JOINT LEGISLATIVE BUDGET COMMITTEE

Wednesday, March 29, 2017

9:00 a.m.

House Hearing Room 4

JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

DEBBIE LESKO
CHAIRMAN 2018
OLIVIA CAJERO BEDFORD
STEVE FARLEY
DAVID C. FARNSWORTH
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1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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HOUSE OF
REPRESENTATIVES

DON SHOOTER
CHAIRMAN 2017
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CHARLENE R. FERNANDEZ
VINCE LEACH
DAVID LIVINGSTON
MICHELLE UGENTI-RITA

JOINT LEGISLATIVE BUDGET COMMITTEE
Wednesday, March 29, 2017
9:00 A.M.
House Hearing Room 4

MEETING NOTICE

- Call to Order

- Approval of Minutes of December 14, 2016.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION
  A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
  B. Department of Child Safety - Litigation Update under A.R.S. § 38-431.03A3.

1. ADOPTION OF COMMITTEE RULES AND REGULATIONS.

2. AHCCCS - Review of Behavioral Health Capitation Rate Changes.

3. DEPARTMENT OF CHILD SAFETY
   A. Review of FY 2017 Second Quarter Benchmarks.
   B. Review of FY 2017 Fourth Quarter Funding for New Case Aides and Overtime.
   C. Review of Alternative Use of Backlog Privatization Resources/Line Item Transfers.

4. DEPARTMENT OF ECONOMIC SECURITY - Review of Developmental Disabilities Line Item Transfers.

5. NORTHERN ARIZONA UNIVERSITY - Review of Expenditure and Performance Report of Nonprofit Biotechnology Research Appropriation.

6. ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Motor Vehicle Modernization Project Annual Progress Report.

The Chairman reserves the right to set the order of the agenda.
3/23/17
lm

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

STATE OF ARIZONA

Joint Legislative Budget Committee

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

December 14, 2016

The Chairman called the meeting to order at 1:05 p.m., Wednesday, December 14, 2016, in Senate Appropriations Room 109. The following were present:

Members:	Senator Shooter, Chairman	Representative Olson, Vice-Chairman
	Senator Farley	Representative Alston
	Senator Griffin	Representative Bowers
	Senator Hobbs	Representative Leach
	Senator Kavanagh	Representative Mach
	Senator Lesko	Representative Montenegro
	Senator Yarbrough	Representative Ugenti-Rita
Absent:	Senator Cajero Bedford	Representative Mitchell

Chairman Don Shooter stated that the agenda item on the Department of Economic Security (DES) Developmental Disabilities transfers would not be heard. DES requested that the item not be heard.

EXECUTIVE SESSION

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

At 1:06 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 2:00 p.m. the Committee reconvened into open session.

(Continued)

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

Representative Olson moved that the Committee approve the recommended settlements proposed by the Attorney General's office in the cases of:

- *Armenta v. State of Arizona*
- *Blackmore v. State of Arizona*
- *Ojeda v. State of Arizona.*

The motion carried.

B. JLBC Annual Performance Review per Rule 7.

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

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of September 21, 2016, Chairman Don Shooter stated that the minutes would stand approved.

CONSENT AGENDA

The following items were considered without discussion.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)/ARIZONA DEPARTMENT OF CORRECTIONS (ADC) - Review of FY 2017 Adult Inmate Management System (Automation Projects Fund).

Pursuant to a FY 2017 General Appropriation Act (Laws 2016, Chapter 117) footnote, ADOA/ADC has requested Committee review of ADOA/ADC's expenditure plan for $8,000,000 appropriated from the Automation Projects Fund in FY 2017 for completion of the replacement of the Adult Inmate Management System. In its analysis, the JLBC Staff offered the following provision:

A. *Require ADC to submit an expenditure plan if they spend in total, more than $100,000 of the $1,307,400 contingency allocation.*

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.

Laws 1998, 4th Special Session, Chapter 6 requires that the Committee review the wireless services portion of ADOA's Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Review of Public Safety Broadband.

Pursuant to an FY 2017 General Appropriation Act footnote, the Committee is required to review ADOA's annual report on expenditures for the State and Local Implementation Grant program associated with the National Public Safety Broadband Network Initiative.

(Continued)

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Review of Automation Projects Fund Expenditure Reallocation.

Pursuant to A.R.S. § 41-714, the Committee is required to review the expenditure plan presented by ADOA from the Automation Projects Fund (APF) prior to expenditure. The FY 2016 APF appropriation included $500,000 for Enterprise Architecture projects. ADOA has requested review of $347,000 of its unspent funds for the development of a Customer Relationship Management System. In its analysis, the JLBC Staff offered the following provision:

A. *ADOA shall ensure that the revised Project Investment Justification document includes additional information as agreed to by JLBC and ASET staff.*

Representative Olson moved that the Committee give favorable reviews to the 4 consent agenda items listed above with the ADC and ADOA provisions as offered by the JLBC Staff. The motion carried.

ARIZONA DEPARTMENT OF EDUCATION (ADE) - Review of Joint Technical Education District (JTED) Quarterly Report.

Mr. Steve Schimpp, JLBC Staff, stated that Laws 2016, Chapter 4 requires the Department of Education (ADE) to submit quarterly reports to the Committee through December 31, 2018 for review on its progress and the subsequent approval or rejection of currently eligible joint technical education district (JTED) programs and courses for eligibility for state funding under the new requirements established in Chapter 4. The JLBC Staff presented options to the Committee.

Ms. Jeanne Roberts, State Director of Career and Technical Education, ADE, responded to member questions.

Representative Olson moved that the Committee give a favorable review to ADE's September 30, 2016 JTED quarterly report rejecting the Arts Management, Entrepreneurship, and Entertainment Marketing programs from eligibility for state funding. The motion carried.

JLBC STAFF - Consider Approval of Index for School Facilities Board Construction Costs.

Ms. Rebecca Perrera, JLBC Staff, stated that the cost-per-square-foot factors used in SFB new school construction financing "shall be adjusted annually for construction market considerations based on an index identified or developed by the JLBC as necessary but not less than once each year." The JLBC Staff presented options to the Committee.

Representative Olson moved that the Committee approve a 4.31% adjustment in the cost-per-square-foot factors. The adjustment is based on longitudinal inflation data, by measuring the change in the Rider Levett Bucknall Phoenix construction cost index since the last JLBC cost-per-square-foot adjustment in November 2008. A.R.S. § 15-2041D allows this adjustment to only be applied prospectively. The motion carried.

DEPARTMENT OF CHILD SAFETY (DCS) - Review of FY 2017 First Quarter Benchmarks.

Mr. Patrick Moran, JLBC Staff, stated the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) requires DCS to submit a report to the JLBC for its review of quarterly benchmarks for assessing progress

(Continued)

made in increasing the department's number of FTE Positions, meeting caseload standards for caseworkers, reducing the number of backlog cases and open reports, and reducing the number of children in out-of-home care. The JLBC Staff presented options to the Committee.

Mr. Greg McKay, Director, DCS, responded to member questions and circulated documents. *(Attachment 1)*

Representative Olson moved *that the Committee give a favorable review of the department's first quarter benchmark report as outlined in the department's submission.* The motion carried.

DEPARTMENT OF CHILD SAFETY (DCS) - Review of FY 2017 Third Quarter Funding for New Case Aides and Overtime.

Mr. Patrick Moran, JLBC Staff, stated the FY 2017 General Appropriation Act requires DCS to submit a report to the JLBC for its review on private contractor awards to address the backlog of non-active cases prior to the expenditure of monies appropriated for New Case Aides and Overtime Pay. The JLBC Staff presented options to the Committee.

Representative Olson moved *that the Committee give a favorable review of $765,200 for New Case Aides and $2,092,500 for Overtime Pay in FY 2017 for third quarter funding. Fourth quarter funding for New Case Aides and Overtime Pay will be reviewed upon further updates on progress of reducing the backlog of non-active cases.* The motion carried.

DEPARTMENT OF PUBLIC SAFETY (DPS) - Review of Sexual Assault Kit Report and Expenditure Plan.

Mr. Eric Billings, JLBC Staff, stated the Committee is required to review DPS' report and expenditure plan for the $500,000 FY 2017 Sexual Assault Kit Testing line item appropriation prior to its expenditure. The JLBC Staff presented options to the Committee.

Representative Olson moved *that the Committee give a favorable review of DPS' report and proposed expenditure plan for the Sexual Assault Kit Testing line item.* The motion carried.

ARIZONA BOARD OF REGENTS (ABOR) - Review of Qualifying College Credit Examinations.

Mr. Matt Beienburg, JLBC Staff, stated the Committee is required to review the list of qualifying college credit examinations and passing scores as part of the College Credit by Examination Incentive Program. The JLBC Staff presented options to the Committee.

Mr. Kody Kelleher, Assistant Vice President, Governmental Affairs, ABOR, responded to member questions.

Representative Olson moved *that the Committee give a favorable review of ABOR's list of qualifying examinations with the following provisions:*

A. *The Committee considers a favorable review of the list of qualifying college credit examinations to remain in effect in subsequent years unless changes are made to the list of examinations or passing scores. Regardless of whether or not such changes are made, ABOR shall continue to report the most current list of qualifying examinations and passing scores to the Department of Education (ADE) and the Committee by September 1 of each year.*

(Continued)

B. *ADE shall submit a copy of its statutorily-required report under A.R.S. § 15-249.06 to the Committee for review. In addition to the items required under A.R.S. § 15-249.06, ADE shall list the amount of award funding received by each school under the incentive program.*

The motion carried.

ARIZONA BOARD OF REGENTS (ABOR) - Review of FY 2017 Tuition Revenues.

Mr. Matt Beienburg, JLBC Staff, stated that the Committee is required to review the expenditure plan of ABOR for tuition revenue amounts greater than the amounts appropriated by the Legislature, and all non-appropriated tuition and fee revenue expenditures for the current fiscal year. The JLBC Staff presented options to the Committee.

The universities' reported total of $2.35 billion in gross tuition and fees excludes revenues from course fees, most summer session revenues, non-degree, extended education, personalized learning, mandatory fees and other miscellaneous student fees. The universities do not identify these collections in either their annual budget requests or the tuition revenue report. The excluded revenues equaled approximately $430 million as of FY 2015.

Representative Olson moved that the Committee give a favorable review ABOR's plan with the provision that ABOR report all tuition and fees in future year reports. The motion carried.

Without objection, the meeting adjourned at 3:47 p.m.

Respectfully submitted:

K Paddack

Kristy Paddack, Secretary

Richard Stavneak

Richard Stavneak, Director

Don Shooter

Senator Don Shooter, Chairman

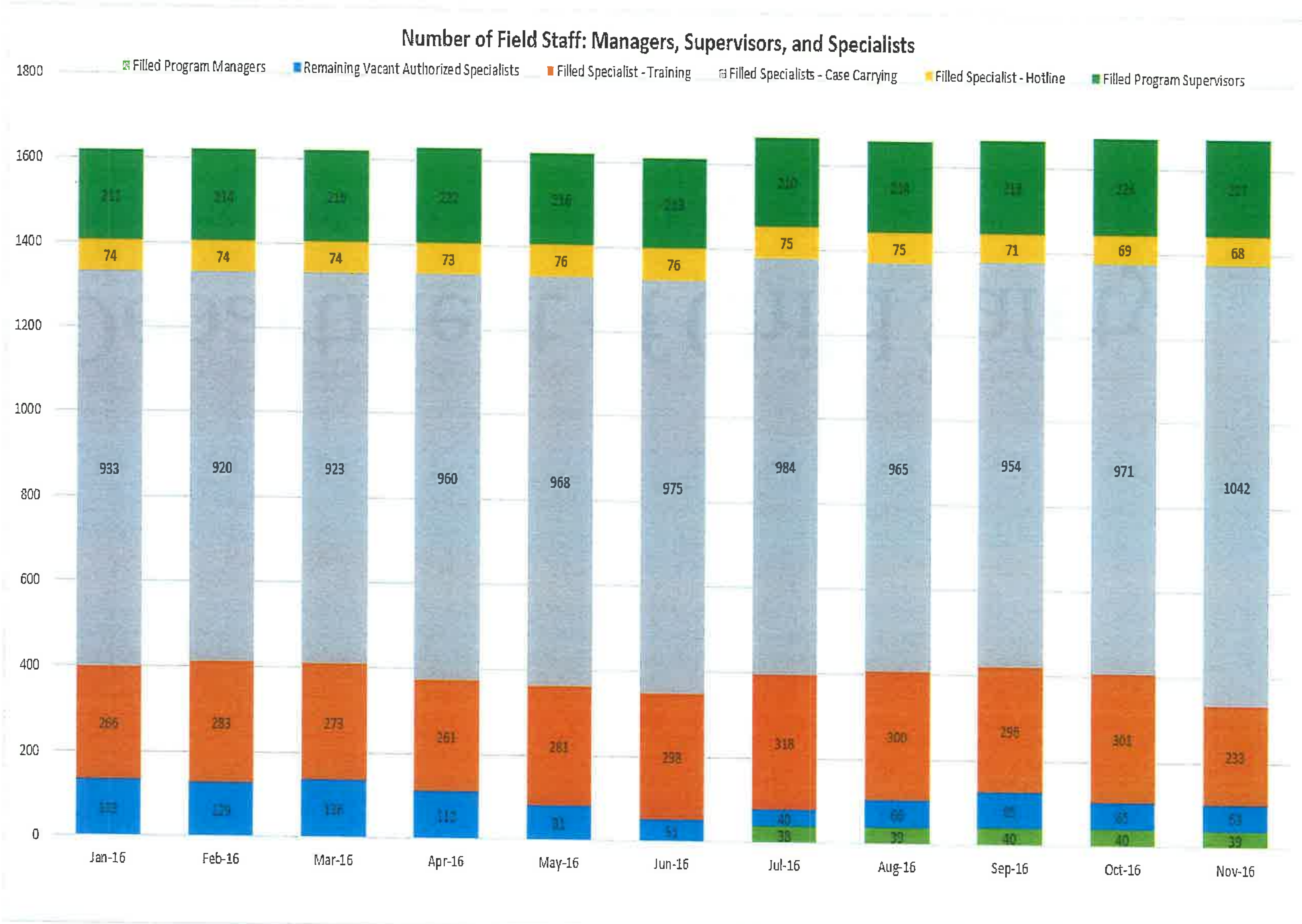
NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at http://www.azleg.gov/jlbc/meeting.htm

Department of Child Safety

Data charts as of week beginning 12.12.16

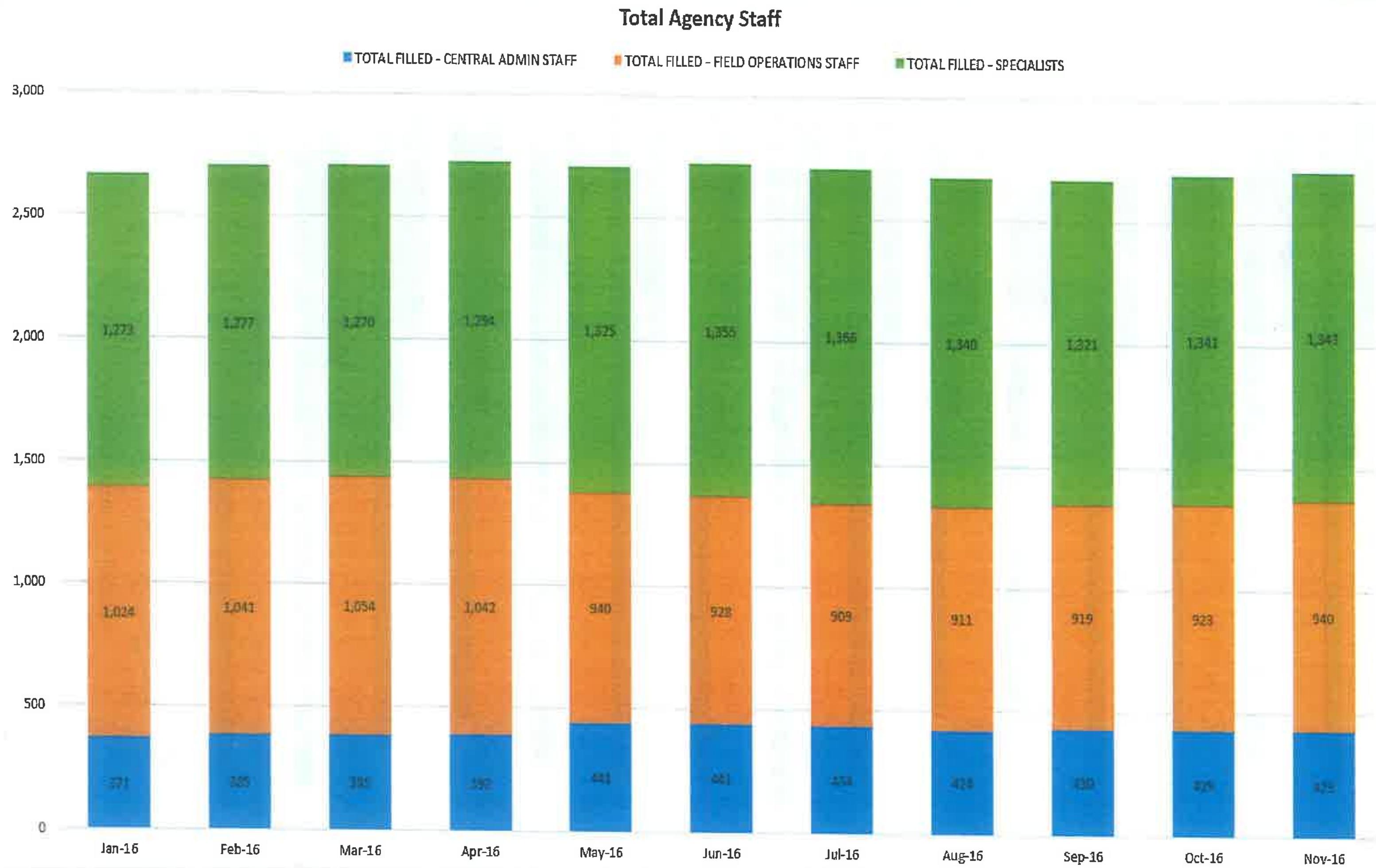
Attachment 1

Field Staff



Data Source: DCS Monthly Staffing Report, 12.8.16

Agency Staff



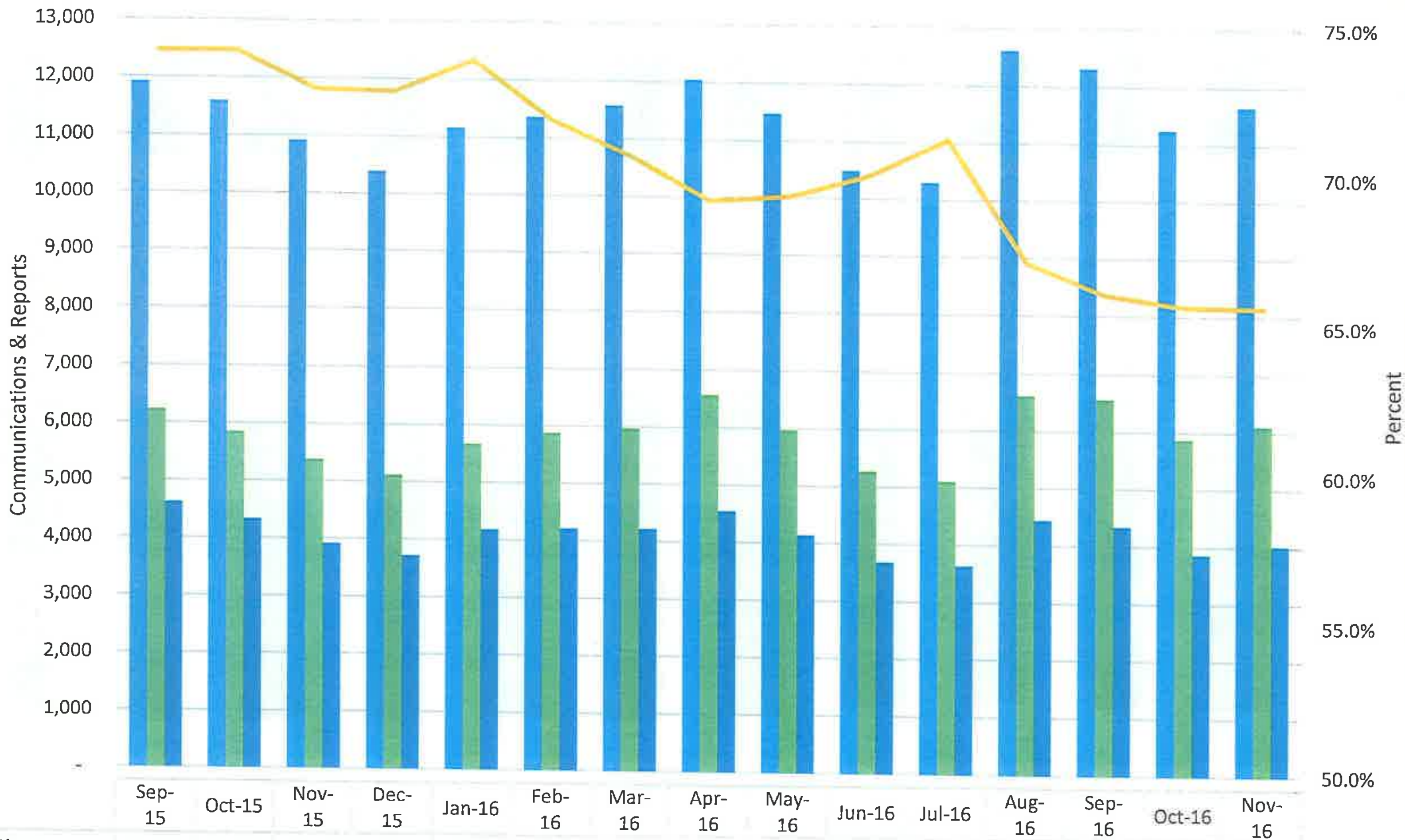
NOTE: Field Staff includes Program Managers, Field Supervisors, and Specialists

Data Source: DCS Monthly Staffing Report, 12.8.16

DEPARTMENT OF CHILD SAFETY

STATE OF ARIZONA

Communications & Reports to the Hotline

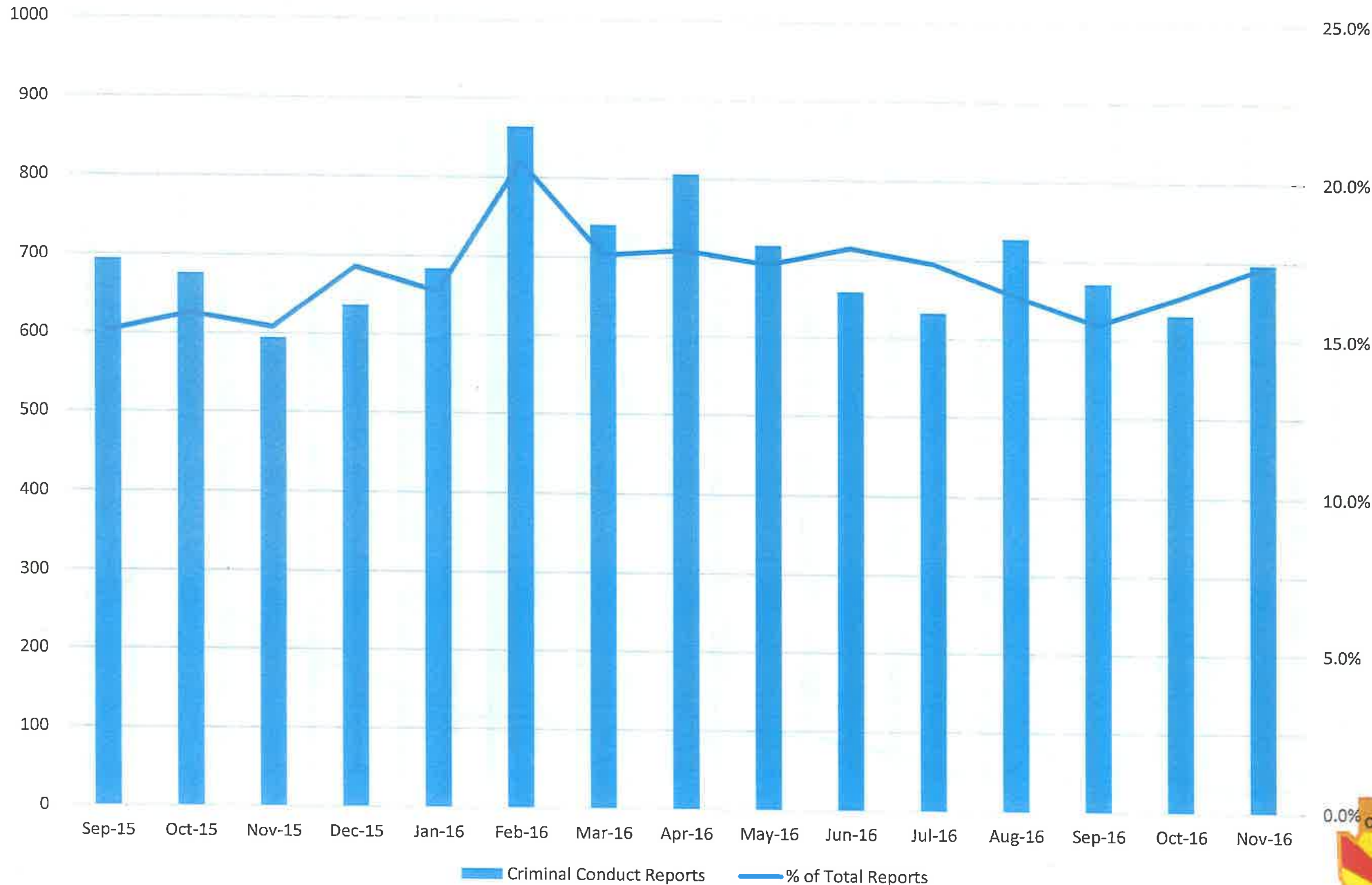


	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Communications	11,920	11,590	10,915	10,385	11,155	11,357	11,582	12,041	11,472	10,493	10,299	12,620	12,309	11,249	11,661
Hotline Communications	6,225	5,839	5,371	5,104	5,666	5,869	5,970	6,567	5,974	5,267	5,106	6,618	6,567	5,876	6,116
Reports	4,605	4,320	3,906	3,709	4,176	4,211	4,214	4,538	4,139	3,687	3,638	4,443	4,340	3,861	4,017
Screen In %	74.0%	74.0%	72.7%	72.7%	73.7%	71.7%	70.6%	69.1%	69.3%	70.0%	71.2%	67.1%	66.1%	65.7%	65.7%

NOTE: Communications, Hotline Communications, and Reports include calls/reports that are no jurisdiction reports.
Screen In % shows reports as a percentage of total Hotline Communications.
Data Source: DCS Tableau Dashboard, Communications Received by Weekday and Hour Reports, 12.12.16

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

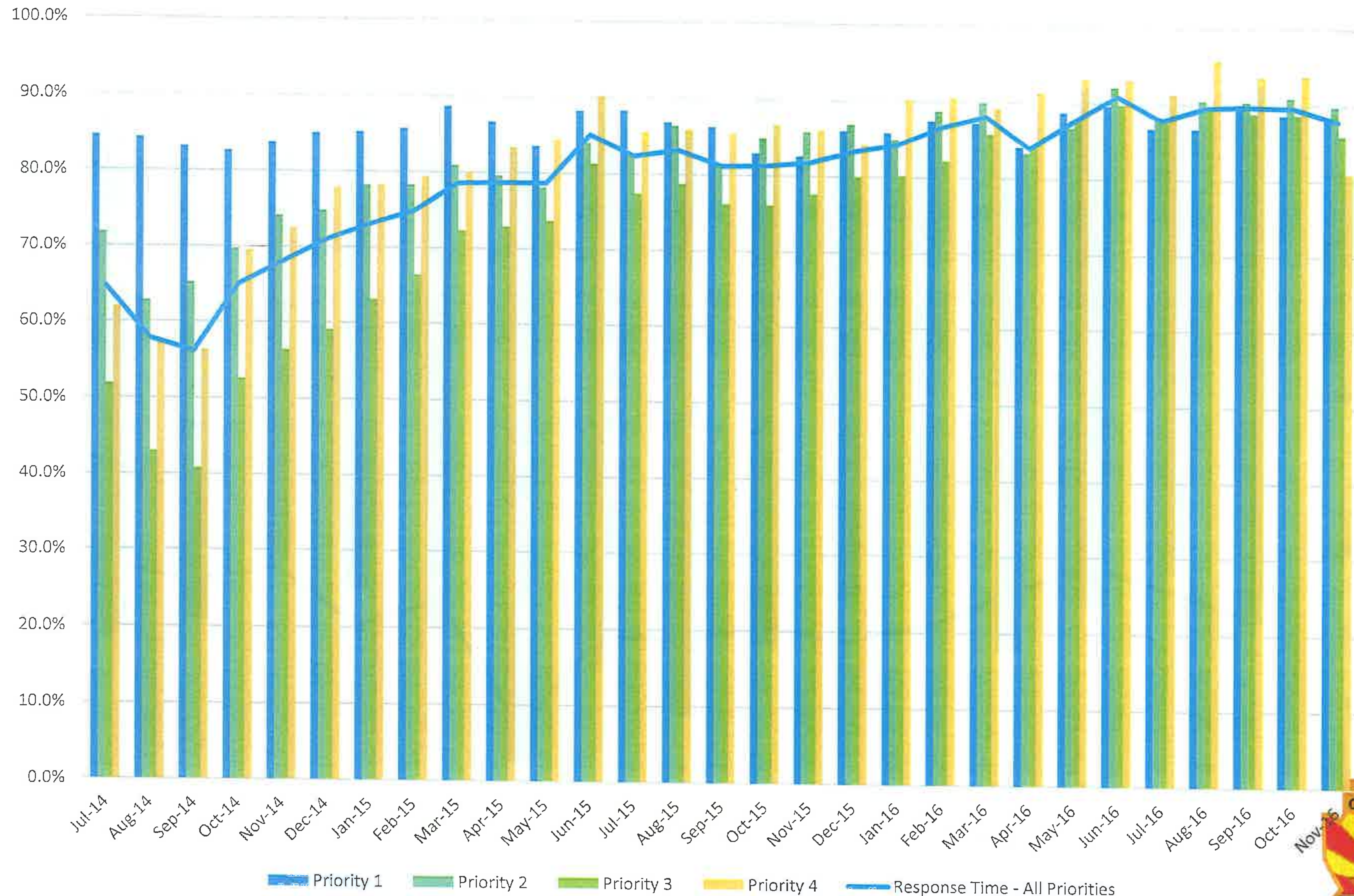
Criminal Conduct Reports



NOTE: Reports include calls/reports that are no jurisdiction reports.

Data Source: DCS Tableau Dashboard, Criminal Conduct Reports, 12.12.16

Response Timeliness



NOTE: November 2016 data is preliminary.

Data Source: DCS Tableau Dashboard, Report Response Timeliness, 12.12.16

DEPARTMENT OF CHILD SAFETY

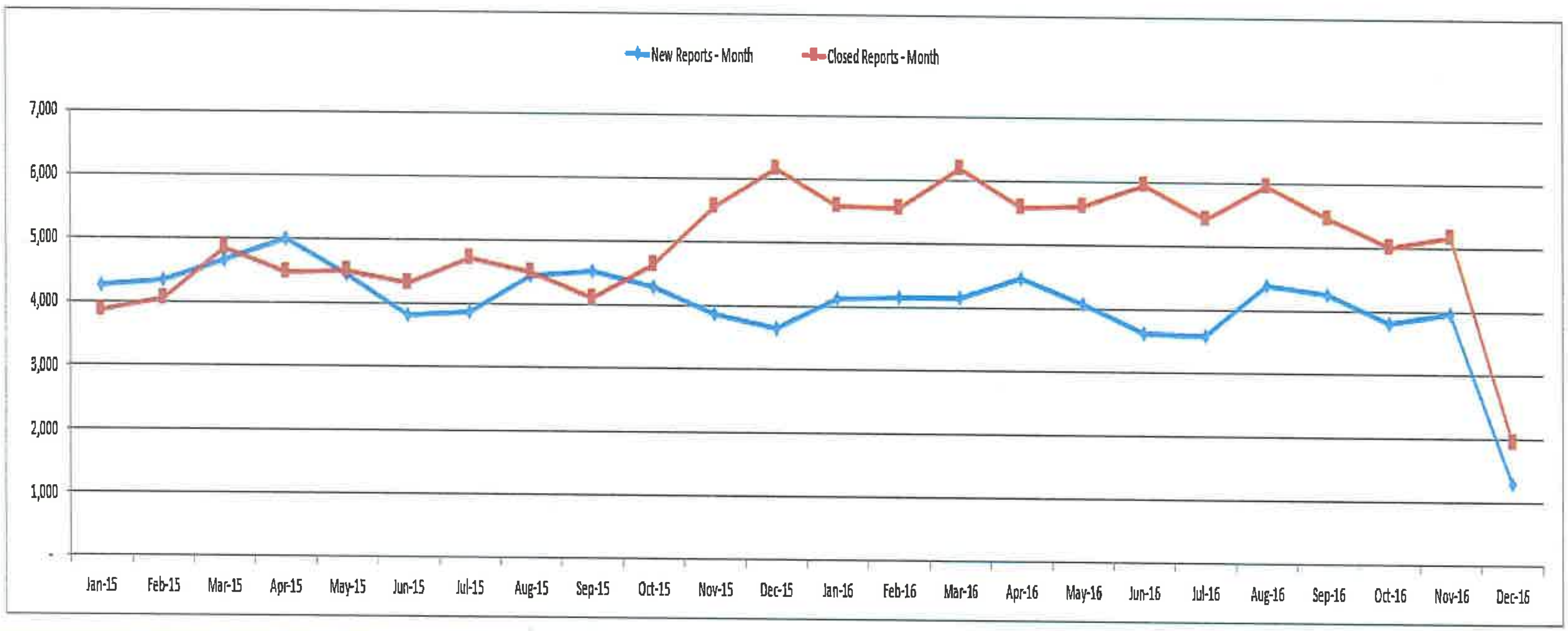
STATE OF ARIZONA

Completed Reports vs. Assigned New Reports

Closed Reports for the Month
versus
Assigned New Reports for the Month
State of Arizona

Reports Received	96,887
Reports Closed	118,786
Net Data	(21,899)
Current Open Reports	10,266

Arizona



State of Arizona	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
New Reports - Month	4,246	4,342	4,647	4,984	4,441	3,801	3,847	4,423	4,526	4,267	3,848	3,649
Closed Reports - Month	3,851	4,031	4,817	4,451	4,499	4,313	4,698	4,489	4,088	4,615	5,549	6,142

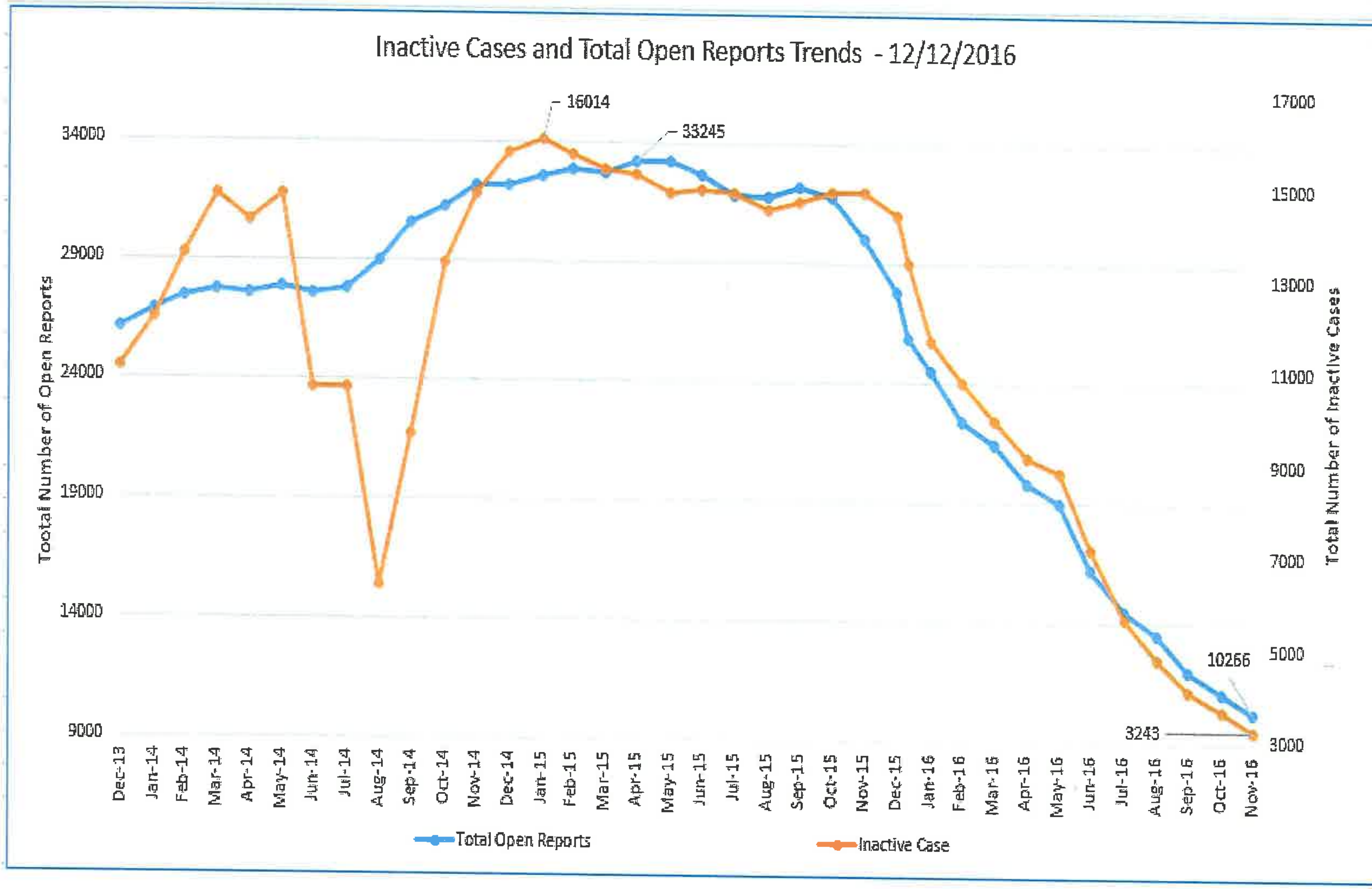
State of Arizona	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
New Reports - Month	4,117	4,140	4,153	4,458	4,076	3,630	3,595	4,374	4,262	3,809	3,961	1,291
Closed Reports - Month	5,573	5,552	6,161	5,556	5,583	5,932	5,408	5,938	5,446	4,981	5,147	1,966

NOTE: Investigations may contain one or more reports. Current open reports is through 12.12.16.

Data Source: Weekly Completed/Assigned Report

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

Inactive Cases and Total Open Reports

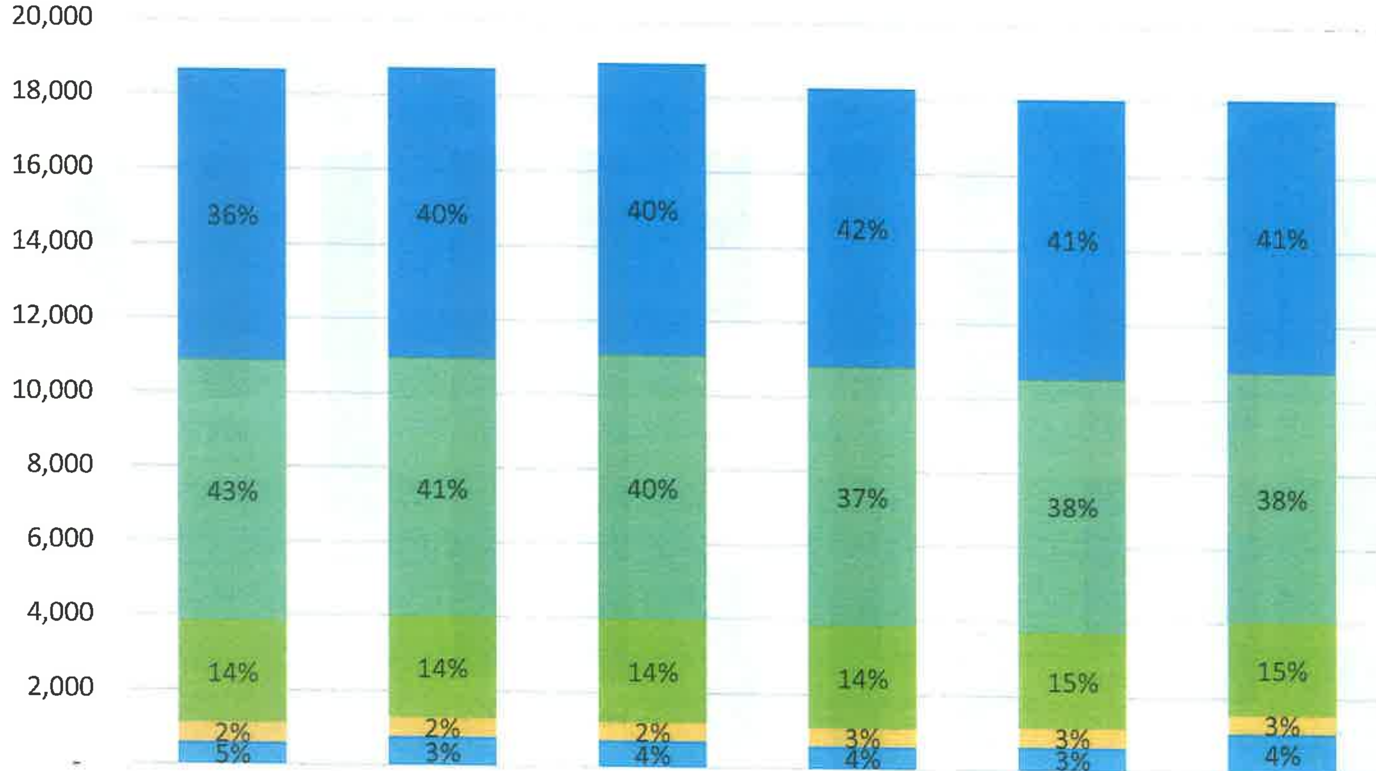


NOTE: Investigations may contain one or more reports. Current open reports is through 12.12.16.

Data Source: Weekly Completed/Assigned Report, and Weekly DCS Inactives Report

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

Children in Out-of-Home Care



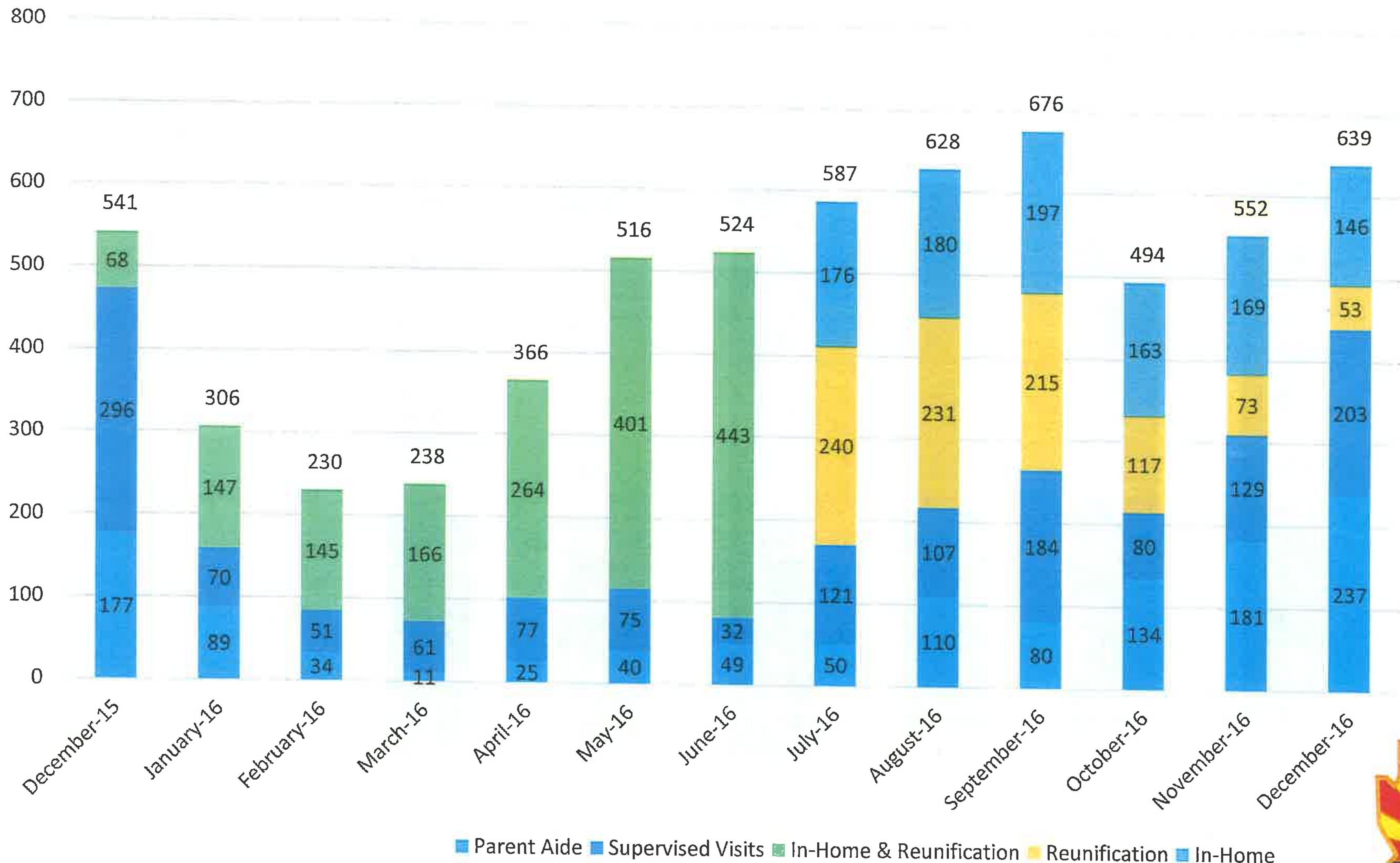
	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Oct 2016*
Unlicensed (Primarily Kinship)	7,796	7,789	7,848	7,468	7,502	7,312
Foster Care	7,017	6,956	7,111	6,986	6,837	6,723
Congregate Care	2,724	2,694	2,742	2,727	2,546	2,473
Independent Living	527	529	505	495	512	506
Other	593	768	711	611	649	1,058
Total in Out-of-Home Care	18,657	18,736	18,917	18,287	18,046	18,072

NOTE: October 2016 data is preliminary

Data Source: DCS Monthly Out-of-Home Care Report, 11.21.16

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

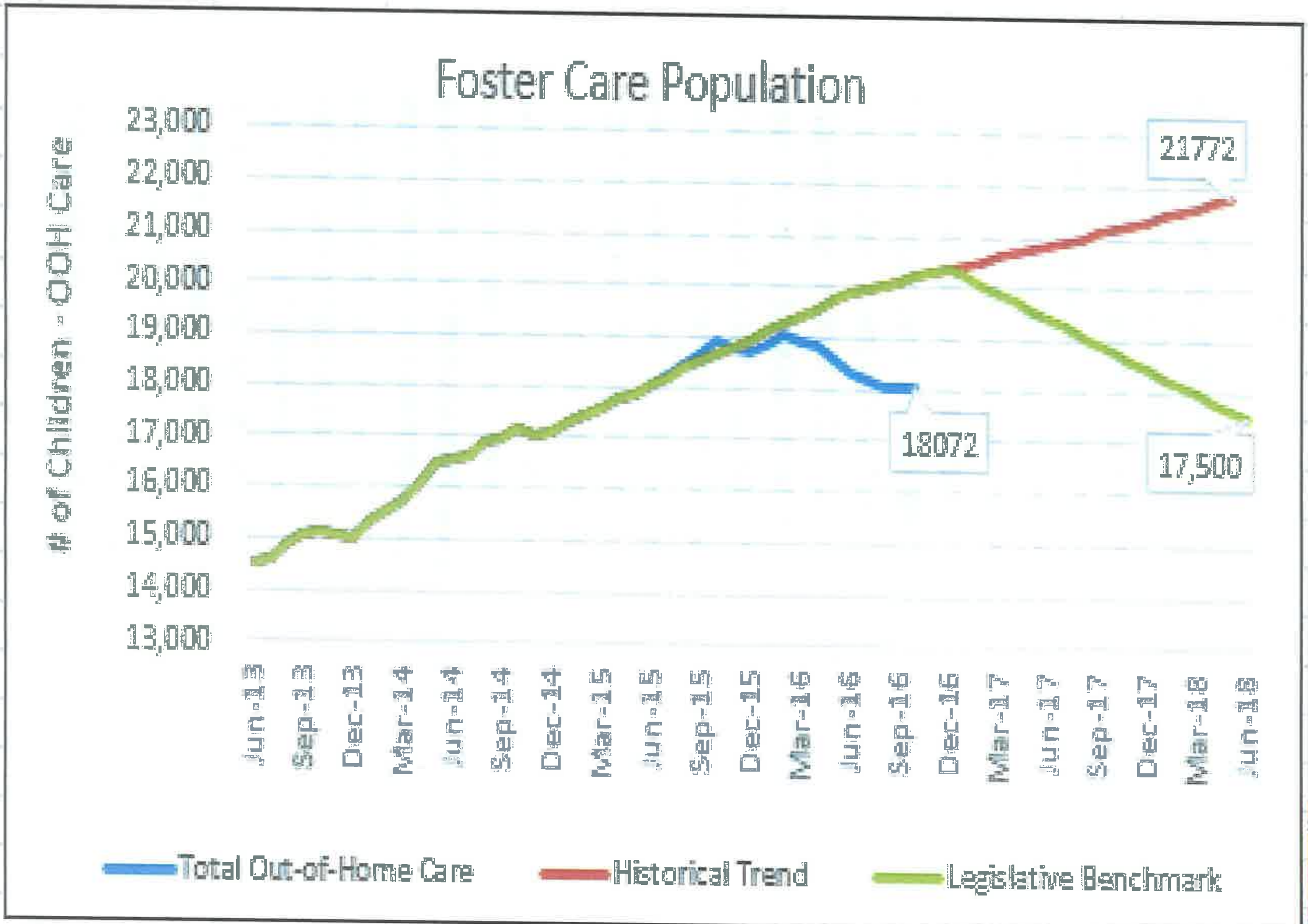
Service Referral Waitlist
Parent Aide, Supervised Visits, and In-home



NOTE: November 2016 data through 12.12.16

Data Source: Weekly DCS Waitlist Report

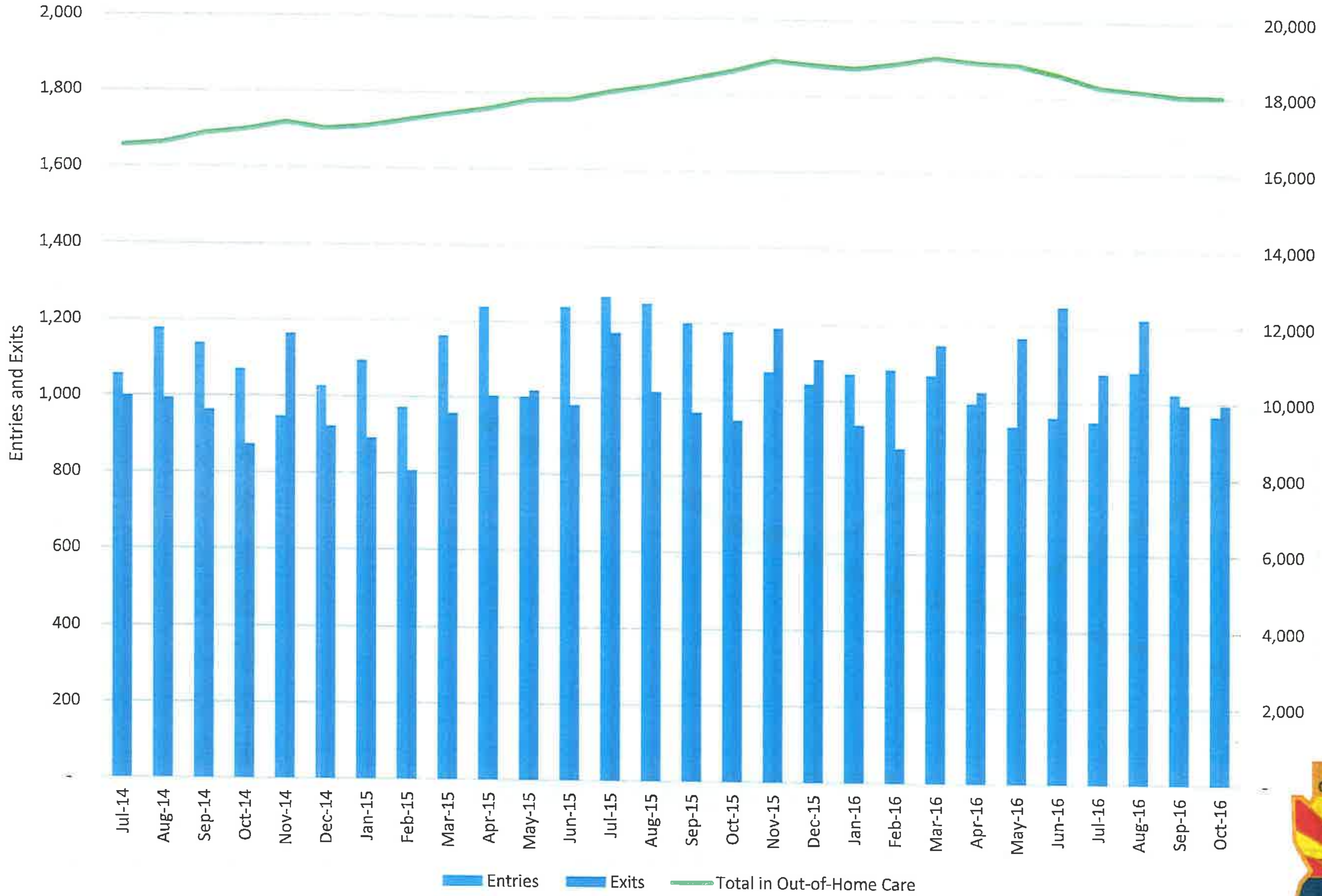
Out-of-Home Care Projection



NOTE: Current OOH population reflects October 2016 data

Data Source: DCS Monthly Out-of-Home Care Report, 11.21.16

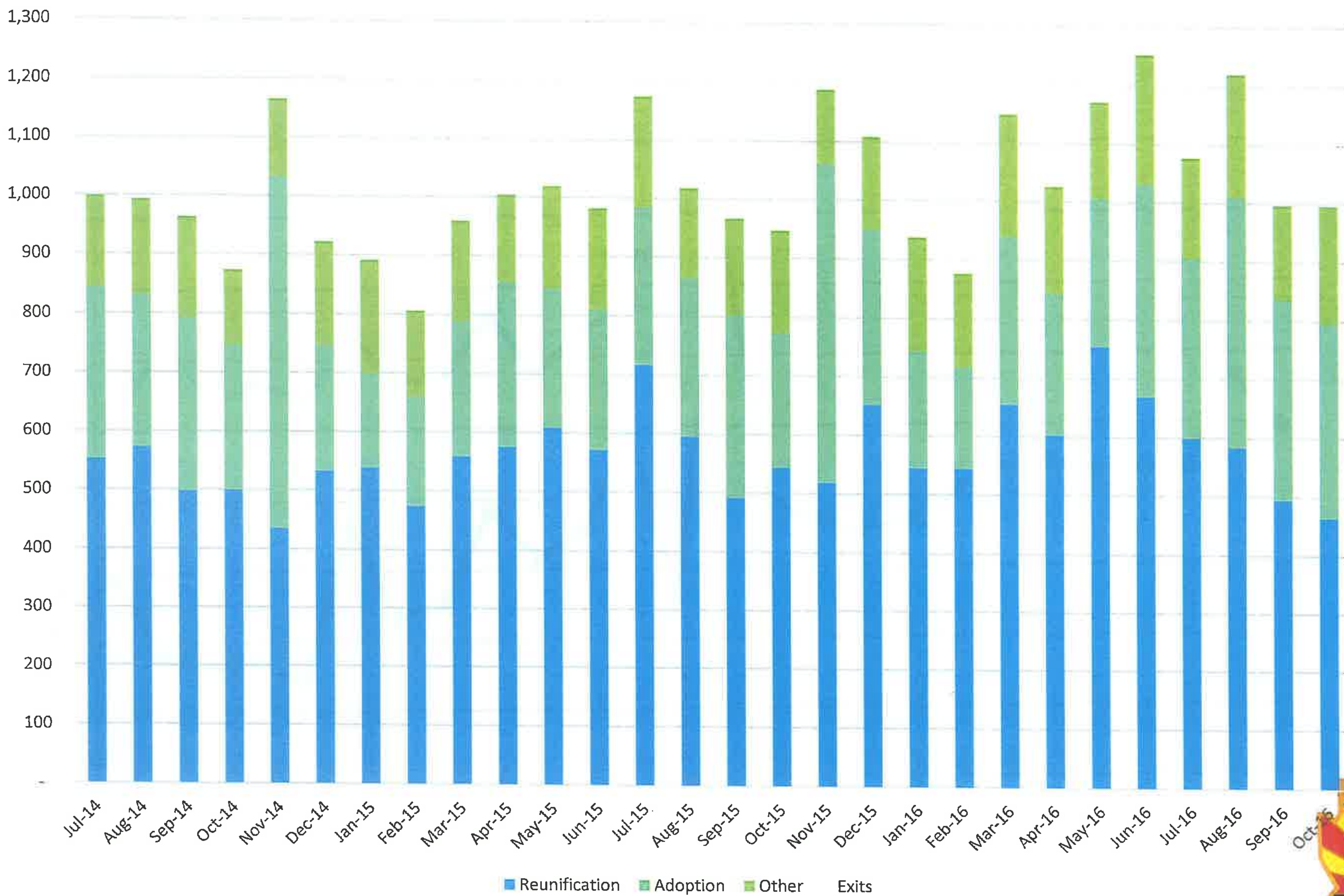
Entries and Exits



Data Source: Removals & Returns Dashboard, 12.12.16. Data for October 2016 is preliminary.

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

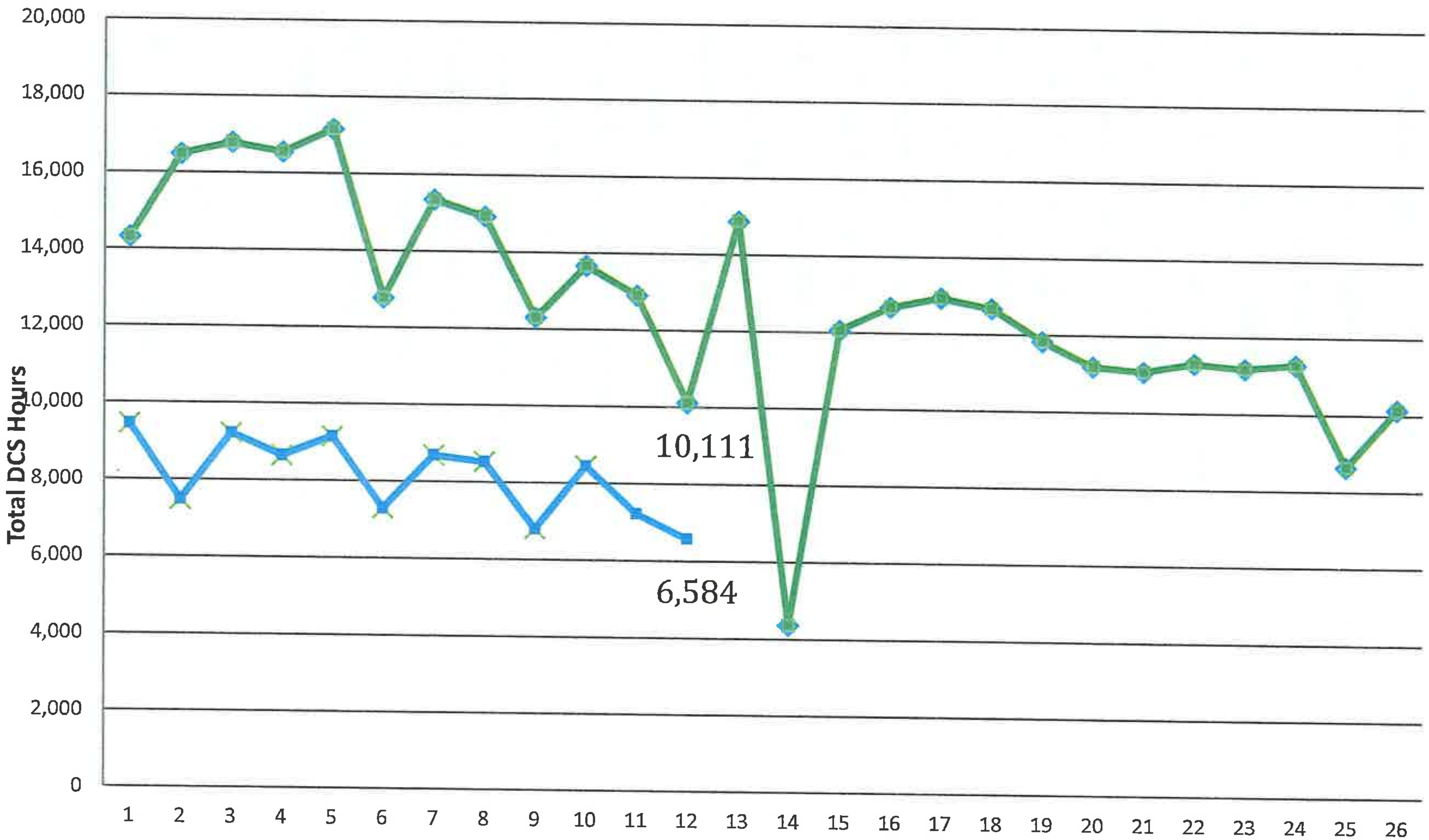
Exits by Type



Data Source: DCS Tableau Dashboard, Removals and Exits, 12.12.16

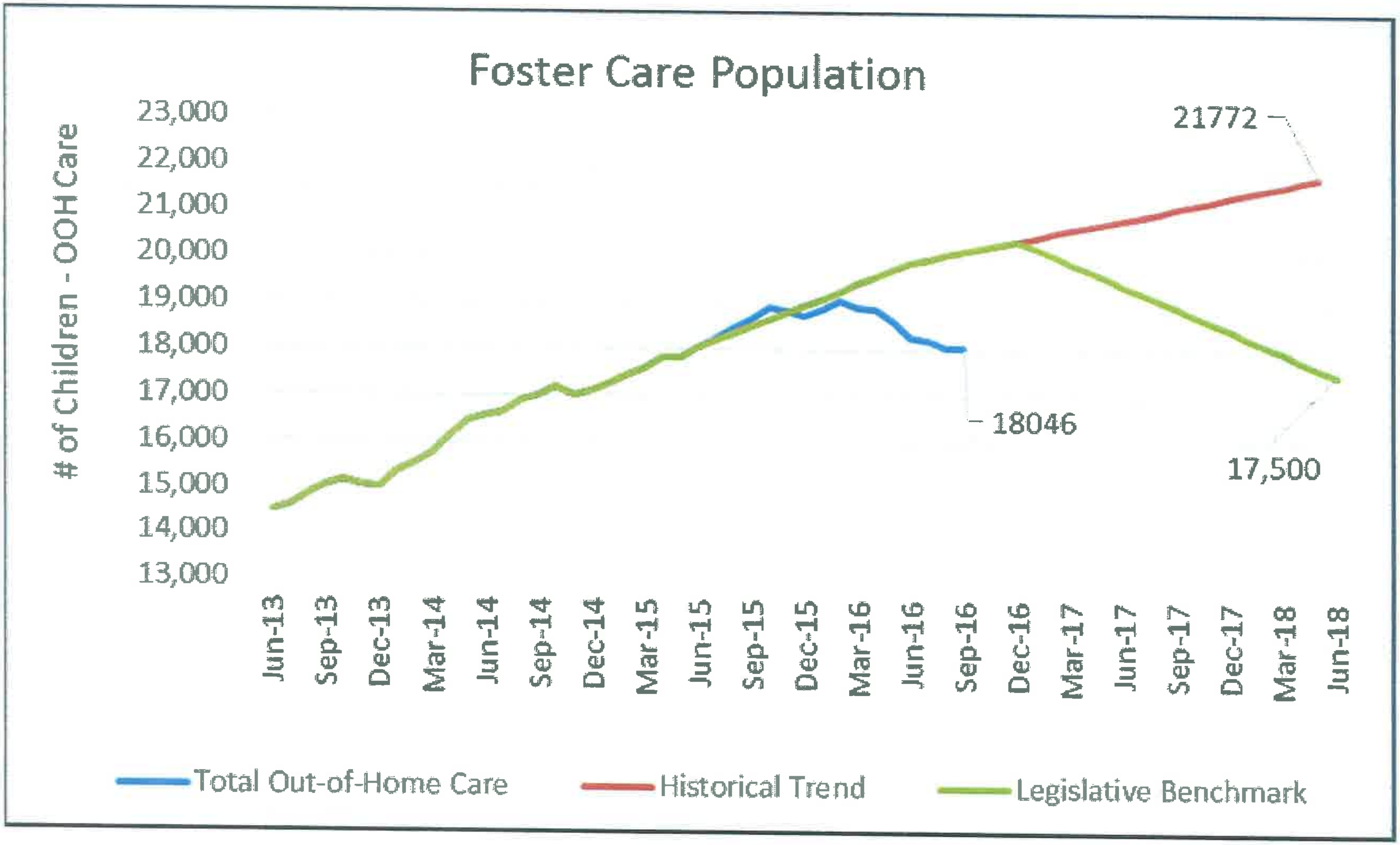
DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

Overtime Utilization by Pay Period

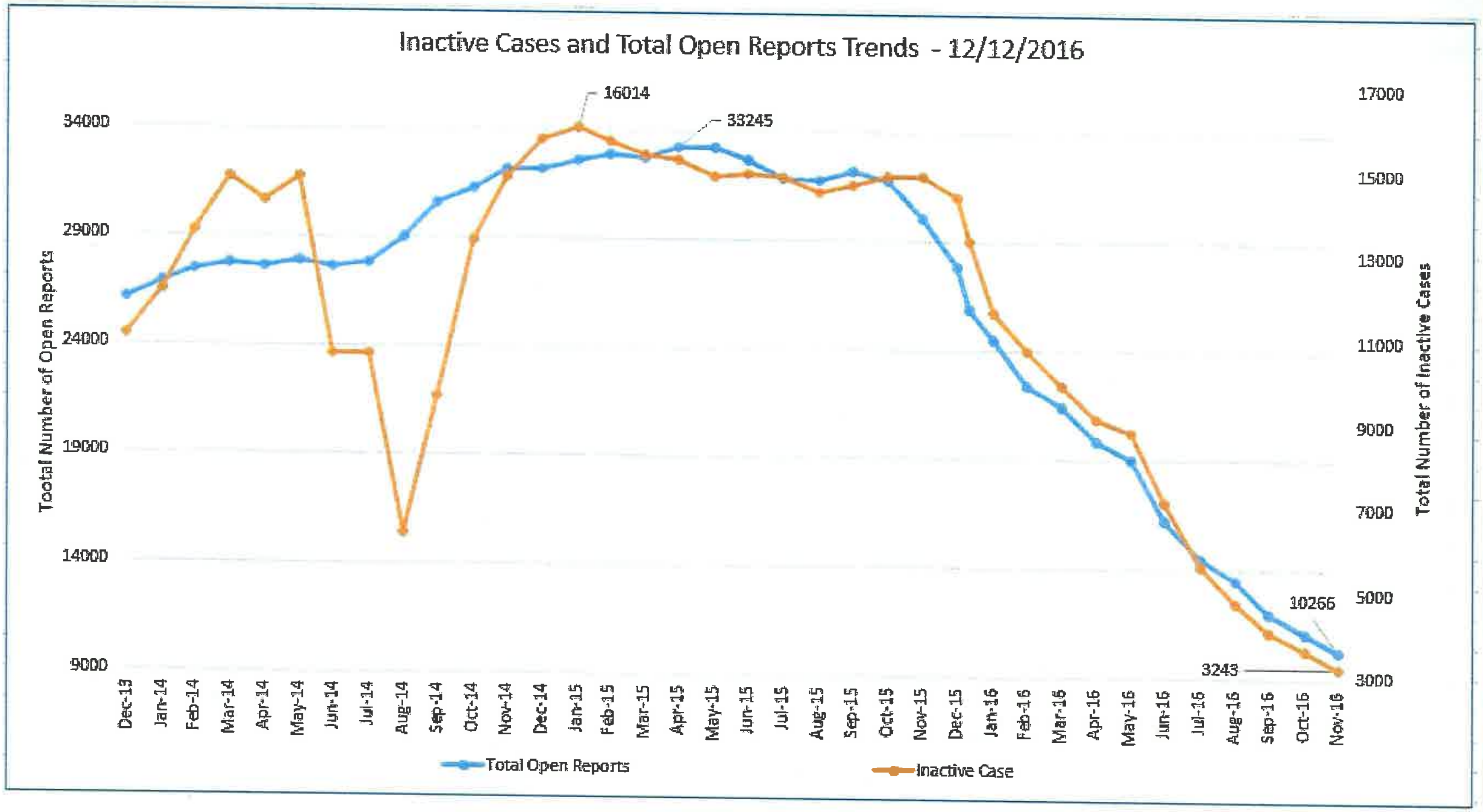


Data Source: DCS Finance Report, Overtime Detail Report, 12.9.16

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA



* Projected population to be below 18K in December for the first time since May 2015



* Revised open report milestone internally to 10,200 down from 13,000

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

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STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: March 22, 2017

TO: Representative Don Shooter, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director RS

SUBJECT: Adoption of Committee Rules and Regulations

The Committee will consider the attached rules and regulations for adoption at its March 29 meeting. The rules are the same as in the prior session.

RS:lm
Attachment

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 1

NAME OF COMMITTEE AND METHOD OF APPOINTMENT

The name of the Committee is the Joint Legislative Budget Committee, hereinafter referred to as the Committee, consisting of sixteen members designated or appointed as follows:

1. The majority leaders of the Senate and House of Representatives, the Chairmen of the Senate and House of Representatives Appropriations Committees, the Chairman of the Senate Finance Committee and the Chairman of the House of Representatives Ways and Means Committee.

2. Five members of the Senate and five members of the House of Representatives who are members of their Appropriations Committees shall be appointed to the Committee by the President of the Senate and the Speaker of the House of Representatives, respectively.

RULE 2

STATUTORY POWERS AND DUTIES OF THE COMMITTEE

1. The Committee shall ascertain facts and make recommendations to the Legislature relating to the State budget, revenues and expenditures of the State, future fiscal needs, the organization and functions of State agencies or divisions thereof and such other matters incident to the above functions as may be provided for by rules and regulations of the Committee.

2. The Committee shall promulgate rules and regulations for the operation of the Committee.

3. The Committee shall have the powers conferred by law upon legislative committees.

4. The Committee shall make studies, conduct inquiries, investigations and hold hearings.

5. The Committee may meet and conduct its business any place within the State during the sessions of the Legislature or any recess thereof and in the period when the Legislature is not in session.

6. The Committee may establish subcommittees from the membership of the Legislature and assign to such subcommittees any study, inquiry, investigation or hearing, with the right to call witnesses, which the Committee has authority to undertake.

RULE 3

CHAIRMAN OF THE COMMITTEE

The Chairman of the House of Representatives Appropriations Committee shall have a term as Chairman of the Committee from the first day of the First Regular Session to the first day of the Second Regular Session of each Legislature and the Chairman of the Senate Appropriations Committee shall have a term from the first day of the Second Regular Session to the first day of the next Legislature's First Regular Session.

RULE 4

COMMITTEE PROCEEDINGS

The Committee proceedings shall be conducted in accordance with Mason's Manual of Legislative Procedure, except as otherwise provided by these rules.

RULE 5

SUBCOMMITTEES

The Committee may establish subcommittees from the membership of the Legislature and assign to such subcommittees any study, inquiry, investigation or hearing with the right to call witnesses which the Committee has authority to undertake. Each such subcommittee shall include in its membership an equal number of Senate and House of Representatives members.

RULE 6

QUORUM

A majority of the members of the Committee shall constitute a quorum for the transaction of business.

RULE 7

LEGISLATIVE BUDGET ANALYST

The Legislative Budget Analyst (hereinafter "Director") shall be the Staff Director and the Chief Executive Officer of the Committee. The Director shall be appointed by the Committee and shall serve on a full-time basis. The Committee shall annually review the Director's performance and the Committee or the Chairman and Vice Chairman shall determine the Director's salary within the limits prescribed by law. The Chairman of the Committee may appoint a subcommittee to make recommendations concerning these matters.

In addition to the responsibilities prescribed by A.R.S. § 41-1273, the duties of the Director shall include any duties which shall be assigned by the Committee, including the following:

1. Compilation of information for the Committee.

2. A continuous review of State expenditures, revenues and analysis of the budget to ascertain facts, compare costs, workload and other data and make recommendations concerning the State's budget and revenue of the departments, boards, commissions and agencies of the State.

3. Act as administrative head of the Committee Staff, with authority to hire and dismiss such personnel as may be necessary for the proper conduct of the office, and fix compensation of staff members within any limits set by the Committee.

4. Maintain the records and files of the Committee.

5. Shall make special reports for presentation to the Committee and to others as directed by the Committee.

6. Attend all meetings of the Committee and such other meetings and hearings as are necessary to facilitate the work of the Committee.

7. Examine as to correctness all vouchers for the expenditure of funds appropriated for the use of the Committee.

RULE 8

AGENDA FOR MEETINGS

An agenda for each Committee Meeting shall be prepared by the Director and, whenever possible, mailed or delivered to members of the Committee, not less than one week prior to the meeting. The Director must have at least three weeks prior notice for any state agency-requested items that appear on the agenda, unless the Chairman of the Committee approves of a later submission.

RULE 9

ORDER OF BUSINESS

The Order of Business at a Committee meeting shall be determined by the Chairman of the Committee. It shall normally be as follows:

1. Call to order and roll call
2. Reading and approval of minutes
3. Director's Report [if any]
4. Executive Session (including Rule 14 items)
5. Items requiring Committee review and/or approval
6. Other Business - For Information Only
7. Adjournment

RULE 10

DISBURSEMENTS

1. All expenditures of the Committee shall be by vouchers properly itemized and supported by receipts and shall be approved by the Director when authorized by the Chairman of the Committee.

2. All contracts and studies authorized by the Committee shall be approved by the Committee after examination.

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 11

MEETINGS OF THE COMMITTEE

The Committee shall meet at such times and places as the Committee may determine. Additional special meetings may be called by the Chairman or by a majority of the members of the Committee.

RULE 12

ADOPTION AND AMENDMENT OF THE RULES AND REGULATIONS

These rules and regulations shall be adopted and may be amended by a majority vote of the members of the Committee, provided that a quorum is present.

RULE 13

FISCAL NOTES

1. The President of the Senate and the Speaker of the House of Representatives or their designees may each designate bills that shall have a fiscal note prepared regarding their impact.

2. The JLBC Staff shall prepare the fiscal notes utilizing an impact period that covers the full cost of the legislation. The fiscal notes shall indicate any local fiscal impact, where appropriate.

3. Fiscal notes shall not contain comments or opinions on the merits of the bill.

4. Exceptions to the procedure set forth in this rule shall be permitted with the approval of the Chairman and Vice Chairman of the Committee.

5. The Committee may amend or suspend this rule or any subsection hereof by a majority vote of those present and eligible to vote.

6. Procedures to implement this rule shall be prepared by the Director and approved by the Chairman and Vice Chairman of the Committee.

RULE 14

STATE LIABILITY CLAIMS - PROCEDURE FOR SETTLEMENT WHEN COVERED BY RISK MANAGEMENT SELF-INSURANCE FUND

1. General provisions for presentation of settlement to the Committee:

RULE 14 CONTINUED

STATE LIABILITY CLAIMS (CONT'D)

A. Settlements of $250,000 or less do not require approval of the Committee pursuant to A.R.S. § 41-621(N). All proposed liability settlements must be presented to the Committee in accordance with these provisions and accompanied by a report containing the information specified in Paragraph 3.

B. The report shall be filed with the Chairman of the Committee seven days before the meeting scheduled to consider the settlement proposal.

C. A limited number of items may be excluded from the written report and presented orally at the Committee meeting, if the Attorney General and Risk Management Division find the exclusion to be absolutely necessary for the protection of the State's case.

D. All Committee settlement proceedings and material prepared for such proceedings shall be required to be kept confidential.

E. Any plaintiff's inquiries regarding Committee meeting dates, times and agendas should be directed to the Attorney General's Insurance Defense Section which shall consult with the JLBC Staff Director.

2. At a Committee meeting at which a settlement proposal is considered:

A. Material shall be presented by the Attorney General or retained defense counsel who had primary responsibility over negotiation of the settlement and/or handling of the case, together with the Manager of the Risk Management Division of the Department of Administration.

B. The Committee Chairman or a majority of the Committee, may request other witnesses to attend and testify at any settlement proposal meeting. When requested by a Committee member, the director of an agency named in a lawsuit for which a settlement is proposed shall be requested to appear at the meeting at which the settlement is proposed.

C. The presentation of the settlement proposal at the Committee meeting shall contain, at a minimum, the information required to be submitted pursuant to Paragraph 3.

D. In addition to the report, additional drafts, charts, pictures, documents or other items may be presented to the Committee by the Attorney General or Risk Management Division, if helpful in reviewing the merits of the settlement. Additional items shall be presented when requested by the Committee Chairman, or a majority of the Committee at a prior meeting, or a JLBC subcommittee to which the matter has been referred.

STATE LIABILITY CLAIMS (CONT'D)

E. Upon a conclusion of the presentation, the Committee may accept the settlement as proposed, reject the settlement as proposed, recommend an alternative settlement with the advice of the Attorney General and Risk Management Division, request additional information, evaluations or appearances of witnesses, or the matter may be referred to a JLBC subcommittee for further study.

3. The written settlement proposal report submitted to the Committee for each settlement offer shall contain the following information:

A. A one to two page executive summary of pertinent information related to the case that, at a minimum, summarizes information contained in items B, D, G, H, I, K, L, N and P below.

B. The names of the plaintiffs or claimants.

C. Whether a lawsuit has been filed, the date on which it was filed and the current status of the lawsuit. If a lawsuit has not been filed, the last date upon which a lawsuit could be filed.

D. The basic facts of the case including, first, the undisputed facts and secondly, those facts in dispute.

E. A summary of the basis or bases of liability claimed by plaintiff or claimant and the State's defenses to such liability, including the key evidence relied upon by each party.

F. The amount originally claimed by the plaintiff or claimant.

G. The identifiable damages and/or costs incurred by plaintiff or claimant to date.

H. Costs incurred by the State in defending the claim or suit to date.

I. Estimated costs to the State of defending the claim or suit through trial.

J. Attorney for plaintiff, Attorney General assigned to the case, retained defense counsel, if any.

K. Estimate of plaintiff or claimant's chances of prevailing in suit against the State.

L. Range of recovery likely at trial for plaintiff's claims.

M. Complete terms of settlement including:

1. To whom payment is to be made;

STATE LIABILITY CLAIMS (CONT'D)

2. The amount of payment;

3. The conditions, if any, attached to the payment; and

4. Deadline for settlement, if any.

N. Settlement recommendations of Attorney General and Risk Management and recommended response to settlement offer.

O. Whether the State has any claim or right of recovery against other parties, e.g., subrogation or indemnification.

P. An agency and an Arizona Department of Administration response that shall contain the following information:

1. Actions taken to eliminate or limit the future risk of liability to the state.

2. Statement as to any disciplinary action(s) taken against any employee(s) that were negligent in carrying out their duties.

3. An agency loss prevention plan approved by the Arizona Department of Administration (ADOA). If an approved plan is not available, ADOA will provide an explanation of why it is not approved at that time, and a timetable for submitting an approved plan.

4. In conjunction with the settlement procedures prescribed pursuant to this rule, the Risk Management Division shall:

A. Annually report to the Committee on 1) the operations of the Division, 2) the status of pending claims and lawsuits, 3) information on actual judgements and settlements, 4) status of claims and lawsuits reported on the prior year annual report, 5) number of claims and lawsuits filed since the last report, 6) number of liability cases taken to trial with information on the verdicts and judgment amounts, and 7) projected fund balances.

B. With the assistance of the Attorney General, propose to the Committee any changes in State insurance coverage, State statutes, State liability principles or claims procedures which may help to limit future State liability.

C. Provide the Committee with an agency loss prevention plan that results from a judgment against the state in an amount equal to or greater than that which requires JLBC settlement authority. Within sixty days after payment of the judgment, ADOA will either indicate approval of the plan, provide an explanation of why it is not approved, or provide an explanation as to why a plan is no longer applicable.

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 15

CONFIDENTIAL NATURE OF SERVICES

The Director, members of the JLBC Staff, and those charged with the duty of processing in any manner proposed budget estimates, recommendations or research, shall not, without consent of the recipient legislator(s), disclose to any other person whomsoever, the contents of any letter, memorandum, report, or other written communique.

This provision does not apply to regular JLBC Staff reports nor information which the Staff prepares and disseminates under the general authority of the Director that was not specifically requested by a legislator(s).

The violation of any provision of this rule by the Director, a member of his staff, or any person charged in any manner with the duty of processing proposed analysis or research may be deemed sufficient cause for dismissal by the Director and in the case of the Director, by the Committee.

JLBC Staff
03/22/17
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STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: March 22, 2017

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Patrick Moran, Fiscal Analyst PM

SUBJECT: AHCCCS - Review of Behavioral Health Capitation Rate Changes

Request

Pursuant to footnotes in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117), the state Medicaid agencies must present their plans to the Committee for review prior to implementing any changes in capitation rates. The Arizona Health Care Cost Containment System (AHCCCS) has submitted their plans for behavioral health capitation rates for plan year (CYE) 2017.

Recommendation

The Committee has at least the following 2 options:

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

In aggregate, AHCCCS expects estimates the rate increase will be approximately 5.8%, resulting in a Total Funds impact of $115,400,000 in CYE 2017, including $27,700,000 in state matching funds. The state match for these services is primarily provided by the state General Fund. AHCCCS believes it will be able to absorb these costs within its existing appropriation in FY 2017.

AHCCCS is also increasing capitation rates for the long term care program for the Elderly and Physical Disabled and the Developmental Disabilities program operated by the Department of Economic Security.

(Continued)

These adjustments are associated with a 7% increase in fee-for-service rates for home and community-based services and a 3.5% increase in rates for nursing facilities to address cost increases resulting from the changes in the state minimum wage due to Proposition 206. AHCCCS has not, however, separately submitted these long term care rate adjustments for the Committee's review.

Analysis

At its September 21, 2016 meeting, the Committee favorably reviewed AHCCCS' proposed CYE 2017 capitation rates for acute care, long-term care, children's rehabilitative services, and the Comprehensive Medical and Dental Program (CMDP) for children in the custody of the Department of Child Safety (DCS). AHCCCS did not submit final behavioral health capitation rates for review for the September meeting due to technical changes in the behavioral health rates related to the transfer of behavioral health services from the Department of Health Services (DHS) to AHCCCS on July 1, 2016. The rates have now been finalized and AHCCCS is requesting the Committee's review.

Capitation rates are developed by AHCCCS actuaries. The CYE 2017 rates are effective retroactive to October 1, 2016. The FY 2017 budget included 1.5% capitation rate growth for behavioral health services. *Table 1* below includes a comparison of previous and new capitation rates. AHCCCS estimates that the aggregate increase from these rate changes is approximately 5.8%, and estimates a corresponding Total Funds cost increase of $115.4 million, including $27.7 million in state funds, in CYE 2017 compared to what spending would have been under the rates from CYE 2016.

AHCCCS does not require a supplemental appropriation for the higher-than-budgeted rate increase as a result of lower-than-budgeted caseload growth in CMDP and lower-than budgeted costs for the Health Insurer Fee required by the federal Affordable Care Act.

Table 1

Behavioral Health Capitation Rates

Populations	Previous * Rates	New * Rates	% Change
Children's Behavioral Health	$ 38.41	$ 40.15	4.5%
General Mental Health/Substance Abuse	52.56	55.56	5.7%
Serious Mental Illness - Integrated 1/	1,875.44	2,036.43	8.6%
Division of Developmental Disabilities 2/	140.62	186.51	32.6%
Comprehensive Medical & Dental Program	933.59	838.10	(10.2)%

* Previous rates reflect CYE 2016 rates as adjusted by AHCCCS on July 1, 2016 to account for premium taxes being paid by the Regional Behavioral Health Authorities (RBHAs) instead of DHS. New rates reflect CYE 2017 rates, which also include premium tax costs, and use a revised methodology for the counting of member months that, in aggregate, is intended to be budget neutral. Excludes non-integrated SMIs and GMH/SA duals.

1/ Rate includes physical health services, which comprises 25.5% of the capitation rate for the integrated SMI population.

2/ The magnitude of the rate increase for the Developmental Disabilities population primarily reflects the revised member months methodology, which excludes member months for individuals in the Children's Rehabilitative Services program and Tribal fee-for-service members. The projected increase in total fund behavioral health expenditures for DDD is 5.1% in CYE 2017 compared to CYE 2016.

(Continued)

Capitation rates are adjusted annually for 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 CYE 2017 capitation rate adjustments also include provider rate increases. Finally, the capitation rates include a number of program changes which are described below.

The proposed capitation rates for the program are partly due to increased capitation rate costs of 2.7% for medical trends, utilization and experience adjustments. In addition to these adjustments, capitation rates also increased as a result of program changes affecting 1) prescription drug costs, 2) provider rate changes, and 3) changes in covered benefits. All fiscal impacts of these adjustments are described below in terms of the Total Funds impact.

Prescription Drug Costs

- Pharmacy and Therapeutics (P&T) Committee Policy Changes: AHCCCS' P&T Committee meets on a quarterly basis to evaluate the clinical efficacy, cost, and appropriateness of prescription drugs. The committee approves drugs included on AHCCCS' preferred drug list. For example, AHCCCS is now allowing a generic substitute to be used for the brand-name drug Abilify, an anti-psychotic medication. AHCCCS expects, however, that the net overall impact of recent changes approved by the P&T Committee will increase the costs of pharmacy claims, increasing capitation costs by $23.4 million in CYE 2017, or 20.3% of the total impact.
- Drug Rebate Agreements: In order to obtain rebates from drug companies, AHCCCS in some cases must change formulary and prior authorization requirements. AHCCCS estimates these changes will increase costs for the RBHAs by $13.8 million in CYE 2017, or 12.0% of the total impact.
- Hepatitis C Drugs: AHCCCS is lowering the severity of symptoms that members must have and other requirements to qualify for the certain medications that have been determined to be useful in treating Hepatitis C. AHCCCS estimates this will increase costs for the RBHAs by $13.2 million in CYE 2017, or 11.4% of the total impact. *(Please see September JLBC agenda for additional information.)*
- Vivitrol Pilot Initiative: AHCCCS is increasing capitation for the Maricopa County RBHA for the Executive's Vivitrol pilot initiative. The program will provide qualifying individuals discharged from an Arizona Department of Corrections facility with Vivitrol, a drug used to treat opioid dependence. The initiative is estimated to cost $85,000 in Maricopa County over 6 months to treat 40 members by September 2017.

Provider Rate Changes

- Behavioral Health Inpatient Provider Rate Increase: In CYE 2016, AHCCCS implemented a fee-for-service rate increase for behavioral health inpatient hospital services. Capitation rates for the RBHAs, however, were not adjusted following this increase because the rates reflected what RBHAs were already paying their contracted inpatient providers. Because the RBHAs are also required to pay non-contracted providers at the AHCCCS fee-for-service rate, the RBHAs experienced cost increases in CYE 2016 for enrollees that used non-contracted providers. AHCCCS is now increasing rates to address this issue, resulting in projected additional capitation expenditures of $22.3 million, or 19.3% of the fiscal impact, in CYE 2017.
- Other Provider Rate Increases: AHCCCS increased fee-for-service rate increases for other select providers, including outpatient behavioral health providers, increasing capitation costs by $3.7 million in CYE 2017, or 3.2% of the impact.

(Continued)

- Proposition 206 Minimum Wage Increase: In January, AHCCCS increased fee-for-service provider rates for select home and community-based services by up to 7% and for nursing facility services by up to 3.5%, increasing behavioral health capitation rates by approximately $1.0 million, or 0.9% of the impact. Affected behavioral health rates include unskilled respite care and personal care services. This impact is in addition to the non-behavioral health components of the long term care program, which have not been submitted for review.
- Value-Based Purchasing: Increased reimbursement under the agency's Value-Based Purchasing differential program is available for providers that meet certain criteria and performance metrics, increasing capitation rates by $400,000 in CYE 2017, or 0.3% of the impact.

Covered Benefit Changes

- "In-Lieu of" Services: As a result of changes in federal rules, AHCCCS no longer has "in-lieu of" authority that allowed AHCCCS to receive federal reimbursement for substituting specialized treatment services for non-specialty hospital placements, increasing capitation costs by $1.0 million, or 0.9% of the fiscal impact.
- Podiatry: AHCCCS expanded coverage of podiatry services rendered by a licensed podiatrist for adult enrollees, as required by Laws 2016, Chapter 122, increasing capitation costs by $400,000, or 0.3% of the fiscal impact.

RS:PM/kp

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

March 8, 2017

The Honorable Don Shooter
Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Shooter:

The Arizona Health Care Cost Containment System (AHCCCS) is amending Contract Year Ending (CYE) 2017 (October 1, 2016, through September 30, 2017) capitation rates for Regional Behavioral Health Authorities (RBHAs). On September 21, 2016, the Joint Legislative Budget Committee (JLBC) provided favorable review of the majority of AHCCCS CYE 2017 capitation rates, and included a provision that AHCCCS submit the RBHA rates at a later date as those rates were not yet complete. On December 2, 2016, AHCCCS notified you that RBHA capitation rates effective October 1, 2016, were being submitted to the Centers for Medicare and Medicaid Services (CMS) for approval in accordance with federal requirements, but that those rates were preliminary and were not ready for JLBC review. AHCCCS is now submitting amended RBHA capitation rates retroactive to October 1, 2016 to CMS, and respectfully requests to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to review the capitation rate amendments.

This update to the capitation rates accommodates multiple issues, including:

- A technical fix to the member months that were used to initially set the CYE 17 per member capitation rates;
- A pharmacy analysis based on AHCCCS' Pharmacy and Therapeutics (P&T) Committee decisions;
- A retrospective analysis of the impact to the RBHAs related to the October 1, 2015 increase in the behavioral health inpatient hospital Fee For Service (FFS) rates to align with the market (to ensure current capitation rates appropriately reflect this change);
- Increased labor costs resulting from the Arizona minimum wage increase as approved by voters as Proposition 206; and
- Implementing the Vivitrol Pilot initiative.

<u>Background</u>
Below please find details regarding changes beyond those previously explained in the September 8, 2016 letter. The fiscal impact of each of these changes is detailed in Table III below.

Member Months
In a letter to the JLBC dated September 8, 2016, AHCCCS explained that it was changing the way it pays RBHAs as a result of the merger between AHCCCS and the Division of Behavioral Health Services formerly of the Department of Health Services. That explanation stated, in part, "Effective October 1, 2016, RBHAs will be paid in the same manner as all other AHCCCS Contractors: one monthly capitation payment for every member assigned to/enrolled with the RBHA as of that payment date, and then prorated payments/recoupments for the number of members added to/falling off the RBHA daily throughout that month." In our December 2, 2016, letter, we communicated that we needed several months of actual RBHA enrollment data to ensure the integrity of the rates. That enrollment data has been reviewed, and AHCCCS has adjusted the RBHA capitation rates to fix a misalignment of member months between those being used to develop the capitation rates and those being used to pay the RBHAs. This adjustment is retroactive to October 1, 2016.

Pharmacy and Therapeutics (P&T) Committee Decisions
AHCCCS' Pharmacy and Therapeutics (P&T) Committee makes policy changes that impact the utilization and unit costs of AHCCCS Contractors' pharmacy costs. These changes have been made to maximize the most favorable net cost of pharmaceuticals to the State. This may occur by encouraging generic drug use when generic drugs offer the best value for an efficacious clinical outcome, or may result in mandating brand drugs when such branded products are the least costly option due to the value of AHCCCS' drug rebates. As a result of these changes, AHCCCS actuaries completed a thorough review to ensure that the underlying funding included in the capitation rates accurately reflected the changes in P&T. As a result of this analysis, funding is both added and subtracted to the RBHA capitation rates retroactive to October 1, 2016 (resulting in a net increase overall).

Inpatient Hospital FFS Rates
Effective October 1, 2015, AHCCCS increased the behavioral health FFS inpatient hospital rates to align with rates being paid by the RBHAs to ensure access to care for AHCCCS' FFS members. Capitation rates were not initially adjusted because the RBHAs' contracted provider rates formed the basis of the FFS rate increase. However, the FFS rates are the default rates that AHCCCS Contractors pay to non-contracted providers. Because of the higher FFS rates, AHCCCS members had increased access to non-contracted facilities, often moving to those facilities from an Emergency Department. This resulted in increased spend on non-contracted inpatient providers, but mitigating holds in the EDs. Thus the RBHAs have experienced an increase in unit costs that was not previously accounted for in the capitation rate setting process. Funding is added to the RBHA capitation rates retroactive to October 1, 2016 and AHCCCS is exploring with the RBHAs options to mitigate this issue in the future.

Minimum Wage
Effective January 1, 2017, AHCCCS and its Contractors' fee schedules increased for select Home and Community Based Setting (HCBS) codes (including behavioral health respite care), all Nursing Facility codes and all alternative living facility services codes. AHCCCS adjusted rates to address the increased labor costs resulting from the Arizona minimum wage increase as approved by voters as Proposition 206 on November 8, 2016. This action helps to assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available at least to the extent that such care and services are available to the general population in the geographic area. Managed care organizations, including the RBHAs, must have actuarially sound rates that reflect their expected costs of service delivery, and must ensure an adequate network sufficient to ensure member access to care. Funding is added to the RBHA capitation rates retroactive to January 1, 2017.

Vivitrol Pilot
Effective April 1, 2017, AHCCCS is implementing Governor Ducey's Vivitrol Pilot initiative. The Vivitrol Pilot is an initiative within Maricopa County to provide individuals being discharged from the Arizona Department of Corrections (ADC) who meet specific criteria with a medication to prevent relapse to opioid dependence. Members will receive the medication prior to leaving ADC and then will be connected to a community provider for ongoing treatment post-incarceration. The typical treatment is via a monthly shot which may be administered for up to 12 months. The Vivitrol Pilot is expected to treat 100 members over a two-year time period beginning April 1, 2017. Funding is added to the Maricopa RBHA capitation rates effective April 1, 2017.

Capitation Rate Adjustments
Table I below contains information regarding the RBHA rates as provided in the September 8, 2016 letter (on a state fiscal year basis) as well as the updated final rates and incorporating the items above. Table II provides the fiscal impacts of the changes impacting capitation rates.

Table I

	Statewide Rates		CY17	CY16	CY17	Change	Percent Impact over CY 16
	CY16	CY17	Population	with CY17 Pop.	with CY17 Pop.	Inc. (Dec.)	
September 8 Submittal	$111.46	$115.35	18,870,213	$2,103,273,941	$2,176,679,070	$73,405,129	3.50%
Final Rates	$107.74	$113.95	18,603,129	$2,004,359,600	$2,119,753,700	$115,394,100	5.80%
					Total Fund Impact Above SFY 16	$115,394,100	
					State Fund Impact	$27,740,700	
					Federal Fund Impact	$87,653,400	

Table II

	Total Fund Impact
Annual Rate Build Up (trend, provider rates, etc.)	$ 73,405,100
Member Months Fix	$ (10,466,200)
FFS Hospital Full Year	$ 22,252,700
Pharmacy Analysis Full Year	$ 23,375,400
Min Wage - 9 months	$ 971,900
Vivitrol Pilot - 6 months	$ 85,000
Misc [1)]	$ 5,770,200
Total Fund Impact	$ 115,394,100
Total State Impact	$ 27,740,700
Total Federal Impact	$ 87,653,400

1) Includes premium tax, risk contingency and administration

The actuarial certifications for the RBHA program will be provided as soon as possible and prior to the JLBC meeting. AHCCCS will include all of the certifications submitted to CMS for the CYE 17 RBHA capitation rates, thus allowing a complete picture of the rate build up in each of the phases.

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

Sincerely,

Beth Kohler
Deputy Director

cc: The Honorable Debbie Lesko, Arizona State Senate
Lorenzo Romero, 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

Regional Behavioral Health Authorities (RBHAs) Updated Actuarial Memorandum

I. Purpose

This actuarial memorandum is a revision to the already submitted rate certification for the October 1, 2016 through September 30, 2017 (Contract Year Ending 2017 (CYE 17)) capitation rates for the Regional Behavioral Health Authorities (RBHA) Program. The CYE 17 actuarial memorandum for capitation rates as signed by Matthew C. Varitek dated December 22, 2016 will detail the original rate build up.

This revision to the capitation rates is required as a result of programmatic and fee schedule changes. Due to the different effective dates of those changes this certification will cover three sets of capitation rates. One set will apply for the time frame from October 1, 2016 through December 31, 2016, another set will apply for the time frame from January 1, 2017 through March 31, 2017 and the last set will apply for the time frame from April 1, 2017 through September 30, 2017. Each set will have the earlier adjustments included in them.

The purpose of this actuarial memorandum is to demonstrate compliance with the applicable provisions of 42 CFR Part 438. It is not intended for any other purpose.

II. Overview of Changes

Effective October 1, 2015, Arizona Health Care Cost Containment System (AHCCCS) increased the behavioral health fee for service (FFS) inpatient hospital rates to align with rates paid by the RBHAs to ensure access to care for AHCCCS' FFS members. Because the RBHAs' contracted provider rates formed the basis of the FFS rate increase, AHCCCS did not adjust the capitation rates effective October 1, 2015. However, because the FFS rates are the default rates that the RBHAs pay to non-contracted providers, RBHAs have experienced a material change in costs due to members being admitted to non-contracted facilities as a result of ED visits that necessitate an emergency admit. Thus the RBHAs have experienced a significant increase in unit costs that was not previously accounted for in the capitation rate setting process.

AHCCCS' Pharmacy and Therapeutics (P&T) Committee has made policy changes that impact the utilization and unit costs of Contractors' pharmacy costs. The P&T Committee reviews classes of drugs to determine how the State can minimize the net cost of pharmaceuticals when considering the value of AHCCCS' drug rebates. As a result of the recent policy changes that were finalized after the CYE 17 rates were submitted to CMS, AHCCCS completed a thorough review to ensure that the underlying funding included in the capitation rates accurately reflected the P&T Committee decisions.

Effective January 1, 2017, AHCCCS and its Contractors fee schedules increased for select Home and Community Based Setting (HCBS) codes, all Nursing Facility codes and all alternative living facility services codes. AHCCCS adjusted rates to address the increased labor costs resulting from the Arizona minimum wage increase as approved by voters as Proposition 206 on November 8, 2016, and to assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available at least to the extent that such care and services are available to the general population in the geographic area.

Effective April 1, 2017, AHCCCS is implementing Governor Ducey's Vivitrol Pilot initiative. The Vivitrol Pilot is an initiative within Maricopa County to provide individuals being discharged from the Arizona Department of Corrections (ADC) who meet specific criteria with a medication to prevent relapse to opioid dependence, which is administered via a monthly shot for up to 12 months. The monthly dose is expected to cost $1,000 and the manufacturer will pay for the first month of treatment. The Vivitrol Pilot is expected to treat 100 members over a two-year time period beginning April 1, 2017.

Effective April 1, 2017, the AHCCCS P&T Committee will allow Contractors to approve the generic drug for Abilify based on the Committee's determination that this option offers the State the best value for an efficacious clinical outcome for members.

III. Methodology for Calculating Capitation Adjustments

Behavioral Health FFS Hospital Inpatient

AHCCCS will be adjusting CYE 17 capitation rates back to October 1, 2016 for this fee schedule change. AHCCCS does not intend to adjust CYE16 capitation rates for this change as none of the Contractors operated at a loss in CYE 16. Each RBHA provided AHCCCS with its list of contracted behavioral health inpatient providers. AHCCCS extracted hospital inpatient encounter data for the RBHAs for dates of service (DOS) July 1, 2015 until December 30, 2015. AHCCCS used the provided list to extract encounters for non-contracted hospitals with primary diagnosis of behavioral health from the encounter data. The focus of this analysis was the change that occurred from Quarter Ending September 2015 (July 1, 2015 through September 30, 2015) and Quarter Ending December 2015 (October 1, 2015 through December 31, 2015). The analysis included a review of both the changes in unit cost and utilization over the time frame, which validated the Contractors' concerns of a material change that wasn't accounted for in the capitation rates and thus AHCCCS made this change. The estimated impact of the change was determined by calculating the dollar increase of completed encounters for non-contracted hospitals with primary diagnosis of behavioral health for the Quarter Ending December 2015 less Quarter Ending September 2015 and annualizing that amount.

The statewide estimated annual impact to the RBHA program is an increase of approximately $22.3 million.

Pharmacy Analysis

AHCCCS will be adjusting CYE 17 capitation rates back to October 1, 2016 for pharmacy analysis that was completed due to decisions made by the AHCCCS P&T Committee after rates were already developed and submitted. Rather than viewing only the drugs impacted by P&T Committee decisions, AHCCCS pulled all pharmacy encounter data with dates of service (DOS) in October and November 2016, reflecting the time period by which all P&T Committee decisions should be reflected, and applied completion factors averaging 97.90% to this data. The completed encounter data was put on a per member per month (PMPM) basis and compared to what was built into the CYE 17 capitation rates for pharmacy; adjustments were made based off of the results of these comparisons. The comparisons showed only one of the three Contractors was experiencing higher PMPMs than were built into the rates for pharmacy, so the statewide impact and the impact for that Contractor are equal.

The statewide estimated annual impact to the RBHA program is an increase of approximately $38.7 million.

Minimum Wage Increase
AHCCCS will be adjusting CYE 17 capitation rates back to January 1, 2017 for the increase to the state minimum wage. AHCCCS pulled encounter data for the specific procedure codes impacted by the wage increase with DOS from October 1, 2015 through September 30, 2016. This data was completed using a factor of 90%. The actuary then applied the appropriate increases by code (7% increase for HCBS codes and 3.5% increase for NF codes) to the completed encounter data to determine the PMPM impact.

The statewide estimated nine month impact to the RBHA program is an increase of approximately $1 million.

Vivitrol Pilot
AHCCCS will be adjusting CYE 17 capitation rates effective April 1, 2017 for the Vivitrol Pilot to reflect the April 1, 2017 through September 30, 2017 costs of the two year initiative. It is anticipated that 15 members will participate by June 30, 2017, and 40 members will be enrolled by September 30, 2017. The anticipated number of members enrolling was modelled with a uniform distribution based on 25 members participating every quarter after the initial ramp-up period until the 100 member limit has been met. The impact of the Vivitrol Pilot to the April 1, 2017 through September 30, 2017 time period of the CYE 17 capitation rates for Maricopa County is expected to be $85,000.

The capitation rate increase of $85,000 was allocated across the RBHA risk groups. Since Vivitrol is an injectable form of the drug Naltrexone, AHCCCS reviewed CYE 16 encounter data for Naltrexone utilization to inform the allocation of the $85,000 across the risk groups for the Vivitrol Pilot. The Naltrexone utilization review included a review of health plan paid amounts, unique member counts, and unit counts. Additionally, AHCCCS determined it would be unlikely that the Vivitrol Pilot would include the Children and DD RBHA risk groups based on past justice-involved utilization reviews. Thus, the allocation for the Vivitrol Pilot was limited to the GMH/SA and T21 Adult - non-dual, Integrated SMI, and the non-Integrated SMI risk groups.

Abilify Generic
AHCCCS will be adjusting CYE 17 capitation rates effective April 1, 2017 for the impact of the P&T Committee decision to allow generic usage in place of the branded Abilify. AHCCCS pulled pharmacy encounter data for Abilify and aripiprazole (generic for Abilify) using encounters with DOS in October and November 2016 to establish current utilization and unit cost levels, and applied completion factors that averaged 97.90%. AHCCCS then used June 2015 encounter data representing the period when AHCCCS previously allowed the generic drug in place of Abilify, and calculated the percentage use of aripiprazole compared to Abilify which was 94.1%. This percentage was then used to assume the transfer of utilization from Abilify to aripiprazole beginning April 1, 2017 and new utilization was calculated for Abilify and aripiprazole by RBHA and risk group. These revised utilization numbers were then multiplied by the statewide unit cost for Abilify and aripiprazole to get the revised PMPMs by RBHA and risk group.

The statewide estimated six month impact to the RBHA program is a decrease of approximately $15 million.

IV. Administration/Risk Contingency/Premium Tax Components

The CYE 17 capitation rates include a provision for RBHA administration, premium tax and risk contingency. The components for administration, premium tax and risk contingency are calculated as a percentage of the final capitation rate. An 11% load (8% administration, 2% premium tax, 1% contingency) was added across all populations and for all rate revisions.

V. Revised Capitation Rates and Budget Impact

Table I summarizes the dollar impact by RBHA and programmatic changes. Table II is for budget purposes and summarizes the changes from the most recently submitted CYE 17 capitation rates on a statewide basis. Tables III, IV and V are the RBHA capitation rates that the actuary is certifying.

Table I

Dollar Impacts of Changes	South (CIC)	North (HCIC)	Maricopa (MMIC)	Statewide
Full Year Hospital Fee Schedule Change	$ 2,142,735	$ 1,972,114	$ 18,137,803	$ 22,252,652
Full Year Pharmacy Analysis	$ -	$ -	$ 38,731,491	$ 38,731,491
Full Year Admin, Risk, PT for Hosp Fee and Rx Analysis	$ 264,832	$ 243,744	$ 7,028,789	$ 7,537,366
9 Months Minimum Wage	$ 351,058	$ 177,877	$ 442,958	$ 971,892
9 Months Admin, Risk PT for Minimum Wage	$ 43,389	$ 21,985	$ 54,748	$ 120,122
6 Months Vivitrol Pilot	$ -	$ -	$ 85,000	$ 85,000
6 Months Abilify Generic	$ (4,205,135)	$ (1,473,115)	$ (9,677,867)	$ (15,356,118)
6 Months Admin, Risk PT for Vivitrol Pilot and Abilify Generic	$ (519,736)	$ (182,070)	$ (1,185,635)	$ (1,887,442)
Total	**$ (1,922,856)**	**$ 760,534**	**$ 53,617,286**	**$ 52,454,964**

Table II

Rate Category	CYE 17 Projected Member Months (10/1/16 - 9/30/17)	Most Recently Submitted CYE 17 Weighted Cap Rates (10/1/16 - 9/30/17)	Revised CYE 17 Weighted/Blended Cap Rates (10/1/16 - 9/30/17)	Most Recently Submitted CYE 17 Projected Expenditures (10/1/16 - 9/30/17)	Revised CYE 17 Projected Expenditures (10/1/16 - 9/30/17)	Dollar Change in Projected Expenditures	% Change in Projected Expenditures
T19 + T21 Non-CMDP Children	8,912,573	$ 39.49	$ 40.15	$ 351,932,321	$ 357,800,854	$ 5,868,533	1.67%
CMDP Children	221,903	$ 827.45	$ 838.10	$ 183,614,043	$ 185,975,987	$ 2,361,944	1.29%
Integrated SMI	497,085	$ 1,975.86	$ 2,036.43	$ 982,169,415	$ 1,012,281,010	$ 30,111,595	3.07%
non-Integrated SMI	15,794	$ 1,686.07	$ 1,791.45	$ 26,630,698	$ 28,295,066	$ 1,664,368	6.25%
GMH/SA and T21 Adult - non-dual	8,667,171	$ 54.50	$ 55.56	$ 472,335,410	$ 481,574,565	$ 9,239,155	1.96%
DDD Child	135,788	$ 209.90	$ 222.29	$ 28,501,804	$ 30,184,085	$ 1,682,281	5.90%
DDD Adult	152,814	$ 144.72	$ 154.71	$ 22,114,934	$ 23,642,020	$ 1,527,087	6.91%
Total				**$ 2,067,298,625**	**$ 2,119,753,589**	**$ 52,454,964**	**2.54%**

Table III: RBHA Capitation Rates Effective 10/1/16 – 12/31/16

Rate Category	South (CIC)	North (HCIC)	Maricopa (MMIC)
T19 + T21 Non-CMDP Children	$57.70	$63.28	$30.03
CMDP Children	$939.95	$1,310.31	$737.35
Integrated SMI	$1,663.79	$1,778.99	$2,394.76
non-Integrated SMI	$1,515.02	$2,210.27	$1,808.28
GMH/SA and T21 Adult - non-dual	$60.78	$58.55	$53.43
DDD Child	$263.61	$624.16	$187.69
DDD Adult	$193.07	$209.30	$135.03

Table IV: RBHA Capitation Rates Effective 1/1/17 – 3/31/17

Rate Category	South (CIC)	North (HCIC)	Maricopa (MMIC)
T19 + T21 Non-CMDP Children	$57.82	$63.48	$30.07
CMDP Children	$941.09	$1,312.64	$737.63
Integrated SMI	$1,664.49	$1,779.44	$2,396.17
non-Integrated SMI	$1,517.50	$2,210.66	$1,809.14
GMH/SA and T21 Adult - non-dual	$60.79	$58.56	$53.43
DDD Child	$263.99	$625.52	$187.78
DDD Adult	$193.07	$209.32	$135.03

Table V: RBHA Capitation Rates Effective 4/1/17 – 9/30/17

Rate Category	South (CIC)	North (HCIC)	Maricopa (MMIC)
T19 + T21 Non-CMDP Children	$57.11	$62.52	$29.29
CMDP Children	$936.68	$1,309.40	$737.58
Integrated SMI	$1,646.14	$1,765.81	$2,368.59
non-Integrated SMI	$1,471.72	$2,190.60	$1,774.97
GMH/SA and T21 Adult - non-dual	$59.49	$57.48	$51.91
DDD Child	$252.86	$607.33	$178.26
DDD Adult	$182.36	$203.21	$120.28

Regional Behavioral Health Authorities (RBHAs) Actuarial Memorandum

I. Purpose/General Information

The purpose of this actuarial memorandum is to demonstrate that the capitation rates covered by this memorandum were developed in compliance with the provisions of 42 CFR 438 applicable to the actuarial certification of capitation rates for Medicaid managed care organizations. It is not intended for any other purpose.

This certification covers the Regional Behavioral Health Authorities (RBHAs) program which provides financing for the delivery of behavioral health services to most Arizona Health Care Cost Containment System (AHCCCS) members who are Title XIX or Title XXI eligible. RBHAs also manage integrated physical and behavioral health delivery for members with Serious Mental Illness. The AHCCCS managed care program has been in effect since 1982.

Effective October 1, 2015, AHCCCS implemented a program to integrate physical health and behavioral health service delivery for covered individuals with serious mental illness (SMI) in the North and South geographical service areas (GSAs). This is an extension of the program which was implemented in Maricopa County effective April 1, 2014. This memorandum includes descriptions of the development of capitation rates for the physical health component of this program in the North and South GSAs, behavioral health capitation rates in all GSAs, and Maricopa County integrated SMI health capitation rates for the Contract Year Ending September 30, 2017 (CYE 17).

Effective July 1, 2016, the Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (DBHS) was integrated into AHCCCS. At the present time, work to complete the conversion from the ADHS/DBHS to the AHCCCS administrative system is in process. There are ramifications of the systems conversion that result in a significant change in the way behavioral health capitation rates are developed and paid. This issue is addressed in the capitation rate development.

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The CYE 17 capitation rates do not include the fee at this time; that adjustment will be addressed in a retroactive capitation rate adjustment once the fees are known. Historical actuarial certifications for health insurer fee adjustment can be found on the AHCCCS website:

https://www.azahcccs.gov/PlansProviders/RatesAndBilling/ManagedCare/capitationrates.html

II. Overview of North/South Integrated SMI Physical Health Rate Setting Methodology

These capitation rates cover the twelve month period of October 1, 2016 through September 30, 2017 (CYE 17). There are three geographical service areas (GSAs) in this filing – North, South and Maricopa County. This physical health capitation rate development covers the North and South GSAs. The base period physical health data for the North and South GSAs is discrete and is suitable as a basis for capitation rate development. For the Maricopa County GSA, the physical and behavioral health data are commingled since 4/1/14 and it is not possible to accurately separate the base period physical and behavioral health costs. For that reason the Maricopa County GSA data is unsuitable for use as a basis for a discrete physical health capitation rate.

Historical Medicaid managed care encounter data was used as the data source in developing base period experience. This encounter data was made available to AHCCCS' actuaries via an extract that provides utilization data, cost data and member month information, referred to as the "databook". The databook included both encounter and member month data only for those individuals who would have met the criteria used for enrollment in the SMI integrated population effective October 1, 2016. Services not covered by Medicaid were removed from the databook and excluded from the rate development.

Actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data

    a. AHCCCS historical Medicaid managed care encounter and member month data for the population covered by these capitation rates were used as base period data for developing capitation rates.

    b. Apply completion factors and adjust base period data for programmatic and provider fee schedule changes effective prior to the CYE 17 rating period.

2. Develop actuarially sound capitation rates

    a. Apply a trend factor to bring base period claim costs forward from the midpoint of the base period to the midpoint of the rating period (24 months).

    b. Adjust claims costs for prospective provider fee schedule and programmatic changes.

    c. Add provision for administration and risk contingency.

III. North/South Integrated SMI Physical Health Base Period Experience

AHCCCS used historical encounter data for the time period from October 1, 2014 through September 30, 2015 (CYE 15) as base period data. Encounters were combined into the two GSAs for which capitation rates were developed – North and South. The base period data were completed using lag factors developed with a standard actuarial completion model and adjusted for programmatic and fee schedule changes effective prior to CYE 17.

IV. North/South Integrated SMI Physical Health Projected Trend Adjustments

Utilization, cost/unit and PMPM trends were compiled by category of service for the integrated SMI population in the North and South GSAs for the period CYE13-CYE 15. The combined average trends from CYE13-CYE 15 were used to trend base period costs for the 24 month period from the base period (CYE 15) to the rating period (CYE 17). Composite PMPM trends are shown in Table I.

Table I: Composite Annual PMPM Trends	
Category of Service	PMPM Trend
Hospital Inpatient	2.0%
Outpatient facility	3.5%
Emergency facility	3.9%
Physician	-1.1%
Pharmacy	4.3%
Other	3.4%
Total	2.7%

V. North/South Integrated SMI Physical Health Programmatic and Fee Schedule Changes – Prospective Adjustments

The changes in this section describe changes not reflected in the adjusted base period claims costs that will occur in the CYE 17 rating period. Capitation rates have been adjusted to account for these changes. The estimated impact on statewide CYE 17 capitation costs is included in Section X below.

Provider Fee Schedule Changes
Effective October 1, 2016, AHCCCS is changing Fee For Service (FFS) provider rates for certain providers based either on access to care needs, Medicare/ADHS fee schedule rate changes, and/or legislative mandates. It is assumed that the RBHAs will adjust provider rate schedules accordingly.

Hepatitis C
Effective October 1, 2016, AHCCCS is amending clinical criteria for members utilizing Hepatitis C drugs including, but not limited to, lowering the liver fibrosis/cirrhosis of Metavir stage (i.e. fibrosis level) from F3 to F2. This action will increase utilization of direct-acting antiviral medications including Epclusa, Harvoni, Zepatier, Technivie, Viekira, and their successors. In addition, AHCCCS has seen a marked increase in utilization of these drugs based on current clinical criteria. These two factors combine to impact base period costs.

Value-Based Purchasing Differential
AHCCCS has proposed Value-Based Purchasing (VBP) Differential Adjusted Fee Schedule rates 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 VBP differential rates are applicable for dates of service from October 1, 2016 through September 30, 2017. FFS rates for select providers meeting specific criteria will be increased 1% for qualified AHCCCS-registered Arizona Nursing Facility providers, 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services, and 10% for qualified AHCCCS-registered Integrated Clinics for selected physical health services. Contractors are required to adopt the VBP Differential payment adjustments for qualified providers meeting the specific criteria.

Podiatry
During the 2016 legislative session, services provided by a podiatrist were reinstated. Effective October 1, 2016 AHCCCS will restore this covered service.

VI. North/South Integrated SMI Physical Health Administration and Risk Contingency

The capitation rates include provision for administration of 8%, premium tax of 2%, and risk contingency of 1%, calculated as a percentage of the capitation rate. The RBHA administration and risk contingency amounts have historically been adequate and agreed-upon by the Contractors and state agencies.

The resulting physical health capitation rates are combined with behavioral health capitation rates for the Integrated SMI program.

VII. Overview of Behavioral Health and Maricopa Integrated SMI Rate Setting Methodology

The contract year ending 2017 (CYE 17) capitation rates cover the twelve month contract period of October 1, 2016 through September 30, 2017.

Actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data

    a) RBHA financial statement data covering the period of 10/1/14 through 9/30/15 and member month data from the databook were used as base period data for developing capitation rates for each rate category.

    b) Adjust base period data for programmatic and provider fee schedule changes effective prior to CYE 17.

    c) Combine adjusted base period costs for the current RBHAs into the geographical service areas of North, South and Maricopa County. Segment costs associated with SMI services into integrated and non-integrated categories and costs associated with General Mental Health and Substance Abuse (GMH/SA) services into Medicare/Medicaid dually-eligible and non-dually-eligible categories. Costs associated with the dually-eligible services were shifted to the Acute Care program effective October 1, 2015.

2. Develop CYE 17 actuarially sound capitation rates

    a) Apply a trend factor to bring base period claim costs from the midpoint of the base period forward to the midpoint of the CYE 17 rating period (24 months).

    b) Adjust CYE 17 claims costs for prospective programmatic and fee schedule changes.

    c) Add provision for administration and risk contingency.

VIII. Behavioral Health and Maricopa Integrated SMI Base Period Experience

The base period data consisted of financial statement and member month data for all RBHAs for the October 1, 2014 through September 30, 2015 time period. It would be preferable to use encounter data for base period data; however, due to incomplete reporting of encounter data and issues with respect to encounter valuation it is not possible to use encounter data as base period data for CYE 17.

Adjustments were made to the base period data for fee schedule and programmatic changes effective prior to CYE 17.

AHCCCS has periodically performed reviews of the RBHA-submitted data and has determined that the data does not include any non-covered services.

IX. Behavioral Health and Maricopa Integrated SMI Projected Trend Rates

Schedules of trend tables by RBHA, behavioral health category and category of service were prepared using service expenses from RBHA financial statements for October 2012 through September 2015. Service expenses were adjusted for fee schedule and programmatic changes made during the respective periods. The resulting overall average "residual" trend rate of 3.1% for the observation period for all RBHAs and behavioral health categories was applied to base period costs since it was specific to the behavioral health population base and represented a large enough volume of experience to provide a reliable statistic.

For Maricopa integrated SMI, the overall trend rate of 2.7% observed for physical health costs for the North/South integrated SMI population was used to trend the costs reported on the financial statement as attributable to physical health costs.

Claim costs PMPM were trended from the midpoint of the base period to the midpoint of the rating period (24 months).

X. Behavioral Health and Maricopa Integrated SMI Programmatic and Fee Schedule Changes – Prospective Adjustments

The changes in this section describe changes that will occur in the CYE 17 rating period. The statewide impact to estimated CYE 17 costs stated below includes the impact from changes listed in Section V.

Capitation Payment Method Change
Prior to October 1, 2016, capitation rates for covered individuals were calculated and paid based on the Prospective member population. Rates for the Prior Period Coverage (PPC) population were $0. Beginning on October 1, 2016, identical capitation rates will be calculated and paid on the Prospective and PPC member population. An adjustment to the capitation rate calculation was made to reflect this change. The change is calculated to be budget neutral.

There is also a difference between the way the AHCCCS administrative system will pay capitation rates to the RBHAs versus the way the ADHS/DBHS administrative system paid such rates. ADHS/DBHS paid capitation using an enrollment count taken at a point in time on the first of the month as payment in full with no adjustments. The AHCCCS administrative system will pay capitation based on the portion of the month that a member is enrolled. The CYE 17 capitation rates included in this memorandum are calculated based on the AHCCCS member month method.

Prescription Drug Cost Changes
An adjustment was made for a cost per unit change on prescription drugs due to formulary and authorization changes associated with supplemental drug rebate agreements. The statewide estimated CYE 17 impact to the program is a change of approximately $13.8 million.

Provider Fee Schedule Changes
Effective October 1, 2016, AHCCCS is changing Fee For Service (FFS) provider rates for certain providers based either on access to care needs, Medicare/AHCCCS fee schedule rate changes, and/or legislative mandates. It is assumed that the RBHAs will adjust provider rate schedules accordingly. The statewide estimated CYE 17 impact to the program is a change of approximately $3.7 million.

Hepatitis C
Effective October 1, 2016, AHCCCS is amending clinical criteria for members utilizing Hepatitis C drugs including, but not limited to, lowering the liver fibrosis/cirrhosis of Metavir stage (i.e. fibrosis level) from F3 to F2. This action will increase utilization of direct-acting antiviral medications including Epclusa, Harvoni, Zepatier, Technivie, Viekira, and their successors. In addition, AHCCCS has seen a marked increase in utilization of these drugs based on current clinical criteria. These two factors combine to impact CYE 17 costs by a statewide estimated increase of $13.2 million, which includes an offset for prior Hepatitis C drugs that were included in the base data.

Value-Based Purchasing Differential
AHCCCS has proposed Value-Based Purchasing (VBP) Differential Adjusted Fee Schedule rates 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 VBP differential rates are applicable for dates of service from October 1, 2016 through September 30, 2017. FFS rates for select providers meeting specific criteria will be increased 1% for qualified AHCCCS-registered Arizona Nursing Facility providers, 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services, and 10% for qualified AHCCCS-registered Integrated Clinics for selected physical health services. Contractors are required to adopt the VBP Differential payment adjustments for qualified providers meeting the specific criteria. The statewide estimated CYE 17 impact to the program is a change of approximately $0.4 million.

Podiatry
During the 2016 legislative session, services provided by a podiatrist were reinstated. Effective October 1, 2016 AHCCCS will restore this covered service. The statewide estimated CYE 17 impact to the program is a change of approximately $0.4 million.

In-Lieu of Services
AHCCCS previously permitted funding for "in-lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. In accordance with 438.6(e) in the Medicaid Managed Care Regulations, IMD utilization data for adults aged 21-64 is to be repriced at the higher State Plan service rates. The statewide estimated CYE 17 impact to the program is a change of approximately $1.0 million.

XI. Behavioral Health and Maricopa SMI Integrated Administration and Risk Contingency

The CYE 17 capitation rates include a provision for RBHA administration, premium tax and risk contingency. The components for administration, premium tax and risk contingency are calculated as a percentage of the final capitation rate. An 11% load (8% administration, 2% premium tax, 1% contingency) was added across all populations.

XII. Reconciliation

AHCCCS performs reconciliation on RBHA experience. This reconciliation does not have an impact on capitation rate development.

XIII. Proposed Revised Capitation Rates and Projection of Expenditure

Tables II and III below summarize the changes from the currently submitted capitation rates and the expenditure projection, effective for the contract period on a statewide basis.

Table II shows the total projected expenditures based on current July 1, 2016 capitation rates and projected member months for October 1, 2016 through September 30, 2017 based on the historical payment methodology.

Table III shows the projected expenditure based on the October 1, 2016 capitation rates and projected member months for October 1, 2016 through September 30, 2017 and the percentage changes from the data in Table II.

Table II - Expenditures Based on Projected FFY17 Member Months under Prior Structure and Capitation Rates Effective July 1, 2016

Statewide Behavioral Health Capitation Rates				
	Rate Category	7/1/16 Rates	Projected FFY17 Member Months based on historical payment methodology	Total Projected Expenditures
Not Integrated	TXIX and TXXI non-CMDP Children	$38.41	8,940,344	$343,433,190
	CMDP Children	$933.59	215,666	$201,344,693
	TXIX GMH/SA and TXXI Adult - non-dual	$52.56	9,260,199	$486,760,625
	non-integrated SMI	$2.90	9,258,291	$26,876,420
	DDD Adult	$154.79	169,448	$26,229,485
	DDD Child	$128.30	194,800	$24,993,596
Integrated	Integrated SMI	$1,875.44	477,072	$894,721,560
Total				$2,004,359,568

Table III - Expenditures Based on Projected FFY17 Member Months and Capitation Rates Effective October 1, 2016

Statewide Behavioral Health Capitation Rates					
	Rate Category	10/1/16 Rates	Projected FFY17 Member Months	Total Projected Expenditures	% increase in Total Expenditures
Not Integrated	TXIX and TXXI non-CMDP Children	$39.49	8,912,573	$351,932,321	2.5%
	CMDP Children	$827.45	221,903	$183,614,043	-8.8%
	TXIX GMH/SA and TXXI Adult - non-dual	$54.50	8,667,171	$472,335,410	-3.0%
	non-integrated SMI	$1,686.07	15,794	$26,630,698	-0.9%
	DDD Adult	$144.72	152,814	$22,114,934	-15.7%
	DDD Child	$209.90	135,788	$28,501,804	14.0%
Integrated	Integrated SMI	$1,975.86	497,085	$982,169,415	9.8%
Total				$2,067,298,625	3.1%

Table IV - Capitation Rates Paid to Regional Behavioral Health Authorities Effective October 1, 2016 through September 30, 2017

	Regional Behavioral Health Authorities		
	South	North	Maricopa
TXIX and TXXI non-CMDP Children	$57.53	$62.59	$28.66
CMDP Children	$934.90	$1,292.51	$724.59
TXIX GMH/SA and TXXI Adult - non-dual	$60.45	$57.84	$50.70
non-integrated SMI	$1,495.75	$2,192.42	$1,644.62
DDD Adult	$192.15	$202.75	$109.12
DDD Child	$262.65	$622.39	$164.55
Integrated SMI	$1,659.78	$1,773.40	$2,257.53

3A

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: March 22, 2017

TO: Representative Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Patrick Moran, Fiscal Analyst PM

SUBJECT: Department of Child Safety - Review of FY 2017 Second Quarter Benchmarks

Request

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) requires the Department of Child Safety (DCS) to submit for Committee review a report of quarterly benchmarks for assessing progress made in increasing the department's number of FTE Positions, meeting caseload standards for caseworkers, reducing the number of backlog cases and open reports, and reducing the number of children in out-of-home care. In this memo, the JLBC Staff has updated the second quarter report with newer information when available.

Recommendation

The Committee has at least the following 3 options:

1. A favorable review.

2. An unfavorable review.

3. Accept the report with no comment.

Analysis

A FY 2017 General Appropriation Act footnote requires DCS to report on caseworker hiring, caseworker workload, the backlog, the number of open reports, and the number of children in out-of-home care at the end of each quarter in FY 2017 relative to March 31, 2016.

(Continued)

Filled FTE Positions

Table 1 outlines DCS' progress in hiring caseworkers by quarter. DCS is funded for 1,406 caseworkers. DCS has made steady progress in increasing the caseworker hiring level. As of February, DCS had 1,344 filled direct line staff, an increase of 74 positions relative the March 31, 2016 baseline hiring level. Also notable is the rising share of caseworkers that are case-carrying rather than in training. Since March 2016, the number of filled case-carrying caseworkers has increased by 142, while the number of staff in training declined by (63) positions. To achieve the funded hiring level, however, DCS would still need to increase the number of case-carrying caseworkers by over 100 positions.

Table 1

Progress in Hiring Caseworkers by Quarter

Direct Line Staff Type	Benchmark	Actuals [1/] March 2016	Sept. 2016	Dec. 2016	Feb. 2017
Case-Carrying Caseworkers	1,190	923	954	1,085	1,065
Caseworkers in Training	140	273	296	189	210
Hotline Staff	76	74	71	66	69
Total	**1,406**	**1,270**	**1,321**	**1,340**	**1,344**

1/ Source: DCS Monthly Hiring Report

Caseload Standard

DCS established revised caseload goals during the May 2014 Special Session for case-carrying caseworkers. These goals include the following number of cases per worker: 13 for investigations, 33 for in-home cases, and 20 for out-of-home cases. The FY 2017 General Appropriation Act requires DCS to report the caseload for each DCS field office. Estimated caseworker caseload for individual offices can be found on page 5 of DCS' attached submission.

Since the March 31, 2016 baseline, most field offices have experienced a decline in workload, but many field offices continue to be above the workload standard in at least one category of cases. Caseworker workload remains significantly higher in the central region, which includes the eastern portion of Maricopa County as well as Pinal County, compared to the rest of the state.

Reducing the Backlog and Open Reports

In June 2014, DCS set benchmarks for reducing the backlog. At the time, there were 13,024 backlog cases. The backlog is defined as non-active cases for which documentation has not been entered into the child welfare automated system for at least 60 days and for which services have not been authorized for at least 60 days. DCS is to have no more than 1,000 backlog cases by June 30, 2017. DCS' benchmark is also to have fewer than 13,000 open reports as of June 30, 2017. Open reports are either under investigation or awaiting closure by a supervisor. *Table 2* outlines DCS' progress in reducing the backlog and open reports by quarter.

As of March 2017, DCS had reduced the backlog to 966 cases and had 6,885 open reports, meeting both of the benchmarks. Given that DCS is significantly below the benchmark of 13,000 open reports, it is likely that DCS could comply with a lower benchmark for open reports in future years.

(Continued)

Table 2

Progress Reducing the Backlog and Open Reports by Quarter

Backlog Cases and Open Reports	Benchmark	Actuals: March 2016	Sept. 2016	Dec. 2016	March 2017
Total Backlog Cases	1,000	10,751	4,790	2,854	966
Total Open Reports	13,000	22,698	13,477	9,611	6,885

Out-of-Home Children

Since the March 31, 2016 baseline, the out-of-home population has declined each quarter, from 18,917 to 17,149, or a decrease of (9.3)%.

DCS' benchmark is to achieve a decline in the out-of-home population of (2)% each quarter relative to the out-of-home population as of December 31, 2016, or a cumulative reduction of (11.4)%. Given the out-of-home population of 17,149 as of December 31, 2016, DCS would need to reduce the out-of-home population to 15,191 children or less on or before June 30, 2018 to comply with the benchmark. *Table 3* below shows the declines that DCS would need to achieve over each 6-month period until the end of FY 2018.

Table 3

Progress Reducing Children in Out-of-Home Care

Actual Cases		Benchmark Goals		
March 2016	**December 2016**	**June 2017**	**December 2017**	**June 2018**
18,917	17,149	16,470	15,818	15,191

RS/PM:kp

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

Arizona Department of Child Safety

Douglas A. Ducey
Governor

Gregory McKay
Director

December 30, 2016

The Honorable Justin Olson
Chairman, House Appropriations Committee
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Re: Department of Child Safety Quarterly Benchmark Progress Report

Dear Representative Olson:

Pursuant to Laws 2016, 2nd Regular Session, Chapter 8, Section 24, the Department submits its report on the progress made increasing the number of filled FTE positions, meeting the caseload standard and reducing the number of backlog cases and out-of-home children for the second quarter of FY 2017.

If you have any questions, please contact our office at (602) 255-2500.

Sincerely,

Gregory McKay
Director

Enclosure

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Senator Don Shooter, Chairman, Senate Appropriations Committee
Lorenzo Romero, Director, Governor's Office and Strategic Planning and Budgeting
Patrick Moran, Joint Legislative Budget Committee
Laura Johnson, Governor's Office and Strategic Planning and Budgeting

DEPARTMENT OF CHILD SAFETY

Quarterly Benchmark Progress Report
(Filling FTE Positions and Reducing the Backlog)
December 2016

PROGRESS MADE IN INCREASING THE NUMBER OF FILLED FTE POSITIONS

The Department of Child Safety (DCS) has been engaged in several initiatives to help recruit and retain DCS staff, particularly the DCS Specialist and Supervisor positions. Key among these was a new position entitled DCS Specialist Trainee that was established for new hires for the first 22 weeks of employment. When the new employee successfully completes the 22 weeks of initial training, the DCS Specialist Trainee will be promoted to a DCS Specialist position which includes a nominal pay increase. The DCS Specialist will then be eligible for an additional pay increase after one year of service. This significant change in the structure of the salary schedule was implemented for Specialists as the Department believes that by providing these increases earlier in the first year of employment, employees who may leave employment due to a low salary may be retained. Instead of providing the initial salary increase at 12 months, the increase now occurs after 22 weeks with Specialists in good standing being able to reach maximum salary after one year and 22 weeks compared to the prior schedule of reaching maximum salary at 24 months from the date of hire..

There has been focused work by the Department to fill 100 percent of DCS positions and reduce turnover in order to develop sufficient staff resources to provide quality services to the children and families it serves. Significant effort has taken place to fill positions statewide, including routine planning and information sharing meetings between Executive management, the Regional Program Administrators and Human Resources Managers. Recruitment and retention data is tracked and reviewed bi-monthly. Action plans are developed when areas of concern are identified through this tracking process. The Department continues its active recruitment process to fill all Child Safety Specialist positions. As of August 2016, the Department had filled 1,358 (97 percent) of the 1,406 appropriated Specialist positions.

After maintaining an average of 60.5 hires for the first 8 months of CY 2016. The DCS Human Resources (HR) team has transition their hiring practice from targeting 60 new hires per month to partnering with the Regional Program Administrators to develop and implement a staffing plan to meet the region's current hiring demands. Additionally, the HR team has an assigned staff member to assist in completing background reference checks to hasten the process.

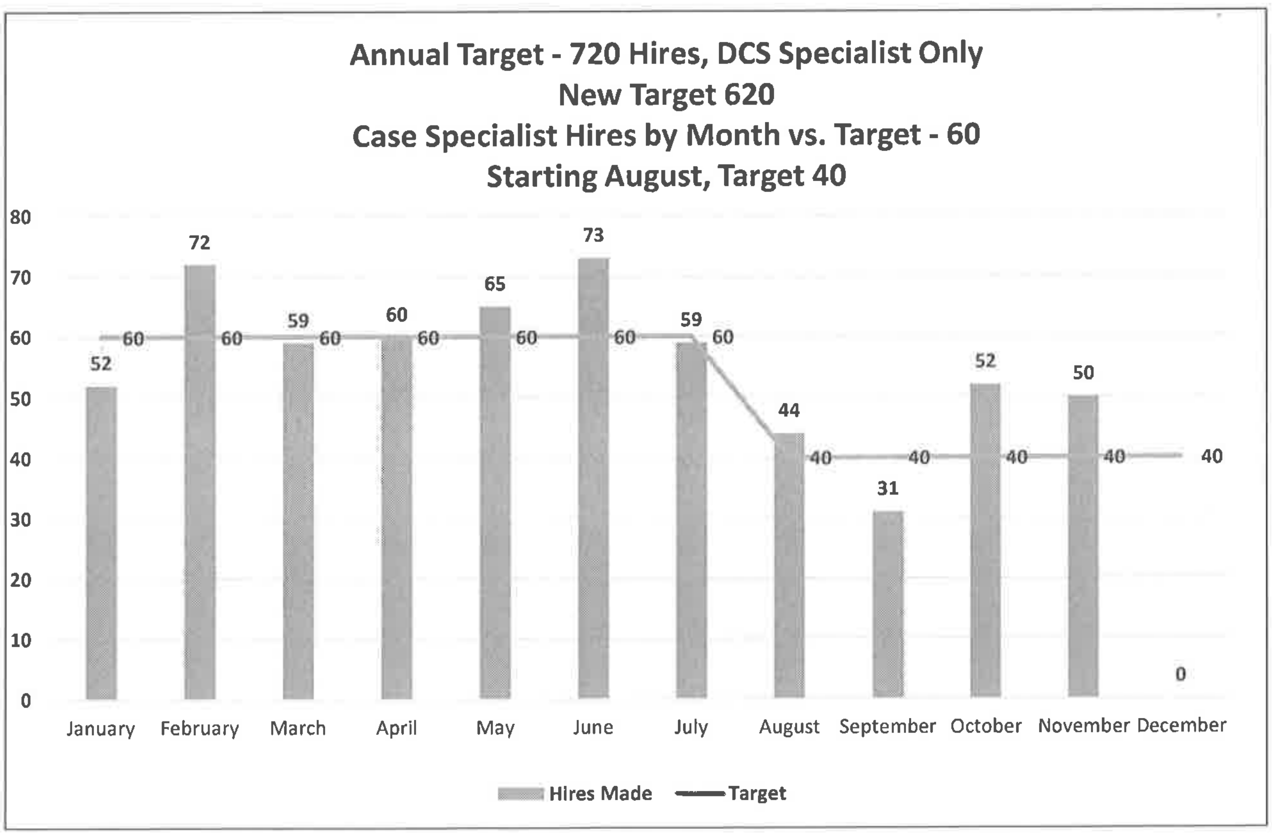
During the current quarter, only 89 Specialist left employment during the current reporting period compared to 144 for the first quarter of FY 2017 which is a 38 percent decrease. The HR team continues to monitor the number of new hires who leave DCS within their first year via employee exit surveys to better understand the reasons why employees are choosing to exit the agency so employee engagement strategies can be developed to address employee attrition.

Starting November 1, 2016, DCS initiated a Pilot program, implementing the Predictive Index (PI) assessment to all candidates from the Central Region. The PI assessment is a science-based methodology which helps to understand what drives workplace behaviors to better ensure alignment between candidates and their actual job duties. It helps to predict workplace behaviors and actual on-the-job performance. The Department plans to expand PI assessment to all Regions in the future after successful implementation in Central Region.

The Department continues to post job listings/requisitions for specific regions on the azstatejobs.gov website to encourage applications from individuals searching for employment within a specific community. In February 2016, the Department implemented a career ladder for case aides with five or more years of experience with DCS to promote into Child Safety Specialist Trainee position, which brings staff already familiar with the child welfare system to areas of need.

To expedite the new hire fingerprint card process, a fulltime person at the Department of Public Safety continues to be available to process requests for fingerprint cards. In July 2016, DCS started processing fingerprint clearance cards through FieldPrint which is a company that provides electronic fingerprinting collection and processing. This process is expected to reduce the processing time to approximately 3-5 business days.

Chart 1 – DCS Specialist Hires and Target Trends



Progress reducing inactive cases and improving caseloads

During the second quarter of FY 2017, the Department has maintained activities and initiatives across the state to continue reducing the backlog and total number of open reports. Additionally, the DCS human resources department has made concerted efforts to hire and place specialists at a rate equal to any departures from the Department. As a result of the sustained staffing levels, reduced number of backlog inactive cases and total open reports, and reduced foster care population, the overall caseloads for DCS investigators, ongoing Specialists and in-home Specialists has reduced this quarter.

The Department has steadily and consistently reduced the inactive case backlog from a peak of 16,014 in January of 2015 to 2,854 as of December 29, 2016 representing an 82 percent decrease. In many portions of the state, efforts have transitioned from reduction initiatives to sustainment activities as a means of maintaining the positive gains achieved and preventing the recurrence of an investigative backlog. In those particular offices, sustainment measures include the implementation of performance management metrics to monitor and control the total number of open reports and the percentage of those reports that are overdue, and the implementation of leader standard work to ensure routine follow-up.

In offices still carrying a higher than desired number of open reports and inactive cases, the Department is continuing the use of selected assistance work teams, Regional action plans, leveraging provider partnerships as well as maintaining weekly performance huddle calls as a means of maintaining progress and establishing performance accountability. As a result of these efforts, the Department has achieved the benchmark of less than 13,000 open reports six months ahead of the established target date. From a peak of 33,245 open reports in April 2015, the Department has reduced that to only 9,611 open reports as of December 29, 2016 representing a 71 percent reduction.

Progress made to Safely reduce the out-of-home population

While much of the emphasis has been focused on continued reduction of the backlog and total number of open reports, additional efforts have been made to safely reduce the out-of-home foster care population. The Department realized progress in fiscal quarter 2, safely reducing the out-of-home foster care population by 1.35 percent (247 children) ending with 17,936 children in care. The progress made since the baseline period of March 31, 2016 is a 5.2 percent reduction (981 children). These gains represent the first sustainable population reduction in nearly a decade. The safe reduction of the foster care population can be attributed to several key factors: slowing of the entry rate and sustainable performance in children exiting care.

Over the past two fiscal quarters, investigative case manager workload has dropped appreciably as the backlog has been eliminated. Investigative case managers are able to respond faster and provide services more quickly to mitigate risk factors. This coupled with the additional standardized process tools including supervisory administrative and case progress review checklists, as well as standardized safety discussions guides have attributed to the reduced number of children entering out-of-home care population.

Simultaneously, while the number of children entering the system has reduced, the number of children exiting care has sustained year-over-year performance. Through the continued application of monthly clinical staffings on reunification cases using a standardized process, ongoing workers have been able to maintain the rate of children exiting care. These standard process activities when paired with the continued use of cursory case reviews and Fostering Sustainable Connections (the Title IV-E Waiver demonstration project), the Department seeks to continue realizing safe and sustainable out-of-home care population reductions.

Table 2 – Benchmark Performance

		Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Backlog Cases									
	Benchmark (less than)	10,000	7,000	4,000	1,000	1,000	1,000	1,000	1,000
	Actual	4,790	2,854						
Backlog Case by disposition									
	Investigation Phase	4,554	2,671						
	In-Home Cases	222	160						
	Out-of-Home Cases	14	23						
Number of Open Reports									
	Benchmark (less than)	---	---	---	13,000	13,000	13,000	13,000	13,000
	Actual	13,477	9,611						
Number of Out-of-Home Children									
	Benchmark (less than)	---	---						17,500
	Benchmark (% reduction)			2%	2%	2%	2%	2%	2%
	Actual	18,183	17,936						

Footnotes

- Number of open reports is the actual figure as of the Monday before the legislatively required reporting period based on the automated report run.
- Number of inactive cases is the actual figure as of the Monday before the legislatively required reporting period based on the automated report run.
- Out-of-home population figures are directly from the 20th of the Month Tigger which is a lagging 60 day metric.

	March 31, 2016 Baseline			Quarter 1 FY 2017								Quarter 2 FY 2017				
	Workload			FTE		Workload						FTE				
	# of open reports (investigations)	# of In home cases	# of Out-of-Home Children	Investigators	Case managers	# of open reports (investigations)	# of In home cases	# of Out-of-Home Children	Investigation (reports per worker)	In Home (cases per worker)	Out of Home (children per worker)	Investigators	Case managers	# of open reports (investigations)	# of In home cases	Ou
	576	0	601	13	13	439	0	607	33	0	46	12	12	393		
	834	0	688	10	10	536	0	632	53	0	63	14	14	498		
	1005	0	542	11	11	780	0	569	69	0	50	17	17	650		
	17	495	111		26	34	587	37	1	23	1		27	23	590	
	1423	0	615	11	11	670	0	595	59	0	53	16	16	457		
	1236	0	824	15	15	447	0	786	29	0	52	16	16	327		
	1786	0	913	16	16	1328	0	719	82	0	44	18	18	773		
	1493	0	663	17	17	1200	0	764	70	0	44	20	20	1081		
	1522	0	775	10	10	1136	0	571	118	0	59	11	11	524		
	2	0	1520	0	32	2	0	1544	0	0	48		32	0		
	980	49	342	17	22	425	50	335	25	2	15	21	29	304	48	
	227	27	398	10	20	170	39	391	16	2	19	11	21	164	38	
	132	18	370	12	24	87	29	403	7	1	17	12	23	90	27	
	126	19	313	11	21	126	25	291	12	1	14	11	21	168	24	
	599	39	164	9	17	149	15	180	17	1	10	10	20	147	14	
	7	0	555	4	0	42	0	565	11	0	0	1	1	2	0	
	326	53	379	9	17	252	26	335	30	2	20	10	20	136	27	
	174	15	312	9	17	157	20	299	18	1	18	11	22	203	23	
	82	0	340	10	19	42	0	307	4	0	16	12	23	40	0	
	266	—	398	10	10	238	—	367	24	—	36	12	12	216	24	
	127	—	188	5	5	77	—	189	14	—	35	6	6	35	21	
onia	200	—	220	10	10	213	—	214	22	—	22	10	10	217	29	
	176	—	399	9	9	198	—	244	23	—	28	8	8	113	62	
	198	—	132	6	6	119	—	312	20	—	53	11	11	93	13	
	254	30	245	7	13	59	11	232	9	1	18	7	13	37	12	
	645	34	169	5	11	207	35	186	38	3	18	3	11	146	33	
	383	14	119	2	4	67	19	120	30	4	28	4	4	31	15	
	483	0	4	5	0	172	—	1	34	0	0	35	0	111		
	44	—	101	0	39	40	682	150	1	21	25		42	37	619	
	937	0	774	17	17	428	—	687	25	0	41	16	16	317		
	1999	0	839	16	16	1151	—	691	71	0	42	18	18	472		
	1558	0	584	20	20	424	—	740	21	0	36	22	22	315		
	614	0	804	17	17	474	—	707	29	0	43	19	19	364		
	0	0	1667	0	48	0	—	1721	0	0	36		42	—		
	347	0	418	17	17	192	—	411	12	0	25	16	16	182		
	953	0	670	13	13	586	—	590	45	0	45	17	17	418		
	597	0	713	10	10	433	—	630	44	0	64	15	15	285		
	370		48			377		61						242		
	22698	793	18917			13477	1538	18183						9611	1619	

particular the specific section assignment of trainees, was not yet established in March 2016. As a result the FTE counts for that period are not available since they do not match the information on the total number of filled FTE positions as is

re the legislatively required reporting period based on the automated report run.

ore the legislatively required reporting period based on the automated report run.

qual distribution of 20% caseload.

Month Tigger which is a lagging 60 day metric.

d in each respective region. March values for Northern Region are not available given that the region counted the number of children and not the number of cases.

March 2016. The handcount only included total child count.

st Regions employ specific in home units who manage in home cases only while Northen, Pima and Southeast Regions have mixed units that may carry in home or out of home cases.

on assignment of 50% investigative and 50% ongoing in Central, Northern and Southwest Regions. Pima and Southeast Regions employ a distribution of 34% Investigations and 66% ongoing.

3B

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE	1716 WEST ADAMS PHOENIX, ARIZONA 85007	HOUSE OF REPRESENTATIVES
DEBBIE LESKO CHAIRMAN 2018 OLIVIA CAJERO BEDFORD STEVE FARLEY DAVID C. FARNSWORTH KATIE HOBBS JOHN KAVANAGH WARREN PETERSEN KIMBERLY YEE	(602) 926-5491 azleg.gov	DON SHOOTER CHAIRMAN 2017 JOHN M. ALLEN LELA ALSTON RUSSELL "RUSTY" BOWERS CHARLENE R. FERNANDEZ VINCE LEACH DAVID LIVINGSTON MICHELLE UGENTI-RITA

DATE: March 22, 2017

TO: Representative Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Patrick Moran, Fiscal Analyst PM

SUBJECT: Department of Child Safety - Review of FY 2017 Fourth Quarter Funding for New Case Aides and Overtime

Request

Pursuant to a FY 2017 General Appropriation Act (Laws 2016, Chapter 117) footnote, the Department of Child Safety (DCS) is requesting Committee review of FY 2017 fourth quarter funding for New Case Aides and Overtime.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of $765,200 for New Case Aides and $2,092,500 for Overtime in FY 2017 for fourth quarter funding.

2. An unfavorable review of the request.

Analysis

A FY 2017 General Appropriation Act footnote makes the availability of some FY 2017 funding contingent on Committee review of the FY 2017 contractor(s) award(s) for the backlog. Prior to Committee review, DCS cannot spend the $3,060,600 for 34 New Case Aides and the $6,277,500 for

(Continued)

Overtime Pay, which comprises 100% of New Case Aides line item and 75% of the Overtime Pay line item. The Committee has approved this funding on a quarterly basis contingent on DCS' progress in reducing the backlog of non-active cases. The agency is requesting Committee review of fourth quarter funding.

As of March 14, 2017, DCS had reduced the backlog to 966 cases, thereby meeting the benchmark established in the FY 2017 General Appropriation Act to have fewer than 1,000 backlog cases by June 30, 2017.

Under Option 1, the Committee could favorably review funding for the remaining 3 months of FY 2017. A total of $765,200 New Case Aides and $2,092,500 for Overtime Pay would be released for use. These amounts reflect the remaining unreleased monies in the line items.

RS/PM:kp

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

Douglas A. Ducey
Governor

RECEIVED
MAR 09 2017
JOINT BUDGET COMMITTEE

Arizona Department of Child Safety

Gregory McKay
Director

March 8, 2017

Re: JLBC Agenda Items – Quarterly Benchmark, Backlog Funding Update, Appropriations Transfer request, and Class Action Lawsuit Executive Session Update.

Quarterly Benchmark Update

The Department of Child Safety has achieved the legislative benchmark for Open reports and is projecting to achieve the number of inactive cases by 3/14/2017. In addition to these gains, the department has realized a 10% reduction of the number of children in foster care since the high point in February 2016.

Specific statistics regarding progress to date are shown below.

Inactive Cases (as of 3/7/2017):
- Current: 1,040
- Last Update (12/31/2016) – 2,197
- All Time High (January 2015) – 16,200
- Improvement – 15,160 (95%) Reduction

Total Open DCS Reports (as of 3/6/2017):
- Current – 6,885
- Last Update (12/30/2016) – 14,402
- All Time High (April 2015) – 33,245
- Improvement – 26,360 (80%) Reduction

Out-of-Home Population (as of 1/20/2017)
- Current – 17,149
- All Time High (February 2016) – 19,044
- Improvement – 18,149 (10%) Reduction

The Department is very pleased with the significant progress made to date. The efforts of case workers and support staff throughout the entire state have, in a very systemic and sustainable manner, achieved the backlog reduction that has long challenged the department. The efforts of the staff and supports afforded the Department through backlog funding initiative have promoted reduced work load for investigative staff throughout the entire state, assisted in creating an environment where employees can focus on quality of work in lieu of just volume output, and created an environment where investigators can engage with families in a more meaningful way thus reducing the number of children entering care.

Along with the significant and positive gains in the investigation portion of the process, the Department has realized a 10% reduction in the number of children in out of home foster care. This reverses the long standing trend of 10% foster care growth that has plagued the department of nearly a decade. As a result of these gains, Case managers are now experiencing case load reductions, which further allows them to engage with children and families, create and manage improved case plans and focus with greater quality on helping achieve permanency in a more timely manner.

The Department will continue to reporting on the backlog and open reports as sustainment measures to ensure positive performance and projects that the foster care population will continue to decline.

Backlog Funding Update

With the benchmark for backlog achieved, the Department has devised the following initiatives, timing and estimated expenditures to engage the provider community in helping children achieve permanency in a timelier manner.

- Fostering Sustainable Connection
    - Projected Cost: $500K
    - Timing: CI award by 3/31/2017
    - Desired outcome: reduction of children placed in congregate care
- Ongoing case manager augmentation and targeted permanency staffing
    - Projected cost: $750K-$1M
    - Timing: CI award by 3/31/2017 (with possible additional RFP)
    - Desired outcome: improve the number of children achieving permanency within 12 months
- Permanent Guardianship for American Indian children
    - Projected Cost - $350K-$500K
    - Timing: RFP release in Apr/May
    - Desired outcome: increase the number of American Indian children achieving permanency through permanent guardianship through increased care giver engagement and supports through the legal process
- Foster Sustainable Connection Expansion
    - Projected Cost: $1M-$1.5M
    - Timing: RFP in Apr/May
    - Desired outcome: further increase the capacity of fostering sustain connections intervention through funding additional resources/providers
- Permanent Guardianship for target populations
    - Projected Cost: $750k-$1M

- Timing: TBD based on outcome of American Indian population
- Desired Outcome: increase the number of children achieving permanency through permanent guardianship through increased care giver engagement and supports through the legal process

The department request the ability to spend the FY 17 Backlog dollars on the project listed above once all the FY 16 Backlog dollars have been expended in accordance with the JBLC provisions on the permanency projects as listed above.

4th Quarter Release of Overtime and Case Aide Funds

The Department requests approval of the 4th quart funds for Overtime and Case Aide Appropriations. The department is projecting to have met both of its benchmarks and is now working on various permanency initiatives via Contracts and the RFP process.

Appropriations Transfer request

Per the General Appropriation Act Footnote, the Department requests an appropriations transfer of $1.7M General Fund from the Foster Care Placement Line to the Adoption Subsidy Line. The Department is currently forecasting a surplus in the Foster Care SLI, as the Licensed Foster Care populations has decreased 4.7% in FY 17. Currently, Adoptions has seen an 11.0 % increase in finalized adoptions against a planned budget of 9.9 %. In FY 17, the Department took a significant decrease to its Adoption Incentive Grant which was used as a significant funding source Adoption Subsidy as well. As most of the expenditures in Adoptions Subsidy are matched with Federal 4-E Dollars, the applicable dollars will be matched.

Class Action Lawsuit Executive Session Update.

The Department requests to brief the committee in executive session on the status of the Class Action Lawsuit regarding children in foster care. This injunctive relieve lawsuit has significant implications to the state and the Department would like to provide status to the members.

3C

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: March 22, 2017

TO: Representative Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Patrick Moran, Fiscal Analyst PM

SUBJECT: Department of Child Safety - Review of Alternative Use of Backlog Privatization Resources/Line Item Transfers

Request

Pursuant to footnotes in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117), the Department of Child Safety (DCS) is requesting Committee review of its proposal to spend Backlog Privatization funding on contracted permanency services, and to transfer resources from the Foster Care Placement line item to the Adoption Services line item. All DCS line item transfers require Committee review in FY 2017.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the transfer of:

   A. $2,700,000 from the FY 2017 Backlog Privatization line item to the Out-of-Home Support Services line item for contracted permanency services.
   B. $1,700,000 from the Foster Care Placement line item to the Adoption Services line item to address higher than budgeted caseload growth in the adoption program.

2. An unfavorable review of the request.

(Continued)

If the proposal to transfer backlog privatization resources for contracted permanency is favorably reviewed, DCS would like these monies to be made available through FY 2018. Extending the lapsing date would require a statutory change.

In addition, the Executive budget request would delete the $2,700,000 backlog appropriation in FY 2018. DCS' proposed use of the FY 2017 funds potentially establishes ongoing types of programs. Making these monies non-lapsing through FY 2018, however, may defer this possible need for ongoing funding to FY 2019.

Analysis

Backlog Privatization Transfer

The FY 2017 General Appropriation Act included $2.7 million from the General Fund for Backlog Privatization in each of FY 2016 and FY 2017. The FY 2016 monies are non-lapsing until end of FY 2017. "Backlog case" essentially means any nonactive case for which documentation has not been entered in the child welfare automated system for at least 60 days.

At its June 2016 meeting, the Committee favorably reviewed the release of the full $2.7 million of FY 2016 backlog privatization monies. At that time, DCS provided the Committee with a signed contract from Southwest Human Development (SWHD) to work cooperatively with the department to administer backlog cases.

DCS subsequently expected that the backlog could be eliminated with the single contract at a cost of $500,000 from the General Fund. As a result, at its September 2016 meeting, the Committee favorably reviewed DCS' plan to transfer the remaining $2.2 million of its FY 2016 backlog privatization appropriation to the Out-of-Home Support Services line item for contracted permanency services, with the provision that DCS only complete the transfer after reducing the backlog to less than 1,000 cases. DCS reports that as of March 14, 2017, the backlog had been reduced to 966 cases, thereby meeting the benchmark.

DCS now expects to expend up to $1.0 million on the SWHD backlog contract. The remaining $1.7 million of the FY 2016 backlog privatization appropriation will be available for contracted permanency services pursuant to the Committee's favorable review in September.

In addition, the full $2.7 million of FY 2017 backlog funding remains available for potential alternative uses. DCS is proposing that this $2.7 million also be made available for contracted permanency services, resulting in a total of up to $4.4 million of backlog resources being allocated to contracted permanency services within the Out-of-Home Support Services line item.

The Executive budget does not continue backlog privatization funding into FY 2018. As a result, these transferred monies would be for one-time use.

DCS has proposed 3 contracted permanency initiatives to reduce the out-of-home care population. To comply with existing statutory benchmarks, DCS will have to reduce the out-of-home population to 15,191 children (compared to the December 31, 2016 population of 17,149). The $4.4 million could help achieve this objective, but it is difficult to know whether there will be an ongoing funding need.

(Continued)

- *Fostering Sustainable Connections:* $1.5 million - $2.0 million

The Fostering Sustainable Connections program is a department initiative that aims to reduce the congregate care population. The funding would be used to expand contracted resources to find permanent placements for children in group homes or shelter care. Because this program is part of DCS' IV-E waiver, DCS may be able to draw down additional Federal Funds to support this initiative.

These funds would supplement existing resources that DCS expends on foster and adoptive home recruitment. DCS reports that in FY 2017, it already expects to expend approximately $32.8 million in total funds on foster home recruitment, study, and supervision contracts and another $3.8 million for similar contracts in the adoption program. DCS reports that these resources, however, are primarily dedicated to training and licensing of foster families rather than recruitment.

- *Permanent Guardianship Assistance*: $1.1 million - $1.5 million

This program provides a permanent home for children that have resided with a prospective guardian for at least 9 months, and for whom the probability of being adopted is "remote." As with adoption, permanent guardians may qualify for a subsidy from DCS, but the subsidy for guardianship is lower ($381 compared to $713 for adoption, on average), and adoption typically requires the termination of parental rights, whereas permanent guardianship only requires the termination of parental custody.

DCS believes that this program is underutilized by potential guardians, and would use this funding to contract with a provider that would assist caregivers in learning about the benefits of permanent guardianship and would help prospective guardians in navigating the legal process for guardianship. DCS is proposing that $350,000-$500,000 of the total amount be specifically dedicated to increasing permanent guardianship rates among American Indian children. DCS reports that it does not have an existing program for recruitment of permanent guardians.

- *Case Management Augmentation and Targeted Permanency Staffing*: $750,000 - $1.0 million

This project would provide caseworkers with enhanced resources in resolving child welfare cases. This extra assistance could include helping caseworkers to find a permanent placement for a child, ensuring that the child is maintaining relationships with family members or other significant individuals, and identifying appropriate services for the child or family. This contract may also involve using facilitators to identify and address any ongoing barriers to timely permanency for children.

<u>Foster Care Placement Transfer</u>

DCS is also requesting a transfer of $1.7 million in FY 2017 General Fund monies from the Foster Care Placement line item to the Adoption Services line item. The Foster Care Placement line item finances monthly subsidies to licensed family foster homes, while the Adoption Services line item funds monthly subsidies to adoptive families that offer a permanent home for foster children.

DCS is requesting the transfer to accommodate higher-than-budgeted caseload growth in the number of children exiting foster care for permanent adoptive homes. The original FY 2017 budget funded 9.4% caseload growth, compared to actual caseload growth of 11.0% on a year-to-date basis, resulting in a projected General Fund shortfall of $(1.6) million. For foster care placement, the original FY 2017 budget funded 10.7% caseload growth in licensed foster care, but year-to-date, the average monthly population has declined by (2.5)% in FY 2017 relative to FY 2016. As a result, DCS is projecting a General Fund surplus of approximately $4.3 million in the Foster Care Placement line item.

RS/PM:kp

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

Arizona Department of Child Safety

Douglas A. Ducey
Governor

Gregory McKay
Director

March 8, 2017

Re: JLBC Agenda Items – Quarterly Benchmark, Backlog Funding Update, Appropriations Transfer request, and Class Action Lawsuit Executive Session Update.

Quarterly Benchmark Update

The Department of Child Safety has achieved the legislative benchmark for Open reports and is projecting to achieve the number of inactive cases by 3/14/2017. In addition to these gains, the department has realized a 10% reduction of the number of children in foster care since the high point in February 2016.

Specific statistics regarding progress to date are shown below.

Inactive Cases (as of 3/7/2017):

- Current: 1,040
- Last Update (12/31/2016) – 2,197
- All Time High (January 2015) – 16,200
- Improvement – 15,160 (95%) Reduction

Total Open DCS Reports (as of 3/6/2017):

- Current – 6,885
- Last Update (12/30/2016) – 14,402
- All Time High (April 2015) – 33,245
- Improvement – 26,360 (80%) Reduction

Out-of-Home Population (as of 1/20/2017)

- Current – 17,149
- All Time High (February 2016) – 19,044
- Improvement – 18,149 (10%) Reduction

The Department is very pleased with the significant progress made to date. The efforts of case workers and support staff throughout the entire state have, in a very systemic and sustainable manner, achieved the backlog reduction that has long challenged the department. The efforts of the staff and supports afforded the Department through backlog funding initiative have promoted reduced work load for investigative staff throughout the entire state, assisted in creating an environment where employees can focus on quality of work in lieu of just volume output, and created an environment where investigators can engage with families in a more meaningful way thus reducing the number of children entering care.

Along with the significant and positive gains in the investigation portion of the process, the Department has realized a 10% reduction in the number of children in out of home foster care. This reverses the long standing trend of 10% foster care growth that has plagued the department of nearly a decade. As a result of these gains, Case managers are now experiencing case load reductions, which further allows them to engage with children and families, create and manage improved case plans and focus with greater quality on helping achieve permanency in a more timely manner.

The Department will continue to reporting on the backlog and open reports as sustainment measures to ensure positive performance and projects that the foster care population will continue to decline.

Backlog Funding Update

With the benchmark for backlog achieved, the Department has devised the following initiatives, timing and estimated expenditures to engage the provider community in helping children achieve permanency in a timelier manner.

- Fostering Sustainable Connection
    - Projected Cost: $500K
    - Timing: CI award by 3/31/2017
    - Desired outcome: reduction of children placed in congregate care
- Ongoing case manager augmentation and targeted permanency staffing
    - Projected cost: $750K-$1M
    - Timing: CI award by 3/31/2017 (with possible additional RFP)
    - Desired outcome: improve the number of children achieving permanency within 12 months
- Permanent Guardianship for American Indian children
    - Projected Cost - $350K-$500K
    - Timing: RFP release in Apr/May
    - Desired outcome: increase the number of American Indian children achieving permanency through permanent guardianship through increased care giver engagement and supports through the legal process
- Foster Sustainable Connection Expansion
    - Projected Cost: $1M-$1.5M
    - Timing: RFP in Apr/May
    - Desired outcome: further increase the capacity of fostering sustain connections intervention through funding additional resources/providers
- Permanent Guardianship for target populations
    - Projected Cost: $750k-$1M

- Timing: TBD based on outcome of American Indian population
- Desired Outcome: increase the number of children achieving permanency through permanent guardianship through increased care giver engagement and supports through the legal process

The department request the ability to spend the FY 17 Backlog dollars on the project listed above once all the FY 16 Backlog dollars have been expended in accordance with the JBLC provisions on the permanency projects as listed above.

4th Quarter Release of Overtime and Case Aide Funds

The Department requests approval of the 4th quart funds for Overtime and Case Aide Appropriations. The department is projecting to have met both of its benchmarks and is now working on various permanency initiatives via Contracts and the RFP process.

Appropriations Transfer request

Per the General Appropriation Act Footnote, the Department requests an appropriations transfer of $1.7M General Fund from the Foster Care Placement Line to the Adoption Subsidy Line. The Department is currently forecasting a surplus in the Foster Care SLI, as the Licensed Foster Care populations has decreased 4.7% in FY 17. Currently, Adoptions has seen an 11.0 % increase in finalized adoptions against a planned budget of 9.9 %. In FY 17, the Department took a significant decrease to its Adoption Incentive Grant which was used as a significant funding source Adoption Subsidy as well. As most of the expenditures in Adoptions Subsidy are matched with Federal 4-E Dollars, the applicable dollars will be matched.

Class Action Lawsuit Executive Session Update.

The Department requests to brief the committee in executive session on the status of the Class Action Lawsuit regarding children in foster care. This injunctive relieve lawsuit has significant implications to the state and the Department would like to provide status to the members.

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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azleg.gov

DATE: March 22, 2017

TO: Representative Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Patrick Moran, Fiscal Analyst PM

SUBJECT: Department of Economic Security - Review of Developmental Disabilities Line Item Transfers

Request

Pursuant to a FY 2017 General Appropriation Act (Laws 2016, Chapter 117) footnote, before transferring any funds into or out of certain Division of Developmental Disabilities (DDD) line items, the Department of Economic Security (DES) must submit a report for review by the Joint Legislative Budget Committee (JLBC).

This request is for review of a transfer of $17,100,000 of total funds (General Fund and Federal Funds) out of the Medicaid Home and Community Based Services line item. The monies would be transferred into:

- the DDD Operating Budget line item, $10,600,000
- the Medicaid Case Management line item, $6,500,000

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of all Operating Budget and Case Management transfers.

2. An unfavorable review of all Operating Budget and Case Management transfers.

(Continued)

Analysis

As a result of DES moving significant funding out of service lines into administration and case management in previous years, the FY 2017 budget continued a footnote requiring Committee review of any funding being transferred in or out of the DDD Operating Budget line and the Case Management lines so as to provide oversight if the department proposes to increase or decrease administrative resources.

DES plans to transfer $(17.1) million of total funds out of the Medicaid Home and Community Based Services line item in FY 2017. The transfer will include a corresponding increase of $10.6 million for DDD Operating and $6.5 million for Medicaid Case Management.

DES has made similar transfers previously to adjust appropriations to actual expenditures across the Medicaid lines and to make discretionary adjustments. *Table 1* shows DDD appropriation transfers in FY 2015 and FY 2016 as well as the requested transfers in FY 2017. The Committee favorably reviewed transfers of $7.3 million for the DDD Operating Budget and $4.2 million for Medicaid Case Management in FY 2016. Contrary to the Committee's intent, DES transferred the full $10.5 million to the DDD Operating Budget and $5.5 million to Medicaid Case Management originally requested.

Table 1

DDD Medicaid Appropriation Total Fund Transfers

Line Item	FY 2015	FY 2016 [1/]	FY 2017 Request
DDD Operating Budget	$8,287,000	$10,500,000	$10,600,000
Medicaid Case Management	3,174,000	5,500,000	6,500,000
Medicaid HCBS	(20,542,000)	(22,500,000)	(17,100,000)
Medicaid Institutional Services	3,418,000	2,500,000	0
Medicaid Medical Services	4,476,000	3,000,000	0
Medicaid ATP-C	1,187,000	1,000,000	0

1/ The Committee only favorably reviewed transfers of $7,300,000 for DDD Operating and $4,200,000 for Medicaid Case Management.

DDD Operating Budget

The DDD Operating Budget line item funds staff that support DDD administration (excluding case managers and direct care staff), and other operating expenditures. The FY 2016 appropriation was $47.8 million. DES subsequently transferred $10.5 million to the DDD operating budget, resulting in actual FY 2016 expenditures of $58.3 million. The FY 2017 Total Fund appropriation was not adjusted, however, to reflect this transfer. DES is requesting to transfer $10.6 million in additional funds to the DDD Operating Budget line to reflect this prior transfer, which would increase funding for the operating budget from $49.5 million to $60.1 million in FY 2017.

In evaluating the department's requested transfer to the operating budget, the JLBC Staff attempted to determine the total magnitude of DDD's administrative costs. These costs, however, are not readily visible within DES' budget. While the DDD Operating Budget line item reflects the direct administrative costs of the DDD program, some DDD Medicaid revenues are allocated to DES' departmentwide operating budget because the DDD program also incurs indirect costs for DES' agencywide functions.

(Continued)

DES estimates that there may be $17.1 million in such DDD indirect costs within DES' central administration in FY 2017. This represents an increase of $2.7 million in Total Funds, or 18.5%, compared to FY 2015. Part of the increase may be attributable to the separation of DES and DCS as well as changes in costs for other DES programmatic areas that have increased DDD's overall share of central administrative functions. To enhance transparency of the total administrative costs of DDD and to better evaluate these costs on an ongoing basis, the JLBC Staff is recommending a reporting requirement on DDD administrative costs as part of the FY 2018 budget.

Medicaid Case Management

The Case Management line funds case management services to DDD clients. The FY 2017 total fund appropriation is $55.3 million, while actual FY 2016 expenditures were $56.5 million. DES is requesting to transfer $6.5 million into the Medicaid Case Management line, for total spending of $61.8 million. This transfer primarily reflects a base modification to reflect actual FY 2016 expenditures for case management.

Table 2 shows actual FY 2016 total fund expenditures in each line, the FY 2017 appropriation, and what the appropriation would be with the requested transfers.

Table 2

	FY 2016	**FY 2017**	
	Actuals	**Appropriation**	**Request**
DDD Operating Budget	$58,300,000	$49,477,100	$60,077,100
Medicaid Case Management	56,468,300	55,347,700	61,847,700

RS/PM:kp

DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Douglas A. Ducey
Governor

Henry Darwin
Interim Director

MAR 17 2017

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

The Honorable Steve Yarbrough, President
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

Mr. Lorenzo Romero, Director
Office of Strategic Planning and Budgeting
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable J.D. Mesnard, Speaker
Arizona State House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Mr. Richard Stavneak, Director
Joint Legislative Budget Committee
1716 West Adams Street
Phoenix, Arizona 85007

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JOINT BUDGET COMMITTEE

Chairman Shooter, President Yarbrough, Speaker Mesnard, Director Stavneak and Director Romero:

The Arizona Department of Economic Security (ADES) requests to be placed on the Joint Legislative Budget Committee's (JLBC) next agenda for review of appropriation transfer plans for the Division of Developmental Disabilities (DDD) as required in Laws 2016, Second Regular Session, Chapter 117, Section 35:

> Before transferring any money in or out of the case management - medicaid, case management – state-only, and DDD operating lump sum line items, the department of economic security shall submit a report for review by the joint legislative budget committee.

ADES plans to transfer Long Term Care System Fund - Federal Match appropriation authority into the DDD Operating Lump Sum and Case Management – Medicaid line items. The Arizona Long Term Care System (ALTCS) program experiences annual growth in members and capitation which necessitates additional authority each fiscal year. However, additional authority was historically added only in the Home and Community Based Services (HCBS) line item instead of appropriately allocated across all ALTCS-Medicaid line items. Without a base modification to appropriately align the line item authority ADES will be required to annually request this transfer in accordance with the aforementioned footnote.

DDD FY 17 Appropriation Transfers			
Line Item	Current Budget	Transfer Request	Adjusted Budget
DDD Operating Lump Sum	49,477,100	10,600,000	60,077,100
Case Management - Medicaid	55,347,700	6,500,000	61,847,700
HCBS - Medicaid	$994,277,300	$(17,100,000)	$977,177,300

DDD Operating Lump Sum

The transfer is in line with prior and current year client growth, which drives growth in operating needs. In past years, the approved budget loaded all appropriation increases for the DDD Title XIX program into the HCBS line item and ADES would later request reallocation of the funds to the line items with actual cost increases. ADES requested a base modification as part of the fiscal year 2018 budget to align past growth with the pertinent special line items, but requires a transfer in fiscal year 2017.

Premium Tax on capitation revenue is included in the expenditures for DDD Operating Lump Sum which increases with caseload and capitation payments and in turn drives higher expenditures each fiscal year.

Case Management - Medicaid

Caseload ratios drive growth in the Case Management - Medicaid line item. Average ALTCS member growth is projected to be 4.5 percent in fiscal year 2017 which requires additional case managers and authority in the line item.

If you have any questions please contact Scott Carson, Chief Financial Officer, at (602) 364-2545.

Sincerely,

Henry Darwin
Interim Director

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STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
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azleg.gov

DATE: March 22, 2017

TO: Representative Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Geoffrey Paulsen, Fiscal Analyst GP

SUBJECT: Northern Arizona University - Review of Expenditure and Performance Report of Nonprofit Biotechnology Research Appropriation

Request

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 132) requires Northern Arizona University (NAU) to provide an expenditure and performance report resulting from an appropriation of $3,000,000 to NAU yearly from FY 2015 through FY 2019 to grant to a nonprofit biomedical research entity. The university shall transmit the report to the Joint Legislative Budget Committee (JLBC) for its review on or before February 1 of each year.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of NAU's biomedical research report

2. An unfavorable review of NAU's biomedical research report

Analysis

The FY 2015 budget requires that NAU contract with a nonprofit biomedical research entity for a $3 million annual grant over a 5-year period. The grantee is required to report to NAU annually. The following information is required to be provided by the grant recipient:

(Continued)

1. The type and amount of expenditures from all state sources of monies.

2. A description of each grant received as well as the positions and locations of positions solely or partly funded by the state.

3. Performance measures, including outcomes related to use of state monies, progress made toward the achievement of each outcome, reportable inventions or discoveries made and publication related to research funded by state monies.

The grantee is the Translational Genomics Research Institute, also known as TGen. TGen is a nonprofit organization which studies the genetic components of diseases to develop diagnostics, prognostics and therapies for cancer, neurological disorders, diabetes and other complex medical conditions. TGen staff are located in their Phoenix headquarters as well as offices in Scottsdale and Flagstaff.

While not included in the TGen report, on November 30, 2016, TGen announced that it would partner with City of Hope, a California-based independent research and treatment center for cancer, diabetes and other life-threatening diseases. As part of the agreement, TGen became a subsidiary of the City of Hope parent organization. Despite the agreement, TGen remains an Arizona-based nonprofit with headquarters in Phoenix.

<u>All Sources of State Monies</u>
In addition to the $3 million NAU appropriation, TGen also receives $2 million from the Department of Health Services (DHS) from the Tobacco Tax and Health Care Fund - Health Research Account.

The state funding provides unrestricted financial support for TGen's operations. TGen reports that the state monies are used to supplement research grants, whether by covering indirect costs not funded by awards amounts, or by allowing TGen to match project costs in accordance with grant program criteria. TGen has indicated that the equipment and support services funded with state dollars in 2016 increased the organization's capabilities and helped secure grant awards related to pancreatic cancer, amyotrophic lateral sclerosis (ALS) and Down syndrome, among others.

The expenditures of the TGen monies from NAU in 2016 are summarized in *Table 1*:

Table 1

TGen Expenditure of NAU Grant

Utilization	**January – June 2016**	**July – December 2016**	**CY 2016**
Research Supplies	$ 280,000	$ 120,000	$ 400,000
Research Outside Services	250,000	0	250,000
Research Capital	530,000	950,000	1,480,000
Research Equipment Service Maintenance	240,000	230,000	470,000
Proposal Development	50,000	50,000	100,000
Project Management	50,000	50,000	100,000
Technical Infrastructure	50,000	50,000	100,000
Education	50,000	50,000	100,000
NAU Grant Total	**$1,500,000**	**$1,500,000**	**$3,000,000**

(Continued)

Grants and Full-Time Positions
In 2016, TGen submitted 102 grant applications totaling $80 million. Of that amount, TGen was awarded 24 grants totaling $9.8 million. *(Please see the NAU report attached to this memo for the list of grant awards.)* As described above, TGen reports that these projects and others are supported in part by the underlying technology funded by state appropriations.

In 2014, the most recent year for which records were available, TGen reported total expenses of $56.4 million, roughly $(1.4) million less than the previous year.

TGen reports that in 2016, 31 new FTE Positions were created with salaries and benefits totaling $1.8 million. In addition, salaries for temporary positions in 2016 totaled $110,700. TGen reports that all employees are Arizona residents.

Performance Measures
TGen's 2016 report highlights the following progress and outcomes of its research initiatives:

- The TGen North faculty in Flagstaff, working with international investigators, discovered the source of a potential deadly blood infection in more than 50 South American cancer patients. Using advanced genomic sequencing, the investigators traced it back to a tainted anti-nausea medication given to dozens of cancer patients in Chile and Colombia.

- A TGen study identified a protein called SGEF that promotes the survival of glioblastoma (an aggressive and deadly brain cancer) tumor cells and helps the cancer invade brain tissue. The findings suggest that SGEF could be new candidate for development of targeted therapeutics.

- In a review article, TGen scientists highlighted the many advantages of using RNA sequencing in the detection and management of everything from cancer to infectious diseases, such as Ebola and the rapidly spreading Zika virus.

- In early May, Stand Up To Cancer (SU2C) selected TGen's Dr. Muhammad Murtaza and UCLA's Dr. Antoni Ribas as recipients of a $200,000 SU2C Phillip A. Sharp innovation in Collaboration Award.

- A technology developed by TGen and Northern Arizona University will precisely identify a family of antibiotic-resistant Staph infections broadly referred to as MRSA. The 1-hour test should make antibiotic-resistant infections easier to detect.

- TGen researchers published a study detailing how blocking nerve growth factor (NGF) keeps pancreatic cancer cells from invading surrounding nerves, which may lead to potential drug targets to reduce pain in pancreatic cancer patients.

- Findings from a TGen-led study suggest that the survival of patients with glioblastoma could be determined by the complexity of their tumor. The survival of those patients whose cancer cells exhibit a complex genomic landscape on average exceeded those patients with a less complex tumor structure.

TGen lists 16 patents issued in 2016, as well as 35 patent applications filed, resulting from projects funded by external sponsors and supported by the technologies provided for by state funding. The attached pages from the TGen report provide a list of these patents, as well as the organization's 2016 scientific publications.

GP:kp

NORTHERN ARIZONA UNIVERSITY

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JAN 30 2017
JOINT BUDGET COMMITTEE

January 30, 2017

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

Director Stavneak:

In accordance with Laws 2014, Chapter 18, Section 132, enclosed please find the annual expenditure and performance report provided to Northern Arizona University (NAU) by the Translational Genomics Research Institute (TGen). The report details the grant activity and performance measures for 2016.

As demonstrated in the attached report, the $3 million state investment in TGen has leveraged external funding that supports essential research activities. These grants include dollars to support research on drug-resistant tuberculosis, pancreatic cancer, Alzheimer's disease, and Amyotrophic Lateral Sclerosis (ALS).

NAU appreciates its partnership with TGen and looks forward to the continued individual success of the organization as well as the continued success of our partnership. Our relationship exemplifies the importance of the biosciences to NAU and Arizona's economy. We are gratified that the state recognizes our ongoing relationship and sees the benefits that derive from scientific discoveries.

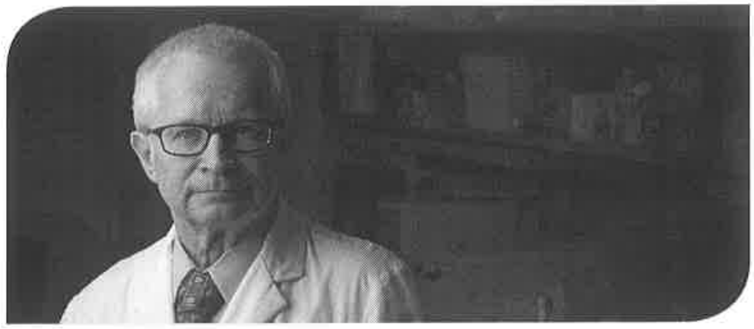
Do not hesitate to contact me if you have any questions regarding the attached report or NAU's partnership with TGen and the state as they relate to these grant monies.

Sincerely

William Grabe

William Grabe
Vice President for Research
Northern Arizona University

cc: Matt Beienberg, Fiscal Analyst



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Summary of 2016 Activities

Summary of 2016 Activities

During 2016, TGen pursued the goal of H82703, Fifty-first Legislature, Second Regular Session, Chapter 18, Section 132, as adopted by the Arizona Legislature pursuant to the FY2014-2015 budget and signed by the Governor on April 11, 2014 to support a non-profit medical research institute in Arizona that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and other health science research centers.

Expenditures from all state sources of monies

	Second Half FY 16 January 16 - June 16	First Half FY 17 July 16 - December 16	Total
NAU / State of Arizona Grant:			
Research Supplies	$280,000	$120,000	$400,000
Research Outside Services	$250,000	$0	$250,000
Research Capital	$530,000	$950,000	$1,480,000
Research Equipment Service Maint	$240,000	$230,000	$470,000
Proposal Development	$50,000	$50,000	$100,000
Project Management	$50,000	$50,000	$100,000
Technical Infrastructure	$50,000	$50,000	$100,000
Education	$50,000	$50,000	$100,000
TOTALS	$1,500,000	$1,500,000	$3,000,000

Capital Equipment Detail			
Evos FL Color Imaging System Microscope	41959R	$26,648	
Andrew Systems 100R Auto Pipotter	41966R	$48,012	
HiSeq 2500	40971R	$250,000	
10X Gemcode	41967R	$100,000	
NanoSight Ns300 Camera	43959R	$79,680	
gentleMACS Octo Dissociator	41962R	$19,738	
Freezer 80 degree	41961R	$9,250	
OribitrapFusion Lumos ETD System	40972R		$956,011
TOTALS		$533,329	$956,011

Other State Funding:			
Personnel Services	$58,216	$54,003	$112,219
Professional & Outside Services (Consultants)	$814,328	$891,636	$1,705,963
Equipment	$0	$0	$0
Facilities and Administrative	$87,254	$94,564	$181,818
TOTALS	$959,798	$1,040,202	$2,000,000

Grant Support

In additional to philanthropic donations and research contracts, grant funding is an important funding source for research. In 2016, TGen investigators submitted 102 grants totaling $80M **(See Appendix A for complete listing)**. During this period, TGen was awarded 24 grants, totaling $9.8M. The projects outlined below, in addition to many others, are supported in part under the $3M per year in general funds appropriation as distributed by Northern Arizona University, as well as the $2M per year in tobacco tax funding received from the Arizona Department of Health Services.

a. Two-year grant from the American Association for Cancer Research and Stand Up To Cancer totaling $2.1 million to Dr. Daniel Von Hoff to study the reprograming of transcriptional circuitry in pancreatic cancer.

b. Three-year grant from the National Institutes of Health totaling $493,189 to Dr. Nhan Tran to study TROY HTS compound screening.

c. One-year grant from the National Institutes of Health and Northern Arizona University totaling $326,531 to Dr. Dave Engelthaler to study the antimicrobial resistance omics of Acinetobacter baumannii.

d. Three-year grant from the ALS Foundation totaling $240,000 to Dr. Kendal Van Keuren-Jensen for an assessment of extracellular vesicle contents in patients with ALS.

e. One-year grant from the Department of Defense and University of North Carolina totaling $100,000 to Dr. Bodour Salhia to study the targeting of KRAS for pancreatic cancer treatment.

f. Two-year grant from the Foundation Kriibskran Kanner in Luxembourg totaling $298,565 to Dr. Patrick Pirrotte to conduct a systems biology approach to treatment recommendations in medulloblastoma.

g. One-year grant from UCSF and NIH totaling $210,975 to Dr. David Engelthaler for improving the molecular diagnosis of drug-resistant tuberculosis.

h. One-year grant from the Arizona Alzheimer's Consortium to Dr. Matt Huentelman totaling $200,000 for fiscal year 2017 AAC projects.

i. Two-year grant from Stand Up to Cancer (SU2C) totaling $169,156 to Dr. Muhammed Murtaza to fingerprint the systemic microbiome in plasma to predict immunotherapy outcomes in melanoma.

j. Three-year grant from St. Joseph's Hospital and Medical Center and the Alzheimer's Association totaling $124,835 to Dr. Matt Huentelman to study circulating RNA biomarker profiling in Down syndrome.

k. Two-month grant from UCSF and the Doris Duke Foundation totaling $20,000 to Dr. David Engelthaler for new methods of monitoring long-term drug exposure and resistance in the treatment of multi-drug-resistant tuberculosis.

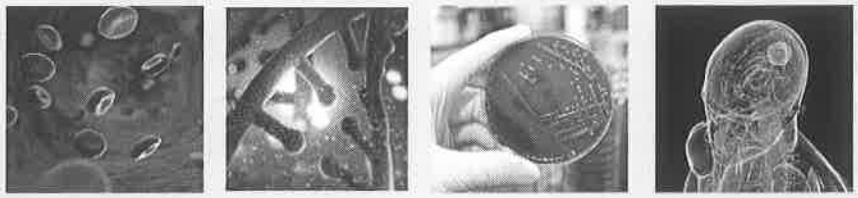
l. Two-year grant from the Michael J. Fox Foundation totaling $142,676 to Dr. Kendall Van Keuren-Jensen to develop biomarkers in Parkinson's Disease.

m. Four-year contract from the Department of Homeland Security totaling $2,606,847 to Dr. Paul Keim to develop a new approach to biosurveillance.

n. Three-year contract from the CDC totaling $1,472,866 to Dr. David Engelthaler to provide microbial genomics and bioinformatics analysis support.

o. Two-year grant from the University of Colorado and NIH totaling $799,298 to Dr. Matthew Huentelman to study the influences that shape brain growth and cognitive development.

NIH
National Institutes of Health



Outcomes and Progress

In 2016, TGen advanced a series of innovative research initiatives that yielded numerous scientific discoveries (a good number with potential clinical application), established national and international collaborations, and led new and exciting clinical trials with promising results. Notable are:

- A study funded by the National Institutes of Health, the ARCS Foundation Eller Scholarship, Science Foundation Arizona Fellowship, and The Ben & Catherine Ivy Foundation enabled TGen researchers to identify a protein called SGEF that promotes the survival of glioblastoma tumor cells and helps the cancer invade brain tissue. The findings suggest that SGEF could be a new candidate for development of targeted therapeutics. The published results, "SGEF is Regulated via TWEAK/Fn14/NF- B Signaling and Promotes Survival by Modulation of the DNA Repair Response to Temozolomide", appeared in *Molecular Cancer Research*, a journal of the American Association for Cancer Research.

- TGen North faculty, working with international investigators, discovered the source of a potential deadly blood infection in more than 50 South American cancer patients. Using advanced genomic sequencing, the investigators traced back a potentially deadly and therapy-resistant fungus, Sarocladium kiliense, to a tainted anti-nausea medication given to dozens of cancer patients in Chile and Colombia, according to a report in *Emerging Infectious Diseases*, published by the U.S. Centers for Disease Control and Prevention.

- Uncovering the genetic makeup of patients using DNA sequencing has in recent years provided physicians and their patients with a greater understanding of how best to diagnose and treat the diseases that plague humanity. This is the essence of TGen's precision medicine efforts. In a review article –Translating RNA-sequencing into Clinical Diagnostics: Opportunities and Challenges – published in *Nature Reviews Genetics*, TGen scientists highlighted the many advantages of using RNA-sequencing in the detection and management of everything from cancer to infectious diseases, such as Ebola and the rapidly spreading Zika virus. Building on the insights provided by DNA profiling, the analysis of RNA provides an even more precise look at how cells behave and how medicine can intervene when things go wrong.

- In early May, Stand Up To Cancer (SU2C) selected TGen's Dr. Muhammed Murtaza and UCLA's Dr. Antoni Ribas as recipients of a $200,000 SU2C Phillip A. Sharp Innovation in Collaboration Award, named for the Nobel Laureate and Chair of SU2C's Scientific Advisory Committee. The award supports opportunities for SU2C scientists from different teams to explore innovative collaborations to accelerate the development of new cancer treatments. One of five awards totaling $1 million, the award to Drs. Murtaza and Ribas, supports a collaboration to investigate whether it's possible to predict patient response to immunotherapy by studying the makeup of their microbiomes in blood samples. Dr. Murtaza is a member of the SU2C-Melanoma Research Alliance (MRA) Melanoma Dream Team, co-led by TGen's Dr. Jeffrey Trent and Yale's Dr. Pat LoRusso.

- Antibiotic-resistant infections should be easier to detect, and hospitals could become safer, thanks to a technology developed by TGen and Northern Arizona University, and protected under a patent issued by Australia. The U.S., Canada, European Union, Japan, Brazil and other nations for this "superbug" test developed by TGen and NAU, and licensed to DxNA LLC, expect similar patent approvals. This rapid, 1-hour test will precisely identify a family of antibiotic-resistant Staph infections broadly referred to as MRSA.

- A study detailing how blocking nerve growth factor keeps pancreatic cancer cells from invading surrounding nerves may lead to potential drug targets to reduce pain in pancreatic cancer patients. TGen researchers have found that the nerve growth factor (NGF), a neurotrophic factor, and its receptor TRKA are associated with perineural invasion (PNI), which is the ability of pancreatic cancer cells to invade surrounding nerves. Blocking the NGF signaling through inhibitors of NGF and TRKA reduces the potential of pancreatic cancer cells to migrate towards the surrounding nerves. The study results appeared in *PLOS ONE*.

- Survival for patients with glioblastoma, an aggressive and deadly brain cancer, could be determined by the complexity of their tumor. The findings from a TGen-led study suggest - to the researchers' surprise - that the survival of those patients whose cancer cells exhibit a complex genomic landscape on average exceeded those patients with a less complex tumor structure. The published results appeared in the journal *Neuro-Oncology*. The researchers found that standard-of-care worked best for patients with complex, though fragile tumor genomes, defined as those with more abnormal genomic events, such as mutations, rearrangements, or amplifications. The more abnormal the tumor genome, the more likely the therapy was to improve patient survival. Conversely, those patients with simple, but robust, cancer genomes had shorter survival. This was the first-ever genomic study that comprehensively examined GBM outliers in the survival spectrum.

Clinical Trials

The Virginia G. Piper Cancer Center (VGPCC) Clinical Trials Program at HonorHealth (formerly Scottsdale Healthcare) provides a direct clinical research site for TGen. TGen Physician-in-Chief, Daniel Von Hoff, M.D., F.A.C.P., serves as Chief Scientific Officer. Program clinicians focus on clinical trials with targeted agents and genomics-based individualized therapy. Their initial focus on cancer allows the unique opportunity for TGen to transition its laboratory-based research to patient care centered on individualized therapy. Program staff currently working on the Phase I clinical trials.

Clinically, we continue to launch innovative programs that expand the boundaries of science and medicine. Current initiatives include:

1. Multiple clinical trials underway to investigate new chemical agents for a variety of tumor types in different cancers.

2. Incorporation of modern tools to identify patients' genomic characteristics that could lead to a more targeted approach.

Patents and Licenses

During 2016, TGen filed the patent applications on TGen-generated research. The list below reflects patent applications resulting from projects funded by external sponsors, but supported by underlying technology provided for by State of Arizona funding via the $3M per year in general funds appropriation as distributed by Northern Arizona University, as well as the $2M per year in tobacco tax funding received from the Arizona Department of Health Services.

2016 Issued Patents

Issue Date	Tech Id	Title	App Type	Country	Status	Patent No.
1/7/16	091102-125 PANFUNGAL	Compositions And Methods Used In Identifying Fungus	Nationalized PCT	Australia	Issued	2011209624
1/19/16	081230-086	Compositions and Methods to Detect Influenza Variants	Utility	United States	Issued	9,238,844
1/19/16	130509-205 Fn14TWEAK	FN14 Antagonists and Therapeutic Uses Thereof	Utility	United States	Issued	9,238,034
2/9/16	120505-178 FGFR2	Susceptibility of Tumors to Tyrosine Kinase Inhibitors and Treatment Thereof	Utility	United States	Issued	9,254,288
2/9/16	091001-124 AKT GB	Methods And Kits Used In Identifying Glioblastoma	Continuation	United States	Issued	9,255,270
3/15/16	091001-123 TROY	Methods Used to Identify and Treat Glioblastoma	Continuation	United States	Issued	9,283,195
5/12/16	090314-095A MRSA	Methods, Kits and Compositions useful in the detection of MRSA	Nationalized PCT	Australia	Issued	2011227110
5/17/16	081231-089 Burkholde	Methods and Kits Useful in the Differentiation of Burkholderia Species	Nationalized PCT	United States	Issued	9,340,837
6/21/16	090520-110 SMAD4	Methods and Kits to Predict Therapeutic Outcome of Btk Inhibitors	Nationalized PCT	United States	Issued	9,371,567
5/17/16	110608-159 MRSA Assa	Allelic Discrimination Assays For MRSA Strains	Utility	United States	Issued	9,340,836
7/5/16	071106-050 HDAC	Compounds, Pharmaceutical Compositions And Methods Of Use Of Hydroxamic Acid Derivatives	Continuation	United States	Issued	9,381,196
8/2/16	111207-170 CocciDxQ	Method Of Detecting and Quantifying Coccidioides Species	Utility	United States	Issued	9,404,161
8/2/16	131115-217	Systems and Methods for Diagnosing and Treating Cancer	Utility	United States	Issued	9,404,927
8/3/16	070223-038 FGFR2	Method Of Diagnosing, Classifying And Treating Endometrial Cancer And Precancer	Nationalized PCT	Europe	Issued	2132331
9/6/16	091102-125 PANFUNGAL	Methods and Kits used in the Detection of Fungus	Continuation	United States	Issued	9,434,986
9/20/16	090804-118 Curcumin	Solid Forms Of Curcumin	Nationalized PCT	United States	Issued	9,447,050

6

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: March 22, 2017

TO: Representative Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Ben Murphy, Assistant Fiscal Analyst BM

SUBJECT: Arizona Department of Transportation - Review of Motor Vehicle Modernization (MvM) Project Annual Progress Report

Request

Pursuant to a FY 2017 General Appropriation Act footnote, the Arizona Department of Transportation (ADOT) is requesting Committee review of its annual progress report on the Motor Vehicle Modernization (MvM) Project.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the report.

2. An unfavorable review of the report.

Analysis

The MvM Project is a custom software development project designed to enhance ADOT's Motor Vehicle Division (MVD) vehicle registration, driver licensing, finance, partner licensing and contracting, and other customer and business services.

ADOT's Project Investment Justification (PIJ) was approved by the Information Technology Authorization Committee in FY 2014 with a budget of $56 million. The project's development and implementation is expected to take at least 5 years.

(Continued)

A FY 2017 General Appropriation Act footnote requires ADOT to contract with an independent third-party consultant to annually evaluate and assess the MvM Project in the following respects:

- Progress in meeting goals as delineated by the PIJ.
- Incorporation of the Auditor General's April 2015 MVD performance audit recommendations.
- Overall project status.
- Potential project deficiencies.

PIJ Goals and Auditor General Recommendations

Gartner (Gartner) Consulting, the contracted consultant, describes the project as positively contributing to all of the PIJ goals, which are shown in *Table 1* below.

The Auditor General released a performance audit on ADOT's MVD in April 2015. Its recommendations identified 3 main opportunities for MVD improvement: field office customer service, oversight of the ignition interlock program, and oversight of third-party offices.

While the Auditor General's latter 2 recommendations mostly fall outside of the scope of this project, Gartner finds some overlap with MvM improvements and the recommendation that the MVD improve its field office customer service.

To address components of that recommendation, the project enhances analytical capabilities regarding field office performance; emphasizes the customer option to use a self-service kiosk; adds an online appointment system; and implements an online form and pre-application process to ensure that customers have submitted necessary documents.

Table 1

MvM Project PIJ Goals

1) Provide easy access to all transactions and customer interactions
2) Improve the efficiency, effectiveness, and accuracy of MVD business process
3) Increase customer service capabilities to maximize client convenience
4) Reduce overall process times
5) Improve data and information access, accuracy, consistency and security
6) Improve customer assistance and communication
7) Streamline internal processes
8) Reduce paperwork and paperflow
9) Reduce fraud
10) Implement business and IT best practices
11) Improve the ability to modify systems more readily to adjust to legislative and policy changes
12) Improve reporting capabilities and business intelligence
13) Improve access and quality of information for use by law enforcement

Project Status

The report assesses the project as having low-medium risk. The project has displayed a number of strengths, including strong executive leadership; the early release of a project milestone; experienced and well-qualified staff; effective use of technology in managing scope, schedule and budgeting; and an emphasis on a phased-in product deployment rather than a "big bang" implementation.

Project leadership has also shown strong budget management through the establishing of a reserve fund for unforeseen issues, prompt addressing of budget variances, and a formal process for proposed changes to the budget. Gartner finds the budget to be in alignment with the current scope of the project.

(Continued)

Potential Project Deficiencies

The report did not identify any deficiencies in the project, but made several recommendations for improvement, corresponding to areas identified as having medium risk:

- Devoting additional resources and staff to organizational change management as the project begins to significantly alter business activities.
- Formalizing the process for approving scope of work changes.
- Formalizing a risk management plan.
- Periodically revising the project charter to reflect project adjustments.

RS/BM:kp

Attachment

ADOT

Motor Vehicle Division

Douglas A. Ducey, Governor
John S. Halikowski, Director
Eric R. Jorgensen, Division Director

RECEIVED
FEB 01 2017
JOINT BUDGET COMMITTEE

February 1, 2017

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

Subject: Independent Assessment of Motor Vehicle Division Motor Vehicle Modernization Project

Dear Mr. Stavneak:

Laws 2016, Chapter 117 requires the Department of Transportation (ADOT) Motor Vehicle Division (MVD) to contract with an independent third-party consultant for the duration of the MVD Legacy System Replacement project. The project is now known as the Motor Vehicle Modernization (MVM) project.

Chapter 117 requires a progress report evaluating and assessing the project's success in meeting and incorporating the tenets of the Project Investment Justification (PIJ), as well as assessing any potential project deficiencies and the incorporation of the Auditor General's April 2015 recommendations. The Department contracted with Gartner, Inc. to comply this requirement. Two reports are attached. The first is the annual assessment of the project status, completed November 14, 2016. The second addresses the PIJ goals and the Auditor General's April 2015 recommendations.

If you have any questions, please do not hesitate to contact us.

Sincerely,

Eric Jorgensen
Director, Motor Vehicle Division
Arizona Department of Transportation

cc: Charles Martin, OSPB
Keith Fallstrom, ADOT Budget Planning and Research

Enclosure (2)

Motor Vehicle Modernization Project

Meeting PIJ Goals & Objectives

12-8-2016

INTRODUCTION

In the State of Arizona Fiscal Year 2017 Appropriations Report (p. 357), the Joint Legislative Budget Committee (JLBC) included footnote 6 of the Department of Transportation section that states, "The Department of Transportation shall contract with an independent third-party consultant for the duration of the Motor Vehicle Division legacy system replacement project. On or before February 1, 2017, the independent third-party consultant shall submit an annual progress report for review by the Joint Legislative Budget Committee. The annual report shall evaluate and assess the project's success in meeting and incorporating the tenets of the project investment justification, including the goals and objectives, technology approach, deliverables and outcomes, project scope and timeline. The report shall also address any potential project deficiencies as well as the incorporation of the Auditor General's April 2015 recommendations. (General Appropriation Act footnote))."

The Motor Vehicle Modernization (MvM) project team selected Gartner as the firm to perform annual independent assessments of the MvM project and report on their findings to the JLBC and other interested parties.

The Project Investment Justification (PIJ), is a requirement of the Arizona Department of Administration-Arizona Strategic Enterprise Technology (ADOA-ASET) for technology projects in State agencies. The PIJ for the MVD Legacy System Replacement (later renamed as the Motor Vehicle Modernization (MvM)) was approved by the Information Technology Authorization Committee (ITAC) in January 2014.

In Section IIc. of the PIJ – Proposed Changes and Objectives ("To Be"), it states "Important goals for MVD modernization include:

- Provide easy access to all transactions and customer interactions
- Improve the efficiency, effectiveness, and accuracy of MVD business processes
- Increase customer self-service capabilities to maximize client convenience
- Reduce overall process times
- Improve data and information access, accuracy, consistency, and security
- Improve customer assistance and communication
- Streamline internal processes
- Reduce paperwork and paper flow
- Reduce fraud
- Implement business and IT best practices
- Improve the ability to modify systems more readily to adjust to legislative and policy changes
- Improve reporting capabilities and business intelligence
- Improve access and quality of information for use by law enforcement"

This document summarizes how the MvM Project will meet the goals and objectives stated in the PIJ.

While the specific recommendations of the Auditor General report are largely outside the scope of this project, and MVD is already addressing these issues using current tools and systems, there is some overlap with Finding 1 – "MVD should improve field office customer service." For example, the report recommended improving customer survey response rates and capturing more complete wait times. While MVD has already implemented these recommendations, the MvM project is including these tenets in the project design. The specific recommendations of Finding 1 are listed below:

Finding 1 – MVD should improve field office customer service

1.1 MVD should better assess the entire customer service experience by:

- a) *Considering reestablishing a mystery shopper program and developing policies and procedures to address concerns or variations in customer service that the program identifies;*
- b) *Improving the response rate of the customer satisfaction survey in order to obtain more useful information by implementing one or more of the following options: (1) printing the survey link on customers' receipts and return letters, (2) ensuring customer service representatives inform customers about the survey, and/or (3) enabling customers to complete surveys before leaving the field office; and*
- c) *Taking steps to capture more complete wait-time information such as the time customers wait to obtain a numbered ticket.*

1.2 Once MVD has improved its assessment of the entire customer service experience, it should:

- a) *Use the results of the assessment to revise existing field office performance goals and establish new goals to ensure that its goals more fully reflect the entire customer service experience;*
- b) *Modify existing data collection, reports, and management meeting discussions to incorporate information about field office performance related to the new and revised goals into MVD's decision-making process; and*
- c) *Develop and implement policies and procedures for improving field office customer service based on the information it has gathered, including steps MVD will take to improve performance in field offices that are not meeting customer service performance goals, as well as addressing problems auditors identified, such as cleanliness of field offices and the demeanor of customer service representatives.*

1.3 MVD should develop and implement a comprehensive plan to provide quality customer service that focuses on improving the overall customer experience, including:

- a) *Taking steps to shift customers away from field offices by informing customers about alternative options for conducting MVD transactions, encouraging customer service* *representatives to inform customers about alternative options, and providing information stating what transactions can be performed at the kiosk and/or advertising the benefits of using the kiosk.*

b) *Improving queue management functionality by considering ways to update and improve the functionality of its queue management system, such as adding an online appointment system and adding software that will more independently manage the queue of customers.*

c) *Improving the information it provides to its customers so they better understand the general process at field offices and can effectively complete their transactions. Specifically, MVD should:*
   - *Reassess signage or identify other ways to provide information to its customers in field offices. This should include providing information on documents needed for transactions; information about the general process at field offices, including how the queue works; and directing customers to the Department's Web site for helpful information; and*
   - *Develop and implement policies and procedures to help ensure that its information desk staff review necessary documents with customers prior to issuing the customer a numbered ticket.*

d) *Assessing the feasibility of establishing an agreement with the Arizona Department of Health Services, Office of Vital Records to obtain access to records of customers who were born in Arizona for the purpose of verifying legal presence rather than sending customers away.*

1.4 MVD should reassess and determine how best to allocate available resources to implement the comprehensive customer service plan.

The following table shows the alignment of the PIJ goals, Auditor General recommendations, and system capabilities.

SUMMARY

#	Goals	Capabilities	AG Finding reference
1	Provide easy access to all transactions and customer interactions	Modern User Interface, Self-Service Channel with Existing ServiceArizona, Self-Service Kiosks, Customer Account Concept, Customer 360 View, Any Transaction/Any Device/Anywhere, Anticipatory Handler, Appointment Scheduling	1.2, 1.3
2	Improve the efficiency, effectiveness, and accuracy of MVD business processes	Work in Process (WIP), Workflow Management, Configurable Business Rules and Fees, Fully-Integrated Financial System, Integrated Imaging/Document Management	1.1, 1.2, 1.3
3	Increase customer self-service capabilities to maximize client convenience	Self-Service Channel with Existing ServiceArizona, Self-Service Kiosks, Any Transaction/Any Device/Anywhere, Flexible Payment Options	1.3
4	Reduce overall process times	Work in Process (WIP), Workflow Management, Online Forms & Pre-Application, e-Signature, Improved User Experience & Simplified Transaction Flows	1.2, 1.3
5	Improve data and information access, accuracy, consistency, and security	Integrated Identity & Access Management, Extensive Edits and Validation, External Validation Through Interfaces, Business Intelligence	1.1, 1.3
6	Improve customer assistance and communication	Customer 360, Logic-driven Communications Engine, Correspondence Manager, Secure Message Center, Knowledge Management System, Self-Service Channel	1.2, 1.3
7	Streamline internal processes	Workflow with Exception Processing & Approvals, Notifications, Knowledge Management System, Automated Reconciliations, Audit Trails & Logging	1.3
8	Reduce paperwork and paper flow	e-Signature, Online Forms & Pre-Application, Workflow, Imaging & Document Management	1.2, 1.3
9	Reduce fraud	Fraud Prevention Functionality, Fraud Detection Reporting and Alerts, Biometrics/e-ID, e-Title Implementation, Reduction of Controlled Inventory, External Validation Through Interfaces	
10	Implement business and IT best practices	Open, Flexible System Architecture, Tools and Standards; Agile, Modular System Design; Following National Standards	
11	Improve the ability to modify systems more readily to adjust to legislative and policy changes	Configuration & Table-Driven Maintenance, Business Rules Engine, Modular System Design	1.3
12	Improve reporting capabilities and business intelligence	Business Intelligence Solution, Records Engine, Reports on Demand	1.1, 1.2, 1.4
13	Improve access and quality of information for use by law enforcement	Improved Data Quality, Improved Data Accessibility, Improved Interfaces, External Validation Through Interfaces	

GOALS AND CAPABILITIES

Goal 1 – Provide easy access to all transactions and customer interactions

Description

The MVD legacy systems use an outdated, green-screen, character-based user interface developed in the 1970's. The system relies on transaction codes and many other complex codes to complete a transaction. Information is siloed and users are unable to view all transactions and customer interactions without significant and time-consuming effort.

Capabilities

- Modern User Interface – The MvM solution will have a modern, browser based user interface that uses current designs and navigation best practices for ease of use by customers and users. This will provide a transformational user experience over the legacy systems.
- New Self-Service Channel with Existing ServiceArizona – The MVD solution will include a new Self-Service Channel (SSC) that will include a modern portal for use by millions of customers. Over time, most of the transactions currently on ServiceArizona will migrate to the SSC. Existing business suite applications will remain on ServiceArizona.
- Self-Service Kiosks – As part of the SSC, kiosks in MVD Customer Service offices will be expanded significantly. This will offer customers more self-service options and more transactions available so customers can avoid MVD Customer Services queues and windows.
- Customer Account Concept – Each customer will have a customer account created that will enable SSC access, financial transactions, and related customer information.
- Customer 360 View – The Customer 360 view will continue to be expanded to include all information about a customer in a single view. This allows users and customers to quickly access and view information.
- Any Transaction/Any Device/Anywhere – The MvM solution is being designed so that, to the extent feasible, any transaction can be done, using any device, from anywhere. Using responsive web design, the user interface will be optimized for any device and screen size including computers, tablets, and smartphones. Barriers that require in-person customer visits to offices are being overcome using document uploads, validation and verification from external sources, and remote identity authentication will be used.
- Anticipatory Handler – Using predictive analytics, work in process queues, and related techniques, the MvM solution will include an Anticipatory Handler that will predict the most likely transaction or transactions that they wish to complete when coming to a MVD office or using the Self-Service Channel.
- Appointment Scheduling – Customers will be allowed to schedule appointments for transactions that must be done at offices to prevent them from having to wait in queues.

Conclusion

MvM solution capabilities will transform the customer and user experience and will provide much improve ease of access to all transactions and customer interactions.

Goal 2 – Improve the efficiency, effectiveness, and accuracy of MVD business processes

Description

With legacy systems that are 30-40 years old, many of the existing MVD business processes are likewise aged. Legacy system limitations inhibit the efficiency, effectiveness, and accuracy of those business processes.

Capabilities

- **Work in Process (WIP)** – The MvM solution will have a Work in Process (WIP) component that will allow a transaction to be started and put on hold. It can then be worked on and completed at a later date or time. In the legacy system, if a transaction cannot be completed all at once, it must be cancelled or backed out and later started over from the beginning. With WIP, it will be possible for a user to start a transaction online in the Self-Service Channel, put the transaction on hold, and then later visit a MVD office to complete the transaction (for transactions that require in-person office visits). WIP queues will be available for all CSRs so that a transaction could be started in one office and completed at a later date in another office, or at another CSR window (for example, if the customer forgot to bring payment to the office or was missing required documents).
- **Workflow Management** – The MvM solution will have a workflow management engine that will provide automatic routing and notifications for transactions requiring additional approvals, exceptions, and overrides. Full audit trails and history will be available to track what happened in any transaction.
- **Configurable Business Rules and Fees** – The MvM solution uses a business rules engine and table-driven configuration that allows business rules and fees to be able to be modified without complex programming changes. As a result, some system modifications can be made by business experts without the need for technical IT resources.
- **Fully-Integrated Financial System** – The MvM solution has a fully-integrated financial system that processes payments for services, keeps track of all accounting information, and provides back-end financial reconciliation functions.
- **Integrated Imaging/Document Management** – The MvM solution will be integrated with the OnBase imaging and document management solution to store and retrieve customer documents, forms, and MVD correspondence.

- **Knowledge Management System** – The MvM solution has a modern knowledge management system that improves access to laws, rules, policies, and related documentation needed by CSRs and customers.

Conclusion

MvM solution capabilities will allow MVD business processes to be modernized thereby improving, efficiency, effectiveness, and accuracy.

Goal 3 – Increase customer self-service capabilities to maximize client convenience

Description

Self-service capabilities for the current MVD environment are through ServiceArizona, a partnership between IBM and MVD that began in the mid-1990's. IBM, as a third-party authorized electronic service partner for MVD, operates a consumer and business web portal known as ServiceArizona. The ServiceArizona portal allows consumers to perform over 25 MVD services over the internet and also includes seven "business suites" that allow businesses such as auto dealers, financial institutions, and others to complete several MVD services they require. IBM also operates kiosks in most MVD office locations and several city court offices. While ServiceArizona has continued to grow, evolve, and be one of the most successful MVD portals nationwide, there is still room for further expansion and modernization.

Capabilities

- **New Self-Service Channel with Existing ServiceArizona** – The MVM solution will include a new Self-Service Channel (SSC) that will include a modern portal for use by millions of customers. Over time, most of the transactions currently on ServiceArizona will migrate to the SSC. Existing business suite applications will remain on ServiceArizona.
- **Self-Service Kiosks** – As part of the SSC, kiosks in MVD Customer Service offices will be expanded significantly. This will offer customers more self-service options and more transaction availability so customers can avoid MVD Customer Services queues and windows.
- **Any Transaction/Any Device/Anywhere** – The MvM solution is being designed to allow for any transaction to be performed, from any device, from anywhere. Through responsive web design, the solution will resize optimally to fit the device screen the customer is using whether it be a smartphone, tablet, or computer. New technologies, including biometric facial recognition, will enable certain transactions, such as electronic title transfers, to be accomplished without requiring customers to go to an MVD office.

- **Flexible Payment Options** – The new SSC will have multiple flexible payment options to maximize customer convenience and will not be limited to just the basic credit card and debit card options.

Conclusion

Self-service capabilities, which are already a strength in today's MVD, will be significantly enhanced, modernized, and expanded to maximize client convenience.

Goal 4 – Reduce overall process times

Description

The overall process times that MVD customer service representatives must go through significantly expands the customer wait times in the offices and the customer experience.

Capabilities

- **Work in Process (WIP)** – The MvM solution will have a Work in Process (WIP) component that will allow a transaction to be started and put on hold. It can then be worked on and completed at a later date or time. In the legacy system, if a transaction cannot be completed all at once, it must be cancelled or backed out and later started over from the beginning. With WIP, it will be possible for a user to start a transaction online in the Self-Service Channel, put the transaction on hold, and then later visit a MVD office to complete the transaction (for transactions that require in-person office visits). WIP queues will be available for all CSRs so that a transaction could be started in one office and completed at a later date in another office, or at another CSR window (for example, if the customer forgot to bring payment to the office or was missing required documents).
- **Workflow Management** – The MvM solution will have a workflow management engine that will provide automatic routing and notifications for transactions requiring additional approvals, exceptions, and overrides. Full audit trails and history will be available to track what happened in any transaction.
- **Online Forms & Pre-Application** – The MvM solution, including the SSC, will include online forms that customers will be able to complete to pre-apply for MVD services. Leveraging WIP, customers will be able to complete forms and applications online from remote locations, put them in WIP, and then have the transactions completed when they arrive at the MVD office.
- **e-Signature** – Electronic signatures will be used where customers need to affirm and agree to certain transactions such as applications. The MvM solution will integrate with the DocuSign e-signature solution to enable e-signatures where needed.

- **Improved User Experience & Simplified Transaction Flows** – The MvM solution has been designed with an improved user experience, navigation, and transaction flows. Instead of using cryptic transaction codes and field codes as in the legacy systems, the MvM solution uses modern user interface controls such as dropdown boxes with pre-determined values in English. In addition, many fields can be prepopulated, reducing the amount of data entry necessary.

Conclusion

The capabilities in the MvM solution should reduce overall process times improving the customer experience.

Goal 5 – Improve data and information access, accuracy, consistency, and security

Description

The MVD legacy systems use a hierarchical database that is over a 40-year-old technology, making it difficult to provide easy data and information access, accuracy, consistency, and security.

Capabilities

- **Integrated Identity & Access Management** – The MvM solution will integrate with a contemporary Identity & Access Management (IAM) solution for user authentication and access. This will improve overall system security while making administration easier and more transparent.
- **Extensive Edits and Validation** – The MvM solution is designed with extensive real-time data edits and validation routines. This ensures that data is accurate and complete before transactions can be completed.
- **External Validation Through Interfaces** – The MvM solution has many interfaces with national systems, including AAMVA systems such as NMVTIS and CDLIS, Social Security Administration SSOLV, and many others that validate customer, vehicle, and driver information to ensure it is accurate and complete.
- **Business Intelligence** – The MvM solution will integrate with the ADOT data warehousing/business intelligence solution for ad-hoc reporting, analysis, and business intelligence.

Conclusion

Capabilities of the MvM solution will make significant improvements in data and information access, accuracy, consistency, and security.

Goal 6 – Improve customer assistance and communication

Description

Current methods for customer assistance are scattered and segmented. Most customer communication is done face-to-face in MVD offices or through mailed correspondence.

Capabilities

- **Customer 360** – All customer information and activity is summarized in the MvM solution in a Customer 360 view. This provides streamlined visibility and access for both customers and CSRs.
- **Logic-Driven Communications Engine** – The MvM solution includes a logic-driven communications engine that controls how communications will be sent based on customer preferences and type.
- **Correspondence Manager** – A correspondence manager is built in to the MvM solution to track all correspondence sent from MVD to customers. Correspondence will be stored in the imaging and document management system for historical purposes.
- **Secure Message Center** – The Self-Service Channel will have a Secure Message Center where customers will be able to retrieve correspondence, notifications, and other communications from MVD. This will be similar to what is available on banking websites.
- **Knowledge Management System** – The MvM solution has a modern knowledge management system that improves access to laws, rules, policies, and related documentation needed by CSRs and customers.
- **Self-Service Channel** – The Self-Service Channel itself will provide many opportunities to improve customer assistance and communication. Having a web channel with specific customer accounts allows for tailored communication and assistance and provides a place to integrate customer help content.

Conclusion

The MvM solution will result in significant improvements in customer assistance and communication.

Goal 7 – Streamline internal processes

Description

Due to limitations of the aging legacy systems, many MVD internal processes are inefficient, error-prone, time-consuming, and manually-intensive.

Capabilities

- **Workflow with Exception Processing & Approvals** – The MvM solution will have a workflow management engine that will provide automatic routing and notifications for transactions requiring additional approvals, exceptions, and overrides. Full audit trails and history will be available to track what happened in any transaction.
- **Notifications** – A notifications engine is built into the MvM solution that allows notifications regarding a transaction or customer to the CSRs, supervisors, and other MVD personnel. Notifications can be immediate or retrieved at periodic times.
- **Knowledge Management System** – The MvM solution has a modern knowledge management system that improves access to laws, rules, policies, and related documentation needed by CSRs and customers.
- **Automated Reconciliations** – The TRAILS system within the MvM solution provides for automated reconciliation of financial transactions which will save substantial time and effort for back-office workers.
- **Audit Trail & Logging** – All activity performed in the system will be logged and audit trails will be available for all transactions. As a result, users will be able to investigate problems and follow the trail of what happened in a transaction.

Conclusion

Capabilities within the MvM solution will enable streamlining of internal MVD processes.

Goal 8 – Reduce paperwork and paper flow

Description

Current MVD processes are very paper-intensive. MVD has hundreds of forms that customers must complete by hand to initiate transactions. CSRs must then enter the information from those forms into the legacy system. Some of these forms require signatures, which means a wet signature. An imaging & document management system is being used for storage and retrieval of forms and other paperwork.

Capabilities

- **Online Forms & Pre-Application** – The MvM solution, including the SSC, will include online forms that customers will be able to complete to pre-apply for MVD services. Leveraging WIP, customers will be able to complete forms and applications online from remote locations, put them in WIP, and then have the transactions completed when they arrive at the MVD office.
- **e-Signature** – The MvM solution will integrate with the DocuSign e-signature solution to allow customers to be able to sign electronic documents remotely. This will further the enablement

of the electronic documents and will reduce traffic in MVD offices as more transactions will be able to be completed remotely.

- **Workflow** – The MvM solution will have a workflow management engine that will provide automatic routing and notifications for transactions requiring additional approvals, exceptions, and overrides. Full audit trails and history will be available to track what happened in any transaction.
- **Imaging & Document Management** – The MvM solution will integrate further with the OnBase imaging & document system used by MVD. This will allow access to OnBase directly from the MvM application and will aid in better management of documents.

Conclusion

Capabilities within the MvM solution will significantly reduce paperwork and paper flow but eliminating it will be impossible.

Goal 9 – Reduce fraud

Description

Current business processes and legacy system limitations make MVD more vulnerable to fraud.

Capabilities

- **Fraud Prevention Functionality** – The MvM solution will have many controls that can help prevent fraud including system edits, internal and external validations, transaction stops, alerts and notifications, escalation processes, controlled inventory, and audit trails and logging.
- **Fraud Detection Reporting & Alerts** – The MvM solution will have reports that will help the detection of fraud. Also, alerts can be set to warn a CSR of potential fraud without alerting the customer.
- **Biometrics/eID** – The MvM solution will integrate to the eID product from MorphoTrust. eID uses facial recognition biometrics for advanced customer authentication.
- **e-Title Implementation** – With recent legislation, Arizona will soon become a full e-Title state. e-Title will eliminate one of the most common types of fraud, paper title fraud.
- **Reduction of Controlled Inventory** – The MvM project is reducing the number and types of controlled inventory stock that has the potential to be stolen or used fraudulently. If controlled inventory is necessary, it may go through a central issuance process.
- **External Validation Through Interfaces** – The MvM solution has many interfaces to AAMVA and other national systems that will be able to validate customer, driver, and vehicle data through independent third-party sources.

Conclusion

Fraud prevention and detection will be significantly improved through MvM solution capabilities.

Goal 10 – Implement business and IT best practices

Description

While MVD implements motor vehicle administration best practices to the extent possible, it is not always feasible due to legacy system limitations. With an IT platform that is based on proprietary technology that is 30 to 40 years old, it is not feasible to implement IT best practices.

Capabilities

- **Open, Flexible System Architecture, Tools, and Standards** – The MvM solution is built on the Microsoft .NET platform using web services. It is an open, flexible system architecture that uses modern tools and standards.
- **Agile, Modular System Design** – The MvM solution is being built using an agile development approach and uses a modular system design.
- **Following National Standards** – The MvM solution is being built using standards from AAMVA and other national organizations to improve interoperability and compliance.

Conclusion

Implementation of the MvM solution will result in building in business and IT best practices found in the industry.

Goal 11 – Improve the ability to modify systems more readily to adjust to legislative and policy changes

Description

The MVD legacy systems are very difficult to modify. Almost everything is coded in antiquated programming languages that require rare IT expertise. Even making simple changes from legislative or business changes results in a substantial IT project.

Capabilities

- **Configuration & Table-Driven Maintenance** – The MvM solution is designed to be a configurable application where much of the logic and behavior can be easily modified through configurable settings and simple table maintenance. This will allow advanced business users to be able to perform some maintenance without requiring programming or highly technical expertise.

- **Business Rules Engine** – The MvM solution integrates with a third-party business rules engine that allows business rules, such as fee calculations, to be easily modified by non-technical business resources.
- **Modular System Design** – The MvM solution is built in a modular structure that provides for ease of maintenance. The system is broken into logically discrete functions, interacting through well-defined web services architecture.

Conclusion

The design and development approach of the MvM solution will lead to easier maintenance of the system in order to easily adjust to legislative and policy changes.

Goal 12 – Improve reporting capabilities and business intelligence

Description

The MVD legacy systems have limited reporting capabilities. Most reports are batch mainframe reports with little to no customizability. A separate ADOT data warehouse is available that does contain some MVD data and some business intelligence capabilities.

Capabilities

- **Business Intelligence Solution** – The MvM solution will integrate with a separate complete MVD data warehouse with full business intelligence capabilities that will allow ad-hoc reporting and business intelligence analysis.
- **Records Engine** – Customers often request to get a report of their driving record and vehicle titling & registration record, known as Motor Vehicle Records (MVRs). Some selected businesses also purchase these records in bulk/batch for authorized purposes. A MVR Engine will be developed to handle all of these requests and generate the records whether individual or batch.
- **Reports on Demand** – Most of the reports in the new MvM solution will be generated on demand by the user that requires them. Unlike the legacy system, few reports will be generated from overnight batch processes.

Conclusion

Reporting capabilities and business intelligence will be significantly improved with the new MvM solution.

Goal 13 – Improve access and quality of information for use by law enforcement

Description

Law enforcement, not only in Arizona, but nationwide, relies on information from MVD for driver and vehicle information. The MVD legacy systems pass data through an interface with NLETS.

Capabilities

- **Improved Data Quality** – As part of the MvM project, a substantial data cleanup effort has been underway to ensure data is clean and accurate before data conversion. The improved data quality will provide less data errors and inaccurate information to law enforcement.
- **Improved Data Accessibility** – As the MvM solution uses a relational database management system, rather than the antiquate hierarchical database of the legacy systems, data will be more accessible and faster to query.
- **Improved Interfaces** – As the interface with NLETS will be completely rewritten for MvM, it will be using the most current technology and specifications.
- **External Validation Through Interfaces** – The MvM solution has many interfaces to AAMVA and other national systems that will be able to validate customer, driver, and vehicle data through independent third-party sources, thereby improving data quality, accuracy, and completeness.

Conclusion

The new MvM solution will improve access and quality of information for use by law enforcement.

GARTNER, INC. STATEMENT

Gartner, Inc. concluded an independent baseline assessment of the MvM project in December 2015 and recently completed a follow-up assessment of this project in November 2016. Based upon our understanding of the project scope and objectives and our review of the project team and approach and MvM system functionality planned over the next several years, we believe the goals and capabilities articulated in this document are accurately presented and achievable.