Persons who meet this threshold are typically very ill and very expensive.

While the MN/MI population has declined significantly over the past three or four years, the cost per person has increased and health plans have consistently sustained losses on the MN/MI population. As a result, AHCCCS is implementing a 34% increase in the PPC rate and a 19.8% increase in the regular capitation rate effective October 1, 2000. The rate increases for the other populations will result in cost increases of a much smaller magnitude.

In the past, increases in capitation rates have not required additional funding due to surpluses created by the declining caseloads. Since approximately November 1999, however, enrollment has not been declining as in the past. The JLBC Staff reported a FY 2001 supplemental requirement of \$50.1 million in the 2000 legislative session. This deficit was attributed to an increase in caseloads and inflation. At that time, it was assumed that MN/MI prior period and regular capitation rates would increase by 10%. However, the actual increases as reported in the table above, are 34% for prior period and 19.8% for regular capitation. This unanticipated inflation for the MN/MI population is a key factor behind the increased FY 2001 AHCCCS supplemental requirement, which the JLBC Staff is currently estimating to be approximately \$66.9 million.

RS/GL:ck