STATE OF ARIZONA

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, June 29, 2004
9:00 a.m.
Senate Appropriations Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of May 25, 2004.

- DIRECTOR'S REPORT (if necessary).

1. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of FY 2004 Expenditure Plan for Workforce Investment Act Monies.
   B. Review of FY 2005 Expenditure Plan for Workforce Investment Act Monies and Report on Streamlining Workforce Training.
   C. Consider Approval of Requested Transfer of Appropriations for Day Care Subsidy and Transitional Child Care.
   D. JLBC Staff Report on Child Protective Services Issues.

2. DEPARTMENT OF PUBLIC SAFETY - Review of the Statewide Interoperability System Design Expenditure Plan.

3. DEPARTMENT OF REVENUE - Review of Ladewig Expenditure Plan.

4. DEPARTMENT OF HEALTH SERVICES
   A. Review of Children's Rehabilitative Services Capitation Rate Changes
   B. Review of Behavioral Health Capitation Rate Changes.

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

6. DEPARTMENT OF ADMINISTRATION - Report on Implementation of Self-Insurance for State Employee Health Insurance.

7. ARIZONA COMMUNITY COLLEGES - Report on Dual Enrollment and Appointing Ad Hoc Committee.

8. ARIZONA DEPARTMENT OF EDUCATION - Report on Estimated Fiscal Impact of Changes to Achievement Testing Program.

9. AHCCCS - Review of KidsCare Behavioral Health Capitation Rate Changes.

The Chairman reserves the right to set the order of the agenda.
06/22/04

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

May 25, 2004

The Chairman called the meeting to order at 9:08 a.m., Tuesday, May 25, 2004, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Anderson	Representative Biggs
	Senator Arzberger	Representative Burton Cahill
	Senator Bee	Representative Gray
	Senator Cannell	Representative Huppenthal
	Senator Harper	Representative Lopez
	Senator Martin	
	Senator Rios	
Absent:		Representative Farnsworth
		Representative Huffman
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Beth Kohler	Stefan Shepherd
Others:	Betsey Bayless	Director, ADOA
	Susan Strickler	Benefits Manager, ADOA
	Paul Shannon	Budget Manager, ADOA
	Steve Schramm	Consultant, Mercer Human Resources
	Tim Upson	Consultant, Mercer Human Resources

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of March 19, 2004. The motion carried.

DEPARTMENT OF ADMINISTRATION (ADOA) – Review of Self-Insurance for State Employee Health Insurance.

Ms. Beth Kohler, JLBC Staff, gave a public presentation on self-insurance using a handout (Attachment A). She noted that if members had questions on the contribution strategy that would be addressed in Executive Session.

Ms. Kohler said that ADOA had originally proposed non-integrated multiple vendors and issued an RFP for these contracts. In discussion with the Legislature, some members had expressed concern about the lack of an integrated bid. ADOA subsequently issued a RFP for integrated contracts.

Senator Arzberger asked Mr. Kohler to explain the difference between integrated and non-integrated.

Ms. Kohler said that in the handout on pages 2 and 3 it shows what the differences are between these 2. She said that from an employee perspective integrated and non-integrated will look the same. The employee will have 1 card and will choose a combination of contracts, whichever one is in their region, and be able to access all their services with that 1 card.

Ms. Kohler noted that ADOA said the integrated bids were still undergoing negotiations and had not finalized the bids at the time of the meeting. Any estimates that are discussed were developed prior to the finalization of those bids.

Representative Biggs asked what level the stop/loss kicks in.

Ms. Kohler said that the stop/loss is a per employee amount and it comes into affect if an employee's costs exceed $250,000.

In response to Senator Anderson, Ms. Kohler said she understands that the actuaries believe that when you remove the risk you make the environment more competitive and therefore the state is better able to hold down future cost increases and, in addition, the state is better able to limit administrative growth increases and that would be the advantages to self-insurance.

Senator Burns said that as well as saving dollars, another goal would be to improve services.

Senator Anderson asked if the state assumes the risk, what would be the worst case scenario that could happen.

Ms. Kohler said that the actuaries were fairly conservative in developing the estimate of how much a reserve we needed to have to cover the worst case scenario. Their estimate of $50 million would be enough to cover that.

Representative Biggs said that if we anticipate reserves to be $50 million are we buying some kind of reinsurance contract or something like that above $50 million.

Mr. Paul Shannon, Budget Manager, ADOA, elaborated on how the self-insured contract works. He explained that we pay a per-head charge for the administrative functions and for the pharmacy benefit, the utilization review, and the stop/loss. Those charges will be incurred whether anyone in the state gets sick or not. As an example, using extremes, say next year no employee gets sick and goes to the doctor. At that point there would be no medical claims and the only charges the state would pay would be the per-head charge. If the opposite happens and everyone goes to the doctor, there would be a lot of medical and pharmacy claims. When an employee gets very sick and incurs medical claims in excess of $250,000, the stop/loss comes into effect. The risk pool that the state employees bring with them is 50,000 employees, 10,000 retirees, and 90,000 family members. The amount we have come up with to generate a reserve of $50 million at the end of the year is about 14% of the total premium.

Senator Cannell stated that he hoped eventually that we would have more control over our insurance program. We could do employee wellness since we are high users. When looking at integrated versus non-integrated, patients will see the medical network looks basically the same. Senator Cannell asked if there is any difference in the pharmacy benefit between integrated and non-integrated.

Ms. Betsey Bayless, Director, ADOA, distributed a chart (Attachment B) showing the integrated and non-integrated structure. They have 1 pharmacy benefit manager for both types and will use 1 pharmacy plan for all 150,000 users.

Senator Bee asked what changes cause us to lose the premium tax benefit. He thought they had established this last year.

Ms. Kohler said that last year we applied the premium tax to the Medicaid payment. The premium tax itself for commercial plans has been in existence for longer than a few years. Self-insured plans are not subject to the premium tax. In FY 2005 the figure will actually be $7 million because it is three-quarters of the year. The annualized figure for the year would be $9 million.

Senator Bee asked if that makes it more expensive to go with this model in the first year than the figures show. Also, is the premium tax for the commercial plans tied to federal dollars.

Ms. Kohler said it is more expensive the first year. There is a loss of General Fund revenue associated with this in the first year and that is an on-going loss. We do not get a federal reimbursement for those dollars.

EXECUTIVE SESSION

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

At 9:28 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 10:25 a.m. the Committee reconvened into open session.

Due to time constraints Senator Burns announced that the Committee will recess to the sound of the gavel. THE MEETING RECESSED AT 10:26 A.M.

THE MEETING RECONVENED AT 5:10 P.M. The following members were present: Representatives Pearce, Burton Cahill, Gray, Lopez; Senators Burns, Anderson, Arzberger, Bee, Cannell, Harper, and Rios.

DEPARTMENT OF ECONOMIC SECURITY (DES) – Consider Approval of Requested Transfer of Appropriations for TANF Cash Benefits.

Mr. Stefan Shepherd, JLBC Staff, said this item is a request from DES for a temporary transfer of monies in their budget to the Temporary Assistance for Needy Families (TANF) Cash Benefits line item. The budget that was sent to the Governor this week included a $8.7 million FY 2004 supplemental appropriation for TANF Cash Benefits. However, if that budget is not signed by this week, the department will need to temporarily transfer monies from the JOBS line item to the TANF Cash Benefits line item and then transfer those monies back to the JOBS line item once the supplemental is signed.

Representative Pearce moved that the Committee approve the $6.5 million transfer as requested by the Department of Economic Security and give a favorable review to the use of $1.5 million appropriation authority. These transfers will be reversed upon the passage of a TANF supplemental. The motion carried.

Senator Burns announced that the DES item on the agenda will be the only item done at this meeting. The other agenda items will be held for a later meeting.

EXECUTIVE SESSION

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

At 5:14 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 6:07 p.m. the Committee reconvened into open session.

DEPARTMENT OF ADMINISTRATION (ADOA) – Review of Self-Insurance for State Employee Health Insurance and Review for Committee the Planned Contribution Strategy for State Employee Health Plans.

Representative Pearce moved that the Committee give a favorable review with the following stipulations:

A. *That ADOA report back to the Committee on whether final negotiated integrated rates are lower than current estimates.*
B. *That ADOA report to the Committee on what performance measures they will establish to evaluate the new contracts.*
C. *Report quarterly to the Committee on the implementation of self-insurance including feedback from state employees and retirees.*
D. *ADOA should structure the contribution strategy to treat the administrative costs of integrated contracts nearly the same as non-integrated contracts.*

The motion carried

Without objection the Committee adjourned at 6:10 p.m.

Respectfully submitted:

_____
Cheryl Kestner, Secretary

_____
Richard Stavneak, Director

_____
Senator Bob Burns, Chairman

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

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DATE: June 22, 2004

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of FY 2004 Expenditure Plan for Workforce Investment Act Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security (DES) in September submitted an expenditure plan for federal Workforce Investment Act (WIA) funds received by the state in excess of $48,004,700. The total increase in WIA appropriation authority requested by the agency in FY 2004 was $12.3 million.

At its September meeting, the JLBC favorably reviewed $10.5 million of the increase but recommended that $1.8 million of discretionary program expansions be postponed to determine if those monies were needed to solve DES' FY 2004 budget shortfall.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of DES' plan for the $1.8 million of additional WIA monies, since FY 2004 supplementals have eliminated the agency's budget shortfall. The JLBC Staff further recommends that the agency submit performance measures for the new and expanded programs (Women's Issues, Youth Programs, and the Nursing initiative).

Analysis

The DES Workforce Development Administration (WDA) is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. The WIA legislation established block grants to states for workforce development. Funds are delivered to the local level to those in need of services, including job seekers, dislocated workers, youth, veterans, disabled individuals, and employers. Services are provided through partnerships between various public and private sector employment and training agencies. Federal provisions require that 85% of the monies received by WDA must be allocated to local areas, with the state receiving the other 15%.

(Continued)

Expenditure Plan for Discretionary Monies

The department's plan for discretionary spending (15%) included funding for programs established by the Governor's Council on Workforce Development. The Governor's Council recommended the establishment of new programs in FY 2004, designed to address workforce development issues related to women and youth and the support of the nursing profession, totaling $1.8 million. It was the expenditure of these monies that the Committee did not review at its September meeting. The $1.8 million would be allocated between the following three programs:

- Women's Issues Program - $500,000. Of this amount, $435,000 would be utilized to fund programs that focus on improving job skills for women on welfare and women exiting the corrections system. Grant monies would assist this group in entering and remaining in the workforce and assist displaced homemakers and provide training for women in non-traditional employment. The additional $65,000 would be utilized to fund a staff person to oversee the grant process.

- Youth Programs - $800,000, which includes elimination of a $200,000 program and the establishment of 3 new programs totaling $1 million. The Council recommends eliminating the High Concentration of Youth Activities Program and establishing two new initiatives – the formation of a Youth Council and the establishment of Youth Programs. The Council would utilize $170,000 to establish and staff a State Youth Council on Youth Workforce Development. Staff would provide technical assistance to local boards in addition to establishing a statewide conference on youth workforce development activities. An additional $330,000 would be granted to organizations involved in youth-related workforce development activities. An additional $500,000 would be used for various youth programs at the local level.

- Nursing Program - $510,000 to expand registered nurse education in Arizona's public postsecondary education institutions, including Arizona State University, Northern Arizona University, the University of Arizona, Mesa Community College, and Northland Pioneer Community College.

RS/JM:ss

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DATE: June 22, 2004

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of FY 2005 Expenditure Plan for Workforce Investment Act Monies and Report on Streamlining Workforce Training

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security (DES) is submitting an expenditure plan for $2.5 million of the discretionary portion of federal Workforce Investment Act (WIA) monies received by the state for FY 2005. Unlike most Federal Funds, the WIA monies are subject to legislative appropriation due to federal requirements. DES has indicated that it will present an expenditure plan for an additional $2 million of WIA monies at a later JLBC meeting.

In addition, DES has submitted a report on streamlining workforce development services, as required by the FY 2004 General Appropriation Act. Since this report addresses WIA activities, there is a summary at the end of this memo.

Recommendation

The JLBC Staff recommends a favorable review of DES' expenditure plan. The program activities and expenditure levels being sought seem reasonable and represent core functions typically funded by WIA dollars.

The JLBC Staff further recommends that DES provide the Committee with its perspective on the findings of the report. The report indicated that Arizona's workforce development system is stymied at the state level by a lack of organization and innovation and suggested that workforce development initiatives either be consolidated into one agency or be addressed via an independent partnership between public and private sector stakeholders.

(Continued)

Analysis

The DES Workforce Development Administration (WDA) is the state's grant recipient for federal WIA funds from the U.S. Department of Labor *(See agenda item 1A for further background.)*. Approximately $1.8 million of the $2.5 million expenditure plan is funding that is passed through to the Arizona Department of Education (ADE), to local workforce investment areas, and to DES' Virtual One Stop (VOS) program. The remaining $700,000 is allocated to Commerce for staffing the Governor's Council on Workforce Policy and for apprenticeship programs.

Governor's Council Recommendation of 15% Set-Aside

Program Activities	Agency	FY 2004	FY 2005	Net Change
Eligible Training Provider List	ADE	$214,325	$127,000	$ (87,300)
Incentive Funds for LWIAs	LWIA	500,000	500,000	--
Technical Assistance	LWIA	125,000	250,000	125,000
System Building	LWIA	152,000	300,000	148,000
High Concentration of Youth Activities	LWIA	200,000	200,000	--
Virtual One Stop	DES	325,000	325,000	--
Evaluation	GOV	--	125,000	125,000
Apprenticeship	ADOC	130,000	70,000	(60,000)
ADOC/State Council	ADOC	600,000	600,000	--
Other Set-Aside Components	Various	$1.8M	$0[1]	--
TOTAL 15% Set-Aside		**$2,246,325**	**$2,497,000**	**$250,700**

Legend

ADE	*Department of Education*	*LWIA*	*Local Workforce Investment Areas*
GOV	*Governor's Office*	*ADOC*	*Department of Commerce*
DES	*Department of Economic Security*		

1/ Plan to be presented at subsequent meeting

The above table delineates the FY 2005 level of funding by program and recipient and compares that total to FY 2004 levels. The expenditure plan represents core functions typically funded by discretionary WIA dollars. As noted from the table, the agency plans to spend $273,000 over FY 2004 on 2 programs (Technical Assistance and System Building), while reducing funding by $(147,300) on the Eligible Training Provider List and the Apprenticeship Program. The expenditure plan would also allocate $125,000 for a new program to conduct evaluation studies in order to gauge the effectiveness of various WIA activities.

Report on Workforce Governance in Arizona

To fulfill the footnote requirement for a study on streamlining workforce training activities, the Governor's Council on Workforce Policy contracted with the Morrison Institute of Public Policy. (This report is on file with JLBC Staff.) The report looked at the strengths and weaknesses of the state system and recommended ways in which the state could improve its effectiveness in training workers in a changing economy. The report describes the workforce development system in Arizona as being "stuck in transition." The major findings of the report are:

- The roles and responsibilities of agencies responsible for workforce development (the Departments of Education, Economic Security and Commerce) are unclear to those who work in and contribute to workforce development. The influence of the Department of Education has faded.
- DES' and Commerce's activities are oftentimes duplicative.

(Continued)

- Commerce has more capacity for innovation and effectiveness because of less bureaucracy and greater private sector connections, but is hampered by less experience with program administration.
- DES has the background but not the drive necessary for the changes needed to create a workforce system that is responsive to the private sector and economic development.
- There is limited state level leadership contributing to the perception that workforce development concerns are much more important at the local level.
- There exists difficulty in engaging the private sector in workforce development concerns because of perceptions about bureaucracy and the limited skills of workers.
- Arizona has not agreed to measurable goals beyond Federal requirements and therefore follow mandates rather than devising its own course.

The report also offered suggestions for ways in which Arizona's workforce development system can be improved:

- Arizona needs a coherent, up-to-date economic growth strategy that will enable a strong sense of direction for the future.
- Workforce development structure must give the private sector a large role.
- Establish the Arizona Economic Summit Group consisting of workforce and economic development entities (GPEC, GTEC, etc) to allow for greater coordination amongst these groups.

Finally, the report suggested three ways in which Arizona's workforce development system could choose to be organized in the future:

- Improve on the existing coordination between ADE, DES and Commerce; Consolidate programs into a newly created Arizona Department of Employment and Economic Growth; or Create an independent public-private partnership for workforce and economic development.

RS/JM:ss

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DATE: June 22, 2004

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

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Economic Security – Consider Approval of Requested Transfer of Appropriations for Day Care Subsidy and Transitional Child Care

Request

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) requests Committee approval of a FY 2004 transfer of $400,000 of federal Child Care and Development Fund (CCDF) Block Grant monies from the Day Care Subsidy Special Line Item (SLI) to the Transitional Child Care SLI.

Recommendation

JLBC Staff recommends that the Committee approve the request to transfer $400,000 CCDF from the Day Care Subsidy Special Line Item to the Transitional Child Care Special Line Item.

On a related matter, DES has indicated that they have eliminated the waiting list for families seeking child care subsidies in June 2004. For further details, please see the Analysis section below.

Analysis

DES' budget contains approximately $149 million in funding for child care subsidies and quality-related expenditures in FY 2004. This funding is split between two special line items: Day Care Subsidy and Transitional Child Care. The Day Care Subsidy SLI provides $118.3 million in child care subsidies and quality-related expenditures to TANF clients engaged in job activities, those providing foster care services, low-income persons, and other persons meeting financial and other eligibility criteria. The Transitional Child Care SLI funds $30.5 million in subsidies and quality-related expenditures to clients no longer receiving TANF Cash Benefits due to finding employment. The program provides subsidies for up to 24 months after the client stops receiving TANF Cash Benefits.

(Continued)

Based on current projections, DES has forecasted a shortfall in the Transitional Child Care SLI of $400,000 by the end of FY 2004. In order to address this shortfall and to continue to provide child care subsidies to this mandatory population, the agency has requested that monies be transferred from the Child Care Subsidy SLI to the Transitional Child Care SLI.

A FY 2004 shortfall of $(400,000) for Transitional Child Care seems reasonable based on recent trends in expenditures in the program. The Day Care Subsidy line item has enough monies for this transfer if DES does not use these monies to further reduce the waiting list.

Waiting List Eliminated

According to DES, sufficient resources were available to eliminate the remainder of the waiting list in June 2004. The waiting list was eliminated because there were fewer families qualifying for mandatory programs than originally anticipated as well as greater attrition from the waiting list. Of the 6,800 reported to be seeking child care subsidies in June, approximately 3,400 will receive services (the other 3,400 either had increased income, made other child care arrangements, could not be located, etc). DES anticipates reestablishing a waiting list during FY 2005. The number of children receiving child care subsidies in June is expected to be approximately 40,000.

The FY 2005 budget provides approximately $154 million for child care subsidies, which would serve about 40,100 children per month. In addition, the budget conditionally appropriates $5 million in FY 2005 from the General Fund for additional child care subsidies if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast. If revenues trigger this extra appropriation, an additional 1,300 children would receive child care subsidies, for an average number of children served of 41,400.

DES' FY 2005 appropriation fully funds the universe of those families seeking subsidies as of June 2004, leaving no children on a waiting list. The need to reestablish a waiting list in FY 2005 would depend on the level of caseload growth in the program. If caseloads remain at June 2004 levels, there would not be a need to institute a waiting list for FY 2005. If revenue triggers are implemented, DES would be able to absorb a 3.5% increase in caseloads over June 2004 levels without necessitating a waiting list. Caseload growth above these levels, however, would require DES to implement a waiting list in order to provide subsidies within the agency's appropriated levels of funding. DES anticipates 45,100 children per month seeking child care subsidies in FY 2005, an increase of 13% over June 2004 levels.

RS/JM:ss

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DATE: June 21, 2004

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

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Senior Fiscal Analyst

SUBJECT: JLBC Staff – Report on Child Protective Services Issues

Request

Pursuant to Laws 2003, Chapter 6, 2nd Special Session, the Department of Economic Security (DES), the Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC) are required to develop a financial and program accountability reporting system for Child Protective Services (CPS). The report is to include specific performance measures intended to evaluate the CPS system. The legislation allows DES, OSPB, and JLBC to add performance measures to the report if deemed necessary.

In addition, the special session legislation appropriated $16.6 million to DES from the state General Fund (GF) to provide funding for a variety of CPS issues, including 160 new CPS staff positions. Pursuant to the legislation, the Auditor General is required to report monthly to the Director of the JLBC Staff on the expenditure of these monies.

Recommendation

This report is for information only and no Committee action is required. The JLBC Staff has already recommended adding 5 performance measures to the financial and program accountability report (see Attachment A). These measures would be in addition to the 7 measures specifically identified in the 2nd Special Session legislation.

The additional measures are intended to evaluate employee satisfaction within the Division of Children, Youth and Families (DCYF), as well as the decision-making within Child Protective Services. While no Committee action is required, the Committee could also add other measures as well.

The $16.6 million appropriation provided funding for the following CPS issues: 1) 160 new CPS staff positions; 2) pay increases for CPS staff; 3) a family foster care rate increase; 4) new information technology (IT) equipment; and 5) $10.3 million for a projected shortfall in the department. As of May 31st, the department had implemented the CPS pay increases, the family foster care rate increase, and

signed an IT lease agreement. In addition, DES has filled 88 of the 131 new positions it had planned to fill by this date. All 80 of the caseworker positions have been filled, but only 8 of the 51 support positions have been filled.

Analysis

Report on Performance Measures
Pursuant to Laws 2003, Chapter 6, 2nd Special Session, the financial and program accountability report is due on a semi-annual basis, beginning August 1, 2004. The legislation identifies 7 performance measures to be included in the report and specifies that additional measures may be added by DES, OSPB, and JLBC if deemed necessary. The measures are intended to evaluate the performance of the CPS system. The following 7 measures are identified in the legislation:

- Success in meeting training requirements
- Caseloads for CPS caseworkers
- The number of new cases, cases that remain open and cases that have been closed
- The ratio of CPS caseworkers to immediate supervisors
- Employee turnover, including a breakdown of employees who remain with the department and employees who leave the department
- The source and use of federal monies in CPS
- The source and use of state monies in CPS

In addition to the measures listed in the special session legislation, the JLBC Staff has recommended that the following performance measures be added to the financial and program accountability report for CPS:

Employee Satisfaction
- Employee satisfaction rating for employees completing the CPS Training Academy (Scale 1-5)
- Employee satisfaction rating for employees in DCYF (Scale 1-5)

CPS Decision-Making
- Percent of CPS original dependency cases where court denied or dismissed petition for removal
- Percent of Office of Administrative Hearings decisions where CPS case findings are affirmed
- Percent of CPS complaints reviewed by the Office of the Ombudsman where allegations are reported as valid by the Ombudsman

DES is required to report these measures by July 1, 2004 to the Governor, the chairmen of the House and Senate Appropriations Committees, and the chairmen of the House Human Services and Senate Family Services Committees. The report is to include the definition of each performance measure, as well as the methodology in determining each measure.

Report on Supplemental Appropriations
The $16.6 million appropriated to DES is allocated in the following manner: 1) $3.6 million for new CPS staff; 2) $1.6 million for pay increases; 3) $103,500 for IT equipment; 4) $1.0 million for a family foster care rate increase; and 5) $10.3 million for a projected budget shortfall in the division.

CPS Staff
As of May 31st, the department had filled 88 of the 131 new positions it had planned to fill by this date. Of the 88 positions, 82 are caseworker positions, 3 are supervisor positions, and 3 are support staff positions. The 43 unfilled planned positions consist of 12 supervisor positions, 15 case aides (human service worker), 4 human service unit managers, and 12 support staff positions. The department has hired the number of caseworkers it had planned to hire by this date. The report also indicates that in addition to

the 82 caseworker positions hired as a result of the 2nd Special Session, the department hired an additional 14 caseworkers in May in anticipation of turnover.

The report also identifies total CPS staffing (by position) and the number of vacancies experienced each month since January. Of the 62 vacant positions reported for May, 46 are CPS caseworker positions, 4 are supervisor positions, 2 are case aides, and 10 are secretaries. By way of comparison, In January there were 64 vacant positions of which 52 were caseworkers. As of May 31st, the department had spent approximately $435,100 of the $3.6 million appropriation.

Pay Increase
DES began paying a 10% pay increase to CPS caseworkers on March 5, 2004. The increase was retroactive to January 17, 2004. On March 19th, DES paid a $1,000 stipend for caseworkers with Master's degrees in social work. In April, DES performed competency tests for a bilingual stipend and paid $1,000 to each staff member who passed the test. DES is in the process of developing criteria for a performance-based compensation adjustment. As of May 31st, the department had spent $1.1 million of the $1.6 million appropriation.

Equipment
DES received final approval from the Government Information Technology Agency on February 25, 2004 to purchase desktop computers, monitors, and network servers. The department acquired these items in April. The first payment of the 5-year lease financing agreement will be made on June 20, 2004. As of the report date, DES had not expended any of the $103,500 appropriation.

Family Foster Home Rate Increase
DES increased the family foster home rate by $3.75 per day on January 1, 2004 and further increased the rate by an additional $3.75 per day on June 1, 2004. As of May 31st, the department had spent approximately $489,700 of the $1.0 million appropriation.

Budget Shortfall
In May, the department began to expend monies from this appropriation. To date, DES has spent approximately $566,600 of the $10.3 million appropriation.

Copies of the Auditor General monthly reports are available upon request.

RS/KH:ck

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DATE: June 22, 2004

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

THRU: Richard Stavneak, Director

FROM: Tony Vidale, Senior Fiscal Analyst

SUBJECT: Department of Public Safety – Review of the Statewide Interoperability Design Expenditure Plan

Request

Pursuant to a footnote in Laws 2004, Chapter 275 (General Appropriation Act), the Department of Public Safety (DPS) requests Committee review of its plan to begin development of design standards for a statewide radio interoperability system. Chapter 275 requires that prior to expenditure of monies an expenditure plan be submitted to JLBC for review.

Recommendation

The JLBC Staff recommends the Committee give a favorable review of the expenditure plan. The plan includes design development using both a $2 million General Fund appropriation in DPS' base budget and a $3 million conditional appropriation if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast.

Laws 2004, Chapter 281 directs the department to submit a quarterly report to the Committee regarding expenditures and design progress. The JLBC Staff also recommends that the department's quarterly reports include the cost and purpose of Professional and Outside Services contracts, as well as comments on the project from the Government Information Technology Agency (GITA).

Analysis

Background
Laws 2004, Chapter 275 appropriated $2 million to DPS for design costs of a statewide radio interoperability communication system. In addition, Chapter 275 conditionally appropriates $3 million for design costs if FY 2004 or FY 2005 General Fund revenues exceed the budgeted forecast. Radio interoperability 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.

Public safety agencies, over a period of years, have established their own networks to meet communication requirements. However, most public safety agencies in Arizona operate communication systems that are over 20 years old, with unreliable infrastructure that cannot support interoperability. These communication systems cannot adequately communicate with each other and are in need of an upgrade. Interoperable design standards would provide a statewide voice and mobile data network that connects all state and local public safety operations.

Like local public safety agencies, DPS currently operates a communication network. The DPS system includes the DPS radio network that provides officers in the field with accident information, criminal history, arrest warrants, and requests for backup. In addition, 10 other state agencies rely on the system for their communication needs. The DPS communications system also includes the Arizona Criminal Justice Information System (ACJIS), used by state and local law enforcement agencies for criminal history and background information, warrant information, and vehicle license and registration data.

In addition to the design cost appropriation for DPS, Laws 2004, Chapter 281 established the Public Safety Communications Advisory Commission (PSCAC) to develop a state of the art public safety interoperable communications network for Arizona.

Expenditure Plan for Statewide Interoperability Design

The department's $2 million expenditure plan includes the operational costs to staff the PSCAC and begin the project for statewide detailed design. Considering the size and complexity of statewide radio communications, the department requires a full-time staff to plan, design, implement and manage the system. The PSCAC staff will complete most of the conceptual design, with contractors completing a majority of the detailed design work. PSCAC staff will also prepare Request for Proposals (RFPs) and provide contract management and oversight. The department would hire 9 staff members consisting of an Executive Director, Project Manager, 3 Telecommunications Engineers, Technical Writer, Communications Specialist, Administrative Assistant, and Executive Assistant.

Table 1

FY 2005 Statewide Interoperability Design Expenditure Plan

	$2 Million Appropriation	**$5 Million Appropriation** 1/
FTE Positions	9.0	9.0
Personal Services	$ 382,800	$ 382,800
Employee Related Expenditures	104,200	104,200
Professional and Outside Services	1,040,500	4,040,500
Travel – In	20,700	20,700
Travel – Out	15,900	15,900
Other Operating Expenditures	338,700	338,700
Equipment	97,200	97,200
Total Operating Expenditures	$ 2,000,000	$ 5,000,000

1/ The additional $3 million appropriated by Chapter 275 is non-lapsing and is included in the Professional and Outside Services line.

The expenditure plan also includes a timeline for hiring staff, developing the conceptual design, and completing the detailed design. The conceptual design work would be completed by mid-2006 with final design acceptance occurring in FY 2008 at a total cost of approximately $8 million, based on the cost of the City of Phoenix's new digital radio system. Given Phoenix's recent work on the topic, DPS has examined the city's design costs and have extrapolated those costs to a statewide system. According to the department, lack of additional monies would not effect design work in FY 2005, however, additional monies would be required in future fiscal years to complete the detailed design project.

Construction costs of a statewide radio interoperability system are estimated to exceed $300 million. These costs are in addition to the statewide interoperability design costs.

RS:TV:ss

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DATE: June 21, 2004

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

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Department of Revenue – Review of Ladewig Expenditure Plan

Request

In compliance with a Ladewig Settlement Budget Reconciliation Bill (Laws 2004, Chapter 285) footnote, including tax payments and attorney fees, the Department of Revenue (DOR) requests that the Committee review its FY 2005 Ladewig expenditure plan for the remainder of the project.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of DOR's estimated administrative expenditure plan of $3.0 million for the FY 2005 Ladewig project. DOR's administrative expenses are estimated to be $1.8 million in FY 2006 and $2.6 million in FY 2007. We will be in a better position to review the FY 2006 and FY 2007 figures at the beginning of those years, since the numbers are not yet final.

The total Ladewig costs are projected to be $125 million in FY 2005, $65 million in FY 2006, and $93 million in FY 2007.

Analysis

The case of Ladewig v. State of Arizona involved the different state income tax treatment of dividends from Arizona and non-Arizona companies. DOR estimates the total cost of the Ladewig Settlement at $302 million plus 10% interest on plaintiff attorneys' fees from the date awarded until they are paid. This amount is to be paid out over 5 fiscal years from FY 2003 through FY 2007, and includes both DOR administration costs and plaintiff's attorneys fees. The FY 2003 and FY 2004 expenses solely cover DOR's administrative costs and plaintiff's attorneys fees. Refunds to taxpayers will begin in FY 2005.

(Continued)

Previous legislation allocated $15 million in FY 2003 to DOR for first year payments and costs associated with the case, with any unused amount to be held in reserve for future payments. Later legislation made any unused amount available for future administration costs. The following table summarizes the department's Ladewig expenditures through May 2004.

Summary of Ladewig Expenditures [1/]

	FY 2003	FY 2004 (11 Mo.)
Allocation	$15,000,000	$ 0 [2/]
DOR Administration	$ 8,587,100	$3,311,400
Plaintiff Attorneys	2,000,000	2,000,000 [3/]
Taxpayer Payments	0	0
Total Expenditures	$10,587,100	$5,311,400 [3/]
Ending Balance	$ 4,412,900	$1,101,500

1/ In addition, DOR reports operating budget expenditures of $134,600 in FY 2002 for Ladewig administration.
2/ Governor vetoed the allocation of up to $7,300,000 for Ladewig administrative costs in FY 2004.
3/ Reimbursed to DOR by Department of Administration Risk Management.

The Ladewig Settlement Budget Reconciliation Bill (Laws 2004, Chapter 285) allocates $120 million in FY 2005 to the department for payments and costs associated with the case of Ladewig v. State of Arizona, with any unused amount to be held in reserve for future payments. The $120 million includes up to $3,753,300 for department administration costs and review of payments. The department is required to present an expenditure plan for review by the Joint Legislative Budget Committee that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case, before expending any of the $120 million.

The following table provides further detail on DOR's estimated administration cost in FY 2005.

DOR's Estimated Administration Cost in FY 2005

Personal Services	$473,000
Employee Related Expenditures	90,000
Professional & Outside Services [1/]	593,100
Travel	1,000
Other Operating Expenditures [2/]	1,768,300
Equipment	30,000
Total	$2,955,400

1/ Includes $245,000 for computer consultant, $137,000 for temporary personnel, $79,000 for mail data entry and imaging, $102,100 for North Phoenix office, and $30,000 for court appointed special master.
2/ Includes $515,800 for postage, $1,220,000 for printing and mailing, and $32,500 for other items.

DOR's administration cost estimate for FY 2005 seems reasonable. The bulk of the cost will be for Other Operating Expenditures for printing, postage and mailing warrants and form 1099's for taxpayer payments. DOR's permanent staff assigned to the Ladewig project and temporary personnel will continue to respond to the public and handle internal issues. The computer consultant will continue to maintain and enhance the computer system as necessary.

(Continued)

Overall Settlement Estimates

DOR has been working to resolve disputed taxpayer claims in May. Taxpayer payments for the first year must be in the mail by August 20, 2004. The department estimates Ladewig settlement costs for the remaining 3 years, FY 2005 through FY 2007, as shown in the following table. The amounts of taxpayer payments and plaintiff attorneys' fees are governed by the court settlement.

Ladewig Estimated Cost for FY 2005 – FY 2007

	FY 2005	FY 2006	FY 2007 2/	3 Year Total
DOR Administration	$ 2,955,400	$ 1,786,600	$ 2,566,300	$ 7,308,300
Plaintiff Attorneys 1/	5,707,000	4,853,300	4,853,300	15,413,600
Taxpayer Payments	116,310,900	58,245,200	85,945,000	260,501,100
Total Expenditures	$124,973,300	$64,885,100	$93,364,600	$283,223,000

1/ Attorneys' fees will increase in all 3 fiscal years due to additional court awards.
2/ The FY 2007 amount includes the unused portions of the $35 million set aside for DOR administration cost and the $36.24 million set aside for plaintiff's attorneys fees.

As seen in the above table, DOR estimates expenditures of $125 million in FY 2005 for Ladewig payments and costs. The $125 million is not yet final. If DOR's Ladewig expenses exceed $120 million in FY 2005, the department expects to make those payments above $120 million from the tax refund account in the General Fund. This is based on the provision of Laws 2004, Chapter 285 which states that "DOR shall draw all amounts necessary pursuant to the authority prescribed in A.R.S. § 42-1117 for the payments and costs."

The court settlement was for the amount of taxpayer claims with a cap of $350 million. Last year DOR reported that the anticipated cost was $161.7 million in FY 2005, $81.4 million in FY 2006 and $84.1 million in FY 2007, based on the $350 million settlement cap. Since then DOR has revised their estimated cost of taxpayer claims to $302 million, by refining their database and settling taxpayer disputes. The figures in the above table are based on DOR's $302 million estimate, which still is not final. Final taxpayer payments in FY 2007 are $28 million higher in FY 2006, since they include unused set asides of $14 million out of the $35 million set aside for DOR's administrative costs and another $14 million out of $36 million set aside for plaintiff attorneys' fees. Any unused set asides will be distributed to taxpayers in FY 2007.

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DATE: June 21, 2004

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: Department of Health Services – Review of Children's Rehabilitative Services Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX Children's Rehabilitative Services (CRS) program. DHS has received approval from the Arizona Health Care Cost Containment System (AHCCCS) to change the capitation rates for the CRS line items beginning July 1, 2004.

Recommendation and Summary

The JLBC Staff recommends that the Committee give a favorable review of the DHS CRS capitation adjustments. A footnote in the General Appropriation Act prohibits the use of any potential savings in the CRS program for other DHS programs without prior review by the Committee.

The proposed rates are based upon an actuarial study, which is required by the federal government. The proposed changes would cost $(1.5) million General Fund less than FY 2005 budgeted amount. The weighted average rate change is (4)% below FY 2004. In comparison, the FY 2005 budget assumed a 6% capitation rate increase.

The actual FY 2005 cost of the Title XIX CRS program will depend upon the number of people that enroll for CRS services. If enrollment is higher than projected, the actual costs of the CRS program could be greater than budgeted, even with lower capitation rates.

(Continued)

Analysis

The CRS program provides services for children with chronic and disabling or potentially disabling conditions. Contractors are reimbursed using a per-member, per-month capitation rate, which varies by providers in four different sites: Phoenix, Tucson, Flagstaff, and Yuma. The rate structure also includes a high, medium and low tier, which represent varying degrees of medical acuity. The average change across these various rates was (4)%, although some rates increased and some rates decreased. In comparison, the FY 2005 budget assumed a 6% capitation rate increase. The table below displays the FY 2005 budgeted and proposed rates by city and medical acuity and details the changes from FY 2004.

Proposed CRS Capitation Rate Changes, FY 2004 to FY 2005 [1/]

	FY 2004 Rate	FY 2005 Budgeted Rate	FY 2005 Actual Rate	FY 2004 Change Above FY 2003	Anticipated State Match Cost/(Savings) [2/]
Phoenix					
High	486.19	526.63	444.25	(8.6)%	(506,700)
Medium	258.34	279.83	229.02	(11.4%)	(456,400)
Low	235.29	254.86	211.50	(10.1)%	(513,900)
Tucson					
High	359.55	389.45	384.47	6.93%	(19,900)
Medium	318.10	344.56	345.20	8.52%	2,400
Low	194.21	210.36	207.67	6.93%	(14,000)
Flagstaff					
High	229.90	249.02	245.27	6.69%	(6,200)
Medium	156.71	169.74	167.19	6.69%	(6,100)
Low	113.33	122.76	120.91	6.69%	(4,400)
Yuma					
High	214.35	232.18	234.11	9.22%	1,700
Medium	146.07	158.22	159.53	9.21%	500
Low	128.24	138.91	140.06	9.22%	1,400
Total				**(4)%** [2/]	**(1,521,600)**

1/ Represents rates for services only. The administrative components of the rates are not shown here (see discussion of administrative costs above).
2/ Rate change for services only; rate change including administrative reduction is (4.2)%.

The rate increases are developed using the following assumptions:

- Prior year financial experience. If contractors were losing money by providing CRS services, the actuaries adjusted the rates to prevent these losses. This adjustment led to increases of 5% for one contractor and 2% for another.
- Expected medical inflation: The actuaries estimated an average inflation figure of 8.2%, although the actual figures varied by contractor.
- Profit/Risk Margin: The actuaries increased the profit/risk/contingency margin from 2% to 2.5%. This is the same margin used for Title XIX behavioral health services.
- A reduction in the DHS administrative allocation from 9.3% to 9.1%. Since the Legislature funds Title XIX administrative costs separately from the services through the budget process, this reduction is not included in the JLBC Staff analysis.

(Continued)

The proposed FY 2005 rates continue to limit a contractor's revenue from member month growth. In FY 2004 this limit was 2% and in FY 2005 it increases to 2.5%. This limit was established in prior years and is designed to prevent overpayment of capitation rates to providers.

For Phoenix only, increases in FY 2004 enrollment result in an FY 2005 rate that is lower than the approved FY 2004 rates because fixed costs of the program are able to be spread across more individuals, which leads to a lower average cost per person. Due to a technical anomaly, contractors will actually be paid more in FY 2005 than in FY 2004, even though the rates are decreasing.

The number of persons enrolled in the Phoenix program is greater than the enrollment in the other 3 programs combined. Therefore, even though the rates in Tucson, Flagstaff, and Yuma are all increasing above the approved FY 2004 rates, due to the decrease in the Phoenix rates, the weighted average rate change is a decrease of (4)%.

Without changes to the enrollment projections that were used to develop the FY 2005 appropriation, the capitation rate changes will result in total program costs that are $(1.5) million General Fund lower than the current FY 2005 budget.

Enrollment in the Title XIX CRS program in Phoenix has been higher than was expected when the FY 2005 budget was developed. This higher enrollment could offset the savings associated with the capitation rate changes. The JLBC Staff will continue to monitor enrollment in the program to determine the potential impact on the FY 2005 budget.

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DATE: June 22 2004

TO: Senator Bob Burns
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: Department of Health Services – Review of Behavioral Health Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present its plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX behavioral health programs. Capitation rates are the flat monthly payments made to managed care health plans for each Title XIX recipient. DHS is requesting review of rate changes for the Children's Behavioral Health (CBH), Seriously Mentally Ill (SMI), and General Mental Health/Substance Abuse (GMH/SA) Title XIX rates.

Summary

The proposed rates are based upon an actuarial study, which is required by the federal government. The proposed rates cost $1.7 million General Fund more than the capitation adjustment assumed in the FY 2005 budget. Whether or not DHS will require supplemental funding for these higher costs will depend on the FY 2005 enrollment trends. The actuaries contracted by DHS estimate that actual enrollment will be lower than the enrollment assumed in the FY 2005 budget. Therefore, total costs of providing behavioral health services may be lower than budgeted, even with the higher capitation rate increase.

The CBH rate is increasing by 43.8%, the SMI rate is decreasing by (4.2)%, and the GMH/SA rate is increasing by 15.4%. The weighted average rate of these increases is 12.8% above FY 2004. In comparison, the preliminary capitation rate numbers reported by DHS, which were the basis of the FY 2005 budget, assumed an 11.4% capitation rate increase.

Contributing to the CBH rate increase is a change in policy regarding the Department of Economic Security (DES) foster care children. Both DES and DHS fund behavioral health services for foster care children. In FY 2005, certain DES services will be shifted to DHS, which will enable the state to draw

(Continued)

down federal Title XIX matching funds. Because these services are currently funded in the DES budget and are being shifted to DHS, this will result in lower DES costs.

Recommendation

The Committee has at least the following options:

1. A favorable review of DHS' capitation adjustments with no conditions. DHS would view this option as an endorsement of any potential supplemental request.
2. A favorable review with any combination of the following stipulations:
   - The review does not constitute an endorsement of a supplemental request (even with this condition, however, a supplemental request would still be possible, depending on future enrollment trends).
   - DHS and DES shall report by September 1, 2004 with an estimate of how much funding is freed up in the DES Children Services and Comprehensive Medical & Dental Program line items as a result of shifting treatment for children from DES to DHS.
   - DHS and DES shall report by September 1, 2004 with an analysis of whether shifting more behavioral health services for children from DES to DHS results in an expansion of services to these children or whether DES was providing a similar level of services.
3. An unfavorable review. Given the federal actuarial study requirement, the Department is likely to proceed with the proposed increases.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates in managed care programs that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims and encounter data and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DHS requests a change in rates, the new rates must be approved by Arizona Health Care Cost Containment System (AHCCCS).

DHS has received approval from AHCCCS to change the capitation rates for CBH, SMI and GMH/SA, beginning to July 1, 2004, and has submitted its planned capitation rate changes for the Committee's review. These rate changes will affect each Title XIX and Proposition 204 Special Line Item, and the Medicaid Special Exemption Payments Line Item.

Table 1 shows the budgeted and proposed capitation rates for each program. The FY 2005 appropriation was developed using preliminary capitation rate data reported by department during the session, which assumed an 11.4% capitation rate increase above FY 2004. When the capitation rate increase was finalized, the average increase was 12.8%, although the actual increases vary by line item.

Table 1

	FY 2004 Capitation Rates	FY 2005 Capitation Rates			
	Actual	Budgeted	% Change Above FY 2004	Proposed	% Change Above FY 2004
CBH	$31.85	$43.87	37.7%	$45.79	43.8%
SMI	$65.91	$62.55	(5.1)%	$63.11	(4.2)%
GMH/SA	$26.02	$31.01	19.2%	$30.04	15.4%
Avg. Rate	$60.77	$67.73	11.4%	$68.53	12.8%

(Continued)

The proposed Children's rate increase is 43.8%, which is due to:

- A projected 12.3% increase in medical inflation through higher claims costs
- The transfer of certain behavioral health services from DES to DHS
- A 20.4% increase in the number of foster care children, who tend to be more expensive than other children
- An increase in the "penetration rate" from 5.75% to 6.86% (which measures how much of the total eligible population is actually receiving services. An increase in the penetration rate means that, within the total Title XIX and Proposition 204 populations, a greater number of children are utilizing behavioral health services).

The proposed SMI rate decrease is (4.3)%. This rate includes the following adjustments:

Increases associated with:
- A projected 17.3% increase in medical inflation
- Additional conversions from the Non-Title XIX program to the Title XIX program, which result in increased costs to the Title XIX program.

Decreases associated with:
- A decrease in the "penetration rate" from 4.48% to 4.20%. This means that a smaller percentage of the total eligible population is actually utilizing SMI services. Because many of the individuals who require SMI services are already receiving them, this population does not grow at the same rate as the general Title XIX population. Therefore the "penetration rate" decreases as the population grows.

The General Mental Health and Substance Abuse rate increased by 15.4% due to:

- A projected (1.1)% trend in the per member per month cost
- An increase in the "penetration rate" from 8.22% to 10.82%

Children's Behavioral Health Services Rate

Title XIX behavioral health services in the CMDP program (which is a program that provides coverage of medical and dental expenses of foster children) are funded in the DHS budget. Expenses for these children are typically significantly more costly than expenses for non-foster care children. For example, the FY 2005 monthly rate for non-foster care children is $28.00, compared to the CMDP rate of $715.55.

The CMDP population has increased by more than 20% since July 2003. In comparison, the non-foster care population has decreased over the same time period. Because the CMDP population is more expensive and now represents a greater percentage of the total children's behavioral health population, this results in a higher average cost per child per month.

In FY 2003, funding for out of home care in more secure facilities that provide intensive services for CMDP children was shifted from the DES budget to the DHS budget. Although the FY 2003 capitation rates were adjusted to reflect this shift, DHS now reports that the FY 2003 adjustments did not provide sufficient funding for these services. Therefore, the FY 2005 rates include an additional increase to reflect the actual costs of these services.

DHS also plans to begin providing therapeutic foster care, counseling, and out of home care in less restrictive facilities to the CMDP children. Therefore, the CBH rates have been adjusted upward to reflect the increased costs associated with providing these new services. Previously, these services had been funded in the DES Children Services and Comprehensive Medical & Dental Program line items.

(Continued)

Providing these services through the Title XIX program in DHS allows the department to receive the standard Title XIX federal matching monies for any state dollars spent.

Because these functions will now be shifted to DHS, the monies DES was spending on these services will now be available for other purposes. DHS was not able to provide us with an estimate of how much DES was spending on these services, so we are not able to estimate how much funding will be freed up in the DES budget. DHS was also not able to tell us whether the services provided under DHS constitute an expansion in services to the CMDP children or whether DES was providing similar levels of service.

Due to a change in the methodology for estimating the rates for the children in the CMDP program, we are not able to estimate how much of the 43.8% increase is related to changes in the CMDP rates and population. However, DHS believes that these rates are a large component of the increase.

Budget Impact

Table 2 shows the FY 2005 appropriated amounts for each population, as well as the JLBC Staff estimates of the cost by program above the FY 2005 appropriation, based on the enrollment projections that were used in developing the FY 2005 budget. Without changes to the enrollment projections and other assumptions used in developing the FY 2005 appropriation, the capitation rate changes will require an increase of $1.7 million from the General Fund and $5.5 million in Total Funds above the existing FY 2005 appropriation.

The actual costs of the new capitation rates may be higher or lower, depending upon the actual number of people that enroll in Title XIX behavioral health programs. The DHS actuaries estimate that FY 2005 enrollment will be lower than budgeted. If so, the higher costs of the capitation rates may be offset by lower enrollment, and the Title XIX and Proposition behavioral health programs may be within the budgeted amount.

Table 2

	FY 2005 Appropriation		**Estimated Need with Capitation Rate Changes**	
	TF	GF	TF	GF
Children's Behavioral Health				
Title XIX	$203,896,200	$64,727,100	$212,007,300	$67,371,100
Proposition 204	2,432,100	394,700	2,531,100	427,000
Seriously Mentally Ill				
Title XIX	130,621,000	42,577,900	131,458,800	42,851,000
Proposition 204	124,474,700	5,562,000	125,231,900	5,808,900
General Mental Health/ Substance Abuse				
Title XIX	69,572,700	22,678,900	67,204,800	21,907,000
Proposition 204	61,710,000	8,717,200	59,609,700	8,032,600
Medicaid Special Exemption Payments	12,862,000	4,192,700	13,011,400	4,241,400
Total	**$605,568,800**	**$148,850,500**	**$611,055,000**	**$150,639,000**
Difference			**$5,486,200**	**$1,788,500**

TF = Total Funds GF = General Fund Monies

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DATE: May 19, 2004

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

THRU: Richard Stavneak, Director

FROM: Brian Schmitz, Senior Fiscal Analyst

SUBJECT: ATTORNEY GENERAL – REVIEW OF ALLOCATION OF SETTLEMENT MONIES

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General has notified the Committee of the allocation of monies to be received from the Medco and Warner-Lambert settlement agreements.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plan for both settlements. The allocation plans are consistent with A.R.S. § 44-1531.01, which states that monies recovered by the Attorney General as a result of enforcing consumer protection or consumer fraud statutes shall be deposited in the Consumer Fraud Revolving Fund. The JLBC Staff also recommends that the Attorney General's Office report back to the Committee when it has developed a specific plan for expending another $600,000 in funds associated with the Medco settlement.

Analysis

The General Appropriation Act contains a footnote that requires JLBC review of the allocation or expenditure plan for settlement monies over $100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and it specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review. The Office of the Attorney General recently settled 2 cases that will result in the receipt of settlement monies over $100,000.

In the first case, Medco Health Solutions, Inc. allegedly did not provide complete and accurate information about its prescription drug interchange program, which resulted in the switching of prescription drugs to the less expensive drug. Under the settlement, the State of Arizona will receive approximately $200,000, which will be deposited in the Consumer Fraud Revolving Fund pursuant to

(Continued)

statute. Also, the state is expected to receive at least $600,000 in other funds, which will be passed on by the Attorney General to benefit low income, disabled, or elderly consumers of prescription drugs or to fund other programs targeted to benefit persons affected by this case. The Attorney General does not yet have a distribution plan for this $600,000.

In the second case, Warner-Lambert allegedly encouraged doctors to prescribe Neurontin for the treatment of bipolar disorder, although there is no evidence that Neurontin is effective in treating this condition. The settlement involves all 50 states. Under the settlement, Arizona will receive $278,000 to be deposited in the Consumer Fraud Revolving Fund pursuant to statute. There is a possibility that the state will also receive an additional payment, which would probably be $5,000 or less.

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DATE: June 22, 2004

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

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Senior Fiscal Analyst

SUBJECT: Arizona Department of Administration — Report on Implementation of Self-Insurance for State Employee Health Insurance

Request

At its May 25th meeting, the JLBC favorably reviewed the Arizona Department of Administration's (ADOA) plan to self-insure state employee health benefits prior to proceeding with self-insurance. The Committee asked ADOA to report back on the final integrated rates, performance measures, and the implementation of self-insurance. The JLBC Staff also asked for additional detail regarding the contract awards, patient referral process, and PBM network.

Recommendation and Summary

This item is for information only and no Committee action is required. The Committee has the option, however, of requesting additional information from ADOA regarding the new contracts. One possible request is to ask ADOA to provide a list of the physicians in both the current and new networks, plus an analysis of how many physicians are in both networks and how many physicians that are on the current network will no longer be available to state employees.

The following is a summary of the ADOA report:

1. Employees in the Central and Southern region will have a choice between 3 non-integrated and 1 integrated plans, but employees in Northern, Western, and Southeastern regions have only 2 non-integrated plans available to them.
2. Employees will be required to pay $10 more per month if they select an integrated plan than if they select a non-integrated plan. ADOA had originally proposed a $15 differential, but the Committee recommended that they treat administrative costs of the integrated contracts nearly the same as the non-integrated contracts. It is not clear whether the revised contribution strategy implements this recommendation.
3. Walgreens Health Initiative will be the pharmacy benefits manager (PBM) for state employees, with a network of over 850 pharmacies (including non-Walgreens pharmacies).

(Continued)

4. ADOA and the contractors have agreed upon a list of performance measures for the medical networks, pharmacy, and utilization review/disease management contracts.
5. ADOA reports that patients will be able to see more specialists without first seeing a primary care physican (PCP) than under the current contract.

Analysis

ADOA is moving from a fully insured system for state employee health insurance benefits to a self-insured system, in which the state assumes the risk associated with providing health coverage to its employees. At its May 25, 2004 meeting, the Committee heard details about this move and the proposed contribution strategy under self-insurance.

The JLBC Staff presented an analysis of this move, including concerns that the cost estimates were based on preliminary rates for the integrated contracts and that the administrative costs of the non-integrated contracts were being treated differently than similar costs of the integrated contracts.

Contract Awards

After the Committee meeting, ADOA awarded various contracts for state-employee health benefits. ADOA awarded contracts by geographic region and type of plan (Exclusive Provider Organization, or EPO, which is the self-insurance equivalent of an HMO, and Preferred Provider Organization, or PPO, which is an option in which employees have the choice to see in-network or out-of-network physicians without management by a primary care physician).

Employees in the Central and Southern region have a choice between 3 non-integrated and 1 integrated plans (see *Contribution Strategy* discussion below for differences in the employee contribution for these plans). Employees in Northern, Western, and Southeastern regions have only 2 non-integrated plans available to them.

Table 1 summarizes the medical network awards by geographic region and type of plan (EPO or PPO).

Table 1

Self-Insurance Contract Awardees, by Region

Central and Southern Regions *(Maricopa, Gila, Pinal, Pima and Santa Cruz)*

EPO	PPO
Rural Arizona Network/ Arizona Medical Network	AZ Foundation Network
Schaller Anderson Network	United Healthcare*
United Healthcare*	

Northern, Western, and Southeastern Regions *(Yavapai, Coconino, Navajo, Apache, Mohave, La Paz, Yuma, Greenlee, Graham, and Cochise)*

EPO	PPO
Rural Arizona Network/ Arizona Medical Network	AZ Foundation Network

*Represents an integrated contract; all other contracts are non-integrated

In addition, the following statewide contracts were awarded:

- Third Party Administrator (TPA) (Non-Integrated only): Harrington Benefits

(Continued)

- Utilization Manager/Disease Management (Integrated and Non-Integrated): Schaller Anderson
- Pharmacy Benefits Manager (Integrated and Non-Integrated): Walgreens Health Initiative (WHI)

Contribution Strategy

The final contribution strategy is slightly different than the strategy proposed at the May meeting. ADOA will allow state employees in the Central and Southern regions to choose between participating in a non-integrated or an integrated plan, but employees will be required to pay 100% of the difference between the two plans. At the May meeting, ADOA estimated the difference between the non-integrated and integrated options to be $15 per month. After finalizing the rates for the various health plans and upon completion of the actuaries' analysis of the plans, ADOA now estimates the difference to be $10 per month. Employees in Northern, Western, and Southeastern regions do not have an integrated option.

Table 2 summarizes the contribution strategy proposed at the May meeting and the revised contribution strategy.

Table 2

	Proposed Contribution Strategy – May 2004		**Actual Contribution Strategy**	
	Non-Integrated	Integrated	Non-Integrated	Integrated
Central and Southern Regions				
EPO Single	$25	$40	$25	$35
EPO Family	$125	$140	$125	$135
PPO Single	$140	$155	$140	$150
PPO Family	$390	$405	$390	$400
Northern, Western, and Southeastern Regions				
EPO Single	$25	NA	$25	NA
EPO Family	$125	NA	$125	NA
PPO Single	$140	NA	$140	NA
PPO Family	$390	NA	$390	NA

Under the original proposed contribution strategy, state employees who chose an integrated plan were required to pay $15 more per month. ADOA reported that this differential reflected a difference in the administrative costs between the integrated and non-integrated plans. However, the state employees that chose the non-integrated plan had a portion of these administrative costs subsidized by the state through an appropriation to ADOA. At its May meeting, the Committee recommended that ADOA structure the contribution strategy to treat the administrative costs of integrated contracts nearly the same as non-integrated contracts. The JLBC Staff interpreted this provision to mean that the same proportion of administrative costs under both the non-integrated and integrated contracts would be covered by the ADOA appropriation. It appears that ADOA did not have the same interpretation of the Committee's recommendation. Therefore it is not clear that the revised contribution strategy (which includes a $10 per month differential between integrated and non-integrated plans) treats the administrative costs of integrated contracts nearly the same as non-integrated contracts.

Performance Measures

ADOA has provided a list of the performance standards that will be used to evaluate the various contractors. The standards differ between non-integrated and integrated plans and the non-integrated

(Continued)

standards are more numerous and more specific. For the non-integrated medical networks, standards include measuring administration and customer service through telephone response time and customer complaints, measuring program and healthcare management, and customer satisfaction. For the non-integrated third party administrator (TPA), the standards include measuring claims processing, financial payment, and claims payment accuracy, customer service and satisfaction, data reporting, program and vendor management. There are also monthly, quarterly, and annual reporting requirements for the TPA.

For the integrated contracts (which correspond to the medical network and TPA requirements for non-integrated contractors), the standards include measuring payment, financial, and procedural accuracy, customer service and satisfaction, program management, and employee benefit managers satisfaction.

For the pharmacy benefit manager (PBM), measures include the timeliness and accuracy of claims payment, customer service and satisfaction, data reporting, program, vendor, and network, management. There are also monthly, quarterly, and annual reporting requirements for the PBM. For the Utilization Review/Disease Management contractors, there are performance measures related to customer service and satisfaction, disease management, and vendor satisfaction.

Finally, there are standards related to whether each contractor is able to implement their activities by October 1, 2004. A complete list of the performance measures is on file with the JLBC Staff, including detail on each of the performance measures, the target measures set by ADOA, and the penalties what may be imposed if the standards are not met.

Pharmacy Network

The JLBC Staff requested that ADOA provide details on the PBM's contracted pharmacies. The contract includes over 850 pharmacies and includes (but is not limited to) pharmacies such as Walgreens, Osco, CVS, and Eckerd, as well as grocery store pharmacies such as Safeway, Fry's, Basha's and Albertson's. There are also numerous local pharmacies in the network. A complete list of the pharmacies in the network is on file with the JLBC Staff.

ADOA believes that, given the number of pharmacies on the list, all state employees will have access to a pharmacy regardless of where in the state they live. Because ADOA has not actually conducted a formal analysis to determine that all state employees will have access to pharmacies within the WHI network, we are unable to confirm whether there will be available pharmacies for all employees throughout the state. However, ADOA has indicated that they will work with state employees if they do not feel they have convenient access to a pharmacy within the network.

Patient Referral

ADOA reports that under the current contract, patients were able to self-refer to an OB/GYN, but had to be referred through their PCP for all other specialist services. Under the new contracts, ADOA reports that patients will be able to self-refer to specialists for all conditions except for the most acute. ADOA is still developing this list of these conditions that will require referral through a PCP.

RS:BK:ss

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DATE: May 19, 2004

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

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: ARIZONA COMMUNITY COLLEGES – REPORT ON DUAL ENROLLMENT AND APPOINTING AD HOC COMMITTEE

Request

Pursuant to A.R.S. § 15-1821.01 the Arizona Community Colleges are reporting on dual enrollment courses offered in FY 2003 and the subsequent achievements of students dual enrolled in FY 2002.

On receipt of this report, statute requires the Committee to convene an ad hoc committee that includes community college academic officers, faculty, and other experts. The ad hoc committee shall review the manner in which dual enrollment courses are provided and may make recommendations to the full Committee regarding desirable changes to these courses.

Recommendation

Other than the appointment of the ad hoc committee, this item is for information only and no Committee action is required. The report indicates that, in FY 2003, 32,582 students were dual enrolled. Of the total, 29,504 students earned a C or better, qualifying those students for both high school and community college credit.

Analysis

<u>Dual Enrollment Courses – FY 2003</u>

A.R.S. § 15-1821.01 requires community college districts to report annually on dual enrollment courses. The report shall include the following:

1) Total enrollments listed by location, by high school grade level, by course and by whether the program was academic or occupational

(Continued)

2) Summary data on the performance of students enrolled for college credit, including completion rates and grade distribution
3) The number of freshman and sophomore students enrolled
4) Documentation of compliance with statutory guidelines for the course, course materials, and faculty qualifications

The *Attachment* provides summary data from the FY 2003 report. The full report is available upon request. Highlights include:

- 32,582 students were dual enrolled
- 836 courses were offered, of which 320 courses were classified as Academic and 516 were Occupational
- Courses were offered at 190 locations in 8 districts
- 31,379 students, or 96% of those enrolled, completed the course
- 29,504 students earned a C or better, qualifying those students for both high school and community college credit
- 2,936 freshman and sophomore students were dual enrolled (included under "Students not meeting course requirements" column)

Subsequent Achievement Tracking

A.R.S. § 15-1821.01 also requires the community colleges to report, every other year, on the subsequent achievement of students enrolled in dual enrollment courses. That portion of the report shall include the following:

1) High school graduation rate
2) Number of students continuing their studies after graduation at an Arizona community college or university
3) Performance of students in subsequent college courses in the same field as dual enrollment courses
4) Student GPA after one year at a community college or university as compared to high school GPA

Districts currently cannot track high school students after graduation if they continue their studies at a university or a different community college district. Therefore, the districts have attempted to report on the above measurements as they apply to dual enrolled high school students that continued their studies at a community college within the district. The districts may be able to track high school seniors that attend a university or a community in another district in the future with the implementation of the Student Accountability Information System (SAIS).

Within the limitations discussed above, Table 1 provides district by district information on the high school graduation rate and the number of students continuing their studies after graduation at a community college within the district. As indicated in the table, the high school graduation rate at schools where dual enrollment courses were offered ranged from approximately 70% to 80%. The percentage of high school seniors continuing their studies after graduation at a community college within the district range from 10% in Pinal to 97% in Graham.

(Continued)

Table 1

Dual Enrolled Students

District	High School Grad Rate [1/]	Number/Percentage of Students Continuing Studies [2/]
Cochise	80.7%	51 / 38%
Coconino	70.3%	4 / 15%
Graham	N/A	338 / 97%
Maricopa	79.8%	1,623 / 35%
Mohave	- -	No Dual Enrollment
Navajo	79.3%	106 / 31%
Pima	N/A	95 / 46%
Pinal	N/A	26 / 10%
Yavapai	79.2%	18 / 33%
Yuma/La Paz	- -	No Dual Enrollment

_____

1/ Measures graduation rate of all students at a high school offering dual enrollment.

2/ Indicates the number and percentage of dual enrolled seniors that continued at a college within the district.

Table 2 provides a summary of dual enrollment student GPA after one year at a community college within the district as compared to the same student's high school GPA. As before, the data is limited to dual enrolled high school seniors that continued their studies after graduation at a community college within the district. Of the 2,214 dual enrolled seniors that attended a community college within the district, 68% had a high school GPA of 3.0 or better. A year later 54% of dual enrolled seniors that continued at a community college within the district had a GPA of 3.0 or better.

Table 2

	High School GPA	Community College GPA
3.5 – 4.0	818 / 37%	624 / 28%
3.0 – 3.49	682 / 31%	571 / 26%
2.5 – 2.99	186 / 8%	391 / 18%
2.0 – 2.49	411 / 19%	341 / 15%
1.5 – 1.99	37 / 2%	119 / 5%
1.0 – 1.49	55 / 2%	85 / 4%
< 1.0	25 / 1%	83 / 4%
TOTAL	2,214 / 100%	2,214 / 100%

JC:ss
Attachment

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DATE: June 17, 2004

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

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: Arizona Department of Education – Report on Estimated Fiscal Impact of Changes to Achievement Testing Program

Request

The Chairman has requested that the Arizona Department of Education (ADE) appear to provide updated information regarding increases in achievement testing costs. At an earlier JLBC meeting, ADE projected an additional $4.2 million cost for the achievement testing contract in FY 2005. The current estimate is $5.5 million.

Recommendation

This item is for information only and no Committee action is required. The Committee, however, may wish to request that the department provide recommendations for addressing a projected $1.3 million FY 2005 shortfall.

Analysis

A footnote in the General Appropriation Act states that "Before making any changes to the achievement testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the Joint Legislative Budget Committee." In response to this requirement, ADE reported to the Committee in March 2004 that an estimated $4.2 million General Fund increase would be required in order to fully fund achievement testing costs for FY 2005.

Since then, ADE has awarded the contract for the new "AIMS-Dual Purpose Assessment" (AIMS-DPA) exam and, based on the new contract, has revised the $4.2 million estimate to $5.5 million *(see Attachment 1)*. Overall the cost of achievement testing under the new contract will increase from $11.3 million in FY 2004 to $17.0 million in FY 2005. The General Fund share under these estimates is increasing from $3.4 million to $8.9, or $5.5 million.

(Continued)

The revised estimate would imply a $1.3 million funding shortfall for achievement testing for FY 2005, since the General Appropriation Act for FY 2005 (Laws 2004, Chapter 277) provides the program with a $4.2 million rather than $5.5 million increase for FY 2005.

The Committee may wish to ask ADE to provide recommendations for addressing the projected $1.3 million shortfall by means other than a General Fund supplemental. One potential solution would be to require school districts and charter schools to pay for test retakes for students who have already passed AIMS. (Some districts currently allow their high school students to retake AIMS in order to improve their scores.) Another potential solution might be to postpone AIMS-DPA testing for pupils in Grades 4, 6 and 7 until FY 2006 unless a school district or charter school wants to administer it in FY 2005 using local monies. The federal No Child Left Behind Act does not require pupils in Grades 4, 6 & 7 to be AIMS tested until FY 2006. Beyond offering any of their own solutions, the Staff recommends that the ADE response address the feasibility of these potential solutions.

RS/SSc:jb
Attachment

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DATE: June 24, 2004

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

THRU: Richard Stavneak, Director

FROM: Tim Sweeney, Fiscal Analyst

SUBJECT: AHCCCS – Review of KidsCare Behavioral Health Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System requests review of Behavioral Health capitation rates for the KidsCare (including parents) program. The proposed rates are 1.7% above FY 2004 rates, and are within budgeted levels for FY 2005.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the requested rate increase. The proposed rates are within budgeted levels for FY 2005.

Analysis

The KidsCare program provides AHCCCS coverage to children up to 200% of the Federal Poverty Level (FPL) who are not eligible for the regular AHCCCS Title XIX program. In turn, the KidsCare - Parents program provides services to parents of children up to 200% FPL. While the Behavioral Health component of the regular Title XIX Medicaid program is funded in the Department of Health Services (DHS), the behavioral health component the KidsCare programs are funded in the AHCCCS budget. As a result, the behavioral health cost increases in the KidsCare population will not be covered by the rate increases requested by DHS.

The rates AHCCCS is proposing for the KidsCare programs are based in part on the rates developed for the regular Title XIX program. For children in KidsCare, the requested rates represent an increase of 12% above the FY 2004 rates, however for Parents population the

requested rates represent a (12.6%) decrease below the FY 2004 rates. In total, the requested rates represent a 1.7% increase above the FY 2004 rates. Table 1 details the average FY 2004 rates and the proposed rates for FY 2005. These rates represent increases above FY 2004, but are within budgeted levels for FY 2005.

Table 1

	Current 2004	Proposed 2005	% Change
KidsCare			
Children	$13.34	$15.16	13.6%
SMI	26.54	21.64	(18.5)%
Average			12.0%
KidsCare Parents			
SMI	27.13	22.75	(16.1)%
GMH/SA	11.02	10.58	(4.0)%
Average			(12.6)%
Weighted Change			1.7%

RS/TS:ck