JOINT LEGISLATIVE BUDGET COMMITTEE

Tuesday, January 9, 2018

3:00 p.m.

Senate Appropriations, Room 109

JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, January 9, 2018
3:00 p.m.
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order
- Approval of Minutes of December 19, 2017.
- DIRECTOR'S REPORT (if necessary).

1. AHCCCS - Review of Capitation Rate Changes for Plan Years 2017 and 2018.
2. JLBC STAFF - Consider Approval of Index for School Facilities Board Construction Costs.
3. ARIZONA DEPARTMENT OF EDUCATION - Review of Additional Empowerment Scholarship Account Administrative Funding.
4. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of FY 2018 State Data Center Project (Automation Projects Fund).

The Chairman reserves the right to set the order of the agenda.
12/29/17
kp

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STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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azleg.gov

DATE: January 2, 2017

TO: Members of the Joint Legislative Budget Committee

FROM: Patrick Moran, Senior Fiscal Analyst PM
Jon Stall, Principal Fiscal Analyst JS

SUBJECT: AHCCCS - Review of Medicaid Capitation Rate Changes for Plan Years 2017 and 2018

Request

Pursuant to an FY 2018 General Appropriation Act footnote, the state Medicaid agencies must present their expenditure plans to the Committee for review prior to implementing any changes in capitation rates. On behalf of the Department of Economic Security and itself, AHCCCS' request includes new plan year (CYE) 2018 rates and revisions to certain previously reviewed rates.

Subsequent to the December 19th meeting, AHCCCS submitted additional rate revisions. As a result, this memorandum has been updated to reflect these latest changes.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

Key Points

1) Aggregate 2018 capitation rates are increasing by 2.7% prior to additional January adjustments.
2) The increase is within budget, primarily due to lower-than-anticipated utilization and unit cost growth.
3) These savings will fund $27 million of substance abuse and behavioral health initiatives. These initiatives did not receive dedicated funding in the FY 2018 budget.
4) The capitation rates also increased select provider rates up to 1.9% statewide and 3.3% in Flagstaff for minimum wage impacts in July 2017. Additional adjustments will be implemented in January.
5) AHCCCS' initial submission did not comply with statutory requirements for JLBC review of new rates prior to implementation.
6) A second submission from the agency complied with statutory timelines, but did not include sufficient information to fully evaluate the impact of the request.

(Continued)

2. An unfavorable review of the request.

Analysis

The Federal government agrees to pay a flat per-member, per-month amount for each type of Medicaid enrollee. Capitation rates are developed by AHCCCS actuaries for all Medicaid programs. The rates are adjusted annually for projected medical expense and utilization trends. Utilization refers to the percentage of eligible individuals who use services and the amount of services each member uses. In developing capitation rates, the actuaries also compare prior rate calculations and assumptions to actual results for medical expenses and utilization. This is referred to as experience adjustments. The capitation rate adjustments also include provider rate increases. Finally, the capitation rates may include a number of program changes. Such changes for CYE 2017 and CYE 2018 are described below. *Table 1* below includes a comparison of previous and new capitation rates.

Table 1

Monthly Regular Capitation Rates

Populations	Previous Rates	New Rates 3/	% Change
Acute Care	$284.96	$287.85	1.01%
Behavioral Health Services	111.27	120.05	7.89
ALTCS Elderly and Physically Disabled 1/	3,427.37	3,415.86	(0.34)
ALTCS Developmental Disabilities 2/	3,638.21	3,687.28	1.35
Children's Rehabilitative Services	848.94	915.03	12.03

1/ Previous rate reflects January 1, 2017 rate favorably reviewed by the JLBC at its June meeting. It does not include a 0.72% increase AHCCCS proposes from July 1 to September 30, 2017 for additional Proposition 206 costs. Those added costs are included in the revised CYE 2017 rate and the new rate for CYE 2018.

2/ Previous rate reflects original July 1, 2017 rate favorably reviewed by the JLBC at its June meeting. The new rate reflects a blend of the retroactive update to the original July 1st rate for additional Proposition 206 costs, as well as a prospective adjustment to acute care costs effective on October 1, 2017.

3/ New rates do not include January 1, 2018 capitation rate adjustments. These new rates have yet to be actuarially certified.

In aggregate, the overall rate changes developed by AHCCCS for CYE 2018 are 2.7% above previously approved rates before accounting for additional mid-year adjustments that were implemented at the beginning of January, including:

- 1.01% for acute care services;
- 7.89% for behavioral health services;
- (0.34)% for long term care services for people who are elderly or physically disabled;
- 1.35% for long term care services for people with developmental disabilities; and
- 12.03% for children's rehabilitative services.

AHCCCS estimates that, after accounting for the January adjustments, the net increase will be 2.76%. The JLBC Staff will not be able to validate that estimate, however, until AHCCCS submits the actual capitation rate for each population.

(Continued)

Prior to the December meeting, the JLBC Staff initially estimated a combined surplus of $20.6 million across DES and AHCCCS associated with year-to-date capitation and caseload adjustments. Based on the information regarding January rate updates, the JLBC Staff estimate that the surplus has declined by at least $(8.0) million.

JLBC Review Requirements

AHCCCS made 2 submissions to the Committee. The first submission does not comply with 2 different General Appropriation Act reporting requirements. First, the General Appropriation Act annually requires AHCCCS to submit capitation rates for review prior to implementation. Contrary to this requirement, AHCCCS already began paying the new capitation rates for CYE 2018 in October, but did not notify the Committee until November 28, 2017.

Second, the General Appropriation Act also annually requires AHCCCS to submit to the Committee for review prior to implementation any change in policy affecting the amount and scope of health care services. This provision applies to any change with a state cost greater than $500,000. Nonetheless, AHCCCS implemented $109 million Total Fund ($27 million General Fund) of behavioral health expansions prior to notifying JLBC.

In contrast, the Legislature discussed the impact of Proposition 206 minimum wage increases as part of the FY 2018 budget process. The magnitude of these behavioral health expansions, however, was not discussed at the time.

AHCCCS made a second submission on December 27, 2017 requesting review of additional rate increases that were implemented at the beginning of January 2018. This submission complies with the reporting requirements in the General Appropriation Act. The submitted rates, however, have not been certified by AHCCCS actuaries. The actuarial certifications provide detailed information about the rate adjustments. As a result, the lack of the actuarial reports has limited the ability of the JLBC Staff to analyze the agency's new rates. The January rate adjustments are discussed separately below from the agency's initial submission, and are summarized in aggregate instead outlining adjustments specific to each AHCCCS program.

AHCCCS - Acute Care

The proposed CYE 2018 capitation rates for the program represent an increase of 1.01% compared to the most recently approved CYE 2017 rates. The adjustments include:

- Decreased capitation rate costs of (0.60)% for medical trends and experience adjustments.
- A supplemental 40% rate increase for providers at a qualifying teaching or children's hospital will increase acute capitation rates by 0.73%. The state match will be funded by voluntary payments from political subdivisions.
- Expanded coverage of emergency dental services and outpatient occupational therapy for adults, as required by the FY 2018 Health Budget Reconciliation Bill (Laws 2017, Chapter 309). Rates were increased 0.53% for this change.
- Targeted rate increases for hospitals, qualifying physicians and other practitioners, integrated clinics, and nursing facilities that take certain actions to improve patient care. Capitation rates were increased 0.17% for this change.
- Fee-for-service rate increases, including statutorily- or federally-required increases for ambulance providers and federally qualified health centers. The adjustments add 0.21% to capitation rates.

(Continued)

AHCCCS - Behavioral Health Services

Behavioral health services are provided to AHCCCS members through contracted health plans called Regional Behavioral Health Authorities (RBHAs). AHCCCS is increasing capitation rates by 7.89% for the RBHAs in CYE 2018. The primary drivers of this adjustment are as follows:

- An increase of 4.58% for utilization and unit cost changes.
- A decrease of (2.84)% from the authorization of a generic drug in place of the brand name anti-psychotic drug Abilify.
- An increase of 5.42% for behavioral health program expansions, including:
  - **Opioid Use Disorder:** The RBHAs will be required to provide individuals with opioid use disorders with access to 24/7 crisis stabilization facilities that are able to provide medication-assisted treatment (MAT) as well as "peer support specialists" to improve long-term recovery.
  - **Substance Use Disorder:** AHCCCS intends to increase access to care for individuals with other substance abuse disorders as well, including American Indians with alcohol use disorder and individuals with methamphetamine use disorder.
  - **Autism Spectrum Disorder (ASD):** AHCCCS is implementing new procedures for screening and diagnosis of ASD to ensure that individuals are referred to a specialized provider.
  - **Persons with Serious Mental Illness (SMI):** AHCCCS funds 24 multi-disciplinary teams that provide intensive outpatient services to persons with an SMI diagnosis in Maricopa County. These teams are tasked with meeting the *Arnold v. Sarn* settlement agreement.
  - **Children in Foster Care:** Pursuant to Laws 2016, Chapter 71, the RBHAs will provide behavioral health screening, assessment, and referrals for foster children in accordance with statutory timeframes.

AHCCCS estimates that the total cost of its behavioral health access to care initiatives will be $109 million in CYE 2018. Based on the average state match rate of 25% across all AHCCCS programs, the associated General Fund cost would be $27 million. In a March 2017 report to the Committee on preliminary estimates of capitation rates, AHCCCS indicated there would be potential adjustments to address access to behavioral health services, but did not estimate the cost. The FY 2018 budget did not specifically authorize funding for these program expansions.

AHCCCS - Long Term Care (ALTCS) for the Elderly and Physically Disabled

ALTCS services are provided to the elderly and physically disabled (EPD) in need of long-term care either in nursing care facilities or in home and community-based settings. AHCCCS is decreasing the ALTCS EPD rates by (0.34)% compared to previously-reviewed January 1, 2017 rates. The main adjustments include:

- An increase of 1.92% for utilization and unit cost changes.
- An increase of 0.22% for targeted rate increases for hospitals, qualifying physicians and other practitioners, integrated clinics, and nursing facilities that take certain actions to improve patient care.
- A decrease of (2.99)% for lower administrative costs associated with a re-bid of the ALTCS contracts.
- A decrease of (0.40)% for higher placement rates into home and community-based services compared to institutional placements.
- An increase of 0.72% for Proposition 206 and Proposition 414 minimum wage and paid sick leave costs. AHCCCS is increasing home and community-based services rates by 1.9% (3.3% in Flagstaff) and is increasing nursing facility rates by 0.3% (1.0% in Flagstaff).

(Continued)

Proposition 206 increased the statewide minimum wage from $8.05 to $10.00 effective January 1, 2017 and required employers to provide paid sick leave effective July 1, 2017. Proposition 414 in Flagstaff increased the local minimum wage to $10.50 effective July 1, 2017. AHCCCS plans further adjustments in January 2018 when the statewide minimum wage will increase to $10.50 and the Flagstaff minimum wage increases to $11.00.

DES - ALTCS Developmental Disabilities

The DD program provides long term care services, acute care, and behavioral health services to individuals with intellectual disabilities, autism, cerebral palsy, epilepsy, or at under age 6 and at risk of developing such a diagnosis. JLBC already reviewed a 4.0% mid-year rate adjustment in CYE 2017 and a subsequent (1.7)% rate decrease for CYE 2018. DD capitation rates are being increased by 1.35% compared to the original CYE 2018 rates. The adjustments include:

- 1.01% for a retroactive increase that incorporates funding for Proposition 206 and Proposition 414 provider rate increases implemented in July of 2017. The adjustments include a 1.7% increase (3.3% in Flagstaff) for DD providers affected by Proposition 206 and Proposition 414. AHCCCS and DES plan further adjustments in January 2018 when the statewide minimum wage will increase to $10.50.
- 0.33% for prospective changes in acute care costs associated with utilization and unit cost changes in acute care services for DD members.

AHCCCS - Children's Rehabilitative Services (CRS)

The CRS program provides services for children with chronic and disabling or potentially disabling conditions. The proposed CYE 2018 capitation rates for the program represent an increase of 12.03% compared to the most recently approved CYE 2017 rates. The overall rate increase is largely the result of a 7.38% increase for utilization and unit cost changes and 4.24% for supplemental reimbursement for selected providers at a qualifying teaching hospital or children's hospital.

January Rate Updates

Following its initial submission, AHCCCS subsequently submitted further rate adjustments on December 27th for the Committee's review. These rates, however, have yet to be certified by AHCCCS' actuaries. As a result, the JLBC Staff has limited information with which to analyze these new adjustments. The adjustments include:

- Retroactive increases to the DDD capitation rates effective July 1, 2017 to address a technical error that resulted in the exclusion of certain claims data. This adjustment increases the DDD rate by 2.0% above the initial retroactive adjustment proposed by AHCCCS for Proposition 206 rate increases.
- An aggregate 0.37% adjustment across all AHCCCS programs excluding behavioral health services. The adjustments consist of:
    - 0.26% for a rebase of payments made for inpatient hospital services rendered to adults;
    - 0.25% for Proposition 206 provider rate increases to address the January 2018 minimum wage increase. The aggregate increase in home and community-based services rates in January 2018 will be approximately 1.4% statewide. Nursing facility rates will increase by 0.7%.
    - (0.21)% to select Mavyret as the preferred drug for hepatitis C treatment. As a result of this selection, AHCCCS will remove the minimum liver fibrosis requirement to receive treatment.
    - 0.09% to require Acute Care health plans to cover Medication-Assisted Treatment in Primary Care Physicians' offices.
    - 0.002% to increase Newborn Screening Fees charged by DHS.

PM:kp

December 27, 2017

The Honorable David Livingston
Acting Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Livingston:

The Arizona Health Care Cost Containment System (AHCCCS) has completed actuarial analysis on a variety of mid-year Managed Care Organization (MCO) capitation rate amendments and respectfully requests to be placed on the agenda of the next JLBC meeting to review these rates.

In accordance with Federal regulations, MCO capitation rates must be actuarially sound. That is, they must cover the anticipated costs for providing medically necessary services to AHCCCS members. As such, capitation rates are developed to reflect the costs of services provided as well as the utilization of those services by AHCCCS members. Capitation rate trends reflect a combination of changes in cost and utilization, calculated as a per-member per month expenditure to AHCCCS contractors (including other state agencies, Arizona Department of Economic Security/Division of Developmental Disabilities (DES/DDD) and Department of Child Safety/Comprehensive Medical and Dental Program (DCS/CMDP)).

Capitation rates are certified by actuaries and must be recertified every year to coincide with MCO annual contract periods. Most AHCCCS contracts are on an October 1 through September 30 schedule. Capitation rates for DES/DDD and DCS/CMDP are on a July 1 through June 30 contract year. The Committee previously reviewed, and provided favorable review of, the Contract Year Ending (CYE) 2018 capitation rates for DES/DDD and DCS/CMDP. The Committee adjourned its December 19, 2017 meeting prior to review of the remaining CYE 2018 capitation rates.

In addition to the annual rate development, the capitation rates must be amended mid-year when action occurs that is expected to impact the MCOs' expenses by a material amount (as determined by the actuaries) and a rate adjustment is required to maintain actuarial soundness.

This letter details both retroactive amended rates for CYE 2018, and mid-year rate amended rates for CYE 2018, for review at the upcoming JLBC meeting. These rate actions are as follows:

- CYE 2018 Retroactive Capitation Rate Amendment for MCOs with CYE from July 1, 2017 through June 30, 2018:
  - DES/DDD
- CYE 2018 Prospective Capitation Rate Amendment (effective January 1, 2018) for MCOs with CYE from July 1, 2017 through June 30, 2018:
  - DES/DDD
  - DCS/CMDP

- CYE 2018 Prospective Capitation Rate Amendment (effective January 1, 2018) for MCOs with CYE from October 1, 2017 through September 30, 2018:
  - Acute Care
  - ALTCS/EPD
  - Children's Rehabilitative Services (CRS)

Background for CYE 2018 Retroactive Capitation Rate Amendment

This retroactive update (to July 1, 2017) of the CYE 2018 DES/DDD capitation rates accommodates the following:

- It was discovered that claims data related to Augmentative Communication was excluded from capitation rate development. These claims were historically paid through one DDD system and then later transitioned to a different system; due to the system change, these expenses were inadvertently overlooked.

- Utilization of group homes in the last six months of CYE 2017 has seen an increasing and sustained trend. At the time of the CYE 2018 capitation rate development, this trend had not yet appeared in the data.

Table I below contains information regarding the DDD CYE 2018 retroactive rate revisions, comparing the revised CYE 2018 rates to the prior CYE 2018 rates.

Table I

DDD	CYE 18 rate effective 7/1/17 - 9/30/17 Retroactively amended with 10/1/17 rate update	Revised CYE 18 rate effective 7/1/17 - 9/30/17 Retroactively amended with 1/1/18 rate update	Percentage Impact	CYE 18 rate effective 10/1/17 - 12/31/17 Filed with 10/1/17 rate update	CYE 18 rate effective 10/1/17 - 12/31/17 Retroactively amended with 1/1/18 rate update	Percentage Impact
Final Rates	$ 3,675.11	$ 3,749.67	2.0%	$ 3,691.33	$ 3,765.89	2.0%

Background for CYE 2018 Prospective Capitation Rate Amendments

The proposed capitation rate amendments for the Acute Care, CRS, CMDP, ALTCS/EPD, and DES/DDD programs for CYE 2018 are effective January 1, 2018.

The overall changes to these five programs for CYE 2018, over the most recently submitted CYE 2018 rates (and including the retroactive rate adjustment for DES/DDD noted above), is 0.37%. When the RBHA program is included (there is no January 1, 2018 amendment for RBHAs), the impact to all AHCCCS programs overall is 0.29%. Table II on the next page displays the January 1, 2018 rate changes by program.

Table II

Program	1/1/18 Rate Change with APSI
AHCCCS	
Acute	0.13%
ALTCS EPD	0.84%
CRS	1.06%
CMDP	0.39%
DES	
DDD	1.03%
Total wo RBHA	0.37%
RBHA	0%
Total w RBHA	0.29%

Also provided, in Table III below, is the cumulative impact of all CYE 2018 capitation rate revisions over the CYE 2017 rates. These capitation rates, as amended, are within the amounts appropriated in the state Fiscal Year 2018 budget. If there is a need for future updates to the capitation rates for CYE 2018, AHCCCS will provide budget updates along with those adjustments.

Table III

Program	CYE 18 over CYE 17 Rate changes
AHCCCS	
Acute	1.09%
ALTCS EPD	0.29%
CRS	12.92%
CMDP	(3.29)%
RBHA	7.89%
DES	
DDD	2.16%
Total	2.76%

The January 1, 2018 capitation rate amendments address the following items:

APR-DRG Rebase

Rates for the AHCCCS inpatient hospital reimbursement methodology, the All Patient Refined Diagnosis Related Groups (APR-DRGs), are rebased effective January 1, 2018, in accordance with the federal Medicaid provision at 42 USC 1396a(a)(30)(A), requiring that payments be "consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available under the plan at least to the extent that such care and services are available to the general population in the geographic area." This is known as the "access to care" requirement. AHCCCS determined that a rate "adjustor" was necessary for claims for inpatient stays serving adults or a concentrated rate reduction for hospital services for adults (unrelated to pregnancy, burns, and psychiatric services) would be required to maintain budget neutrality, thus triggering an access to care report to CMS. The impact of the rebase on the capitation rates is an increase of 0.26%.

Newborn Screening
Law 2017, Chapter 339, increased fees for newborn screening; these increased costs are passed on to AHCCCS' MCOs. The overall impact to capitation rates is an increase of 0.002%.

Minimum Wage
Funding is added to capitation rates to recognize the increased labor costs resulting from the Arizona minimum wage increase and employee benefit provisions mandated by Proposition 206, effective January 1, 2018, increasing capitation rates by 0.25%.

Medication Assisted Treatment (MAT)
In June 2017, Governor Ducey declared a statewide health emergency relative to opioid use. One of the strategies that AHCCCS will deploy to increase access to Opioid Use Disorder (OUD) treatment and to ultimately reduce the prevalence of OUDs and opioid-related overdose deaths, includes access to Medication Assisted Treatment options (MAT) in Primary Care Physicians' (PCP) offices. RBHAs do not have a substantial number of contracts with PCPs thus the requirement to allow PCPs to offer MAT has been added for Acute Care MCOs, with an impact to overall capitation rates of 0.09%.

MAT services are already covered by AHCCCS; the members who will receive the services are already a covered population; PCPs are currently an AHCCCS covered provider type; and no reimbursement rates are changed as a result of this Acute Care access to care requirement. Once AHCCCS moves to fully integrated contracts effective October 1, 2018, whereby all MCOs (with some limitations) will be responsible for managing both the physical and behavioral health care needs of AHCCCS members, the access constraints enabled by a fragmented, siloed delivery system will be eliminated..

Hepatitis C (HCV) Treatment
The AHCCCS Pharmacy and Therapeutics Committee has selected Mavyret as the sole preferred agent to treat HCV based on both clinical effectiveness studies and cost effectiveness, and to remove a requirement to have a certain level of liver fibrosis (F2) in order to access treatment. These changes are effective January 1, 2018, and will reduce capitation rates by (0.21%). This change will also reduce revenues deposited in the Prescription Drug Rebate Fund (PDRF). AHCCCS has reduced its quarterly invoice projections beginning with quarter-ending March 2018 to account for the anticipated reduction, and has notified JLBC staff.

Should you have any questions on any of these issues, please feel free to contact Shelli Silver, Assistant Director, at (602) 417-4647.

Sincerely,

Thomas J. Betlach
Director

cc: The Honorable Debbie Lesko, Arizona State Senate
Matthew Gress, Office of Strategic Planning and Budgeting
Richard Stavneak, Joint Legislative Budget Committee
Christina Corieri, Senior Policy Advisor, Office of the Governor
Bret Cloninger, Office of Strategic Planning and Budgeting

AHCCCS
Arizona Health Care Cost Containment System

Douglas A. Ducey, Governor
Thomas J. Betlach, Director

RECEIVED
NOV 2 8 2017
JOINT BUDGET COMMITTEE

November 28, 2017

The Honorable David Livingston
Acting Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Livingston:

The Arizona Health Care Cost Containment System (AHCCCS) has completed actuarial analysis on a variety of Managed Care Organization (MCO) capitation rates and respectfully requests to be placed on the agenda of the next JLBC meeting to review these rates.

In accordance with Federal regulations, MCO capitation rates must be actuarially sound. That is, they must cover the anticipated costs for providing medically necessary services to AHCCCS members. As such, capitation rates are developed to reflect the costs of services provided as well as the utilization of those services by AHCCCS members. Capitation rate trends reflect a combination of changes in cost and utilization, calculated as a per-member per month expenditure to AHCCCS contractors (including other state agencies, Arizona Department of Economic Security/Division of Developmental Disabilities (DES/DDD) and Department of Child Safety/Comprehensive Medical and Dental Program (DCS/CMDP)).

Capitation rates are certified by actuaries and must be recertified every year to coincide with MCO annual contract periods. Most AHCCCS contracts are on an October 1 through September 30 schedule. Capitation rates for DES/DDD and DCS/CMDP are on a July 1 through June 30 contract year. The Committee previously reviewed, and provided favorable review of, the Contract Year Ending (CYE) 2018 capitation rates for DES/DDD and DCS/CMDP.

In addition to the annual rate development, the capitation rates must be amended mid-year when action occurs that is expected to impact the MCOs' expenses by a material amount (as determined by the actuaries) and a rate adjustment is required to maintain actuarial soundness.

This letter details both retroactive amended rates for CYE 2017 and annual renewal rates for CYE 2018 for review at the upcoming JLBC meeting. These rate actions are as follows:

- CYE 2017 Capitation Rate Amendment for MCOs with CYE from October 1, 2016 through September 30, 2017:
    - Arizona Long Term Care System/Elderly and Physical Disability (ALTCS/EPD)
- CYE 2018 Capitation Rate Amendment for MCOs with CYE from July 1, 2017 through June 30, 2018:
    - DES/DDD
- CYE 2018 Capitation Rate Annual Renewal for MCOs with CYE from October 1, 2017 through September 30, 2018:
    - Children's Rehabilitative Services (CRS)
    - ALTCS/EPD
    - Acute Care
    - Behavioral Health (via the Regional Behavioral Health Authorities – RBHAs)

Background for CYE 2017 Capitation Rate Amendment
This update to the CYE 2017 ALTCS/EPD capitation rates accommodates the following:

- A retroactive capitation rate adjustment (to July 1, 2017) to address the increased labor costs resulting from the Arizona minimum wage increase and employee benefit provisions mandated by Proposition 206, and the Flagstaff minimum wage increase mandated by Proposition 414 effective July 1, 2017, increasing capitation rates by 0.72%. *These adjustments do not include any January 1, 2018, adjustments for costs associated with Proposition 206 or the Flagstaff Proposition 414. Capitation rates will be adjusted for these increases at a future date and will separately come before the Committee for those increases.*

Table I below contains information regarding the EPD CYE 2017 rate revision, comparing the revised CYE 2017 rates to the prior CYE 2017 rates.

Table I

ALTCS/EPD	CYE 17 Quarterly Projected Expenditures Before Min Wage Impacts (effective 7/1/17)	CYE 17 Quarterly Projected Expenditures After Min Wage Impacts (effective 7/1/17)	Quarterly Dollar Impact	Percentage Impact
Final Rates	$303,482,606	$305,682,069	$2,199,464	0.72%

Background for CYE 2018 Capitation Rate Amendment
This update to the CYE 2018 DES/DDD capitation rates accommodates the following:

- A retroactive capitation rate adjustment (to July 1, 2017) to address the increased labor costs resulting from the Arizona minimum wage increase and employee benefit provisions mandated by Proposition 206, and the Flagstaff minimum wage increase mandated by Proposition 414 effective July 1, 2017, increasing capitation rates by 1.01%. *These adjustments do not include any January 1, 2018, adjustments for costs associated with Proposition 206 or the Flagstaff Proposition 414. Capitation rates will be adjusted for these increases at a future date and will separately come before the Committee for those increases.*
- A prospective change (effective October 1, 2017) to the Acute component of the DES/DDD capitation rate paid to subcontractors due to a rebase effective October 1, 2017 to coincide with DDD's subcontract period for acute services. Rebasing involves setting capitation rates off of a new (more recent) set of member utilization data (referred to as encounters) and member month data; establishing new trends developed using this new data; and applying prospective program and fee schedule changes. As part of the 2017 Legislative session, the Arizona Legislature passed SB 1527, reinstating emergency adult dental services and extractions up to a limit of $1,000 annually, a covered service prior to October 1, 2010. AHCCCS will restore this as a covered service effective October 1, 2017. The rebase results in an increase of 0.45% to the CYE 2018 DDD capitation rates.
- A prospective change (effective October 1, 2017) for additional funding in the LTC component of the rate for differential adjusted payments (DAPs) to certain nursing facilities. DAPs are described in detail later in this letter. The DAP results in an increase of 0.02% to the CYE 2018 DDD capitation rates.

Table II below contains information regarding the DDD CYE 2018 rate revisions, comparing the revised CYE 2018 rates to the prior CYE 2018 rates.

Table II

DES/DDD	Original CYE 18 Capitation Rate (effective 7/1/17)	Retroactive CYE 18 Capitation Rate (effective 7/1/17 to 9/30/17)	Percentage Impact from original	Prospective CYE 18 Capitation Rate (effective 10/1/17 to 6/30/18)	Percentage Impact from retroactive rate
Final Rates	$ 3,638.21	$ 3,675.11	1.01%	$ 3,691.33	0.44%

DES/DDD	Projected CYE 18 Member Months	Original CYE 18 Annualized Projected Expenditures (effective 7/1/17)	Retroactive CYE 18 Annualized Projected Expenditures(effective 7/1/17 to 9/30/17)	Dollar Impact from original	Prospective CYE 18 Annualized Projected Expenditures (effective 10/1/17 to 6/30/18)	Dollar Impact from retroactive rate
Final Rates	375,609	$1,366,546,604	$1,380,406,824	$ 13,860,220	$ 1,386,496,720	$ 6,089,896

Background for CYE 2018 Capitation Rate Annual Renewals

As previously noted, as required by the Federal Balanced Budget Act of 1997, Title XIX Managed Care Programs must have actuarially sound capitation rates, and these rates must be approved by the Centers for Medicare and Medicaid Services (CMS). The proposed capitation rate adjustments for the Acute Care, CRS, ALTCS/EPD and RBHA programs for CYE 2018 were submitted to CMS with October 1, 2017 through September 30, 2018, effective dates.

The overall changes to these four programs for CYE 2018, over the most recently submitted CYE 2017 rates, is 2.15% if excluding the impacts for Access to Professional Services Initiative (APSI) and 2.72% if including the impacts of APSI. (APSI is explained in detail later in this letter.) Table III displays the CYE 2018 rate changes by program.

Table III

Program	CYE 2018 Rate Change without APSI (over most recently submitted rates) [1]	CYE 2018 Rate Change with APSI (over most recently submitted rates) [1]
Acute Care	0.26%	0.99%
ALTCS/EPD	(0.34)%	(0.34)%
RBHAs	7.89%	7.89%
CRS	7.79%	12.03%
Total	**2.15%**	**2.72%**

The five year average capitation rate adjustment for all six AHCCCS programs (including DES/DDD and DCS/CMDP) is 2.41%.

[1] For the Acute Care and ALTCS/EPD programs the most recently submitted rates were effective January 1, 2017. For the RBHA and CRS programs the most recently submitted rates were effective April 1, 2017.

These capitation rates are within the amounts appropriated in the state Fiscal Year 2018 budget. AHCCCS expects future updates to the capitation rates for January 1, 2018 and we will provide budget updates along with those further adjustments.

System-Wide Rate Impacts
The utilization and unit cost trends for each program, by population, are detailed in the attached Actuarial Certifications. In addition, there are several program and provider rate changes effective October 1, 2017, that impact most or all programs and are reflected in the rates. These include the following:

Adult Services: Emergency Dental and Occupational Therapy in an Outpatient Setting
Senate Bill 1527, passed during the 2017 Legislative session, includes the reinstatement of emergency adult dental services and extractions up to a limit of $1,000 annually, a covered service prior to October 1, 2010. AHCCCS restored this as a covered service effective October 1, 2017. Also included in SB 1527 is the addition of occupational therapy (OT) in an outpatient setting for adults aged 21 and over. AHCCCS began coverage for this service effective October 1, 2017. The impact to overall capitation rates is an increase of approximately 0.29% for all services combined.

Differential Adjusted Payments
AHCCCS has implemented Differential Adjustment Payments (DAP) to distinguish providers who have committed to supporting designated actions that improve the patient care experience, improve member health, and reduce cost of care growth. The proposed DAPs are applicable for dates of service from October 1, 2017 through September 30, 2018. AHCCCS Fee-For-Service (FFS) rates for select providers meeting specific criteria will be increased up to 2% for qualified AHCCCS-registered Arizona Nursing Facility providers; 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services; 10% for qualified AHCCCS-registered Integrated Clinics for select physical health services; and 1% for qualified AHCCCS-registered Physicians, Physician Assistants, and Nurse Practitioners. These DAPs ensure that AHCCCS members have access to higher quality providers across a wide spectrum of services. The impact to overall capitation rates is an increase of approximately 0.15%.

Access to Professional Services Initiative
The Access to Professional Services Initiative (APSI) seeks to provide enhanced support to certain professionals in order to (1) preserve and enhance access to these professionals who deliver essential services to Medicaid recipients in Arizona and (2) support professionals who are critical to professional training and education efforts. APSI is a program to preserve and promote access to medical services through a uniform percentage increase to the Contractors' rates for professional services provided by qualified physicians and non-physician professionals affiliated with designated hospitals who meet the following definition:

- A hospital facility with an ACGME-accredited teaching program and which is operated pursuant to the authority in Arizona Statute Title 48, Chapter 31; or,
- A hospital facility with:
    - An ACGME-accredited teaching program with a state university, and
    - AHCCCS inpatient discharge utilization volume greater than or equal to 30 percent as calculated by the Arizona Department of Health Services for calendar year 2014; or,
- A freestanding children's hospital or a pediatric unit of a general acute care hospital with greater than one hundred (100) licensed pediatric beds, excluding nursery beds.

The APSI provides a uniform percentage increase of 40% to otherwise contracted rates for qualified practitioners for all claims for which AHCCCS is the primary payer, and is funded by Inter Governmental Transfers (IGTs) as permitted by Arizona law. The rate increase is intended to supplement, not supplant, payments to eligible providers. The impact to overall capitation rates is an increase of approximately 0.49%. There is no impact to the General Fund for this rate increase.

Provider Rate Changes
AHCCCS makes adjustments to provider rates based on access to care issues, when certain rates are tied to Medicare, and for legislative mandates. These adjustments in total result in a 0.18% increase to the rates.

Behavioral Health Access to Care
In response to increasing behavioral health needs of its populations, AHCCCS is providing funding to ensure member access to care through the RBHAs. This funding is added to address issues such as the opioid epidemic and other substance use disorder needs, as well as ensuring access to mandated EPSDT services for children in foster care and children with autism. The impact to overall capitation rates is an increase of approximately 1.07%.

Generic for Abilify
Effective April 1, 2017, AHCCCS, on the recommendation of the Pharmacy and Therapeutics Committee, made policy changes to allow RBHAs to approve the generic drug aripiprazole in place of the brand drug Abilify. This change was based on the AHCCCS Pharmacy and Therapeutics Committee's determination and recommendation that the generic drug, aripiprazole, is equally efficacious to Abilify, the most cost effective to the State, and offers members the same value and clinical outcome. The impact to overall capitation rates is a decrease of approximately (0.57)%.

Cost Avoidance
AHCCCS Contractors cost-avoid millions in medical costs in accordance with AHCCCS contracts and policies, which contributes to the modest growth in overall medical expense and capitation rates. The following discussion is provided for informational purposes only, and highlights the historical savings of these activities.

Inherent in the encounter and financial data used by the actuaries to set the capitation rates are unit cost trends which incorporate Contractors' Coordination of Benefits (COB) activities. AHCCCS provides Contractors with verified commercial and Medicare coverage information for their members which Contractors utilize to ensure payments are not made for medical services that are covered by the other carriers. When Contractors make a payment to cover members' coinsurance, deductibles, or Medicaid-covered services that are not covered by the other carriers, they submit encounters containing these reduced amounts.

Table IV below shows a significant increase in encounter-reported COB cost avoidance from state fiscal year (SFY) 2008 to SFY 2017 among all Contractors. Additionally, all Contractors (with the exception of CMDP) cost-avoided more than $433 million in the nine months ending March 31, 2017, in additional claims for which the Contractor had no financial obligation after private insurance or a Medicare payment was made. Consequently no encounters were submitted to AHCCCS and therefore those services are excluded completely from capitation rate development. AHCCCS continues to emphasize the importance of COB activities with Contractors.

Table IV

Program	COB Cost Avoidance (Encounters) (millions)			Cost Avoided w/no Financial Obligation (Contractor self- reported) (millions)
	SFY 2008	SFY 2017	Δ	9 Months ending March 31, 2017
Acute	$391	$596	↑ by 152%	$334
ALTCS/EPD	$130	$311	↑ by 239%	$60
RBHAs	$8	$117	↑ by 1519%	$22
CRS	$0.03	$4.3	↑ by 12647%	$7
DES/DDD	$16	$39	↑ by 244%	$10
DCS/CMDP	$0.0075	$0.1300	↑ by 1733%	N/A
Total	$545	$1,067		$433

Acute Care Capitation Rates
The overall rate adjustment for the Acute Care program with APSI for CYE 2018 is an increase of 1.0% over the January 1, 2017 rates.

The three largest factors impacting the Acute rates are a rebase incorporating reduced utilization and unit cost levels and trend update, decreasing the rates by (0.60)%; restoration of emergency dental for adults, increasing the rates by 0.50%; and the IGT-funded APSI which results in a 0.73% increase.

For the populations primarily funded by the General Fund (e.g., TANF, SSI), the prospective and prior period rates are increasing 0.81%. For the population of Adults with incomes under 106% of the federal poverty level (FPL), for which the state match is funded from the hospital assessment, the increase is 4.41%. For the population of Adults with incomes over 106% of the FPL funded almost exclusively with federal funds (95% federally-funded), the adjustment is a decrease of (10.45)%.

Elderly and Physical Disability Long Term Care Capitation Rates
The overall rate adjustment for the ALTCS/EPD program for CYE 2018 is a decrease of (0.34)%.

The largest factors impacting the ALTCS/EPD capitation rates are the release of a Request for Proposal and the related competitive bidding, reducing rates by (2.99)%; a rebase and trend update, increasing rates by 1.92%; provider DAPs which result in an increase of 0.22%; and the minimum wage adjustment previously described retroactive to July 1, 2017 which results in an increase of 0.72%. A favorable increase in Home and Community Based Services (HCBS) placements results in a (0.40)% negative adjustment to cap rates, thus lowering the total increase to the rates.

Children's Rehabilitative Services Capitation Rates
The overall rate adjustment for the CRS program with APSI for CYE 2018 is an increase of 12.03%.

There are two factors primarily contributing to the overall rate change: a rebase including updated utilization and unit cost trends, increasing the rates by 7.38%; and the IGT-funded APSI which increases the rates by 4.24%.

RBHA Capitation Rates

The overall rate adjustment for the RBHA program for CYE 2018 is an increase of 7.89%.

The primary drivers of the increase include: a rebase including updated utilization and unit cost trends, increasing the rates by 4.58%; funding to ensure member access to care which increases the rates by 5.42%; and a reduction due to the use of the generic form of Abilify, decreasing rates by (2.84)%.

Overall Budget Impact

Table V below displays the budget impact of the rate changes with APSI. This data is displayed on a state fiscal year (SFY) basis due to budgetary timeframes. Likewise, the 2018 population below is on a SFY basis. For these reasons, the impacts on this table will not tie exactly to impacts stated elsewhere in this letter or attached documents.

Table V

	Statewide Rates SFY17	Statewide Rates SFY18	FY18 Population	SFY17 Rate with FY18 Pop	SFY18 Rate with FY18 Pop	Change Inc. (Dec.)	Percent Impact
AHCCCS Acute	$ 291.79	$ 294.79	17,858,897	5,211,091,400	5,264,619,000	53,527,600	1.0%
AHCCCS EPD	$ 3,386.80	$ 3,410.69	339,209	1,148,833,200	1,156,935,900	8,102,700	0.7%
CMDP	$ 233.30	$ 225.67	191,219	44,610,800	43,152,600	(1,458,200)	-3.3%
CRS	$ 848.82	$ 950.98	293,328	248,982,900	278,949,500	29,966,600	12.0%
RBHA	$ 111.24	$ 120.78	18,666,014	2,076,348,400	2,254,405,100	178,056,700	8.6%
LTC - DD/DES	$ 3,661.87	$ 3,716.31	375,609	1,375,430,400	1,395,879,900	20,449,500	1.5%
Total Budget Impact	$ 530.23	$ 545.38	19,058,263	10,105,297,100	10,393,942,000	288,644,900	2.9%
					AHCCCS Total Fund Impact	268,195,400	92.9%
					Pass-through Total Fund Impact	20,449,500	7.1%
					AHCCCS State Impact	67,380,200	91.6%
					Pass-through State Impact	6,190,600	8.4%
					Total State Impact	73,570,800	
					AHCCCS Federal Impact	200,815,200	93.4%
					Pass-through Federal Impact	14,258,900	6.6%
					Total Federal Impact	215,074,100	

The actuarial certifications for the rates are attached. Should you have any questions on any of these issues, please feel free to contact Shelli Silver, Assistant Director, at (602) 417-4647.

Sincerely,

Thomas J. Betlach
Director

cc: The Honorable Debbie Lesko, Arizona State Senate
Matthew Gress, Office of Strategic Planning and Budgeting
Richard Stavneak, Joint Legislative Budget Committee
Christina Corieri, Senior Policy Advisor, Office of the Governor
Bret Cloninger, Office of Strategic Planning and Budgeting

2

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: January 2, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Rebecca Perrera, Senior Fiscal Analyst RP

SUBJECT: JLBC Staff - Consider Approval of Index for School Facilities Board Construction Costs

Request

A.R.S. § 15-2041D3(c) requires that the cost-per-square-foot factors used in the School Facilities Board (SFB) new school construction formula "shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee (JLBC) as necessary but not less than once each year." The cost-per-square-foot factors were last adjusted in December 2016.

Committee Options

The Committee has at least the following 2 options:

1. Approve the SFB Staff request for a 61.6% adjustment in the cost-per-square-foot factors. This is based on the assumption of 6% inflation since the cost factors were last adjusted and a 55.6% increase for policy adjustments.

2. Approve a 3.12% adjustment in the cost-per-square-foot factors. The adjustment is based on the change in the Rider Levett Bucknall (RLB) Phoenix construction cost index since the cost factors were last adjusted. The Committee has used this methodology for the last 3 years.

Table 1 lists the cost-per-square-foot amounts for the 2 options.

Table 1

Cost-Per-Square-Foot Amounts for Each Option

	K-6	7-8	9-12
Current Cost-Per-Square Foot Amounts	$ 142.55	150.49	174.25
Option 1 - SFB Staff Request - SFB 61.6% increase (6% for Inflation and 55.6% for Policy Increases)	230.36	243.19	281.59
Option 2 - Phoenix Construction Index (3.12%)	147.00	155.19	179.69

(Continued)

Key Points

1) JLBC is annually required to adjust SFB new constriction cost per square foot factors for "construction market considerations."
2) Statute does not require that the JLBC adjustment apply to projects already awarded.
3) The adjusted index would not apply to schools approved for funding in FY 2019.
4) For preliminary FY 2020 schools, the new rates increase the state's cost by $15.2 million (Option 1) or $771,400 (Option 2) compared to the current rates.

Analysis

Background Information

The original Students FIRST legislation (Laws 1998, 5th Special Session, Chapter 1) established funding amounts per-square-foot of space for new construction. There are different per-square-foot factors for grades K-6, 7-8, and 9-12 space. Current statute requires that SFB use the cost-per-square-foot in effect at the time a new construction project is approved, except that SFB may adjust the formula based on geographic or site conditions as defined in statute. Statute requires that the Committee adjust the cost-per-square-foot amounts at least once per year.

In November 2008, the Committee approved a 1.98% adjustment in construction costs. Between 2008 and 2016, the Committee approved a 0% adjustment in construction costs in each year due to the decline in construction costs during the recession. At its December 2016 meeting, the Committee approved a 4.31% adjustment in construction costs as costs had finally exceeded 2008 levels.

Adjustment Options

The SFB Staff is requesting an increase in the new school construction cost-per-square-foot factors by 61.6%. This first option is based on 2 assumptions:

A. The SFB Staff assumes 6.0% annual inflation. This inflation rate is based on the Chasse Construction Company cost index. The company is currently building schools in Arizona and their index may include cost increases related to design element changes beyond increases in labor and materials costs.
B. The SFB proposal includes 55.6% increase for policy adjustments. The SFB Staff proposes an additional adjustment to fund items related to Science, Technology, Engineering, and Math (STEM) and flexible learning spaces. These adjustments include options such as HVAC upgrades for convertible indoor/outdoor learning spaces and upgraded design elements.

The Committee traditionally only considers base construction inflation (such as labor and materials) when determining cost-per-square-foot adjustments.

The second option is to set the inflation adjustment based on a regularly published measure of construction costs. The Committee has used the RLB Phoenix construction cost index methodology since 2013. Since the Committee last approved an adjustment in December 2016, the RLB index has increased by 3.12%. Option 2 would therefore increase the SFB rates by this same factor.

(Continued)

Fiscal Impact

Statute does not require that the JLBC adjustments apply to projects already awarded. Therefore, any changes made to the index will not impact the 5 new schools SFB approved on November 30, 2017 for funding in the FY 2019 budget.

SFB is currently in the process of conceptually approving schools which would be funded in FY 2020. This process does not represent formal SFB approval and is subject to change in the future. These schools would be subject to the proposed cost adjustment (*see Table 2 for potential FY 2020 school approvals*). Based on preliminary estimates, under Option 1, the SFB Staff's requested adjustment of 61.6% would result in total increased expenses of $15.2 million for these projects that would start in FY 2020. Option 2 would result in $771,400 in total additional costs for projects that would start in FY 2020.

These additional costs listed above would likely be spread over 2 fiscal years, as recent projects have been funded on a 2-year construction timeline. Any additional long-term costs resulting from the proposed adjustments would depend on future SFB new construction approvals.

Table 2

Impact of Adjustment on FY 2020 Starts [1/]
($ in M)

	Current Factor	After 3.12% Increase	After 61.6% Increase
Pima K-6	0.4	0.4	0.6
Vail K-5	7.7	7.9	12.4
Sahuarita K-8	10.2	10.6	16.5
Somerton K-6	6.4	6.6	10.4
Total [2/]	**24.7**	**25.5**	**39.9**
Difference		*0.8*	*15.2*

1/ Reflects potential approvals. Final approvals will not occur until December 2018.
2/ Reflects total construction cost increase. These estimates exclude land acquisition costs, which are not affected by the construction cost index.

RP:kp

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November 22, 2017

The Honorable David Livingston
Acting Chairman 2017
Joint Legislative Budget Committee
1716 West Adams Street
Phoenix, Arizona 85007

And

The Honorable Debbie Lesko
Chairman 2018
Joint Legislative Budget Committee

RECEIVED
NOV 22 2017
JOINT BUDGET COMMITTEE

Dear Representative Livingston and Senator Lesko:

A.R.S §15-2041.D.3(c) states in part "...The cost per square foot shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee as necessary but not less than once each year." As a part of this year's review, the School Facilities Board requests that the Joint Legislative Budget Committee consider the following information.

The current new school construction cost index was approved by the JLBC in December 2016. While there was an increase for FY18 of 4.1%, current market pressures suggest that the index should be adjusted for FY19. As described in this letter, the current index does not provide sufficient funds to build a school that meets the expectations intended by the Minimum Adequacy Guidelines which are contained within the Arizona Administrative Code, Title 7. Education, Chapter 6, School Facilities Board, Articles 1 thru 6.

Each year, the School Facilities Board reviews the market impact as well as other influences on construction costs and their effect to project and appropriately determine expenses into the future for the construction of new schools.

This year is particularly important as the SFB is not just accumulating information from national indexes, but is focusing on real-life costs as expressed by companies within the construction industry who are currently building new K-12 schools in Arizona and around the country. This is more compelling as it reflects accurate market measurements in the last 18-24 months through 2017.

While allocations of building costs currently published by the SFB are listed as updated December 14, 2016, the agency should determine what is appropriate budgeting to keep pace with increasing costs. Recognizing increases is critical to the successful deployment of new and expanded schools that provide engaging learning environments consistently to all school districts in the State of Arizona.

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The following table is the currently adopted index adopted by the Joint Legislative Budget Committee (JLBC) and is utilized to establish budgets for new and expanded school construction.

Indexing School Costruction Costs
Current December 14, 2016

Grade Level	Urban	Rural
K-6	$142.55	$149.68
7-8	$150.49	$158.01
9-12	$174.25	$182.96
K-8	$144.43	$151.65
6-8	$147.84	$155.23
5-8	$146.51	$153.84
4-8	$145.72	$153.01
7-9	$158.41	$166.33
K-12	$153.97	$161.67
7-12	$166.33	$174.65
6-12	$162.93	$171.08
5-12	$160.40	$168.42

As you evaluate the need to update the FY18 index, the following new codes, security, inflation, best practices, and STEM/STEAM environments apply to that analysis as well. This was discussed last year in the JLBC meeting but not fully recognized in the adjustment reflected in the chart above.

Adjustments

2012 International Building Code (IBC) **Required** Changes and Adjustments

- 1" Poly-ISO continuous insulation at the building envelope, R-38 minimum insulation at roof and R-8 continuous minimums;
- 1" Low-E glass and glazing at all exterior openings in the building;
- Low flow plumbing fixtures;
- Seasonal Energy Efficiency Ratio (SEER) adjustments introduction of an energy model, outside air requirements, and total tonnage/cfm increases;
- Continuous air barrier required for the building envelope;
- Electrical daylighting requirements and lighting control requirements, and;
- Fire alarm requirement for voice evacuation in all educational facilities.

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Inflation

- RS Means Historical Cost Index
  2016 Cost Index of 207.3 and a 2018 Cost Index of 215.8 which equals an Inflation increase of 4.1%;
- Rider Levett Bucknall Quarterly Construction Cost Report
  Comparative Cost Index current through July 2017 is equal to 3.11% and if projected out to July 2018, the Cost Index could be 4.58% increase in construction costs, and;
- Chasse Construction Company Cost Index
  Chasse is currently building K-12 in Arizona. The Agua Fria Union Canyon View High School project is being funded by the SFB and Bond funding. The Chasse Cost Index is currently 6%.

The following tables compare the current Construction Cost Index and the projected Construction Cost Index through July 1, 2018.

Non-STEM/STEAM Learning Environments
(based on inflation projected at 6%)

Indexing School Costruction Costs
Current December 14, 2016

Grade Level	Urban	Rural
K-6	$142.55	$149.68
7-8	$150.49	$158.01
9-12	$174.25	$182.96
K-8	$144.43	$151.65
6-8	$147.84	$155.23
5-8	$146.51	$153.84
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7-12	$166.33	$174.65
6-12	$162.93	$171.08
5-12	$160.40	$168.42

Indexing School Costruction Costs
Projected through July 1, 2018

Grade Level	Urban	Rural
K-6	$151.10	$158.66
7-8	$159.52	$167.49
9-12	$184.71	$193.94
K-8	$153.10	$160.75
6-8	$156.71	$164.54
5-8	$155.30	$163.07
4-8	$154.46	$162.19
7-9	$167.91	$176.31
K-12	$163.21	$171.37
7-12	$176.31	$185.13
6-12	$172.71	$181.34
5-12	$170.02	$178.53

Functional Updates based on best practices

- Code compliance, security, upgraded materials, and technology advancements.

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Science, Technology, Engineering and Math (STEM)/STEAM environment

- Structural impact with the introduction of learning stairs and operable glass partitions;
- Upgraded finishes to the interiors including doors, flooring, ceilings elements, acoustics, and lighting;
- HVAC – Upgrades to the Variable Air Volume (VAV) distribution due to flexible environments and capacity requirements.

The indexes to the left below were prepared by Chasse Construction with leading construction firms currently building K-12 schools in Arizona. These indexes are based on eight (8) K-8 completed and nearly completed schools in urban districts. The total $/ft^2 for a K-8 school in an urban setting is $185.11/ft^2.

The indexes to the right below, were also prepared by Chasse Construction and are influenced by the inclusion of STEM/STEAM Best Practices based on the same eight (8) K-8 completed and nearly completed schools in urban districts. The total $/ft^2 for a K-8 STEM/STEAM school in an urban setting is $234.61/ft^2.

	SFB 2017 INDEX			SFB STEM/FLEXIBLE LEARNING SCHOOL INDEX	
	REVISED TOTAL	COST PER SF	AVERAGE PREMIUM	REVISED TOTAL	COST PER SF
DEMOLITION	$ -	$ -	$0	$ -	$ -
SITE IMPROVEMENTS	$ 1,583,853	$ 18.33	$247,643	$ 1,831,496	$ 21.20
OFFSITE IMPROVEMENTS	$ 219,788	$ 2.54	$0	$ 219,788	$ 2.54
STRUCTURE	$ 2,602,123	$ 30.12	$356,076	$ 2,958,199	$ 34.24
EXTERIOR SKIN	$ 816,896	$ 9.45	$855,067	$ 1,671,763	$ 19.35
ROOFING	$ 646,135	$ 7.48	$79,592	$ 725,728	$ 8.40
INTERIORS	$ 2,316,831	$ 26.80	$1,098,739	$ 3,414,370	$ 39.52
EQUIPMENT	$ 350,591	$ 4.06	$446,412	$ 797,003	$ 9.23
CONVEYING	$ 50,264	$ 0.58	$0	$ 50,264	$ 0.58
PLUMBING	$ 620,804	$ 7.19	$218,966	$ 839,769	$ 9.72
FIRE PROTECTION	$ 146,588	$ 1.70	$0	$ 146,588	$ 1.70
HVAC & CONTROLS	$ 1,513,469	$ 17.52	$142,742	$ 1,656,211	$ 19.17
ELECTRICAL & FIRE ALARM	$ 1,584,856	$ 18.34	$458,409	$ 2,043,265	$ 23.65
SPECIAL SYSTEMS	$ 320,992	$ 3.72	$263,045	$ 584,037	$ 6.76
PROJECT REQUIREMENTS	$ 81,488	$ 0.94	$5,826	$ 87,313	$ 1.01
JOBSITE MANAGEMENT	$ 643,977	$ 7.45	$86,917	$ 730,894	$ 8.46
SOFT COSTS	$ 1,951,522	$ 22.64	$559,384	$ 2,511,413	$ 29.07
SUBTOTAL PROJECT	$ 15,478,576	$ 179.16	$ 4,277,308	$ 19,755,884	$ 228.67
CONTINGENCY	$ 513,967	$ 5.95	$ -	$ 513,967	594.90%
TOTAL PROJECT	$ 15,992,544	$ 185.11	$ 4,277,131	$ 20,263,675	$ 234.61

While the tables above prepared by Chasse Construction consider that costs are escalating over time, more compelling observations and evidence point toward increasing labor cost as a result of a decreasing labor pool due to a shift in workforce to the southeast and Gulf Coast. Increased

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confidence in economic growth is also contributing to increased assessed values for labor, materials, and profits. As the construction industry evaluates project opportunities, they may decline some projects in favor of higher margin work that doesn't require adding human resources and capital. This further drives the industry's views of cost projections upward as we move into FY19.

Special schedule pressures associated with K-12 schools are also affecting the cost of construction. Fitting construction activities into school breaks compresses the time to complete, which requires more staffing, higher-level skilled workers, and expedited material deliveries.

As the requirement grows for more schools based on community growth and student migration to higher performing school districts, there are greater pressures on cost escalation and the number of SFB conceptual approvals of new schools over the next five (5) years. Enabling flexibility to accommodate the newest technologies, those understood today and those tools not yet understood, is critical to the planning process and will also have an impact on future costs.

The following matrixes are from left to right, the current $/sf construction costs, the proposed $/ft2 for new school buildings, and proposed $/sf for new STEM/STEAM school buildings.

Indexing School Costruction Costs
Current December 14, 2016

Grade Level	Urban	Rural
K-6	$142.55	$149.68
7-8	$150.49	$158.01
9-12	$174.25	$182.96
K-8	$144.43	$151.65
6-8	$147.84	$155.23
5-8	$146.51	$153.84
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5-12	$160.40	$168.42

Indexing School Costruction Costs
Projected through July 1, 2018

Grade Level	Urban	Rural
K-6	$151.10	$158.66
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9-12	$184.71	$193.94
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5-8	$155.30	$163.07
4-8	$154.46	$162.19
7-9	$167.91	$176.31
K-12	$163.21	$171.37
7-12	$176.31	$185.13
6-12	$172.71	$181.34
5-12	$170.02	$178.53

STEM/STEAM Learning Environments
Indexing School Costruction Costs
Projected through July 1, 2018

Grade Level	Urban	Rural
K-6	$230.36	$241.88
7-8	$243.19	$255.34
9-12	$281.59	$295.66
K-8	$233.40	$245.07
6-8	$238.91	$250.85
5-8	$236.76	$248.61
4-8	$235.48	$247.26
7-9	$255.99	$268.79
K-12	$248.82	$261.26
7-12	$268.79	$282.23
6-12	$263.29	$276.47
5-12	$259.21	$272.17

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Cost Summary

New school projections for FY18 delineates the impact of the anticipated inflationary increases as well projecting the expenditures to incorporate STEM/STEAM Learning Environments. The result of funding consistent with this understanding is indicated in the following table.

District	Project Number	Project Type	Grade Level	Square Feet	Student Capacity	Current Formula per SF [1]	Current Formula Funding	Proposed Formula per SF [2]	Proposed Formula Funding	Difference	Proposed Formula per SF [3]	Proposed Formula Funding	Difference
Chandler USD	029	Additional space	9-12	50,000	532	$174.25	$ 8,712,500	$ 184.71	$ 9,235,500	$ 523,000	$ 281.59	$ 14,079,500	$ 5,367,000
Chandler USD	TBD	Additional space	9-12	50,000	532	$174.25	$ 8,712,500	$ 184.71	$ 9,235,500	$ 523,000	$ 281.59	$ 14,079,500	$ 5,367,000
Queen Creek USD	005	New School	K-5	63,000	788	$142.55	$ 8,980,650	$ 151.10	$ 9,519,300	$ 538,650	$ 230.36	$ 14,512,680	$ 5,532,030
Tolleson UHSD	006	New School	9-12	275,000	2,926	$174.25	$47,918,750	$ 184.71	$50,795,250	$2,876,500	$ 281.59	$ 77,437,250	$29,518,500
							$74,324,400		$78,785,550	$4,461,150		$120,108,930	$45,784,530

1 *Funding per square foot approved by JLBC on 12/14/2016*

2 *Based on 6% increase*

3 *Based on STEM/STEAM Learning Environments*

During the 2017 legislative session, criteria by which the SFB awards new schools changed. Per Laws 2017, Ch. 304, § 15-2041 D.3. (HB 2545), the SFB must now use a school district's current year 40-Day ADM to determine its eligibility for new construction, rather than the projected 100-Day ADM. Two projects which were conceptually-approved last year to be approved in FY18 are close, but may not qualify based on 40-Day ADM. The first is a K-8 school for Sahuarita USD (4,092 ADM vs. 4,220 capacity) which may qualify with an increase of 129 ADM. The second is a K-5 school for Vail USD (5,427 ADM vs. 5,465 capacity) which may qualify with an increase of 39 ADM. These two possible new schools are not listed in the table above.

Teaching and learning for the 21st century prepares young people to engage in a complex and dynamic world deeply influenced by globalization and the revolution in digital technology. Higher student performance is evident in new technology-rich, flexible learning spaces, characterized by open space and permeable boundaries, as well as comfortable and moveable furnishings that encourage flexibility in learning and teaching. This enhances collaborative, team teaching engagement that claims significant educational benefits. This environment of technology-enriched teaching and common spaces, facilitated by multiple teachers/facilitators is far-reaching in the processes, outcomes, assessments, and indicators of student learning.

Evidence shows that providing the facilities infrastructure to enable engaging learning environments ensures performance results. Performance results can tell the story of a State poised to accept the most demanding, most innovative, most entrepreneurial, and desired businesses. Businesses can project the attitude that the State of Arizona is a critical player in propelling businesses forward in the world marketplace. Arizona can be the place to build a 21st Century business by any established firm as well as start-ups. Education viewed as an investment reinforces the message that strong economic growth, higher revenues, better jobs, and lower personal taxes are our indicators for success.

ARIZONA
School Facilities
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This is a request to align the $\$/ft^2$ with current trends in creating equitable learning environments within our schools state-wide so that every child in Arizona's K-12 system will be a critical contributor in the economic growth and sustainability of our Great State.

There is no discussion more important than the education of our children and young adults. They shape our future and they're counting on us to provide them with the most engaging learning opportunities we can. The School Facilities Board wants to meet that challenge and asks that you join us in providing these engaging learning environments where our kids can thrive.

If you would like to discuss the contents and basis of this request, I will be honored to make myself available at your convenience.

Sincerely,

Paul G. Bakalis, AIA, NCARB, CSBA
Executive Director

Arizona School Facilities Board
602.542.6143 o
pbakalis@azsfb.gov

cc: Gilbert Davidson, Chief of Staff, Governor's Office
Dawn Wallace, Education Policy Advisor, Governor's Office
Matt Gress, Director OSPB
Richard Stavneak, Director, JLBC
Bret Cloninger, OSPB
Rebecca Perrera, JLBC Staff

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STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: January 2, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Matt Beienburg, Senior Fiscal Analyst MB

SUBJECT: Arizona Department of Education - Review of Additional Empowerment Scholarship Account Administrative Funding

Request

Pursuant to a FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the Arizona Department of Education (ADE) has submitted for review its expenditure plan for the additional $400,000 appropriated for Empowerment Scholarship Account (ESA) administration in FY 2018.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

Key Points

1) FY 2018 budget increased ADE's ESA administrative appropriation by $400,000 to $1,202,000.
2) Increased appropriation will fund additional staff, automate application and expense reporting processes, and support capital/indirect costs.
3) Appropriation remains below amount generated by 5% administrative set-aside from ESA awards.

Analysis

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) appropriated $1,202,000 from the Department of Education ESA Fund for administration of the ESA program authorized in A.R.S. § 15-2402. This amount included a $400,000 increase over the prior year.

(Continued)

ADE reports that it will use the additional $400,000 to increase ESA program staffing and complete IT projects that will simplify the application and expense reporting process for parents and increase automation of ESA expenditure monitoring.

As shown in *Table 1*, ADE indicates it will use approximately $263,000 of the additional funds for salaries and benefits, $95,700 for IT upgrades, and $41,300 for indirect and capital costs.

The additional salary and benefit expenditures will support 3.5 additional FTE Positions, including 1 Expense Report Specialist for enhanced monitoring of quarterly expense reports and 2.5 additional ESA specialist positions.

All $95,700 of IT expenditures will support one-time system upgrades, with the exception of the $665 Software Support and Maintenance line item, which will be used for ongoing software licenses.

Table 1

Additional ESA Administration Funding
FY 2018 Expenditure Plan 1/

Additional Staff	
Salaries	$190,000
Employee Benefits	73,000
Subtotal	**$263,000**
Information Technology	
Adobe DocuSign for ESA Contracts	$ 20,000
Parent Reminders	21,000
Bank Data for Parent Expense Reporting	28,000
2018 Update Award Calculator	6,000
Application Enhancements (AzEDS)	16,000
Internal Telecom	4,035
Software Support and Maintenance	665
Subtotal	**$ 95,700**
Capital, Supplies, Indirect Costs	
Office Supplies	$ 300
Capital Equipment	1,000
Indirect Cost	40,000
Subtotal	**$ 41,300**
Total	**$400,000**

1/ Reflects only the $400,000 of additional FY 2018 funding. ADE ESA Fund appropriations total $1,202,000 in FY 2018, including statewide adjustments.

Background

ESA Fund revenues consist of monies retained from Basic State Aid pursuant to A.R.S. § 15-2402C. That law allows ADE to retain for ESA program administration 5% of the sum of the base support level (BSL) and additional assistance prescribed in A.R.S. § 15-185 and A.R.S. § 15-943 for each student participating in the ESA program. Of this amount, 4% is deposited into ADE's ESA Fund, while 1% is transferred to the Treasurer's ESA Fund to cover costs associated with managing ESA debit accounts.

(Continued)

The JLBC Staff estimates that the 5% ESA administrative set-aside will generate approximately $3.0 million in FY 2018. Of this amount, ADE would retain $2.4 million in its ESA Fund and transfer $600,000 to the Treasurer's ESA Fund.

The actual expenditure of the retained monies, however is subject to legislative appropriation. For FY 2018, the amount appropriated for ESA administration to ADE is $1,202,000.

Because the amount generated by the set-aside exceeds the amount appropriated—as it has in each year since the program's inception—ADE estimates that the ESA Fund will have a non-lapsing FY 2018 ending balance of $2.9 million.

MB:kp

State of Arizona
Department of Education
Office of Diane M. Douglas
Superintendent of Public Instruction

October 23, 2017

The Honorable Don Shooter, Chairman 2017
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

RE: Expenditure Plan for Fiscal Year 2018 Additional ESA Appropriation

Dear Chairman Shooter:

Pursuant to Laws 2017, Chapter 305, Section 121, I am submitting for the Committee's review an expenditure plan for the additional $400,000 appropriated in fiscal year 2018 to the Arizona Department of Education (ADE) for the department's costs in administering the Empowerment Scholarship Account (ESA) program.

As part of its commitment to delivering outstanding customer service, ADE will use much of the additional appropriation to support increased staffing levels within the ESA program, which is currently serving over 4,300 students and their families. ADE also will use a portion of the funding to complete high impact information technology projects that will simplify the application and expense reporting process for parents and deliver enhanced automated monitoring of ESA expenditures.

Please feel free to contact my office with any questions.

Respectfully,

Charles Tack
Associate Superintendent
Policy Development and Government Relations
Arizona Department of Education

Enclosure

cc: Richard Stavneak, JLBC
Matt Beienburg, JLBC
Steve Schimpp, JLBC

Department of Education
FY18 Additional ESA Appropriation

October 23, 2017

FY18 Expenditure Plan for Additional $400,000 ESA Appropriation:

Projected Expenditures	
Personnel Services	**$190,000.00**
Employee Related Expenses	**$73,000.00**
Information Technology	
Adobe DocuSign for ESA Contracts	*$20,000.00*
Parent Reminders	*$21,000.00*
Bank Data for Parent Expense Reporting	*$28,000.00*
2018 Update Award Calculator	*$6,000.00*
Application Enhancements (AzEDS)	*$16,000.00*
Information Technology Total	**$91,000.00**
Internal Telecom	**$4,035.00**
Software Support and Maintenance	**$665.00**
Office Supplies	**$300.00**
Capital Equipment	**$1,000.00**
Indirect Cost	**$40,000.00**
TOTAL	**$400,000.00**

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STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: January 2, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Rebecca Perrera, Senior Fiscal Analyst RP

SUBJECT: Arizona Department of Administration - Review of FY 2018 State Data Center Project (Automation Projects Fund)

Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Committee review $3,405,100 in proposed FY 2018 expenditures from the Automation Projects Fund (APF) for information technology (IT) projects related to the State Data Center (SDC) at the Arizona Strategic Enterprise Technology (ASET) Office in ADOA.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.
2. An unfavorable review of the request.

Under either option, the Committee may consider the following provisions:

A. Committee review is contingent on the Legislature making FY 2018 APF funds non-lapsing through FY 2019.

B. On or before February 1, 2018, ADOA shall submit to the Committee its proposed plans for 1510 West Adams Street once the State Data Center is relocated.

C. On or before February 1, 2018, ADOA shall submit a report to the Committee on the operational savings achieved by relocating the State Data Center to a private facility.

(Continued)

Key Points

1) The JLBC has already reviewed ADOA spending $5.7 million to relocate the SDC to a private facility.
2) ADOA now proposes expending $3.4 million over 2 years for the network infrastructure and facility leases needed to relocate the SDC to a private facility.
3) ADOA plans to spend $978,000 in FY 2018 and $2.4 million in FY 2019.
4) The project has received ITAC review but ADOA has not yet selected a third-party oversight consultant as required by statute.
5) The relocation will leave the SDC vacant and may decrease operating costs.

Analysis

Background

The Automation Projects Fund consists of monies appropriated to it by the Legislature and administered by ADOA. Monies in the fund are to be used to implement, upgrade, or maintain automation IT projects for any state agency. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to the JLBC for review.

All IT projects over $25,000 are reviewed by ASET through the PIJ process. If an IT project's development cost exceeds $1.0 million, statute requires the project to receive additional approval by ITAC. ITAC consists of members from both the public and private sectors and is staffed by ADOA. If a project funds internal staff or training, ADOA does not require ITAC or ASET approval.

Current Request

ADOA's ASET office operates and maintains the State Data Center (SDC), housed at 1510 West Adams Street. The SDC currently provides services to more than 140 customers including state agencies as well as Hawaii's Medicaid Program. The physical facility, including fire suppression, generator capacity, and commercial power, requires continual maintenance. For example, in FY 2014, the Committee favorably reviewed ADOA's $2.1 million expenditure plan to update the back-up power supply at the SDC. In FY 2017, ADOA began a project to relocate the SDC to a privately-operated facility. The state would lease space at the facility and the private operator would be responsible for facility maintenance. ADOA employees would continue to staff the SDC. The Department of Economic Security and the Department of Revenue already lease space in a private data center.

The FY 2017 budget appropriated $5,700,000 of APF monies to implement the equipment framework at a third-party off-site data center and to update infrastructure on the Capitol Mall for network connectivity. These improvements facilitate moving data centers for ADOA and other state agencies to a privately-operated location. The Committee favorably reviewed ADOA's proposed $5.7 million FY 2017 expenditure plan in September 2016.

The FY 2018 budget included $3,405,100 from the APF to continue the state data center migration project. ADOA is currently requesting review of the total $3,405,100. This amount would fund $978,000 in FY 2018 for development costs to complete the network infrastructure and $2,427,100 in FY 2019 for the lease payments for the private facility and for rented network equipment. The Legislature has not yet granted authority for ADOA to expend FY 2018 APF funds in FY 2019. Therefore, the Committee may consider a provision stating that review is contingent on the Legislature making FY 2018 APF funds non-lapsing through FY 2019.

(Continued)

ADOA's FY 2019 budget request includes $5.1 million for phase 3, which would physically relocate the SDC to the third-party off-site facility by December 2018. The relocation would leave the 28,300-square foot building at 1510 West Adams Street vacant. The Committee may consider a provision requiring ADOA to submit a report to the JLBC on its proposed plans for the building.

By moving to an off-site facility, ADOA may decrease operating costs, such as those for utilities. The Committee may consider a provision requiring ADOA to report on the savings achieved by relocating the state data center to a private facility.

RP:kp

Douglas A. Ducey
Governor

Craig C. Brown
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

RECEIVED
NOV 28 2017
JOINT BUDGET COMMITTEE

November 27, 2017

The Honorable David Livingston, Chairman
Arizona House of Representatives
Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Debbie Lesko, Vice-Chairman
Arizona State Senate
Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, Arizona 85007

Dear Representative Livingston and Senator Lesko:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2018 Automation Projects Fund (APF) project, ADOA-ASET Enhancing Statewide Data Security $3,069,296, Data Center Facility Migration $3,405,100, DPS – Microwave System Upgrade $1,500,000, and DOR – IT Infrastructure $5,500,000. Monies to support the expenditure plans appropriated to the APF.

The attached documents contain a detailed explanation of the proposed project. We will be happy to meet with your staff to provide further explanation as appropriate.

Sincerely,

Signature: Craig Brown

Email: craig.brown@azdoa.gov

Craig C. Brown
Director

Enclosures

cc: Richard Stavneak, Director, JLBC
Matthew Gress, Director, OSPB
Derik Leavitt, Assistant Director, ADOA
Rebecca Perrera, JLBC Staff
Ashley Beason, OSPB Staff
Morgan Reed, State CIO

Business Problem

- State Data Center (SDC) Aging Facility not Sustainable.
- There are more than 140 State entities that leverage the SDC's infrastructure, services, and capabilities for mission-critical services.
- The current facility is considered one of two major points of entrance and exit of IT services into the State owned fiber/copper networks.
- Abandonment of State owned Fiber will result in extensive carrier cost for service delivery to each facility.
- Over 35 facilities and 11,000 users are on the Capitol Mall, including the Governor's Tower.

Requirement

- *Shared Hosted Data Center(HDC) must:*
  - Be minimum a Tier 3 as defined by Telecommunications Industry Association(TIA)-942: Data Center Standards.
  - Large enough for expansion of State agencies footprint
  - Have both white (raised floor) space and Modular space
  - Meet all state & federal security requirements
- *Technology solution must:*
  - Provide redundancy by design
  - Allow leveraging and extending of State owned Fiber
  - Allow multi agency service hand off via equipment specifications

Recommended Solution

- Lease space at I/O Data Center
- Lease 4 strands of Commercial Fiber
- Fiber Splicing at the Capitol Mall
- Acquire and Deploy Dense Wavelength Division Multiplexing (DWDM) to connect Capitol Mall to I/O via leased Fiber
- Acquire and Deploy Data Center switching Infrastructure

Benefits

Service Enhancement

- Leverage a Tier III Datacenter physical security and environment

Problem Avoidance

- Reduce major IT system outage due to environmental issues, i.e. electrical or building cooling systems

Risk Avoidance

- Moving a critical system out of an aging building

Cost Avoidance/Reduction

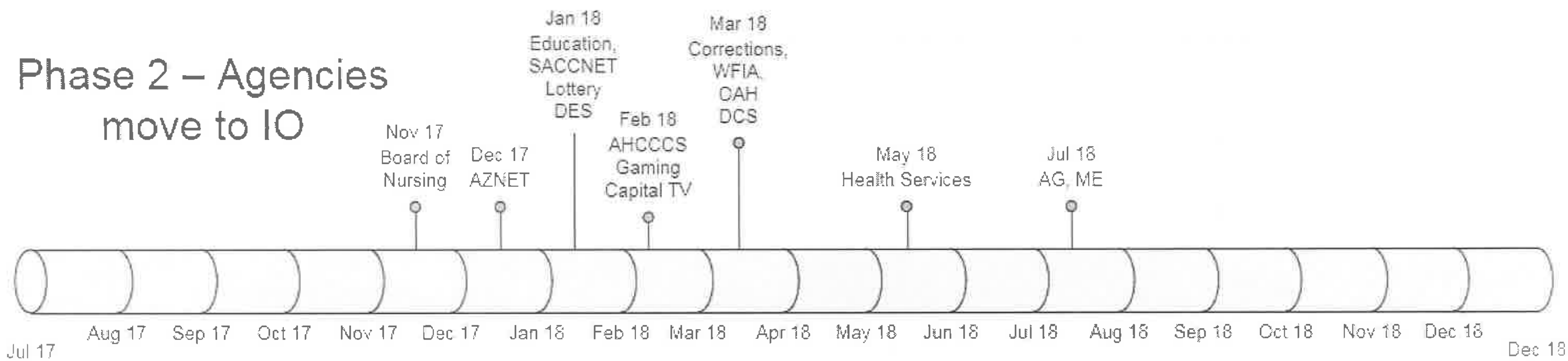
- No additional carrier charge by leveraging the DWDM
- Disconnect agencies dedicated carrier connection from the Capitol Mall to I/O and leverage DWDM

Phase 1 TimeLine

- ✓ An alternate main distribution frame (MDF) has been identified to replace the State Data Center as a new **HUB for State Fiber** (main distribution Frame(MDF)).
- ✓ Installation of conduit and Fiber Splicing for 1116 strand of Fiber into the new MDF need to be completed
- ✓ Identify, validate required space and execute the task order through State Data Center contract at I/O Data Center (referred to as Shared Hosted Data Center (HDC)).
- ✓ Secure 2@ 2 pair of Dark Fiber from commercial carriers to extend state Fiber to a remote Data Center.
- ✓ Acquire managed Dense Wavelength Division Multiplexing (DWDM) equipment to channelize the lease fiber to **match current capacity of the state owned Fiber**
- ✓ Purchase, Configure and install Data Center switching.
- ✓ Purchase, install 1st row of Data Center Rack with required connection to start the migration of servers

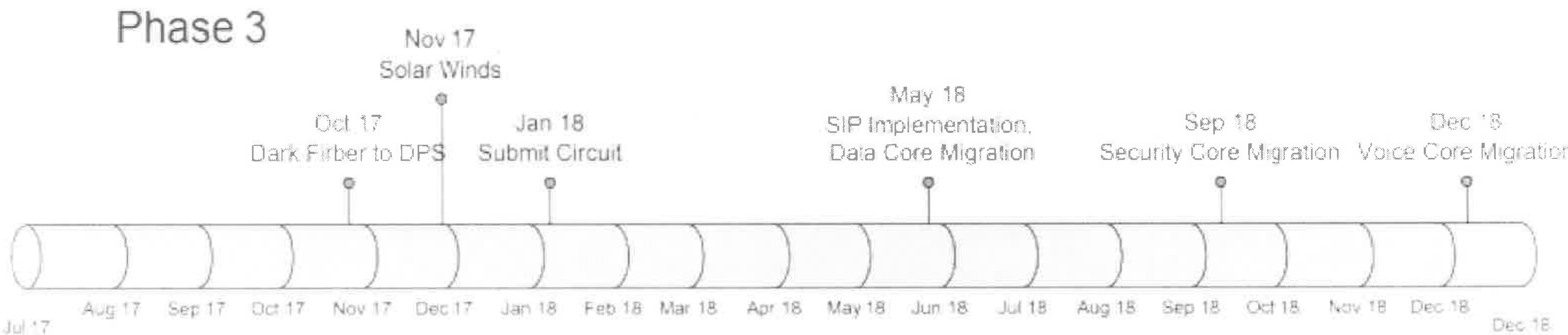
Phase 2 Timeline: $3.4

Phase 2 – Agencies move to IO



Agencies begin moving to IO: Start migration

Phase 3 Data Security & Voice: Pending Approval



- AZNet activities on CORE Infrastructure Migration for the State backbone