

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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

HOUSE OF
REPRESENTATIVES

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

JOINT LEGISLATIVE BUDGET COMMITTEE

Tuesday, April 20, 2010

8:00 A.M.

Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order
- [Approval of Minutes of February 2, 2010](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- 1. [ARIZONA STATE PARKS BOARD, ARIZONA CRIMINAL JUSTICE COMMISSION, AND THE DEPARTMENT OF HOUSING - Review of Requested Exchange of Fund Transfers.](#)
- 2. [DEPARTMENT OF HEALTH SERVICES - Review of Children's Rehabilitative Services and Behavioral Health Title XIX Capitation Rate Changes.](#)
- 3. [GOVERNMENT INFORMATION TECHNOLOGY AGENCY - Quarterly Review of the Arizona Public Safety Communication Advisory Commission.](#)

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

4/12/10

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

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

February 2, 2010

The Chairman called the meeting to order at 8:15 a.m., Tuesday, February 2, 2010, in Senate Appropriations Room 109. The following were present:

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

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of September 22, 2009, Chairman Russell Pearce stated that the minutes would stand approved.

Chairman Pearce stated that Items 1-11 would be heard in a single motion.

Richard Stavneak, Director, JLBC Staff stated that in Item 1, the Attorney General has asked to be removed from consideration at this point as they need to do additional work on their proposed fund transfer.

Chairman Pearce stated that a member has requested that Item 8B, Department of Health Services - Review of Children's Rehabilitative Services Capitation Rate Changes, be removed from the agenda for later consideration.

- 1. ARIZONA DEPARTMENT OF ADMINISTRATION AND JUDICIARY - Review of Requested Exchange of Fund Transfers.**
- 2. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Emergency Telecommunication Services.**
- 3. AHCCCS - Review of Proposed Acute Care and Long Term Care (ALTCS) Capitation Rate Changes.**

(Continued)

4. **ATTORNEY GENERAL - Review of Allocation of Settlement Monies.**
5. **DEPARTMENT OF ECONOMIC SECURITY - Review of Long Term Care Capitation Rate Changes.**
6. **DEPARTMENT OF ENVIRONMENTAL QUALITY - Review of Water Quality Permit Processing Times.**
7. **GOVERNMENT INFORMATION TECHNOLOGY AGENCY - Quarterly Review of the Arizona Public Safety Communication Advisory Commission.**
- 8A. **DEPARTMENT OF HEALTH SERVICES - Review of Requested Transfer of Appropriations.**
9. **JLBC STAFF - Consider Approval of Index for School Facilities Board Construction Costs.**
10. **ARIZONA BOARD OF REGENTS - Review of FY 2010 Tuition Revenues.**
11. **DEPARTMENT OF REVENUE - Review of Business Reengineering/Integrated Tax System Expenditure Plan.**

Representative Kavanagh moved to accept the JLBC Staff recommendations for items 1-11 minus the Attorney General in Item 1 and Item 8B for the Department of Health Services. The motion carried.

EXECUTIVE SESSION

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

At 8:18 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 9:20 a.m. the Committee reconvened into open session.

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

Representative Kavanagh moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of McDonald v. State of Arizona, et al, with a stipulation.

Senator Harper moved a substitute motion for a proposal that the Committee refuse the settlement and asked for a roll call vote. A roll call vote was taken on the substitute motion. The substitute motion failed by a roll call vote of 4-8-0-3 (Attachment 1).

Senator Harper requested a roll call vote on the original motion.

The original motion carried by a roll call vote of 7-5-0-3 (Attachment 1).

B. State Department of Corrections - Review of Request for Proposals for 5,000 Private Prison Beds per A.R.S. § 38-431.03A2.

Representative Kavanagh moved that the Committee give a favorable review with the 4 provisions specified by JLBC Staff. The motion carried.

(Continued)

C. State Department of Corrections - Review for Request for Proposals for Privatization of Correctional Health Services per A.R.S. § 38-431.03A2.

Representative Kavanagh moved that the Committee give a favorable review with the 5 provisions specified by JLBC Staff. The motion carried.

D. Annual Performance Review per Rule 7.

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

Without objection, the meeting adjourned at 9:30 a.m.

Respectfully submitted:

Sandy Schumacher, Secretary

Richard Stavneak, Director

Senator Russell Pearce, Chairman

JOINT LEGISLATIVE BUDGET COMMITTEE

Meeting Date: 2/2/10

Substitute motion ITEM # Exec Session - A

Kavanagh motion
ITEM # Exec Session - A

	<u>PRESENT</u>	<u>ABSENT</u>	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ABOUD	✓	—			✓		
SEN. AGUIRRE	✓	—			✓		
REP. BIGGS	✓	—		✓			
REP. CAJERO BEDFORD	✓	—			✓		
REP. CL. CAMPBELL	✓	—			✓		
SEN. C. GRAY	✓	—		✓			
SEN. HARPER	✓	—		✓			
REP. HEINZ	—	✓					✓
REP. MCCOMISH	✓	—			✓		
REP. MURPHY	✓	—			✓		
SEN. PIERCE	✓	—			✓		
SEN. RIOS	—	✓					✓
SEN. WARING	—	—					
REP WILLIAMS	—	✓					✓
REP. KAVANAGH	✓	—			✓		
SEN. PEARCE	✓	—		✓			
TOTALS	<u>12</u>	<u>3</u>	—	<u>4</u>	<u>8</u>	<u>0</u>	<u>3</u>

	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ABOUD		✓			
SEN. AGUIRRE		✓			
REP. BIGGS			✓		
REP. CAJERO BEDFORD		✓			
REP. CL. CAMPBELL	✓		✓		
SEN. C. GRAY			✓		
SEN. HARPER			✓		
REP. HEINZ					✓
REP. MCCOMISH		✓			
REP. MURPHY		✓			
SEN. PIERCE			✓		
SEN. RIOS					✓
SEN. WARING					
REP WILLIAMS					✓
REP. KAVANAGH		✓			
SEN. PEARCE		✓			
TOTALS	—	<u>7</u>	<u>5</u>	<u>0</u>	<u>3</u>

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DATE: April 13, 2010

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

THRU: Richard Stavneak, Director

FROM: Art Smith, Senior Fiscal Analyst
Eric Billings, Senior Fiscal Analyst
Jon McAvoy, Fiscal Analyst

SUBJECT: Arizona State Parks Board, Arizona Criminal Justice Commission, and the Arizona
Department of Housing - Review of Requested Exchange of Fund Transfers

Request

The FY 2011 General Appropriation Act (Laws 2010, 7th Special Session, Chapter 1, Section 111) and the FY 2010 Budget Reduction and Transfers Bill (Laws 2009, 5th Special Session, Chapter 1, Section 3) require the Joint Legislative Budget Committee (JLBC) review of agency requests to transfer monies between their own funds in order to comply with transfers required by these acts. The Arizona State Parks Board, the Arizona Criminal Justice Commission (ACJC), and the Arizona Department of Housing (ADOH) have requested Committee review of fund transfers pursuant to these bills.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the proposed exchange of fund transfers.
2. An unfavorable review.

Analysis

Table 1 summarizes the requested fund transfer exchanges for each agency.

(Continued)

Table 1				
Requested FY 2010 Fund Transfer Switches				
<u>Original Fund</u>	<u>Original Transfer Amount</u> ^{2/}	<u>Transfer Type</u>	<u>Agency Proposed Fund</u> ^{3/}	<u>Revised Transfer Amount</u> ^{4/}
Arizona State Parks Board				
State Lake Improvement Fund	\$1,387,300	EBT ^{5/}	Arizona Heritage Fund	\$1,387,300
State Lake Improvement Fund	528,500	FRAT ^{6/}	Arizona Heritage Fund	528,500
State Parks Enhancement Fund	1,630,800	EBT ^{5/}	Arizona Heritage Fund	1,630,800
State Parks Enhancement Fund	<u>671,300</u>	FRAT ^{6/}	Arizona Heritage Fund	<u>671,300</u>
<i>Subtotal</i>	<i>\$4,217,900</i>			<i>\$4,217,900</i>
Arizona Criminal Justice Commission				
Drug and Gang Enforcement Account	\$ 856,300	EBT ^{5/}	Drug and Gang Enforcement Account	\$ 325,000
			Driving Under the Influence Abatement Fund	187,300
			Drug and Gang Prevention Resource Center Fund	344,000
Victims Compensation and Assistance Fund	678,400	EBT ^{5/}	Victims Compensation and Assistance Fund	300,400
			Driving Under the Influence Abatement Fund	378,000
State Aid to County Attorneys Fund	<u>40,700</u>	EBT ^{5/}	Driving Under the Influence Abatement Fund	<u>40,700</u>
<i>Subtotal</i>	<i>\$1,575,400</i>			<i>\$1,575,400</i>
Department of Housing				
Housing Program Fund	\$2,183,000	EBT ^{6/}	Housing Program Fund	\$1,483,000
			Housing Trust Fund	<u>700,000</u>
<i>Subtotal</i>	<i>\$2,183,000</i>			<i>\$2,183,000</i>
^{1/} Fund source for reductions mandated in budget. ^{2/} Amount for reductions mandated in budget. ^{3/} Funds from which agencies are requesting transfers in order to accommodate the mandated reductions. ^{4/} Transfer amounts proposed by agency. ^{5/} Excess Balance Transfers (EBTs) sweep money from anticipated FY 2010 ending balances into the General Fund. ^{6/} Fund Reductions and Transfers (FRATs) reduce annual FY 2011 spending from the agency's Other Funds. An amount equal to these reductions would be swept into the General Fund.				

Arizona State Parks Board

Laws 2009, 5th Special Session, Chapter 1 requires the Parks Board to complete \$4,217,900 in fund transfers in FY 2010. These transfers are comprised of Excess Balance Transfers (EBTs) and Fund Reduction and Transfers (FRATs). EBTs sweep money from the anticipated FY 2010 ending balances into the General Fund. FRATs reduce the annual FY 2010 spending from the agency's other funds and sweep the savings into the General Fund. *Table 1* summarizes the requested fund transfers. Under the 5th Special Session, \$1,915,800 is transferred from the State Lake Improvement Fund (SLIF), and \$2,302,100 is transferred from the State Parks Enhancement Fund (SPEF).

The Parks Board is instead requesting to transfer \$4,217,900 from the Arizona Heritage Fund. This transfer would be in addition to the fund's 1st Regular Session transfers, which totaled \$3,909,400. The Parks Board states that if the 5th Special Session transfers are enacted as planned, ending balances would be insufficient to continue operations at the 10 parks that the agency plans to keep open in FY 2011.

(Continued)

Arizona Criminal Justice Commission

Laws 2009, 5th Special Session, Chapter 1 requires ACJC to complete \$1,575,400 in EBTs from the Drug and Gang Enforcement (DEA) Account, the Victims Compensation and Assistance Fund, and the State Aid to County Attorneys Fund. ACJC is requesting to reduce the DEA Account and Victims Compensation and Assistance Fund transfers and eliminate the State Aid to County Attorneys Fund transfer and make up the difference with transfers from the Driving under the Influence Abatement Fund and the Drug and Gang Prevention Resource Center Fund.

Arizona Department of Housing

Laws 2010, 7th Special Session, Chapter 1 requires the ADOH to transfer \$2,183,000 in excess balances from the Housing Program Fund to the General Fund. The department is requesting to transfer \$700,000 from the Housing Trust Fund instead of the Housing Program Fund to facilitate the EBT. There would be a remaining Housing Program Fund transfer of \$1,483,000.

RS/AS/EB/JM:sls

February 23, 2010



D. Clark Partridge, State Comptroller
General Accounting Office
Arizona Department of Administration
100 N. 15th Avenue, Ste. 302
Phoenix, AZ 85007

**RE: CASH TRANSFER REQUEST PER 5TH SPECIAL SESSION,
LAWS 2009, 49TH LEGISLATURE, CHAPTER 1, SECTION 3**

Janice K. Brewer
Governor

State Parks
Board Members

Chair
Reese Woodling
Tucson

Tracey Westerhausen
Phoenix

Larry Landry
Phoenix

Walter D. Armer, Jr.
Vail

Arlan Colton
Tucson

William C. Scalzo
Phoenix

Maria Baier
State Land
Commissioner

Renée E. Bahl
Executive Director

Arizona State Parks
1300 W. Washington
Phoenix, AZ 85007

Tel & TTY: 602.542.4174
AZStateParks.com

800.285.3703 from
(520 & 928) area codes

General Fax:
602.542.4180

Director's Office Fax:
602.542.4188

Dear Mr. Partridge:

Arizona State Parks requests permission to transfer cash of \$4,217,900 from the Arizona Heritage Fund to 1) the Enhancement Fund \$2,302,100 and 2) the State Lake Improvement Fund \$1,915,800. Per Laws 2009, 5th Special Session, Chapter 1, Section 3, please coordinate this request with the Governors Office of Strategic Planning and Budgeting, and please forward to the Joint Legislative Budget Committee for review.

On February 17, 2010, the Parks Board took action to cancel both State Parks' capital projects and open grants funded by the Heritage Fund. This de-obligated funds for the Board to pay the \$3.9 million of Heritage Fund Fund Reductions And Transfers (FRATs) and Excess Balance Transfers (EBTs) and, as requested in this letter, use the remaining dollars to backfill the State Parks Enhancement Fund and State Lake Improvement Fund.

These cash transfers will enable the agency to provide for the minimum cash balance forward required to continue operations into FY 2011 with the substantial operational reductions already planned.

Enclosed is a chart showing the source of the Heritage Funds to be used for the cash transfers. Our plan assumes that Arizona State Parks receives its full Heritage Fund allocation in FY 2010. Also enclosed are the most recent FY 2010 projected cash flow documents for all agency funds, including an overall agency summary.

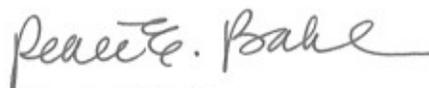
The fund reductions and transfers imposed on Arizona State Parks by the 5th Special Session, Chapter 1, Section 2 total \$8,629,600. The reductions to the Enhancement Fund and the State Lake Improvement Fund directly impact our ability to operate most State Parks for the

D. Clark Partridge, State Comptroller
February 23, 2010
Page 2

remainder of FY 2010. Without the requested cash transfers, the agency will have insufficient cash with which to operate open State Parks beginning in FY 2011.

If you have any questions or require any further information, please contact me at (602) 542-7102 or rbahl@azstateparks.gov or Kent T. Ennis, Assistant Director of Administrative Services, at (602) 542-6920, or kennis@azstateparks.gov.

Sincerely,



Renée E. Bahl
Executive Director

:dab

cc: Arthur Smith, JLBC
Thomas Soteros-McNamara, OSPB
Kent Ennis, Assistant Director, Administrative Services

Enclosures

**Cash Transfer Requests Pursuant to
Laws 2009, 5th Special Session, Chapter 1, Section 3
Arizona State Parks**

Revenue Source Applied: Heritage Fund	Capital & Grants Reallocation Applications
Cancelled State Parks Capital Projects	\$4,852,150
Cancelled Grants\1	3,923,242
Heritage Fund Anticipated Revenue\2	2,400,000
Subtotal Available Funds - Heritage Fund	\$11,175,392
Heritage Fund - Fund Reduction And Transfer (FRAT)	(1,784,700)
Heritage Fund - Excess Balance Transfer (EBT)	(2,124,700)
Operating Funds	(2,324,700)
Subtotal	(\$6,234,100)
Maximum Available Remaining Balance for Backfills	\$4,941,292
Backfill Enhancement Fund FRAT and EBT	(2,302,100)
Backfill State Lake Improvement Fund FRAT and EBT	(1,915,800)
Total Backfill Enhancement and State Lake Improvement FRATs and EBTs	(\$4,217,900)
Available for Grant Payments\1	\$723,392

\1 Total amount of cancelled grants as of January 29, 2010 \$3,923,242. Amount expected to decrease as invoices are paid.

\2 Assumes full FY 2010 Heritage Fund allocation

23-Feb-10



Arizona Criminal Justice Commission



Chairperson
DANIEL HUGHES, Chief
Surprise Police Department

Vice-Chairperson
RALPH OGDEN
Yuma County Sheriff

JOHN R. ARMER
Gila County Sheriff

JOSEPH ARPAIO
Maricopa County Sheriff

DUANE BELCHER, Chairperson
Board of Executive Clemency

DAVID K. BYERS, Director
Administrative Office of the Courts

CLARENCE DUPNIK
Pima County Sheriff

TERRY GODDARD
Attorney General

ROBERT C. HALLIDAY, Director
Department of Public Safety

ROBERT HUDDLESTON, Chief
Casa Grande Police Department

BARBARA LAWALL
Pima County Attorney

CHARLES RYAN, Director
Department of Corrections

DAVID SANDERS
Pima County Chief Probation Officer

LINDA SCOTT
Former Judge

DANIEL G. SHARP, Chief
Oro Valley Police Department

GEORGE E. SILVA
Santa Cruz County Attorney

CARL TAYLOR
Coconino County Supervisor

ANDREW P. THOMAS
Maricopa County Attorney

Mayor
VACANT

March 16, 2010

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

Dear Mr. Stavneak:

Please consider this letter a request to be placed on the next agenda of the Joint Legislative Budget Committee. On January 25, 2010 the members of the Arizona Criminal Justice Commission met and approved an alternative plan to the budget reductions passed in December 2009 as part of SB1001 of the fifth special session of the 49th Legislature.

Included in SB1001 was language that allowed agencies to submit alternative budget reduction plans for review by JLBC as long as the total reduction amount stayed equal to the amount passed in the bill. The alternative plan approved by the Commission is attached along with a payment schedule to transfer the amount to the general fund. The alternative plan limits the impact to vital criminal justice projects this fiscal year.

ACJC respectfully requests JLBC review of the alternative plan and will forward the plan to the General Accounting Office for implementation. If you have any questions please contact me or Karen Ziegler at (602) 364-1160.

Sincerely,

John A. Blackburn, Jr.
Executive Director

Executive Director
John A. Blackburn, Jr.

1110 West Washington, Suite 230
Phoenix, Arizona 85007
PHONE: (602) 364-1146
FAX: (602) 364-1175
www.azcjc.gov

Our mission is to sustain and enhance the coordination, cohesiveness, productivity and effectiveness of the Criminal Justice System in Arizona

Arizona Criminal Justice Commission

Alternative Budget Reduction Submission

2009, 49th Legislature, 5th Special Session, Chapter 1 (SB1001), Section 1

FY10 Sweep \$2,892,500

	SB1001	Commission Approved
EBT		
DUI Abatement Fund	\$ 121,500	\$ 727,500
Drug & Gang Res Ctr	\$ 136,000	\$ 480,000
DEA Account	\$ 856,300	\$ 325,000
Victim Comp & Asst Fund	\$ 678,400	\$ 300,400
State Aid to CA	\$ 40,700	\$ -
	\$ 1,832,900	\$ 1,832,900
FRAT		
CJEF Operating	\$ 55,500	\$ 55,500
DUI Abatement	\$ 112,500	\$ 112,500
DEA Account	\$ 430,300	\$ 430,300
State Aid to CA	\$ 78,900	\$ 78,900
State Aid to ID	\$ 74,900	\$ 74,900
Victims Fund	\$ 307,500	\$ 307,500
	\$ 1,059,600	\$ 1,059,600
TOTAL	\$ 2,892,500	\$ 2,892,500

Total DEA Account	\$ 1,286,600	\$ 755,300
Total DUI Abatement	\$ 234,000	\$ 840,000
Total Victims Fund	\$ 985,900	\$ 607,900

*Appropriation Reduction amounts (FRATs) can not be changed

EBT Excess Balance Transfer
FRAT Fund Reduction and Transfer

TRANSFERS

Account	INDEX	Amount	Date
CJEF Operating	21000	\$ 55,500	Feb
DEA Account	62000	\$ 755,300	April
DUI Abatement Fund	67000	\$ 840,000	1/2 March & 1/2 June
Drug Prev Res Ctr	40000	\$ 480,000	June
Victim Comp	80000	\$ 607,900	1/2 March & 1/2 June
State Aid CA	49100	\$ 78,900	March
State Aid ID	49600	\$ 74,900	March
		\$ 2,892,500	

EBT

DUI Abatement Fund
 Drug & Gang Res Ctr
 DEA Account
 Victim Comp & Asst Fund
 State Aid to CA

SB1001	DUI	DGPRC	DEA	Victims
\$ 121,500	\$ 121,500			
\$ 136,000		\$ 136,000		
\$ 856,300	\$ 187,300	\$ 344,000	\$ 325,000	
\$ 678,400	\$ 378,000			\$ 300,400
\$ 40,700	\$ 40,700			
\$ 1,832,900	\$ 727,500	\$ 480,000	\$ 325,000	\$ 300,400

FRAT

CJEF Operating
 DUI Abatement
 DEA Account
 State Aid to CA
 State Aid to ID
 Victims Fund

\$ 55,500				
\$ 112,500				
\$ 430,300				
\$ 78,900				
\$ 74,900				
\$ 307,500				
\$ 1,059,600				

TOTAL

\$ 2,892,500				
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JANICE K. BREWER
Governor



MICHAEL TRAILOR
Director

STATE OF ARIZONA
DEPARTMENT OF HOUSING

1110 WEST WASHINGTON, SUITE 310
PHOENIX, ARIZONA 85007

(602) 771-1000 WWW.AZHOUSING.GOV
FAX: (602) 771-1002

March 26, 2010



Mr. Clark Partridge, Comptroller
State of Arizona General Accounting Office
100 N. 15th Ave
Phoenix, AZ 85007

**Re: 49th Legislature, 7th Special Session, House Bill 2001
Reductions and transfers; budget units; cash transfers**

Dear Mr. Partridge:

Pursuant to House Bill 2001, the Arizona Department of Housing (ADOH) is requesting a cash transfer between its own funds to comply with a required fund balance transfer for 2009-2010 contained in Section 113, as well as a delay in the transfer of scheduled FY2011 sweeps.

Specifically, ADOH would like to request that \$700,000 be transferred from the agency's Housing Trust Fund (2235) to the Housing Program Fund (2200) to provide a portion of the fund balance transfer from that fund in the amount of \$2,183,000, as well as to reduce the impact of other scheduled transfers from the Housing Program Fund (HPF) in the amounts of \$1,818,400, \$1,598,886, \$963,700, and \$1,450,000, as well as anticipated salary reduction sweeps to this fund.

The agency is currently working on significantly reducing HPF expenditures. However, because income expectations to this fund in FY2010 and beyond have been significantly reduced, projections indicate that the HPF balance can be expected to go into the negative in early 2012 without this transfer. Due to the fact that this fund primarily supports two significant federal programs operated by the agency, the agency cannot reduce its expenditures to this fund enough to offset the imposed sweeps along with the anticipated loss of income to the fund over the next several years. Income to the fund decreased in FY2010 due to loss of interest and a reduced number of applications to a federal tax credit program. Revenue to this fund in FY2011 and in future years is expected to fall significantly below previously expected amounts due to a loss of interest, fewer program application fees, and the loss of over \$1 million in annual fee income previously available through a HUD contract. Additionally, because income to the HPF is sporadic and could fall below expectations, we remain extremely cautious of further reductions in income to this fund.

Re: 49th Legislature, 7th Special Session, House Bill 2001
Reductions and transfers; budget units; cash transfers
March 26, 2010 Page 2 of 2

Additionally, we also are requesting that a FY2011 sweep of \$2,517,532 (this amount includes sweeps of \$963,700, \$1,450,000 and estimates on expected salary sweeps to that fund) from the HPF be delayed until June 30, 2011, instead of being transferred in July 2010 as requested in the budget bill. As you will see by reviewing the enclosed cash flow statements, under no scenario can the HPF support a transfer of \$2.5 million in July 2010. Not only will the fund not contain this amount of cash in July 2010, but will take nearly the entire 2011 fiscal year to accumulate enough income in the HPF to accommodate a \$2.5 million transfer.

Should you have any questions about this transfer request, please contact Tracy Schmidt, Finance and Accounting Administrator at (602) 771-1065 or tracy.schmidt@azhousing.gov

Sincerely,



Carol Ditmore
Assistant Deputy Director/Operations

Enclosures:

- A. Housing Trust Fund FY2010 Cash Flow without \$700,000 transfer to HPF and Housing Trust Fund FY2010 Cash Flow with \$700,000 transfer to HPF
- B. Housing Program Fund FY2010 Cash Flow without \$700,000 transfer from HPF; Housing Program Fund FY2011 Cash Flow without \$700,000 transfer from HPF and no delay in \$2.5 million sweep [*goes into negative*]; Housing Program Fund FY2012 Cash Flow without \$700,000 transfer from HPF [*goes into negative*]
- C. Housing Program Fund FY2010 Cash Flow with \$700,000 transfer from HPF; Housing Program Fund FY2011 Cash Flow with \$700,000 transfer from HPF and delay in \$2.5 million sweep; Housing Program Fund FY2012 Cash Flow with \$700,000 transfer from HPF

GAO-614 Transfer

Copy of ARS 41-3955 Housing Trust Fund

Copy of ARS 41-3957 Housing Program Fund

cc: Michael Traylor, ADOH
Illya Riske, OSPB
Eric Billings, JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

RUSSELL K. PEARCE
CHAIRMAN 2010
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DATE: April 13, 2010

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

THRU: Richard Stavneak, Director

FROM: Art Smith, Senior Fiscal Analyst

SUBJECT: Department of Health Services - Review of Children's Rehabilitative Services and Behavioral Health Title XIX Capitation Rate Changes

Request

Pursuant to a General Appropriation Act footnote, the Department of Health Services (DHS) must present its plan to the Committee for review prior to implementing any change in capitation rates for the Title XIX Children's Rehabilitative Services (CRS) and Behavioral Health programs. Capitation rates are the flat monthly payments made to managed-care health plans for each Title XIX recipient.

Summary of Changes

Children's Rehabilitative Services

The department's proposed CRS changes address the shifting of costs from DHS to AHCCCS as well as administrative adjustments in the tracking and billing of patients. As a result of an increase to the cost of the administrative component as a proportion of the overall rate, the proposed CRS changes would cost the General Fund \$720,500 in FY 2010.

Behavioral Health Services

The department's proposed behavioral health capitation rate revision for FY 2010 is primarily associated with a decrease in the utilization rate of Title XIX Behavioral Health Services (BHS). The utilization rate is the actual number of people receiving services as a percentage of the total eligible population of that program. The FY 2010 rates were previously reviewed at its September 2009 meeting.

DHS states that the current budget, including the 7th Special Session supplemental, provides sufficient funding for the proposed capitation rate adjustments.

(Continued)

Recommendation

The Committee has at least the following options:

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

The Committee may also choose to make its recommendation for the CRS and BHS capitation rates separately.

Analysis

The proposed rates are based upon an actuarial study. A.R.S. § 36-2901.06 limits capitation rate adjustments to utilization and inflation unless those changes are approved by the Legislature or are specifically required by federal law or court mandate.

Children’s Rehabilitative Services

The CRS program provides services for children with chronic and disabling or potentially disabling conditions. The contractor is reimbursed using a per-member/per-month capitation rate that includes a high, medium and low tier, which represent varying degrees of medical acuity. *Table 1* displays the FY 2010 budgeted and proposed rates by medical acuity and details the changes from FY 2009.

Table 1				
Proposed Monthly CRS Capitation Rate Changes (Services Only)				
<u>FY 2009 Actual Rate</u>	<u>FY 2010 Budgeted Rate</u>	<u>FY 2010 Proposed Rate</u>	<u>FY 2010 Change Above FY 2009</u>	<u>Anticipated State Match Cost</u>
\$376.65	\$376.65	\$384.89	2.19%	\$720,500

The capitation rates include adjustments for shifting some CRS costs from AHCCCS to DHS as well as other adjustments. The proposed changes do meet the guidelines outlined in statute and have been implemented retroactive to July 1, 2010.

The CRS budget presumes flat administrative funding and a services budget based on the CRS capitation rate. The proposed capitation rate would increase the services component of the capitation rate by changing the “administrative load” of the rate, at a cost of \$720,500.

In addition to this shift, the capitation rate presumes a number of other changes. These changes, summarized below, would have no net impact on the rate.

FY 2009 AHCCCS Cost Shift

In FY 2009, AHCCCS shifted the responsibility for payment of specific services to the CRS contractor when those services are directly related to a member’s CRS condition.

- Medical Devices: Beginning October 1, 2008, coverage of cochlear implants and wheelchairs related to CRS eligible conditions was transferred from AHCCCS to CRS. The General Fund cost of this change is \$393,800 in FY 2010.
- Emergency Services: Beginning in FY 2009, CRS switched from using 4 contractors to provide services in the 4 designated regions of Phoenix, Tucson, Flagstaff and Yuma, to 1 contractor that will subcontract to provide services in all 4 regions. As a result of this change, the contractor will have an

(Continued)

expanded hospital network compared to previous contractors. Effective October 1, 2008, the contractor became financially responsible for coverage of related emergency services in those facilities that were previously covered by AHCCCS non-CRS contractors. This reflects an estimated General Fund cost of \$205,500 in FY 2010.

- **CRS Related Conditions:** Beginning October 1, 2008, coverage of conditions related to or caused by CRS conditions such as diabetes resulting from cystic fibrosis and complications caused by cerebral palsy will be transferred from AHCCCS to CRS. The FY 2010 General Fund impact of this change is \$16,200.
- **Outpatient Emergency Services to AHCCCS:** Outpatient emergency services that do not result in a hospital admission were transferred from the CRS contractor to AHCCCS on October 1, 2009. This adjustment reduces General Fund costs by \$(128,400).
- **Biotech Drugs:** AHCCCS transferred coverage of certain high cost drugs to CRS in FY 2009. These changes are expected to increase the capitation rates by \$428,000 in General Fund monies in FY 2010.

CRS Adjustments

- **AHCCCS Inpatient Outlier Methodology Change:** Beginning on October 1, 2007, AHCCCS initiated a 3-year phase-in of a new method to monitor inpatient encounters. As a result of almost 3 years of employing this methodology, the actuarial analysis has concluded that inpatient care costs should be reduced by \$(1,643,500).
- **Completion of Omissions:** As part of an annual AHCCCS study, it was found that there were some instances where CRS services were provided, but due to incomplete documentation, records of these services were not included in the base data used to calculate the capitation rates for the FY 2009 budgeted amount. This base adjustment to the capitation rate reflects a General Fund cost of \$650,600.
- **Non-Encounterable Costs:** Non-encounterable costs are considered medical costs that are not factored into the base data actuaries used to calculate capitation rates. These costs could include expenses incurred by social workers and interpreters, care coordination activities, and member/family education. This adjustment is a General Fund increase of \$239,700.
- **Provider Rate Reduction:** The proposed CRS rate includes a (5)% fee-for-service reduction. This adjustment is a General Fund reduction of \$(161,800).

Behavioral Health Services

Table 2 shows the post-7th Special Session and proposed capitation rates for each program. The FY 2010 appropriation was developed by holding capitation rates flat for each program. The proposed rate changes have already been implemented by DHS and are retroactive to January 1, 2010.

Category	Post-7th Special Session Budgeted ^{1/}	FY 2010 ^{1/} Proposed
Children	\$67.66	\$66.16
SMI	\$72.55	\$73.51
General Mental Health	\$41.87	\$40.59

^{1/} Rates are blended to reflect original FY 2010 budgeted rates and mid-year savings.

This mid-year capitation rate change represents an adjustment made by DHS' actuaries to account for lower than expected utilization of Title XIX Behavioral Health Services by the eligible individuals in the last 6 months of FY 2010. While eligibility had increased 25% by November 2009, the corresponding enrollment increase was only 12%. Title XIX eligibility is determined by income, which has been

(Continued)

adversely effected by the economic downturn. However, there has not been an indication that the economy is a causal factor in dramatically increasing SMI incidence.

The enacted revisions in the FY 2010 budget also include an adjustment for lower than budgeted utilization rates among Title XIX eligible individuals receiving behavioral health services. As described in *Table 3* and using behavioral health caseloads reflected in the revised FY 2010 budget provided by DHS, the new capitation rates proposed by DHS cost the General Fund \$4 million when compared to the budgeted capitation rates revised in the 7th Special Session. DHS states there is sufficient funding for the lower budgeted capitation rates, because the department will reduce its Non-Title XIX BHS General Fund spending by \$(4) million. For the SMI, the proposed rates are higher than those in the revised FY 2010 budget, because DHS' actuaries are projecting slightly higher utilization of services within the eligible population.

<u>Category</u>	<u>FY 2010 Budgeted</u>	<u>FY 2010 Proposed</u>
<u>Children's Behavioral Health</u>		
Title XIX	\$158,487,000	\$156,789,400
Proposition 204	3,110,600	3,076,200
<u>Seriously Mentally Ill</u>		
Title XIX	72,955,600	75,758,200
Proposition 204	96,255,600	99,917,500
<u>General Mental Health/Substance Abuse</u>		
Title XIX	42,517,100	42,182,000
Proposition 204	55,550,900	55,113,100
Medicaid Special Exemption Payments	<u>8,792,800</u>	<u>8,916,400</u>
Total	\$437,669,600	\$441,752,800
Increase Above Budgeted Rate		\$4,083,200

RS/AS:sls

**Arizona
Department of
Health Services**

Office of the Director

150 N. 18th Avenue, Suite 560
Phoenix, Arizona 85007-2670
(602) 542-1025
(602) 542-1062 FAX

JANICE K. BREWER, GOVERNOR
WILL HUMBLE, INTERIM DIRECTOR



December 11, 2009

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

Dear Chairman Kavanagh:

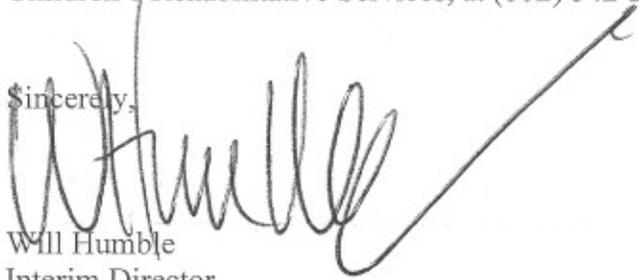
Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to review the proposed changes to the Children's Rehabilitative Services (CRS) Title XIX and Title XXI capitation rates for the contract year ending September 30, 2010 (CYE 10).

Enclosed please find the CRS Title XIX and Title XXI final report for the period October 1, 2009 to September 30, 2010.

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

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

Sincerely,


Will Humble
Interim Director

WH/jh

- c: Senator Russell Pearce, Senate Appropriations Chairman
Richard Stavneak, Director, Joint Legislative Budget Committee
Arthur Smith, Fiscal Analyst, Joint Legislative Budget Committee
Eileen Klein, Deputy Chief of Staff, Finance/Budget, Governor's Office
John Arnold, Budget Director, Office of Strategic Planning and Budgeting
Chris Hall, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Beth Kohler Lazare, Policy Advisor for Health, Governor's Office
Laura Nelson, MD, Deputy Director, ADHS/DBHS
Joan Agostinelli, Administrator, Department of Health Service, CRS
David Reese, Chief Financial Officer, Department of Health Services, BHS
Cynthia Layne, Chief Financial Officer, Department of Health Services, CRS
Jim Humble, Assistant Director/CFO, ADHS
Duane Huffman, Legislative Liaison, ADHS
Kathy Rodham, Financial Manager, AHCCCS, Division of Health Care Management

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Gerry Smedinghoff
Senior Associate

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

September 7, 2009

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

Final and Confidential

Subject: Title XIX, Title XXI and Proposition 204 Capitation Rates for Contract Year 2010

Dear Ms. Agostinelli:

The Arizona Department of Health Services (ADHS), Office for Children with Special Health Care Needs (OCSHCN), Children's Rehabilitative Services (CRS) program contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC to develop capitation rates for the Title XIX, Title XXI and Proposition 204 populations. These rates are used by the Arizona Health Care Cost Containment System (AHCCCS) to compensate CRS and the CRS contractor for CRS members who are Title XIX, Title XXI or Proposition 204 eligible during the Contract Year. For the Contract Year beginning October 1, 2009, and ending September 30, 2010 (CYE 2010), Mercer has developed capitation rates following the process described in this letter.

Background

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

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

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Plus, Medicaid [non-QMB and non-Specified Low-income Medicare Beneficiary (SLMB)], and SLMB Plus dual eligible populations. No other dual eligible populations are enrolled in the program. In Mercer's opinion, the High, Medium and Low capitation rate cells most appropriately match payment with risk in the CRS program, and hence provide a greater level of actuarial soundness than other approaches. The three-tier rate structure will continue to be used for CYE 2010.

CYE 2010 Capitation Rate Development Methodology – Overview

CYE 2010 marks the fifth year that contractor encounters have been used as the base data source. The CYE 2010 rates have been re-based.

Base Data

The State Fiscal Years (SFYs) 2007 and 2008 contractor encounter data were valued using a combination of contractor paid amounts and Medicaid (AHCCCS) fee schedule allowed amounts, incorporating a methodology in conjunction with Third Party Liability (TPL) cost avoidance and any pay-and-chase recoveries. SFY 2007 encounters were trended forward to a "modeled SFY 2008" level, and blended with the actual SFY 2008 encounters to further enhance the credibility of the base data.

With three years of encounter data, SFY 2006 through SFY 2008, CRS Administration and Mercer performed a thorough analysis and kept the High, Medium and Low diagnostic groupings consistent with the prior year.

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

Base Data Adjustments

1. Unpaid Claims Liability

The SFYs 2007 and 2008 base data consist of encounters with dates of service beginning July 1, 2006, and ending June 30, 2008. Encounters were analyzed with a run-out period of nine months beyond the June 30, 2008, endpoint, with data extracted in early April 2009.

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The next step in the base data analysis process was a review of the CRS contractors' expense component for claims incurred but unpaid, hereinafter called the unpaid claims liability (UCL). The UCL is the sum of claims incurred but not reported, plus those claims reported but not yet paid. Statutory accounting recognizes an incurred medical expense for the period as the result of the sum of claims paid in the period, plus the change in the accrued liability for the UCL between the beginning and the end of the period. This calculation pushes the correction of the estimation error of the beginning UCL into the expense recognized in the current period. However, the expense that should be recognized in base data development is calculated from claims incurred in the SFYs 2007 and 2008 experience period, both claims paid in SFYs 2007 and 2008 and the accrued liability for the UCL as of the end of SFY 2008.

A review of the contractors' SFY 2008 encounters indicated that there were outstanding claims as of the early April 2009 data extract. The overall adjustment for SFY 2008 encounters received beyond the early April 2009 data extract was approximately \$0.4 million, or 0.3 percent over the two-year base period.

2. Completion for "Omissions"

As part of its 1115 waiver provisions, AHCCCS performs annual data validation studies of encounters. AHCCCS tests for completeness, accuracy and timeliness of encounter submissions based upon statistically valid sampling of both professional and facility encounters, comparing them against medical records. Mercer used the results of the most recently completed data validation study to develop factors to apply to the base CRS data to further complete the encounters for these "omissions." Mercer and CRS Administration used (with some downward adjustment which lowered the overall impact) the factors shown by AHCCCS, which vary between facility and professional consolidated categories of service (COS). The overall rate impact of this correcting adjustment is approximately \$3.8 million, or 3.0 percent combined for both SFYs 2007 and 2008 data.

3. "Non-encounterable" Costs

In addition, the adjusted base SFYs 2007 and 2008 data reflects contractor costs not captured by encounters, but typically considered under medical service expenses rather than administrative expenses. These "non-encounterable" costs include those for such providers as social workers and interpreters, as well as telephone and tele-video interventions, counseling, care coordination activities and member/family education. The overall

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non-encounterable adjustment is approximately \$1.4 million, or 1.1 percent of the base SFYs 2007 and 2008 encounters.

4. AHCCCS Inpatient Outlier Methodology Change

Starting on October 1, 2007, AHCCCS began a three-year phase-in of a new inpatient outlier methodology (specific to the cost-to-charge ratios used to qualify and pay outliers). CYE 2010 marks Year 3 of the phase-in, so the outliers in the base SFY 2007 and SFY 2008 encounters were re-priced using the new methodology. This change reduced the two-year base data by approximately \$9.6 million, or 6.9%.

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

Base Data Adjustment	Dollar Impact	Percent Impact
Unpaid Claims Liability	\$0.4 million	0.3%
Completion for "Omissions"	\$3.8 million	3.0%
"Non-Encounterable" Costs	\$1.4 million	1.1%
IP Outlier Methodology Change	(\$9.6 million)	(6.9%)

Trend to CYE 2010

The SFY 2007 trended (modeled SFY 2008) and SFY 2008 encounter cost data were trended forward 27 months to CYE 2010. The trend factors recognize changes in cost-per-service unit and utilization of health care services from the SFYs 2007 and 2008 base period to CYE 2010. Unique trends were applied separately for ten COS. Trends were developed separately for the first 15 and last 12 months of the 27-month period to account for the unit cost rate caps and reductions mandated by the State legislature effective on October 1, 2008 and 2009. Inpatient and outpatient facility unit cost were frozen at 0.0% for both CYE 2008 and 2009, while most of the COS unit cost trends reflect a -5.0 percent reduction effective October 1, 2009. The weighted annual trend adjustment for SFY 2007 and SFY 2008 to CYE 2010 was 4.7 percent (2.6 percent utilization and 2.1 percent unit cost).

Mercer relied heavily on historical CRS encounter information as well as its professional experience in working with other state Medicaid programs, outlooks in the commercial marketplace that influence Medicaid programs, regional and national economic indicators, and general price/wage inflation in developing trends. The 4.7 percent annualized weighted

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trend compares favorably (is lower than) historical experience trend. Mercer believes the final trend factors selected to be reasonable and appropriate.

Service Utilization and Technology Changes from Base Data to CYE 2010

Service utilization increases and technology changes not reflected (or not fully reflected) within the SFYs 2007 and 2008 base data will impact the CRS contractor for CYE 2010. Adjustments for CYE 2010 were made for the following items through analyzing data from CRS, the AHCCCS contractors and external sources.

1. Biotech Drugs

Effective CYE 2009, the coverage of the high-cost drugs Aldurazyme, Cerezyme, Elaprase, Fabrazyme, Myozyme and Orfadin was transferred from AHCCCS to CRS. The total impact of these changes is approximately \$2.5 million, or 1.9 percent, over the two-year base period.

2. Cochlear implants

Effective CYE 2009, the coverage of cochlear implants and related services was transferred from AHCCCS to CRS. The total impact of this change is approximately \$1.9 million, or 1.7%, over the two-year base period.

3. Motorized Wheelchairs

Effective CYE 2009, the coverage of motorized wheelchairs related to CRS eligible conditions was transferred from AHCCCS to CRS. The total impact of this change is approximately \$0.4 million, or 0.3%, over the two-year base period.

4. CRS Related Conditions

Effective CYE 2009, the coverage of conditions related to or caused by CRS conditions (e.g., diabetes caused by cystic fibrosis and failure to thrive caused by Cerebral Palsy) was transferred from AHCCCS to CRS. The total impact of this change is approximately \$0.1 million, or 0.1%, over the two-year base period.

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5. Therapies

Effective CYE 2009, the CRS limit of 24 therapy sessions was lifted. The total impact of lifting the limit is estimated to be \$10,000, or less than 0.1 percent, over the two-year base period.

6. Emergency Services

The new CRS contractor has a significantly expanded hospital network as compared to the previous contractors which comprise the SFYs 2007 and 2008 base data. As a result of this, the Contractor is financially responsible for coverage of the related emergency services (that result in an inpatient admission) in those facilities effective CYE 2009, previously covered by AHCCCS non-CRS Contractors. The total impact of this change is \$1.2 million, or 1.0%, over the two-year base period.

7. Transfer Outpatient Emergency Services to AHCCCS

Costs for outpatient emergency services, which do not result in a hospital admission will be transferred from the CRS contractor to the AHCCCS contractors effective October 1, 2009. The total impact of this change is approximately \$0.1 million, or 0.1%, over the two-year base period.

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

Benefit Adjustment	Dollar Impact	Percent Impact
Biotech Drugs	\$2.5 million	1.9%
Cochlear Implants	\$1.9 million	1.7%
Motorized Wheelchairs	\$0.4 million	0.3%
CRS Related Conditions	\$0.1 million	0.1%
Therapies	\$10,000	< 0.1%
Emergency Services	\$1.2 million	1.0%
OP ER Transfer to AHCCCS	(\$0.1 million)	(0.1%)

Loading for Contractor Administration and Underwriting Profit/Risk/Contingency

The overall CYE 2010 administrative expense load for the CRS Contractor is 9.6 percent. This is down slightly from the comparable CYE 2009 figure of 10.2 percent.

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An underwriting profit/risk/contingency loading of 1.5 percent was applied uniformly to all rates. There should be an assumed margin for contribution to entity surplus and adverse claim risk contingency. The 1.5 percent represents a 0.5% reduction from CYE 2009 and follows similar reductions applied to AHCCCS acute care contractors.

CRS Administration

AHCCCS has placed CRS Administration at risk for the provision of CRS-covered services for CYE 2010. Accordingly, the capitation rates were developed to include compensation to CRS for the cost of ensuring the delivery of all CRS covered services. The capitation rates paid to CRS include a 5.6 percent administrative load. This is down from the 7.7 percent load for CYE 2009. The administrative load represents the CRS costs of ensuring the efficient delivery of services in a managed care environment, and is based upon historical CRS costs and accounts for continued regulatory oversight cost expectations for CYE 2010.

Reinsurance Offset

CRS Administration has negotiated a reinsurance arrangement with AHCCCS for CYE 2010 that remains the same as it was in CYE 2009. The arrangement covers inpatient claims exceeding \$75,000 at 75 percent reimbursement. It also covers the high-cost biotech drugs Aldurazyme, Cerezyme, Elaprase, Fabrazyme, Kuvan, Myozyme and Orfadin at 85 percent reimbursement. Mercer estimated the value of the reinsurance through analyzing data from CRS, the CRS contractor, the AHCCCS contractors, and external sources. Reimbursement amounts were estimated for the High, Medium and Low risk groups for SFY 2007 and SFY 2008 and each was trended forward to the CYE 2010 time period. These totals were then blended using a 50-50 weighting on projected SFYs 2007 and 2008 base data.

Certification of Rates

In preparing the Title XIX, Title XXI and Proposition 204 CRS capitation rates shown below, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design, and financial data and information supplied by the State. The State is responsible for the validity and completeness of this supplied data and information. Mercer reviewed the data and information for internal consistency and reasonableness but did not audit it. In Mercer's opinion it is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report may need to be revised accordingly.

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Arizona Department of Health Services

Mercer certifies that the CYE 2010 rates, including any risk-sharing mechanisms, incentive arrangements, or other payments, were developed in accordance with generally accepted actuarial practices and principles and are appropriate for the Medicaid covered populations and services under the CRS contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Rates developed by Mercer are actuarial projections of future contingent events. Actual Health Maintenance Organization (HMO) costs will differ from these projections. Mercer has developed these rates on behalf of the State to demonstrate compliance with the Centers for Medicare and Medicaid Services (CMS) requirements under 42 CFR 438.6(c) and accordance with applicable law and regulations. Use of these rates for any purpose beyond that stated may not be appropriate.

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

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

Risk Category	High	Medium	Low
Statewide Rates	\$933.02	\$554.01	\$207.68
AHCCCS Reinsurance	(\$100.53)	(\$17.39)	(\$1.26)
Net Rates After Reinsurance	\$832.49	\$536.62	\$206.42

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Ms. Joan Agostinelli
Arizona Department of Health Services

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

Sincerely,

A handwritten signature in cursive script that reads "Gerry Smedinghoff".

Gerry Smedinghoff, ASA, MAAA

Copy:

Cynthia Layne; David Reese – ADHS
Branch McNeal; Michael Nordstrom; Lisa Golinski; Austin Hackett – Mercer

Attachments

**Arizona
Department of
Health Services**

Office of the Director

150 N. 18th Avenue, Suite 560
Phoenix, Arizona 85007-2670
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JANICE K. BREWER, GOVERNOR
WILL HUMBLE, INTERIM DIRECTOR

January 19, 2010

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



Dear Chairman Kavanagh:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's agenda for its next scheduled meeting to review the proposed changes to the Behavioral Health Services Title XIX capitation rates for fiscal year 2010 with an effective date of January 1, 2010.

Enclosed please find the proposed Title XIX behavioral health services capitation rates for Children, Seriously Mentally Ill, and General Mental Health/Substance Abuse populations. In accordance with the Centers for Medicare & Medicaid Services and the Balanced Budget Act of 1997, the rates were developed using actuarially sound methodologies by Mercer Government Human Services Consulting. The Arizona Health Care Cost Containment System (AHCCCS) has reviewed and approved the proposed capitation rates.

If you have any questions, please feel free to call David Reese, Chief Financial Officer for Behavioral Health Services, at (602) 364-4699.

Sincerely,

A handwritten signature in black ink, appearing to read "Will Humble".

Will Humble
Interim Director

WH/jh

Enc.

- C:
- Senator Russell Pearce, Senate Appropriations Chairman
 - Richard Stavneak, Director, Joint Legislative Budget Committee
 - Arthur Smith, Fiscal Analyst, Joint Legislative Budget Committee
 - Eileen Klein, Chief of Staff, Finance/Budget, Governor's Office
 - John Arnold, Budget Director, Office of Strategic Planning and Budgeting
 - Chris Hall, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
 - Beth Kohler Lazare, Policy Advisor for Health, Governor's Office
 - Laura Nelson, MD, Deputy Director, ADHS/DBHS
 - David Reese, Chief Financial Officer, Department of Health Services, BHS
 - Jim Humble, Assistant Director/CFO, ADHS
 - Duane Huffman, Legislative Liaison, ADHS
 - Kathy Rodham, Financial Manager, AHCCCS, Division of Health Care Management

Attachment C
SFY10 DBHS Capitation Rates
Projection of Expenditures
Title XIX

Note: This section uses SFY10 Projected Member Months applied to both SFY09 and SFY10 Rates.

	SFY09	Statewide Rates SFY10			SFY10 Projected MMs	SFY09	Total Projected Expenditures SFY10			Percent Change Best	Percent Change Low	Percent Change High
		Best Estimate	Low	High			Best Estimate	Low	High			
TXIX												
Children	\$ 65.18	\$ 66.16	\$ 65.57	\$ 66.75	6,556,473	\$ 427,318,990	\$ 433,791,227	\$ 429,905,400	\$ 437,677,053	1.5%	0.6%	2.4%
SMI	\$ 81.90	\$ 73.51	\$ 72.79	\$ 74.24	6,094,153	\$ 499,093,476	\$ 447,984,961	\$ 443,566,457	\$ 452,403,464	-10.2%	-11.1%	-8.4%
GMH/SA	\$ 42.46	\$ 40.59	\$ 40.19	\$ 41.00	6,094,153	\$ 258,775,441	\$ 247,387,701	\$ 244,917,966	\$ 249,857,434	-4.4%	-5.4%	-3.4%
Total						\$ 1,185,187,907	\$ 1,129,163,889	\$ 1,118,389,823	\$ 1,139,937,951	-4.7%	-5.6%	-3.8%

	SFY09	Statewide Rates SFY10			SFY10 Projected MMs	SFY09	Total Projected Expenditures SFY10			Percent Change Best	Percent Change Low	Percent Change High
		Best Estimate	Low	High			Best Estimate	Low	High			
TXIX Children												
Non-CMDP Children	\$ 44.26	\$ 43.66	\$ 43.29	\$ 44.03	6,428,874	\$ 284,510,470	\$ 280,693,776	\$ 278,316,318	\$ 283,071,232	-1.3%	-2.2%	-0.5%
CMDP Children	\$ 1,119.20	\$ 1,199.83	\$ 1,188.01	\$ 1,211.65	127,599	\$ 142,808,520	\$ 153,097,451	\$ 151,589,082	\$ 154,605,821	7.2%	6.1%	8.3%
Total	\$ 65.18	\$ 66.16	\$ 65.57	\$ 66.75	6,556,473	\$ 427,318,990	\$ 433,791,227	\$ 429,905,400	\$ 437,677,053	1.5%	0.6%	2.4%

Note: This section uses SFY09 Actual/Projected Member Months applied to SFY09 Rates, and SFY10 Projected Member Months applied to SFY10 Rates.

	SFY09	Statewide Rates SFY10			SFY09 Actual/ Projected MMs	SFY09	Total Projected Expenditures SFY10			Percent Change Best	Percent Change Low	Percent Change High
		Best Estimate	Low	High			Best Estimate	Low	High			
TXIX												
Children	\$ 65.41	\$ 66.16	\$ 65.57	\$ 66.75	5,925,263	\$ 387,565,732	\$ 433,791,227	\$ 429,905,400	\$ 437,677,053	11.9%	10.9%	12.9%
SMI	\$ 81.90	\$ 73.51	\$ 72.79	\$ 74.24	5,484,671	\$ 449,178,666	\$ 447,984,961	\$ 443,566,457	\$ 452,403,464	-0.3%	-1.2%	0.7%
GMH/SA	\$ 42.46	\$ 40.59	\$ 40.19	\$ 41.00	5,484,671	\$ 232,895,064	\$ 247,387,701	\$ 244,917,966	\$ 249,857,434	6.2%	5.2%	7.3%
Total						\$ 1,069,639,463	\$ 1,129,163,889	\$ 1,118,389,823	\$ 1,139,937,951	5.6%	4.6%	6.6%
					SFY10 Projected MMs							
					6,556,473							
					6,094,153							
					6,094,153							

	SFY09	Statewide Rates SFY10			SFY09 Actual/ Projected MMs	SFY09	Total Projected Expenditures SFY10			Percent Change Best	Percent Change Low	Percent Change High
		Best Estimate	Low	High			Best Estimate	Low	High			
TXIX Children												
Non-CMDP Children	\$ 44.26	\$ 43.66	\$ 43.29	\$ 44.03	5,808,659	\$ 257,062,793	\$ 280,693,776	\$ 278,316,318	\$ 283,071,232	9.2%	8.3%	10.1%
CMDP Children	\$ 1,119.20	\$ 1,199.83	\$ 1,188.01	\$ 1,211.65	116,604	\$ 130,502,940	\$ 153,097,451	\$ 151,589,082	\$ 154,605,821	17.3%	16.2%	18.5%
Total	\$ 65.41	\$ 66.16	\$ 65.57	\$ 66.75	5,925,263	\$ 387,565,732	\$ 433,791,227	\$ 429,905,400	\$ 437,677,053	11.9%	10.9%	12.9%
					SFY10 Projected MMs							
					6,428,874							
					127,599							
					6,556,473							

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

December 30, 2009

FINAL

Revision to original Title XIX Program Capitation Rates Certification dated May 4, 2009

Subject: Revised Behavioral Health Services State Fiscal Year 2010 Capitation Rates for the Title XIX Program

Dear Mr. Reese:

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC, to develop revised actuarially sound capitation rates for use during the last six months of the State Fiscal Year 2010 (SFY10) contract period. SFY10 began July 1, 2009, and ends June 30, 2010. The revised rates, with an effective date of January 1, 2010, reflect the net impact of changes to two underlying assumptions, each of which is described in more detail later in this document. The actuarially sound rates accompanying this document reflect adjusted rates applicable for the time period from January 1, 2010, through June 30, 2010. They represent a weighted 3.6 percent rate *reduction* when compared to the current rates. On an annual basis this results in over \$43 million of combined state and federal savings.

Previously, Mercer developed annual SFY10 actuarially sound rates and provided BHS with a rate development and certification letter dated May 4, 2009, which included an exhibit detailing the SFY10 rates. The overall rate-setting methodology used in the development of these revised actuarially sound rates has not changed from the method utilized in the original SFY10 rate development.

This document presents an overview of the analyses and methodology used in Mercer's revised rate development.

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Mr. David Reese
Division of Behavioral Health Services

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Rate methodology

Overview

The revised capitation rates for the BHS Title XIX Regional Behavioral Health Authority (RBHA)-based managed care program were developed in accordance with rate-setting guidelines established by the Centers for Medicare and Medicaid Services (CMS).

May 4, 2009 certification elements

There have been no changes made to the following sections of the May 4, 2009 certification letter:

- Introduction/Background
- Overview of Rate-Setting Methodology (with the exceptions of the new six month effective date period and the final imbedded RBHA capitation rates portions)
- SFY09 Adjustment factors
- Trend percentages
- Service Utilization Changes (with the exception of High Needs Children; see below)
- White Mountain Apache Tribal Regional Behavioral Health Authority
- Administration and Underwriting Profit/Risk/Contingency load percentages
- Risk Corridors and Performance Incentive
- Tribal Fee-For-Service Claims Estimate
- BHS Administration/Risk/Contingency load percentage
- Development of Statewide Capitation Rates

If desired, please refer to the May 4, 2009, certification letter for more detail related to these sections of the certification.

Revisions

There were three changes made to the SFY10 capitation rates necessitating this revision to the original certification. Two of the changes generated an overall budgetary impact. The third change, involving High Needs Children, literally shifted pennies per member per month (PMPM) between RBHAs, but was budget-neutral from an overall standpoint.

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1. Base data

From the May 4, 2009, certification, base data expenses were reduced 5.0 percent for a provider fee schedule (rate) change implemented by BHS on their fee-for-service (FFS) claims for all providers and services. At the time the capitation rates were produced and finalized during February, March and April of 2009, with the then economic climate and the FFS fee schedule reduction, BHS and Mercer believed and assumed reimbursement expectations of the RBHA's contracted providers (including Pharmacy providers) should be lowered. Hence, payments to BHS and the RBHAs were reduced. Given time and additional information, BHS and Mercer believe the assumption surrounding Pharmacy providers should be revised. We have eliminated the 5.0 percent reduction for Pharmacy claims only. This change impact varies by RBHA and population. Overall it generates the following population group rate *increases*: 0.7 percent for Non-CMDP Children, 0.3 percent for CMDP Children, 0.6 percent for SMI Adults, and 0.9 percent for GMH/SA Adults.

2. High Needs Children Service Utilization Changes

Within the rate development model, BHS and Mercer decided to distribute total required dollars for the High Needs Children adjustment based on relative costs by respective RBHA population. With the differing Pharmacy levels from the above base data adjustment slightly altering the relative RBHA costs, there were literally pennies PMPM shifted between RBHAs. The impact is so small by RBHA that it doesn't display in the Non-CMDP Children rates, only in the CMDP Children rates (and there only +/- \$0.05 PMPM maximum). As it's an allocation, the grand totals across all RBHAs don't change.

3. Behavioral Health Penetration – Acuity Adjustment

For enhanced financing stability and consistency, BHS and the RBHAs are paid based upon Medicaid eligibles in contrast to those enrolled in the behavioral health system. At the same time, those enrolled individuals are the ones accessing providers and generating necessary services and expenses. When the ratio (penetration rate) of those enrolled to those eligible remains stable over time, all other rating factors are able to account for actuarially sound cost components. However, when the penetration rate changes (increases or decreases) over time, a separate adjustment is required. We have labeled this as an "acuity" adjustment or factor.

Projections for contract period enrollment, eligibility, penetration and acuity levels were developed by RBHA and population and compared to the corresponding base data period levels as part of the analyses for the original SFY10 capitation rates. While significant

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increases were anticipated at that time for both SFY10 enrollment and eligibility, the massive increase in Medicaid eligibles was not fully anticipated. A November 2009, ADHS report shows a 25.3 percent increase in total eligibles from November 2008, while total enrollees have "only" increased 11.9 percent. Overall the revised projections generate the following population group rate *decreases*: 2.9 percent for Non-CMDP Children, 2.5 percent for CMDP Children, 5.1 percent for SMI Adults, and 5.0 percent for GMH/SA Adults.

Certification of Final Rates

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

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

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

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

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other premium needs for comparison to these rates before deciding whether to contract with BHS.

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

If you have any questions on any of the above, please feel free to contact me at +1 602 522 6510 or Sundee Easter at +1 602 522 8547.

Sincerely,



Michael E. Nordstrom, ASA, MAAA

MEN/hgl

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

Enclosures

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: April 13, 2010

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

THRU: Richard Stavneak, Director

FROM: Ted Nelson, Assistant Fiscal Analyst

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

Request

Pursuant to A.R.S. § 41-3542C, the Government Information Technology Agency (GITA) has submitted for review its FY 2010 second quarter report of expenditures and progress for the statewide interoperability design project.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the department's FY 2010 2nd quarter report of expenditures and progress for the statewide interoperability design project. The JLBC Staff also recommends that the Committee next review the project after the 4th quarter, at which time GITA would provide its plan on the use of anti-racketeering monies.

Expenditures for the second quarter of FY 2010 totaled \$124,200 of \$757,300 in FY 2010 appropriated funding.

There were no expenditures for the second quarter of FY 2010 from the \$2,200,000 of non-lapsing Anti-Racketeering Fund monies designated for the detailed design of the long-term interoperability solution.

(Continued)

Analysis

Background

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

Activities

Laws 2008, Chapter 285 transferred the PSCC from the Department of Public Safety (DPS) to GITA. The PSCC was appropriated \$818,700 from the General Fund in FY 2010. A lump sum reduction of \$(61,400) reduced the final PSCC appropriation to \$757,300.

As of the second quarter of FY 2010, the PSCC has expanded its short-term solution, Arizona Interagency Radio System (AIRS) to 33 sites that cover every county except La Paz County. An alternate installation site for this county has been identified and was on the agenda for approval at the January 19, 2010 Statewide Interoperability Executive Committee (SIEC) meeting. AIRS is limited to a single talk group, which is described as a single conversation between users in a geographical area. The PSCC describes this functionality as “basic interoperability” for first responders.

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

Expenditures

Through the second quarter of FY 2010, the PSCC expended \$301,700 for operating costs associated with 3.5 filled FTE Positions. A total of \$455,600 remains in allocated funds as of the close of the second quarter of FY 2010, in addition to \$2,200,000 in non-lapsing funds from the Anti-Racketeering Fund. A footnote in the 2009 General Appropriation Act specifies legislative intent to use these non-lapsing funds for the detailed design of a long-term interoperability solution. Prior to expending these monies, GITA is required to submit expenditure plans to the Joint Legislative Budget Committee for review. To date, none of this funding has been spent.

Laws 2004, Chapter 275 included a non-lapsing appropriation of \$3,000,000 to DPS in FY 2005 for the design costs of a statewide radio interoperability communication system. The FY 2010 budget will revert the remaining \$358,500 of this amount to the General Fund.

Table 1 indicates funds available and expenditures for FY 2010.

(Continued)

	FY 2010 Funding <u>Available</u>	FY 2010 Q1 <u>Expenditures</u>	FY 2010 Q2 <u>Expenditures</u>	FY 2010 Total <u>Expenditures</u>	Remaining <u>Balance</u>
Personal Services	\$475,000	\$94,000	\$88,400	\$182,400	\$292,600
Employee Related Expenditures	142,500	55,200	16,700	71,900	70,600
Professional & Outside Services	31,000	18,000	(17,000)	1,000	30,000
Travel - In State	5,000	1,200	200	1,400	3,600
Travel - Out of State	5,000	800	800	1,600	3,400
Other Operating Expenditures	89,600	8,300	35,200	43,500	46,100
Non-Lapsing Expenditure Authority					
Equipment	<u>9,200</u>				<u>9,200</u>
Total Operating Expenditures	\$757,300	\$177,500	\$124,300	\$301,800	\$455,500

RS/TN:sls

JANICE K. BREWER
GOVERNOR



CHAD KIRKPATRICK
DIRECTOR

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

March 1, 2010

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



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

Gentleman:

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

Background

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

Executive Summary

Arizona's strategic interoperability initiatives which will lead to a statewide interoperability system cover five key areas: Governance; Standard Operating Procedures; Technology; Training/Exercise; Usage/Outreach. The strategic initiatives in all five areas are listed in Attachment A and published in

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

Arizona's strategic plan for interoperability, entitled the Statewide Communications Interoperability Plan or SCIP.²

Key accomplishments are outlined below and include:

- Strengthening Arizona's Governance Model (SCIP Initiative #1)
- Annual Review and Update of the SCIP (SCIP Objective 1.1)
- Develop Tactical Interoperable Communication Plans (TICPs) (SCIP Objective 1.3)
- Implementation of CASM Inventory & Analysis Tool (SCIP Objective 1.3)
- Development of the AIRS Standard Operating Procedures (SCIP Initiative #4)
- Project Oversight of AIRS, Statewide Microwave Backbone Upgrade and State Strategic Technology Reserve (STR) (SCIP Initiatives # 5, 7 and 8)
- Promoting Functional Regional Systems in Support of Interoperable Communications (SCIP Initiative #6)
- Developing Training materials for the Arizona Interagency Radio System (AIRS) (SCIP Objective 10.1)
- Developing a Communications Unit Leader (COM-L) Training Program (SCIP Objective 10.2)
- Development of a high-level action plan for implementing a multi-year communications-focused regional Training and Exercise Plan (TEP) (SCIP Initiative #11)
- Stakeholder Outreach Sessions with regions interested in moving forward with regional technology planning for interoperable communications (SCIP Initiative # 6)

Governance

During FY 2010 second quarter, GITA-PSIC made solid progress on SCIP Initiative #1: Expanding and implementing our interoperable communications governance model. This initiative was identified as both short term and high priority, and is viewed as an essential precursor to achieving other key strategic interoperability objectives. Key activities in Governance during the second quarter FY2010 follow:

Strengthening Arizona's Governance Model (SCIP Initiative #1)

During the second quarter of FY 2010, the State drafted an Operating Principles document after conducting an analysis of the PSCC General Policies and Arizona State statutes impacting its operations. The Operating Principles document will outline how the PSCC and SIEC will operate. The State worked with the Governance workgroup of the PSCC and public safety stakeholders to solicit feedback on the role and functions of the PSCC, SIEC, and their workgroups. Additional discussions of further changes to our governance structure have been deferred until early 2010 when new PSCC appointees will be seated and when the updated SCIP, will be approved.

Annual Review and Update of the SCIP (SCIP Objective 1.1)

GITA-PSIC continued working with stakeholders during second quarter of FY 2010 on reviewing and updating Arizona's Statewide Communications Interoperability Plan (SCIP). The SCIP is the roadmap

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

for development of standards based systems that provide interoperability statewide. The SCIP is also required by Federal Homeland Security in order for Arizona to receive federal grants for interoperability.

GITA-PSIC conducted numerous interviews with key State and local personnel in addition to other data gathering activities. GITA-PSIC also conducted two public review and comment periods, circulating updated drafts of the SCIP to the Public Safety Communications Advisory Commission (PSCC) and stakeholder's statewide.³ GITA-PSIC agendized the revised 2010 SCIP for final approval at the January 19, 2010 meeting of the PSCC.

Develop Tactical Interoperable Communication Plans (TICPs) (SCIP Objective 1.3)

TICPs document the interoperable communication resources available within a designated area, who controls each resource and what rules of use or operational procedures exist for the activation and deactivation of these resources. The TICP for the Yuma region was completed in second quarter of FY 2010 through a Federal Technical Assistance grant secured by GITA-PSIC. GITA-PSIC continues to work with our regional and federal partners on identifying resources to develop TICP's for other regions in Arizona.

Utilization of CASM Inventory & Analysis Tool (SCIP Objective 1.3)

During the second quarter of FY2010, the State finalized a Memorandum of Understanding or MOU with the City of Phoenix to transfer funding to the State for populating the Communications Assets Survey and Mapping (CASM) tool. The tool enables states to map their interoperability assets on a regional and statewide level. The CASM project is funded by a \$220,000 Interoperable Emergency Communications Grant Program (IECGP) from Federal Department of Homeland Security (DOHS). Project implementation will begin in the third quarter FY 2010.

Standard Operating Procedures (SOPs)

AIRS supports VHF, UHF and 800 Mhz frequencies used throughout the State with a cross-band repeater configuration that allows communication between bands. The lack of a standard SOP for this system to date has been a significant impediment to its effective use in support of interoperability.

Activities during the second quarter FY 2010 in regard to the AIRS SOP include:

- Outreach to AIRS monitoring and dispatching agencies to ascertain usage and practices
- Development of plans for an AIRS Training program (see Training and Exercise section below).
- Tackling AIRS-related oversight issues including:
 - Monitoring Coverage
 - Testing
 - Appropriate use of regional and statewide channels

During the second quarter FY 2010 GITA-PSIC completed development of the AIRS Standard Operating Procedures (SCIP Initiative #4). In addition, the AIRS SOP was approved in an open public meeting by the SIEC on October 14th, 2009 and posted to the PSIC website⁴.

³ <http://www.azgita.gov/psic/SCIP>

⁴ <http://www.azgita.gov/psic/AIRS>

Technology

Progress on Technology related interoperability projects during the second quarter of FY 2010 by GITA-PSIC and our partners include:

Deployment of remaining AIRS Suites (SCIP Initiative #5)

Project Oversight of Arizona Interagency Radio System (AIRS) projects: AIRS has now expanded to 33 sites throughout Arizona. The Wireless Systems Bureau of DPS (DPS/WSB) has been unable to access the planned site for installation of an AIRS suite in La Paz County, the only remaining county without an AIRS suite. DPS/WSB has identified an alternate site for installation of an AIRS suite, which is physically located outside of La Paz County, but would provide AIRS coverage to La Paz. The selection of this alternate site has been agendized for SIEC approval on January 19, 2010.

Implement, Enhance and Promote Functional Regional Systems in Support of Interoperable Communications (SCIP Initiative #6)

GITA-PSIC is working with Arizona Department of Homeland Security to identify funds for regional planning for the CRIT tribe, which covers a large portion of La Paz County.

GITA-PSIC is working with Mohave County to identify alternate sources of funds for regional planning since Mohave was not awarded a requested federal technical assistance grant for such planning.

GITA-PSIC has had numerous meetings with Santa Cruz and Cochise Counties to advance regional border planning.

GITA-PSIC continues to work closely with other regional/local partners around the State, to further regional interoperability planning. (See the Outreach section below).

Upgrade the Statewide Microwave Backbone Infrastructure to Digital Technology (SCIP Initiative #7)

Project Oversight of DPS/WSB Project (SCIP Initiative #6): GITA-PSIC continues to monitor progress on the Digital Microwave upgrade closely. DPS/WSB completed activation of the 3 remaining digital microwave paths in the Southern Loop in second quarter FY 2010. DPS is in process of completing repair work for towers which were subsequently damaged by winter storms, impacting final digital activation of the Southern Loop. GITA-PSIC has requested that DPS/WSB brief the PSCC on project progress during the third quarter FY2010. DPS/WSB informs GITA-PSIC that it is prepared to brief the JLBC on the status of the Microwave project.

Implement the State STR (SCIP Initiative #8)

Project Oversight of Arizona Division of Emergency Management (ADEM) Strategic Technology Reserve (STR) Project: The end date for this project has been extended at the request of ADEM, to allow additional time for coordination with the Governor's Office on deployment of satellite phones/radios for continuity of government, and to address remaining field deployments and funding.

Upgrade Operable Communication Systems for State Agencies in Support of Interoperability (SCIP Initiative #9)

The State Agency Communications User Group, led by DPS/WSB, was formed and met in second quarter FY 2010. We will continue to meet with this group to support their planning efforts.

Training & Exercise

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

Develop and Implement AIRS Training (SCIP Objective 10.1)

GITA-PSIC developed a project plan for the creation of AIRS training materials, funded by the federal Interoperable Emergency Communications Grant Program (IECGP). Project implementation will begin during the third quarter FY 2010.

Implement COM-L Training Program (SCIP Objective 10.2)

The SIEC Communications Unit Workgroup met and discussed proposed roles for the State and local jurisdictions in the Communications Unit Leader (COM-L) certification and tracking process. The group proposed a state level group consisting of COM-L experts who would provide feedback and recommendations to local jurisdictions. The workgroup has solicited and received valuable feedback from public safety stakeholders and the SIEC and will continue to refine their ideas regarding this program. It will propose updates to its program ideas in third quarter FY 2010.

Develop and Implement a Strategy for Exercises Focused on or Incorporating Interoperable Communications (SCIP Initiative #11)

As part of the development of the States' 2010 SCIP, a high level action plan for implementing a multi-year communications-focused regional Training and Exercise Plan (TEP) and a consolidated statewide TEP was developed by GITA-PSIC. In addition, the State submitted a grant application as part of the FY2010 Interoperable Emergency Communications Grant Program (IECGP) to hire a part-time Training & Exercise Coordinator for providing critical assistance to jurisdictions as they plan, train and exercise to meet the Goals of the National Emergency Communications Plan (NECP). The State expects to know the status of this grant application by the second quarter FY 2011.

Usage & Outreach

The State conducted two Stakeholder Regional Road shows during the second quarter of FY 2010 with regions interested in regional interoperability planning (SCIP Initiative # 6). Discussion points at these meetings included updated information on interoperable communications projects and resources available to the regions for advancing interoperability efforts. State agency representatives met with public safety agencies and stakeholders with the Colorado River Indian Tribe and La Paz County on November 23, 2009, and with Santa Cruz County on October 21, 2009.

Additional Usage & Outreach activities during second quarter FY 2010 included:

- Collaboration with technology experts, organization leaders and cross-discipline, cross-jurisdictional first responders
- PSCC, SIEC, and Stakeholder recruitment and support
- Participation in Training and Exercises

- Outreach to stakeholders regarding upcoming FCC Narrowbanding requirements, National Emergency Communications Plan (NECP) requirements, Federal Grant Opportunities, GITA-PSIC activities and AIRS

GITA-PSIC staff participated in many meetings throughout the State during the second quarter FY 2010, including: Arizona Fire Districts Association Executive Board; Cochise County Emergency Medical Services Council; Collaborative Border Regional Alliance; Colorado River Indian Tribe regional outreach; Maricopa County Sheriffs Office; Mohave County regional outreach; National Statewide Interoperability Coordinators Meeting; Northern Arizona Emergency Medical Services Council; Phoenix Regional Wireless Cooperative (RWC); Phoenix UASI Communications Subcommittee; Phoenix UASI; Phoenix Fire Department; Santa Cruz County regional outreach; Southwest Border Communications Working Group; Southern RAC; Western RAC; and the Yuma region TIC-P Workshop.

Public Meetings

SIEC Meeting – October 14, 2009 – Agenda items: COM-L Working Group Progress Report, Operating Principles Document Review, AIRS Standard Operating Procedures Framework, Revisions and Approval

PSCC Governance Workgroup Meeting – October 14, 2009 – Agenda items: Arizona's Statewide Communications Interoperability Plan (SCIP) Revision, Operating Principles Document Review, Regional Governance.

PSCC Public Conference Call – December 16, 2009 – Agenda item: Approval of PSCC Annual Report.

Budget

For FY 2010, \$818,700 was appropriated from the General Fund to the Government Information Technology Agency for the public safety communications program. Laws 2009, 5th Special Session, Chapter 1, SB1001 reduced the appropriation by \$61,400 to \$757,300. As of December 31, 2009, \$301,659.26 had been expended or encumbered. A breakdown of expenditures by category is attached as Attachment B: FY2010 Q2 GITA-PSIC Expenditures. GITA-PSIC continues to realize vacancy savings and utilize federal grants whenever possible to support its goal of advancing interoperable communications in Arizona in the most fiscally responsible manner.

Remaining funding includes the \$2.2M of non-lapsing Anti-Racketeering Fund monies specified in the General Appropriation Act footnote as legislatively intended for use for the detailed design of the long-term interoperability solution. No expenditures associated with this fund occurred during the second quarter of FY2010.

The GITA-PSIC office continues to put in place the necessary framework for interoperability through implementation of the SCIP Strategic Initiatives, including development of regional interoperability plans (Initiative #6). These regional plans, once in place, are a key aspect of the State's long term interoperability solution, and will inform the eventual detailed design. Prior to expending any of these monies, GITA-PSIC will submit a required expenditure plan to JLBC for review.

The Honorable John Kavanagh, Chair
The Honorable Russell Pearce, Vice Chair
March 1, 2010
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Technical Assistance Requests

The OEC/ICTAP Technical Assistance (TA) program works to ensure, accelerate, and attain operable and interoperable emergency communications nationwide through the offering of Technical Assistance grants to the States.

GITA-PSIC was awarded two TAs for 2010 as follows:

1. RIC-PKG: Regional Communications Enhancement Package (Four Southern AZ Border Counties) - Early 2010
2. GOV-ASMT: Governance Structures Assessment for PC-WIN (Pima County) - Early 2010

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

Best wishes,



Chad Kirkpatrick
State CIO & Director

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

Attachment A: Strategic Initiatives and Supporting Objectives
Attachment B: FY2010 Q2 GITA-PSIC Expenditures

Attachment A: Strategic Initiatives and Supporting Objectives

Arizona's Strategic Initiatives and Supporting Objectives are outlined in the 2010 Statewide Communications Interoperability Plan (SCIP):

	ID	SCIP Section	Strategic Initiative & Objectives	Priority	Term	Lead
Governance	1	5.8.1.1 1) 2) 3)	Expand & Implement Interoperable Communications Governance Model & Plan Conduct an annual review and update the SCIP as needed Develop TICPs and expand the utilization of CASM (2011) Strengthen the SIEC (2009).	High	Short (2010/2011)	PSIC Office
	2	5.8.1.2 1) 2)	Develop Long-term Plan for Statewide Interoperability for Voice and Data Develop a Long-term Plan for Statewide Interoperability for Voice (2011) Develop a Long-term Plan for Statewide Interoperability for Data (2011).	Medium	Short (2011)	PSIC Office
	3	5.8.1.3 1) 2) 3)	Develop and Implement Long-term Funding and Sustainability Strategy for Interoperable Communications 1) Identify known local, state, tribal, federal and/or private funding streams that could be used to support interoperability 2) Identify existing and projected interoperability projects in need of implementation and sustainment funding; determine funding requirements for each project 3) Develop a statewide long-term interoperable communications funding plan.	Medium	Short (2011)	PSIC Office
SOPs	4	5.8.2.1 1) 2) 3)	Establish a PSP Framework, and Implement PSPs, including SOPs, for Statewide Interoperable Communications Solutions Develop a statewide interoperable communications PSP Framework Develop consistent interoperable communications SOPs and SOP templates Implement developed SOPs statewide.	High	Short (2011)	PSIC Office
Technology	5	5.8.3.1 1)	Complete AIRS by Deploying Remaining AIRS Suites Provide AIRS coverage for each of the 15 Arizona counties.	High	Short (2011)	DPS/WSB
	6	5.8.3.2 1) 2) 3) 4)	Implement, Enhance and Promote Functional Regional Systems in Support of Interoperable Communications 1) Encourage partnerships in regional shared systems 2) Support the development of new regional shared systems 3) Provide enhancements to existing regional shared systems 4) Develop interoperability connections between regional shared systems.	High	Long	Regional Partners
	7	5.8.3.3 1) 2) 3)	Upgrade the Statewide Microwave Backbone Infrastructure to Digital Technology 1) Complete the Microwave Southern Loop Connectivity (2010) 2) Complete the Microwave Western Loop Connectivity (subject to funding availability) 3) Complete the Microwave Northern Loop Connectivity (subject to funding availability).	High	Long (2017)	DPS/WSB
	8	5.8.3.4 1) 2) 3)	Implement the State STR 1) Pre-position and secure mobile interoperable communications assets for immediate deployment to impacted areas statewide in an emergency or major disaster 2) Provide redundant communications assets which can reconstitute basic public safety/service communications in the event of a catastrophic communication failure 3) Augment COG capabilities by providing a reserve of communications assets to government officials.	High	Short (2010)	ADEM
	9	5.8.3.5 1) 2) 3)	Upgrade Operable Communication Systems for State Agencies in Support of Interoperable Communications 1) Develop a plan to provide State Agency Users with continued access to operable public safety/service LMR communications in support of statewide interoperability 2) Implement immediate solutions to enhance operable communication systems for State Agency Users in support of interoperable communications 3) Implement upgrades to operable communication systems for State Agency Users in support of interoperable communications.	High	Long	DPS/WSB
Training & Exercises	10	5.8.4.1 1) 2) 3) 4) 5)	Develop and Implement a Training Plan to Address Interoperable Communications 1) Develop regional multi-year communications-focused T&EPs 2) Develop a statewide multi-year communications-focused T&EP 3) Develop and implement AIRS training statewide 4) Implement a COML Training Program and determine a credentialing protocol 5) Implement a COMT Training Program and determine a credentialing protocol.	Medium	Short (2011)	PSIC Office
	11	5.8.4.2 1) 2)	Develop and Implement a Strategy for Exercises Focused on or Incorporating Interoperable Communications 1) Develop regional multi-year communications-focused T&EPs 2) Develop a statewide multi-year communications-focused T&EP.	Medium	Short (2012)	PSIC Office
Usage & Outreach	12	5.8.5.1 1) 2) 3) 4) 5)	Create and Implement an Education and Outreach Plan in Support of Interoperable Communications 1) Develop a statewide Education and Outreach Plan in support of interoperable communications that describes the plan for encouraging collaboration and educating policy makers and practitioners. 2) Actively encourage and coordinate collaborative efforts to identify and address local, regional, tribal, and state barriers to advancing interoperability solutions and usage 3) Travel to regions where interoperable communications are needed and conduct group and one-on-one meetings to understand first hand the challenges facing public safety and service agencies/organizations in advancing interoperable communications, and support stakeholders as they address these challenges 4) Develop resources for interoperable communications to showcase success stories from across Arizona 5) Develop partnerships with agency public information officers, communication managers, regional communication centers and emergency managers.	Medium	Short (2010)	PSIC Office

Attachment B: FY2010 Q2 GITA-PSIC Expenditures

**FY 10 Quarterly Expenditures
Allocated Funds**

	ALLOCATED AMOUNT	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	REMAINING BALANCE
PERSONAL SERVICES	\$ 475,000.00	\$ 94,004.54	\$ 88,350.52			\$ 292,644.94
ERE	\$ 142,500.00	\$ 55,176.51	\$ 16,681.06			\$ 70,642.43
PROFESSIONAL/OUTSIDE SVCS	\$ 31,000.00	\$ 18,037.85	\$ (17,083.62)			\$ 30,045.77
TRAVEL (IN STATE)	\$ 5,000.00	\$ 1,209.35	\$ 233.35			\$ 3,557.30
TRAVEL (OUT OF STATE)	\$ 5,000.00	\$ 750.05	\$ 831.82			\$ 3,418.13
OTHER OPERATING EXPENDITURES	\$ 89,600.00	\$ 8,260.57	\$ 35,207.26			\$ 46,132.17
CAPITAL EQUIPMENT	\$ -					\$ -
NON CAPITAL EQUIPMENT	\$ 9,200.00	\$ -	\$ -			\$ 9,200.00
	\$ 757,300.00					\$ 455,640.74
QUARTERLY EXPENDITURES TOTALS		\$ 177,438.87	\$ 124,220.39	\$ -	\$ -	
				FY 10 TOTAL EXPENDITURES		\$ 301,659.26

**FY 10 Quarterly Expenditures
Non Lapsing Funds**

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

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