

JOINT LEGISLATIVE BUDGET COMMITTEE

Wednesday, May 3, 2023

1:00 p.m.

House Hearing Room 1



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

JOHN KAVANAGH
VICE-CHAIRMAN
LELA ALSTON
KEN BENNETT
SONNY BORRELLI
BRIAN FERNANDEZ
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ATHENA SALMAN
JUDY SCHWIEBERT
STEPHANIE STAHL HAMILTON

**** CANCELLED ****

JOINT LEGISLATIVE BUDGET COMMITTEE

Wednesday, May 3, 2023

CANCELLED - 1:00 P.M.

House Hearing Room 1

MEETING NOTICE

- Call to Order
- [Approval of Minutes of December 13, 2022.](#)
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- 1. [*ADOPTION OF COMMITTEE RULES AND REGULATIONS.](#)
- 2. [*DEPARTMENT OF CHILD SAFETY - Review of Line Item Transfers.](#)
- 3. [*DEPARTMENT OF ECONOMIC SECURITY - Review of Developmental Disabilities Line Item Transfers.](#)
- 4. [*DEPARTMENT OF PUBLIC SAFETY - Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission \(GITTEM\) Border Security and Law Enforcement Subaccount.](#)
- 5. [*DEPARTMENT OF EDUCATION - Review of Federal Monies Report.](#)
- 6. [*AHCCCS - Review of Mid-Year Capitation Rate Changes for Plan Year 2023.](#)

7. SECRETARY OF STATE - Review of Election Services Line Item Transfer.

- * Consent Agenda - These items will be considered in one motion and no testimony will be taken.

The Chairman reserves the right to set the order of the agenda.

~~04/28/2023~~

05/02/2023

KP

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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BEN TOMA

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

December 13, 2022

The Chairman called the meeting to order at 9:40 a.m., Tuesday, December 13, 2022, in House Hearing Room 1. The following were present:

Members:	Senator Gowan, Chairman	Representative Cobb
	Senator Alston	Representative Bolick
	Senator Bowie	Representative Kavanagh
	Senator Kerr	Representative Longdon
	Senator Livingston	Representative Osborne
	Senator Otondo	Representative Sierra (Temporary member in place of Representative Butler)
		Representative Toma
Absent:	Senator Gray	Representative Butler
	Senator Leach	Representative Chávez

APPROVAL OF MINUTES

Representative Cobb moved that the Committee approve the minutes of September 21, 2022. The motion carried.

CONSENT AGENDA

The following items were considered without further discussion.

1. ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Consider Approval of Maximum Lodging, Meal, and Mileage Reimbursement Rates.

A.R.S. § 38-624C requires ADOA to establish maximum reimbursement amounts for lodging, meal, and mileage expenses taking into consideration the amounts established by the federal government. These

(Continued)

reimbursements compensate state employees traveling on official state business. Statute requires Committee approval of any rate change.

ADOA proposed the following:

1. Increase the personal vehicle mileage reimbursement rate from 44.5 cents to 62.5 cents per mile to conform to the federal government rate effective on July 1, 2022.
2. Adjusting the maximum lodging rates to match the new federal government rates, which were effective on October 1, 2022.
3. Adjusting the meals and incidental per diem rate to the new federal rate effective on October 1, 2022, less \$10.

The JLBC Staff provided options and a potential provision:

- A. *Committee approval does not constitute an endorsement of additional appropriations to cover higher reimbursement costs.*

2. ARIZONA DEPARTMENT OF ADMINISTRATION/AUTOMATION PROJECTS FUND - Review of FY 2023 Projects.

A.R.S. § 41-714 requires Committee review prior to any monies being expended from the Automation Projects Fund (APF). ADOA requested review for 2 projects. The ADOA request included \$300,000 for the Arizona Department of Agriculture to initiate a procurement process to modernize the department's Information Technology (IT) applications. The request also included \$300,000 for the Secretary of State to conduct a feasibility study for an electronic public records storage solution. The JLBC Staff provided options and a potential provision:

- A. *Upon completion of each consultant's assessment, the Department of Agriculture and the Secretary of State shall each submit a report to JLBC Staff on the results and recommendations from their consultant.*

3. DEPARTMENT OF CHILD SAFETY (DCS) - Review of Line Item Transfers.

Pursuant to an FY 2023 General Appropriation Act footnote, the Committee is responsible for reviewing the transfer of monies between most DCS line items. DCS submitted for Committee review technical transfers to reflect allocations of federal funding and the allocation of \$16,403,700 appropriated in FY 2023 for salary increases to various line items. The JLBC Staff recommended a favorable review of the transfers.

Table 1					
Approved Transfers – FY 2023 Salary Increases					
<u>Line Item</u>	<u>General Fund Transfers</u>	<u>TANF Transfers</u>	<u>Licensing Fund Transfers</u>	<u>CHP EA Transfers</u>	<u>Total Transfer Amount</u>
Caseworkers	6,148,000	\$ 1,669,900	-	-	7,817,900
DCS Operating Lump Sum	4,986,400	2,009,600	80,500	-	7,076,500
Office of Child Welfare Investigations	886,600	-	-	-	886,600
Comprehensive Health Plan Admin.	-	-	-	\$474,800	474,800
Inspections Bureau	103,900	7,000	-	-	110,900
Records Retention	23,600	-	-	-	23,600
General Counsel	13,400	-	-	-	13,400
Total Approved Transfers	\$ 12,161,900	\$ 3,686,500	\$ 80,500	\$474,800	\$ 16,403,700

4. DEPARTMENT OF EDUCATION (ADE) - Review of AzSCI Science Contract Renewal.

A.R.S. § 15-741.03 requires ADE to seek Committee review to establish or renew a contract for any portion of the statewide assessment. ADE proposed renewal of its contract for the statewide assessment in science (AzSCI). The JLBC Staff provided options.

6. JLBC STAFF - Consider Approval of Index for Arizona Department of Administration - School Facilities Division Construction Costs.

A.R.S. § 41-5741D3(c) requires that the cost-per-square-foot factors used in ADOA School Facilities Division (SFD) new school construction formula “shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee (JLBC) as necessary but not less than once each year.” The JLBC Staff provided the following option:

A 7.27% adjustment in the cost-per-square-foot factors. The adjustment is based on the change in the Rider Levett Bucknall (RLB) Phoenix construction cost index since the cost factors were last adjusted in December 2021. The new revised per square foot dollar amounts apply to districts that were awarded new schools by SFD on December 15, 2022 for funding in FY 2024. The revised rates are as follows:

<u>Grade</u>	<u>\$ per square foot</u>
K-6	\$309.11
7-8	\$326.34
9-12	\$377.80

7. DEPARTMENT OF PUBLIC SAFETY (DPS) - Review of the Commercial Vehicle Enforcement Line Item Expenditure Plan.

Laws 2022, Chapter 313 requires DPS to submit an operational and expenditure plan to the Committee for review before expending monies from the \$978,400 Commercial Vehicle Enforcement line item. The JLBC Staff provided options.

(Continued)

8. ARIZONA DEPARTMENT OF ADMINISTRATION - Consider Approval of Requested Transfer of Appropriations.

A.R.S. § 35-173 requires Committee approval of any transfer of spending authority within ADOA. ADOA requested authorization to transfer \$4,600,000 of Risk Management Revolving Fund monies from its Risk Management Losses and Premiums line item to the Risk Management Administrative Expenses line item in FY 2023. The JLBC Staff provided options and a potential provision:

- A. *By May 31, 2023, ADOA shall report to the JLBC Staff an updated projection of its contracted Risk Management legal expenses.*

9. ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF ECONOMIC SECURITY (DES) - Review of Child Care ATLAS System Replacement.

Pursuant to an FY 2021 General Appropriation Act footnote, ADOA has requested that the Committee review its expenditure plan for \$25,609,100 in FY 2023 for replacement of the Arizona Tracking and Locate Automated System (ATLAS) used by the Department of Economic Security (DES) - Division of Child Support Enforcement (DCSE). The JLBC Staff provided options and potential provisions:

- A. *Until completion of the project, DES shall submit quarterly progress reports from the third-party consultant to JLBC pursuant to A.R.S. § 18-104 in a timely manner.*
- B. *A favorable review by the Committee does not constitute endorsement of any supplemental funding request that may be required for project costs or any operational costs when the project is complete.*
- C. *ADOA and DES shall jointly report the revised implementation schedule to the Committee once it is approved by the federal government. ADOA and DES shall jointly report to the Committee by the last day of each calendar quarter on whether they are meeting that timetable until the project is completed.*

Representative Cobb moved that the Committee approve consent agenda items 1, 6 and 8 with the JLBC Staff provisions and give a favorable review of consent agenda items 2, 3, 4, 7 and 9 with the JLBC Staff provisions listed above. The motion carried.

REGULAR AGENDA

5. DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS (DEMA)- Review of Border Security Fund Transfer.

Mr. Jordan Johnston, JLBC Staff, stated that Laws 2022, Chapter 313 requires DEMA to submit transfers of funding within the Border Security Fund to the JLBC for review. DEMA requested review of a \$10,000,000 transfer from the \$30,000,000 allocated for local government prosecution costs to the \$10,000,000 allocated to the Arizona National Guard for a southern border deployment. The JLBC Staff provided options.

Representative Cobb moved that the Committee favorably review the proposed \$10,000,000 transfer from the \$30,000,000 allocated to local governments for prosecution costs to the \$10,000,000 allocated to the Arizona National Guard for a southern border deployment. This transfer will result in \$20,000,000

(Continued)

being available to the Arizona National Guard and \$20,000,000 being available for local government prosecution costs. The motion carried.

EXECUTIVE SESSION

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

At 9:46 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 10:06 a.m. the Committee reconvened into open session.

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

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

1. *Estate of David J. Glutz v. State of Arizona.*
2. *Witold Klopotoski v. State of Arizona*
3. *Camacho v. State of Arizona, et al.*

The motion carried.

B. ARIZONA DEPARTMENT OF ADMINISTRATION - Risk Management Annual Report.

This item was for information only and no Committee action was required. The Committee received the Risk Management Annual Report pursuant to JLBC Rule 14. The Committee requests that future annual reports continue to include the following information:

- Status of open claims and lawsuits.
- Status of claims and lawsuits reported on the prior year annual report.
- Total number of claims and lawsuits filed with Risk Management during the prior fiscal year.
- Total settlement and judgment costs during the prior fiscal year.
- Number of liability settlements greater than the JLBC level and cost of each settlement.
- Number of liability cases taken to trial by Risk Management categorized by:
 - Number of verdicts for the state with detail of the associated judgment amounts.
 - Number of verdicts against the state with detail of the associated judgment amounts.
- Projected Risk Management Fund balance.
- Proposed changes to state insurance coverage, state statutes, and claim procedures.

C. JLBC Annual Performance Review per Rule 7

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

(Continued)

Without objection, the meeting adjourned at 10:08 a.m.

Respectfully submitted:



Kristy Paddack, Secretary



Richard Stavneak, Director



Senator David Gowan, Chairman



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DATE: April 28, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Richard Stavneak, Director

SUBJECT: Adoption of Committee Rules and Regulations

The Committee will consider the attached rules and regulations for adoption at its May 3rd meeting. The rules are the same as in the prior session.

RS:kp
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.

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

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.

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

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:

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

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). The Department of Administration has authority to settle claims up to \$100,000 and the Attorney General has authority to settle claims between \$100,001 and \$249,999. 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.

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 14 CONTINUED

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;

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 14 CONTINUED

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 communicate.

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.



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DATE: April 28, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Ryan Fleischman, Senior Fiscal Analyst

SUBJECT: Department of Child Safety - Review of Line Item Transfers

Request

Pursuant to an FY 2023 General Appropriation Act footnote, the Committee is responsible for reviewing the transfer of monies between most Department of Child Safety (DCS) line items. DCS is submitting for Committee review technical transfers to reflect allocations of federal funding, the transfer of \$2,872,000 to provide funding for a 10% salary increase for Attorney General legal services staff that was omitted from the FY 2023 General Appropriation Act, and the transfer of \$8,105,100 to provide sufficient funding for DCS caseworker staff given higher-than-anticipated retention rates.

Committee Options

The Committee has at least the following 2 options:

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

Key Points

- 1) To reflect expected usage, DCS requests that General Fund monies totaling \$225,000 for FY 2022 and \$750,000 for FY 2023 be transferred from the Foster Home Placement line item to the Permanent Guardianship Subsidy line item
- 2) DCS also requests an FY 2023 transfer of \$1.9 million in General Fund monies and \$448,100 in Expenditure Authority from the Congregate Group Care line item to the Attorney General Legal Services line item for a 10% salary increase inadvertently omitted from the FY 2023 budget.
- 3) DCS requests an FY 2023 transfer of \$8.1 million in Expenditure Authority from the Congregate Care Placement line item to the Caseworker line item to address staffing costs associated with higher-than anticipated caseworker retention rates.

(Continued)

Analysis

DCS reports that it has experienced an increase in permanent guardianship caseloads, which have gone up from an average of 2,771 in FY 2022 to 2,815 in FY 2023. DCS also reports that there is an estimated \$1.7 million General Fund surplus in Foster Care Maintenance associated with enhanced matching federal funding originally authorized by the Families First Coronavirus Response Act (FFCRA). DCS requests to transfer \$225,000 of these surplus General Fund monies for FY 2022 and \$750,000 for FY 2023 to the Permanent Guardianship line item to address the caseloads.

The FY 2023 General Appropriation Act included funding for a 10% salary increase for most state employees. However, as originally calculated by the Executive, funding to provide this salary increase for Attorney General staff who work on DCS issues and whose salaries are paid by DCS was inadvertently not included. DCS is also requesting a transfer of \$2.4 million in FY 2023 from the Congregate Group Care line item to the Attorney General Legal Services line item to provide funding for the salary increase that was omitted from the FY 2023 budget. This amount includes \$1.9 million in General Fund monies and \$448,100 in federal expenditure authority.

DCS is also requesting a transfer of \$8.1 million of expenditure authority in FY 2023 from the Congregate Group Care line item to the Caseworkers line item. The department forecasts a shortfall of that amount associated with higher-than-anticipated retention of DCS caseworkers. DCS expects a surplus in the Congregate Group Care line item as monthly caseloads and matching federal funding have been less than anticipated.

RF:kp



ARIZONA
DEPARTMENT
of **CHILD SAFETY**

David Lujan, Director
Katie Hobbs, Governor

Thursday, April 27, 2023

Representative David Livingston
Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Representative Livingston:

Re: FY 2023 DCS Congregate Care Transfer Request to Caseworkers Line Item

The Department requests to be placed on the Joint Legislative Budget Committee agenda for the following requests:

- Attorney General Salary Increase
- Increases to Caseworker Retention and Recruitment

Summary of Requested One-time Appropriation Transfer for FY23

Special Line Item	General Fund (in \$1,000)	Expenditure Authority (in \$1,000)	Total (in \$1,000)
Congregate Care	(\$1,923.89)	(\$8,553.11)	(\$10,477.00)
Attorney General Legal Services	\$1,923.89	\$448.11	\$2,372.00
Caseworkers	\$0.0	\$8,105.00	\$8,105.00

1. Attorney General 10% Salary Increase

As part of FY 2023 pay increases enacted by Laws 2022, Chapter 313, state agencies have been appropriated funds for a 10% minimum statewide employee salary increase. The legislation has omitted addressing the required salary increase funding for the Attorney General Legal Services line item in the FY 2023. In order to conform to required legislation to provide the approved statewide salary increase, and to avoid structural shortfall, the Attorney General Legal Services line item requires FY 2023 salary increase funding.

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The Department of Child Safety requests to transfer \$2,372,000 out of the Congregate Care Placement line item into the Attorney General line item. The Department of Child Safety Congregate Care FY 2023 surplus is sufficient to fund FY 2023 10% salary increases for the attorneys and support staff in the Attorney General's Protective Services Section (PSS) that represents DCS in legal proceedings for children in foster system.

- The Department of Child Safety Congregate Care General Fund and Expenditure Authority surplus:

A portion of the maintenance payments in the Congregate Care SLI is permitted for federal reimbursement at the FMAP (Federal Medical Assistance Percentage) rate. The Families First Coronavirus Response Act (FFCRA) has provided a temporary increase of 6.2% to the FMAP percentage in FY23. The increased FMAP rate will result in reduced General Fund expenses in the Congregate Care Maintenance placements. The Department estimates a \$1.7 million General Fund surplus resulting from the enhanced FMAP.

Requested One-time Appropriation Transfer for FY23

Special Line Item	General Fund (in \$1,000)	Expenditure Authority (in \$1,000)	Total (in \$1,000)
Congregate Care	(\$1,923.89)	(\$448.11)	(\$2,372.00)
Attorney General Legal Services	\$1,923.89	\$448.11	\$2,372.00

2. Increases to Caseworker Retention and Recruitment

The Department of Child Safety requests a transfer of \$8,105,00 Expenditure Authority from the Congregate Care Placement line item into the Caseworker line Item.

The Department forecasts an \$8.1 million shortfall in Expenditure Authority in the Caseworker line item due to the Department's recent success in increasing caseworker retention and recruitment. Currently, the Department realizes a 97% filled rate in the caseworker series, compared to an 81%¹ filled at the beginning of FY 2023. In concert with the ability to recruit caseworkers, the Department also has reduced monthly caseworker turnover from an average 5.10% in FY 2022, to a 3.22% average in FY 2023.

- The Department of Child Safety Congregate Care General Expenditure Authority surplus:

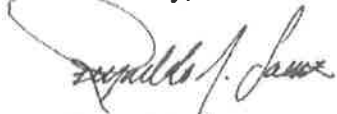
In FY 2023, the Department currently forecasts an Expenditure Authority surplus in the Congregate Care line item due to agency's ability to reduce congregate care expenses. In FY 2023, the Department has reduced the average monthly caseload by 7%, or 144 children in congregate care placements. Reductions in eligible federal expenditures from the Family First Prevention Services Act 14-day clause has also contributed to Expenditure Authority surplus.

Requested One-time Appropriation Transfer for FY23

¹July Filled Caseworker Positions: 1,138 of 1,406

Special Line Item	General Fund (in \$1,000)	Expenditure Authority (in \$1,000)	Total (in \$1,000)
Congregate Care	\$0	(\$8,105.1)	(\$8,105.1)
Caseworkers	\$0	\$8,105.1	\$8,105.1

Sincerely,



Reynaldo Saenz
Assistant Director Finance and Accounting, CFO

Cc:

David Lujan, Director, AZ Department of Child Safety
Robert Navarro, Deputy Director, AZ Department of Child Safety
Blake Tonn, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Ryan Fleischman, JLBC Analyst, Joint Legislative Budget Committee



ARIZONA
DEPARTMENT
of CHILD SAFETY

Michael Wisehart, Interim Director
Katie Hobbs, Governor

Monday, February 27th, 2023

Representative David Livingston
Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Re: Appropriation Transfer Request

Dear Representative Livingston:

The Department requests to be placed on the Joint Legislative Budget agenda for General Fund appropriation transfer requests below:

Summary of Requested Appropriation Transfers for FY22 and FY23

Special Line Item	General Fund (in \$1,000)	
	FY22	FY23
Foster Care	(\$225.0)	(\$750.0)
Permanent Guardianship	\$225.0	\$750.0
TOTAL	\$0.00	\$0.00

General Fund Appropriation Requests – FY23 and FY22

Pursuant to Laws 2022, Chapter 313, Section 17, the amount appropriated for any line item may not be transferred to another line item or the operating budget unless the transfer is reviewed by the Joint Legislative Budget Committee. The Department requests that the committee review the following General Fund (GF) transfer requests:

- Permanent Guardianship: The Department requests a total of \$225,000 General Fund from the Foster Care Maintenance special line item for FY22 and a total of \$750,000 for FY23:

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- The Department has experienced an increase in caseloads in permanent guardianship home placements during the current and previous fiscal year. In FY 22, the Department's caseload averaged 2,771 cases for a permanent guardianship placement. Through FY22 and FY 23, the Department experienced a steady increase in caseload numbers, currently averaging 2,815¹ in FY23.
- Foster Care Maintenance General Fund Surplus: A portion of the maintenance payments in the Foster Care Maintenance SLI is permitted for federal reimbursement at the FMAP (Federal Medical Assistance Percentage) rate. The Families First Coronavirus Response Act (FFCRA) increased the FMAP rate by 6.2% thus resulting in reduced General Fund expenses in the Foster Care Maintenance placements. Due to this FMAP adjustment, the Department estimates \$1.7 million General Fund surplus available in Foster Care Maintenance.

Sincerely,

Violeta Pivac
Budget Manager

Cc:

Michael Wischart, Interim Director, Arizona Department of Child Safety
Robert Navarro, Deputy Director, Arizona Department of Child Safety
Reynaldo Saenz, Assistant Director of Finance and Accounting, Department of Child Safety
Jonathan Perkins, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Blake Tonn, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Ryan Fleischman, JLBC Analyst, Joint Legislative Budget

¹ Taken as an average of FY 2023 data through January. October through January numbers estimated due to lag in data reception.



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DATE: April 28, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Chandler Coiner, Fiscal Analyst

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

Request

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) requests review of line item transfers from and into the Developmental Disabilities (DD) case management state-only line item.

The department is proposing the following transfers subject to review:

- An FY 2022 transfer of \$(600,000) from the Case Management State-Only line item to the Home and Community Based Services (HCBS) State-Only line item.
- An FY 2023 transfer of \$1,000,000 from the HCBS State-Only line item into the Case Management State-Only line item.

Committee Options

The Committee has at least the following 2 options:

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

Key Points

- 1) DES proposes making 2 transfers from and into the Case Management State-Only line item.
- 2) The technical transfers would align DD appropriations with actual expenses incurred by DES.
- 3) The net adjustment to case management state-only resources would be \$400,000.

(Continued)

Analysis

The FY 2022 and FY 2023 budgets continued a footnote requiring Committee review of any funding being transferred in or out of the DDD Administration line and the Case Management lines to provide oversight if the department proposes to increase or decrease administrative resources.

DES' proposed transfers are intended align DD appropriations with actual expenses in the state-only program.

Additionally, DES reports a transfer of \$(118,000,000) from the HCBS - Medicaid line item into the Physical and Behavioral Health - Medicaid, Institutional Services, and Premium Tax line items. However, this transfer is not subject to review.

CC:kp



DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Katie Hobbs
Governor

Angie Rodgers
Director

April 7, 2023

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

The Honorable John Kavanagh
Vice Chairman, Joint Legislative Budget Committee
Arizona State Senate
1700 W Washington Street
Phoenix, Arizona 85007



Dear Representative Livingston and Senator Kavanagh:

The Arizona Department of Economic Security (Department) requests to be placed on the Joint Legislative Budget Committee's next agenda for review of appropriation transfer plans for the Division of Developmental Disabilities (DDD), as required by Laws 2022, Chapter 313, Section 29. Justifications for each transfer are outlined below:

State Fiscal Year (SFY) 2022 Transfers

Division	Special Line Item	State Fiscal Year	Transfer Amount
DDD	HCBS	2022	(\$118,000,000)
DDD	SFLTC	2022	(\$1,950,000)
DDD	State-Only Case Management	2022	(\$600,000)
DDD	Physical & Behavioral Health	2022	\$100,000,000
DDD	Institutional	2022	\$16,000,000
DDD	Premium Tax	2022	\$2,000,000
DDD	HCBS State-Only	2022	\$2,550,000

The Department requests to transfer a total of \$118,000,000 from the Home and Community Based Services (HCBS) Special Line Item to Physical & Behavioral Health, Institutional, and Premium Tax Special Line Items. These appropriation shortfalls are due to direct payments from the Arizona Health Care Cost Containment System (AHCCCS) to healthcare providers that were not included in the Department's appropriation authority. These payments stem from initiatives set by AHCCCS and are meant to provide enhanced support for specific services. Additionally, appropriation changes were made in SFY 2022 due to savings from enhanced Federal Medical Assistance Percentage rates during the Public Health Emergency. These transfers are necessary in order to align appropriation authority and funding with expenditures and cash flow for SFY 2022. Approval of this transfer request will ensure that the Department is in compliance with Medicaid regulations and reduces the risk of lost federal revenue.

In SFY 2022, a gap remained between HCBS and Institutional rates, resulting in a Cost Effectiveness Study (CES) shortfall. When costs for HCBS services exceed the equivalent Institutional rate, costs are subject to CES funding and are not eligible to be paid for with Medicaid funding. DDD serves over 90 percent of members through HCBS. As a result, CES expenditures are heavily impacted by increases to HCBS rates without corresponding increases to Institutional rates. The Department requests to transfer \$1,950,000 from State Funded Long Term Care General Fund and \$600,000 from State Funded Long Term Care Case Management Special Line Items to the HCBS State-Only Special Line Item to cover remaining CES expenses.

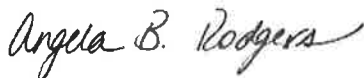
SFY 2023 Transfers

Division	Special Line Item	State Fiscal Year	Transfer Amount
DDD	HCBS State-only	2023	(\$1,000,000)
DDD	State-Only Case Management	2023	\$1,000,000

In SFY 2023, DDD has seen historically high Arizona Random Moment Sample (ARMS) distribution. The ARMS survey polls case managers regarding clients they are serving, between State-Only, Targeted Case Management (TCM), and the Arizona Long Term Care System. In SFY 2023, there have been historically high TCM and State-Only cases, resulting in a shortfall in State-Only Case Management. The Department requests approval to transfer \$1,000,000 from the HCBS State-Only Special Line Item to State-Only Case Management Special Line Item to ensure proper authority distribution.

If you have any questions, please contact Kathy Ber, Director of Public Affairs, at (602) 542-4669 or Kber@azdes.gov.

Sincerely,



Angie Rodgers
Director

cc: Members of the Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Sarah Brown, Director, Governor's Office of Strategic Planning and Budgeting
Jonathan Perkins, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Blake Tonn, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Holly Henley, Director, Arizona State Library, Archives and Public Records



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DATE: April 28, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Jordan Johnston, Senior Fiscal Analyst

SUBJECT: Department of Public Safety - Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount

Request

Pursuant to A.R.S. § 41-1724G and A.R.S. § 41-1724H, the Arizona Department of Public Safety (DPS) is required to submit for Committee review the entire FY 2023 expenditure plan for the GIITEM Border Security and Law Enforcement Subaccount prior to expending any monies.

The Committee gave a favorable review of a \$1,346,400 expenditure plan from the GIITEM Subaccount in July. DPS has submitted for review its proposal to distribute the remaining \$1,050,000 of the \$2,396,400 appropriation from the Subaccount to fund the Border Security and Law Enforcement Grants program. Six County Sheriffs will receive funding from the program, which is the same number that were funded last year.

Committee Options

The Committee has at least the following 2 options:

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

Under either option, the Committee may also consider the following provision:

- A. DPS shall report to the Committee prior to implementing any changes to the proposed FY 2023 allocation of the grants (*see Table 2*). The Chairman shall decide whether the revisions require Committee review.

(Continued)

Key Points

- 1) The Committee gave a favorable review of \$1.3 million of the \$2.4 million FY 2023 GIITEM Subaccount appropriation in July to continue funding 3 existing programs.
- 2) DPS is requesting review of the expenditure plan for the remaining monies to continue funding the Border Security and Law Enforcement Grants program.
- 3) Six rural counties would receive funding, which are the same counties that were funded in FY 2022.
- 4) DPS worked with the Arizona Sheriff's Association to determine the FY 2023 allocation of these funds.

Analysis

Pursuant to A.R.S. § 12-116.04, the GIITEM Border Security and Law Enforcement Subaccount receives revenues from a \$4.00 surcharge assessed on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations. 2/

The subaccount monies are distributed by DPS to county sheriffs and other local law enforcement agencies to fund border security programs, personnel, and safety equipment. At its July 2022 meeting, the Committee gave a favorable review of \$1.3 million of the total \$2.4 million FY 2023 Subaccount appropriation to continue funding the Detention Liaison Officers Program (\$458,300), Border County Officers Program (\$538,100) and the Pima County Border Crimes Unit (\$350,000).

The department has worked with the Arizona Sheriff's Association (ASA) to determine how the Border Security and Law Enforcement Grants will be distributed. DPS has allocated \$1,050,000 for this program. This total amount and estimated allocation of monies to each county is unchanged from FY 2022.

Table 1 provides the FY 2022 GIITEM Border Security and Law Enforcement Grants expenditure plan reviewed by the Committee and the proposed FY 2023 plan.

Table 1		
FY 2023 GIITEM Border Security and Law Enforcement Grants		
Proposed Expenditure Plan		
	FY 2022 Reviewed Allocation	FY 2023 Proposed Allocation
<u>County Sheriff</u>		
Cochise County Sheriff's Office	\$ 250,000	\$ 250,000
Graham County Sheriff's Office	100,000	100,000
Greenlee County Sheriff's Office	100,000	100,000
La Paz County Sheriff's Office	100,000	100,000
Santa Cruz Sheriff's Office	250,000	250,000
Yuma County Sheriff's Office	<u>250,000</u>	<u>250,000</u>
Total	\$1,050,000	\$1,050,000



ARIZONA DEPARTMENT OF PUBLIC SAFETY
2102 WEST ENCANTO BLVD. P.O. BOX 6638 PHOENIX, ARIZONA 85005-6638 (602) 223-2000

"Courteous Vigilance"

KATIE HOBBS **JEFFREY GLOVER**
Governor Director

March 1, 2023



Representative David Livingston, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Dear Representative Livingston:

Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is submitting the remainder of its FY 2023 expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount (Subaccount). The JLBC gave a favorable review to the initial portion of the expenditure plan at its meeting on July 14, 2022.

DPS has allocated \$1,050,000 from the Subaccount in FY 2023 for border security and law enforcement grants to county sheriffs. Consistent with previous years, DPS consulted with the Arizona Sheriffs' Association (ASA) on the distribution of the grants. The ASA directed the money to be distributed to the counties as outlined below.

County Sheriff	FY 2023 Plan
Cochise	\$ 250,000
Graham	100,000
Greenlee	100,000
La Paz	100,000
Pima ^{1/}	0
Pinal ^{2/}	0
Santa Cruz	250,000
Yuma	250,000
TOTAL	\$1,050,000

^{1/}The Pima Sheriff's Department has been allocated \$350,000 from the Subaccount for the Border Crimes Unit, as included in the plan reviewed by the JLBC on July 14, 2022.

^{2/} The Pinal Sheriff's Office has been allocated \$500,000 from the GIITEM Fund pursuant to A.R.S. § 41-1724.

Recipient agencies may use the funding for any purpose consistent with statute. As required by A.R.S. § 41-1724, to receive the funding, recipient agencies must certify each fiscal year to the DPS Director that the agency is complying with A.R.S. § 11-1051. If one or more sheriffs' offices do not accept the funding, DPS intends to prorate unobligated amounts over those agencies that do accept the grants.

Representative David Livingston, Chairman

Page 2

March 1, 2023

If you have any questions, please contact Phil Case, DPS Budget Director, at 602-223-2463 or pcase@azdps.gov.

Sincerely,

A handwritten signature in black ink, appearing to be 'J. Glover', with a long horizontal line extending to the right.

Jeffrey Glover, Colonel
Director

c: Senator John Kavanagh, Vice-Chairman
Sarah Brown, OSPB Director
Richard Stavneak, JLBC Director



STATE OF ARIZONA

Joint Legislative Budget Committee

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STEPHANIE STAHL HAMILTON

DATE: April 28, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Patrick Moran, Assistant Director

SUBJECT: Department of Education - Review of Federal Monies Report

Request

The Arizona Department of Education (ADE) requests Committee review of its annual federal monies report, as required by A.R.S. § 15-1052.

Committee Options

The Committee has at least the following 2 options:

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

Key Points

- 1) Laws 2018, Chapter 250 requires ADE to report annually how much federal monies it receives.
- 2) ADE reports \$1.5 billion in federal funding for FY 2023:
 - \$831 million *formula* (54%)
 - \$697 million *reimbursement* (45%)
 - \$5 million *discretionary* (Less than 1%)

Analysis

Laws 2018, Chapter 250 established a definition of *noncustodial federal monies* in statute and requires ADE to submit for Committee review annually a report on all noncustodial and other federal monies

(Continued)

received for the fiscal year. The report does not include federal monies from ESSER, which ADE reports separately on a quarterly basis pursuant to a General Appropriation Act footnote.

As summarized in *Table 1*, ADE's report for FY 2023 shows that the department received 22 federal grants totaling \$1.5 billion for the current fiscal year. The table lists the awarding agency (the U.S. Department of Agriculture or U.S. Department of Education), title, whether it is a "discretionary, formula or reimbursement" grant, and the award amount.

For the report, ADE interprets *noncustodial* as meaning discretionary monies that do not fund formulas or reimbursements. *Formula* means monies that are allocated to school districts and charter schools on a per pupil or other pro rata basis prescribed in federal law. *Reimbursement* grants are payments to a school district or charter school for providing a federally-authorized or required service.

The largest reported grants for FY 2023 are for the National School Lunch Program (\$490 million - reimbursement), Title I (\$370 million - formula), Special Education (\$237 million - formula) and the School Breakfast Program (\$133 million - reimbursement). Those 4 programs together account for \$1.2 billion (80%) of ADE's \$1.5 billion federal grant total for FY 2023.

Table 1 sorts the reported data by type of grant to show their respective funding subtotals, which are as follows:

- \$831 million *formula* (54%)
- \$697 million *reimbursement* (45%)
- \$5 million *discretionary* (noncustodial) (less than 1%)

Noncustodial grants therefore account for less than 1% of ADE's federal grant total for FY 2023 under ADE's interpretation of A.R.S. § 15-1051.

PM:lm

Table 1

Federal Grants Received by ADE in FY 2023

<u>Program</u>	<u>Awarding Agency</u>	<u>Type</u> ^{1/}	<u>FY 2023 Award</u>
Title I Grants to Local Educational Agencies	USDOE	Formula	\$ 370,382,625
Special Education Grants to States	USDOE	Formula	236,823,175
Supporting Effective Instruction State Grants	USDOE	Formula	47,317,690
Career and Technical Education -- Basic Grants to States	USDOE	Formula	33,327,643
Twenty-First Century Community Learning Centers	USDOE	Formula	27,669,596
Student Support and Academic Enrichment Program	USDOE	Formula	26,618,338
Stronger Connections Grant Program	USDOE	Formula	20,826,927
Adult Education- Basic Grants to States	USDOE	Formula	15,918,012
English Language Acquisition State Grants	USDOE	Formula	14,766,928
Migrant Education State Grant Program	USDOE	Formula	10,244,523
Grants for State Assessments and Related Activities	USDOE	Formula	7,600,060
State Administrative Expenses for Child Nutrition	USDA	Formula	6,636,326
Special Education Preschool Grants	USDOE	Formula	5,776,827
Rural Education	USDOE	Formula	3,884,038
Education for Homeless Children and Youth	USDOE	Formula	2,352,383
Title I State Agency Program for Neglected and Delinquent Children and Youth	USDOE	Formula	879,946
Migrant Education Coordination Program	USDOE	Formula	59,645
Formula Subtotal			\$ 831,084,682
National School Lunch Program	USDA	Reimbursement	\$ 489,737,517
School Breakfast Program	USDA	Reimbursement	132,845,357
Child and Adult Care Food Program	USDA	Reimbursement	64,455,058
Summer Food Service Program for Children	USDA	Reimbursement	5,191,758
Local Food for Schools Cooperative Agreement Program	USDA	Reimbursement	4,380,275
Special Milk Program for Children	USDA	Reimbursement	43,200
Reimbursement Subtotal			\$ 696,653,165
Fresh Fruit and Vegetable Program	USDA	Discretionary	\$ 4,916,302
Discretionary Subtotal			\$ 4,916,302
Grand Total			\$1,532,654,149

^{1/} As categorized by ADE, which uses the term *discretionary* for noncustodial monies



April 26, 2023

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

Dear Representative Livingston,

The purpose of this letter is to address a statutory requirement pursuant to A.R.S. 15-1052, which states that the Arizona Department of Education is required to submit a report on or before December 1 of each year to the Joint Legislative Budget Committee (JLBC) detailing all federal monies received by the department, including differentiating between non-custodial federal monies and all other federal monies and how the monies were allocated during each fiscal year. The Department submitted the report to JLBC on April 6, 2023, for the Committee to review at its May 3, 2023 meeting.

Please do not hesitate to contact my office with any questions.

Sincerely,

A handwritten signature in blue ink that reads "Melissa Taylor".

Melissa Taylor
Director of Government Relations and Public Policy
Arizona Department of Education

Tom Horne, Superintendent of Public Instruction

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We are a service organization committed to raising academic outcomes and empowering parents."

Arizona Department of Education

Report of Federal Monies Received - FY23

CFDA #	AWARDING AGENCY	TITLE OF PROGRAM	Discretionary, Formula or Reimbursement?	GRANT AWARD FY23	Amount Retained for Program Admin	How Administrative Funds Are Used
10.185	USDA	Local Food for Schools Cooperative Agreement Program	Reimbursement	\$ 4,380,275	\$ -	
10.553	USDA	School Breakfast Program	Reimbursement	\$ 132,845,357	\$ -	
10.555	USDA	National School Lunch Program	Reimbursement	\$ 489,737,517	\$ -	
10.556	USDA	Special Milk Program for Children	Reimbursement	\$ 43,200	\$ -	
10.558	USDA	Child and Adult Care Food Program	Reimbursement	\$ 64,455,058	\$ 703,533	Funds 5.45 FTE, plus Operating Expenses
10.559	USDA	Summer Food Service Program for Children	Reimbursement	\$ 5,191,758	\$ 216,834	Funds 1.5 FTE, plus Operating Expenses
10.560	USDA	State Administrative Expenses for Child Nutrition	Formula	\$ 6,636,326	\$ 6,636,326	Funds 56.25 FTE, plus Operating Expenses
10.582	USDA	Fresh Fruit and Vegetable Program	Discretionary	\$ 4,916,302	\$ -	
84.002	USDOE	Adult Education- Basic Grants to States	Formula	\$ 15,918,012	\$ 2,070,000	Funds 16.1 FTE, plus Operating Expenses
84.010	USDOE	Title I Grants to Local Educational Agencies	Formula	\$ 370,382,625	\$ 4,223,468	Funds 48.5 FTE, plus Operating Expenses
84.011	USDOE	Migrant Education State Grant Program	Formula	\$ 10,244,523	\$ 1,126,898	Funds 7.2 FTE, plus Operating Expenses
84.013	USDOE	Title I State Agency Program for Neglected and Delinquent Children	Formula	\$ 879,946	\$ 6,858	Misc. Operating Expenses
84.027	USDOE	Special Education Grants to States	Formula	\$ 236,823,175	\$ 19,660,309	Funds 99.5 FTE, plus Operating Expenses
84.048	USDOE	Career and Technical Education -- Basic Grants to States	Formula	\$ 33,327,643	\$ 3,406,982	Funds 21.5 FTE, plus Operating Expenses
84.144	USDOE	Migrant Education Coordination Program	Formula	\$ 59,645	\$ -	
84.173	USDOE	Special Education Preschool Grants	Formula	\$ 5,776,827	\$ 1,086,584	Funds 7.0 FTE, plus Operating Expenses
84.196	USDOE	Education for Homeless Children and Youth	Formula	\$ 2,352,383	\$ 580,348	Funds 5.0 FTE, plus Operating Expenses
84.287	USDOE	Twenty-First Century Community Learning Centers	Formula	\$ 27,669,596	\$ 1,936,872	Funds 13.5 FTE, plus Operating Expenses
84.358	USDOE	Rural Education	Formula	\$ 3,884,038	\$ 194,202	Funds 1.0 FTE, plus Operating Expenses
84.365	USDOE	English Language Acquisition State Grants	Formula	\$ 14,766,928	\$ 738,436	Funds 11.5 FTE, plus Operating Expenses
84.367	USDOE	Supporting Effective Instruction State Grants	Formula	\$ 47,317,690	\$ 3,040,161	Funds 20.5 FTE, plus Operating Expenses
84.369	USDOE	Grants for State Assessments and Related Activities	Formula	\$ 7,600,060	\$ 7,600,060	Funds 19.0 FTE, plus Operating Expenses
84.424	USDOE	Student Support and Academic Enrichment Program	Formula	\$ 26,618,338	\$ 1,330,916	Funds 11.0 FTE, plus Operating Expenses
84.424	USDOE	Stronger Connections Grant Program	Formula	\$ 20,826,927	\$ 1,041,346	New Program
				\$ 1,528,273,874	\$ 55,600,133	



STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: April 28, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Maggie Rocker, Senior Fiscal Analyst
Chandler Coiner, Fiscal Analyst

SUBJECT: AHCCCS - Review of Mid-Year Capitation Rate Changes for Plan Year 2023

Request

Pursuant to an FY 2023 General Appropriation Act footnote, the state Medicaid agencies must present their plans to the Committee for review prior to implementing any changes in capitation rates. The request includes mid-year adjustments to AHCCCS capitation rates for the contract year ending this September (otherwise known as CYE 2023).

Committee Options

The Committee has at least the following 2 options:

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

Key Points

- 1) AHCCCS is proposing to decrease the current plan year capitation rates by (0.4)%.
- 2) The decrease is primarily due to higher-than-expected enrollment among lower-cost AHCCCS members.
- 3) We estimate the decrease will result in \$(6.4) million of General Fund and \$(52.3) million of Total Fund savings in CYE 2023.

(Continued)

Analysis

The Federal government agrees to pay a flat per-member, per-month amount for each type of Medicaid enrollee. AHCCCS is proposing mid-year capitation changes for its Acute Care program.

The capitation rates are updated annually for changes in utilization and unit costs, as well as AHCCCS fee schedule changes and programmatic adjustments. Federal regulations require that AHCCCS establish rates that are "actuarially sound," meaning that the rates "are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract" with the managed care plan. The proposed rates must be certified by an actuary and approved by the federal Centers for Medicare and Medicaid Services (CMS), among other requirements specified in federal law.

AHCCCS is proposing a mid-year rate decrease of (0.4)% for its AHCCCS Complete Care (ACC) and Regional Behavioral Health Authority (RBHA) plans, which cover physical and behavioral health services for AHCCCS members who do not receive long term care. We estimate the adjustment will reduce General Fund costs by \$(6.4) million and Total Funds costs by \$(52.3) million in CYE 2023. These savings would be incurred in FY 2023 due to the timing of the rate adjustment.

AHCCCS' request to decrease capitation rates is primarily due to higher-than-expected enrollment among lower-cost members. When developing the CYE 2023 capitation rates, AHCCCS actuaries assumed the federal prohibition on disenrollment associated with the COVID-19 public health emergency would lapse by February 2023. However, with the passage of the federal 2023 Consolidated Appropriations Act, AHCCCS could not disenroll ineligible members until April 2023. Because these lower-cost members remained on the program longer than originally anticipated, AHCCCS actuaries estimate the average cost profile of members in CYE 2023 has decreased. We estimate this change reduces General Fund costs by \$(6.7) million and Total Fund costs by \$(54.1) million.

The rates also include an increase in funding for the following miscellaneous program changes:

- New coverage for patient observation following administration of certain nasal spray antidepressants for individuals with treatment-resistant depression.
- An upward revision of rates for long-acting reversible contraception methods to equal the costs paid by providers for the medications. Long-acting reversible contraception methods include intrauterine devices and implants. This item does not add additional services.
- New coverage for services administered by community health workers (CHWs) and community health representatives (CHRs). CHWs and CHRs are public health workers and community members who provide patient education and promote use of preventative services. Laws 2018, Chapter 300 required the Department of Health Services to establish qualifications, a scope of practice, and core competencies for CHWs, as well as a voluntary certification program. Following establishment of the certification program, AHCCCS submitted a State Plan Amendment to the Centers for Medicare and Medicaid Services (CMS) to seek reimbursement of CHW services. The agency received CMS approval in February 2023.

In aggregate, we estimate these miscellaneous changes increase General Fund costs by \$223,700 and Total Fund costs by \$1.8 million.

MR/CC:kp

April 12, 2023

The Honorable David Livingston
Chairman, Joint Legislative Budget Committee
1700 W Washington St.
Phoenix, Arizona 85007



Dear Representative Livingston:

Effective May 1, 2023, Arizona Health Care Cost Containment System (AHCCCS) will be implementing reductions to capitation rates for two programs, which will reduce projected total fund spending associated with CYE 23 capitation rates by approximately \$45 million.

The Arizona Health Care Cost Containment System (AHCCCS) provided information to JLBC, in a letter dated August 31, 2022, outlining three major categories of capitation rate growth for contract year ending 2023 (CYE 2023, October 1, 2022, to September 30, 2023) capitation rates for AHCCCS Managed Care Organization (MCO) Contractors.

Baseline COVID-19 capitation rate growth was one of those three, and the increase in the capitation rates related to this topic was driven by the expectation that lower cost members will disenroll from Medicaid during CYE 2023, causing an increase in the average cost profile of remaining Medicaid members. To account for this change in the average cost profile, AHCCCS actuaries applied acuity adjustment factors to the rate. To develop the acuity adjustment factors, the actuaries had to make assumptions about the end of the COVID-19 public health emergency (PHE) and the beginning of redeterminations that could cause disenrollment, with the intention to review the acuity factor model once the PHE end date was known and adjust the capitation rates to incorporate revised factors if deemed appropriate.

With the passage of the Consolidated Appropriations Act, 2023 (CAA, 2023), the date when such redeterminations could begin was decoupled from the end date of the PHE. Following the passage of the CAA, 2023, the AHCCCS actuaries reviewed and revised the assumptions and data which flow into the acuity factor model to include the most recent list of potentially ineligible members, the approximate order in which their redeterminations will be processed, and the first allowed date that disenrollments related to ineligibility can occur. The resulting changes to the acuity adjustment factors have led to an overall decrease in the ACC and ACC-RBHA capitation rates for the contract year ending 2023 (CYE 23), with minor offsets related to program changes which have occurred since the beginning of the contract year. AHCCCS respectfully requests to be placed on the agenda of the next JLBC meeting to review the updated ACC and ACC-RBHA capitation rates, and the ultimate change to the anticipated spend for CYE 23.

In accordance with federal regulations, capitation rates paid to managed care organizations (MCOs) must be actuarially sound, meaning they must cover all anticipated costs for providing medically necessary services to AHCCCS members. As such, capitation rates are developed to reflect the costs of services provided as well as utilization of those services. Capitation rate trends reflect a combination of

changes in cost and utilization, calculated as a per-member per month (PMPM) expenditure to AHCCCS Contractors (including other state agencies such as the Arizona Department of Economic Security/Division of Developmental Disabilities [DES/DDD] and the Department of Child Safety/Comprehensive Health Plan [DCS/CHP]).

Before implementing the new capitation rates, AHCCCS is reporting its expenditure plan for review by the JLBC. This letter summarizes the capitation rates and their associated financial impacts. The combined, overall capitation rate increase from the CYE 22 to CYE 23 rates for all AHCCCS programs, including DES/DDD, is now 2.1 percent, restated downward from 2.4 percent in the original letter to JLBC regarding the CYE 23 rates. This means that the capitation rates will be lower than what was originally certified, primarily due to shifting the end date of continuous coverage requirements.

Columns 6 and 7 in the following table summarize the impact of this change to the ACC and ACC-RBHA programs as well as the impact to the overall capitation rate increase given the amended capitation rates. The estimated fiscal impact of this rate amendment is \$45 million less in total Medicaid expenditures (both state and federal share) for the program.

Table 1: CYE 23 Capitation Rate Changes

Program	CYE 2023 Change from CYE 2022 Rates						
	1	2	3	4	5	6	7
	Baseline Non- COVID-19	Baseline COVID-19	Baseline Total	Non- Baseline Changes ¹	Total	Amended Rate Change	Amended Total
ACC	-2.3%	0.9%	-1.4%	0.9%	-0.5%	-0.4%	-0.9%
ACC-RBHA	-2.0%	0.6%	-1.4%	1.3%	0.0%	-0.5%	-0.5%
DCS CHP	-5.5%	1.1%	-4.4%	2.3%	-2.2%	0.0%	-2.2%
EPD	-1.5%	0.1%	-1.4%	10.4%	9.0%	0.0%	9.0%
AHCCCS Total	-2.3%	0.8%	-1.5%	2.1%	0.6%	-0.4%	0.3%
ALTCS-DD ²	2.1%	0.1%	2.1%	9.0%	11.1%	0.0%	11.1%
TCM	6.4%	0.0%	6.4%	13.1%	19.5%	0.0%	19.5%
DES/DDD Total	2.1%	0.1%	2.2%	9.0%	11.2%	0.0%	11.2%
AHCCCS and DES/DDD Total	-1.5%	0.7%	-0.9%	3.3%	2.4%	-0.3%	2.1%

1/ Includes funding for the October 1, 2022, rate increase for program changes authorized by the Legislature via Laws 2022, Chapter 313

2/ CYE 2022 rate reflects the ALTCS-DD rate as of 1/1/22

The actuarial certifications for the rates are attached. Additional documentation and details on the original CYE 23 capitation rate development can be found in the rates letter dated August 31, 2022. Should you have any questions on any of these issues, please feel free to contact Erica Johnson, Chief Actuary, at erica.johnson@azahcccs.gov.

Sincerely,



Carmen Heredia
Director

cc: The Honorable John Kavanaugh, Vice Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Zaida Dedolph Piecoro, Health Policy Advisor, Office of the Governor
Sarah Brown, Director, Office of Strategic Planning and Budgeting
Cameron Dodd, Senior Budget Analyst 1, Office of Strategic Planning and Budgeting



**Contract Year Ending 2023
Capitation Rate Certification Amendment
AHCCCS Complete Care and
AHCCCS Complete Care – Regional
Behavioral Health Agreement
Program**

October 1, 2022 through September 30, 2023

**Prepared for:
The Centers for Medicare & Medicaid Services**

**Prepared by:
AHCCCS Division of Business and Finance**

March 23, 2023

CYE 23 Capitation Rate Certification Amendment – ACC and ACC-RBHA Program

Introduction and Limitations

The purpose of this rate certification is to provide documentation for compliance with the applicable provisions of 42 CFR Part 438. This rate certification amendment documents the revision of capitation rates from those previously certified for the Arizona Health Cost Containment System (AHCCCS) Complete Care (ACC) and AHCCCS Complete Care – Regional Behavioral Health Agreement (ACC-RBHA) Program in the actuarial rate certification signed August 12, 2022. On December 29, 2022, the Consolidated Appropriations Act, 2023 (CAA, 2023) was enacted which contained an important change to the continuous enrollment condition of the Families First Coronavirus Response Act (FFCRA). CAA, 2023 decoupled the end of the continuous enrollment requirement for Medicaid from the end of the Public Health Emergency (PHE) declaration, and instead the condition will end on March 31, 2023. Beginning April 1, 2023, states may terminate Medicaid enrollment for individuals who are no longer eligible. The ACC and ACC-RBHA Program capitation rates in the actuarial rate certification, signed August 12, 2022, included acuity factors based on a model with the assumption of a PHE end date and end of the continuous enrollment condition in January 2023. This capitation rate amendment is necessary to correct the acuity model and the resultant acuity factors included in the capitation rates to reflect the new known date for the start of disenrollments for ACC and ACC-RBHA members. Given the necessary amendment to the capitation rates, in addition to the change in the acuity factors, for administrative ease, the actuaries are including the costs of three non-material program and reimbursement changes that were not known or approved when the original capitation rates and actuarial rate certification was submitted to the Centers for Medicare & Medicaid Services (CMS) in this capitation rate certification amendment. There are no other changes to data, assumptions, or methodologies from the original actuarial rate certification besides the ones listed in this amendment.

This rate certification was prepared for CMS, or its actuaries, for review and approval of the actuarially sound certified capitation rates contained herein. This rate certification may not be appropriate for any other purpose. The actuarially sound capitation rates represent projections of future events. Actual results may vary from the projections.

This rate certification may also be made available publicly on the AHCCCS website or distributed to other parties. If this rate certification is made available to third parties, then this rate certification should be provided in its entirety. Any third party reviewing this rate certification should be familiar with the AHCCCS Medicaid managed care program, the provisions of 42 CFR Part 438 applicable to this rate certification, the 2022-2023 Medicaid Managed Care Rate Development Guide (2023 Guide), Actuarial Standards of Practice and generally accepted actuarial principles and practices.

The 2023 Guide describes the rate development standards and appropriate documentation to be included within Medicaid managed care rate certifications. This rate certification has been organized to follow the 2023 Guide to help facilitate the review of this rate certification by CMS. This amendment only addresses changes from the original certification; it does not purport to address all subsections of the 2023 Guide as most subsections are unchanged.

CYE 23 Capitation Rate Certification Amendment – ACC and ACC-RBHA Program

Section I Medicaid Managed Care Rates

The capitation rates included with this rate certification are considered actuarially sound according to 42 CFR § 438.4(a) and 42 CFR § 438.4(b). The state did not opt to develop capitation rate ranges, therefore adherence to 42 CFR § 438.4(c) is not required.

- § 438.4(a) Actuarially sound capitation rates defined. Actuarially sound capitation rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of the MCO, PIHP, or PAHP for the time period and the population covered under the terms of the contract, and such capitation rates are developed in accordance with the requirements in paragraph (b) of this section.
- § 438.4(b) CMS review and approval of actuarially sound capitation rates. Capitation rates for MCOs, PIHPs, and PAHPs must be reviewed and approved by CMS as actuarially sound. To be approved by CMS, capitation rates must:
 - § 438.4(b)(1) Have been developed in accordance with standards specified in § 438.5 and generally accepted actuarial principles and practices. Any differences in the assumptions, methodologies, or factors used to develop capitation rates for covered populations must be based on valid rate development standards that represent actual cost differences in providing covered services to the covered populations. Any differences in the assumptions, methodologies, or factors used to develop capitation rates must not vary with the rate of Federal financial participation (FFP) associated with the covered populations in a manner that increases Federal costs. The determination that differences in the assumptions, methodologies, or factors used to develop capitation rates for MCOs, PIHPs, and PAHPs increase Federal costs and vary with the rate of FFP associated with the covered populations must be evaluated for the entire managed care program and include all managed care contracts for all covered populations. CMS may require a State to provide written documentation and justification that any differences in the assumptions, methodologies, or factors used to develop capitation rates for covered populations or contracts represent actual cost differences based on the characteristics and mix of the covered services or the covered populations.
 - § 438.4(b)(2) Be appropriate for the populations to be covered and the services to be furnished under the contract.
 - § 438.4(b)(3) Be adequate to meet the requirements on MCOs, PIHPs, and PAHPs in §§ 438.206, 438.207, and 438.208.
 - § 438.4(b)(4) Be specific to payments for each rate cell under the contract.
 - § 438.4(b)(5) Payments from any rate cell must not cross-subsidize or be cross-subsidized by payments for any other rate cell.
 - § 438.4(b)(6) Be certified by an actuary as meeting the applicable requirements of this part, including that the rates have been developed in accordance with the requirements specified in § 438.3(c)(1)(ii) and (e).
 - § 438.4(b)(7) Meet any applicable special contract provisions as specified in § 438.6.
 - § 438.4(b)(8) Be provided to CMS in a format and within a timeframe that meets requirements in § 438.7.

CYE 23 Capitation Rate Certification Amendment – ACC and ACC-RBHA Program

- § 438.4(b)(9) Be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard, as calculated under § 438.8, of at least 85 percent for the rate year. The capitation rates may be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard greater than 85 percent, as calculated under § 438.8, as long as the capitation rates are adequate for reasonable, appropriate, and attainable non-benefit costs.

The actuaries have followed generally accepted actuarial practices and regulatory requirements, including published guidance from the American Academy of Actuaries (AAA), the Actuarial Standards Board (ASB), CMS, and federal regulations. In particular, the actuarial references referenced the below during the development of the actuarially sound capitation rates:

- Actuarial Standards of Practice (ASOPs) applicable to Medicaid managed care rate setting which were effective before the start date of the rating period:
 - ASOP No. 1 - Introductory Actuarial Standard of Practice,
 - ASOP No. 5 - Incurred Health and Disability Claims,
 - ASOP No. 12 - Risk Classification (for All Practice Areas),
 - ASOP No. 23 - Data Quality,
 - ASOP No. 25 - Credibility Procedures,
 - ASOP No. 41 - Actuarial Communications,
 - ASOP No. 45 - The Use of Health Status Based Risk Adjustment Methodologies,
 - ASOP No. 49 - Medicaid Managed Care Capitation Rate Development and Certification, and
 - ASOP No. 56 - Modeling.
- The 2016 and 2020 Medicaid and CHIP Managed Care Final Rules (CMS-2390-F and CMS-2408-F)
- FAQs related to payments to MCOs and PIHPs for IMD stays
- The 2022-2023 Medicaid Managed Care Rate Development Guide (2023 Guide) published by CMS

Throughout this actuarial certification, the term “actuarially sound” will be defined as in ASOP 49 (consistent with the definition at 42 CFR § 438.4(a)):

“Medicaid capitation rates are “actuarially sound” if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits, health benefit settlement expenses, administrative expenses, the cost of capital, and government-mandated assessments, fees, and taxes.”

CYE 23 Capitation Rate Certification Amendment – ACC and ACC-RBHA Program

As stated on pages 2 and 3 of the 2023 Guide, CMS will also use these three principles in applying the regulation standards:

- the capitation rates are reasonable and comply with all applicable laws (statutes and regulations) for Medicaid managed care;
- the rate development process complies with all applicable laws (statutes and regulations) for the Medicaid program, including but not limited to eligibility, benefits, financing, any applicable waiver or demonstration requirements, and program integrity; and
- the documentation is sufficient to demonstrate that the rate development process meets the requirements of 42 CFR Part 438 and generally accepted actuarial principles and practices.

CYE 23 Capitation Rate Certification Amendment – ACC and ACC-RBHA Program

I.1. General Information

The certified CYE 23 capitation rates for the ACC and ACC-RBHA Program are effective for the 12-month time period from October 1, 2022, through September 30, 2023, and have changed from the original CYE 23 capitation rate certification. The changes documented in this rate certification amendment are acuity factor, program, and reimbursement changes. Please see the original rate certification for additional information about the ACC and ACC-RBHA Program.

The actuarial certification letter for the amended CYE 23 capitation rates for the ACC and ACC-RBHA Program, signed by Windy J. Marks, FSA, MAAA and Erica Johnson, ASA, MAAA, is in Appendix 1. Ms. Marks and Ms. Johnson meet the requirements for the definition of an Actuary described at 42 CFR § 438.2.

Ms. Marks and Ms. Johnson certify that the amended CYE 23 capitation rates for the ACC and ACC-RBHA Program contained in this rate certification amendment are actuarially sound and meet the standards within the applicable provisions of 42 CFR Part 438.

The final and certified capitation rates by rate cell are located in Appendix 2. Additionally, the ACC and ACC-RBHA Program contract includes the final and certified capitation rates by rate cell in accordance with 42 CFR § 438.3(c)(1)(i). The ACC and ACC-RBHA Program contract uses the term risk group instead of rate cell. This rate certification amendment will use the term rate cell to be consistent with the applicable provisions of 42 CFR Part 438, the 2023 Guide, and the original rate certification. Appendix 3 compares the CYE 23 amended certified capitation rates to the CYE 23 original certified capitation rates, applying the same weight (projected membership) as was applied in the CYE 23 original certified capitation rates.

This rate certification amendment retroactively adjusts capitation rates to the beginning of the rating period. The acuity factors incorporated into the capitation rates reflect the expected aggregate change in acuity by population across the full contract year, so a retroactive adjustment to the beginning of the rating period is necessary to reflect the change in the expected aggregate acuity of the population for CYE 23 based on the change in the assumed start date for member disenrollments. For administrative ease, the amended capitation rates also incorporate the projected costs for three non-material program and reimbursement changes that were not known or approved when the original capitation rates and actuarial rate certification was submitted to the Centers for Medicare & Medicaid Services (CMS).

The data, assumptions, and methodologies used to develop the magnitude of the capitation rate adjustments are included below in I.3. Projected Benefit Costs and Trends and I.6. Risk Adjustment and Acuity Adjustments. The state has not made any previous adjustment to rates in the rating period by a *de minimis* amount or otherwise. This rate certification amendment will address and account for all differences from the most recently certified rates.

Proposed differences among the CYE 23 capitation rates for the ACC and ACC-RBHA Program are based on valid rate development standards and are not based on the rate of FFP for the populations covered

CYE 23 Capitation Rate Certification Amendment – ACC and ACC-RBHA Program

under the ACC and ACC-RBHA Program. The CYE 23 capitation rates were developed at the rate cell level. Payments from rate cells do not cross-subsidize payments from other rate cells. The effective dates of changes to the ACC and ACC-RBHA Program are consistent with the assumptions used to develop the CYE 23 capitation rates for the ACC and ACC-RBHA Program. The capitation rates were developed so each Contractor would reasonably achieve a medical loss ratio, as calculated under 42 CFR § 438.8, of at least 85 percent for CYE 23.

In the actuaries' judgement, all adjustments to the capitation rates or to any portion of the capitation rates reflect reasonable, appropriate, and attainable costs. To the actuaries' knowledge, there are no reasonable, appropriate, and attainable costs which have not been included in the rate certification amendment. There have been no adjustments to the rates performed outside of the rate setting process described in the rate certification. The amended CYE 23 capitation rates certified in this report represent the contracted rates by rate cell. The state will submit a contract amendment to CMS.

The list of possible amendments which would impact capitation rates in the future are shown in Table 1 below, along with the potential submission date, and the reason why the current certification cannot account for the changes anticipated to be made to the rates.

Table 1: Future Rate Amendments

Possible Amendment	Potential Submission Date	Reason for Not Including in Current Certification
State Directed Payments (Targeted Investments, ARPA HCBS, Pediatric SNF)	Fall 2023	AHCCCS has not finalized the required pre-print for these directed payments.

I.2. Data

Please see the original certification for all data sources used or reviewed in the development of the medical portion of the CYE 23 capitation rates for the ACC and ACC-RBHA Program, along with information on completeness, accuracy, and consistency of the data.

I.3. Projected Benefit Costs and Trends

The final capitation rates are based only upon services allowed under 42 CFR § 438.3(c)(1)(ii) and 42 CFR § 438.3(e).

The information provided here is specific to the three program and reimbursement changes being incorporated into the revised capitation rates that were not known or approved when the original certification was submitted to CMS. Each of the three changes have a non-material impact (defined as changes less than 0.2% on the gross medical component of the rate for every individual risk group at the GSA level) on the capitation rates and are summarized together below.

The impacts for these three changes were developed by AHCCCS Division of Business and Finance (DBF) financial analysts (formerly under the AHCCCS Division of Health Care Management (DHCM)) with oversight from the AHCCCS Division of Health Care Services (DHCS, formerly DHCM) Clinical Quality

CYE 23 Capitation Rate Certification Amendment – ACC and ACC-RBHA Program

Management (CQM) Team and the Office of the Director's Chief Medical Officer. The actuaries relied upon the professional judgment of the AHCCCS DBF financial analysts with regard to the reasonableness and appropriateness of the data, assumptions, and methodologies that were used to develop the estimated amounts. The actuaries met with the AHCCCS DBF financial analysts to understand, at a high level, how the estimated amounts were derived and the data used for the amounts. The actuaries were unable to judge the reasonableness of the data, assumptions, and methodologies without performing a substantial amount of additional work.

Combined Miscellaneous Program Changes

The impacts for the three non-material changes were aggregated for this amended certification by summing the dollar impacts for each non-material adjustment across risk groups within a GSA and dividing through by the projected membership by GSA for the PMPMs listed below. The combined overall impact by GSA is illustrated below in Table 2. Totals may not add up due to rounding. Brief descriptions of the individual program changes are provided below.

- **Esketamine Evaluation and Management codes**
Effective January 1, 2023, AHCCCS adopted billing and coding guidance from CMS to fund two hours of patient observation after the administration of esketamine nasal spray. This product is indicated for use in conjunction with an oral antidepressant for treatment-resistant depression in adults. The product is administered under the direct supervision of a healthcare provider in a certified healthcare setting because of the risks of serious adverse outcomes.
- **Long-Acting Reversible Contraception (LARC)**
Effective February 1, 2023, AHCCCS revised reimbursement rates for LARCs to equal the Wholesale Acquisition Cost (WAC) which reflects the costs providers pay for these medications.
- **Community Health Workers/Community Health Representatives**
Effective April 1, 2023, AHCCCS implemented a new Community Health Worker (CHW)/Community Health Representative (CHR) benefit. A CHW/CHR is a frontline public health worker who is a trusted member of the community with a close understanding of the community served. This trusting relationship enables the CHW to serve as a liaison between health and social services and the community to facilitate access to services and improve the quality and cultural competence of service delivery.

Table 2: Combined Miscellaneous

GSA	Dollar Impact	PMPM Impact
North	\$124,228	\$0.05
Central	\$1,060,838	\$0.07
South	\$218,131	\$0.04
Total	\$1,403,196	\$0.06

The actuaries have made no other changes to the projected benefit costs and trend assumptions for the CYE 23 capitation rates for the ACC and ACC-RBHA Program. All projected benefit cost changes have been included in the rate development process and are documented above or in the original rate certification.

CYE 23 Capitation Rate Certification Amendment – ACC and ACC-RBHA Program

I.4. Special Contract Provisions Related to Payment

There have been no changes to incentive arrangements, withhold arrangements, state directed payments, or risk-sharing mechanisms from the original rate certification.

I.5. Projected Non-Benefit Costs

There have been no changes to administrative costs or the percentages for premium tax and underwriting gain from the original capitation rate certification.

I.6. Risk Adjustment and Acuity Adjustments

There have been no changes to risk adjustment from the original capitation rate certification. There has been a change in the acuity adjustment factors incorporated into the capitation rates to reflect the change in the start dates for redeterminations and disenrollments under the decoupling of the continuous enrollment condition of the FFCRA from the end of the PHE declaration in the CAA, 2023. The development of the acuity adjustment factors follows the same process as described in the original capitation rate certification. The only adjustments are to incorporate a revised date for the start of member disenrollments after redetermination and updating the inputs with a more recent “COVID-19 override” list. The impact of the change in aggregate acuity factors from the original certification by GSA is illustrated below in Table 3. Totals may not add up due to rounding.

Table 3: Impact of Change in Acuity Factors from Original Capitation Rate Certification

GSA	Dollar Impact	PMPM Impact
North	(\$2,934,987)	(\$1.28)
Central	(\$28,241,940)	(\$1.83)
South	(\$10,539,221)	(\$1.82)
Total	(\$41,716,148)	(\$1.78)

Section II Medicaid Managed Care Rates with Long-Term Services and Supports – Not Applicable

Section II of the 2023 Medicaid Managed Care Rate Development Guide is not applicable to the ACC and ACC-RBHA Program. Managed long-term services and supports, as defined at 42 CFR § 438.2, are not covered services under the ACC and ACC-RBHA Program. The ACC and ACC-RBHA Program does cover nursing facility services, and related HCBS, for 90 days of short-term convalescent care.

Section III New Adult Group Capitation Rates

Please see the original rate certification for additional information. The data, assumptions, and methodologies used for the revision of the projected gross medical expenses for the amended CYE 23 capitation rates are described above in Sections I.3. and I.6. There are no other changes from the original rate certification.



STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: April 28, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Micaela Larkin, Assistant Director

SUBJECT: Secretary of State - Review of FY 2023 Election Services Line Item Transfer

Request

The FY 2023 General Appropriation Act allocated \$8,000,000 from the General Fund to the Election Services line item and included a footnote requiring the Secretary of State (SOS) to receive Committee review before transferring monies in or out of the line item. The Election Services line item funds specific election year costs for traditional state elections (primary and general elections). SOS is requesting review to transfer \$411,000 from the Election Services line item to the agency's operating budget for 2 funding initiatives in FY 2023.

Committee Options

The Committee has at least the following 3 options:

1. A favorable review of the \$411,000 request.
2. A favorable review of transferring \$261,000 from the Election Services line item to the agency's operating budget in FY 2023 as follows: \$161,000 to backfill county underpayments for Access Voter Information Database operating costs and \$100,000 to make physical security improvements at the Secretary of State's office. (Chairman's Option)
3. An unfavorable review of the \$411,000 request.

(Continued)

Key Points

- 1) The FY 2023 budget appropriated \$8.0 million for the Election Services line item. SOS reports \$4.9 million in expenditures for the 2022 election cycle.
- 2) SOS requests the transfer of \$161,000 to the operating budget to backfill the underpayment of county Access Voter Information Database costs in FY 2023.
- 3) SOS also requests a transfer of \$250,000 to the operating budget for personal security services in FY 2023. Under the Chairman's Option, the Committee would instead favorably review \$100,000 for physical security improvements.

Analysis

Background

The Secretary of State currently reports \$4.9 million in expenditures from the \$8.0 million Election Services line item as of April 2023, leaving the line item with a projected balance of \$3.1 million. This election year line item funds certain costs of the state's primary/general elections and the line item is not expected to incur additional costs during FY 2023 following the completion of the 2022 election.

Based on this surplus, the Secretary of State is requesting the one-time transfer of \$411,000 to the operating budget in FY 2023 for the following 2 agency funding initiatives.

Personal Security Funding (SOS Request)

The Secretary of State requests \$250,000 in FY 2023 to provide personal security for the Secretary of State due to personal safety threats that have been deemed credible by law enforcement. This amount would fund an assessment of personal security needs, 2 months of private vendor security coverage for the Secretary of State during the remainder of FY 2023 (May and June), and startup costs required by the vendor. If possible, SOS intends to select the security vendor from existing state contract. At this time, the Secretary of State has not obligated any state funds for physical security in FY 2023.

In terms of personal security coverage beyond the remaining months in FY 2023, SOS has requested an ongoing General Fund appropriation of \$500,000 for this purpose in the FY 2024 budget.

SOS Office Physical Security Improvements (Chairman's Option)

In addition to the personal security request, the SOS FY 2024 budget request also proposed one-time funding of \$100,000 to make security improvements to the customer service area within the SOS 2nd floor office in the Executive Tower.

The monies would be used to build out a secure customer service window area on the 2nd floor of the Executive Tower for the public to conduct business services, lobbyist, campaign, and other transactions. At this time, due to security concerns, the SOS conducts customer service transactions by appointment only.

The Committee may consider the Chairman's Option, which would include the \$100,000 for physical security improvements, to be funded from the FY 2023 Election Services line item transfer.

(Continued)

Backfill County Underpayment of AVID Costs (SOS Request)

The Access Voter Information Database (AVID) is the state's voter registration database. The annual maintenance and operations cost for AVID is \$967,000. The state's current policy is for the state to fund 50% of the annual database maintenance and operating costs, with the counties paying the remaining 50% of costs. Major development changes, such as those needed to conform with state election legislation, are not included in this annual operating cost. The state share of \$483,500 is currently paid with an appropriation of federal Help America Vote Act (HAVA) monies.

In terms of allocating the 50% county share of AVID operating costs, there is no statutory provision that sets the assessment for each county. Instead, current state policy is to allow the counties to establish an allocation – the counties have generally agreed to allocate the county costs based on the number of registered voters.

SOS is requesting \$161,000 to backfill the underpayment of Maricopa County's AVID assessment. All other counties except Maricopa County have paid their assessed amount.

ML:kp



April 26, 2023

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

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

Dear Chairman Livingston and Vice-Chairman Kavanagh:

Pursuant to Laws 2022, Chapter 313, Section 83, the Office of the Secretary of State (the Office) submits this report and requests the Joint Legislative Budget Committee (JLBC) review the proposal detailed below to transfer funds from the Election Services line item to the operating lump sum in the Office's FY2023 budget at its next meeting.

The FY2023 General Appropriation Act appropriated \$8,000,000 to the Office in the Election Services line item to administer the Primary Election held on August 2, 2022 and the General Election on November 8, 2022. Per the FY2023 Appropriations Report produced by JLBC, statute limits the use of these funds to:

"1) reimburse counties for the cost of printing, labeling, and postage for sample ballots; 2) pay the cost of any recount of votes; 3) reimburse the County Recorder for the costs of certifying petition and referendum signatures; 4) print and mail a publicity pamphlet to every household with a registered voter for any initiative or referendum; 5) review and process initiative and referendum signatures; and 6) process challenges to candidate eligibility."

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The Office has fulfilled its responsibilities and has, to date, spent \$4,866,775 of the monies appropriated to the Election Services line item.

FY23 Election Services Line Item Expenditures to Date	
Personal Services	\$ 240,137
Employee Related	\$ 32,601
Professional & Outside Services	\$ 2,648,618
Travel In-State	\$ 40,161
Aid to Organizations	\$ 1,127,453
Operating	\$ 775,075
Non Capital Equipment	\$ 2,731
Subtotal Expenditures	\$ 4,866,775

As of April 5, 2023, this leaves the Office with a balance of \$3,133,225. Now that the statutory obligation to fund election-related items has been met, the Office requests to transfer \$411,000 of the remaining monies to its operating lump sum from which it can be invested in much needed one-time expenditures and to offset underpayments.

Physical and Cyber Security

Like other statewide elected officials and previous Secretaries of State, Secretary Fontes is the recipient of threats to his and his family's personal safety deemed credible by law enforcement.

The Office proposes to spend \$250,000 to conduct a security assessment, cover start-up costs, and provide a private security detail to protect the Secretary and his family at a level deemed necessary and appropriate.

Backfill FY2023 County AVID Underpayment

The baseline annual cost for Arizona's statewide voter registration system (AVID) is approximately \$967,000. It is funded in two parts: half (\$483,500) by the Office and half by counties using a formula based on county voter registration statistics. In FY23, the Office has had to absorb \$161,000 in county underpayments.

The Office proposes to spend \$161,000 to backfill for county underpayments.

If reviewed, the Office is confident it can spend or encumber the funds identified by the end of FY2023. Additionally, the state general fund would benefit from a reversion of up to \$2,722,225.

Thank you for your time and consideration of this matter. Should you have any questions, please do not hesitate to reach out to Assistant Secretary of State, Keely Varvel, at (602) 542-9781 or kvarvel@azsos.gov.

Sincerely,

A handwritten signature in black ink, appearing to read 'Adrian Fontes', with a stylized flourish at the end.

Adrian Fontes
Arizona Secretary of State

cc: Richard Stavneak, Director, JLBC
Micaela Larkin, Assistant Director, JLBC
Sarah Brown, Director, OSPB
Sara Bogus, Budget Analyst, OSPB

