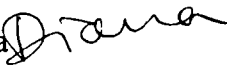


DRAFT

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Deadline for action	Friday, October 3 (by law, USDA must approve, deny, or request more information)	None

TO: Elena Kagan
Cynthia Rice
Emil Parker
Emily Bromberg

FROM: Diana Fortuna 

SUBJECT: Arizona Privatization

DATE: September 25, 1997

Here is USDA's response to our 2 questions to them on Arizona. We had asked them:

- Does the law set a clock ticking beyond the 60 day timeline by which they must approve, deny, or ask for more info? They say the answer is no, there are no timing requirements once we get past October 3.
- We asked them what additional information they would ask Arizona for, and the attached draft letter lays this out. It looks reasonable at first blush. Basically, it says:
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Now the ball is in our court to see what people here think, and provide USDA with our comments. Their deadline for action is, once again, October 3 -- in about a week.

**FOOD STAMP
PROGRAM
USDA/FCS/RM. 710
ALEXANDRIA, VA
22302
703-305-2454-FAX**

Fax

To: Diana Fortunet

From: Binny O'Neil

Fax: Jeff Farkas

Pages: 4

Phone: 305-2022

Date: 9/24/97

Re: PRIVATIZATION - AZ. **CC:**

☐ Urgent

☐ For Review

☒ Please Comment

☒ Please Reply

☐ Please Recycle

• Comments:

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Binny

DRAFT - For Internal Clearance Only

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Before we can proceed any further, we need clarification or confirmation of the following issues.

- **Statewide Implementation** - The proposal indicates that the waiver would be necessary for a two-year demonstration. However, the project is designed as a "pilot" in which the State would have the authority to implement statewide after two years. Because the effects of any demonstration testing the privatization of the food stamp certification process must be carefully tested and evaluated, we will require that the State agree to delay any further implementation of the privatization of the food stamp certification process until the evaluation is complete. Consideration of further expansion will depend on the results of the evaluation. Also, the State must receive prior FCS approval before implementing any further expansion. *not really a question*
- **Evaluation** - The proposal indicates that the State plans to conduct process, comparative and cost analysis studies to test the effects of privatization. Even though the State has not fully determined the scope of the evaluation, the State indicates that the agency will obtain the services of an independent contractor to evaluate the demonstration and to address questions that may be of interest to the Federal agencies.

Given the nationwide implications for testing privatization of the food stamp certification process, the Department believes that a rigorous evaluation must be designed to fully determine the effect privatization has on food stamp administration and operations, program integrity, client service and program cost. For example, the design must contain cost analyses in which administrative cost saving is accurately attributable to practices implemented by the private vendor and its employees. Due to the significance of the demonstration evaluation, there are a number of points in the proposed State evaluation plan that need further clarification.

First, with the implementation of welfare reform, a new automated computer system, and the Arizona Works program, there are a number of programmatic changes occurring concurrently with privatization. The Department is concerned that the impacts of privatization on the outcomes of interest will be difficult to isolate from the simultaneous impacts of other programmatic factors. How does the State propose to

sufficiently isolate the impacts of privatization from other programmatic impacts to allow for proper evaluation?

Second, the State indicates that a comparison county will be used to isolate the differences between the Arizona Works demonstration and the EMPOWER program from county-specific and other factors. The Department is concerned that the unique economic and demographic characteristics of the proposed demonstration site, Maricopa County, does not allow for a valid cross-county comparison. Could you please indicate what site will be used for a comparison county and please specify what characteristics make that site a valid control for evaluation purposes? How will the impact of privatization be isolated from the county specific impacts and other impacts for evaluation? Why was a comparison county design chosen over a pre-post evaluation design, a combination of a comparison county and pre-post designs, or any other experimental design?

Third, the State proposes to implement, run and evaluate the Arizona Works program and privatization impacts in two years. The Department is concerned that the requested time period will not be sufficient for proper evaluation of the privatization demonstration. Our experience indicates that more reliable results may be achieved from a longer period of implementation (such as five years) which allows for a baseline survey, full program operation, and adequate evaluation time. Please provide more detail regarding the State's timeline for completing the process and comparative outcome studies. How will the two year demonstration provide robust information on which to adequately evaluate privatization of the food stamp certification process?

Fourth, the State indicates that it will evaluate outcomes including client satisfaction and program performance and suggests that historical records will be used, to the extent that they are available, as a comparison. Could you please indicate what variables will be used to measure outcomes of client satisfaction, cost, and program integrity in the privatization demonstration? What measures will be used as a comparison? With all the concurrent program changes, how can historical records be adjusted to allow a comparison of only the privatization initiative? Would the State consider adding a baseline survey of client satisfaction prior to implementation that would be repeated periodically throughout the demonstration?

- **Reconversion Plan** - Please clarify State plans to re-establish a public workforce if the decision is made to terminate the demonstration.
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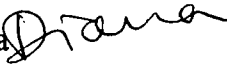
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We are available to meet with you and your staff to discuss these issues. I appreciate your cooperation.

Sincerely,

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Elena

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Josh Gotbaum

Barry White

~~Kent Fontenot~~

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Sandy Koreman CEA

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Sty Gallegos

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Progress to state-wide?	After 18 mos, board appointed by Governor would determine whether to expand state-wide. State wants 2-year federal demo, with authority to go statewide after that.	Intent is to do state-wide immediately, but probably open to negotiation
Opposition	Two state legislators opposed in 7/97 letter to HHS largely because demo also includes tougher TANF rules unrelated to privatization (lower benefits in demo area; minimum wage questions; fewer protections for disabled and domestic violence victims)	1,000 letters from state employees/AFSCME on potential for reduced services and job security issue
Deadline for action	Friday, October 3 (by law, USDA must approve, deny, or request more information)	None

DRAFT

Features	Arizona	Wisconsin
Programs Privatized	TANF Food Stamps Medicaid Child Care State General Assistance Job Placement of TANF/FS recips.	TANF Food Stamps Medicaid
Functions Privatized	All certification decisions (includes benefit level and eligibility) Fair Hearing decisions (negotiable) <u>State continues to do:</u> Program Policy Quality control reviews	All certification decisions <u>State continues to do:</u> Fair Hearing decisions Program policy Quality control reviews
Portion of State Affected	Eastern Maricopa County -- 13% of caseload starting 1/99 12 months later, can expand to rural site	Statewide, except for 25% of caseload that is elderly or disabled (already did TANF state-wide) But counties are winning bids, so true privatization is much less at the moment
State Legis	Plan passed by state legislature	Plan passed by state legislature
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DRAFT

Features	Arizona	Wisconsin
Programs Privatized	TANF Food Stamps Medicaid Child Care State General Assistance Job Placement of TANF/FS recip.	TANF Food Stamps Medicaid
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Opposition	Two state legislators opposed in 7/97 letter to HHS largely because demo also includes tougher TANF rules unrelated to privatization (lower benefits in demo area; minimum wage questions; fewer protections for disabled and domestic violence victims)	1,000 letters from state employees/AFSCME on potential for reduced services and job security issue <i>Elena to USDA - by Wed</i> <i>* USDA to look at 260 days</i> <i>* List of concerns</i>
Deadline for action	Friday, October 3 (by law, USDA must approve, deny, or request more information)	None <i>* US to ask here</i>

Double count w/ TANF
GPS

Leval
Appr of RFP

facsimile
TRANSMITTAL

U.S. Department of Agriculture
Food and Consumer Service
State Administration Branch
3101 Park Center Drive, Room 905
Alexandria, Virginia 22302

to: Diana Fortuna - DPC

fax #: 202-456-7028

re: Transmittal letters from Arizona - 5 Letters

date: 9-17-97

pages: 11 including this cover sheet.

From the desk of:

name: Carolyn Foley for Barry O'Neil

telephone number: 703-305-2473

Message:

- 1) To See Glickman from Gov. Symington - July 30, 1997
- 2) To See Glickman from Linda Blessing - July 21, 1997
(attached to Symington's letter)
- 3) To Shalala from Gov. Symington - July 30, 1997
- 4) To Shalala from Linda Blessing - July 21, 1997
- 5) To Shalala from John Kelly - July 30, 1997



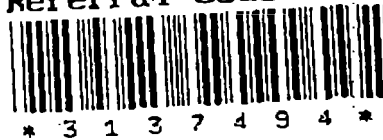
STATE OF ARIZONA
EXECUTIVE OFFICE

FIFE SYMINGTON
Governor

July 30, 1997

The Honorable Dan Glickman
Secretary
U.S. Department of Agriculture
3101 Park Center Drive
Alexandria, VA 22302

Action Office: fcs
Referral Code: 35



Dear Secretary Glickman:

On May 2, 1997, I was very pleased to sign Arizona's welfare reform legislation into law. This legislation provides for the implementation of "EMPOWER Redesign," that builds upon Arizona's existing EMPOWER program, and transforms welfare into an integrated, comprehensive approach that focuses on employment as the goal for all adult recipients. We are proud of our accomplishments under the EMPOWER program and look forward to implementing the improvements offered through EMPOWER Redesign.

In addition, Arizona's legislation proposes to create Arizona Works, a two-year pilot program in which a private vendor will determine eligibility for cash assistance, child care, Food Stamps, Medicaid and the State's General Assistance program. Arizona Works would operate within a specified geographic area of the state and begin on January 1, 1999. Arizona is submitting a waiver requesting approval to privatize the eligibility determination process. Once selected, the vendor will also be responsible for job placement of cash assistance and/or Food Stamp recipients. Participants of Arizona Works will be immediately placed into one of four employment levels and receive the additional services necessary to eliminate the barriers to unsubsidized employment and self-sufficiency.

The Arizona Works pilot program will allow the state, and the nation, to see how the private sector performs eligibility and other functions associated with the provision of public assistance. The pilot program will operate for two years in a

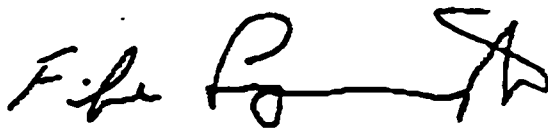
The Honorable Dan Glickman
July 30, 1997
Page Two

specified geographical portion of the state. Arizona will compare the Arizona Works and EMPOWER Redesign programs to determine the most effective and efficient service delivery system.

It is critical to give the private vendor the opportunity to treat individuals seeking assistance holistically to avoid fragmenting access to the array of available welfare services. The Arizona Works job counselor must be able to address the entire range of client needs. The nation needs to have the opportunity to learn and understand more about how the private sector can effectively and efficiently administer or operate public assistance programs.

As Governor of Arizona and on behalf of the people of our State, I urge your support of the Arizona Works pilot program and your Department's approval of the enclosed Food Stamp Program waiver.

Sincerely,



Fife Symington
GOVERNOR

FS/smh

Enclosures

cc: Donna Shalala, Secretary, U.S. Department of Health and Human Services



ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Fife Symington
Governor

Dr. Linda J. Blessing
Director

JUL 21 1997

The Honorable Dan Glickman
Secretary
U.S. Department of Agriculture
3101 Park Center Drive
Alexandria, VA 22302

Dear Secretary Glickman:

The Department of Economic Security (DES), on behalf of the State of Arizona, submits the enclosed privatization waiver package for the purpose of requesting waivers to federal law at 7 CFR 272.4 for non-merit system public employees to perform Food Stamp eligibility determinations in a pilot project.

This waiver package is based on State legislation that was passed during the Arizona 43rd Legislature, First Regular Session, 1997. Copies of the legislation affecting privatization are included as an appendix to the waiver package.

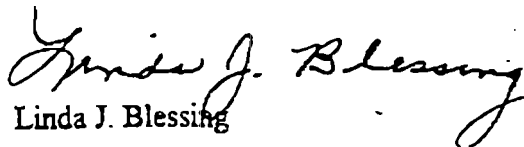
The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193, allows states to conduct demonstration projects designed to (1) improve program administration; (2) increase the self-sufficiency of recipients of federal assistance; and (3) test innovative welfare reform strategies. Arizona took the first step to reform its welfare program in 1995 by implementing the EMPOWER program. The new legislation and the privatization project, Arizona Works, transform the welfare system into a more integrated approach that emphasizes employment as the goal for all adults who are able to work.

The Arizona Works program will allow the state, and the nation, to assess the ability of the private sector to provide quality employment-related services as well as expedient and efficient eligibility determinations in the provision of services to recipients of public assistance. Through the Arizona Works pilot program, the state will utilize the ingenuity, resourcefulness, flexibility and efficiencies of the private sector. Arizona Works will operate as a pilot demonstration program for two years in a specified geographical portion of the state and will be evaluated by an independent entity. Arizona will compare the Arizona Works and EMPOWER Redesign programs to determine the most effective, efficient aspects of these service delivery systems.

The Honorable Dan Glickman
Page 2

As Director of Arizona's Department of Economic Security, I solicit your approval of the Arizona Works privatization project. If you have any questions or need additional information regarding the Arizona Works Program, please contact me or Mike Koppelman, Deputy Director, at (602) 542-3937.

Sincerely,


Linda J. Blessing

Enclosures



STATE OF ARIZONA
EXECUTIVE OFFICE

FIFE SYMINGTON
Governor

July 30, 1997

The Honorable Donna E. Shalala
Secretary
U.S. Department of Health and Human Services
200 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Secretary Shalala:

I was very pleased to sign into law welfare reform legislation passed by the Arizona Legislature during the 1997 session. This legislation builds on Arizona's EMPOWER program and follows the concept behind the Personal Responsibility and Work Opportunity Reconciliation Act, P.L. 104-193. Arizona is looking toward the future with these new changes in providing employment assistance for families in need.

The legislation adds to the EMPOWER program by adopting EMPOWER Redesign policies that transform the welfare system into a more integrated, holistic approach emphasizing employment as the goal for all adult recipients. The state also proposes to operate Arizona Works, a pilot program in which a private vendor will perform eligibility determinations for cash assistance, child care, Food Stamps, Medicaid and the State's General Assistance program within a specified geographical location of the state. Arizona is requesting a waiver in order to privatize the eligibility determination process for the Arizona Works program. The program contractor will also be responsible for job placement of cash assistance and/or Food Stamp recipients. Arizona Works recipients will be immediately placed into one of four employment levels: unsubsidized employment, subsidized employment, trial job, or community referral. While in these levels, the client will receive the additional services necessary to eliminate the barriers to find unsubsidized employment and remain self-sufficient.

The Honorable Donna E. Shalala
July 30, 1997
Page Two

The Arizona Works pilot program will allow the state, and the nation, to see how the private sector performs eligibility and other functions associated with the provision of public assistance. The pilot program will operate for two years in a specified geographical portion of the state. Arizona will compare the Arizona Works and EMPOWER Redesign programs to determine the most effective and efficient service delivery system.

It is critical to give the private vendor the opportunity to treat individuals seeking assistance holistically to avoid fragmenting access to the array of available welfare services. The Arizona Works job counselor must be able to address the entire range of client needs. The nation needs to have the opportunity to learn and understand more about how the private sector can effectively and efficiently administer or operate public assistance programs.

As Governor of Arizona and on behalf of the people of our State, I urge your support of the Arizona Works pilot program and your Department's approval of the enclosed Health Care Financing Administration waiver.

Sincerely,



Fife Symington
GOVERNOR

FS/smrh

Enclosures

cc: Dan Glickman, Secretary, USDA



ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Fife Symington
Governor

Dr. Linda J. Blessing
Director

JUL 21 1997

The Honorable Donna E. Shalala
Secretary
U.S. Department of Health and Human Services
200 Independence Avenue, S. W.
Washington, D.C. 20201

Dear Secretary Shalala:

The Department of Economic Security (DES), on behalf of the State of Arizona, submits the enclosed privatization waiver package for the purpose of requesting waivers to federal law at 42 U.S.C. §1396a(a)(4) and 42 CFR 432.10 for non-merit system public employees to perform Medicaid eligibility determinations in a pilot project.

This waiver package is based on State legislation that was passed during the Arizona 43rd Legislature, First Regular Session, 1997. Copies of the legislation affecting privatization are included as an appendix to the waiver package.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193, allows states to conduct demonstration projects designed to (1) improve program administration; (2) increase the self-sufficiency of recipients of federal assistance; and (3) test innovative welfare reform strategies. Arizona took the first step to reform its welfare program in 1995 by implementing the EMPOWER program. The new legislation and the privatization project, Arizona Works, transform the welfare system into a more integrated approach that emphasizes employment as the goal for all adults who are able to work.

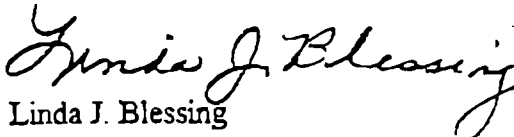
The Arizona Works program will allow the state, and the nation, to assess the ability of the private sector to provide quality employment-related services as well as expedient and efficient eligibility determinations in the provision of services to recipients of public assistance. Through the Arizona Works pilot program, the state will utilize the ingenuity, resourcefulness, flexibility and efficiencies of the private sector. Arizona Works will operate as a pilot demonstration program for two years in a specified geographical portion of the state and will be evaluated by an independent entity. Arizona will compare the Arizona Works and EMPOWER Redesign programs to determine the most effective, efficient aspects of these service delivery systems.

The Arizona Health Care Cost Containment System (AHCCCS), the single State Medicaid Agency, has assisted in the completion of this waiver package. A separate letter of support will be sent from John Kelly, Director, AHCCCS.

The Honorable Donna E. Shalala
Page 2

As Director of Arizona's Department of Economic Security, I solicit your approval of the Arizona Works privatization project. If you have any questions or need additional information regarding the Arizona Works Program, please contact me or Mike Koppelman, Deputy Director, at (602) 542-3937.

Sincerely,


Linda J. Blessing

Enclosures



ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Committed to excellence in health care

Fife Symington
Governor

July 30, 1997

John H. Kelly
Director

The Honorable Donna E. Shalala
Secretary
U.S. Department of Health and Human Services
200 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Secretary Shalala:

The Arizona Legislature passed additional welfare reform legislation during the 1997 session. This legislation builds on Arizona's EMPOWER program and is compatible with the Personal Responsibility and Work Opportunity Reconciliation Act, P.L. 104-193. Arizona is committed to ensuring that these changes will provide enhanced services and employment assistance for families in need.

This legislation includes Arizona Works, a pilot program which transforms the current welfare system into a more integrated approach that emphasizes employment as the goal for all adults. The Arizona Works program will determine whether the private sector can provide quality employment services as well as timely and efficient eligibility determinations for cash assistance, child care, Food Stamps, Medicaid and General Assistance. The Arizona Health Care Cost Containment System continues to work in partnership with the Department of Economic Security to provide a total package of services for our clients.

The Arizona Works program is designed to allow the state, and the nation, to determine if the private sector can provide Medicaid eligibility functions more efficiently and allow eligible recipients to receive needed medical services in a more timely manner. The purpose of the Arizona Works program is to utilize the ingenuity, resourcefulness, flexibility and efficiencies of the private sector. The pilot program will operate for two years, in a specified geographical portion of the state,

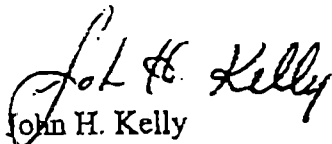
Letter to Secretary Shalala

July 30, 1997

Page 2

and be evaluated by an outside entity. As Director of AHCCCS, I join the Department of Economic Security in requesting your approval of the Arizona Works pilot program and request your approval of the enclosed federal waiver.

Sincerely,



John H. Kelly

Director

AHCCCS

DR:cb

S:\ADS\ADIANE\WORD\SHALALA.DOC

**FOOD STAMP
PROGRAM
USDA/FCS/RM. 710
ALEXANDRIA, VA
22302
703-305-2454-FAX**

Fax

DIANA FORNNA

To: JEFF FARLAS

From: BANN OWELL

Fax:

Pages: 2

Phone:

Date:

Re:

CC:

☐ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

• **Comments:**

Revised per our telecon yesterday

**Comparison of Demonstration Requests
to Privatize Food Stamp Certification Process**

FEATURES	ARIZONA WORKS	WISCONSIN WORKS (W/2)
Programs Privatized	TANF, Food Stamps, Medicaid, Child Care, State General Assistance, Job Placement of TANF/FS.	TANF, Food Stamps, Medicaid
Functions Privatized	All certification (benefit level and eligibility) and fair hearing decisions. State indicates that State retention of fair hearing process is negotiable. State continues to determine program policy and conduct quality control reviews.	All certification decisions. State continues to decide program policy and to conduct fair hearings and quality control.
State Legislative Action	Plan passed by State legislature.	Plan passed by State legislature.
Portion of State Affected	Maricopa County - 13 percent of caseload. 12 months later, expand to rural site. All food stamp households subject to waiver in demonstration sites.	TANF implemented Statewide as of March, 1997. Elderly and disabled food stamp households (25% of caseload) would continue to be certified by public employees (i.e., exempt from waiver). Milwaukee County, which represents 44% of FS caseload (34% excluding elderly and disabled), has contracted with one private company and five non-profit organizations.
Evaluation	Yes, State would conduct a process, comparative and cost analysis of demonstration.	Yes. However, evaluation does not assess impact of privatization on certification process.
Progression to Statewide	After 18 months, board appointed by governor would determine to expand Statewide. Federal demo is for two years.	Most Counties won bid to operate demo. However, State intends to gradually replace State employees with private employees through attrition and subsequent bidding process.
Opposition	Two State Representatives expressed objections to demo in a July 9, 1997 letter to Secretary Shalala. Objections not specific to privatization.	Department received about 1,000 letters from State employees and from AFSCME objecting to demo. Reduced program services and job security issues noted.
ADP System	RFP for new ADP (Expert System) under Federal review.	Use current State ADP system.
Deadline for Action	October 4, 1997	None

cc E-mail Parker

**FOOD STAMP
PROGRAM
USDA/FCS/RM. 710
ALEXANDRIA, VA
22302
703-305-2454-FAX**

Fax

To: Diana Fortuna**From:** Bonny O'Neil**Fax:****Pages:****Phone:****Date:****Re:****CC:**

☐ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

• Comments:

Diana - This paper has been sent to the Dept. but not discussed yet. It may be helpful to you in formulating your thoughts. I have also shared it with Jeff Farkas at OMB.

Bonny

DETERMINED TO BE AN
ADMINISTRATIVE MARKING~~CONFIDENTIAL~~ DRAFT - TO BE DISCUSSEDINITIALS: By DATE: 3/30/2018
2018-0525-S

ISSUE: Should the Department approve demonstration projects that transfer the food stamp certification process to the private sector?

BACKGROUND:

The Department is currently reviewing a demonstration waiver request from the Arizona State agency to privatize the food stamp certification process. Arizona is the third State to submit either a demonstration waiver request or other proposal to privatize the food stamp certification and eligibility determination process. By law, public (merit personnel) employees are required certify food stamp households.

Wisconsin

The Wisconsin State agency submitted its Wisconsin Works (W2) demonstration project prior to the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. The Food and Consumer Service (FCS) has responded to all waiver requests except Wisconsin's request to waive the merit personnel requirements of the Food Stamp Act. Under W2, the food stamp certification process would be transferred to the non-profit or private community through competitively-bid County contracts. Because Counties meeting certain performance standards have the right of first refusal to operate the W2 program, the majority of Counties in the State currently operate the W2 program. However, the State has the option of soliciting competitive bids in the future and intends to eventually phase-in private employees.

Public employees would continue to certify food Stamp households that are exempt from W2 work requirements (e.g., the elderly and disabled) which comprise approximately 25 percent of food stamp households.

Even though the State has not received Departmental approval to privatize the food stamp certification process, the State has proceeded to implement W2 for its Temporary Assistance to Needy Families (TANF) caseload. Six contractors (five non-profit organizations and one private company) operate the W2 program in Milwaukee County. To meet FCS requirements, the State co-locates public food stamp caseworkers with the non-profit and private workers. } stable?

Texas

The second request from the Texas State agency was also received prior to the implementation of PRWORA and was not a demonstration project. The State requested to issue a Request for Offers for the development of a statewide computer system and an integrated eligibility process for most public assistance programs (Food Stamp and Medicaid) which could be operated by the private sector or a consortium of public and private organizations.

~~CONFIDENTIAL DRAFT - TO BE DISCUSSED~~

After a year of negotiations, the Administration advised the Texas State agency (May 13, 1997 letter from Kevin Thurm) that, *"most activities included in the eligibility determination process must be performed by public agencies. A non-public employee may not take actions involving discretion or value judgments, including all elements of the eligibility determination process that relate to the evaluation of information provided by an applicant or bearing on the eligibility decision."*

The Administration offered to discuss with Texas the possibility of a sub-state, limited demonstration project. The State was not interested in exploring this option and no further discussions occurred on this topic. The Thurm letter states, *"Recognizing that you did not express interest in discussing a time-limited, sub-States demonstration during last week's meeting, this letter addresses the limitations set forth in Food Stamp and Medicaid law and regulations."*

Even though the Texas State agency has recently awarded a \$3.7 million contract with Electronic Data Systems (EDS) to assist the State in developing a revised proposal, we do not know if Texas will pursue its desire to privatize the eligibility and certification process.

Arizona

The Department received the "Arizona Works" demonstration proposal on August 5, 1997. By law, the Department must approve, deny or request clarifications from the State within 60 days of its receipt of the demonstration project. Under Arizona Works, a private contractor would be responsible for the eligibility determination process for the TANF, Food Stamp, Medicaid, Child Support, and State General Assistance Programs. Arizona Works would operate for two-years. Under State law, after 18 months of the implementation of the demonstration project, the State could recommend and implement the demonstration statewide. Food Stamp only households would be subject to the Food Stamp Program's Employment and Training requirements. All food stamp applicants residing in the project area would be certified by a private employee.

DISCUSSION:

Under Section 17 of the Food Stamp Act, the Secretary has the authority to approve waivers of the Act to allow for the testing of methods that may improve the efficiency of the Food Stamp Program and improve the delivery of food stamp benefits to eligible households.

States assert privatization initiatives would allow the State to save administrative funds while improving program administration and enhancing client services.

While we support these goals, a number of major questions about how the program would be effected have been discussed. These include: (1) is the food stamp

CONFIDENTIAL DRAFT - TO BE DISCUSSED

certification and determination of eligibility an "inherently governmental" responsibility in the public interest; (2) how would profit incentives affect the private employee in carrying out his/her responsibilities to applicants and eligible households; (3) even if the State maintains control of policy decisions and implementation, to what extent would the contractor influence the State's decision in favor of cost-saving measures over program benefits; (4) would client confidentiality be compromised; (5) how would the additional relationship between the State and contractor affect the ongoing relationships between the Federal and State Governments and would these changes alter the resolution of programmatic issues (e.g., non-implementation of legislative provisions); and (6) how will the State monitor or evaluate the private sector.

OPTIONS:

1. Approve requests received to date (Wisconsin and Arizona) that propose to transfer the certification and eligibility determination process to the non-profit or private sector.

Pros:

- Provides States with additional flexibility.
- Supports goal of the Vice President's National Performance Review to bring private sector practices to the Government.
- May lessen the possibility of legislation allowing States the option to privatize food stamp certification process.

Cons:

- May be perceived as contradicting recent decision to Texas in which the merit personnel provisions of the Food Stamp and Social Security Acts were upheld.
- Union organizations and advocacy groups would strongly object.
- Once approved, the Department would have a difficult time justifying any denial of additional privatization initiatives.
- States could face difficulties in reestablishing a public workforce if the contract fails and the public sector is once again responsible for the certification process.
- Monitoring and oversight responsibilities would increase at a time when Federal resources are diminishing.

2. Deny all State requests received to date that propose to transfer the certification and eligibility determination process to the non-profit or private sector.

Pros:

- Union organizations and advocacy groups would strongly support.
- Consistent with Congressional actions during past two years supporting merit personnel requirements under the Food Stamp Act. For instance, during the 1996 Welfare Reform debate, merit personnel provisions that had been deleted by the

CONFIDENTIAL DRAFT - TO BE DISCUSSED

Senate were restored during Conference debate. Also, during the recent Balanced Budget Act, proposed amendments (introduced by Texas Representatives) that would have allowed States to privatize were not enacted.

- Supports decision recently provided to Texas.

Cons:

- May provoke Congressional Representatives to reintroduce privatization amendments.
- Department may be perceived as being inflexible.

3. Publish Notice in the Federal Register to solicit bids for privatization and approve selected number from resulting proposals. We would reserve the right to limit the number of proposals granted if we receive a greater number than is sufficient for proper evaluation of the privatization policy option.

Pros:

- Would provide Department with valuable information about various methods States are interested in exploring. We currently do not have information about the effects of privatization.
- Would allow Department to limit the number and scope of privatization projects.
- May be useful strategy if legislative amendments allowing for privatization for the food stamp and Medicaid certification process are reintroduced in Congress.

Cons:

- Losing States would object and may pursue legislative amendments allowing privatization of the certification process.
- Difficult to reestablish public workforce once privatization is implemented.

Note: Ideally, the decision on Arizona would be coordinated with the Department of Health and Human Services' (DHHS) decision on the State's waiver request to privatize the Medicaid eligibility determination process. However, the Social Security Act governing the Medicaid program does not include a mandatory timeframe for responding to a waiver requests and the DHHS has a longer review process due to the number of offices that must review and provide input on a waiver request. ~~We are in contact with DHHS to advise them of any actions we are taking and, to the extent possible, will coordinate our responses to the State.~~

TANF
~~Empower~~
 Ariz WKS - 1/16/90

much?

Features	Arizona	Wisconsin
Programs Privatized	TANF - S-W Food Stamps Medicaid Child Support <i>Care Find out</i> State General Assistance Job Placement of TANF/FS recipients - <i>Vol?</i>	TANF Food Stamps Medicaid
Functions Privatized	All certification decisions (includes benefit level and eligibility) Fair Hearing decisions - <i>negot '66</i> <u>State continues to do:</u> Program Policy Quality control reviews	All certification decisions <u>State continues to do:</u> Fair Hearing decisions Program policy Quality control reviews
Portion of State Affected	Eastern Maricopa County -- 13% of caseload <i>suburbs rural</i> 12 months later, can expand to rural site	<i>urban</i> Already did TANF statewide <i>75%</i> Food stamps and Medicaid state-wide, except for 25% of caseload that is elderly or disabled
State Legis Action	Plan passed by state legislature	Plan passed by state legislature
Evaluation	Yes - but few details <i>intent OK</i>	Proposed evaluation does not assess effect of privatization on certification process
Progress to state-wide?	After 18 months, board appointed by Governor would determine whether to expand state-wide. State views this as pilot with phase-in/However, federal demo is for 2 years. <i>beyond 2 yrs seeking authority</i>	Intent is to do state-wide immediately, but probably open to negotiation
Opposition	Two state representatives objected to demo in 7/97 letter to HHS because the demo also includes tougher TANF rules unrelated to privatization: lower benefits in demo area, benefits may not meet minimum wage; fewer protections for disabled and domestic violence victims; and loss of state jobs. <i>- Gov? too soon to know - more legit</i>	1,000 letters from state employees/AFSCME on potential for reduced services and job security issue <i>Wisconsin - FS simplified - lets you privatize</i>
Deadline for action	October 4 <i>→ Fri 10/3</i>	None

*35% privatized was
 Milwaukee
 all counties pending
 option
 Counties do a lot
 now
 All TANF done*

*→ How active -
 → Michigan*

get May 1997

Cee Cynthia
 Cc Keith Fontenot
 6-4875
 - Diana

**Comparison of Demonstration Requests
to Privatize Food Stamp Certification Process**

FEATURES	ARIZONA	WISCONSIN
Programs Privatized	TANF, Food Stamps, Medicaid, Child Support, State General Assistance, Job Placement of TANF/FS.	TANF, Food Stamps, Medicaid
Functions Privatized	All certification (benefit level and eligibility) and fair hearing decisions. State continues to determine program policy and conduct quality control reviews.	All certification decisions. State continues to decide program policy and to conduct fair hearings and quality control. <i>Answer to question:</i> State needs waiver to allow private employee to make certification decisions unrelated to computer actions.
State Legislative Action	Plan passed by State legislature.	Plan passed by State legislature.
Portion of State Affected.	Maricopa County - 13 percent of caseload. 12 months later, expand to rural site. All food stamp households subject to waiver in demonstration sites subject.	TANF waiver implemented Statewide as of March, 1997. Elderly and disabled food stamp households (25% of caseload) would continue to be certified by public employees (i.e., exempt from waiver).
Evaluation	Yes - State has not provided details	Yes. However, evaluation does not assess impact of privatization on certification process.
Progression to Statewide	After 18 months, board appointed by governor would determine to expand Statewide. Federal demo is for two years.	Most Counties won bid to operate demo. However, State intends to gradually replace State employees with private employees through attrition and subsequent bidding process.
Opposition	Two State Representatives expressed objections to demo in a July 9, 1997 letter to Secretary Shalala. Objections include lower flat grant amounts in demo sites and less protections for elderly and disabled. (letter attached)	Department received about 1,000 letters from State employees and from AFSCME objecting to demo. Reduced program services and job security issues noted.
Deadline for Action	October 4, 1997	None

7
1

on what

?

JOHN A. LOREDO
1700 WEST WASHINGTON
PHOENIX, ARIZONA 85007-2848
CAPITOL PHONE: (602) 542-5630

DISTRICT 22



COMMITTEES:
BLOCK GRANTS,
RANKING DEMOCRAT MEMBER
JUDICIARY
GOVERNMENT REFORM &
STATES RIGHTS
PUBLIC INSTITUTIONS & UNIVERSITIES

SELECT COMMITTEE ON
CHILDREN, YOUTH & GANGS

Arizona House of Representatives

Phoenix, Arizona 85007

July 9, 1997

The Honorable Donna Shalala
Secretary
Department of Health and Human Services
200 Independence Ave., S.W.
Washington, D.C. 20201

Dear Ms Shalala:

We are writing to alert you to a waiver request that the State of Arizona will submit before July 31, 1997. Arizona will be requesting a waiver in order to completely privatize its welfare operation in portions of the State. We urge your office to deny this waiver request for the reasons described below.

I Background on Welfare Reform Efforts in Arizona.

Since 1995 Arizona has been operating its cash assistance program under federal waivers. This program, called EMPOWER, included time limits on receipt of benefits for adults, limitations on assistance to unwed teen parents who do not live with their parents, and limits on benefits for children born while a person is receiving cash assistance. In 1997, in response to the 1996 federal welfare reform legislation, the Legislature passed another welfare reform measure (SB 1357) that modified the EMPOWER program and established a controversial privatization pilot called Arizona Works. It is the Arizona Works pilot that is the subject of our concern.

II Structure of Arizona Works Privatization Program.

Under SB 1357, the Arizona Works pilot will begin in 1999 with the Department of Economic Security's (DES) District I-E, in Eastern Maricopa County. After one year the program will expand to a rural area. After two years the Legislature has the option of expanding the Arizona Works program statewide. Maricopa County is Arizona's most populous county and Eastern Maricopa County, where Arizona Works will begin, is a rapidly growing suburban area. We just learned recently that District I-E includes much more area than many legislators anticipated. A June 21st Arizona Republic article noted that when the proposal was approved, many legislators believed it would only affect the communities of Mesa, Chandler and Tempe. However the program also includes Scottsdale, Gilbert, Guadalupe, portions of East Phoenix and parts of Glendale, which is in western Maricopa County.

Secretary Donna Shalala
Department of Health and Human Services
July 9, 1997
Page 2

The legislation established some initial deadlines. The State is required to submit its waiver request for Arizona Works by July 31, 1997. In addition, the legislation mandates that the Request for Proposals for Arizona Works be issued by November 1, 1997. A nine-member Procurement Board, established in SB 1357, will oversee the Arizona Works Program, including the RFP process. The legislation exempts the procurement board from the State's procurement code.

III Arizona's Program Would Allow A Private Contractor to Determine Eligibility for Food Stamps and the Arizona Health Care Cost Containment System (AHCCCS).

Under SB 1357, The Arizona Works vendor will determine eligibility for cash assistance, AHCCCS, food stamps, general assistance, and child care. We understand that federal law prohibits a private company from making eligibility determinations for Medicaid and food stamps, as explained in the May 13, 1997 letter from HHS to the Texas Health and Human Services Commission. For the reasons expressed in the May 13th letter, the Arizona Works vendor should not be permitted to make eligibility determinations for AHCCCS and food stamps.

IV The Arizona Works Program Does Not Provide An Adequate Safety Net for Needy Arizonans.

Arizona Works has different program requirements than the EMPOWER program operated by the State Department of Economic Security (DES). The result is a privatization pilot that is more punitive than the program operated in the rest of the State. There are differences in the cash assistance grant, the structure of the work program, and the provisions for exemptions from program requirements for special populations (such as victims of domestic violence, new parents, and the disabled). Thus, Arizona Works is not merely a "privatization pilot" — it is a fundamentally different approach to providing assistance than is used in the rest of the State.

A. The Arizona Works "Flat Grant" Discriminates against Families in Need.

One of the primary differences is the nature of the cash assistance grant. EMPOWER varies the size of the grant based on the number of people in the family. In contrast, Arizona Works has a one-size-fits-all flat grant that does not vary based on family size. Under these different programs, a family of five in the part of Maricopa County served by the Arizona Works vendor may receive monthly cash assistance of \$350, while a family of five who lives outside the Arizona Works area would receive \$489 a month in cash assistance. This different treatment of families in need is irrational and unfair.

B. Arizona Works Does Not Provide Adequate Assistance to New Parents.

Under Arizona Works, "if the participant is pregnant she shall receive an excused

but not part
of waiver - OK
under AHCCCS?

Secretary Donna Shalala
Department of Health and Human Services
July 9, 1997
Page 3

12 wks vs 1 yr

absence from work during the last two weeks of pregnancy and up to twelve weeks after delivery, if requested." This time period may be extended "on a written order from a doctor stating that it is medically necessary to refrain from these activities." While the woman is on her "excused absence," her monthly grant is "\$390 per month or the amount offered under the parent's employment placement, whichever is less." In contrast, under the DES EMPOWER program, as modified by SB 1357, a parent in a single parent family or a non-parent relative "personally caring" for a child who is under the age of twelve months is temporarily deferred from work requirements.

The differences in the two approaches are striking. Under Arizona Works, only mothers have a right to care for their newborn children; under DES' program either parent who is responsible for caring for the child may be exempt from the work requirements. Under Arizona Works, the exemption from work extends only to children under 12 weeks of age, unless a doctor verifies that it is medically necessary for the mother to remain home with the child longer. Under DES' program, the exemption is available to any single parent caring for a child under 12 months — four times as long as the time frame under Arizona Works. Under Arizona Works, a woman may have her cash assistance reduced while she is home caring for her newborn child. Under DES' program, the parent is not penalized for taking time from work to be with a child under the age of one.

As is true for other aspects of SB 1357, these provisions leave Arizona with a dual system which provides less protection to low income Arizonans who live in areas covered by Arizona Works.

C. Arizona Works Does Not Provide Adequate Protection to Victims of Domestic Violence.

Much of the legislative debate focused on assisting victims of domestic violence who are working toward self sufficiency. Under SB 1357, DES is specifically required to identify victims of domestic violence, refer those people for appropriate services and waive for up to six months any program requirements. This six month limit may be extended under some circumstances.

Arizona Works provides no similar protection for victims of domestic violence. Under Arizona Works, participants may request to be excused from assigned activities "for reasons such as health problems, family emergencies and pregnancy." The job counselor employed by the contractor decides whether to grant these requests. According to SB 1357, "it is as the discretion of the job counselor whether the participant will be excused and, if so, the length of time a participant may be excused and still receive the full grant amount offered under the participant's employment placement." A victim of domestic violence has more protection under the EMPOWER program than a victim who lives in the area served by the Arizona Works contractor.

Secretary Donna Shalala
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July 9, 1997
Page 4

D. Arizona Works Does Not Provide Adequate Protection to Persons with Disabilities or Persons Caring for a Dependent who is Disabled.

Persons with disabilities also lack the protection under Arizona Works that disabled people have under the EMPOWER program operated by DES. Under SB 1357, a person who is disabled and a person who is responsible for the care of a dependent who is disabled and unable to care for himself may be temporarily deferred from work activities. They do not have the same protection under Arizona Works. Under Arizona Works, people with disabilities must, like victims of domestic violence, request an excuse from the job counselor, and the job counselor has full discretion regarding those decisions.

E. The Work Requirements on Arizona Works May Not Comply With Minimum Wage Laws.

Arizona Works also has a job program that is structured differently than the DES EMPOWER program. Arizona Works has a four-tiered work program. "Level One" is full time, unsubsidized work and "Level Four" is work with community and faith-based service providers. "Level Two" is subsidized aid employment; "Level Three" is an unsubsidized "trial job." Under Level Four a person is eligible for cash assistance of \$350 per month and must work up to 25 hours per week. The cash assistance works out to roughly \$3.50 per hour, based on four weeks per month, and 25 hours of work per week. We understand the Department of Labor has concluded that minimum wage laws apply to these work programs. This work program may not satisfy federal minimum wage laws.

V. Arizona Works Does Not Provide Adequate Protection for State Employees.

Under Arizona Works, a private contractor will replace DES within the pilot areas and, if the Legislature approves, the private contractor would expand its operations statewide after the first two years of operation. In the East Valley, where Arizona Works will operate first, we understand approximately 250 jobs could be eliminated. SB 1357 does not address the impact that privatization could have on public employees. The only provision in the bill regarding existing DES employees provides that DES employees "who are displaced by implementation of the Arizona Works program shall receive priority consideration for employment by the [Arizona Works] program based on prior training and experience." The language of the bill assumes people will lose their jobs as a result of the Arizona Works privatization experiment and assures only that they will receive "priority consideration" for a job with the new contractor.

The bill does not address retirement issues for the employees affected. Even if the Arizona Works vendor chooses to hire some of the DES employees displaced by this experiment, they would no longer be part of the state retirement system and would no longer receive the same health care benefits available to state employees. In addition, the Arizona Works vendor is required to "offer at least a ten per cent savings in administrative costs." Nobody is quite certain how that cost savings

Secretary Donna Shalala
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Page 5

will be achieved -- whether it will come from fewer services to those in need or possibly lower salaries and reduced benefits to employees. Also, nothing in the bill addresses what happens if the Arizona Works privatization experiment is unsuccessful and the State legislature chooses not to expand it statewide after two years -- at that point, does DES need to replace all of the employees it laid off when Arizona Works began?

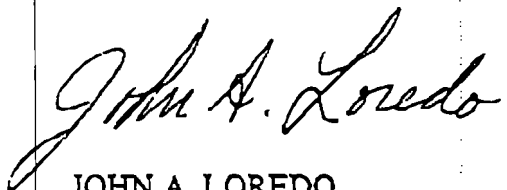
Our effort with welfare reform is to get people into jobs, and, unfortunately, the Arizona Works program does just the opposite for more than 200 DES employees. No privatization experiment should proceed without more comprehensive plans to protect state employees who are affected.

VI Conclusion

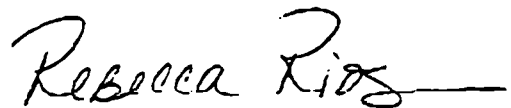
Arizona has a great deal of private sector involvement in its welfare reform project. SB 1357 mandates the privatization of case management and employment services for the Jobs Program by July 1, 1998. The bill also authorizes DES to contract with a private provider for a computer-based technology system to support the welfare reform programs. However, the Arizona Works program takes privatization in this state too far. It does not assure fair treatment to Arizonans in need or for DES's employees.

We wanted to let you know you will be receiving a waiver request for this controversial program. Please take our concerns into consideration before approving Arizona's waiver request. If we can be of assistance on this or other issues relating to welfare reform efforts in Arizona, please feel free to contact us. Thank you for your consideration.

Sincerely,



JOHN A. LOREDO
State Representative
District 22



REBECCA RIOS
State Representative
District 7

cc: Dan Glickman, USDA
Olivia Golden, ACF Principal Deputy Assistant Secretary
Barbara Cooper, Acting Director, Office of Research and Demonstration, HCFA
Howard Rolston, Director, Office of Planning, Research and Evaluation, ACF
Larry Wolf, Project Officer, ACF
Joan Peterson, Project Officer, HCFA
Yvette Jackson, Deputy Administrator, FCS
Bonnie O'Neil, Associate Deputy Administrator, FCS

Secretary Donna Shalala
Department of Health and Human Services
July 9, 1997
Page 6

cc: Art Foley, Division Director, Program Development Division, FCS
Sharon Fujii, ACF Region IX Administrator
Allen Ng, Acting FCS Western Regional Administrator
Fred DuVal, Office of Intergovernmental Affairs, The White House
Emily Bromberg, Office of Intergovernmental Affairs, The White House
Mona Pasquil, Office of Political Affairs, The White House

S Grundman @dol.gov

Yvette -

Here is my rough shot at a side-by-side. Can you fill in the rest of the blanks, and let me know if I made any mistakes on the ones I filled in? There were a few areas where I needed more info. Also, if there are additional relevant features that should be on the chart, I guess you should add them. We don't want it to get too complex, though. Can you guys do this in the next day or two? Let me know. Thanks.

Diana

2 page fax to Yvette Jackson
From Diana Fortuna

Features	Arizona	Wisconsin
Programs Privatized	TANF Food Stamps Medicaid Child Support State General Assistance Job Placement of TANF/FS recipients	
Functions Privatized	All eligibility determinations?	State makes distinction that contractor only feeds info into state computer system, which is run by state employees (so why do they need a waiver?)
Portion of State Affected	Eastern Maricopa County -- 13% of caseload 12 months later, can expand to rural site	
State Legislative Action	Plan passed by state legislature	
Evaluation	Yes (how good is it?)	
Progression to state-wide?	After 18 months, board appointed by Governor would determine whether to expand state-wide. However, federal demo is for 2 years.	
Opposition	Some state legislators (need more info on this) object to "more stringent TANF demonstration requirements (?) and lack of protection for disabled, domestic violence victims, and state employees	
Deadline for action	October 4	None



F. Arizona Privatization

United States
Department of
Agriculture

Food and
Consumer
Service

3101 Park
Center Drive

Alexandria, VA
22302-1500

Ms. Linda J. Blessing
Department of Economic Security
1717 W. Jefferson
P. O. Box 6123
Phoenix, Arizona 85005

OCT 03 1997

Dear Ms. Blessing:

This is in response to your July 21, 1997, request to waive the merit personnel requirements under section 11(e)(6) of the Food Stamp Act of 1977, as amended. The waiver is being requested to allow the State to operate the Arizona Works demonstration project. Under the demonstration, the State would contract with a vendor which would hire private employees to perform food stamp certification functions.

Before we can proceed any further, please clarify or respond to the following issues:

- **Evidence Supporting Privatization Proposal** - Please identify for us evidence supporting Arizona's hypothesis that privatizing these functions would lead to lower costs. Also, what evidence indicates that privatizing these functions would not lead to a diminution of client services or would not cause higher quality control error rates?
- **Statewide Implementation** - The proposal indicates that the waiver would be necessary for a 2-year demonstration. However, the project is designed as a "pilot" in which the State would have the authority to implement statewide after 2 years. Because the effects of any demonstration testing the privatization of the food stamp certification process must be carefully tested and evaluated, we would require that the State agree to delay any further implementation of the privatization of the food stamp certification process until the evaluation is complete. Consideration of further expansion would depend on the results of the evaluation. Also, the State would have to receive prior Food and Consumer Service (FCS) approval before implementing any further expansion. Would the State find these conditions acceptable?
- **Evaluation** - The proposal indicates that the State plans to conduct process, comparative and cost analysis studies to test the effects of privatization. Even though the State has not fully determined the scope of the evaluation, the State indicates that the Agency would obtain the services of an independent contractor to evaluate the demonstration and to address questions that may be of interest to the Federal agencies.

Ms. Linda Blessing

2

Given the nationwide implications for testing privatization of the food stamp certification process, the U.S. Department of Agriculture (USDA) believes that a rigorous evaluation would have to be designed to fully determine the effect privatization has on food stamp administration and operations, program integrity, client service and program cost. For example, the design would have to contain cost analyses in which administrative cost saving is accurately attributable to practices implemented by the private vendor and its employees. Due to the significance of the demonstration evaluation, there are a number of points in the proposed State evaluation plan that need further clarification.

First, with the implementation of welfare reform, a new automated computer system, and the Arizona Works Program, there are a number of programmatic changes occurring concurrently with privatization. The USDA is concerned that the impacts of privatization on the outcomes of interest would be difficult to isolate from the simultaneous impacts of other programmatic factors. How does the State propose to sufficiently isolate the impacts of privatization from other programmatic impacts to allow for proper evaluation?

Second, the State indicates that a comparison county would be used to isolate the differences between the Arizona Works demonstration and the EMPOWER Program from county-specific and other factors. The USDA is concerned that the unique economic and demographic characteristics of the proposed demonstration site, Maricopa County, does not allow for a valid cross-county comparison. Could you please indicate what site would be used for a comparison county and please specify what characteristics make that site a valid control for evaluation purposes? How would the impact of privatization be isolated from the county specific impacts and other impacts for evaluation? Why was a comparison county design chosen over a pre-post evaluation design, a combination of a comparison county and pre-post designs, or any other experimental design?

Third, the State proposes to implement, run and evaluate the Arizona Works Program and privatization impacts in 2 years. The USDA is concerned that the requested time period would not be sufficient for proper evaluation of the privatization demonstration. Our experience indicates that more reliable results may be achieved from a longer period of implementation (such as 5 years) which allows for a baseline survey, full program operation, and adequate evaluation time. Please provide more detail regarding the State's timeline for completing the process and comparative outcome studies. How would the 2 year demonstration provide robust information on which to adequately evaluate privatization of the food stamp certification process?

Fourth, the State indicates that it would evaluate outcomes including client satisfaction and program performance and suggests that historical records would be used, to the extent that they are available, as a comparison. Could you please indicate what variables would be used to measure outcomes of client satisfaction, cost and program integrity in the privatization demonstration? What measures would be used

Ms. Linda Blessing

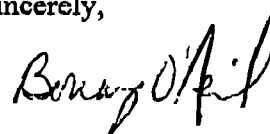
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as a comparison? With all the concurrent program changes, how can historical records be adjusted to allow a comparison of only the privatization initiative? Would the State consider adding a baseline survey of client satisfaction prior to implementation that would be repeated periodically throughout the demonstration?

- **Cost Neutrality** - Although the waiver request states that the contract with the private provider would cost 10 percent less than without the contract, Arizona does not describe how the State would estimate costs without the waiver. Numerous waivers in the past have used a control group to ensure budget neutrality. How would the State determine or project administrative expenditures in the absence of the waiver to calculate a 10 percent savings level?
- **Reconversion Plan** - Please clarify State plans to re-establish a public workforce if the decision is made to terminate the demonstration.
- **Prior Approval of Request for Proposal (RFP)** - Because many issues are not resolved or clarified until the RFP is issued, would the State agree to release the RFP only with prior approval from FCS?
- **Fair Hearings** - The proposal indicates that the State would retain control over fair hearings but it is unclear if the State would conduct the fair hearings. Who would be responsible for conducting fair hearings? Is the State amenable to retaining this function under its demonstration project?

We are available to meet with you and your staff to discuss these issues. I appreciate your cooperation.

Sincerely,



Bonny O'Neil
Acting Deputy Administrator
Food Stamp Program

**FOOD STAMP
PROGRAM
USDA/FCS/RM. 710
ALEXANDRIA, VA
22302
703-305-2454-FAX**

Fax

To: Diana Fortuna **From:** Abigail Nichols
Fax: 202-456-7028 **Pages:** 2
Phone: **Date:** 10-2-97 (4:15 pm)
Re: Arizona **CC:**

☒ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

• **Comments:**

Yvette prefers the revised version that includes additional bullet. Please call us if you have any comments.

Thanks!

DRAFT

Revised
Version 1

Ms. Linda J. Blessing, Director
Department of Economic Security
1717 W. Jefferson
P. O. Box 6123
Phoenix, Arizona 85005

Dear Ms. Blessing:

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Before we can proceed any further, please clarify or respond to the following issues:

- **Evidence Supporting Privatization Proposal** - Please identify for us evidence supporting Arizona's hypothesis that privatizing these functions would lead to lower costs. Also, what evidence indicates that privatizing these functions would not lead to a diminution of client services or would not cause higher Quality Control error rates?
- **Statewide Implementation** - The proposal indicates that the waiver would be necessary for a two-year demonstration. However, the project is designed as a "pilot" in which the State would have the authority to implement statewide after two years. Because the effects of any demonstration testing the privatization of the food stamp certification process must be carefully tested and evaluated, we would require that the State agree to delay any further implementation of the privatization of the food stamp certification process until the evaluation is complete. Consideration of further expansion would depend on the results of the evaluation. Also, the State would have to receive prior Food and Consumer Service (FCS) approval before implementing any further expansion. Would the State find these conditions acceptable?
- **Evaluation** - The proposal indicates that the State plans to conduct process, comparative and cost analysis studies to test the effects of privatization. Even though the State has not fully determined the scope of the evaluation, the State indicates that the agency would obtain the services of an independent contractor to evaluate the demonstration and to address questions that may be of interest to the Federal agencies.

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**FOOD STAMP
PROGRAM
USDA/FCS/RM. 710
ALEXANDRIA, VA
22302
703-305-2454-FAX**

Fax

To: Diana Fortuna **From:** Angel Nichols for
Fax: 202-456-7028 **Pages:** 4 Bonny O'Neil
Phone: **Date:** 10-2-97
Re: AZ Privatization **CC:**
Latest Draft

☒ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

• **Comments:**

Bonny O'Neil is in Chicago today (10/2/97)
and will return tomorrow.

DRAFT

Ms. Linda J. Blessing, Director
Department of Economic Security
1717 W. Jefferson
P. O. Box 6123
Phoenix, Arizona 85005

Dear Ms. Blessing:

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Before we can proceed any further, please identify for us evidence supporting Arizona's hypothesis that privatizing these functions would lead to lower costs. Also, what evidence indicates that privatizing these functions would not lead to a diminution of client services or would not cause higher Quality Control error rates? Furthermore, please clarify or respond to the following issues:

- **Statewide Implementation** - The proposal indicates that the waiver would be necessary for a two-year demonstration. However, the project is designed as a "pilot" in which the State would have the authority to implement statewide after two years. Because the effects of any demonstration testing the privatization of the food stamp certification process must be carefully tested and evaluated, we would require that the State agree to delay any further implementation of the privatization of the food stamp certification process until the evaluation is complete. Consideration of further expansion would depend on the results of the evaluation. Also, the State would have to receive prior Food and Consumer Service (FCS) approval before implementing any further expansion. Would the State find these conditions acceptable?
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DRAFT

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First, with the implementation of welfare reform, a new automated computer system, and the Arizona Works program, there are a number of programmatic changes occurring concurrently with privatization. The USDA is concerned that the impacts of privatization on the outcomes of interest would be difficult to isolate from the simultaneous impacts of other programmatic factors. How does the State propose to sufficiently isolate the impacts of privatization from other programmatic impacts to allow for proper evaluation?

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Fourth, the State indicates that it would evaluate outcomes including client satisfaction and program performance and suggests that historical records would be used, to the extent that they are available, as a comparison. Could you please indicate what variables would be used to measure outcomes of client satisfaction, cost and program integrity in the privatization demonstration? What measures would be used as a comparison? With all the concurrent program changes, how can historical records be adjusted to allow a comparison of only the privatization initiative? Would the State consider adding a baseline survey of client satisfaction prior to implementation that would be repeated periodically throughout the demonstration?

- **Cost Neutrality** - Although the waiver request states that the contract with the private provider would cost 10 percent less than without the contract, Arizona does not

DRAFT

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- **Reconversion Plan** - Please clarify State plans to re-establish a public workforce if the decision is made to terminate the demonstration.
- **Prior Approval of Request for Proposal (RFP)** - Because many issues are not resolved or clarified until the RFP is issued, would the State agree to release the RFP only with prior approval from FCS?
- **Fair Hearings** - The proposal indicates that the State would retain control over fair hearings but it is unclear if the State would conduct the fair hearings. Who would be responsible for conducting fair hearings? Is the State amenable to retaining this function under its demonstration project?

We are available to meet with you and your staff to discuss these issues. I appreciate your cooperation.

Sincerely,

Bonny O'Neil
Acting Deputy Administrator
Food Stamp Program

cc: David Cade, HHS, HCFA
Dennis Stewart, WRO
Abigail Nichols, PAD
Art Foley, PDD
Steven Carlson, OAE
Joe Leo, MGT

FCS/FSP/PAD/SAB/CFOLEY/mbj/10/01/97
DC: A&J; AZDRAFT3

Diana -

Looks good to me, and

TO: Elena Kagan
Cynthia Rice
Emil Parker
Emily Bromberg

FROM: Diana Fortuna

SUBJECT: Arizona Privatization

DATE: September 25, 1997

Bruce agrees we should request more information rather than making a decision. (Kind of

amazing that the clock stops completely! The only other thing

I can think of to ask is whether the state would be

Here is USDA's response to our 2 questions to them on Arizona. We had asked them:

- Does the law set a clock ticking beyond the 60 day timeline by which they must approve, deny, or ask for more info? They say the answer is no, there are no timing requirements once we get past October 3.
- We asked them what additional information they would ask Arizona for, and the attached draft letter lays this out. It looks reasonable at first blush. Basically, it says:
 - In the evaluation, how would A2 propose to isolate the effects of privatization from the other major changes they are planning in this area?
 - Noting unique characteristics of Maricopa County, they ask what the comparison county would be and why it would be a good comparison.
 - They ask if a 2-year demo is long enough, whether 5 years would be better, and how the state's process would produce meaningful results in that "short" a timeframe.
 - A reasonable-sounding question about the state's plan to use historical records to measure client satisfaction
 - How would the state reestablish a public workforce if the experiment was a flop?
 - Would the state agree not to privatize the fair hearings process?
 - Would the state agree to release the RFP only with prior approval from USDA?
 - USDA states that it would approve only a 2-year demo; if the state wants to go statewide after that, it would have to come back to USDA.

Now the ball is in our court to see what people here think, and provide USDA with our comments. Their deadline for action is, once again, October 3 -- in about a week.

amenable to a demo project that allowed privatization only up to (but not including) the certification decision -- i.e., our original compromise. Otherwise, this looks great -- let's get it out.

cc: Bruce / Cynthia

proposed State evaluation plan that need further clarification.

First, with the implementation of welfare reform, a new automated computer system, and the Arizona Works program, there are a number of programmatic changes occurring concurrently with privatization. The Department is concerned that the impacts of privatization on the outcomes of interest will be difficult to isolate from the simultaneous impacts of other programmatic factors. How does the State propose to

Draft as of 09/23/97

J:AZDRAFT2

sufficiently isolate the impacts of privatization from other programmatic impacts to allow for proper evaluation?

Second, the State indicates that a comparison county will be used to isolate the differences between the Arizona Works demonstration and the EMPOWER program from county-specific and other factors. The Department is concerned that the unique economic and demographic characteristics of the proposed demonstration site, Maricopa County, does not allow for a valid cross-county comparison. Could you please indicate what site will be used for a comparison county and please specify what characteristics make that site a valid control for evaluation purposes? How will the impact of privatization be isolated from the county specific impacts and other impacts for evaluation? Why was a comparison county design chosen over a pre-post evaluation design, a combination of a comparison county and pre-post designs, or any other experimental design?

Third, the State proposes to implement, run and evaluate the Arizona Works program and privatization impacts in two years. The Department is concerned that the requested time period will not be sufficient for proper evaluation of the privatization demonstration. Our experience indicates that more reliable results may be achieved from a longer period of implementation (such as five years) which allows for a baseline survey, full program operation, and adequate evaluation time. Please provide more detail regarding the State's timeline for completing the process and comparative outcome studies. How will the two year demonstration provide robust information on which to adequately evaluate privatization of the food stamp certification process?

Fourth, the State indicates that it will evaluate outcomes including client satisfaction and program performance and suggests that historical records will be used, to the extent that they are available, as a comparison. Could you please indicate what variables will be used to measure outcomes of client satisfaction, cost, and program integrity in the privatization demonstration? What measures will be used as a comparison? With all the concurrent program changes, how can historical records be adjusted to allow a comparison of only the privatization initiative? Would the State consider adding a baseline survey of client satisfaction prior to implementation that would be repeated periodically throughout the demonstration?

- **Reconversion Plan** - Please clarify State plans to re-establish a public workforce if the decision is made to terminate the demonstration.
- **Prior Approval of Request for Proposal (RFP)** - Because many issues are not resolved or clarified until the RFP is issued, will the State agree to release the RFP only with prior approval from FCS?
- **Fair Hearings** - The proposal indicates that the State would retain control over fair hearings but it is unclear if the State would conduct the fair hearings. Who would be

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responsible for conducting fair hearings? Is the State amenable to retaining this function under its demonstration project?

We are available to meet with you and your staff to discuss these issues. I appreciate your cooperation.

Sincerely,

Yvette S. Jackson
Administrator

FIAZ Privatization

CC Cynthia

**FOOD STAMP
PROGRAM
USDA/FCS/RM. 710
ALEXANDRIA, VA
22302
703-305-2454-FAX**

Fax

To: Diana Fortuna **From:** Yvette Jackson
Fax: **Pages:** 4
Phone: **Date:** 8/27/97
Re: **CC:**

Per our conversion, 1 pager on
ARIZONA, 2 pager on WISCONSIN

☐ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

• Comments:

AZ WI

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% Part of State

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Program to SW

Arizona Works
Food Stamp Program Demonstration Waiver Request to Privatize Certification

- Arizona Works, an initiative mandated by State legislation, is a two-year demonstration within a portion of the State, wherein a private contractor would be responsible for the eligibility determination process for the Temporary Assistance for Needy Families (TANF), Food Stamp, Medicaid, Child Support and State General Assistance Programs. The contractor would also be responsible for the job placement of TANF and/or food stamp recipients.
- On July 30, 1997, Governor Fife Symington of Arizona forwarded the Arizona Works waiver request to Secretary Glickman. The request would waive the merit personnel requirements under 11(e)(6) of the Food Stamp Act and 7 CFR 272.4 to allow a private contractor to make food stamp eligibility determinations. The Governor's letter included a July 21, 1997 letter from the Arizona State agency to Secretary Glickman which also requested the waiver. The Department of Health and Human Services, Health Care Financing Administration, has also received a waiver which would allow a private contractor to make the eligibility determinations for the Medicaid program

Yvette Jackson, Deputy Administrator for the Food Stamp Program, wrote the State agency on August 19, 1997, that the waiver request is under review and that the State would be advised of the Department's response in the near future.

- Under Section 17 of the Food Stamp Act, the Secretary must approve, deny or request further clarification of the waiver request within 60 days of receiving the request. The Department received the waiver request on August 5, 1997. Therefore, we must respond to the State no later than October 4, 1997.
- The State expects to implement the Arizona Works project in Eastern Maricopa County (urban site with 13 percent of the caseload) no later than January 1, 1999. Eastern Maricopa County includes the cities of Tempe, Chandler, Mesa, Gilbert, Guadalupe, Scottsdale and parts of Phoenix and Glendale. Twelve months after implementing the urban site, the State would implement the project in a selected rural site.

Under State law, after the demonstration has been in operation for 18 months, the Arizona Works Agency Procurement Board (nine members appointed by the Governor), would evaluate the progress of the demonstration and make a recommendation to implement the demonstration statewide.

- The Department received a copy of a letter to Secretary Shalala from Arizona State legislators ~~objecting to Arizona Works~~ because of the more stringent TANF demonstration requirements (e.g., flat grant amounts which would be lower than grant amounts outside the pilot area), the lack of protection for the disabled and victims of domestic violence and to the lack of protection for State employees. JMS?

*DRAFT - For Discussion
Proposer Only*

Mr. Richard Wegner
Acting Secretary
Department of Workforce Development
201 East Washington Avenue
P.O. Box 7946
Madison, WI 53707-7946

Dear Mr. Wegner:

We have completed review of the portion of Wisconsin's Wisconsin Works (W-2) welfare reform demonstration project related to privatization of the administration of the Food Stamp Program. We are pleased to inform you that we are granting a limited approval of the request for privatization to support a demonstration of its feasibility and consequences.

Section 11(e)(6) of the Food Stamp Act requires that most activities included in the certification process be performed by State merit personnel. A non-public employee may not take actions involving discretion or value judgments, including all elements of the eligibility determination process that relate to evaluation of information provided by the applicant or bearing on the eligibility decision.

As part of its W-2 program, the State agency plans to contract on a competitive basis with public or private agencies to carry out the day to day operations of W-2, including administration of the Food Stamp Program. Contracts will be awarded on a county basis. In accordance with State agency directives, the W-2 contractor will gather client eligibility information, conduct eligibility interviews, and input data into the Client Assistance for Reemployment and Economic Support (CARES) System, the State's automated, integrated computerized eligibility determination system. CARES will make the eligibility determination and issue food stamp benefits based on the information provided by contract personnel. State agency merit system personnel will continue to develop and implement all Food Stamp Program policies and procedures including management of the CARES system.

We are approving a waiver of section 11(e)(6) of the Food Stamp Act to allow the State to test privatization of administration of the Food Stamp Program on a limited scope. We are willing to determine the potential of privatization to improve administration of the Food Stamp Program. We are at the same time concerned, however, with the possible adverse effects of privatization on customer service and program integrity. We believe that privatization must be carefully tested before it is implemented on a statewide basis.

Under this waiver, the State may privatize administration of the program for up to 25 percent of its caseload; we will work with you in selecting the most appropriate populations for the demonstration. The State may privatize the entire certification process. However, State merit personnel must maintain responsibility for developing and implementing all Food Stamp Program policies and procedures including management of the CARES system. In addition, only State merit personnel may hold fair hearings and perform quality control reviews. The State agency must impose the following requirements on the W-2 contractor:

- The W-2 contractor must employ sufficient staff to timely and accurately carry out the certification and issuance requirements of the Food Stamp Act.
- W-2 contractor must ensure that appropriate training related to the Food Stamp Program and Food Stamp Employment and Training is provided to its staff.
- The W-2 contractor must use CARES.
- The W-2 contractor is subject to the information disclosure requirements in Section 11(e)(8) of the Food Stamp Act.

This waiver is approved under the demonstration authority in Section 17(b) of the Food Stamp Act and is subject to all the requirements of that section. In accordance with Section 17(b), this waiver is time-limited and will expire five years from date of implementation. The State must provide for a detailed evaluation of the effects of this waiver on the Food Stamp Program, including its impact on program costs, customer service and program integrity. We will work with you on the scope, design, and timing of this evaluation to ensure it satisfies our mutual interests.

Revised Terms and Conditions for the Wisconsin Works demonstration project will be forwarded to you shortly.

Please contact the Program Development Branch of my office at (703) 305-2519 if you have any questions pertaining to this approval. We look forward to working with you and your agency on this important initiative.

Sincerely,

Yvette S. Jackson
Deputy Administrator
Food Stamp Program

FCS:FSP:PDD:PDB:CRISPINO:06/20/97
I: PDB\Wisconsin-privatization

Arizona Privatization



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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

Jane Dee Hull
GovernorDr. Linda J. Blessing
Director

NOV 21 1997

cc Cynthia
Emily Bronberg

Ms. Bonny O'Neil
Acting Deputy Administrator
Food Stamp Program
United States Department of Agriculture
Food and Consumer Service
3101 Park Center Drive
Alexandria, Virginia 22302-1500

Dear Ms. O'Neil:

Thank you for your October 3, 1997 letter regarding the Arizona Works waiver request submitted by the Arizona Department of Economic Security (ADES) to allow private employees to perform food stamp certification functions in the Arizona Works pilot project. You asked for clarification of several issues before proceeding further with the waiver request. Arizona is providing the following information to clarify those issues.

Evidence Supporting Privatization Proposal

Your letter asks the state to "identifyevidence supporting Arizona's hypothesis" that privatization will lower costs, not diminish client services, and not increase error rates.

By definition, a hypothesis is a theory that is tested through experiment and investigation. The federal government has never authorized the privatization of food stamp eligibility determination functions. Thus, Arizona cannot provide "evidence" to prove something that has not yet been done anywhere in the nation. By applying for this waiver, Arizona is asking for the opportunity to test its hypothesis and to gather evidence on the effects of privatization.

There is evidence to indicate that privatization, when properly managed, can lower administrative costs. The United States General Accounting Office (GAO) recently testified before the Subcommittee on Human Resources and Intergovernmental Relations, Committee on Government Reform and Oversight, U.S. House of Representatives, that privatization of some governmental functions has resulted in lower costs and improved services. The GAO outlined factors critical to success: (1) an adequate number of qualified bidders, (2) clear contract specifications, and (3) careful monitoring of the contractor's performance.

Arizona is prepared in all three areas. First, Arizona expects adequate qualified bidders. Major companies with proven records of success have expressed great interest in Arizona's pilot program. Recognizing that Arizona may well be the nation's first opportunity to test and evaluate privatization of food stamp eligibility determination functions, there is considerable interest by prospective bidders in the pilot.

Arizona is taking great care to write a comprehensive and thorough contract. The Arizona Works Agency Procurement Board has retained Fox Systems, Inc. to draft the Arizona Works Request for Proposals. Fox Systems, Inc. and its partners have experience in the area of procurement and contract management. By law, two of the members of the Arizona Works Procurement Board also have procurement experience.

As described below in the response to the evaluation questions, Arizona will carefully monitor and evaluate the contractor's effectiveness and success. As the single state agency for the Food Stamp program, the ADES will closely monitor the Arizona Works Agency.

Arizona believes the Arizona Works pilot gives the nation the opportunity to test and evaluate privatization of eligibility determination functions in a sub-state area and demonstrate that privatization can lower costs without compromising quality. Arizona is uniquely situated to offer the federal government the opportunity to test this hypothesis. As noted in the waiver application, Arizona has a record of proven success in privatization of government services. In October 1982, the U.S. Department of Health and Human Services approved a waiver which allowed Arizona's Medicaid program, the Arizona Health Care Cost Containment System (AHCCCS), to operate as the nation's first statewide, prepaid managed care Medicaid program. Today, AHCCCS is nationally recognized as an innovative managed care model with a cost-effective approach to delivering quality medical services.

The Arizona Department of Economic Security (ADES) also has considerable experience privatizing government functions. As an example, the ADES recently privatized a number of activities involved in child support collections. The ADES Child Support Enforcement program was selected for a study of the privatization of Child Support Enforcement by the United States General Accounting Office. This United States General Accounting Office, *Report to the Chairman, Committee on the Budget, House of Representatives, Child Support Enforcement - Early Results on Comparability of Privatized and Public Offices* (December, 1996) showed that Arizona's privatization efforts were more cost-effective (18 percent) than their public counterparts. As noted in this study "[for] overall cost-effectiveness, the privatized office had a lower cost per \$1 collected during the period reviewed. Mohave County spent 34.8 cents per \$1 collected, while the contractor received 29.5 cents per \$1 collected for operating the Yavapai County program."

The ADES has a number of other initiatives that privatize functions previously performed by merit employees, such as privatizing its mailroom operations and the issuance and storage of food stamp coupons. The ADES mailroom distributes mail to over 270 offices statewide. The evidence to date shows that the private vendor has improved mail delivery service at reduced costs. The ADES also recently privatized the food stamp issuance and storage activities. As a result, the private contractor has modernized food stamp issuance security features and procedures and reduced costs. Privatization is not a new concept to either the federal government, the State, or the ADES. For many years, the ADES has contracted with non-profit and community-based organizations to perform a variety of human service functions that provide assistance and support to our clients as they move to self-sufficiency.

During the past several years, the private sector has become increasingly involved in activities that traditionally were performed by state or local governments. Several examples of successful privatization endeavors were included in the Arizona Works waiver request. Research findings also indicate that privatization can lead to cost savings. One study, *Cost Savings From Privatization: A Compilation of Study Findings*, by John Hilke, March 1993, published by the Reason Foundation, documented more than 100 studies over the past 20 years where privatization competition has resulted in cost savings. The report includes research findings that demonstrate lower costs were achieved from privatization in a wide variety of services.

The federal government should allow Arizona to implement this project because there is a real need to learn about the effect of privatization of the food stamp certification functions in a carefully tested and rigorously evaluated demonstration that is initially implemented in a small geographic area of the state. This pilot is especially important because of its holistic approach to serving low-income families in their efforts to achieve and maintain self-sufficiency. Evaluations of the Arizona Works program will provide useful research findings and important information about the role the private sector can play in the delivery of services to low income families, and whether privatization will result in lower costs, as hypothesized by the state.

Additionally, as the federal government considers proposals to limit or restrict administrative expenditures in the Food Stamp Program, states deserve the opportunity to explore innovative methods to achieve program efficiencies without compromising quality.

Arizona will ensure that privatizing food stamp certification functions will not compromise the quality of client services or result in higher error rates. The ADES will rigorously oversee and monitor the private vendor operating as the Arizona Works Agency. The monitoring and oversight will include quality control and management evaluation reviews to ensure that the Arizona Works Agency provides services accurately, timely, and in conformity with Food Stamp Program regulations. The state will require the contractor to submit corrective action plans to address any deficiencies within 60 days of findings. The monitoring and oversight activities will ensure that only eligible families receive food stamps, and that eligible families receive the correct allotment of food stamps.

In addition, the state will require the private vendor to maintain certain high performance standards. These standards will ensure that all residents of the state are provided access to services, and that the eligibility determinations made by the Arizona Works Agency will not adversely impact on the state's quality control accuracy rate. The performance standards will be included in the contract with the private vendor.

Statewide Implementation

As stated in the waiver request, Arizona will initially implement the Arizona Works Program in a small, urban area of eastern Maricopa County that comprises approximately 13 percent of the state's Food Stamp caseload. Nine months after implementation of the pilot in eastern Maricopa County, the Arizona Works Agency Procurement Board will select a rural area of the state as a second pilot site. The Arizona Works Agency will implement the program in the rural site 12 months after implementation of the first site in eastern Maricopa County.

Statewide expansion of Arizona Works is not automatic and will depend on the results of rigorous evaluations. Arizona law spells out the time frames and steps to determine if statewide expansion of the Arizona Works program is appropriate. The Arizona Works Agency Procurement Board, the Arizona Auditor General's Office and the Arizona Joint Legislative Budget Committee will conduct independent evaluations of the Arizona Works Program. Based on these evaluations, the Arizona Works Agency Procurement Board, the Arizona Auditor General's Office and the Arizona Joint Legislative Budget Committee will make recommendations to the Governor and Arizona State Legislature regarding statewide roll-out of the program. The Arizona State Legislature will consider these recommendations prior to a decision for statewide expansion.

The Arizona Works Agency Procurement Board will evaluate the program after 18 months. The Joint Legislative Budget Committee will evaluate the program within six months after the first year of implementation. The State Auditor General will conduct a performance review of the program during the second year of the pilot. In addition, if the waiver is approved, the ADES will retain an independent evaluator to conduct comparative outcome and cost analyses during the first two years of the pilot. These evaluations will provide a substantial amount of information about the effects of privatization by the end of the first 24 months of Arizona Works program pilot operations and before any decision is made to expand the scope of the project. As noted above, the Governor and the Arizona State Legislature must approve any further expansion of the Arizona Works program.

Arizona is requesting a waiver that allows the state to test the Arizona Works program in a limited geographic area of the state for the first two years, and which gives Arizona the authority to subsequently roll-out the program to other areas of the state without first obtaining additional United States Department of Agriculture, Food and Consumer Services, approval in the future. Statewide expansion of the Arizona Works program will occur according to the time frames specified in state law, and is contingent upon favorable results of careful evaluations and assessments during the first two years of operation.

Evaluation

The ADES recognizes the importance of conducting a strong evaluation of the feasibility and merits of privatizing food stamp certification functions. We believe the evaluation design proposed in the waiver application is as rigorous a design as is possible within the statutory parameters of the demonstration. The ADES is willing to consider and would be supportive of suggestions to strengthen that design, either as a result of this correspondence, or later, as a result of the efforts of all concerned parties in developing the specifics of a final Arizona Works evaluation plan, provided those modifications are within the bounds of current pilot project specifications.

We understand your desire for further details about certain aspects of the proposed evaluation and will provide you with additional information on and discussion of some of those issues below. However, we believe, based on our experience with the EMPOWER waiver evaluation that it is premature, unwise and to some extent impossible to define completely a number of those details (such as more elaborate specification of certain outcome variables and data sources, and the selection of comparison sites) until all key parties (importantly, the Arizona Works pilot contractor and the ADES waiver evaluation contractor) are identified and available to participate in those discussions.

We would like to clarify the following points between our application and your letter:

You cite Maricopa County as the demonstration area for Arizona Works. The demonstration area identified in the application (see page 33) is only a part of Maricopa County, which is composed of three of the ADES Division of Benefits and Medical Eligibility sub-districts: East (the pilot area), Central and West.

The evaluation section of the application (specifically, page 32), identifies the primary units of analysis for the comparative outcome study as local offices (sites), not the entire county. It is not our intention, nor is it appropriate, to attempt countywide-to-countywide comparisons. The most appropriate and most feasible comparisons between EMPOWER Redesign and Arizona Works operation of food stamp eligibility certification processes are at the local office level.

The use of the term "start-up" in the evaluation section of the waiver application as a measurement point is intended to mean a baseline measurement, i. e., prior to the actual implementation or effective date that administrative changes occur in a local office.

The following information is provided in response to your specific Evaluation questions:

1. "How does the state propose to sufficiently isolate the impacts of privatization from other programmatic impacts...?"

As noted on pages 31-32 of the waiver application, developing the details of an evaluation design that will identify and control for intervening factors between pilot and comparison sites will not be easy. Also, as indicated above, this is an aspect of the evaluation in which we would look forward to working with the Department of Agriculture and the independent evaluation contractor, once the waiver is approved and the independent contractor has been retained.

With regard to program policy changes, it is important to note that Arizona Works does not contain any changes in food stamp policies per se that distinguish it from the Food Stamp Program administered by the state under EMPOWER Redesign. However, Arizona Works involves policy differences from EMPOWER Redesign affecting TANF cash assistance eligibility. To the extent that the TANF program policy changes are any more or less complex to apply under Arizona Works than those policies in effect under EMPOWER Redesign, there may be inequities in performance between the two sets of sites. However, the TANF eligibility differences that could affect food stamp certification performance are unrelated to private versus public administration of the Food Stamp program. *how so?*

In order to address this possibility, it may be necessary to assess the "error-proneness" of the TANF caseloads in both the pilot and comparison group sites. The error-proneness assessment can be used to determine the initial comparability of the pilot and non-pilot research groups and/or to adjust for any anticipated differences between the two groups during the subsequent comparative analysis. Error-prone factors (e. g., cases with income) would be included along with other client characteristic and local economic factors considered during site selection. Information about the error-proneness of the new TANF eligibility policies under Arizona Works, if available from prior studies or from the experiences of other states, could be used to estimate whether the differences in TANF cash assistance eligibility policy changes are likely to have an effect on food stamp policy application (either positive or negative) in the Arizona Works sites.

During data analysis, statistical adjustments could then be made to account for differences in cash assistance error-proneness between pilot and comparison group sites. This approach would constitute another effort to equalize the pilot and non-pilot comparison sites on all factors except for program operation and administration.

With regard to computer systems changes, Arizona believes that both Arizona Works and EMPOWER Redesign staffs may be faced equally with having to implement and learn substantial new systems protocols. Responding to automated systems changes will be a normal part of operations in both pilot and non-pilot sites, and there is no reason at the outset to assume that such changes would contribute to inequities between the research groups. However, it may be appropriate to conduct a baseline assessment to identify the extent and relative complexity of systems operations requirements for staff within the overall context of each administration's operations. Further, a description and analysis of systems automation issues and their effects will be included as part of the Process Study under the waiver evaluation.

2A. How would a valid comparison county be selected?

As indicated above, the Arizona Works waiver evaluation will use local offices as comparison sites, not counties. The ADES will identify an appropriate number of EMPOWER Redesign sites (i.e., individual offices) as comparison group sites that are collectively as similar as possible to Arizona Works sites on the client and economic characteristics identified in the waiver application, and additionally on error-proneness as described above. The ADES has not yet conducted that analysis.

2B. Why wasn't a pre-post, combination of comparison and pre-post, or other experimental evaluation design used?

As stated on page 32 of the waiver application evaluation section, the ADES is proposing a combined pre-post and comparison site evaluation design. The *pre-post* design will examine changes in outcomes within each group from inception (and possibly historically if data are available) and over time. The *comparative* study will be a between-group analysis in which service delivery performance in the pilot area will be compared to performance by the selected EMPOWER Redesign sites. The differences over time will then be compared between groups using a "difference of differences" approach. The change between pre and post outcomes in the Arizona Works group of sites will be compared to the change in outcomes pre and post in the selected EMPOWER Redesign group of sites.

In addition, the availability of sufficient historical (i. e., pre-Arizona Works intervention) data on some of the key outcome measures (e. g., accuracy and timeliness) and a corresponding post-intervention data collection period of feasible length (i.e., approximately 18 to 24 months) may enable the ADES to include an *interrupted time series analysis* of those outcomes to further strengthen the pre-post comparison site design.

3. Is a 2-year demonstration long enough to provide an adequate evaluation of privatization of the food stamp certification process?

As indicated above, there are no Food Stamp Program policy changes in Arizona Works. Since the main focus of this test is on administrative and operational performance rather than client-related effects of Food Stamp Program policy changes, the primary area of concern is the length of time that a contractor can realistically be expected to reach a point of operational stability so that a true test of "normal" operations can be made without the interference of short-term or one-time start-up anomalies. The ADES believes that six to nine months is an adequate time for the contractor to achieve normal operating capabilities in the Arizona Works demonstration sites, which would allow nine to twelve months on which to collect data under relatively stable conditions prior to final analysis.

→ what short effect on recipients? e.g., client satisfaction

4. What outcome measures will be used for the comparison? How can historical records be adjusted to isolate the effects of privatization? Would the State consider adding a baseline survey of client satisfaction that would be repeated throughout the demonstration?

Pages 32-33 of the Arizona Works waiver request contain many of the outcome measures proposed to define service delivery operationally for evaluative purposes. Additional measures that might be considered (among others yet to be determined) include:

- Percent of overpayments
- Percent of underpayments
- Amount of overpayments
- Amount of underpayments
- Case closure rates
- Length of time from certification to case closure
- Percent of appeals filed for fair hearings
- Percent of administrative decisions overturned

We are uncertain why adjustments in historical data would be necessary aside from the adjustments described under the evaluation design and methodological approach discussed in response to questions #1 and 2 above.

As indicated on page 35 of the waiver application, the ADES proposes to conduct client satisfaction surveys using independent samples of clients from the caseloads of pilot and non-pilot research group sites at baseline and at nine and fifteen months after Arizona Works implementation. Details regarding sample size and survey methodology will be determined during the procurement process for an independent evaluation contractor and identified in the final Arizona Works demonstration evaluation plan.

Currently, the ADES Family Assistance Administration administers a client satisfaction survey statewide to a randomly selected group of clients which addresses a variety of program and benefits areas. The ADES will review this survey to determine whether the available historical data can be used in the analysis of the Arizona Works pilot.

Cost Neutrality

As stated in the waiver (page 36), the Arizona Works Program will be cost neutral to the federal government. Senate Bill 1357 requires establishment of baseline administrative costs from which the vendor must achieve a 10 percent savings. The ADES will continue to monitor administrative costs as it continues its role as the single state agency for the Food Stamp Program. In addition, the Arizona Works Agency Procurement Board, the Joint Legislative Budget Committee and the Arizona Auditor General's Office will monitor the Arizona Works Agency to ensure that it complies with the contract requirements.

Reconversion Plan

The private contractor operating as the Arizona Works Agency will perform the food stamp certification functions in a limited geographic area of the state for the first two years of the Arizona Works pilot. During this time, the ADES will continue to maintain a public workforce to carry out the food stamp certification functions throughout the balance of the state. The ADES will develop a contingency plan to re-deploy some of the existing trained public workforce into the pilot area if a decision is made to terminate the demonstration during the first two years. The contingency plan will be similar to the state's plans for a rapid response to disasters or other emergency situations. In addition, the ADES will work with the private vendor to develop a plan to reinstate a public workforce if the project is terminated. The transition plan will give Arizona Works Agency employees an opportunity to be considered part of the public workforce.

Prior Approval of Request for Proposals

As stated in the waiver request (page 7), the Arizona laws establishing the Arizona Works program require an independent Arizona Works Agency Procurement Board to issue the Request for Proposals (RFP) for a private vendor to operate the Arizona Works program. The ADES is responsible for obtaining the waivers necessary to implement Arizona Works but does not have legal responsibility over the issuance of the RFP. The ADES cannot agree to release the RFP only with prior approval from FCS. However, the ADES will ask the Arizona Works Agency Procurement Board if FCS can review the RFP before it is issued. The Arizona Works Agency Procurement Board is still in the process of preparing the RFP.

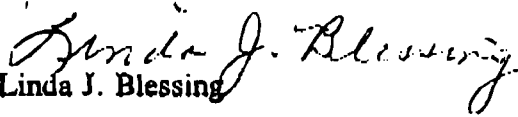
Fair Hearings

The state will retain control over the fair hearing process for the Food Stamp Program. State hearing officers or administrative law judges will conduct the hearings. The fair hearing process will be the same in the Arizona Works demonstration site as in the other areas of the state. The state will conduct the hearings in accordance with the federal food stamp regulations and the state fair hearing policies and procedures.

As stated in the Arizona Works Waiver application and this response to your October 3, 1997 correspondence, the ADES believes it has complied with the federal conditions for privatizing eligibility functions. The Arizona Works Program will be implemented in a sub-state area (urban site followed by a rural site), as a two-year pilot, and undergo a number of evaluations, which include an evaluation by an independent contractor. The state looks forward to federal approval of its waiver request for privatization of the food stamp eligibility determination functions.

Thank you for giving Arizona the opportunity to clarify these issues. Please contact me at (602) 542-5678, or Mike Koppelman, Deputy Director, at (602) 542-3937 if you have any questions, need additional information or would like to discuss our response.

Sincerely,


Linda J. Blessing