June 6, 2007

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

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Subject:
Behavioral Health Services State Fiscal Year 2008 Capitation Rates for the Title XIX Program

Dear Mr. Reese:

Introduction/Background

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) contracted with Mercer Government Human Services Consulting (Mercer) to develop actuarially sound capitation rates for each of its Regional Behavioral Health Authorities (RBHAs) for State Fiscal Year 2008 (SFY08). Rates were developed for the Title XIX program.

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

RBHA	Areas Served
Community Partnership of Southern Arizona (CPSA 3 and CPSA 5)	Pima, Graham, Greenlee, Santa Cruz, and Cochise Counties
Cenpatico Behavioral Health of Arizona (Cenpatico 2 and Cenpatico 4)	Yuma, LaPaz, Pinal, and Gila Counties
Northern Arizona Regional Behavioral Health Authority (NARBHA)	Mohave, Coconino, Apache, Navajo, and Yavapai Counties
Maricopa County RBHA (RFP currently out to bid)	Maricopa County

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Overview of Rate-Setting Methodology

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

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

Actuarially sound capitation rates were developed for the contract period July 1, 2007, through June 30, 2008, covering SFY08. Mercer has utilized actuarially sound principles and practices in the development of these capitation rates.

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

The capitation rate development process was divided into the following steps.

1. Calculate base data
   - Collect, analyze, and adjust first half of SFY07 (1HSFY07) RBHA financial statements
   - Utilize actual member months from 1HSFY07 and the adjusted 1HSFY07 total claim costs to calculate 1HSFY07 per-member-per-month (PMPM) values
   - Adjust the derived 1HSFY07 PMPMs via a seasonality/trend projection factor to generate initial full year SFY07 claim cost PMPMs

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2. Calculate SFY08 actuarially sound rates
   - Apply trend factors to bring Base SFY07 claims costs forward to SFY08
   - Adjust for any unusual service utilization changes (such as High Needs Children, JK Support Services and IMD Waiver)
   - Apply acuity adjustment (if necessary) to account for changes in Behavioral Health penetration rates
   - Certify actuarial equivalence of the populations
   - Add provisions for administration and underwriting profit/risk/contingency

The end result of this capitation rate development process, completed jointly by BHS and Mercer, is actuarially sound capitation rates for SFY08.

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

Title XIX

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
Children — Non-CMDP	$ 37.32	$ 45.44	$ 39.89	$ 29.60	$ 57.34	$ 31.41	$ 35.27
Children — CMDP	$1,112.31	$1,346.61	$ 829.35	$1,283.35	$ 794.54	$ 811.30	$ 994.93
SMI	$ 51.05	$ 64.25	$ 44.09	$ 40.39	$ 55.81	$ 99.72	$ 73.70
GMH/SA	$ 29.33	$ 46.29	$ 46.83	$ 26.00	$ 56.93	$ 36.92	$ 37.76

The rate development schedules are shown in Attachment A.

Base Data

The base data consisted of adjusted financial statements from all current RBHAs for the July 1, 2006, through December 31, 2006 time period. Given Cenpatico 2 and Cenpatico 4 had in SFY06 replaced Excel and PGBHA respectively, this current timeframe (1HSFY07) and its fully credible aggregate membership was determined to be the most appropriate. The financial statement expenses were reduced by 1 percent for each RBHA for the Non-CMDP and CMDP children's populations, and for the SMI and GMH/SA populations.

BHS has performed reviews of the RBHA submitted data and has determined that the data do not include any uncovered services.

Seasonality/Trend to SFY07

The base data included adjusted RBHA financial statements received for 1HSFY07. Projection factors to account for seasonality/trend were developed by population in order to project costs forward to a full SFY07 period.

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County
Children — Non-CMDP	1.04	1.04	1.04	1.04	1.04	1.04
Children — CMDP	1.04	1.04	1.04	1.04	1.04	1.04
SMI	1.01	1.01	1.01	1.01	1.01	1.01
GMH/SA	1.05	1.05	1.05	1.05	1.05	1.05

Trend

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

In order to determine actuarially sound capitation rates, Mercer projected the base data forward to reflect utilization and unit cost trend by population. Mercer calculated trends from the historical financial data and reviewed summarized encounter data. The historical data that was used as a basis for trend development did not appropriately reflect the costs related to the separate service utilization changes described below. Mercer also utilized its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs. Although the trends were developed using several years of historical data, the trends factors were applied only to the projected SFY07 base data, bringing it forward 12 months to SFY08. The following trend estimates were used for the capitation rates:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
Children	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
SMI	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
GMH/SA	11.4%	11.4%	11.4%	11.4%	11.4%	11.4%	11.4%

Service Utilization Changes

BHS and Mercer reviewed changes for SFY08 that would unusually affect service utilization. It was determined that due to expected changes in utilization of specific existing Covered Services, adjustments to the base data would need to be made to account for these changes. The following three changes were accounted for in the rate development process.

High Needs Children

The High Needs Children service expansion will fund the ratio of one case manager for 15 high needs children. Of these case managers, the vast majority will be behavioral health technicians and the remainder will be behavioral health professionals. Adequate case management is required to deliver necessary services, especially for children with complex needs. There are currently not enough case managers for children with complex needs to achieve the desired ratio. The current case manager to high needs children ratio is approximately one to 68. The targeted phase-in for this expansion is 50 percent in SFY08, or half of the ultimately needed case managers will be in place during SFY08.

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The PMPM increases applied to the Non-CMDP and CMDP children's populations for this utilization adjustment are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
Non-CMDP	$2.56	$3.25	$2.44	$1.75	$2.28	$0.93	$1.62
CMDP	$49.76	$47.38	$17.00	$36.97	$23.19	$27.77	$33.63

JK Support Services

The behavioral health system currently cannot deliver services according to the Jason K. Principles without ready access to direct supports and home-based respite and therapeutic residential support. A select list of 19 procedure codes is expected to have an increased utilization of approximately 15 percent as a result of this settlement.

The PMPM increases applied to the Non-CMDP and CMDP children's populations for this utilization adjustment are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
Non-CMDP	$1.82	$3.07	$0.85	$1.46	$2.56	$1.41	$1.72
CMDP	$49.14	$82.79	$23.03	$39.39	$69.05	$38.10	$51.27

IMD Waiver

The IMD waiver that was in place to allow funding for 21-64 year olds will be phased out over the next two fiscal years. The phase-out will be 100 percent FFP until September 30, 2007, and 50 percent FFP for October 1, 2007 to September 30, 2008. Only the portion that will be federally matched can stay in the certified capitation rates. This result is a reduction of about $3.1 million in claims for the combined SMI and GMH/SA populations. The PMPM decrease applied to the SMI and GMH/SA populations for this utilization adjustment are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
SMI	-$0.02	-$0.47	-$0.04	-$0.54	-$0.14	-$0.49	-$0.43
GMH/SA	-$0.01	-$0.29	-$0.02	-$0.33	-$0.09	-$0.30	-$0.26

In-Lieu of Services

With the phasing out of IMD services, it is expected that many of the services previously provided at an IMD facility would need to be provided at an inpatient non-specialty hospital. State approved FFS rates at inpatient non-specialty hospitals are approximately 101.5% more expensive than those provided in alternative inpatient settings, resulting in a potential increase in claims of about $4.8 million for the combined SMI and GMH/SA populations. By allowing ADHS/BHS to provide services in alternative inpatient settings that are licensed by ADHS/ALS/OBHL, in lieu of services in an inpatient non-specialty hospital, unit cost savings of approximately 50.4% and total cost savings of approximately $1.7 million may be realized. The resulting PMPM adjustment applied to the SMI and GMH/SA populations are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
SMI	$0.02	$0.47	$0.04	$0.54	$0.14	$0.49	$0.43
GMH/SA	$0.01	$0.29	$0.02	$0.33	$0.09	$0.30	$0.26

Behavioral Health Penetration — Acuity Adjustment

An increase in penetration in some populations of the behavioral health program has been observed and is projected in these populations. Greater proportions of those eligible are accessing the behavioral health system. These increases have contributed to the projected increase in utilization for these populations and are reflected in overall claim costs. This change, as well as any projected decrease in penetration, was applied as an acuity adjustment to the SFY07 PMPM claim costs and represents a difference due to increased or decreased penetration (those enrolled, compared to those eligible), and does not adjust for any normal unit cost or utilization trends, which are handled below. The acuity factors that were applied are:

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County
Non-CMDP	0.987	0.980	0.950	0.988	1.009	0.974
CMDP	0.961	1.036	1.075	1.003	1.082	0.973
SMI	1.036	1.010	0.985	1.030	1.027	1.040
GMH/SA	0.983	0.971	0.984	0.972	1.028	0.912

White Mountain Apache Tribal Regional Behavioral Health Authority

The White Mountain Apache Tribe is expected to begin as a Tribal Regional Behavioral Health Authority (TRBHA) beginning October 1, 2007. NARBHA is currently serving the members that will become the responsibility of the new TRBHA. The NARBHA capitation rates have been adjusted to account for differences in serving the entire population and the projected population, which excludes those eligibles that would be served by the new TRBHA. Cost, eligibility and enrollment data were reviewed for the zip codes affected by the new TRBHA. The resulting adjustment is an increase to the NARBHA capitation rates; however total dollars projected to be paid to NARBHA are lower due to the eligibles that would no longer be served by NARBHA. The table below summarizes the adjustment to the NARBHA capitation rates by population.

	Non-CMDP	CMDP	SMI	GMH
NARBHA	$0.22	$10.79	$0.39	$0.03

Administration and Underwriting Profit/Risk/Contingency

The actuarially sound capitation rates developed include provisions for RBHA administration. Mercer used its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs in determining appropriate loads for administration and underwriting profit/risk/contingency. Mercer also reviewed current RBHA financial reports. The component for administration and underwriting profit/risk/contingency is calculated as a percentage of the final capitation rate. A 10 percent load was added across all populations, consistent with SFY07 capitation rate development.

Risk Corridors and Performance Incentive

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

The proposed SFY08 BHS risk corridor approach provides for gain/loss risk sharing symmetry around the service revenue portion of the capitation rates. This risk corridor model is designed to be cost neutral, with no net aggregate assumed impact across all payments. The RBHAs' contracts also provide for a potential one percent performance incentive. In Mercer's professional opinion, the risk corridor and performance incentive methodologies utilized by BHS are actuarially sound.

Tribal Fee-For-Service Claims Estimate

Mercer received tribal claims and membership data from BHS for SFY04 through SFY06. This data was reviewed, projected, and trended forward. BHS also provided additional information related to FFS rate increases that would affect tribal claims. Also, as discussed previously, the White Mountain Apache TRBHA is expected to begin providing services October 1, 2007. This will result in an increase in tribal FFS dollars. Based on this information, Mercer and BHS projected that Title XIX tribal claim costs for SFY08 will be approximately $37.2 million.

BHS Administration/Risk/Contingency

The Arizona Health Care Cost Containment System (AHCCCS) has placed BHS Administration at financial risk for the provision of BHS covered services for SFY08. Accordingly, the capitation rates were developed to include compensation to BHS for the cost of ensuring the delivery of all BHS covered services. The capitation rates paid to BHS include a 4.40 percent load, which was negotiated between AHCCCS and BHS Administration. The load represents the BHS costs of ensuring the efficient delivery of services in a managed care environment.

Development of Statewide Capitation Rates

Statewide capitation rates were developed by blending the SFY08 capitation rates for each RBHA using projected SFY08 member months, the estimated dollar amount of SFY08 tribal claims, and the administrative percentage add-on component for BHS.

The statewide capitation rates are shown in Attachment B.

Certification of Final Rates

Mercer certifies that the above and attached rates were developed in accordance with generally accepted actuarial practices and principles by actuaries meeting the qualification standards of the American Academy of Actuaries for the populations and services covered under the managed care contract. Rates developed by Mercer are actuarial projections of future contingent events.

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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 are in accordance with applicable law and regulations.

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

Sincerely,

Michael E. Nordstrom ASA, MAAA

Michael E. Nordstrom, ASA, MAAA

MEN/hl

Copy:
Eddy Broadway, BHS
Sundee Easter, Mercer
Amanda Mueller, Mercer

Enclosures

Attachment A
SFY08 Capitation Rate Development
Title XIX
Non-CMDP Children

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County RBHA	Total
1. 1HSFY07 Adjusted BHS Service Expenses	$ 2,987,485	$ 12,518,992	$ 3,933,135	$ 7,962,686	$ 5,193,880	$ 33,696,374	$ 66,292,551
2. 1HSFY07 Member Months	113,260	397,403	128,171	380,449	126,092	1,419,758	2,565,133
3. 1HSFY07 PMPM	$ 26.38	$ 31.50	$ 30.69	$ 20.93	$ 41.19	$ 23.73	$ 25.84
4. SFY07 Projection Factor	1.04	1.04	1.04	1.04	1.04	1.04	1.04
5. SFY07 Initial Projected Claim Cost	$ 27.43	$ 32.76	$ 31.91	$ 21.77	$ 42.84	$ 24.68	$ 26.88
6. Relational Modeling Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00
7. SFY07 Adjusted Claim Cost	$ 27.43	$ 32.76	$ 31.91	$ 21.77	$ 42.84	$ 24.68	$ 26.88
8. Claim Cost Trend Factor	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
9. Trended Base Claim Cost	$ 29.65	$ 35.42	$ 34.50	$ 23.53	$ 46.31	$ 26.68	$ 29.05
10. High Need Kids	$ 2.56	$ 3.25	$ 2.44	$ 1.75	$ 2.28	$ 0.93	$ 1.62
11. JK Support Services	$ 1.82	$ 3.07	$ 0.85	$ 1.46	$ 2.56	$ 1.41	$ 1.72
12. SFY08 Claim Cost With Service Utilization Increases	$ 34.03	$ 41.73	$ 37.79	$ 26.74	$ 51.14	$ 29.02	$ 32.40
13. Acuity Factor	0.987	0.980	0.950	0.988	1.009	0.974	0.979
14. WMA Tribal Adjustment	$ -	$ -	$ -	$ 0.22	$ -	$ -	$ 0.03
15. Base SFY08 Claim Costs	$ 33.59	$ 40.90	$ 35.90	$ 26.64	$ 51.60	$ 28.27	$ 31.75
16. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
17. SFY08 Capitation Rates	$ 37.32	$ 45.44	$ 39.89	$ 29.60	$ 57.34	$ 31.41	$ 35.27
18. SFY07 Current Rates	$ 30.44	$ 36.86	$ 36.83	$ 23.14	$ 52.26	$ 29.94	$ 31.47
19. % Change	22.6%	23.3%	8.3%	27.9%	9.7%	4.9%	12.1%

Attachment A
SFY08 Capitation Rate Development
Title XIX
CMDP Children

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County RBHA	Total
1. 1HSFY07 Adjusted BHS Service Expenses	$ 1,675,560	$ 12,415,964	$ 664,066	$ 4,892,188	$ 1,940,792	$ 18,200,393	$ 39,788,964
2. 1HSFY07 Member Months	1,998	13,426	1,141	5,167	3,837	29,890	55,459
3. 1HSFY07 PMPM	$ 838.62	$ 924.77	$ 582.00	$ 946.81	$ 505.81	$ 608.91	$ 717.45
4. SFY07 Projection Factor	1.04	1.04	1.04	1.04	1.04	1.04	1.04
5. SFY07 Initial Projected Claim Cost	$ 872.16	$ 961.76	$ 605.28	$ 984.69	$ 526.04	$ 633.27	$ 746.15
6. Relational Modeling Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00
7. SFY07 Adjusted Claim Cost	$ 872.16	$ 961.76	$ 605.28	$ 984.69	$ 526.04	$ 633.27	$ 746.15
8. Claim Cost Trend Factor	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
9. Trended Base Claim Cost	$ 942.81	$ 1,039.66	$ 654.31	$ 1,064.45	$ 568.65	$ 684.56	$ 806.58
10. High Need Kids	$ 49.76	$ 47.38	$ 17.00	$ 36.97	$ 23.19	$ 27.77	$ 33.63
11. JK Support Services	$ 49.14	$ 82.79	$ 23.03	$ 39.39	$ 69.05	$ 38.10	$ 51.27
12. SFY08 Claim Cost With Service Utilization Increases	$ 1,041.71	$ 1,169.84	$ 694.34	$ 1,140.80	$ 660.89	$ 750.43	$ 891.48
13. Acuity Factor	0.961	1.036	1.075	1.003	1.082	0.973	1.003
14. WMA Tribal Adjustment	$ -	$ -	$ -	$ 10.79	$ -	$ -	$ 1.00
15. Base SFY08 Claim Costs	$ 1,001.08	$ 1,211.95	$ 746.42	$ 1,155.01	$ 715.08	$ 730.17	$ 895.44
16. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
17. SFY08 Capitation Rates	$ 1,112.31	$ 1,346.61	$ 829.35	$ 1,283.35	$ 794.54	$ 811.30	$ 994.93
18. SFY07 Current Rates	$ 902.35	$ 982.84	$ 1,718.65	$ 1,040.94	$ 1,052.43	$ 540.44	$ 766.87
19. % Change	23.3%	37.0%	-51.7%	23.3%	-24.5%	50.1%	29.7%

Attachment A
SFY08 Capitation Rate Development
Title XIX
Combined Children (For Informational Purposes Only)

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County RBHA	Total
1. 1HSFY07 Adjusted BHS Service Expenses	$ 4,663,046	$ 24,934,956	$ 4,597,201	$ 12,854,874	$ 7,134,672	$ 51,896,767	$ 106,081,515
2. 1HSFY07 Member Months	115,258	410,829	129,312	385,616	129,929	1,449,648	2,620,592
3. 1HSFY07 PMPM	$ 40.46	$ 60.69	$ 35.55	$ 33.34	$ 54.91	$ 35.80	$ 40.48
4. SFY07 Projection Factor	1.04	1.04	1.04	1.04	1.04	1.04	1.04
5. SFY07 Initial Projected Claim Cost	$ 42.08	$ 63.12	$ 36.97	$ 34.67	$ 57.11	$ 37.23	$ 42.10
6. Relational Modeling Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00
7. SFY07 Adjusted Claim Cost	$ 42.08	$ 63.12	$ 36.97	$ 34.67	$ 57.11	$ 37.23	$ 42.10
8. Claim Cost Trend Factor	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
9. Trended Base Claim Cost	$ 45.48	$ 68.23	$ 39.97	$ 37.48	$ 61.73	$ 40.25	$ 45.51
10. High Need Kids	$ 3.38	$ 4.69	$ 2.57	$ 2.22	$ 2.90	$ 1.48	$ 2.30
11. JK Support Services	$ 2.64	$ 5.67	$ 1.05	$ 1.97	$ 4.52	$ 2.17	$ 2.77
12. SFY08 Claim Cost With Service Utilization Increases	$ 51.50	$ 78.60	$ 43.58	$ 41.67	$ 69.15	$ 43.90	$ 50.58
13. Acuity Factor	0.978	1.007	0.968	0.994	1.030	0.974	0.988
14. WMA Tribal Adjustment	$ -	$ -	$ -	$ 0.36	$ -	$ -	$ 0.05
15. Base SFY08 Claim Costs	$ 50.36	$ 79.17	$ 42.17	$ 41.76	$ 71.20	$ 42.74	$ 50.02
16. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
17. SFY08 Capitation Rates	$ 55.96	$ 87.97	$ 46.86	$ 46.40	$ 79.11	$ 47.49	$ 55.58
18. SFY07 Current Rates	$ 45.55	$ 67.77	$ 51.67	$ 36.78	$ 81.80	$ 40.47	$ 47.03
19. % Change	22.8%	29.8%	-9.3%	26.2%	-3.3%	17.4%	18.2%

Attachment A
SFY08 Capitation Rate Development
Title XIX
SMI

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County RBHA	Total
1. 1HSFY07 Adjusted BHS Service Expenses	$ 5,457,419	$ 22,462,022	$ 4,875,887	$ 14,529,758	$ 5,939,364	$ 86,582,346	$ 139,846,796
2. 1HSFY07 Member Months	133,852	426,757	131,664	452,654	132,104	1,091,330	2,368,361
3. 1HSFY07 PMPM	$ 40.77	$ 52.63	$ 37.03	$ 32.10	$ 44.96	$ 79.34	$ 59.05
4. SFY07 Projection Factor	1.01	1.01	1.01	1.01	1.01	1.01	1.01
5. SFY07 Initial Projected Claim Cost	$ 41.18	$ 53.16	$ 37.40	$ 32.42	$ 45.41	$ 80.13	$ 59.64
6. Relational Modeling Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00
7. SFY07 Adjusted Claim Cost	$ 41.18	$ 53.16	$ 37.40	$ 32.42	$ 45.41	$ 80.13	$ 59.64
8. Claim Cost Trend Factor	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
9. Trended Base Claim Cost	$ 44.35	$ 57.25	$ 40.28	$ 34.92	$ 48.91	$ 86.30	$ 64.23
10. IMD Waiver	$ (0.02)	$ (0.47)	$ (0.04)	$ (0.54)	$ (0.14)	$ (0.49)	$ (0.43)
11. In-Lieu of Services	$ 0.02	$ 0.47	$ 0.04	$ 0.54	$ 0.14	$ 0.49	$ 0.43
12. SFY08 Claim Cost With Service Utilization Increases	$ 44.35	$ 57.25	$ 40.28	$ 34.92	$ 48.91	$ 86.30	$ 64.23
13. Acuity Factor	1.036	1.010	0.985	1.030	1.027	1.040	1.032
14. WMA Tribal Adjustment	$ -	$ -	$ -	$ 0.39	$ -	$ -	$ 0.07
15. Base SFY08 Claim Costs	$ 45.95	$ 57.83	$ 39.68	$ 36.35	$ 50.23	$ 89.75	$ 66.33
16. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
17. SFY08 Capitation Rates	$ 51.05	$ 64.25	$ 44.09	$ 40.39	$ 55.81	$ 99.72	$ 73.70
18. SFY07 Current Rates	$ 47.20	$ 57.31	$ 52.56	$ 35.96	$ 45.98	$ 89.11	$ 66.42
19. % Change	8.2%	12.1%	-16.1%	12.3%	21.4%	11.9%	11.0%

Statewide TXIX Rate for SMI

RBHA	Col. 1 Projected SFY08 Member Months	Best Estimate Col. 2 Proposed Rates	Best Estimate Col. 1 x Col. 2 Total Dollars	Low End of Rate Range Col. 2 Proposed Rates	Low End of Rate Range Col. 1 x Col. 2 Total Dollars	High End of Rate Range Col. 2 Proposed Rates	High End of Rate Range Col. 1 x Col. 2 Total Dollars
CPSA 3	248,669	$ 51.05	$ 12,695,166	$ 50.29	$ 12,504,738	$ 51.82	$ 12,885,593
CPSA 5	804,048	$ 64.25	$ 51,661,393	$ 63.29	$ 50,886,472	$ 65.22	$ 52,436,314
Cenpatico 2	232,198	$ 44.09	$ 10,237,074	$ 43.43	$ 10,083,518	$ 44.75	$ 10,390,630
NARBHA	879,635	$ 40.39	$ 35,529,609	$ 39.79	$ 34,996,665	$ 41.00	$ 36,062,553
Cenpatico 4	264,499	$ 55.81	$ 14,760,907	$ 54.97	$ 14,539,493	$ 56.64	$ 14,982,321
Maricopa County RBHA	2,057,395	$ 99.72	$ 205,172,355	$ 98.23	$ 202,094,770	$ 101.22	$ 208,249,940
Tribes			$ 4,915,719		$ 4,915,719		$ 4,915,719
Subtotal	4,486,444		$ 334,972,223		$ 330,021,375		$ 339,923,070
BHS Administration/R/C of 4.40%			$ 15,409,950		$ 15,182,193		$ 15,637,707
Total with BHS Administration/R/C			$ 350,382,173		$ 345,203,568		$ 355,560,777
Statewide Capitation Rate			$ 78.10		$ 76.94		$ 79.25

Statewide TXIX Rate for GMH/SA

RBHA	Col. 1 Projected SFY08 Member Months	Best Estimate Col. 2 Proposed Rates	Best Estimate Col. 1 x Col. 2 Total Dollars	Low End of Rate Range Col. 2 Proposed Rates	Low End of Rate Range Col. 1 x Col. 2 Total Dollars	High End of Rate Range Col. 2 Proposed Rates	High End of Rate Range Col. 1 x Col. 2 Total Dollars
CPSA 3	248,669	$ 29.33	$ 7,293,993	$ 28.89	$ 7,184,583	$ 29.77	$ 7,403,403
CPSA 5	804,048	$ 46.29	$ 37,222,966	$ 45.60	$ 36,664,622	$ 46.99	$ 37,781,311
Cenpatico 2	232,198	$ 46.83	$ 10,874,939	$ 46.13	$ 10,711,815	$ 47.54	$ 11,038,063
NARBHA	879,635	$ 26.00	$ 22,866,846	$ 25.61	$ 22,523,843	$ 26.39	$ 23,209,849
Cenpatico 4	264,499	$ 56.93	$ 15,056,713	$ 56.07	$ 14,830,862	$ 57.78	$ 15,282,564
Maricopa County RBHA	2,057,395	$ 36.92	$ 75,952,433	$ 36.36	$ 74,813,147	$ 37.47	$ 77,091,720
Tribes			$ 1,632,043		$ 1,632,043		$ 1,632,043
Subtotal	4,486,444		$ 170,899,933		$ 168,360,915		$ 173,438,953
BHS Administration/R/C of 4.40%			$ 7,862,023		$ 7,745,219		$ 7,978,828
Total with BHS Administration/R/C			$ 178,761,956		$ 176,106,134		$ 181,417,781
Statewide Capitation Rate			$ 39.84		$ 39.25		$ 40.44

Attachment C
SFY08 Capitation Rate Development
Projection of Expenditures
Title XIX

Note: This section uses SFY08 Projected Member Months applied to both SFY07 and SFY08 Rates.

TXIX	SFY07	Statewide Rates SFY08 Best Estimate	Statewide Rates SFY08 Low	Statewide Rates SFY08 High	SFY08 Projected MMs	SFY07	Total Projected Expenditures SFY08 Best Estimate	Total Projected Expenditures SFY08 Low	Total Projected Expenditures SFY08 High	Percent Change Best	Percent Change Low	Percent Change High
Children	$ 53.80	$ 63.74	$ 62.88	$ 64.60	5,194,816	$ 279,489,267	$ 331,124,575	$ 326,638,282	$ 335,610,868	18.5%	16.9%	20.1%
SMI	$ 70.62	$ 78.10	$ 76.94	$ 79.25	4,486,444	$ 316,832,648	$ 350,382,173	$ 345,203,568	$ 355,560,777	10.6%	9.0%	12.2%
GMH/SA	$ 36.66	$ 39.84	$ 39.25	$ 40.44	4,486,444	$ 164,473,023	$ 178,761,956	$ 176,106,134	$ 181,417,781	8.7%	7.1%	10.3%
Total						$ 760,794,938	$ 860,268,704	$ 847,947,984	$ 872,589,426	13.1%	11.5%	14.7%

TXIX Children	SFY07	Statewide Rates SFY08 Best Estimate	Statewide Rates SFY08 Low	Statewide Rates SFY08 High	SFY08 Projected MMs	SFY07	Total Projected Expenditures SFY08 Best Estimate	Total Projected Expenditures SFY08 Low	Total Projected Expenditures SFY08 High	Percent Change Best	Percent Change Low	Percent Change High
Non-CMDP Children	$ 37.43	$ 42.83	$ 42.27	$ 43.38	5,086,318	$ 190,380,883	$ 217,822,965	$ 215,008,579	$ 220,637,350	14.4%	12.9%	15.9%
CMDP Children	$ 821.29	$ 1,044.27	$ 1,028.86	$ 1,059.68	108,498	$ 89,108,384	$ 113,301,610	$ 111,629,703	$ 114,973,518	27.2%	25.3%	29.0%
Total	$ 53.80	$ 63.74	$ 62.88	$ 64.60	5,194,816	$ 279,489,267	$ 331,124,575	$ 326,638,282	$ 335,610,868	18.5%	16.9%	20.1%

Note: This section uses SFY07 Actual/Projected Member Months applied to SFY07 Rates, and SFY08 Projected Member Months applied to SFY08 Rates.

TXIX	SFY07	Statewide Rates SFY08 Best Estimate	Statewide Rates SFY08 Low	Statewide Rates SFY08 High	SFY07 Actual/ Projected MMs	SFY07	Total Projected Expenditures SFY08 Best Estimate	Total Projected Expenditures SFY08 Low	Total Projected Expenditures SFY08 High	Percent Change Best	Percent Change Low	Percent Change High
Children	$ 53.92	$ 63.74	$ 62.88	$ 64.60	5,242,909	$ 282,722,222	$ 331,124,575	$ 326,638,282	$ 335,610,868	17.1%	15.5%	18.7%
SMI	$ 70.62	$ 78.10	$ 76.94	$ 79.25	4,689,563	$ 331,176,939	$ 350,382,173	$ 345,203,568	$ 355,560,777	5.8%	4.2%	7.4%
GMH/SA	$ 36.66	$ 39.84	$ 39.25	$ 40.44	4,689,563	$ 171,919,380	$ 178,761,956	$ 176,106,134	$ 181,417,781	4.0%	2.4%	5.5%
Total						$ 785,818,541	$ 860,268,704	$ 847,947,984	$ 872,589,426	9.5%	7.9%	11.0%

SFY08 Projected MMs
5,194,816
4,486,444
4,486,444

TXIX Children	SFY07	Statewide Rates SFY08 Best Estimate	Statewide Rates SFY08 Low	Statewide Rates SFY08 High	SFY07 Actual/ Projected MMs	SFY07	Total Projected Expenditures SFY08 Best Estimate	Total Projected Expenditures SFY08 Low	Total Projected Expenditures SFY08 High	Percent Change Best	Percent Change Low	Percent Change High
Non-CMDP Children	$ 37.43	$ 42.83	$ 42.27	$ 43.38	5,132,583	$ 192,112,582	$ 217,822,965	$ 215,008,579	$ 220,637,350	13.4%	11.9%	14.8%
CMDP Children	$ 821.29	$ 1,044.27	$ 1,028.86	$ 1,059.68	110,326	$ 90,609,641	$ 113,301,610	$ 111,629,703	$ 114,973,518	25.0%	23.2%	26.9%
Total	$ 53.92	$ 63.74	$ 62.88	$ 64.60	5,242,909	$ 282,722,222	$ 331,124,575	$ 326,638,282	$ 335,610,868	17.1%	15.5%	18.7%

SFY08 Projected MMs
5,086,318
108,498
5,194,816