

# **JOINT LEGISLATIVE BUDGET COMMITTEE**

**Tuesday, June 20, 2017**

**12:30 p.m.**

**House Hearing Room 1**

**JLBC**

STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

DEBBIE LESKO  
CHAIRMAN 2018  
OLIVIA CAJERO BEDFORD  
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1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

(602) 926-5491

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HOUSE OF  
REPRESENTATIVES

DON SHOOTER  
CHAIRMAN 2017  
JOHN M. ALLEN  
LELA ALSTON  
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MICHELLE UGENTI-RITA

### JOINT LEGISLATIVE BUDGET COMMITTEE

Tuesday, June 20, 2017

12:30 P.M.

House Hearing Room 1

### MEETING NOTICE

- Call to Order
- [Approval of Minutes of March 29, 2017.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee and Retiree Medical Plans Under A.R.S. § 38-658A.
- 1. DEPARTMENT OF CHILD SAFETY
  - A. [Review of FY 2017 Third Quarter Benchmarks.](#)
  - B. [Review of Line Item Transfers.](#)
  - C. [Review of Retention Pay Expenditure Plan.](#)
- 2. [DEPARTMENT OF ECONOMIC SECURITY - Review of Developmental Disabilities Equity Expenditures.](#)
- 3. [AHCCCS/DEPARTMENT OF ECONOMIC SECURITY/DEPARTMENT OF CHILD SAFETY - Review of Capitation Rate Changes for Plan Years 2017 and 2018.](#)
- 4. DEPARTMENT OF PUBLIC SAFETY
  - A. [Review of Border Strike Task Force Expenditure Plan.](#)
  - B. [Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission \(GIITEM\) Fund Border Security and Law Enforcement Subaccount.](#)

5. ARIZONA DEPARTMENT OF ADMINISTRATION - Automation Projects Fund
  - A. ADOA/ADE - Review of AELAS Project.
  - B. ADOA/ADEQ - Review of myDEQ Project.
  - \*C. ADOA/ASET - Review of FY 2018 Projects.
  - \*D. ADOA/ASET - Review of 90/10 E-Licensing Project.
  - \*E. ADOA/Industrial Commission - Review of Claims Processing Project.
6. AHCCCS - Review of Expenditure Plan for Targeted Investment Program.
- 7.\* ARIZONA DEPARTMENT OF EDUCATION - Review of Joint Technical Education District Quarterly and Annual Reports.
- 8.\* ARIZONA DEPARTMENT OF CORRECTIONS - Review of Inmate Health Care Per Diem Change.
- 9.\* ATTORNEY GENERAL
  - \*A. Review of FY 2018 Internet Crimes Against Children Expenditure Plan.
  - \*B. Review of Uncollectible Debts.
- 10.\* ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY - Review of Safe Drinking Water Expenditure Plan.
- 11.\* ARIZONA DEPARTMENT OF ADMINISTRATION
  - \*A. Review of Arizona Financial Information System Transaction Fee.
  - \*B. Review of Risk Management Deductible.
- \* 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.

6/12/17

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STATE OF ARIZONA

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### MINUTES OF THE MEETING

#### JOINT LEGISLATIVE BUDGET COMMITTEE

March 29, 2017

The Chairman called the meeting to order at 9:03 a.m., Wednesday, March 29, 2017, in House Hearing Room 1. The following were present:

Members:	Senator Lesko, Vice-Chairman	Representative Shooter, Chairman
	Senator Cajero Bedford	Representative Allen
	Senator Farley	Representative Alston
	Senator Farnsworth	Representative Bowers
	Senator Hobbs	Representative Fernandez
	Senator Kavanagh	Representative Leach
	Senator Petersen	Representative Livingston
	Senator Yee	

Absent: Representative Ugenti-Rita

#### APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of December 14, 2016, Chairman Don Shooter stated that the minutes would stand approved.

#### ADOPTION OF COMMITTEE RULES AND REGULATIONS

Mr. Richard Stavneak, JLBC Staff, stated that the Committee Rules and Regulations remain the same as last session.

Senator Lesko moved that the Committee adopt the JLBC Committee Rules and Regulations. The motion carried.

(Continued)

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

Mr. Patrick Moran, JLBC Staff, stated that the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) requires the Committee to review Arizona Health Care Cost Containment System (AHCCCS) capitation rate changes prior to implementation. The JLBC Staff presented options to the Committee.

*Senator Lesko moved that the Committee give a favorable review to the proposed plan year (CYE) 2017 capitation rates for the Regional Behavioral Health Authorities. The motion carried.*

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

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

Mr. Gregory McKay, Director, DCS, responded to member questions and circulated a document. (Attachment 1)

*As part of a group motion on the 3 DCS agenda items, Senator Lesko moved that the Committee give a favorable review to the second quarter benchmark report as outlined in the department's submission. The motion carried.*

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

Mr. Patrick Moran, JLBC Staff, stated that the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) requires DCS to submit a report to the Committee for its review on private contractor awards to address the backlog of non-active cases prior to the expenditure of monies appropriated for New Case Aides and Overtime Pay. The JLBC Staff presented options to the Committee.

*As part of a group motion on the 3 DCS agenda items, Senator Lesko moved that the Committee give a favorable review of the department's \$765,200 for New Case Aides and \$2,092,500 for Overtime Pay in FY 2017 for fourth quarter funding. The motion carried.*

**DEPARTMENT OF CHILD SAFETY (DCS) - Review of Alternative Use of Backlog Privatization Resources/ Line Item Transfers.**

Mr. Patrick Moran, JLBC Staff, stated that the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) requires DCS to submit proposed line item transfers to the Committee for review. The JLBC Staff presented options to the Committee.

*As part of a group motion on the 3 DCS agenda items, Senator Lesko moved that the Committee give a favorable review of the transfer of:*

- A. \$2,700,000 from the FY 2017 Backlog Privatization line item to the Out-of-Home Support Services line item for contracted permanency services.

- B. *\$1,700,000 from the Foster Care Placement line item to the Adoption Services line item to address higher than budgeted caseload growth in the adoption program.*

The motion carried.

**DEPARTMENT OF ECONOMIC SECURITY (DES) - Review of Developmental Disabilities Line Item Transfers.**

Mr. Patrick Moran, JLBC Staff, stated the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) requires the Committee to review any transfer of funds into or out of certain Division of Developmental Disabilities (DDD) line items. The JLBC Staff presented options to the Committee.

*Senator Lesko moved that the Committee give a favorable review of the department's proposed transfer of \$17,100,000 in total funds from the Home and Community-Based Services - Medicaid line item to the following DDD line items:*

- A. *\$10,600,000 to the DDD Operating Lump Sum.*
- B. *\$6,500,000 to the Case Management - Medicaid line item.*

*The review included a provision that prior to completing any additional transfers, DES shall submit the additional transfers for review by the Committee. The motion carried.*

**NORTHERN ARIZONA UNIVERSITY (NAU) - Review of Expenditure and Performance Report of Nonprofit Biotechnology Research Appropriation.**

Mr. Geoffrey Paulsen, JLBC Staff, stated the FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 132) requires the Committee to review the expenditure and performance report resulting from an annual appropriation of \$3,000,000 to NAU from FY 2015 through FY 2019 for distribution to a nonprofit biomedical research entity. The JLBC Staff presented options to the Committee.

*Senator Lesko moved that the Committee give a favorable review to the report prepared by the recipient of the funds, the Translational Genomics Research Institute (TGen). The motion carried.*

**ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) - Review of Motor Vehicle Modernization Project Annual Progress Report.**

Mr. Ben Murphy, JLBC Staff, stated that the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) requires the Committee to review an annual progress report submitted by ADOT's third-party consultant for the Motor Vehicle Modernization project. The JLBC Staff presented options to the Committee.

Mr. Eric Jorgensen, Director, Motor Vehicle Division, ADOT, responded to member questions.

*Senator Lesko moved that the Committee give a favorable review of the annual progress report. The motion carried.*

## EXECUTIVE SESSION

Senator Lesko moved that the Committee go into Executive Session. The motion carried.

At 10:08 a.m. the Joint Legislative Budget Committee went into Executive Session.

Senator Lesko moved that the Committee reconvene into open session. The motion carried.

At 10:43 a.m. the Committee reconvened into open session.

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

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

- *Lane v. State of Arizona, et al.*
- *Ramirez v. Banner University Medical Center, et al.*


The motion carried.

### **B. Department of Child Safety - Litigation Update under A.R.S. § 38-431.03A3.**


This item was held and no discussion occurred.

Without objection, the meeting adjourned at 10:44 a.m.

Respectfully submitted:

  
\_\_\_\_\_  
Kristy Paddack, Secretary

  
\_\_\_\_\_  
Richard Stavneak, Director

  
\_\_\_\_\_  
Representative Don Shooter, Chairman

# Child Safety Update

3.29.2017



Attachment 1

## Foster Care Population

# of Children - OOH Care

23,000  
22,000  
21,000  
20,000  
19,000  
18,000  
17,000  
16,000  
15,000  
14,000  
13,000

Jun-13 Sep-13 Dec-13 Mar-14 Jun-14 Sep-14 Dec-14 Mar-15 Jun-15 Sep-15 Dec-15 Mar-16 Jun-16 Sep-16 Dec-16 Mar-17 Jun-17 Sep-17 Dec-17 Mar-18

— Total Out-of-Home Care

— Historical Trend

FY2016

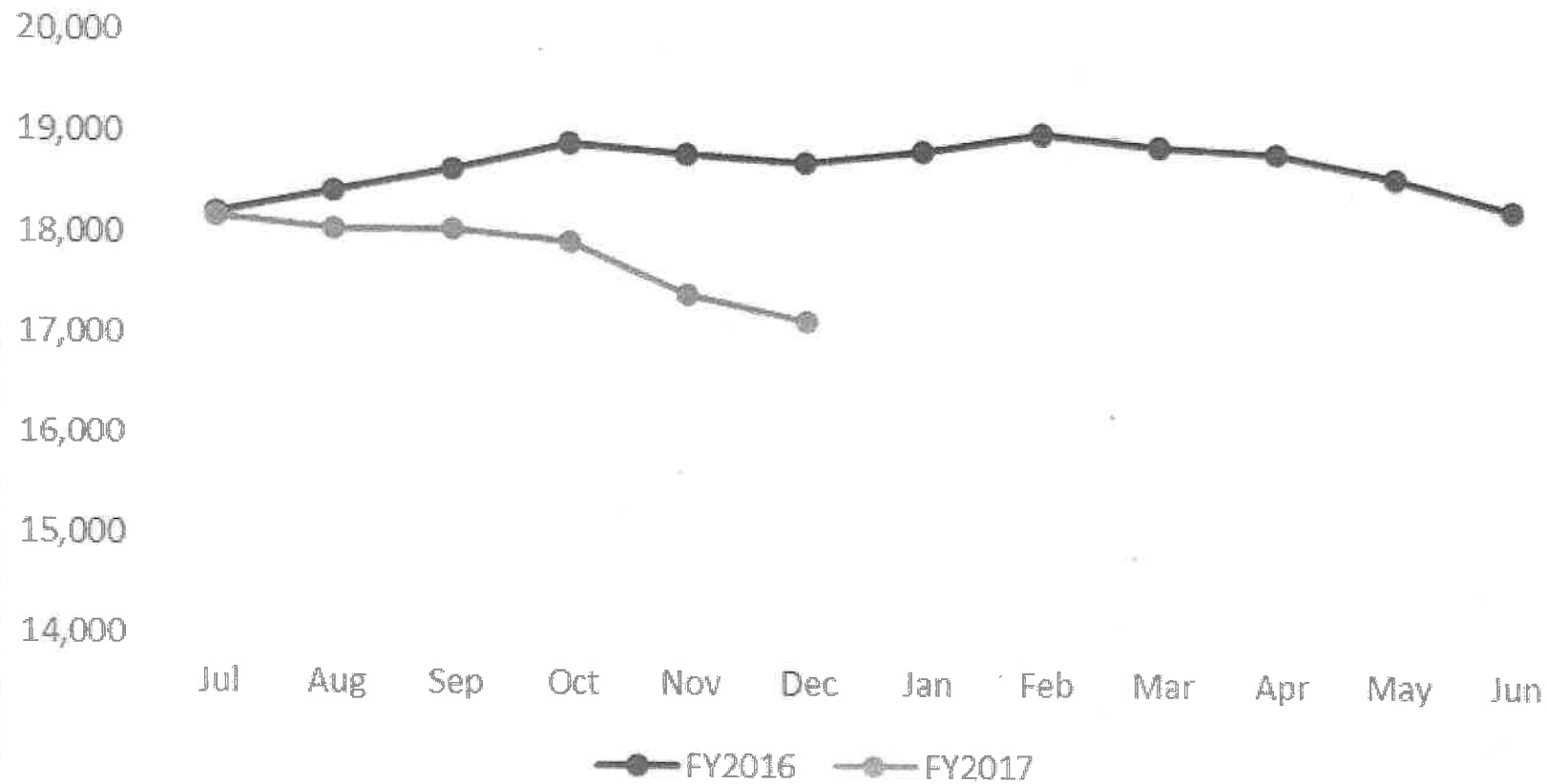
18,287

17,174

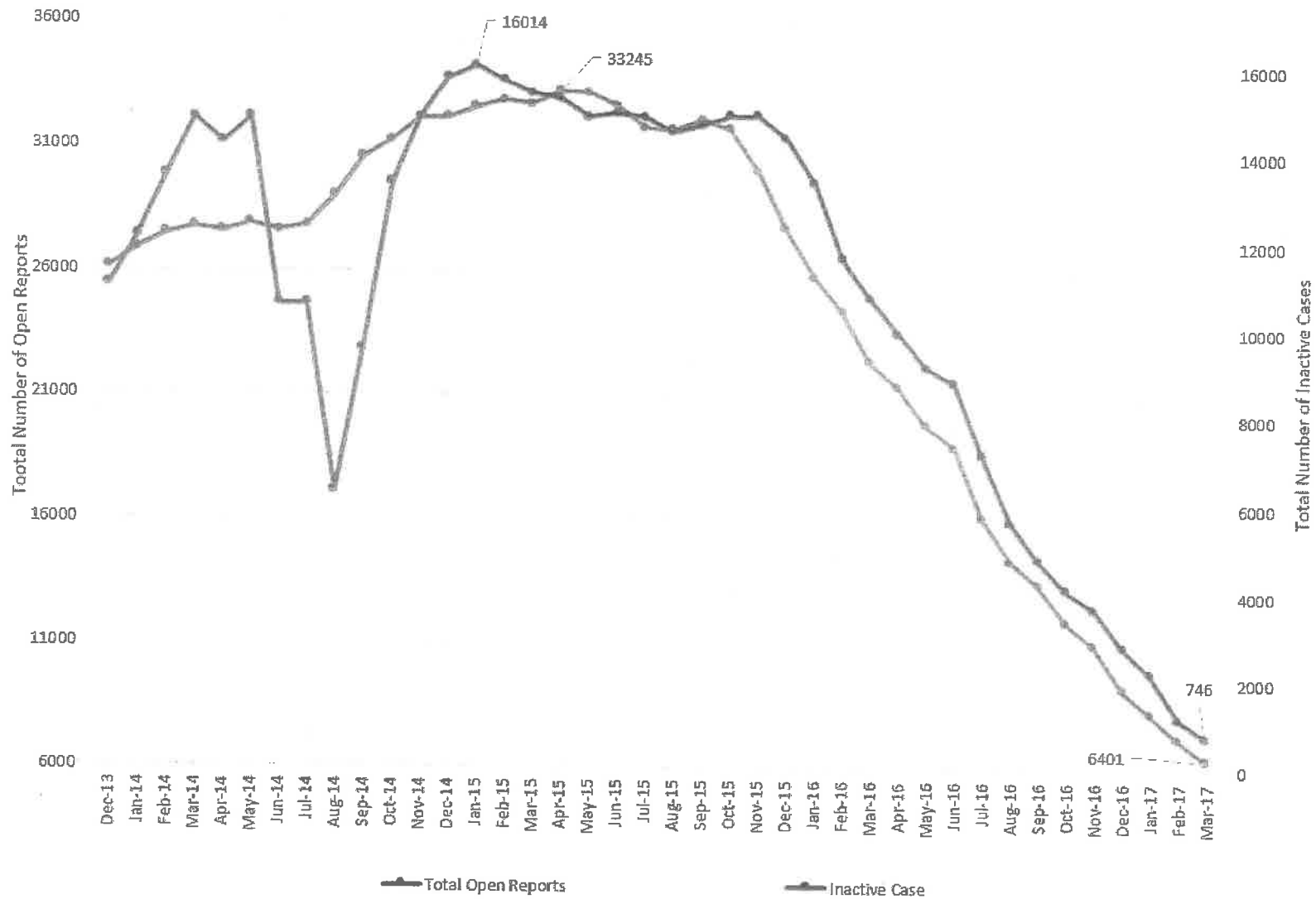
21,772



## Total Out-of-Home Care Population



Inactive Cases and Total Open Reports Trends - 3/27/2017



# Utilization of Backlog Funding

- Investigations
  - Interview and case review supports - \$650K actual spend
  - Clerical supports - \$350K actual spend
- Future On Going case manager supports
  - Fostering Sustainable Connection
    - Projected Cost: \$500K
    - Timing: CI award complete
    - Desired outcome: reduction of children placed in congregate care
  - Ongoing case manager augmentation and targeted permanency staffing
    - Projected cost: \$750K-\$1M
    - Timing: CI award complete (with possible additional RFP)
    - Desired outcome: improve the number of children achieving permanency within 12 months
  - Permanent Guardianship for American Indian children
    - Projected Cost - \$350K-\$500K
    - Timing: RFP release in Apr/May
    - Desired outcome: increase the number of American Indian children achieving permanency through permanent guardianship through increased care giver engagement and supports through the legal process
  - Fostering Sustainable Connections Expansion
    - Projected Cost: \$1M-\$1.5M
    - Timing: RFP in Apr/May
    - Desired outcome: further increase the capacity of fostering sustainable connections intervention through funding additional resources/providers
  - Permanent Guardianship for target populations
    - Projected Cost: \$750k-\$1M
    - Timing: TBD based on outcome of American Indian population
    - Desired Outcome: increase the number of children achieving permanency through permanent guardianship through increased care giver engagement and supports through the legal process







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DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Patrick Moran, Fiscal Analyst *PM*

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

### Request

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

### Recommendation

The Committee has at least the following 2 options:

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

### Analysis

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

(Continued)

### Filled FTE Positions

*Table 1* outlines DCS' progress in hiring caseworkers by quarter. DCS is funded for 1,406 caseworkers. DCS has made steady progress in increasing the caseworker hiring level. As of May, DCS had 1,343 filled direct line staff, an increase of 73 positions relative the March 31, 2016 baseline hiring level. Also notable is the increased share of caseworkers that are case-carrying rather than in training. Since March 2016, the number of filled case-carrying caseworkers has increased by 164, while the number of staff in training declined by (89) positions.

The original 1,406 caseworker benchmark presumed 1,190 of these positions would be case-carrying. To achieve the 1,190 hiring level, DCS would need to increase the number of case-carrying caseworkers by 103 positions.

**Table 1**

#### **Progress in Hiring Caseworkers by Quarter**

<u>Direct Line Staff Type</u>	<u>Benchmark</u>	<u>Actuals <sup>1/</sup></u>			
		<u>March 2016</u>	<u>Dec. 2016</u>	<u>March 2016</u>	<u>May 2017</u>
Case-Carrying Caseworkers	1,190	923	1,085	1,068	1,087
Caseworkers in Training	140	273	189	216	184
Hotline Staff	76	74	66	69	72
<b>Total</b>	<b>1,406</b>	<b>1,270</b>	<b>1,340</b>	<b>1,353</b>	<b>1,343</b>

<sup>1/</sup> Source: DCS Monthly Hiring Report

### Caseload Standard

DCS established revised caseload goals during the May 2014 Special Session for case-carrying caseworkers. These goals include the following number of cases per worker: 13 for investigations, 33 for in-home cases, and 20 for out-of-home cases. The FY 2017 General Appropriation Act requires DCS to report the caseload for each DCS field office. Estimated caseworker caseload for individual offices can be found on page 6 of DCS' attached submission.

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

### Reducing the Backlog and Open Reports

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

As of May 29, 2017, DCS had reduced the backlog to 364 cases and had 6,166 open reports, continuing to meet both of the benchmarks. Given that DCS is significantly below the benchmark of 13,000 open

(Continued)

reports, the FY 2018 General Appropriation Act reduces DCS' benchmark to 8,000 reports beginning in FY 2018, which is equivalent to approximately 2 months of new incoming reports on the hotline.

**Table 2**

**Progress Reducing the Backlog and Open Reports by Quarter**

<u>Backlog Cases and Open Reports</u>	<u>Benchmark</u>	<u>Actuals</u>			
		<u>March 2016</u>	<u>Dec. 2016</u>	<u>March 2017</u>	<u>May 2017</u>
Total Backlog Cases	1,000	10,751	2,854	746	364
Total Open Reports	13,000	22,698	9,611	6,401	6,166

Out-of-Home Children

DCS' benchmark is to reduce the out-of-home population by (2)% each quarter relative to the out-of-home population as of December 31, 2016. Given the out-of-home population of 17,149 as of December 31, 2016, DCS would need to reduce the out-of-home population to 15,191 children or less on or before June 30, 2018 to meet the benchmark.

Table 3 below shows the actual out-of-home population at the end of each quarter in FY 2017 compared to the benchmark, and shows the cumulative percentage reduction compared to the baseline population level. By March 30, 2017, the out-of-home population had declined to 16,931, or a reduction of (1.3)% compared to December 31, 2016, and a decrease of (10.5)% compared to the March 31, 2016 baseline. By comparison, to meet the Chapter 117 benchmark by June 2018, DCS must achieve a cumulative reduction of (19.7)% compared to the March 31, 2016 population.

**Table 3**

**Out-of-Home Children Compared to Benchmark and March 31, 2016 Baseline**

	<u>March 2016</u>	<u>Sept. 2016</u>	<u>Dec. 2016</u>	<u>March 2017</u>	<u>June 2018</u>
Actuals	18,917	18,046	17,149	16,931	--
Benchmark <sup>1/</sup>	--	17,500	17,500	16,806	15,191
Cumulative Reduction <sup>2/</sup>	--	(4.6)%	(9.3)%	(10.5)%	(19.7)%

<sup>1/</sup> The FY 2017 General Appropriation Act established a benchmark for the out-of-home population of 17,500 and a quarterly reduction of (2)% compared to the out-of-home population as of December 31, 2016 through June 30, 2018.

<sup>2/</sup> Represents percentage reduction in out-of-home population relative to March 31, 2016 actual out-of-home population of 18,917 children. The June 2018 figure represents the aggregate percentage reduction if DCS meets its benchmark.

RS/PM:kp



## Arizona Department of Child Safety

Douglas A. Ducey  
Governor

Gregory McKay  
Director

May 31, 2017

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



Re: Benchmark Progress Report Update

Dear Chairman Shooter:

Pursuant to Laws 2016, Second Regular Session, Chapter 8, Section 24, the Department submitted its report on March 21<sup>st</sup> 2017 on the progress made increasing the number of filled FTE positions, meeting the caseload standard and reducing the number of backlog cases and out-of-home Children for the third quarter of FY 2017.

This memo is to provide the committee with more recent information for review.

Backlog Cases (May 29<sup>th</sup>): 364  
# of Open Reports: 6,166  
# of Out-of-Home Children: 16,931

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

Sincerely,

Gregory McKay  
Director

cc: The Honorable Debbie Lesko, Arizona State Senate  
Lorenzo Romero, Office of Strategic Planning and Budgeting  
Richard Stavneak, Joint Legislative Budget Committee  
Patrick Moran, Joint Legislative Budget Committee  
Sarah Pirzada, Office of Strategic Planning and Budgeting



## Arizona Department of Child Safety

**Douglas A. Ducey**  
Governor

**Gregory McKay**  
Director

April 10, 2017

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



Re: Department of Child Safety Quarterly Benchmark Progress Report

Dear Representative Olson:

Pursuant to Laws 2016, 2<sup>nd</sup> Regular Session, Chapter 8, Section 24, on March 31, 2017 the Department submitted its report on the progress made increasing the number of filled FTE positions, meeting the caseload standard and reducing the number of backlog cases and out-of-home children for the third quarter of FY 2017. As part of our continuing effort to ensure quality, a needed revision was identified for adoption unit caseloads. The enclosed report reflects that revision.

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

Sincerely,

Gregory McKay  
Director

Enclosure

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



## **DEPARTMENT OF CHILD SAFETY**

### **Quarterly Benchmark Progress Report (Filling FTE Positions and Reducing the Backlog) March 2017 (revised April 10, 2017)**

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#### **PROGRESS MADE IN INCREASING THE NUMBER OF FILLED FTE POSITIONS**

There has been focused work by the Department to fill 100 percent of DCS positions and reduce turnover in order to sustain sufficient staff resources that provide quality services to the children and families it serves. Significant effort has taken place to fill positions statewide, including routine planning and information sharing meetings between Executive management, the Regional Program Administrators and Human Resources Managers. Recruitment and retention data is tracked and reviewed bi-monthly. Action plans are developed when areas of concern are identified through this tracking process. The Department continues its active recruitment process to fill all Child Safety Specialist positions. As of February 1, 2017, the Department had filled 95% of the 1,406 funded positions.

The Department of Child Safety (DCS) continues to employ a professional recruiter to develop community and organizational partnerships to create a pathway of qualified candidates. The Department has centralized the statewide recruitment of the DCS Specialist classification, under the direction of the Recruitment Manager. The Department continues its active recruitment process to fill all positions.

In CY 2016, the Department of Child Safety (DCS) engaged in several initiatives to help recruit and retain DCS staff, particularly the DCS Specialist and Supervisor positions. Key among these was a new position entitled DCS Specialist Trainee that was established for new hires for the first 22 weeks of employment. When the new employee successfully completes the 22 weeks of initial training, the DCS Specialist Trainee will be promoted to a DCS Specialist position which includes the first of two tenure based pay increases. This significant change in the structure of the salary schedule was implemented for Specialists as the Department believes that by providing these increases earlier in the first year of employment, employees who may leave employment due to a low salary may be retained. Instead of providing the initial salary increase at 12 months, the increase now occurs after 22 weeks with Specialists in good standing being able to reach maximum salary after one year and 22 weeks compared to the prior schedule of reaching maximum salary at 24 months from the date of hire.

The DCS Human Resources (HR) team continues to strive to achieve a goal of 40 new hires per month, which exceeds the average number of staff leaving the Department. In order to reach this goal, the team contacts all applicants immediately upon receipt of the initial application, sends recruitment packets via email to expedite the transmission of information, conducts follow-up emails or phone calls to applicants to attain missing or incomplete information, and schedules the new hire interview immediately upon receipt of the completed application. Additionally, the HR team has an assigned staff member to assist in completing background reference checks to hasten the process. The HR team continues to monitor the number of new hires who leave DCS within

their first year to better enable future analysis of this information. After maintaining an average of 60.5 hires for the first 8 months of CY 2016, DCS is now recruiting for selected Regions as needed. As fewer staff are leaving and the Department is able to hire more Specialists than are exiting, it was able to reduce its target goal of 60 new Specialist hires per month to 40 per month starting in August 2016 (see Chart 1 below).

In November 1, 2016, DCS initiated a Pilot program, implementing the Predictive Index (PI) assessment to candidates for the Child Safety Specialist positions in Central Region. The PI assessment is a science-based methodology that helps to understand what drives an individual's workplace behaviors to better ensure alignment between candidates and their actual job duties and improve actual on-the-job performance.

Effective March 14, 2017, all candidates for the DCS Specialist position are sent a link to complete the PI. This includes candidates for the DCS Specialist position assigned to the DCS Child Abuse Hotline.

The PI is a reliable resource for predicting performance potential in new hires. At this time, the Department is only gathering data for use of PI with DCS in the future. The result of a candidate's PI will not determine the hiring decision. The data being obtained will be utilized to create stronger job Performance Requirement Options (POR) for the DCS Specialist series and DCS as a whole. DCS HR is also planning to use the data to develop stronger interview questions for prospective candidates. It is the goal of the Department that PI will be extended to all job classifications in the future.

The Department continues to post job listings/requisitions for specific regions on the [azstatejobs.gov](http://azstatejobs.gov) website to encourage applications from individuals searching for employment within a specific community.

In February 2016, the Department implemented a career ladder for case aides with five or more years of experience with DCS to promote into Child Safety Specialist Trainee position, which brings staff already familiar with the child welfare system to areas of need.

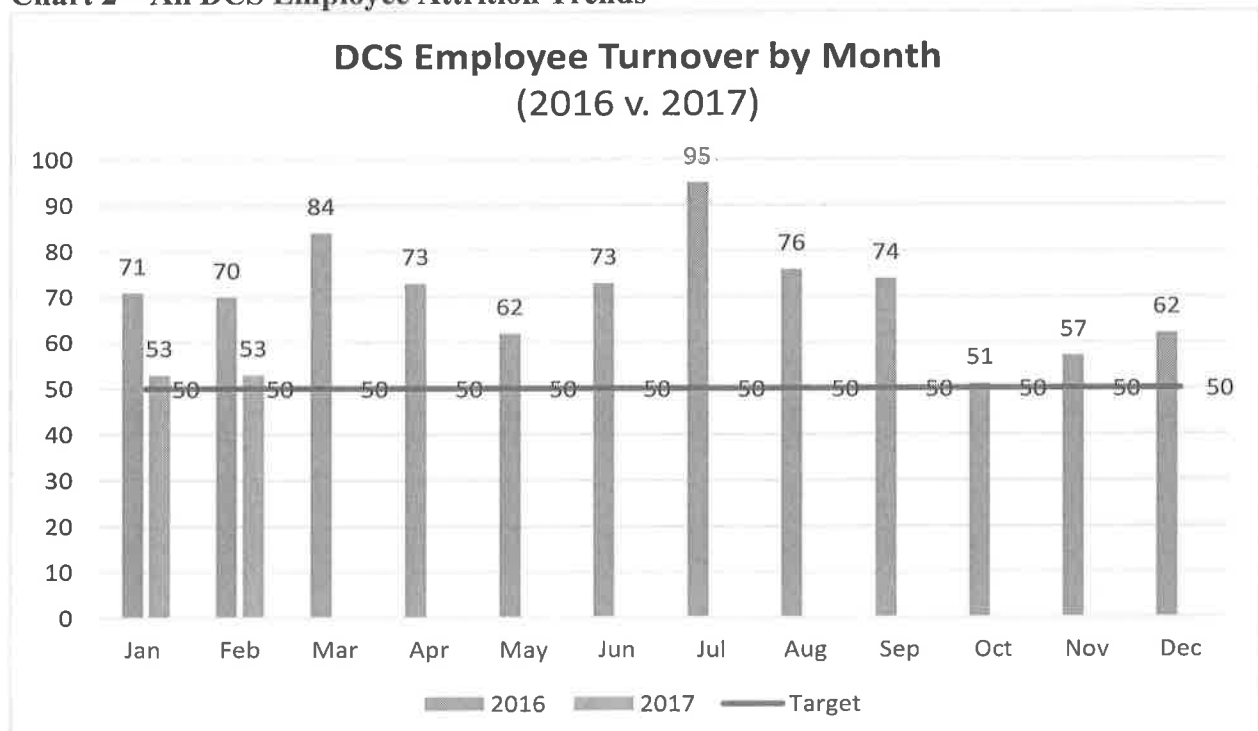
To expedite the new hire fingerprint card process, a fulltime person at the Department of Public Safety continues to be available to process requests for fingerprint cards. In July 2016, DCS started processing fingerprint clearance cards through FieldPrint which is a company that provides electronic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

In addition to the Department's efforts to reduce turnover and improve recruitment of DCS Child Safety Specialists, the Department is also committed to minimizing the overall attrition of all DCS employees by improving the onboarding experience, and striving to improve overall job satisfaction with the agency. Chart 2 shows the Department's significant improvements in reducing turnover for all DCS employees in the past two quarters. Data for March is preliminary and will updated in future reports.

**Chart 1 – DCS Specialist Hires and Target Trends**



**Chart 2 – All DCS Employee Attrition Trends**



\*DCS Employee Turnover is not available for the month of March at the time this report was due and will be updated in the next quarterly report.

### **PROGRESS REDUCING INACTIVE CASES AND IMPROVING CASELOADS**

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

The Department achieved a milestone this quarter in its effort to reduce the backlog. In March 2017, DCS fell below the legislatively required benchmark of 1,000 backlog cases. From a peak of 16,014 in January of 2015, the Department now has only 746 backlog cases as of March 27, 2017 representing a 95 percent decrease. The Department will continue its efforts to reduce the backlog and remain below the legislatively required benchmark. Future efforts will focus on maintenance of caseload levels to avoid a return to higher numbers of backlog cases. Already, in many portions of the state, efforts transitioned from reduction initiatives to sustainment activities as a means of maintaining the positive gains achieved and preventing the recurrence of an investigative backlog. In those particular offices, sustainment measures include the implementation of performance management metrics to monitor and control the total number of open reports and the percentage of those reports that are overdue, and the implementation of leader standard work to ensure routine follow-up.

In offices that were carrying a higher than desired number of open reports and inactive cases, the Department engaged in “burn down” activities this quarter. This involved staff from across the state pitching in to help complete critical duties triaged by supervisors and managers to reduce backlog. Additionally, DCS continues the use of selected assistance work teams and, Regional action plans, while leveraging provider partnerships and maintaining weekly performance huddle calls as a means of maintaining progress and establishing performance accountability. As a result of these efforts, the Department has achieved the benchmark of less than 13,000 open reports six months ahead of the established target date. From a peak of 33,245 open reports in April 2015, the Department has reduced that to only 6,586 open reports as of March 27, 2017 representing an 80 percent reduction (see Table 2).

### **PROGRESS MADE REDUCING THE OUT-OF-HOME POPULATION**

While much of the emphasis has been focused on continued reduction of the backlog and total number of open reports, additional efforts have been made to reduce the out-of-home foster care population. The Department continues to realize progress in fiscal quarter 3, reducing the out-of-home foster care population by 4.25 percent (762 children) ending with 17,174 children in care. The progress made since the baseline period of March 31, 2016 is a 9.2 percent reduction (1,743 children). These gains represent the first continued and sustainable population reduction in nearly a decade. The reduction of the foster care population can be attributed to several key factors: slowing of the entry rate and sustained performance in children exiting care.

DCS Quarterly Benchmark Progress Report  
March 2017 (revised April 10, 2017)

Over the past three fiscal quarters, investigative case manager workload has dropped appreciably as the backlog has been eliminated (see Table 3). This coupled with the additional standardized process tools including supervisory administrative and case progress review checklists, as well as standardized safety discussions guides, have contributed to the reduced number of children entering the out-of-home care population.

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

**Table 2 – Benchmark Performance**

		Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Backlog Cases	<i>Benchmark (less than)</i>	10,000	7,000	4,000	1,000	1,000	1,000	1,000	1,000
	<i>Actual</i>	4,790	2,854	746					
Backlog Case by disposition	<i>Investigation Phase</i>	4,554	2,671	633					
	<i>In-Home Cases</i>	222	160	99					
	<i>Out-of-Home Cases</i>	14	23	14					
Number of Open Reports	<i>Benchmark (less than)</i>	---	---	---	13,000	13,000	13,000	13,000	13,000
	<i>Actual</i>	13,477	9,611	6,586					
Number of Out-of-Home Children	<i>Benchmark (less than)</i>	---	---						17,500
	<i>Benchmark (% reduction)</i>			2%	2%	2%	2%	2%	2%
	<i>Actual</i>	18,183	17,936	17,174					
<b>Footnotes</b>									
- Number of open reports is the actual figure as of the Monday before the legislatively required reporting period based on the automated report run.									
- Number of inactive cases is the actual figure as of the Monday before the legislatively required reporting period based on the automated report run.									
- Out-of-home population figures are directly from the 20th of the Month Trigger which is a lagging 60 day metric.									

DCS Quarterly Benchmark Progress Report  
March 2017 (revised April 10, 2017)

Table 3 – Headcount and Caseload Performance

Region			March 31, 2016 Baseline			Quarter 2 FY 2017										Quarter 3 FY 2017									
			Workload			FTE		Workload							FTE		Workload					FTE			
			# of open reports (investigations)	# of In Home cases	# of Out-of-Home Children	Investigators	Case managers	# of open reports (investigations)	# of In Home cases	# of Out-of-Home Children	Investigation (reports per worker)	In Home (cases per worker)	Out of Home (children per worker)	Investigators	Case managers	# of open reports (investigations)	# of In Home cases	# of Out-of-Home Children	Investigation (reports per worker)	In Home (cases per worker)	Out of Home (children per worker)				
10 - Central	0.1	Apache Junction/Kearney	576	0	601	12	12	333		621	32		51	14	14	366		652	27		48				
	2	Casa Grande/Coolidge	834	0	688	14	14	498		824	35		44	15	15	320		618	22		42				
	3	Obloom	1005	0	542	17	17	690		607	39		36	14	14	349		546	26		39				
	4	In Home	17	495	111	27	27	23	590	25	1	22	1		31	25	437	10	15	0					
	5	Mesa	1423	0	615	16	16	457		599	29		38	15	15	174		570	12		38				
	6	Gilbert	1250	0	624	16	16	327		715	20		44	20	20	299		941	15		32				
	7	Tempe	1791	0	813	18	18	772		677	43		37	20	20	400		865	20		33				
	8	South Mountain	1499	0	663	20	20	1081		841	55		43	17	17	613		744	24		43				
	9	North Central	1322	0	775	11	11	524		525	46		46	13	13	263		528	20		39				
	10	17th Avenue	2	0	1520		32	0		1408	0		44		38	0		1584	0		42				
20 Pima	1	East Broadway	980	49	342	21	29	304	48	382	15	2	13	20	27	322	52	350	11	2	13				
	2	Westmore	227	27	398	11	21	164	38	412	15	2	20	11	21	201	29	444	19	1	21				
	3	Country Club	112	18	370	12	23	90	27	472	8	1	21	11	21	83	24	439	8	1	21				
	4	Westmore	126	19	313	11	21	168	28	249	16	1	12	12	23	134	13	254	11	1	11				
	5	Madera A	599	39	364	10	20	147	14	251	14	1	13	11	21	113	12	301	11	1	15				
	6.0	Adopt/Adoptions	7	0	555	1	1	2	0	471	3	0	357	6	11	15	0	567	3	0	51				
	7	22nd/Alvernon	326	53	373	10	20	136	27	350	13	1	18	8	16	120	42	336	16	1	21				
	8	Madera B	174	15	312	13	22	203	23	282	18	1	13	10	20	119	23	299	14	1	15				
	9	Alvernon	82	0	340	12	23	40	0	294	3	0	13	8	15	50	0	55	6	0	4				
	10	Alvernon																							
30- Northern	1	Prescott/Prescott Valley	266	---	398	12	12	216	24	372	18	2	30	12	12	242	26	229	21	2	19				
	2	St. Johns/Winslow/Show Low	127	---	188	6	6	85	21	150	6	3	31	6	6	43	13	350	7	2	25				
	3	Flagstaff/Page/Cottonwood/Fredonia	200	---	220	10	10	217	29	296	21	3	19	12	12	107	9	149	9	1	13				
	4	Bullhead City/Lake Havasu	176	---	399	8	8	113	63	234	15	8	29	8	8	127	77	278	15	9	33				
	5.00	Kingman	198	---	132	11	11	99	13	372	8	1	34	10	10	71	6	327	7	1	32				
40- Southeast	1	Benson, Douglas, Nogales, SV	254	30	245	7	13	37	12	211	5		16	5	9	18	9	196	4	1	21				
	2	SV, Safford	643	34	169	8	11	146	33	182	34		17	7	13	123	35	194	19	3	15				
	3	Globe, Payson	383	14	119	4	4	35	15	107	8		25	3	5	35	4	102	13	1	19				
50- Southwest	0.1	CHILDHELP Advocacy	483	0	4	35	0	111		2	3		0		0	3		0	0		0				
	3	In Home	44	---	101		42	37	619	150	1	15	4		41	35	503	133	1	12	3				
	4	Thunderbird	937	0	774	16	16	317		651	20		42	19	19	245		606	13		32				
	5	Peoria	1999	0	839	28	18	472		678	27		38	19	19	300		661	16		34				
	6	Glendale/Durango	1158	0	584	22	22	315		656	14		29	21	21	293		566	14		27				
	7	Avendale/Advacacy	614	0	804	19	10	164		782	19		40	20	20	196		745	15		37				
	8	Adoptions	0	0	1567		42	---		2584	0		40		42	0		1516	0		36				
	9	Yuma, Parker, Summerton	347	0	418	18	18	182		449	11		28	16	16	153		442	9		27				
	12	West 101	953	0	670	17	17	418		654	24		38	18	18	319		363	17		31				
	13	Pinnacle Peak	597	0	713	15	15	205		532	19		35	15	15	219		456	15		31				
	9.105- Other	various	Various	370		48			242		54						252		66						
		Totals		22696	799	18917			9611	1619	17936						6586	1333	17174						

Footnotes

- FTE reporting for March 31, 2016: The process of reporting FTE, in particular the specific section assignment of trainees, was not yet established in March 2016. As a result the FTE counts for that period are not available since they do not match the information on the total number of filled FTE positions as is required by the monthly hiring report.
- Number of open reports is the actual figure as of the Monday before the legislatively required reporting period based on the automated report run.
- Number of inactive cases is the actual figure as of the Monday before the legislatively required reporting period based on the automated report run.
- Trainees are assumed for in FTE figures in each section with an equal distribution of 20% caseload.
- Out-of-home population figures are directly from the 20th of the Month Tiger which is a lagging 60 day metric.
- In Home cases are based on a handcount of cases actively managed in each respective region. March values for Northern Region are not available given that the region counted the number of children and not the number of cases.
- In Home case figures were not handcounted in Southwest Region in March 2016. The handcount only included total child count.
- In Home cases assignments differ regionally. Central and Southwest Regions employ specific in home units who manage in home cases only while Northern, Pima and Southeast Regions have mixed units that may carry in home or out of home cases.
- FTE assignments to investigations or case management are based on assignment of 50% investigative and 50% ongoing. In Central, Northern and Southwest Regions. Pima and Southeast Regions employ a distribution of 34% Investigations and 66% ongoing.
- Section 6 Pima case load indicates high as all Pima adoption cases have been centralized to this unit and is transitioning from Vendor managed.
- Southwest Region section 3 manages both in home cases and permanency planning units. The workload distribution is based on 1 unit of Permanency Planning workers and the remaining workers assigned to In Home.





STATE OF ARIZONA

## Joint Legislative Budget Committee

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Patrick Moran, Fiscal Analyst *PM*

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

### Request

Pursuant to footnotes in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117), the Department of Child Safety (DCS) is requesting Committee review to transfer \$4,096,000 from the General Fund and \$8,577,000 in expenditure authority funds across several line items. All DCS line item transfers require Committee review in FY 2017.

### Recommendation

The Committee has at least the following 2 options:

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

### Analysis

#### General Fund Transfers

DCS is requesting Committee review of additional General Fund line item transfers of \$4,096,000 in FY 2017. *Table 1* shows DCS' proposed transfers by line item. The transfers into line items include:

- \$1,996,000 into Adoption Services.
- \$2,100,000 into Emergency and Residential Placements.

(Continued)

These funding increases are financed by transfers out of the following line items:

- \$(2,100,000) out of Foster Care Placement.
- \$(832,000) out of Permanent Guardianship.
- \$(705,000) out of Independent Living Maintenance.
- \$(459,000) out of Grandparent Stipends.

	<b>FY 2017</b>	<b>March</b>		<b>Final FY 2017</b>	<b>FY 2018</b>
	<u>Appropriation</u>	<u>Transfer</u>	<u>June Transfer</u>	<u>Appropriation</u>	<u>Appropriation</u>
Foster Care Placement	\$ 30,187,500	\$ (1,700,000)	\$ (2,100,000)	\$ 26,387,500	\$ 30,187,500
Emergency and Residential Placement	41,028,000	-	2,100,000	43,128,000	41,028,000
Grandparent Stipends	1,000,000	-	(459,000)	541,000	2,000,000
Independent Living Maintenance	2,969,300	-	(705,000)	2,264,300	2,969,300
Adoption Services	75,965,800	1,700,000	1,996,000	79,661,800	77,965,800
Permanent Guardianship	10,573,900	-	(832,000)	9,741,900	10,573,900
	<b>\$ 161,724,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 161,724,500</b>	<b>\$ 164,724,500</b>

The proposed transfers are primarily associated with differences between the originally budgeted funding for caseload growth in FY 2017 and actual caseload growth. The budget included funding for Adoption Services caseload growth of 9.4%, while actual year-over-year caseload growth has been 11.2%. By contrast, in Foster Care Placement, Independent Living Maintenance, and Permanent Guardianship, caseloads have remained steady or have slightly declined. The Committee favorably reviewed a transfer of \$1.7 million to Adoption Services in March 2017. As a result, the net funding increase for adoption relative to the original FY 2017 appropriation is \$3.7 million, for total General Fund spending of \$79.7 million in FY 2017.

The FY 2018 budget includes an increase of \$2.0 million from the General Fund for adoption caseload growth in FY 2018, resulting in a total General Fund appropriation of \$78.0 million in FY 2018. The FY 2018 amount is lower than the FY 2017 General Fund resources for adoption net of DCS' requested transfers. As a result, DCS will likely need to make transfers into Adoption Services in FY 2018 to accommodate additional caseload growth.

Emergency and Residential Placement caseloads have declined compared to last year by (8.0)%. DCS, however, used one-time supplemental funding and line item transfers in FY 2016 for caseload growth, generating Total Fund expenditures of \$107.8 million for Emergency and Residential Placement in FY 2016. The FY 2017 budget, however, did not incorporate the one-time supplemental funding or line item transfers, resulting in an FY 2017 appropriation of \$98.9 million, or a net Total Funds reduction of \$(8.9) million compared to FY 2016. As a result, despite the reduced caseloads in FY 2017, DCS is projecting expenditures that exceed the original \$98.9 million appropriation by \$1.8 million.

#### Expenditure Authority Transfers

DCS is also requesting Committee review to transfer \$8,577,000 in expenditure authority funds into the following line items:

- \$3,926,000 into Training Resources.
- \$3,761,000 into DCS Child Care Subsidies.
- \$890,000 into In-Home Mitigation.

(Continued)

These funding increases would be financed by transfers out of the following line items:

- \$(4,651,000) out of Out-of-Home Support Services.
- \$(2,824,000) out of the Operating Budget.
- \$(1,102,000) out of the Office of Child Welfare Investigations.

These transfers are primarily associated with aligning line item appropriations with actual use of expenditure authority resources. The FY 2018 budget incorporates similar expenditure authority realignment for DCS' FY 2018 budget.

RS/PM:lm



## Arizona Department of Child Safety

Douglas A. Ducey  
Governor

Gregory McKay  
Director

May 31, 2017



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

Re: FY 2017 Appropriation Transfer Request

Dear Representative Shooter:

Pursuant to Laws 2016, Second Regular Session, Chapter 117, Section 24, 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 to be placed on the Joint Legislative Budget for both General Fund and Expenditure Authority appropriation transfer requests below:

### *Summary of Requested Appropriation Transfers*

Special Line Item	General Fund (in \$1,000)	Expenditure Authority (in \$1,000)
Adoption Services	\$1,996.0	
Grandparent Stipend	(\$ 459.0)	
Independent Living Maintenance	(\$ 705.0)	
Permanent Guardianship	(\$ 832.0)	
Emergency & Residential Placement	\$2,100.0	
Foster Care	(\$2,100.0)	
Child Care		\$3,761.0
In-Home Mitigation		\$890.0
Out of Home Services		(\$4,651.0)
Training Resources		\$3,926.0
Operating Lump Sum		(\$ 2,824.0)
OCWI		(\$1,102.0)
<b>TOTAL</b>	<b>\$ 0.0</b>	<b>\$0.0</b>

General Fund Appropriation Requests – FY17

The Department requests that the committee review the following General Fund (GF) transfer requests:

- Adoption Services: The Department requests a total of \$1.996 Million GF to be transferred from Grandparent Stipend, Independent Living Maintenance and Permanent Guardianship line items into Adoption Services line item.

Special Line Item	General Fund (in \$1,000)
Adoption Services	\$1,996.0
Grandparent Stipend	(\$ 459.0)
Independent Living Maintenance	(\$ 705.0)
Permanent Guardianship	(\$ 832.0)
<b>TOTAL</b>	<b>\$ 0.0</b>

- Emergency & Residential Placements: The Department requests a total of \$2.100 Million GF to be transferred from Foster Care line item.

Special Line Item	General Fund (in \$1,000)
Emergency & Residential Placement	\$ 2,100.0
Foster Care	(\$ 2,100.0)
<b>TOTAL</b>	<b>\$ 0.0</b>

Expenditure Authority Appropriation Requests – FY17

The Department requests that the committee review the following Expenditure Authority (EA) transfer requests:

- Training Resources: The Department requests a total of \$3.926 Million EA to be transferred from OCWI and Operating Lump Sum line items.

Special Line Item	General Fund (in \$1,000)
Training Resources	\$3,926.0
Operating Lump Sum	(\$ 2,824.0)
OCWI	(\$ 1,102.0)
<b>TOTAL</b>	<b>\$ 0.0</b>

- Child Care: The Department requests a total of \$3.761 Million EA to be transferred from the Out of Home Services line item.

Special Line Item	General Fund (in \$1,000)
Child Care	\$ 3,761.0
Out of Home Services	(\$ 3,761.0)
<b>TOTAL</b>	<b>\$ 0.0</b>

- In Home Mitigation: The Department requests a total of \$890,000 EA to be transferred from the Out of Home Services line item.

Special Line Item	General Fund (in \$1,000)
In-Home Mitigation	\$ 890.0
Out of Home Services	(\$ 890.0)
<b>TOTAL</b>	<b>\$ 0.0</b>

Sincerely,



Gregory McKay  
Director

Enclosure

cc: The Honorable Debbie Lesko, Arizona State Senate  
Lorenzo Romero, Office of Strategic Planning and Budgeting  
Richard Stavneak, Joint Legislative Budget Committee  
Patrick Moran, Joint Legislative Budget Committee  
Sarah Pirzada, Office of Strategic Planning and Budgeting





STATE OF ARIZONA

## Joint Legislative Budget Committee

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Patrick Moran, Fiscal Analyst *PM*

SUBJECT: Department of Child Safety - Review of Retention Pay Expenditure Plan

### Request

Pursuant to a footnote in the FY 2018 General Appropriation Act (Laws 2017, Chapter 305), the Department of Child Safety (DCS) is requesting Committee review of its expenditure plan for the Retention Pay line item in FY 2018.

### Recommendation

The Committee has at least the following 2 options:

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

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

- A. DCS shall report to the Committee 30 days prior to reallocating any of the \$1,028,300 in retention stipends for other purposes. The report shall address the use of reallocated funds. The JLBC Chairman may then determine whether this reallocation requires further Committee review.
- B. DCS shall provide the Committee a copy of its "Spot Incentives" plan once the plan is submitted to the Arizona Department of Administration (ADOA) for approval.

(Continued)

## Analysis

The FY 2015 budget appropriated \$1,707,000 from the General Fund in FY 2015 to DCS for retention pay. DCS used the money to provide one-time stipends to DCS staff that met longevity requirements, including a \$1,000 stipend for 18 months of work and a \$3,000 stipend for 36 months. In June 2016, however, DCS eliminated the stipend for new staff hired after that date due to concerns about the effectiveness of the stipends in reducing turnover.

Although retention pay is no longer available for new DCS employees, the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) continues to include retention pay funding in FY 2018 for pre-June 2016 hires. During budget development, the Executive proposed reallocating a portion of these monies for permanent pay adjustments. As a result, a General Appropriation Act footnote required DCS to submit an expenditure plan for review by JLBC before expending any monies in the Retention Pay line item so the Committee could review the proposed uses.

DCS is proposing 3 uses for the Retention Pay line item in FY 2018:

- Retention Stipends: \$1,028,300 would continue to pay retention stipends to workers who were hired before the Retention Pay program was closed to new hires in June 2016. Because the stipends are paid out up to 3 years after the initial date of hire, DCS will continue to pay stipends through June 2019.

DCS has not determined how these monies will be spent once the Retention Pay program is fully phased out in June 2019, or how the monies will be allocated if the actual costs of the stipends in FY 2018 is less than the planned amount. As a result, the Committee may consider a provision requiring DCS to report to the Committee 30 days prior to reducing its planned expenditures of stipend monies to below \$1,028,300. The report would include an explanation of DCS' proposed alternative uses for any monies that were previously obligated for retention stipends. The JLBC Chairman would then determine if the reallocated monies required further review by the Committee.

- Program Manager Salary Adjustments: \$392,300 would finance ongoing salary adjustments for 40 DCS program managers. These positions oversee caseworkers and other front line child welfare staff at each DCS field office. DCS estimates that this amount is sufficient to raise the average program manager salary from \$58,000 to \$65,000. By comparison, DCS reports that the top salary for caseworkers is \$40,600. DCS believes, based on employee exit surveys, that the adjustments will reduce turnover by improving leadership at DCS field offices. DCS estimates annualized turnover rates of 0.5% for program managers and 32.8% for caseworkers.
- "Spot Incentives": \$316,400 would be used for one-time bonuses for individuals or groups of employees with excellent performance. For example, DCS reports that it awarded spot incentives of \$150 to 1,900 employees in FY 2017 for elimination of the backlog. DCS must submit a spot incentives plan for FY 2018 to ADOA for approval prior to implementation. The incentives may not exceed \$2,000 per employee and will only apply to uncovered workers. The Committee may consider a provision requiring DCS to share its spot incentives plan with the Committee once the plan is submitted to ADOA.



## Arizona Department of Child Safety

Douglas A. Ducey  
Governor

Gregory McKay  
Director

May 31, 2017

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



Re: Expenditure Plan for Fiscal Year 2018 Retention Pay Line Item

Dear Chairman Shooter:

Pursuant to footnotes in the FY 2018 General Appropriation Act, the Department of Child Safety (Department) requests to be placed on the Joint Legislative Budget Committee's (JLBC) next agenda for review of the Department's Fiscal Year 2018 retention pay line item expenditure plan.

The Department is thankful for the support and flexibility to use these funds to support not only the Caseworkers, but also all of those that support the caseworkers and ensure the success of the Department.

Exit surveys with outgoing employees indicate four primary reasons why employees separate: high workload, poor onboarding experience, lack of front line supervision/leadership, and low compensation. The Department's strategic plan is currently addressing improvements in the onboarding experience and the development of frontline supervisors. Complimentary to that, substantial efforts have been put towards greatly reducing the workload of staff and results indicate workloads have improved significantly. As a means of addressing the low compensation challenge, the Department implemented a modification to the case worker series in June 2016 that allowed employees in good performance standing to receive wage increases at the 6 month, 18 month and 36 month marks. This automatic, timed based wage increase has replaced the lump sum solution.

The Department plans to expend the \$1,707,000 FY 2018 appropriation on the following items:

- Caseworker Retention Stipend - \$1,028,334 – Includes current obligations to Caseworkers who will meet their 18 and 36 month commitment in FY 2018.
- Program Manager Pay Increase – \$392,280 – Includes a salary increase as well as associated employee related expenses for 40 Program Managers. Improving retention in this area is critical as these front line leaders oversee as many as 45-50 case workers, 6-7

supervisors and various para-professional resources. This position carries significant responsibility and accountability in the safety of children, family supports and permanency success.

- Spot Incentives – \$316,386 – Includes providing Spot Incentives to qualified employees based on the Departments approved plan. This spot incentive will include Caseworkers, Field Staff and Central Office Staff.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gregory McKay', with a large, stylized initial 'G' and a long horizontal stroke extending to the right.

Gregory McKay  
Director  
Arizona Department of Child Safety

Enclosure

cc: The Honorable Debbie Lesko, Arizona State Senate  
Lorenzo Romero, Office of Strategic Planning and Budgeting  
Richard Stavneak, Joint Legislative Budget Committee  
Patrick Moran, Joint Legislative Budget Committee  
Sarah Pirzada, Office of Strategic Planning and Budgeting





STATE OF ARIZONA

## Joint Legislative Budget Committee

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DAVID LIVINGSTON  
MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Patrick Moran, Fiscal Analyst *PM*

SUBJECT: Department of Economic Security - Review of Developmental Disabilities Equity Expenditures

### Request

Pursuant to Section 18 of the FY 2018 Health Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 309), the Department of Economic Security (DES) must submit an expenditure plan for review before expending "equity" monies on state-only programs within the Division of Developmental Disabilities (DDD). Equity monies are unexpended and unencumbered capitation payments received by DDD for clients enrolled in the Arizona Long Term Care System (ALTCS).

DES is proposing to allocate \$14,493,400 of equity monies for the following DDD state-only programs:

- \$6,263,400 for residential room and board costs, primarily for ALTCS clients
- \$4,484,400 for the Arizona Early Intervention Program (AzEIP)
- \$3,518,100 for case management services for state-only clients
- \$227,500 for Medicare Clawback Payments

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review of all proposed state-only program expenditures.
2. An unfavorable review of all proposed state-only program expenditures.

(Continued)

While some of DES' spending plan is one-time, their proposal includes \$9.0 million of ongoing expenditures, as shown in *Table 1* below. Future budgets will need to address this problem. There is no guarantee of future equity funding levels and these monies are statutorily required to be deposited in the General Fund.

Table 1 DDD State-Only Shortfalls		
	<u>DES Request</u>	<u>Ongoing Funding Level</u>
Room and Board <sup>1/</sup>	\$ 6,263,400	\$ 4,263,400
AzEIP <sup>2/</sup>	4,484,400	1,184,400
State-Only Case Management	3,518,100	3,518,100
Medicare Clawback <sup>3/</sup>	227,500	-
	<u>\$ 14,493,400</u>	<u>\$ 8,965,900</u>

<sup>1/</sup> DES request includes \$2,000,000 for the FY 2016 shortfall in Room and Board, reducing the ongoing shortfall in FY 2018 to \$4,263,400.

<sup>2/</sup> The FY 2018 budget increased ongoing AzEIP funding by \$2,000,000, reducing the FY 2018 shortfall to \$1,184,400.

<sup>3/</sup> The FY 2018 budget increases funding for the Medicare Clawback by \$672,400, eliminating the shortfall from FY 2017.

### Analysis

Most clients enrolled in Arizona's DD program are members of ALTCS. ALTCS provides acute care, behavioral health, and long term care services to low-income individuals with disabilities that are at immediate risk of institutionalization without appropriate services due to functional limitations. DES receives a per-member, per-month capitation payment from the Arizona Health Care Cost Containment System (AHCCCS) of approximately \$3,700 for each ALTCS client to finance these services. If the actual cost of delivering services is less than that amount, DES accumulates equity.

Since 2014, state law has required any equity to be returned to the General Fund at the end of the following fiscal year in which capitation payments were received. At the end of FY 2017, the equity transfer to the General Fund will be approximately \$24 million, which reflects the balance as of June 30, 2016. This amount was also specified in the FY 2018 General Appropriation Act (Laws 2017, Chapter 305). As a result of ongoing funding shortfalls in DDD state-only programs, however, the FY 2018 Health BRB allows DES to use equity monies for DDD state-only programs on a one-time basis through the end of FY 2018, subject to review of the department's expenditure plan by JLBC.

There are 2 types of state-only expenditures. The first category includes expenditures for clients that have a qualifying DDD diagnosis (intellectual disability, autism, cerebral palsy, epilepsy, or are under age 6 and are at-risk of developing such a diagnosis), but do not qualify for ALTCS based on either income or functional disability. Of the 39,000 clients served by DDD, 30,700 are ALTCS-eligible, while 8,300 are in the state-only program.

State-only may also refer to expenses for fully eligible ALTCS clients that are not federally funded, which includes "room and board," or the cost of food and shelter for clients in residential settings, such as group homes or adult developmental homes. DES estimates that 98.4% of room and board expenditures are on behalf of ALTCS clients.

(Continued)

DES is proposing \$14.5 million of equity expenditures for DDD state-only programs. The proposed expenditures consist of:

Room and Board: \$6.3 million

State law authorizes DES to use 70% of a client's Supplemental Security Income (SSI) check or other income sources to finance room and board costs, but these collections are lower than program costs. As a result, DES is requesting to use \$2.0 million to address expenses still outstanding from FY 2016, and another \$4.3 million for the shortfall in FY 2017. DES expects to face a similar unbudgeted \$(4.3) million shortfall in FY 2018.

The FY 2018 General Appropriation Act provides a one-time increase of \$2.0 million from the General Fund for room and board expenses, but these monies are intended to finance provider rate adjustments instead of backfilling the shortfall.

Arizona Early Intervention Program (AzEIP): \$4.5 million

AzEIP provides screening and intervention services for children under age 3 that have not reached 50% of the developmental milestones for their age, such as cognitive development or social and emotional development. DES receives federal monies from the Individuals with Disabilities Education Act (IDEA), Part C, but if program costs exceed the federal allocation the state must use its own funds. As a condition of receiving federal funding, DES must screen and evaluate referred children at no cost to the parents, and may only bill third-party payers (such as AHCCCS or private insurance) for any services rendered for an eligible child with the consent of the child's parents.

The FY 2017 budget included \$4.3 million from the General Fund, in addition to \$8.9 million in non-appropriated federal IDEA funds, or a total of \$13.2 million for the AzEIP program. DES estimates that actual FY 2017 costs will be \$16.9 million, or \$3.2 million more than currently available funding. Most of the funding shortfall is attributable to increasing referrals and more services per client. The proposed equity transfer includes \$3.5 million to address the FY 2017 shortfall and \$1.0 million to address a shortfall from FY 2016.

The FY 2018 budget provides \$2.0 million from the General Fund for AzEIP in FY 2018, which should reduce the ongoing shortfall in the program to \$(1.2) million.

State-Only Case Management: \$3.5 Million

DES provides case management services to both ALTCS and state-only clients to help coordinate services. State-only clients are eligible for enrollment in the Medicaid Targeted Case Management (TCM) program if they are financially eligible for AHCCCS acute care services. TCM is financed by a federally matched capitation payment, while all other state-only clients are funded with state-only monies. DES estimates that as of April 2017, 4,627 state-only clients are enrolled in TCM, while another 3,658 receive case management funded only by state dollars.

The FY 2017 budget includes \$3.9 million for state-only case management and \$5.4 million in federal Medicaid funds for TCM, for a total of \$9.3 million. DES estimates that the actual costs of the program are \$12.8 million in FY 2017, or \$3.5 million more than the currently allocated funding. The department believes that the higher-than-budgeted cost is associated with member growth in state-only populations. Compared to FY 2015, TCM enrollment has increased by 10.0%, while the State-Only Case Management population has increased by 19.3%.

(Continued)

Part of the shortfall is likely also associated with case manager salary adjustments implemented by DES in April 2016 that raised the average case manager salary from \$34,100 to \$39,700. These adjustments were not incorporated into the FY 2017 budget. The proposed equity transfer of \$3.5 million is intended to address the FY 2017 shortfall. *(Please see the September 2016 JLBC agenda for additional information about these adjustments.)*

The FY 2018 budget does not adjust funding for state-only case management. As a result, DES expects to face the same \$(3.5) million shortfall in FY 2018.

Medicare Clawback: \$0.2 million

DES is required to pay "Clawbacks" to the federal government to partly offset Medicare's cost of providing prescription drug coverage to DDD clients that are dually eligible for Medicaid and Medicare. These payments were originally estimated at \$3.4 million for FY 2017, but DES' actual required payment is \$3.6 million.

The FY 2018 budget increases funding for the Clawback to \$4.0 million in FY 2018, so this is not expected to be an ongoing shortfall.

FY 2018 Budget Implications

Because unspent equity would otherwise be transferred to the General Fund, each expenditure favorably reviewed by the Committee would result in a dollar-for-dollar reduction in General Fund revenues for FY 2018. The department projects receiving \$42.8 million in equity revenues. After using \$14.5 million for their proposal, the net equity transfer would be \$28.3 million. Since the enacted FY 2018 budget assumed \$12.5 million in equity revenue, the DES proposal does not create a FY 2018 revenue shortfall.

The FY 2018 Health BRB only permits DES to expend equity monies for state-only programs through the end of FY 2018. The JLBC Staff expects, however, that \$9.0 million would be an ongoing unbudgeted cost in FY 2018, as shown in *Table 1* above. Beginning in FY 2019, DES will be required to transfer the full amount of equity to the General Fund at the end of each fiscal year.

RS/PM:lm



## DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Douglas A. Ducey  
Governor

Michael Traylor  
Director

JUN 02 2017



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

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

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

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

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

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

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

The Arizona Department of Economic Security (ADES) requests to be placed on the Joint Legislative Budget Committee's (JLBC) next agenda for review of transfer plans for the Division of Developmental Disabilities (DDD) as required in Laws 2017, First Regular Session, Chapter 309, Section 18:

*A. Notwithstanding section 36-2953, subsection H, Arizona Revised Statutes, as amended by this act, the department of economic security may use unexpended and unencumbered monies from capitation payments in the department long-term care system fund established by section 36-2953, Arizona Revised Statutes, as amended by this act, for state-only program expenses within the division of developmental disabilities. Before making any expenditures authorized by this subsection, the department of economic security shall submit an expenditure plan for review by the joint legislative budget committee.*

*B. Subsection A of this section applies retroactively to from and after June 30, 2017.*

*C. This section is repealed from and after June 30, 2018.*

ADES plans to transfer unexpended and unencumbered monies from capitation payments in the department long-term care system fund to cover expenses within the DDD state-only program. Ongoing funding in the state-only program has remained consistent despite significant member growth in-line with and often exceeding the Arizona Long Term Care System (ALTCS) program's annual growth in members. The requested transfers are listed by line item below.

DDD FY 17 Fund Balance Transfers	
Line Item	Transfer Request
State Funded Long Term Care	6,263,400
HCBS – State-Only (AzEIP)	4,484,400
Case Management – State-Only	3,518,100
Medicare Clawback	227,500
<b>Total</b>	<b>14,493,400</b>

### **State Funded Long Term Care**

The State Funded Long Term Care (SFLTC) special line item funds services that are non-reimbursable by federal Medicaid Title XIX dollars. Residential room and board costs for ALTCS members make up 98.4 percent of this line. The structural shortfall in this line item has been covered by excess fund balance for several years. Of the requested \$6.3M approximately \$2M is needed to cover expenditures from fiscal year 16. The Department plans to submit another request for ongoing funds to ensure ALTCS members are cared for in accordance with contract requirements.

### **HCBS – State-Only (AzEIP)**

The Arizona Early Intervention Program (AzEIP) evaluates and serves children birth to three that have significant developmental delays by providing supports to families within their home and community to enhance their ability to care for their child. While early intervention services are not mandated by the Federal Government, acceptance of the Federal Education Individuals with Disabilities Education Improvement Act (IDEA) Part C funding is conditional upon providing services under an entitlement clause. This shortfall increases each year due to client and utilization growth. Prior year shortfalls have been covered by one-time carryforward IDEA Part C funding and fund balance transfers.

### **Case Management – State-Only**

The Case Management State-Only special line item funds case management for clients who are not eligible for developmentally disabled services under the Title XIX ALTCS program. This line must cover expenditures for case management provided to State-Only clients, as well as, the general fund match required for the Targeted Case Management Title XIX program (TCM). As case management services are performed holistically, costs are allocated between the Medicaid and State-Only line items based on the results of the Arizona Random Moment Sample (ARMS) survey. The results of the ARMS Survey have been shifting from Medicaid to State-Only and TCM due to the significant growth in these member populations. In the past, the Division has utilized prior year TCM fund balance to cover the general fund structural shortfall, however, TCM fund balance was exhausted in fiscal year 2016 and is no longer a viable solution.

### **Medicare Clawback**

ADES is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, ADES is required to make "Clawback" payments to Medicare based on a certain percentage (75 percent in 2017) of the estimated drug costs. Due to timing the funding provided in fiscal year 17 was less than the estimated drug costs.

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

Sincerely,



Michael Traylor  
Director





STATE OF ARIZONA

## Joint Legislative Budget Committee

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

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

SUBJECT: AHCCCS/Department of Economic Security/Department of Child Safety - Review of  
Capitation Rate Changes for Plan Years 2017 and 2018

### Request

Pursuant to a 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 Executive request includes revisions to certain plan year (CYE) 2017 capitation rates as well as new CYE 2018 rates.

### Recommendation

The Committee has at least the following 2 options:

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

With either option, the Committee may consider the following provision:

- A. AHCCCS shall submit a report notifying the Committee of provider rate adjustments associated with a Proposition 206 requirement that most employers provide paid sick leave beginning July 1, 2017. The report is to be submitted within 10 days of publication of provider rate adjustments and shall indicate if added costs are within budgeted amounts.

(Continued)

In summary, the Executive is retroactively updating capitation rates for the Department of Economic Security (DES) Developmental Disabilities (DD) program and the AHCCCS Elderly and Physically Disabled (EPD) program to account for provider rate increases associated with Proposition 206 minimum wage costs that were implemented in January 2017. The FY 2017 revised rates are within the budgeted amounts. The agency plans to implement additional provider rate increases in July 2017, which will be presented to the Committee at the next meeting in September. As a result, the full fiscal impact of Proposition 206 rate adjustments relative to the enacted FY 2018 budget is yet to be determined.

Proposed rate changes for the Department of Child Safety (DCS) Comprehensive Medical and Dental Program (CMDP) and the AHCCCS Children's Rehabilitative Services (CRS) program are expected to increase General Fund costs by \$1.5 million above the FY 2018 General Fund budgeted amounts. While the AHCCCS CRS rate cost is \$2.3 million above the budget, the DCS CMDP rate is \$(0.8) million less than budget.

### Analysis

The Federal government agrees to pay a flat per-member, per-month amount for each type of Medicaid enrollee. Capitation rates are developed by AHCCCS actuaries for all Medicaid programs.

Capitation rates are adjusted annually for projected medical expense and utilization trends. Utilization refers to the percentage of eligible individuals who use services and the amount of services each member uses. In developing capitation rates, the actuaries also compare prior rate calculations and assumptions to actual results for medical expenses and utilization. This is referred to as experience adjustments. The EPD and DD capitation rate adjustments also include provider rate increases. Finally, the capitation rates include a limited number of program changes, which are described below. *Table 1* below includes a comparison of original and revised CYE 2017 rates and new CYE 2018 rates.

Table 1			
June Capitation Revisions			
<u>Populations</u>	<u>Original CYE 2017</u>	<u>Revised CYE 2017</u>	<u>New CYE 2018 <sup>1/</sup></u>
ALTCS Elderly and Physically Disabled	\$ 3,402.84	\$ 3,541.51	N/A
ALTCS Developmental Disabilities	3,660.38	3,702.20	\$3,638.21 <sup>2/</sup>
Children's Rehabilitative Services <sup>3/</sup>	817.54	847.92	N/A
Comprehensive Medical & Dental Program	233.87	N/A	225.74

<sup>1/</sup> New rates for DD and CMDP reflect CYE 2018 rates as of July 1, 2017.  
<sup>2/</sup> Does not include additional Proposition 206 provider rate adjustments planned beyond the adjustments implemented on January 1, 2017.  
<sup>3/</sup> Original and revised rates for CRS reflect a blended full year rate for CYE 2017.

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

ALTCS services are provided to the elderly and physically disabled (EPD) in need of long-term care either in nursing care facilities or in home and community-based settings. In January 2017, AHCCCS implemented increases of 7.0% in select home and community-based services rates and a 3.5% increase in nursing facility rates to address costs resulting from the Proposition 206 minimum wage increase to \$10.00 an hour.

(Continued)

The agency is retroactively increasing capitation rates as of January 1, 2017 by 4.0% above previously reviewed amounts to incorporate the minimum wage increase. EPD capitation rates include other funding components that were not affected by the provider rate increase such as acute care, case management and other administrative costs. As a result, the overall capitation growth of 4.0% is less than the 7.0% provider rate increase.

AHCCCS has indicated it has sufficient funding to implement the capitation rates without the need for a supplemental. AHCCCS plans to submit further revisions to the CYE 2017 capitation rates for provider rate increases associated with implementation of the paid sick leave requirement on July 1, 2017.

#### DES - ALTCS Developmental Disabilities

The DD program provides long term care services, acute care, and behavioral health services to individuals with intellectual disabilities, autism, cerebral palsy, epilepsy, or at under age 6 and at risk of developing such a diagnosis.

As with the EPD program, DES DD capitation rates are being retroactively increased as of January 1, 2017 to incorporate funding for provider rate adjustments associated with Proposition 206 minimum wage costs. The January 1, 2017 revision increases the DD capitation rate by 4.0% compared to the original FY 2017 rate. DES used the additional capitation funding to increase DD provider rates by up to 8.2% for some services. The FY 2018 budget included an \$8.1 million General Fund supplemental appropriation for DES in FY 2017 to address these higher costs.

The actuaries have developed DD capitation rates effective July 1, 2017 that annualize the cost of the Proposition 206 provider rate adjustments implemented in January. The costs of annualization are offset by utilization changes as service usage has grown less quickly than anticipated. As a result, the July 1, 2017 capitation rates are (1.7)% lower than the revised January 1, 2017 rates. The new July 2017 rates do not fully incorporate the additional FY 2018 Proposition 206 funding. DES plans to make further retroactive adjustments to account for those changes, including paid sick leave and an additional General Fund appropriation of \$10 million for one-time assistance to providers affected by Proposition 206.

#### AHCCCS - Children's Rehabilitative Services (CRS)

The CRS program provides services for children with chronic and disabling or potentially disabling conditions. AHCCCS proposes retroactively increasing previously reviewed CYE 2017 capitation rates to incorporate recent changes in the approved list of prescription benefits. Drug benefits for the program are evaluated in terms of both clinical and cost requirements. The net overall impact will raise costs of pharmacy claims, thereby increasing CYE 2017 capitation rates by an estimated 3.7%.

The rates would increase costs to the General Fund by \$2.3 million (\$7.7 million in Total Funds) above FY 2018 budgeted amounts. This estimate does not include the impact of potential rebate savings from changes in the approved list of prescription benefits.

#### DCS - Comprehensive Medical and Dental Program (CMDP)

CMDP provides health care services for children in foster care. The proposed FY 2018 capitation rate change is a (3.5)% decrease. Relative to the increase assumed in the FY 2018 budget, the proposed rates reduce costs to the General Fund by \$(0.8) million (\$2.8 million reduction in Total Funds) in FY 2018. The decrease is primarily driven by a lower-than-expected increase in medical expenses.

May 30, 2017

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



Dear Representative Shooter:

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

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

Capitation rates are certified by actuaries and must be recertified every year to coincide with MCO annual contract periods. Most AHCCCS contracts are on an October 1 through September 30 schedule. Capitation rates for Arizona Department of Economic Security/Division of Developmental Disabilities and Department of Child Safety/Comprehensive Medical and Dental Program (DCS/CMDP) are on a July 1 through June 30 contract year.

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

The below letter details both mid-year amended rates for CYE 2017 and annual renewal rates for CYE 18 for review at the upcoming JLBC meeting. These rate actions are as follows:

- Contract Year Ending (CYE) 2017 Capitation Rate Amendments for MCOs with CYE from July 1, 2016 through June 30, 2017:
  - Arizona Department of Economic Security/Division of Developmental Disabilities (DES/DDD)
- CYE 2017 Capitation Rate Amendments for MCOs with CYE from October 1, 2016 through September 30, 2017:
  - Children's Rehabilitative Services (CRS)
  - Arizona Long Term Care System/Elderly and Physical Disability (ALTCS/EPD)
- CYE 2018 Capitation Rate Annual Renewal for MCOs with CYE from July 1, 2017 through June 30, 2018:
  - DES/DDD
  - Department of Child Safety/Comprehensive Medical and Dental Program (DCS/CMDP)

#### Background for CYE 2017 Capitation Rate Amendments

This update to the CYE 17 capitation rates accommodates the following:

- CRS: Pharmacy analysis based on AHCCCS' Pharmacy and Therapeutics (P&T) Committee action
- EPD and DDD: Increased labor costs resulting from the January 1, 2017, Arizona minimum wage increase as approved by voters as Proposition 206. *These adjustments do not include any July 1, 2017, adjustments for costs associated with Proposition 206 or the Flagstaff Proposition 414. Capitation rates will be adjusted for these increases at a future date and will separately come before the Committee for those increases. However, it is important to note that rates paid to providers **will** be adjusted July 1, 2017, even if those costs are not incorporated into the capitation rates until a later date.*

Detailed explanations regarding these items are provided below.

#### *Pharmacy and Therapeutics (P&T) Committee Decisions*

AHCCCS' Pharmacy and Therapeutics (P&T) Committee makes pharmaceutical coverage decisions to maximize the most favorable net cost of pharmaceuticals to the State. This may occur by encouraging generic drug use when generic drugs offer the best value for an efficacious clinical outcome, or may result in mandating brand drugs when such branded products are the least costly option due to the value of AHCCCS' drug rebates. These actions can be expected to increase or decrease an MCO's expenditures, thus AHCCCS' actuaries completed a thorough review to ensure that the underlying funding included in the capitation rates accurately reflected the changes in P&T. As a result of this analysis, funding is both added and subtracted to the CRS capitation rates retroactive to October 1, 2016 (resulting in a net increase overall). EPD and DDD were not impacted by this change.

#### *Minimum Wage*

One component of the capitation rate calculations include what is expected to be paid to providers ("provider rates"). Effective January 1, 2017, AHCCCS and its Contractors' (including DDD) fee schedules (provider rates) increased for select Home and Community Based Setting (HCBS) codes (including behavioral health respite care), all Nursing Facility codes and all alternative living facility services codes. AHCCCS adjusted provider rates to address the increased labor costs resulting from the Arizona minimum wage increase as approved by voters through Proposition 206 in the 2016 General Election. This action helps to assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available at least to the extent that such care and services are available to the general population in the geographic area. The costs of provider rates are incorporated into the capitation rates and managed care organizations must have actuarially sound rates that reflect their expected costs of service delivery, and must ensure an adequate network sufficient to ensure member access to care. This can happen either before or after the provider rate changes are made. In this case, the capitation rates are being adjusted after the provider rates were increased, which were implemented January 1, 2017. Thus, funding is added to the EPD and DDD capitation rates retroactive to January 1, 2017. These updated rates will be paid through June 30, 2017.

Table I below contains information regarding the CRS, EPD and DDD rate revisions, comparing the revised CYE 2017 rates to the prior CYE 2017 rates. The data is presented on the contract year basis that applies to each program as noted on page 1.

**Table I**

CRS	CYE 17 Statewide Rates		CYE 17 Population	Current with CYE 17 Pop.	Revised with CYE 17 Pop.	Change Inc. (Dec.)	Percent Impact Of Revision
	Current	Revised					
Final Rates	\$817.54	\$847.91	302,300	\$247,143,100	\$256,324,100	\$9,181,000	3.7%

EPD	CYE 17 Statewide Rates		CYE 17 Population	Current with CYE 17 Pop.	Revised with CYE 17 Pop.	Change Inc. (Dec.)	Percent Impact Of Revision
	Current	Revised					
Final Rates	\$3,325.12	\$3,427.10	337,060	\$1,120,765,400	\$1,155,138,800	\$34,373,400	3.1%

DDD	CYE 17 Statewide Rates		CYE 17 Population	Current with CYE 17 Pop.	Revised with CYE 17 Pop.	Change Inc. (Dec.)	Percent Impact Of Revision
	Current	Revised					
Final Rates	\$3,572.17	\$3,642.90	358,873	\$1,281,956,300	\$1,307,340,000	\$25,383,700	2.0%

The actuarial certifications for the CYE 2017 capitation rate amendments for CRS, EPD and DDD are attached.

Background for CYE 2018 Capitation Rate Annual Renewals

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

The changes to these two programs for CYE 2018, over the most recently submitted CYE 2017 rates (effective January 1, 2017) are detailed in Table II below.

**Table II**

Program	CYE 2018 Rate Change (over most recently submitted rates effective 1/1/2017)
DCS/CMDP	(3.48)%
DES/DDD	(1.68)%

The utilization and unit cost trends for each program by population are detailed in the attached actuarial certifications. There were no program or provider rate changes effective July 1, 2017 impacting these rates. Any capitation rate adjustments that reflect provider rate changes associated with minimum wage and provider sick leave costs effective July 1, 2017, will be presented at a future JLBC meeting. In addition, AHCCCS typically adjusts its other provider rates and makes other program changes, if there are any changes, effective October 1 annually. Thus the CYE 2018 CMDP and DDD rates will be amended to reflect those changes and will be presented again at a future JLBC meeting. These capitation rates are within the amounts appropriated in the state Fiscal Year 2018 budget. Again, we expect future updates to the rates for October 1 and we will provide budget updates along with those further adjustments to the capitation rates as explained above.

**CMDP Rate Detail**

The overall rate adjustment for CMDP for CYE 2018 is a decrease of (3.48)% from the most recently submitted rates effective January 1, 2017.

There are two factors primarily contributing to the overall rate change: a rebase incorporating reduced utilization and unit cost trends, which resulted in decreased rates by (4.10)%; and an increase in administrative expenses, which results in a 0.63% increase. There were no other program changes driving these adjustments.

**DDD Rate Detail**

The overall rate adjustment for the ALTCS DDD program for CYE 2018 is a decrease of (1.68)% from the most recently submitted rates effective January 1, 2017.

The three primary factors impacting the capitation rates are a rebase incorporating reduced utilization and unit cost levels, resulting in a decrease of (2.49)%; residual trends resulting in an increase of 1.11%; and decreases to case management and administrative costs, resulting in a combined (0.30)% decrease to the rates.

The CYE 2018 rates for DDD continue the Proposition 206 funding added to the CYE 2017 DDD rates for the minimum wage increase effective January 1, 2017. Because these CYE 2018 capitation rates were due to CMS on April 1, 2017, AHCCCS did not yet have all the information necessary to compute Proposition 206 impacts effective July 1, 2017, in this rate package. AHCCCS' actuaries are just beginning their analysis of the July 1, 2017 Proposition 206 actions and will be amending the CYE 2018 capitation rates, retroactive to July 1, 2017, at a later date. AHCCCS expects to include this retroactive rate increase with the already-planned October 1, 2017 capitation rate amendment and thus bring one complete package to the future JLBC meeting.

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

Sincerely,



Beth Kohler  
Deputy Director

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





STATE OF ARIZONA

## Joint Legislative Budget Committee

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Eric Billings, Principal Fiscal Analyst *EB*

SUBJECT: Department of Public Safety - Review of Border Strike Task Force Expenditure Plans

### Request

Pursuant to a FY 2018 General Appropriation Act footnote (Laws 2017, Chapter 305) the Department of Public Safety (DPS) is submitting for review their \$1,261,700 Border Strike Task Force (BSTF) Local Support expenditure plan.

### Recommendation

The Committee has at least the following 2 options:

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

### Analysis

#### Background

The BSTF was established in September 2015 within DPS as part of an Executive initiative to provide a multi-agency approach to targeting drug and human trafficking organizations and activities along the Arizona-Mexico border.

The BSTF Local Support line item provides funding for awards to local law enforcement, county jails, and county attorneys that participate in BSTF or border security efforts. The FY 2018 General Appropriation Act continues the requirement that \$761,700 be used to fund local law enforcement positions within

(Continued)

the BSTF and \$500,000 be used for grants to local governments for costs associated with the prosecution and imprisonment of individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes.

The Act also stipulates that local law enforcement participants in the BSTF must provide at least a 25% match to the monies that they receive from the \$761,700 local law enforcement officer allocation for officer salary and benefit costs and that DPS may fund 100% of any capital-related equipment. The \$761,700 allocation is intended to fund 8 FTE Positions from local law enforcement agencies within the BSTF.

#### Expenditure Plan

The DPS expenditure plan allocates \$761,700 for BSTF local law enforcement positions *See Table 1*. The plan would continue the distributions from the FY 2017 plan allocating \$600,000 to fund 5 sheriff's deputies from the Cochise County Sheriff's Office (\$375,000) and 3 sheriff's deputies from the Pima County Sheriff's Office (\$225,000) that would serve as part of the BSTF. The remaining \$161,700 would be utilized for equipment purchases and other operating costs associated with these positions. The estimated average annual salary of these positions is \$58,800. DPS indicated that they also reached out to the Santa Cruz and Yuma County Sheriff's Offices, but both indicated that they did not have the resources to make the required 25% match at this time.

Regarding the \$500,000 allocation for border-related prosecution and jail costs, DPS is proposing to distribute \$166,700 to Cochise, Pima, and Santa Cruz Counties for expenses incurred as a result of the arrest of individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crime. The FY 2017 distribution made an allocation to Yuma County, however, DPS indicated that Yuma County has declined a share of this funding for FY 2018. Under this plan, DPS would require the county sheriffs to report annually on how these monies were expended.

<b>Table 1</b>	
<b>Border Strike Force Expenditure Plan</b>	
<u>75% Match of Local Law Enforcement Personnel</u>	
- Cochise Deputies	\$375, 000
- Pima Deputies	225,000
- Other Equipment Costs	<u>161,700</u>
	\$761,700
<u>Prosecution and Jail Costs</u>	
- Cochise	\$166,666
- Pima	166,666
- Santa Cruz	<u>166,666</u>
	\$500,000

RS/EB:kp



## ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

*"Courteous Vigilance"*

DOUGLAS A. DUCEY FRANK L. MILSTEAD  
Governor Director

May 30, 2017

The Honorable Don Shooter, Chairman  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, AZ 85007



Dear Representative Shooter:

The FY 2018 General Appropriations Act authorizes \$1,261,700 from the General Fund for the Border Strike Task Force Local Support Special Line Item. The special line item funding consists of \$761,700 to support other law enforcement participation with the task force and \$500,000 for prosecutorial and jail costs associated with individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes. Prior to disbursing the funding, DPS must present an expenditure plan to the JLBC for review.

As required by the General Appropriations Act, any city, town, or county receiving funding from the \$761,700 portion shall pay a minimum of 25% of the payroll costs of any position supported by the funding. Like other task force arrangements, participation and funding will be based on the availability and willingness of agencies and personnel to participate and may vary over the course of a given period.

As with last fiscal year, DPS plans to expend the \$761,700 to support 5 deputy positions at the Cochise County Sheriff's Office and 3 deputy positions at the Pima County Sheriff's Department. Neither Santa Cruz County nor Yuma County have the resources to provide deputies now. In addition, the \$500,000 for prosecutorial and jail costs will be split equally among Cochise County, Pima County, and Santa Cruz County. Yuma County declined their share of this funding.

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

Sincerely,

Frank L. Milstead, Colonel  
Director

C: The Honorable Debbie Lesko, Vice-Chairman  
Lorenzo Romero, OSPB Director  
Richard Stavneak, JLBC Director





STATE OF ARIZONA

## Joint Legislative Budget Committee

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DAVID LIVINGSTON  
MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Eric Billings, Principal Fiscal Analyst *EB*

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 Laws 2017, Chapter 303 (the FY 2018 Criminal Justice Budget Reconciliation Bill) and A.R.S. § 41-1724G, the Department of Public Safety (DPS) is required to submit for Committee review the entire FY 2018 expenditure plan for the GIITEM Border Security and Law Enforcement Subaccount prior to expending any monies. The Subaccount is funded primarily from a \$4 surcharge on criminal violations.

DPS has submitted for review its proposal to distribute the \$2,390,000 FY 2018 appropriation from the Subaccount among all 15 county sheriffs, 4 municipalities, and the Arizona Department of Corrections (ADC). DPS' expenditure plan differs from the FY 2017 plan in that it includes a \$15,000 shift from the local law enforcement participants in GIITEM to sheriff's deputies and ADC employees working to gather intelligence within jails and state prisons.

This \$4 surcharge Subaccount is only 1 of 3 different GIITEM funding sources for local governments. (See Table 1)

### Recommendation

The Committee has at least the following 2 options:

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

The FY 2018 estimated change in Subaccount distributions across recipients will reduce the amount received

(Continued)

by the Maricopa County Sheriff's Office by \$(89,200) and increase the distributions to the Cochise, Santa Cruz, and Yuma County Sheriffs' Offices by \$10,300, \$52,100, and \$52,100, respectively. These estimates do not include the impacts of the other 2 GIITEM accounts, which do not require annual JLBC review.

## Analysis

Pursuant to A.R.S. § 12-116.04, the GIITEM Border Security and Law Enforcement Subaccount receives revenues from a \$4.00 criminal fee assessed on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations. These monies are distributed by DPS to county sheriffs and other local law enforcement agencies to fund border security programs, personnel, and safety equipment. The proposed DPS expenditure plan would allocate the entire FY 2018 GIITEM Border Security and Law Enforcement Subaccount appropriation to 4 programs which are as follows:

- Detention Liaison Officers Program - \$515,000 to hire detention and correctional officers that serve within jails and state prisons to gather intelligence from inmates about illegal activities along the border. This is \$15,000 more than the amount that the Committee reviewed in FY 2017 and the Maricopa County Sheriff is no longer a recipient while the Santa Cruz and Yuma County Sheriffs are new recipients. *(See below for more information)*
- Border County Officers Program - \$475,000 to hire county sheriff deputies and municipal police officers that work as part of the GIITEM Task Force's Border District investigating border-related crimes such as drug trafficking and human smuggling. This is \$(15,000) less than the amount that the Committee reviewed in FY 2017. Of the approved FY 2017 participants, the Eloy Police Department is no longer a recipient.
- Pima County Border Crimes Unit - \$350,000 to fund a portion of the costs of hiring 10 Pima County Sheriff's deputies that focus exclusively on border-related crimes. This allocation is the same as the amount reviewed by the Committee in FY 2017.
- Border Security and Law Enforcement Grants - \$1,050,000 that DPS will distribute to all 15 county sheriffs' offices for border security. This allocation is the same as the amount reviewed by the Committee in FY 2017.

After combining the distributions from the 4 separate Subaccount programs, *Table 2* on the following page displays the grant recipients in FY 2016, FY 2017, and FY 2018. Across all programs, county sheriffs receive \$1.9 million, approximately the same amount as last year.

As required by law, all recipients of GIITEM Border Security and Law Enforcement Subaccount monies except Maricopa and Pinal Counties are required to provide at least 25% of the personnel costs of any agreement or contract with DPS as a match. DPS may opt to fund all associated capital costs.

The \$4 surcharge is one of 3 GIITEM accounts *(See Table 1)*. The second is the DPS General Fund appropriation for local immigration enforcement grants. The funding level is \$1.4 million in FY 2018. Of this amount, A.R.S. § 41-1724C requires DPS to annually allocate \$500,000 to the Pinal County Sheriff's Office and a provision in the FY 2018 Criminal Justice BRB requires a further one-time \$400,000 to be allocated to the Pima County Sheriff's Office in FY 2018. This leaves \$503,400 in GIITEM Fund monies at DPS' discretion in FY 2018.

Prior to FY 2018, the GIITEM Fund was appropriated a total of \$2.6 million in General Fund monies annually. Of this amount, a total of \$1.6 million was statutorily required to be distributed to the Maricopa County Sheriff. The FY 2018 Criminal Justice BRB, however, prohibited distribution of any GIITEM General Fund local grant monies to Maricopa County. The bill also shifted \$1.2 million of this amount to Sexual Assault Kit Testing. The remaining \$400,000 was allocated to the Pima County Sheriff on a one-time basis in FY 2018. A footnote in the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) indicates that it is the intent of the Legislature that the GIITEM Fund appropriation be increased to the former \$2.6 million level in FY 2019.

(Continued)

The third GIITEM account is a \$9.8 million General Fund appropriation for DPS' own gang enforcement activities. DPS, however, utilizes part of these monies for grants to locals. In FY 2016, DPS utilized \$1.5 million from this amount for grants to local law enforcement that either participate in the GIITEM Task Force or have DLO officers. DPS plans to offset Maricopa's loss of \$(89,200) in \$4 surcharge monies with a corresponding increase from DPS' own \$9.8 million pool of funds.

**Table 1**

**Local Government – 3 GIITEM Funding Sources**

- Subaccount - \$2.4 million
  - Funded from \$4 Criminal Fee Surcharge
  - DPS determines distribution
- General Fund Local Immigration Enforcement Grants - \$1.4 million
  - \$500,000 Pinal and \$400,000 Pima Statutory Allocations
  - Maricopa Prohibition
- General Fund DPS Gang Enforcement - \$1.5 million
  - DPS uses most of the \$9.8 million for its own expenses
  - DPS has allocated \$1.5 million to locals

**Table 2**

**DPS Expenditure Plan – GIITEM Subaccount**

<u>Proposed Recipient</u>	<u>FY 2016 Allocation</u>	<u>FY 2017 Approved Allocation</u>	<u>FY 2018 Proposed Allocation <sup>1/</sup></u>
<b>Police Departments/Marshall's Offices</b>			
Coolidge Police Department	\$ 28,600	\$ 64,200	\$ 74,500
Eloy Police Department	0	56,400	0
Oro Valley Police Department	62,500	66,700	77,000
San Luis Police Department	0	56,400	66,700
Somerton Police Department	22,300	44,500	54,900
<b>Subtotal</b>	<b>\$ 113,400</b>	<b>\$ 288,200</b>	<b>\$ 273,100</b>
<b>County Sheriffs</b>			
Apache County Sheriff's Office	\$ 12,000	\$ 70,000	\$ 70,000
Cochise County Sheriff's Office	641,000	299,100	309,400
Coconino County Sheriff's Office	0	70,000	70,000
Gila County Sheriff's Office	10,000	70,000	70,000
Graham County Sheriff's Office	9,300	70,000	70,000
Greenlee County Sheriff's Office	2,000	70,000	70,000
La Paz County Sheriff's Office	3,500	70,000	70,000
Maricopa County Sheriff's Office	141,100	159,200	70,000
Mohave County Sheriff's Office	33,000	70,000	70,000
Navajo County Sheriff's Office	18,000	70,000	70,000
Pima County Sheriff's Department	486,100	507,300	507,300
Pinal County Sheriff's Office	135,200	117,700	117,700
Santa Cruz County Sheriff's Office	36,800	70,000	122,100
Yavapai County Sheriff's Office	35,000	70,000	70,000
Yuma County Sheriff's Office	149,400	70,000	122,100
<b>Subtotal</b>	<b>\$ 1,712,400</b>	<b>\$ 1,853,300</b>	<b>\$ 1,878,600</b>
<b>Arizona Department of Corrections</b>	<b>\$ 205,000</b>	<b>\$ 238,300</b>	<b>\$ 238,300</b>
<b>Unallocated</b>	<b>\$ 359,200</b>	<b>\$ 10,200</b>	<b>\$ 0</b>
<b>Total</b>	<b>\$ 2,390,000</b>	<b>\$ 2,390,000</b>	<b>\$ 2,390,000</b>

<sup>1/</sup> Represents estimated new proposed allocation from the subaccount.



## ARIZONA DEPARTMENT OF PUBLIC SAFETY

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DOUGLAS A. DUCEY FRANK L. MILSTEAD  
Governor Director

May 30, 2017

The Honorable Don Shooter, Chairman  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, AZ 85007



Dear Representative Shooter:

Pursuant to Laws 2017, Chapter 303, Section 19, the Department of Public Safety is submitting its entire FY 2018 expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount ("Subaccount") to the Joint Legislative Budget Committee for review.

The FY 2018 General Appropriations Act appropriates \$2,390,000 from the Subaccount to DPS. Pursuant to A.R.S. § 41-1724, "...monies in the subaccount shall be used for law enforcement purposes related to border security, including border personnel". The monies may also be used for "...safety equipment that is worn or used by a peace officer who is employed by a county sheriff."

DPS intends to continue funding the four existing programs that have previously been given a favorable review by the JLBC. The Department's overall FY 2018 expenditure plan is as follows:

Detention Liaison Officer Program	\$515,000
Border County Officers	475,000
Border Crimes Unit	350,000
Border Security and Law Enforcement Grants	1,050,000
<b>TOTAL</b>	<b>\$2,390,000</b>

The above expenditure plan is substantially similar to the FY 2017 plan.

### Detention Liaison Officer Program

The Detention Liaison Officer (DLO) Program provides funding for detention and correctional officers in southern Arizona jails and prisons. The concept of the program is to utilize these specially trained officers to glean as much intelligence as possible from detainees and inmates about activities related to border crimes. Information gathered by these officers is fed into DPS-managed databases (e.g., GangNet) and shared among law enforcement agencies throughout the State.

The program currently funds detention officer positions in each of Cochise, Pima (2), Pinal, Santa Cruz and Yuma Counties, and four correctional officers and two data entry positions in

southern Arizona prisons operated by the Department of Corrections. At any given time, the agencies participating in the program may shift based on jurisdictions' ability and willingness to participate and on program budget constraints. DPS has allocated \$515,000 for the program in FY 2018. Local agencies pay 25% of the payroll costs of their positions. The DLO Program was first reviewed by JLBC in August 2007.

#### **Border County Officers**

The Border County Officers Program provides funding for county sheriff deputies and municipal police officers who work as part of the GIITEM Task Force's Southern District. The district investigates border crimes and disrupts criminal organizations involved in drug trafficking, human smuggling, and other border-related crimes.

The program currently funds officer and deputy positions with the Coolidge, Oro Valley, San Luis and Somerton Police Departments, and with the Cochise County Sheriff's Office (3). At any given time, the agencies participating in the program may shift based on jurisdictions' ability and willingness to participate and on program budget constraints. DPS has allocated \$475,000 for the program in FY 2018. Local agencies pay 25% of the payroll costs of their positions. The Border County Officers Program was first reviewed by JLBC in August 2007.

#### **Border Crimes Unit**

Subaccount monies fund a portion of the costs of 10 deputies from the Pima County Sheriff's Department who operate as part of the Border Crimes Unit. The BCU works in cooperation with GIITEM and conducts interdiction efforts in remote areas of Pima County. Over the first three quarters of FY 2017, BCU has made 281 arrests, seized 4,168 pounds of illegal drugs, seized 90 vehicles, seized \$182,175, and detained and released 80 persons to Immigration and Customs Enforcement.

DPS has allocated \$350,000 for the project in FY 2018. Pima County pays for all costs above the \$350,000 level. The Pima County portion exceeds 25% of the payroll costs for the 10 positions. The BCU was first reviewed by JLBC in August 2007.

#### **Border Security and Law Enforcement Grants**

DPS sought input from the Arizona Sheriffs' Association (ASA) on the distribution of the Border Security and Law Enforcement Grants. The FY 2018 plan would provide an equal amount to each sheriff's office, based on the unanimous support of the Arizona Sheriffs' Association for this distribution. The following table shows the FY 2018 distribution plan alongside the FY 2017 allocations:

County Sheriff	FY 2017 Allocations	FY 2018 Plan
Apache	\$70,000	\$70,000
Cochise	70,000	70,000
Coconino	70,000	70,000
Gila	70,000	70,000
Graham	70,000	70,000
Greenlee	70,000	70,000
La Paz	70,500	70,000
Maricopa	70,000	70,000
Mohave	70,000	70,000
Navajo	70,000	70,000
Pima <sup>1/</sup>	70,000	70,000
Pinal <sup>2/</sup>	70,000	70,000
Santa Cruz	70,000	70,000
Yavapai	70,000	70,000
Yuma	70,000	70,000
<b>TOTAL</b>	<b>\$1,050,000</b>	<b>\$1,050,000</b>

<sup>1/</sup> Per the submitted distribution plan, DPS intends to reimburse the Pima County Sheriff's Department an additional \$350,000 for eligible Border Crimes Unit costs. In addition, Chapter 303 allocates \$400,000 from the GIITEM Fund to PCSD.

<sup>2/</sup> The Pinal County Sheriff's Office will receive an additional \$500,000 in FY 2018 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 statute, in order 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 to the fullest extent of the law. 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.

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

Sincerely,



Frank L. Milstead, Colonel  
Director

C: The Honorable Debbie Lesko, Vice-Chairman  
Lorenzo Romero, OSPB Director  
Richard Stavneak, JLBC Director





STATE OF ARIZONA

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Matt Beienburg, Fiscal Analyst *MB*  
Steve Schimpp, Deputy Director *SS*

SUBJECT: Arizona Department of Administration/Arizona Department of Education - Review of  
AELAS Project (Automation Projects Fund)

### Request

Pursuant to A.R.S § 41-714, the Arizona Department of Administration (ADOA) and the Department of Education (ADE) have requested Committee review of \$7,300,000 in proposed FY 2018 expenditures from the Automation Projects Fund (APF) for the Department of Education Arizona Education Learning and Accountability System (AELAS).

### Recommendation

The Committee has at least the following 2 options:

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

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

- A. ADE shall report to the Committee at least 30 days prior to transferring monies between the project lines listed in the FY 2018 AELAS expenditure plan. *(Please see Table 2.)*
- B. Prior to the expenditure of any monies approved in the FY 2018 AELAS expenditure plan for purposes not delineated in *Table 2* below, ADE shall submit for Committee review a report of the intended use of those monies.

(Continued)

- C. ADE must identify a funding source, amend the project investment justification (PIJ) to reflect costs required to complete the full scope of the project, and submit this information to the ADOA-Arizona Strategic Enterprise Technology (ASET) Office and the Information Technology Authorization Committee (ITAC) for review and approval, prior to expenditure of additional funding beyond the FY 2018 APF allocation. (This provision was adopted by ITAC at its May 24, 2017 meeting.) ADE shall provide this same information to the Committee.
- D. By October 31, 2017, ADE shall provide the Committee a detailed account of the department's total expenditures for information technology (IT) operations, by fund source, for both AELAS and non-AELAS related components for FY 2017 (actual) and FY 2018 (budgeted).

## Analysis

### Background

ADE started a multi-year information technology project in FY 2012 called AELAS. AELAS is intended to replace the old system ADE has used to count and fund students (the Student Accountability Information System (SAIS)) as well as replace other ADE data systems. AELAS also will provide statewide access to data on student achievement and teacher effectiveness for individual courses.

Table 1 provides an overview of the total AELAS funding from all sources to date. Through FY 2018 ADE will have received an estimated \$61.1 million, including \$45.8 million from the General Fund.

<b>Table 1</b> <b>AELAS Funding by Fiscal Year</b> <b>(\$ in Millions)</b>				
<b>Fiscal Year</b>	<b>General Fund</b>	<b>Higher Ed Fees <sup>1/</sup></b>	<b>Federal Grants <sup>2/</sup></b>	<b>Total</b>
2012	5.0	1.6	0.1	6.7
2013	5.0	1.6	1.8	8.4
2014	5.4	1.6	2.8	9.8
2015	10.4	1.6	2.6	14.6
2016	5.4	1.6	0.0	7.0
2017	7.3	0.0	0.0	7.3
2018	<u>7.3</u>	<u>0.0</u>	<u>0.0</u>	<u>7.3</u>
<b>Total</b>	<b>45.8</b>	<b>8.0</b>	<b>7.3</b>	<b>61.1</b>

<sup>1/</sup> Generated from a \$6 per FTSE fee from university and community college pupils. The FY 2012 and FY 2013 budgets appropriated \$1.2 million based on initial estimates. Amount generated above those totals were carried forward into subsequent years.

<sup>2/</sup> Included \$5.0 million from a statewide longitudinal data system (SLDS) grant and \$2.3 million from a "Race to the Top" grant.

The FY 2018 budget appropriated \$7.3 million from the General Fund for AELAS. ADE plans to use \$5.3 million of that total for AELAS maintenance and operation and \$2.0 million for development. Of the development funding, ADE proposes to use \$1.5 million for additional database development (AzEDS) and \$500,000 to plan the replacement of the School Finance calculation portions of SAIS (see Table 2). ITAC and ASET approved ADE's FY 2018 AELAS expenditure plan in May 2017.

(Continued)

The \$7.3 million was labeled as one-time in the FY 2018 budget's 3-year spending plan. This project has had this one-time label since its funding began. ADE will continue to need funding past FY 2018, however, if the project is to be completed. ADE estimates that it will have \$16.8 million in development costs remaining after FY 2018. ADE also believes that it will continue to need approximately \$5.3 million from the General Fund in its annual operating budget for AELAS maintenance and operation in future years. ADE does not expect this operating amount to increase substantially for the foreseeable future.

ADE's estimate of \$5.3 million of ongoing AELAS maintenance and operation funding from the Automation Projects Fund (APF) is part of its approximately \$10 million annual expenditure for ongoing AELAS related operations. ADE intends to supplement the \$5.3 million with additional non-APF sources to cover the remaining AELAS operation costs. These fund sources include ADE's General Fund operating lump sum, Proposition 301 monies, federal monies, and other non-appropriated internal ADE funds.

We project ADE's overall IT budget, including non-AELAS related components, to be approximately \$17.5 million in FY 2017.

Over time, AELAS is expected to become even more integrated with the IT system. *(Please see the AzEDS section below for more information.)* Provision D above is intended to provide the Committee greater insight into the relationship between the ongoing funding needs of the AELAS program and ADE's larger IT budget.

<b>Table 2</b>		
<b>Automation Projects Fund - ADE AELAS Expenditure Plan</b>		
<b>Project</b>	<b>FY 2017</b>	<b>FY 2018</b>
Annual Maintenance and Operation	\$3,440,000 <sup>1/</sup>	\$5,300,000 <sup>2/</sup>
Development	<u>3,860,000</u> <sup>3/</sup>	<u>2,000,000</u> <sup>4/</sup>
<b>Total</b>	<b>\$7,300,000</b>	<b>\$7,300,000</b>
<sup>1/</sup> Includes \$700,000 for the Program Support Office, \$2,560,000 for Production Services, and \$180,000 allocated for the continued implementation and support of the State Opt-In SIS program. <sup>2/</sup> Includes \$500,000 for the Program Support Office, \$600,000 for refreshing the underlying AZDash dashboard data, and \$4,200,000 for general database, network, hardware and software operations. <sup>3/</sup> Includes \$3,120,000 for additional AzEDS database development and \$740,000 for School Finance that was primarily used to complete system changes required for the implementation of current year funding. <sup>4/</sup> Includes \$1,500,000 for additional AzEDS development and \$500,000 for preliminary modeling for the new School Finance calculation system. ADE estimates that \$16,800,000 of development work will remain to be done after FY 2018.		

Additional detail on the components of ADE's FY 2018 expenditure plan for AELAS are described below.

#### *Maintenance and Operation*

The budgeted \$5.3 million for AELAS maintenance and operation includes \$500,000 for the Program Support Office (PSO), which creates design standards for the AELAS project and provides overall management, including financial oversight, procurement, reporting and vendor supervision. It also includes \$4.2 million for database operations, network security, customer support, hardware, and software licenses for AzEDS. The remaining \$600,000 is to support data dashboards (AzDash), including the annual refreshing of underlying dashboard data.

The budgeted \$5.3 million for maintenance and operation for AELAS for FY 2018 is \$1.9 million higher than the amount budgeted for FY 2017. A breakdown of that increase appears in *Table 3*. ADE attributes the increase to more AELAS components being in operation in FY 2018, as well as to

(Continued)

reclassifying staff who were previously developing new system components, but who are now maintaining or refining them.

<b>Table 3</b>		
<b>AELAS Maintenance and Support Expenditures <sup>1/ 2/</sup></b>		
<b>Item</b>	<b>FY 2017</b>	<b>FY 2018</b>
FTE Headcount	42.1	47.3
Contractor/Temp Headcount	23.7	37.8
<b>Total Headcount</b>	<b>65.8</b>	<b>85.1</b>
Resource Costs	\$2,691,500	\$4,989,300
Software	101,800	101,800
Hardware/Cloud Storage	500,000	500,000
Professional Services (system monitoring, audits, etc.)	171,800	208,100
<b>Total Funds</b>	<b>\$3,465,100</b>	<b>\$5,799,200</b>
<sup>1/</sup> Includes only expenditures funded with state General Fund monies deposited into the ADOA Automation Projects Fund. ADE also budgeted \$4,441,800 in FY 2017 and \$4,301,400 in FY 2018 from other sources, including \$1,683,500 of ADE's General Fund operating lump sum, \$1,008,700 of Federal Funds, \$659,600 of Proposition 301 monies, and \$949,700 of other internal non-appropriated funds.		
<sup>2/</sup> Based on ADE's FY 2018 agency budget proposal documents. Actual FY 2018 maintenance and operation spending under the current proposal totals \$5,300,000.		

*Development: Arizona Education Data Standards (AzEDS)*

ADE's proposed \$1.5 million for continued database (AzEDS) development includes \$700,000 to continue to eliminate redundant databases within the department and streamline access to data for required federal and state reports, \$300,000 to automate school calendar databases, \$200,000 to prepare to meet new reporting requirements under the Every Student Succeeds Act (ESSA), and \$300,000 to enable schools to update their own log in information for AzEDS.

AzEDS standardizes how data is received by AELAS and is intended to provide a single copy of student data that is consistent between ADE and schools' local information systems. As of FY 2017, AzEDS began serving as the system of record for student data used in school payments for all districts and charter schools.

While the system is operational, however, only the pieces of data for each student that are required to calculate Basic State Aid are currently transmitted between schools and ADE via AzEDS. The remaining student characteristics (such as data related to Career and Technical Education, Health and Nutrition, etc.) are stored and transmitted separately using the old system software.

Ultimately, ADE intends to integrate these remaining data pieces into AzEDS so that it will serve as a single source of data for all agency data needs across program areas and for all federal and state reporting requirements. This complete integration will not be finished in FY 2018.

*Development: School Finance*

ADE's proposed \$500,000 for School Finance functions is intended to fund continued planning to replace the School Finance portion of SAIS, which computes school payments under the Basic State Aid formula. This planning will involve analyzing current SAIS formula calculations and related statutes in order to identify design requirements for the new system.

(Continued)

AELAS funding from previous years has been used to automate School Finance calculations for the Classroom Site Fund and other non-Basic State Aid (BSA) formulas within AELAS, but BSA formula calculations continue to take place within SAIS.

#### Third-Party Review

Pursuant to A.R.S. § 18-104A1g, ADE has contracted with a third-party vendor to provide quarterly reports on the development of AELAS.

The April 2017 third-party review states that the \$7.3 million FY 2018 appropriation "is in on the low end of the amount needed to maintain AELAS operations, and does not provide funding for further development, in particular of the replacement of [the school payment reports]."

The review also states that ADE expects to discontinue the statewide Opt-In SSIS program after calendar year 2018 due to fiscal instability caused by the low margins generated by small district users and the June 2016 JLBC provision that prohibits further marketing the offering to new (including larger) districts.

The review also recommends considering alternative funding strategies to sustain the maintenance and development of ELAS:

1. Charge districts a per student user fee
2. As allowed by Laws 2016, Chapter 317:
  - a. Pursue sale of AELAS components to other state education agencies
  - b. Pursue sale and co-ownership with private software/sales company
3. Release a request for proposal (RFP) for privatization of ongoing AELAS support and maintenance

The third-party reviewers have estimated an expected annual savings from AELAS of \$40 million per year. This estimate is based on a broad assumption that the system would produce more accurate student counts, saving roughly 1% of the approximately \$4 billion of school payments processed by the system. It is difficult to validate this estimate, however, as it would require making the calculation using both the old and new systems simultaneously.

ADE has reported specific examples of counting errors that have been identified and resolved as a result of the new system, including special education students who were being counted for days in which they were not enrolled in a district, and students who graduated early but who continued to generate funding until the rest of their class year cohort graduated. We have asked ADE if it can quantify the estimated savings of these specific examples.

RS/SSC/MB:kp

Douglas A. Ducey  
Governor



Craig C. Brown  
Director

**ARIZONA DEPARTMENT OF ADMINISTRATION**

**OFFICE OF THE DIRECTOR**

100 NORTH FIFTEENTH AVENUE • SUITE 401  
PHOENIX, ARIZONA 85007  
(602) 542-1500

May 30, 2017

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

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

Dear Representative Shooter and Senator Lesko:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal years 2018 Automation Projects Fund (APF) projects. Monies to support the expenditure plans have already been appropriated to the APF.

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

Sincerely,

  
Craig C. Brown (May 31, 2017)

Craig C. Brown  
Director

Enclosures

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

## ADE – Education Learning and Accountability System (ELAS) - \$7,300,000

FY17 funding is broken into two major components – system support and development. The AELAS School Finance project automates a portion of the School Finance functions of SAIS. ADE will continue design work on the APOR and CHAR payment processes, preparing them for automation pending funding in future fiscal years. Emphasis will be placed on gathering system requirements and modeling system components. Complete School Finance replacement is out of scope for FY18, and SAIS sustainability remains a significant risk as a result.

AELAS Arizona Education Data Standards (AzEDS) is the mechanism to standardize how student data can be imported and exported into standardized data stores. This work replaces the student data portion of the aging Student Accountability and Information System (SAIS). Implementation to all districts and charters was completed in FY16, and AzEDS became the system of record for school payments in FY17. Now that this portion of SAIS has been replaced, it is critical to ensure that all other systems used by LEAs for day-to-day operations and reporting are connected to AzEDS. There is significant work that needs to be done to integrate and upgrade the databases that manage teacher data as well as databases that collect and store data related to school site type, location and other attributes associated with LEAs' physical locations. These critical databases are tied to the Department's mandated reports. Not only are these systems woefully out of date technologically, they are incompatible with the newly developed AELAS infrastructure.

The Maintenance and Operations funding ensures standards for project design, as well as development and financial oversight for ADE IT's contract laborers. This line item also funds the staff needed to prepare reports and other materials required for AELAS program oversight. This is a critical quality control function to ensure current and future projects and funds are managed appropriately. ADE is dedicating funding to allow for the sunset of legacy services and infrastructure, protecting the state's investment in the new educational data system. Systems of this complexity require professional support and maintenance. AELAS has developed tools and infrastructure that are scalable and adaptable for the future. This line item includes moving to cloud-based networking, maintaining current versions of software and hardware, supporting secure single sign on capabilities and ensuring the overall system does not fall into disrepair like SAIS had previously.

The lack of funding for maintenance and support has slowed development for the past four years. In the early years of AELAS development, there was not a need to include maintenance support funds because there were not new functioning systems. As new systems became available, the Department included requests for maintenance to ensure newly developed tools were working, available and functioning for educators throughout Arizona. Year over year, the Department has received neither its full development request, nor its maintenance and support funding request. These requests are built based on what work could be accomplished and supported annually – the chronic underfunding of both development and maintenance has added to AELAS's overall costs.

## ADE Projects

APOR/CHAR requirements gathering (School Finance)	\$ 500,000	APOR and CHAR discovery and design, requirements gathering and system modelling.
Overhauled student details databases (AzEDS)	\$1,500,000	Replace SAIS's poorly-developed databases that collect student data for state aid payments. Emphasis on decommissioning this portion of SAIS
AELAS maintenance and support	\$5,300,000	Interface with local school districts; Financial accountability; Contract oversight; and Software development management. Personnel and software licenses to run system; Without this line item, none of this will function.
	\$7,300,000	

# **APOR/CHAR requirements**

## **\$500,000**

- Develop high-level requirements for new payment system
  - Includes breaking down the existing APOR and CHAR (20+ processes and steps for monthly payment alone)
  - Annual payment separate process
  - Create statute-based modeling for proposed replacement
  - Automate existing manual processes
- Decouple APOR/CHAR from legacy Enterprise

# **AzEDS FY18 development**

## **\$1,500,000**

- 4 main deliverables for FY 2018 in AzEDS
  - Single-source Agency data, and decommission legacy apps via Operational Data Store (\$700,000)
  - LEA vendor Calendars submissions via the AzEDS API (\$300,000)
  - ESSA requirement for Financial Transparency data collection (\$200,000)
    - New LEA Finance/Teacher API
    - Requirements, design and prototype only
  - Self-servicing LEA user interface and Agency approval workflow for Organizational Entity Management System (OEMS) (\$300,000)

# **FY18 AELAS Maintenance**

## **\$5,3000,000**

- AzEDS Support
  - User bugs and ticket analysis and fixes to resolution
  - 2 API releases and enhancements to rules, portal, reports, tools, etc
- AZDash
- ADEConnect
- Data migration and State/Federal reporting
  - Design support for applications migrating to ODS
  - Analysis support for Program area reporting to Feds

# FY18 AELAS spending plan

APOR/CHAR requirements \$ 500,000

AzEDS \$ 1,500,000

AELAS Maintenance and Operations \$ 5,300,000

- AzEDS Support \$1,200,000
- Program Support Office \$ 500,000
- AZDash \$ 600,000
- AELAS Network Operations \$ 700,000
- ADEConnect \$ 450,000
- AELAS Strategic Oversight \$ 320,000
- School Finance Support \$ 250,000
- Data Migration & State/Fed Reporting \$ 630,000
- Hardware and Software \$ 650,000

**TOTAL \$ 7,300,000**

## What was tabled in FY17

- Integrating existing systems that use SAIS for data
- New dashboards for AZDash
- Adequate software/hardware needs for AELAS development
- APOR/CHAR rewrite

# **On-going challenge for AELAS success**

- Insufficient and Unpredictable Funding
  - Approved funding each year has not approached each annual ask
  - Maintenance funding each year has not been appropriated





STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

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

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HOUSE OF  
REPRESENTATIVES

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

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Josh Hope, Fiscal Analyst *JH*

SUBJECT: Arizona Department of Administration/ Department of Environmental Quality - Review  
of myDEQ Project (Automation Projects Fund)

### Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Joint Legislative Budget Committee (JLBC) review \$3,200,000 in proposed FY 2018 expenditures from the Automation Projects Fund for Phase 4 of the development of the Department of Environmental Quality (DEQ)'s myDEQ project. This initiative is intended to automate transactions between DEQ and the regulated community.

### Recommendation

The Committee has at least the following 2 options:

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

The Information Technology Authorization Committee (ITAC) approved the \$3,200,000 project at its January 25 meeting. There were no conditions to the approval. The Committee may consider the following provisions:

- A. The results of the quarterly third-party reviews are to be provided to the JLBC Staff.

(Continued)

- B. By November 30, DEQ shall provide the Committee a timetable for project completion and an estimated cost to provide 137 services online.

## **Analysis**

### Background

DEQ has developed an e-licensing portal to allow customers to conduct permitting, billing, payment, and review data submissions online. DEQ is in the process of providing 137 services online. Through FY 2017, 46 services are online. Between FY 2014 and FY 2017, DEQ has spent a total of \$16.8 million on this initiative.

### Current Request

ADOA is requesting a favorable review of \$3.2 million from the Automation Projects Fund in FY 2018 to automate 14 additional transactions (*see Appendix 1*). This \$3.2 million was transferred from the Underground Storage Tank Revolving Fund. In prior years, the project had been primarily funded by transfers from the Emissions Inspection Fund.

### Third Party Review

A FY 2016 General Appropriations Act (Laws 2015, Chapter 8) footnote stipulates that DEQ contract with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach, and scope throughout the life of the project.

ADOA/DEQ submitted the latest independent third-party review report in February 2017. The vendor gave an overall favorable evaluation of DEQ's progress in incorporating recommendations from the previous third-party report and provided 5 main recommendations. The vendor states that customer adoption rates for myDEQ are also steadily increasing. For example, since January 2017, customer adoption rates for the Self-Monitoring Report Form (SMRF), Discharge Monitoring Report Form (DMRF), and Air Permits have increased from 47% to 60%, 80% to 92%, and 50% to 74%, respectively.

The vendor commended DEQ's progress in developing a data management framework but emphasized the need to create a DEQ Data Governance Board, which would make decisions relating to data management, data quality assurance, data analysis and business intelligence, and data security.

### Future Development

By the end of Phase 4, DEQ estimates it will have automated a total of 60 of 137 services. Including the \$3.2 million for Phase 4, the Legislature will have appropriated \$20.0 million for the automation projects thus far. DEQ does not have an estimate of the cost to automate the remaining services. DEQ also does not have a reliable fund source for this project. The primary fund sources, the Emissions Inspection Fund and the Underground Storage Tank Revolving Fund, were utilized due to surpluses and were not linked to the beneficiaries of the project.

As a result, the Committee may consider a provision requiring DEQ to report an estimate of the cost to complete this automation project and a timetable. This information would allow the Executive and Legislature to plan for the future financial consequences of this project.

DEQ says it is not possible to estimate the projects' total cost. The department prefers to determine its needs one year at a time. As a result, it is difficult to develop a fiscal plan. While only 44% of their planned transactions at the end of FY 2018 will be completed, we do not know whether the remaining workload is substantially easier or more complex than the prior years' efforts.

BUSINESS PROCESS	AUTOMATION PROCESS	DESCRIPTION	EST. ANNUAL COUNT	ELAPSED TIME (DAYS)		TOUCH TIME	
				CURRENT	FUTURE	CURRENT	FUTURE
Facility Annual Report (FAR) Pollution Prevention (P2) Annual Facility Registration Annual Generator fees	myDEQ will provide an online tool to report the hazardous waste generated along with the associated fee and complete the annual registration and submission of prevention plans	1) Submission of Annual Report (FAR) and fee payment for associated Waste Generation 2) Reporting of Quarterly generation activity & associated fee payment for LQG 3) Submit Annual Registration with fee payment 4) Submission of Annual Pollution Prevention Plan for LQG	4,788	300	180	1.6	0.5
Out of State Exemptions	myDEQ will provide an online tool to obtain an out-of-state exemption for vehicle emissions testing prior to renewing their vehicle registration	5) Purchase Out of State Exemption by submitting supporting documentations	2000	2	1	20	0.1
Air Quality Compliance Reporting	myDEQ will provide a tool to report permit compliance data. System will collect information that is then reported to the EPA system and also aid in effectively addressing violations	6) Upload Semi-annual and Annual Compliance Certifications and supporting documentations. Current air permit document made available on dashboard	750	60	15	180	120
AZPDES/APP exceedance reports/ Exceedance Reports 5/30 day under APP	Arizona Pollutant Discharge Elimination System (AZPDES) is a permit for Infrequent Discharges of Domestic Wastewater to Waters of the United States.  myDEQ will provide a tool for timely reporting and compilation of Discharges that will cause or contribute to an exceedance of an Arizona water quality standard. This will allow the agency to effectively address violations	7) Submit 5-day report for AZPDES permit exceedance 8) Submit 5-day for APP permit exceedance 9) Submit 30-day report for APP permit exceedance	572	30	5	120	15
Small municipal separate storm sewer systems (MS4) General Permit*	This general permit specifically authorizes stormwater discharges from small municipal separate storm sewer systems (MS4s) in Arizona to Waters of the United States.  myDEQ will provide a tool for customers to apply for and maintain a general permit coverage. In addition they will be able to establish and submit any additional monitoring data reporting.	10) Obtain Small MS4 General Permit 11) Modify Small MS4 GP 12) Renew Small MS4 GP 13) Terminate Small MS4 GP 14) Verify and Submit Water Quality Discharge Monitoring Data (NOTE: High Priority to meet Mandated Federal E-Reporting Rule)	60	21	1	4	0.1

Douglas A. Ducey  
Governor



Craig C. Brown  
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401  
PHOENIX, ARIZONA 85007

(602) 542-1500



May 30, 2017

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

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

Dear Representative Shooter and Senator Lesko:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal years 2018 Automation Projects Fund (APF) projects. Monies to support the expenditure plans have already been appropriated to the APF.

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

Sincerely,

*Craig Brown*  
Craig Brown (May 31, 2017)

Craig C. Brown  
Director

Enclosures

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



## LOGIN

Forgot username or password?

Request an Account



LOGIN

### Video Help

View short video  
tips on how to use  
myDEQ.



### WHY myDEQ

See how myDEQ is  
helping to make a  
difference in  
Arizona



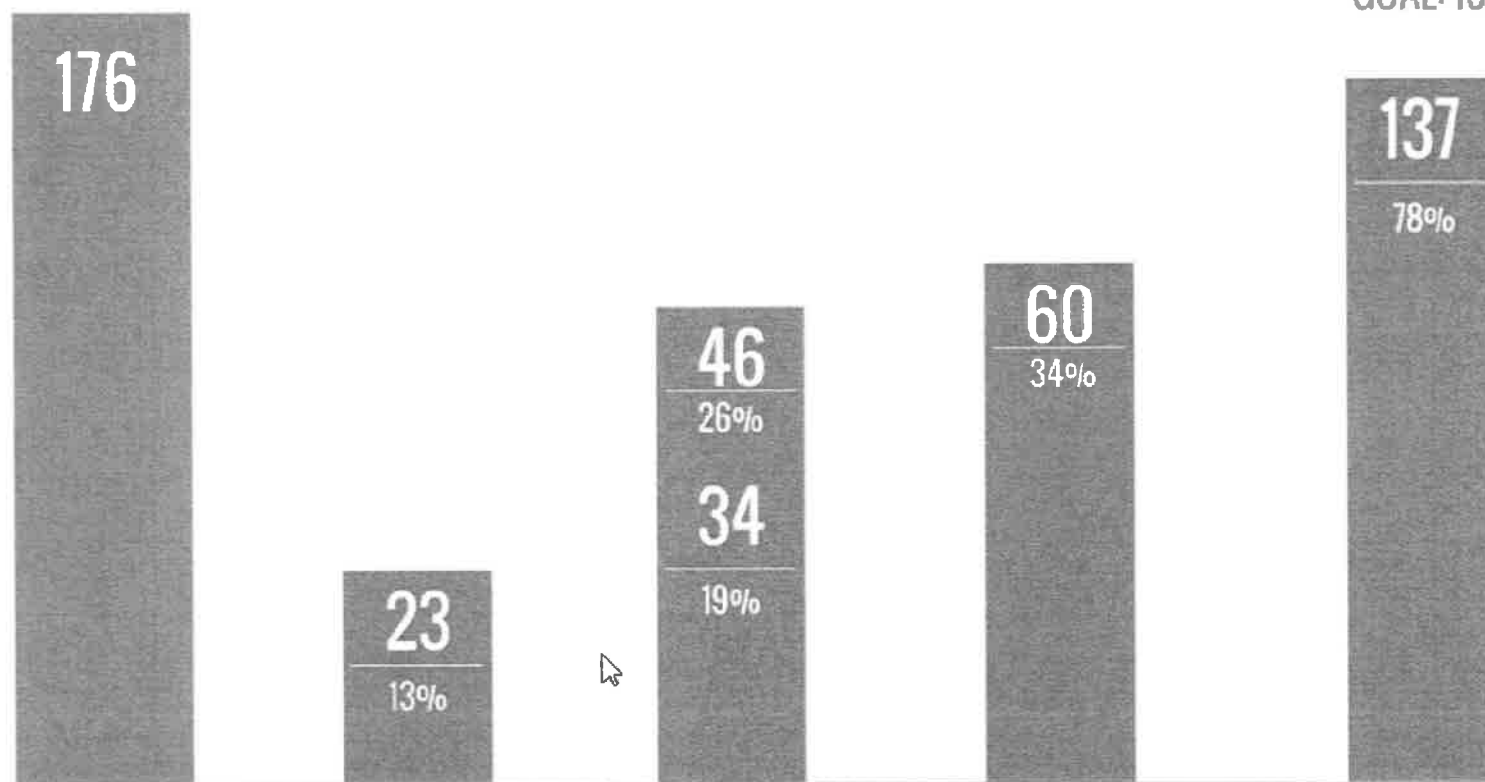
# Moving Forward myDEQ Phase 4

ITAC Presentation  
January 25, 2017



## Online Services

GOAL: 137 SERVICES ONLINE



FY16

FY17

FY18

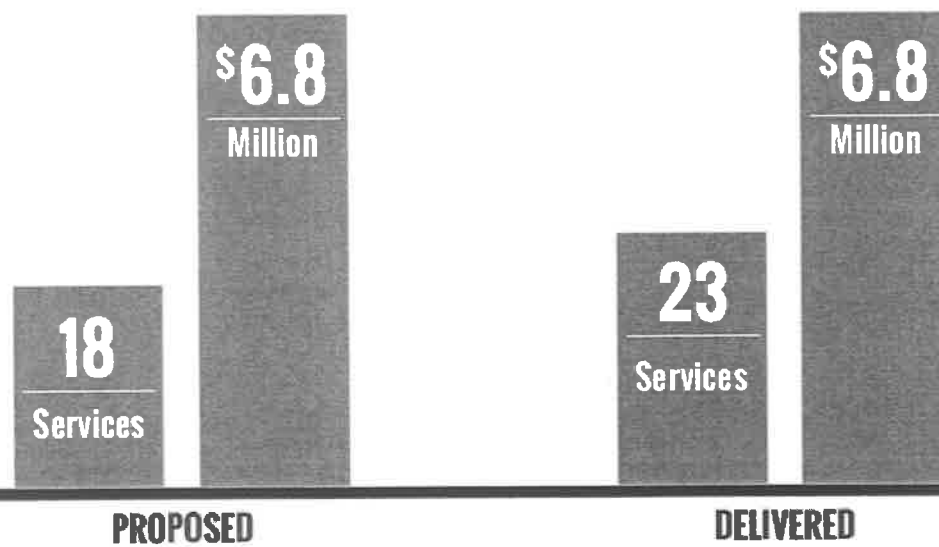
FUTURE

TOTAL ADEQ SERVICES

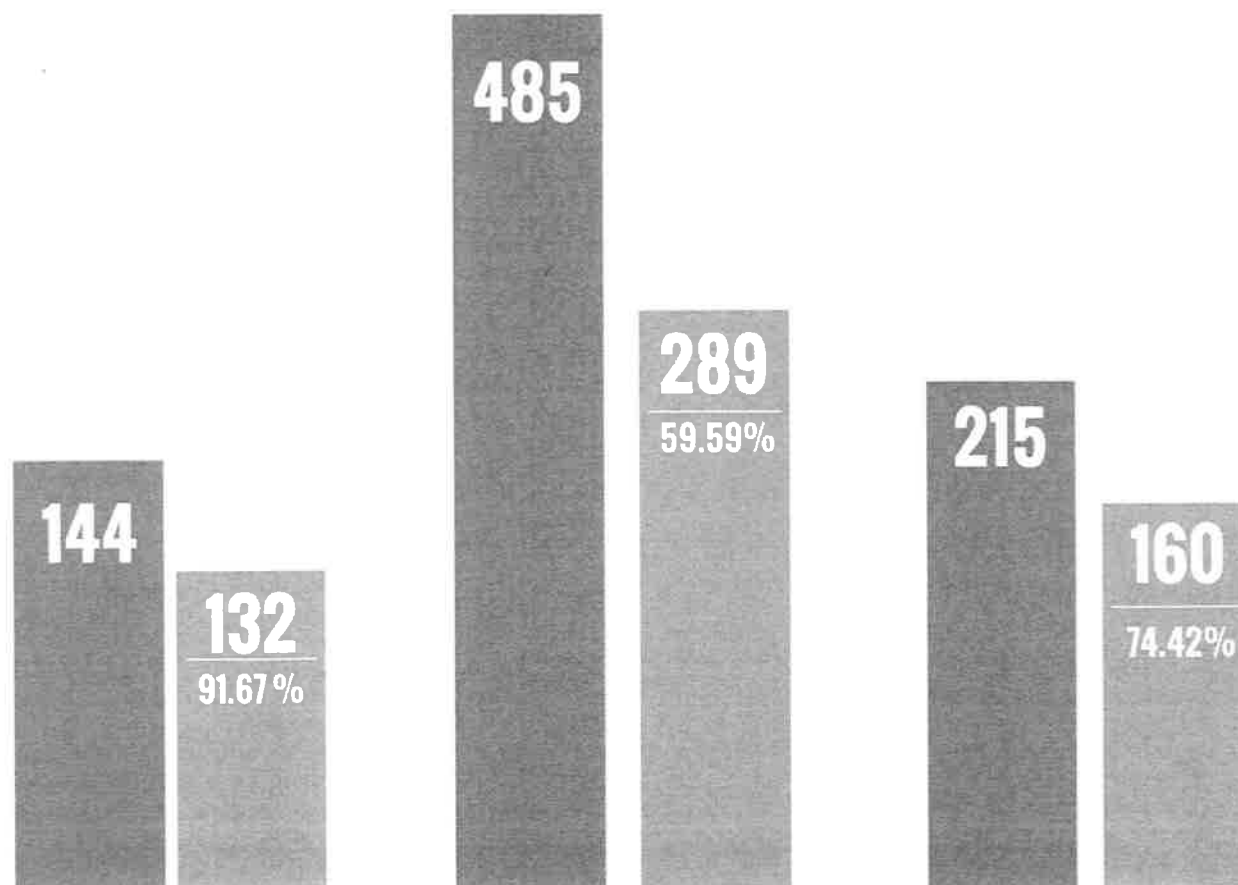
CURRENTLY ONLINE

PROJECTED

## PHASE 2



## Phase 2: Customer Adoption



**TOTAL FACILITIES**



**FACILITIES USING ONLINE SERVICES**

*Customer adoption is accelerating as a result of customer engagement and community outreach*

# Phase 3: Current Status

Dec 6, 2016  
Release 3.1

Feb 24, 2017  
Release 3.2

Apr 28, 2017  
Release 3.3

May 26, 2017  
Release 3.4

Jun 30, 2017  
Release 3.5

## RELEASE 3.1 (COMPLETED)

UST Preapproval	1) Submittal and Review of application 2) Submittal of cost sheets
--------------------	---

## RELEASE 3.2 (IN PROGRESS)

Air Permits	3) Renew C&S, CBP & HMA permits 4) Alerts for annual compliance 5) Email alerts for renewals 6) Email notification to counties. 7) Display correct Place Name
-------------	---

## RELEASE 3.3 (IN PROGRESS)

VEI	8) Get fleet permit 9) Terminate fleet permit 10) Obtain Equipment certification 11) Obtain Certification of Inspection (COI) for vehicle fleet maintenance
Storm Water Permits (CGP, MSGP & DMGP)	12) Get storm water permits 13) Modify/ Renew / Terminate permits 14 Determine compliance reporting requirements 15) Submit DMR (Federal rule Implementation) 16) Provide compliance status
Notifications	17) Email and web alerts

## RELEASE 3.4 (PLANNED)

UST Preapproval	18) Submittal of invoicing 19) Financial reconciliation
Quickpay	20) Accept partial payments (by invoice)

## RELEASE 3.5 (PLANNED)

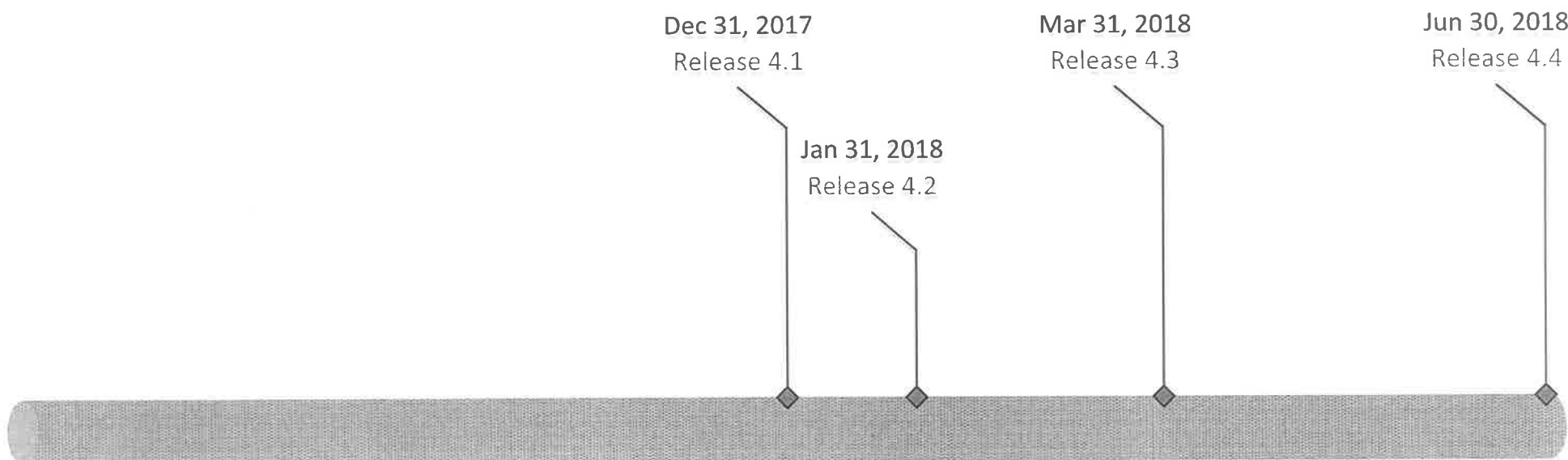
Drywell / 2.01 and 2.04	21) Obtain Registration 22) Amend Permit 23) Submit Permit Closure
AESP Migration	Migrate myDEQ to DOA AESP cloud platform

*80% of the services being developed in phase 3 have been identified by customers as their highest priority  
Working with ADOA to migrate myDEQ application to AESP cloud platform*

# Phase 4: Project Scope

BUSINESS PROCESS	DESCRIPTION	EST. ANNUAL COUNT	ELAPSED TIME (DAYS)		TOUCH TIME (HOURS)	
			CURRENT	FUTURE	CURRENT	FUTURE
Facility Annual Report (FAR) Pollution Prevention (P2) Annual Facility Registration Annual Generator fees	1) Submission of Annual Report (FAR) and fee payment for associated Waste Generation 2) Reporting of Quarterly generation activity& associated fee payment for LQG 3) Submit Annual Registration with fee payment 4) Submission of Annual Pollution Prevention Plan for LQG	4,788	300	180	1.6	0.5
Out of State Exemptions	5 Purchase Out of State Exemption by submitting supporting documentations	2000	2	1	20	0.1
Air Quality Compliance Reporting	6) Upload Semi-annual and Annual Compliance Certifications and supporting documentations. Current air permit document made available on dashboard	750	60	15	180	120
AZPDES/APP exceedance reports/ Exceedance Reports 5/30 day under APP	7) Submit 5-day report for AZPDES permit exceedance 8) Submit 5-day for APP permit exceedance 9) Submit 30-day report for APP permit exceedance	572	30	5	120	15
Small MS4 General Permit*	10) Obtain Small MS4 General Permit 11) Modify Small MS4 GP 12) Renew Small MS4 GP 13) Terminate Small MS4 GP 14) Verify and Submit Water Quality Discharge Monitoring Data (NOTE: High Priority to meet Mandated Federal E-Reporting Rule)	60	21	1	4	0.1

# myDEQ Phase 4: Release Plan



RELEASE 4.1 (PLANNED)	
Air Quality Compliance Reporting	1) Upload Semi-annual and Annual Compliance Certifications and supporting documentations. Current air permit document made available on dashboard Financial reconciliation
Small MS4 General Permit	2) Obtain Small MS4 General Permit 3) Modify Small MS4 GP 4) Renew Small MS4 GP 5) Terminate Small MS4 GP 6) Verify and Submit Water Quality discharge Monitoring Data

RELEASE 4.2 (PLANNED)	
Out of State Exemptions	7) Purchase Out of State Exemption by submitting supporting documentations
RELEASE 4.3 (PLANNED)	
AZPDES/APP exceedance reports/ Exceedance Reports 5/30 day under APP	8) Submit 5-day report for AZPDES permit exceedance 9) Submit 5-day for APP permit exceedance 10) Submit 30-day report for APP permit exceedance

RELEASE 4.4 (PLANNED)	
Facility Annual Report (FAR) Pollution Prevention (P2) Annual Facility Registration Annual Generator fees	11) Submission of Annual Report (FAR) and fee payment for associated Waste Generation 12) Reporting of Quarterly generation activity & associated fee payment for LQG 13) Submit Annual Registration with fee payment 14) Submission of Annual Pollution Prevention Plan for LQG

# Phase 4: Project Summary



## 14 Online services

(Includes some of our most complex services)



Total project cost is  
\$3.2 million\*



Projected completion date  
is June 30, 2018

*\* ADEQ budget request for Phase 4 was reduced by \$1.8M due to efficiencies gained*

## LOW due to:

- Customer involvement early and often
- Agile development approach that can stop anytime and sustain what has been delivered
- Working software every 3 weeks
- Continuously applying lessons learned
- ASET involvement from beginning to end
- Bi-weekly planning cycle and daily status “Check-Ins”
- The same project management team
- Consistency of third party assessments
  - Assessment #6 is in progress





STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

DEBBIE LESKO  
CHAIRMAN 2018  
OLIVIA CAJERO BEDFORD  
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HOUSE OF  
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DON SHOOTER  
CHAIRMAN 2017  
JOHN M. ALLEN  
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RUSSELL "RUSTY" BOWERS  
CHARLENE R. FERNANDEZ  
VINCE LEACH  
DAVID LIVINGSTON  
MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Geoffrey Paulsen, Fiscal Analyst *GP*

SUBJECT: Arizona Department of Administration/Arizona Strategic Enterprise Technology - Review  
of FY 2018 Projects (Automation Projects Fund)

### Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Committee review \$3,019,400 in proposed FY 2018 expenditures from the Automation Projects Fund (APF) for information technology (IT) projects for the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. ADOA will later seek review of the remaining \$10,189,200 of its \$13,208,600 ASET APF appropriation.

### Recommendation

The Committee has at least the following 2 options:

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

Under either option, the JLBC Staff recommends the Committee consider the following provision:

- A. In its first FY 2018 APF quarterly report, ADOA shall include the project milestones for the FY 2018 projects. ADOA shall report on the progress of reaching these milestones on or before April 27, 2018.

(Continued)

## Analysis

### Background

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

All IT projects over \$25,000 are reviewed by ASET through the Project Investment Justification (PIJ) process. If an IT project's development cost exceeds \$1.0 million, statute requires the project to receive additional approval by the Information Technology Authorization Committee (ITAC). ITAC consists of members from both the public and private sectors and is staffed by ADOA. If a project funds internal staff or training, neither ITAC nor ASET approval is required.

### Current Request

ADOA was appropriated \$13.2 million in FY 2018 from non-General Fund sources for ASET projects. Of this amount, ADOA is currently proposing an expenditure plan totaling \$3.0 million from the FY 2018 APF appropriation. Following the current review, \$10.2 million will remain to be reviewed by JLBC, following the necessary PIJ and ITAC approvals. *Table 1* outlines the ADOA's current request. None of the projects requested for Committee review require ITAC or ASET approval.

<b>Table 1</b>				
<b>FY 2017- FY 2018 ASET-APF Appropriations</b>				
<b><u>ASET Project</u></b>	<b><u>FY 2017 Appropriation</u></b>	<b><u>FY 2017 Balance <sup>1/</sup></u></b>	<b><u>FY 18 Appropriation</u></b>	<b><u>June 2017 Request</u></b>
SDC/Network and Security Infrastructure	\$ 5,700,000	\$ 3,915,100	\$ 3,405,100	\$ 0
Security, Privacy, and Risk	3,248,400	1,058,000	7,303,500	1,019,400
Enterprise Architecture	1,050,000	840,900	0	0
Digital Government	1,300,000	456,900	500,000	500,000
IT Consolidation Assessment	800,000	50,000	0	0
Project Management	1,500,000	755,600	1,500,000	1,500,000
HRIS Replacement Feasibility Study	<u>0</u>	<u>0</u>	<u>500,000</u>	<u>0</u>
<b>Total</b>	<b>\$13,598,400</b>	<b>\$7,076,500</b>	<b>\$13,208,600</b>	<b>\$3,019,400</b>
<sup>1/</sup> Estimated balance at the end of FY 2017 as reported by ADOA.				

### *Security, Privacy, and Risk*

ADOA's ASET Office is responsible for directing state policy to prevent cyber-attacks and data breaches. Security projects include assessing security gaps at the State Data Center and in the cloud environment, implementing updated firewalls and security technologies, and testing applications. At the end of FY 2017, ADOA estimates a balance of \$1.1 million remains from the FY 2017 budget.

ADOA is requesting \$1.0 million of its \$7.3 million FY 2018 appropriation at this time.

(Continued)

*Digital Government*

The state's E-government projects are intended to enhance the design and capabilities of the state's web portal on an ongoing basis. At the end of FY 2017, ADOA estimates a balance of \$456,900 from the FY 2017 budget.

ADOA is requesting a review of all \$500,000 of its FY 2018 digital government appropriation for agency website transformation. This amount funds ongoing efforts to transition state agency websites to the same platform to provide consistent appearance, improve the functionality of state agency websites including mobile content, and train state employees to manage website content. ADOA currently supports 95 agencies and more than 100 websites.

*Project Management*

ADOA's ASET Office is responsible for approving and tracking all IT projects over \$25,000 through the PIJ process. The office also implements statewide transformation initiatives and assists agencies with IT planning and development. At the end of FY 2017, ADOA estimates a balance of \$755,600 from the FY 2017 appropriation.

The FY 2018 budget appropriated \$1.5 million to ADOA for project management. ADOA is requesting a review of the total FY 2018 appropriation.

RS/GP:lm

Douglas A. Ducey  
Governor



Craig C. Brown  
Director

**ARIZONA DEPARTMENT OF ADMINISTRATION**

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401  
PHOENIX, ARIZONA 85007

(602) 542-1500



May 30, 2017

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

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

Dear Representative Shooter and Senator Lesko:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal years 2018 Automation Projects Fund (APF) projects. Monies to support the expenditure plans have already been appropriated to the APF.

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

Sincerely,

*Craig Brown*  
Craig Brown (May 31, 2017)

Craig C. Brown  
Director

Enclosures

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

**ADOA-ASET Projects**

Project Name	FY18 Description	FY18 Project Budget	Fav. Rev. Req'd Amt.	PIJ/ASET/ITAC Status	JLBC Fav. Rev. Status
Transformation Initiatives Project Managers; Automation Project Fund Strategic Execution Team (No PIJ ID#)	<ul style="list-style-type: none"> <li>- Apply project management resources to the implementation of ADOA-ASET transformation initiatives</li> <li>- Assure best in class management of transformation initiatives</li> <li>- Improve strategic alignment, project execution, risk mitigation, and transparency for all initiatives and projects, through consultative services, streamlined processes, and collaborative governance</li> <li>- Support enhanced Strategic Oversight, including improved reporting and processes</li> </ul>	\$1,500,000	\$1,500,000	PIJ Not Required	Pending
Agency Website Transformation & CMS Solution Implementation (No PIJ ID#)	<ul style="list-style-type: none"> <li>- Move State Agency websites to a web platform that provides increased functionality, improved look and feel, increased security and reduced maintenance costs</li> <li>- Ensure State Agency websites utilize accessible and mobile-enabled technologies to better serve the needs of Arizona's citizens by supporting online transactions and ease of use</li> <li>- Provide agencies with ability to maintain and manage their own web content</li> </ul>	\$500,000	\$500,000	PIJ Not Required	Pending
Statewide Information Security and Privacy Office (SISPO) Operations Initiative (No PIJ ID#)	<ul style="list-style-type: none"> <li>- Provide subject matter expertise through professional services and current security staff to expand and strengthen existing technologies for mitigating security risks to State systems and information</li> <li>- Defend State systems and protect State information</li> <li>- Detect cyber security activities, attacks, and system vulnerabilities</li> <li>- Respond and recover through effective incident management and remediation of existing security gaps</li> <li>- Leverage better economies of scale by consolidating State security services and standardizing on the most cost effective controls</li> </ul>	\$1,019,400	\$1,019,400	PIJ Not Required	Pending
<b>Total</b>			<b>\$3,019,400</b>		





STATE OF ARIZONA

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CHARLENE R. FERNANDEZ  
VINCE LEACH  
DAVID LIVINGSTON  
MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Morgan Dorcheus, Fiscal Analyst *MD*

SUBJECT: Arizona Department of Administration/Arizona Strategic Enterprise Technology - Review  
of 90/10 E-Licensing Project (Automation Projects Fund)

### Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the JLBC review \$595,500 in proposed expenditures from the Automation Projects Fund (APF) for the development of a "90/10" E-Licensing project.

### Recommendation

The Committee has at least the following 2 options:

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

This project did not require review from the Information Technology Authorization Committee (ITAC).

### Analysis

#### Background

Boards and commissions allow professionals in the state to submit licensing applications and fees in a variety of ways. In order to modernize state board application systems, standardize user experiences, and reduce overall costs, ADOA has selected a vendor to build a statewide E-Licensing system through the Request for Proposal (RFP) process. Deloitte will be the managing vendor of the project.

(Continued)

Thirteen 90/10 regulatory boards in the state who currently operate with limited or no E-Licensing functionality have opted in to the first phase of the project. (These boards retain 90% of their fees and deposit the other 10% into the General Fund.) The FY 2018 budget transferred \$595,500 from these boards' funds to the APF for development costs. *Table 1* lists the 13 boards participating in the project as well as the amount transferred from each board's fund.

#### Current Proposal

##### *Development Costs*

ADOA estimates total development costs for the first phase of the new E-Licensing system will be \$613,900. The current proposal would allow ADOA to use \$595,500 from the APF in FY 2018 to fund the majority of these costs. ADOA plans to cover \$18,400 in development costs above this amount using the Arizona Strategic Enterprise Technology (ASET) operating budget appropriation. ADOA expects the system to be implemented by February 2018.

The new system will use cloud-based software that can be configured to each individual agency's needs and hosted by a third-party. The vendor has implemented a similar E-Licensing system in other states where a single website is used to direct professionals to the appropriate board's online license application and fee schedule, and members of the public to an online complaint form.

Following implementation for the 13 participating boards, ADOA expects other state boards and commissions to adopt the new E-Licensing system. This may result in additional development costs in the future beyond the \$613,900 in order to customize the system to the needs of additional agencies.

##### *Operational Costs*

The first partial year of operation will cost approximately \$55,000 in FY 2018 in addition to the \$613,900 of development costs. ADOA did not receive a project cost estimate prior to the FY 2018 agency budget request deadline, so the boards could not anticipate operating costs in advance. For this reason, the department will be covering these expenses from the ASET operating budget in FY 2018.

Following the first year of implementation, ongoing operational costs will be \$83,200 annually. Boards participating in the project will be allocated the annual costs based on the number of potential website users for each agency. ADOA has not yet allocated these costs to the boards.

Table 1

Board Fund Transfers to APF in FY 2018

<u>Agency/Fund</u>	<u>FY 2018</u>
<i>Acupuncture Board of Examiners</i> Acupuncture Board of Examiners Fund	\$ 45,900
<i>Board of Athletic Training</i> Athletic Training Fund	45,900
<i>Board of Barbers</i> Board of Barbers Fund	40,000
<i>Board of Funeral Directors' and Embalmers'</i> Board of Funeral Directors' and Embalmers' Fund	27,500
<i>Board of Occupational Therapy</i> Occupational Therapy Fund	45,900
<i>Board of Dispensing Opticians</i> Board of Dispensing Opticians Fund	27,500
<i>Board of Optometry</i> Board of Optometry Fund	45,900
<i>Board of Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers</i> Board of Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	27,500
<i>Board of Physical Therapy</i> Board of Physical Therapy Fund	45,900
<i>Board of Podiatry Examiners</i> Podiatry Fund	27,500
<i>Board for Private Postsecondary Education</i> Board for Private Postsecondary Education Fund	80,200
<i>Board of Psychologist Examiners</i> Board of Psychologist Examiners Fund	91,700
<i>Board of Respiratory Care Examiners</i> Board of Respiratory Care Examiners Fund	<u>44,100</u>
<b>TOTAL</b>	<b>\$ 595,500</b>

RS/MD:kp

Douglas A. Ducey  
Governor



Craig C. Brown  
Director

**ARIZONA DEPARTMENT OF ADMINISTRATION**

**OFFICE OF THE DIRECTOR**

100 NORTH FIFTEENTH AVENUE • SUITE 401  
PHOENIX, ARIZONA 85007  
(602) 542-1500



May 30, 2017

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

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

Dear Representative Shooter and Senator Lesko:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal years 2018 Automation Projects Fund (APF) projects. Monies to support the expenditure plans have already been appropriated to the APF.

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

Sincerely,

Craig Brown  
Craig Brown (May 31, 2017)

Craig C. Brown  
Director

Enclosures

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

<b>Statewide E-Licensing Phase One</b>	
<b>Agency Requesting The Project:</b>	
Administration Department	
<b>Business Unit Requesting The Project:</b>	
Arizona Strategic Enterprise Technologies	
<b>Sponsor Of the Project:</b>	
Douglas Lange	
<b>Sponsor Title:</b>	
Chief Strategy Officer	
<b>Sponsor Phone Number:</b>	<b>Extension:</b>
(602) 542-8947	
<b>Sponsor Email Address:</b>	
doug.lange@azdoa.gov	

Has a Project Request been completed for this PIJ?

Y

What is the operational issue or business need that the Agency is trying to solve? (i.e. ....current process is manual, which increases resource time/costs to the State/Agency, and leads to errors...)

Currently, Boards and commissions have different solutions for eLicensing. The situation leads to lack of standardization for the constituents and the State; inconsistent user experience; complex support environment due to multiple vendors or home-grown implementations; lack of standards resulting in the inability to modify as needs change quickly; and lack of overall eLicensing strategy and visibility.

How will solving this issue or addressing this need benefit the State or the Agency?

Benefits to the State will include:

- Single vendor support
- Standardized citizen experience
- Adaptable solution to quickly adjust to changing business needs
- Statewide contract will reduce overall costs

Describe the proposed solution to this business need:

The State of Arizona is creating an Enterprise contract for Agencies, Boards, Commissions and Departments (from now on referred to as Budget Units or BUs or agencies) authorized to issue licenses, permits or other such documents to individuals, professionals, and organizations to engage in a regulated business or professional activity.

The State of Arizona proposes an Enterprise e-Licensing Software as a Service (SaaS) Solution that is specifically configurable to the needs of Budget Units including license workflow management for businesses vs. professional licensing. The SaaS solution that enables all licensing-related activities within the Budget Units. The technology solution will be a web-based application hosted, and Vendor managed.

Has the existing technology environment, into which the proposed solution will be implemented, been documented?

Y

Indicate where that documentation can be found, or provide the information under separate cover before the meeting, otherwise describe below:

RFP and Deloitte's response is attached to this PIJ

Have the business requirements been gathered, along with any technology requirements that have been identified?

Y

Are you submitting this as a Pre-PIJ in order to issue a Request for Proposal (RFP) to evaluate options and select a solution that meets the project requirements?

N

Will you be completing an assessment/Pilot/RFP phase, i.e., an evaluation by a vendor, third party or your agency, of the current state, needs, and desired future state, in order to determine the cost, effort, approach (RFP or otherwise) and/or feasibility of a project before submitting the full PIJ?

Y

Describe the reason for completing the assessment/Pilot/RFP and the expected deliverable(s) below:

To find the best single-sourced solution to meet the requirements of the BUs for a Statewide eLicensing platform.

Provide the estimated cost, if any, to conduct the assessment phase and/or Pilot and/or RFP/solicitation process:

\$600,000.00

Provide the estimated start and finish date for conducting the assessment/Pilot/RFP solicitation:

Estimated Start 09/01/16 Estimated Finish 04/15/17

Provide a projected start and finish date for implementing the final solution.

Estimated Start 07/01/17 Estimated Finish 02/28/18

Based on research to date, provide a high-level cost estimate to implement the final solution below:

\$600,000.00

Does the project fall into one of the following categories:

- hardware technology refresh/expansion, e.g., replacement/more laptops, radios, peripherals, etc.?

Y

Is there any possibility that project implementation costs could reach \$1 million or more?

N

Is the proposed procurement the result of an RFP solicitation process?

Y

Is this project referenced in your agency's Strategic IT Plan?

Y

Does your agency have a formal project methodology in place?

Y

Describe the high level make-up and roles/responsibilities of the Agency, Vendor(s), and other third parties below: (i.e. ...agency will do...vendor will do...other third parties will do..)

Deloitte will be the managing vendor. ADOA-ASET-EPMO will manage the vendor. Chuck Brown, Executive Director of Board of Physical Therapy will coordinate the 13 boards included in this phase.

## Summary of PIJ Financials

**Total of Development Cost: Total of \$ 613,861**

**Operational Cost:** \$ 387,916

**Total Costs: \$ 1,001,778**

## Project Cost - Itemized

Item	Description	Category	Development (Implementation) or Operational (Ongoing)	Fiscal Year Spend	Qty or Hours	Unit Cost	Extended Cost	Enter Tax Rate If Applicable (Generally 8.6% for PHX)	Tax	Total Cost
1	Deloitte Digital	Prof & Outside Services	Development	1	1	\$585,676	\$585,676	0.00%	\$0	\$585,676
2	Salesforce Lightning Force UE (4 months)	License & Maint Fees	Development	1	36	\$134	\$4,825	8.60%	\$415	\$5,240
3	Salesforce Lightning Force UE Administrators (4 months)	License & Maint Fees	Development	1	6	\$134	\$804	8.60%	\$69	\$873
4	Salesforce Customer Community Logins (4 months)	License & Maint Fees	Development	1	2750	\$1	\$2,118	8.60%	\$182	\$2,300
5	Salesforce Unlimited Edition Government Cloud (4 months)	License & Maint Fees	Development	1	1	\$206	\$206	8.60%	\$18	\$224
6	Salesforce BasicGov (4 months)	License & Maint Fees	Development	1	36	\$467	\$16,800	8.60%	\$1,445	\$18,245
7	Salesforce BasicGov Administrators (4 months)	License & Maint Fees	Development	1	6	\$200	\$1,200	8.60%	\$103	\$1,303
8	Salesforce Lightning Force UE (8 months)	License & Maint Fees	Operational	1	35	\$268	\$9,383	8.60%	\$807	\$10,190
9	Salesforce Lightning Force UE Administrators (8 months)	License & Maint Fees	Operational	1	6	\$268	\$1,608	8.60%	\$138	\$1,747
10	Salesforce Customer Community Logins (8 months)	License & Maint Fees	Operational	1	2750	\$2	\$4,208	8.60%	\$362	\$4,569
11	Salesforce Unlimited Edition Government Cloud (8 months)	License & Maint Fees	Operational	1	1	\$412	\$412	8.60%	\$35	\$447
12	Salesforce BasicGov (8 months)	License & Maint Fees	Operational	1	35	\$933	\$32,667	8.60%	\$2,809	\$35,476
13	Salesforce BasicGov Administrators (8 months)	License & Maint Fees	Operational	1	6	\$400	\$2,400	8.60%	\$206	\$2,606
14	Salesforce Licensing (year 2)	License & Maint Fees	Operational	2	1	\$76,630	\$76,630	8.60%	\$6,590	\$83,220
15	Salesforce Licensing (year 3)	License & Maint Fees	Operational	3	1	\$76,630	\$76,630	8.60%	\$6,590	\$83,220
16	Salesforce Licensing (year 4)	License & Maint Fees	Operational	4	1	\$76,630	\$76,630	8.60%	\$6,590	\$83,220
17	Salesforce Licensing (year 5)	License & Maint Fees	Operational	5	1	\$76,630	\$76,630	8.60%	\$6,590	\$83,220
								Total Development Cost		\$613,861
								Total Operational Cost		\$387,916
								Total Itemization of Costs:		\$1,001,777

Summary of Funding Sources			
Fund Type	% of Project	\$ of Project (Available)	\$ of Project (To Be Requested)
Base Budget	33.23%		\$332,881.00
APF	59.44%	\$595,500.00	
Other Appropriated	7.33%	\$73,397.00	
Federal			
Other Non-Appropriated			

### PIJ Development & Operational Cost Summary

Description	Type	Year 1	Year 2	Year 3	Year 4	Year 5	Extended Cost
Professional & Outside Services	Development	\$585,676	\$0	\$0	\$0	\$0	\$585,676
	Operational	\$0	\$0	\$0	\$0	\$0	\$0
Hardware	Development	\$0	\$0	\$0	\$0	\$0	\$0
	Operational	\$0	\$0	\$0	\$0	\$0	\$0
Software	Development	\$0	\$0	\$0	\$0	\$0	\$0
	Operational	\$0	\$0	\$0	\$0	\$0	\$0
Communications	Development	\$0	\$0	\$0	\$0	\$0	\$0
	Operational	\$0	\$0	\$0	\$0	\$0	\$0
Facilities	Development	\$0	\$0	\$0	\$0	\$0	\$0
	Operational	\$0	\$0	\$0	\$0	\$0	\$0
Licensing & Maintenance Fees	Development	\$28,185	\$0	\$0	\$0	\$0	\$28,185
	Operational	\$55,035	\$83,220	\$83,220	\$83,220	\$83,220	\$387,916
Other	Development	\$0	\$0	\$0	\$0	\$0	\$0
	Operational	\$0	\$0	\$0	\$0	\$0	\$0
	Development Cost:	\$613,861	\$0	\$0	\$0	\$0	\$613,861
	Operational Cost:	\$55,035	\$83,220	\$83,220	\$83,220	\$83,220	\$387,916
	Total Cost:						\$1,001,778







STATE OF ARIZONA

## Joint Legislative Budget Committee

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1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

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VINCE LEACH  
DAVID LIVINGSTON  
MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Ben Murphy, Assistant Fiscal Analyst *BM*

SUBJECT: Arizona Department of Administration/Industrial Commission - Review of Claims  
Processing Project (Automation Projects Fund)

### Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) and the Industrial Commission of Arizona (ICA) have requested Committee review of \$1,017,400 in proposed FY 2018 expenditures from the Automation Projects Fund (APF) for the Industrial Commission Claims Processing System Upgrade.

### Recommendation

The Committee has at least the following 2 options:

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

### Analysis

#### Background

ICA's Claims Division regulates and manages workers' compensation claims processing. An injured worker or attending physician must submit a workers' compensation claim in writing to the ICA, who then notifies the insurance carriers and self-insured employers of the claim. The insurance carriers and

(Continued)

self-insured employers then process the claim. In addition, the ICA makes determinations on injured workers' requests to leave the state, change physicians, readjust compensation, or reopen a claim. All of the above functions require an extensive management system, particularly in regards to document storage and processing.

To meet that requirement, the ICA has used a customized computer system created in 1991. The commission is replacing that system for a number of reasons, including an outdated structural design, which precludes any substantial enhancement; an inability to electronically process claims information from insurance carriers and self-insured employers; extensive manual document processing; frequent hours-long system outages; and a limited capacity for data analytics.

#### System Upgrade

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) transferred \$1,017,400 to the Automation Projects Fund from the ICA Administrative Fund for an upgrade to the ICA's claims processing system. The total project cost in FY 2018 is \$1,578,600, of which the remaining \$561,200 will be expended from the ICA FY 2017 and FY 2018 operating budgets. Of the total project cost, \$1,252,600 is for Professional and Outside Services, and \$326,000 is for licensing and maintenance fees. Beyond FY 2018, the annual operating cost will be \$314,000, which is exclusively for software licensing fees.

ICA's Project Investment Justification (PIJ) describes the proposed computer system as including a number of functions, such as a document management solution; process workflow solution; scanning and indexing of paper documents; importing of electronic documents to system; automation of data exchange between trading partners; ability to receive and send electronic data interchange transactions; enhanced data structure model; template creation and management; claims user carrier portal; self-servicing through e-forms; data sourcing and integration with other databases; and advanced business intelligence and analytics capabilities. The project is estimated to begin in June 2017 and finish by June 2018.

Please see *Table 1* for a cost summary of the claims processing system upgrade by function.

<b>Table 1</b>		
<b>FY 2018 Claims Processing Upgrade Cost Summary</b>		
<b><u>Item</u></b>	<b><u>Funding Status</u></b>	<b><u>Cost</u></b>
Customer Relationship Management (CRM) Platform Licensing	Ongoing	\$ 314,000
CRM Platform Customization Consulting Services	One-time	1,010,000
Document Generation Software and Consulting Services	One-time	22,000
Third-Party Integration Platform Consulting Services	One-time	100,000
Scanning Application and Document Management System Licensing	One-time	12,000
General Project Technical Consulting Services	One-time	<u>120,600</u>
<b>Total</b>		<b>\$1,578,600</b>

**THE INDUSTRIAL COMMISSION OF ARIZONA  
OFFICE OF THE DIRECTOR**



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JAMES ASHLEY, DIRECTOR  
PHONE: (602) 542-4411  
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May 25, 2017



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

The Honorable Debbie Lesko, Vice-Chairman  
Joint Legislative Budget Committee  
Arizona House of Representatives  
1700 West Washington Street  
Phoenix, Arizona 85007

Dear Representative Shooter and Senator Lesko:

In accordance with Arizona Revised Statutes § 41-714, the Industrial Commission of Arizona (ICA) is submitting this request for review of fiscal year 2018 Automation Projects Fund (APF) projects, monies to support the expenditure plan have already been appropriated to the APF.

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

Sincerely,

A handwritten signature in cursive script that reads "James Ashley".  
James Ashley  
Director

**Agency: Industrial Commission****Project: Modernization of Industrial Commission Claims Division Computer System****Overview:**

The Industrial Commission (ICA) is a non-General Fund agency responsible to ensure that Arizona workers' compensation claims are processed in accordance with the provisions of Chapter 6 of A.R.S. Title 23. This responsibility primarily rests with the ICA Claims Division. To meet this responsibility, the Claims Division deployed a customized computer system in 1991 to manage claims processes and documents.

Over time, this system has become increasingly outdated and burdensome to the agency's stakeholders. In its current state, the system cannot accept essential claim information in an electronic format from insurance carriers and self-insured employers and there is no process to enable this. These ICA customers must manually file over two million documents each year with the Claims Division.<sup>1</sup>

The system also experiences frequent outages causing delays in claims processing due to outdated and unsupportable software.<sup>2</sup> These outages typically last about an hour but have frequently lasted longer than four hours.

**Proposal:**

In order to continue providing essential claims processing services for external customers, the ICA must replace the current claims computer system. The new computer system will significantly improve efficiency and accuracy for all functional areas. It will also capture vital metrics for the state to analyze risk factors associated with work related injuries. Most importantly, it will give insurance carriers, self-insured employers and third-party claims administrators the ability to electronically submit claims processing information in an efficient and economic manner.

**Timeline:****FY16:**

In FY16, the ICA implemented year one of the claims computer system modernization project. The ICA contracted with ICM Document Solutions (ICM) to serve as the technology consultant for this project and worked with ICM to define the business requirements for the new computer system. The ICA also invested \$150,000 to identify opportunities to lean-out and improve the existing Claims Division document imaging and storage processes for implementation in FY17.

---

<sup>1</sup> The ICA provides online forms for all processes which do not require integration with the Tiburon Claims computer system database.

<sup>2</sup> In 2011, a system upgrade was performed which met a critical need for stability and offsite disaster recovery, but did not improve functionality because the outdated 1991 system design was simply moved to a stable platform.

## FY17:

The ICA is currently implementing year two of the claims computer system modernization project. During this fiscal year, the ICA adopted lean document imaging and storage processes which eliminated the need for six FTEs. This step has given the agency the flexibility to outsource the remaining document scanning functions in a more cost effective manner and will further enable the agency to phase out manual scanning through electronic data interchange (EDI) integrations in FY18.

The ICA has also used Arizona Management System (AMS) principles in the Claims Division to further implement customer driven processes and eliminate waste. The ICA has identified 200 Claims Division processes which are being leaned out prior to implementing the new computer system workflow.

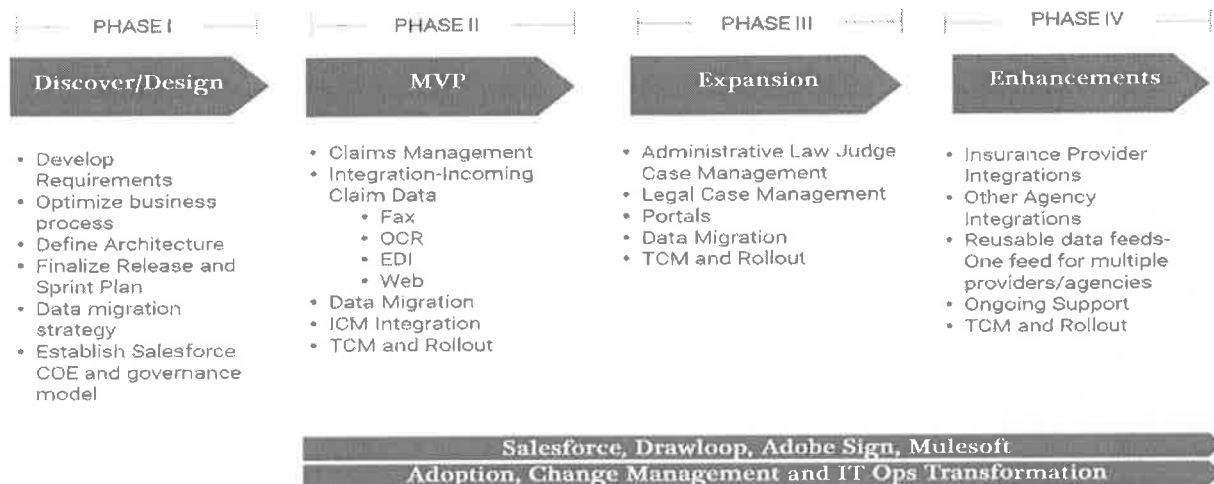
## FY18:

In FY18, the ICA will move into year three of the claims computer system modernization project. Additional spending authority in FY18 was necessary to pay for software licensing fees for approximately 120 users in addition to professional services fees to design and configure the new customer relationship management and workflow system, develop workflow processes, and to provide project testing and implementation training.

### Claims Computer System Solution Specifics:

The new claims computer system solution will include new EDI integrations for insurance carriers and self-insured employers for data exchange, automated workflows and enhanced online case information. Application program interfaces will be required to integrate the new system with the over 90 million existing Claims Division document images. Additional migration services will also be required to map and import data from over 30 years of Claims Division case files. The system will include electronic data entry onboarding capabilities and will automate workflow processes. Analytics and reporting are a key factor in the design of the new system to provide business intelligent capabilities.

The new claims computer system modernization project will be completed in four phases over the next nine to 12 months. It will be fully deployed by the end of FY18. The four phases are as follows:



These upgrades will enable the agency to interact with our customers on a level that is expected from any business or government agency. While the agency is doing its best with the current technological situation, the user-experience can be incredibly frustrating due to the inability to handle simple processes digitally. We hope to quickly change that.

**Conclusion:**

The ICA has received additional non-General Fund spending authority in the amount of \$1,017,400 for FY18 to replace its 25 year old computer system which supports eight agency AMS scorecard performance measures and interfaces with all participants in the Arizona workers' compensation system. The ICA is adopting lean management strategies to remove waste from existing processes so that the design of the new computer system will efficiently meet customer needs in a sustainable way. The ICA submits that this non-General Fund spending authority is essential to its core mission and that there are no other reasonable alternatives.

**Contacts:**

For additional information, please contact:

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STATE OF ARIZONA

## Joint Legislative Budget Committee

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director

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

SUBJECT: AHCCCS - Review of Expenditure Plan for Targeted Investments Program

### Request

Pursuant to a provision in the FY 2017 Health Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 117) the Arizona Health Care Cost Containment System (AHCCCS) has submitted for review an expenditure plan for the agency's Targeted Investments Program of incentive payments to health providers. AHCCCS will expend \$300,000,000 in cumulative funding between FY 2018 and FY 2022, primarily from Federal Funds.

### Recommendation

The Committee has at least the following 2 options:

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

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

- A. AHCCCS shall report to the Committee which political subdivisions have agreed to make intergovernmental transfers (IGTs) to finance the Targeted Investments Program, and the amount of the agreed upon contribution, once those agreements are finalized.

(Continued)

- B. AHCCCS shall report to the Committee its methodology for making incentive payments to providers participating in the Targeted Investments Program once the methodology is finalized. The JLBC Chairman shall decide whether the methodology requires further review by the full Committee.
- C. On or before November 1, 2018 and each year thereafter, AHCCCS shall report to the Committee on actual Targeted Investments Program expenditures by program category in the preceding state fiscal year.

## **Analysis**

### Background

In January 2017, the Centers for Medicare and Medicaid Services (CMS) approved AHCCCS' request to create a Targeted Investments Program (TI Program). The program is part of a federal initiative known as Delivery System Reform Incentive Payments (DSRIP) that provides additional federal Medicaid funds to states to improve the system of care for enrollees. Generally, states' delivery system reform strategies have involved alternative payment models for providers, integration of care, and measurement of health outcomes for Medicaid enrollees.

AHCCCS plans to use the TI Program to make incentive payments to Medicaid providers that adopt specific processes in order to integrate physical care and behavioral health services. The FY 2017 Health BRB established the non-appropriated DSRIP Fund that will receive monies to implement the program. AHCCCS is required to submit an expenditure plan on a one-time basis for Committee review before any monies are deposited into the fund.

### Program Financing

CMS has authorized up to \$300 million in Total Funds for the TI Program through September 30, 2021. Through a series of transactions, the federal government will effectively provide \$270 million of this funding. The remaining \$30 million would be financed by political subdivision funds. The Committee may consider a provision that would require AHCCCS to report to the Committee once the agency has determined which political subdivisions will be participating and how much each subdivision plans to contribute to the program.

To receive the entire \$300 million allotment, CMS requires AHCCCS to demonstrate systemwide progress on measures of physical and behavioral health integration. Beginning in FY 2020, annual federal allotments will be reduced if the state does not meet progress measure targets in the prior year. Of the \$300 million in potential funding for the program, approximately \$30 million is at risk if the state does not meet federal targets. Examples of federal performance metrics include:

- Percentage of patients hospitalized for a behavioral health diagnosis that receive follow-up care from a mental health practitioner within 1 week of the hospitalization.
- Percentage of ex-inmates that make at least 1 outpatient visit following release to a parole or probation office that provides integrated behavioral and physical health services.

### Expenditure Plan

AHCCCS plans to spend \$285 million on incentive payments to participating providers. To participate in the program, AHCCCS is requiring health providers to serve a minimum number of AHCCCS enrollees and operate an electronic health records system to exchange patient information with other providers. Eligible providers may include:

(Continued)

- Outpatient providers that deliver integrated care to adults or children with behavioral health needs.
- Service providers for ex-inmates that are transitioning out of the justice system, including providers co-located at Department of Corrections parole offices and county probation offices.
- Hospital providers that serve individuals with a serious mental illness.

To receive the incentive payments, providers will have to undertake projects that improve the integration of behavioral health and physical health services. Examples of these projects include:

- Routine screening for patients by primary care providers for depression, substance use disorders, suicide risk, and other behavioral health conditions.
- Creating protocols for referral of members to community-based resources, such as social services agencies.
- For children in DCS custody, completing comprehensive after-visit summaries to help foster caregivers and DCS caseworkers to improve assessment and monitoring of the child's medical and behavioral health needs at the child's placement.
- For individuals transitioning from ADC custody, ensuring availability of medication-assisted treatment for individuals with opioid use disorders.

In FY 2018, AHCCCS will make incentive payments to all providers in the program. In FY 2019 and FY 2020, the incentive payments would be based on measurable progress that providers make in implementing the projects. In FY 2021 and FY 2022, provider payments would be linked to improved outcomes for patients. Both the specific incentive payment methodology and the outcome measurements are still under development by AHCCCS. As a result, the Committee may consider a provision that would require AHCCCS to report to the Committee once the incentive payment methodology is finalized. The JLBC Chairman would then decide whether the methodology requires further review by the full Committee.

The actual amounts of incentive payments distribution of incentive payments will depend on provider participation. In an illustrative scenario, AHCCCS estimated that \$262 million of the incentive payments would be directed to outpatient primary care providers and mental health practitioners, \$14 million would be for providers serving ex-inmates transitioning from prison, and \$9 million would be for hospitals. Given that the actual distribution of funds is not yet known, the Committee may consider a provision that requires AHCCCS to report on or before November 1, 2018 and each year thereafter on how actual incentive payments are distributed between the program categories in the preceding state fiscal year.

AHCCCS plans to spend the remaining \$15 million of the \$300 million allocation for administrative expenses, including state level reporting and evaluation of the program.

RS/PM/JS:kp

June 5, 2017

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



Dear Representative Shooter:

On January 18, 2017, the Centers for Medicare and Medicaid Services (CMS) approved Arizona's request to implement the Targeted Investments (TI) Program, formerly known as the Delivery System Reform Incentive Payments (DSRIP) program, to support the state's ongoing efforts to integrate the health care delivery system for AHCCCS members.

A.R.S. 36-2930.04(F) requires AHCCCS to submit an expenditure plan for review by the Joint Legislative Budget Committee before initial deposits of any monies in to the fund pursuant to the Section 1115 Waiver authority associated with delivery system reform incentive payments and designated State health programs. Please see the expenditure plan attached.

### **Targeted Investments Program Financing**

The TI Program allows Arizona to spend \$300 million over the term of the current waiver on investments in facilitating integrated care, discussed in more detail below. Table 1 below displays the TI funding by federal fiscal year.

**Table 1: Estimated Annual Funding Distribution for the TI Program**

	FFY 2017	FFY 2018	FFY 2019	FFY 2020	FFY 2021	Totals
IGT Funds	\$2 m	\$7 m	\$9 m.	\$7 m	\$ 5 m.	<b>\$30 m</b>
Federal DSHP Funds	\$4.3 m.	\$14.8 m	\$19 m.	\$14.8 m.	\$10.6 m.	<b>\$63.5 m.</b>
Federal Match	\$13.7 m	\$48.2 m	\$62 m	\$48.2 m	\$34.4 m	<b>\$206.5 m</b>
<b>Total</b>	<b>\$20 m</b>	<b>\$70 m</b>	<b>\$90 m</b>	<b>\$70 m</b>	<b>\$50 m</b>	<b>\$300 m</b>

The TI program does not require any additional state General Fund resources. Rather, it will utilize approximately \$207 million in Federal matching funds, \$63 million in Federal Designated State Health Program funding, and \$30 million in intergovernmental transfers.

DSHPs are health programs funded entirely by the State, many of which provide safety-net health care services for low-income or uninsured individuals. AHCCCS was granted expenditure authority through its Section 1115 Demonstration Waiver to receive Federal Financial Participation for services provided by certain specified State programs, primarily the Services to Individuals with Serious Mental Illness program under Arizona Revised Statute § 11-297. Under very specific terms and conditions for DSHP payments, the State may claim federal matching funds for DSHP expenditures to support these State programs. Federal matching funds that flow to these State programs effectively will free up State funds, which will then be used to support the investment costs of the TI Program. There will be no changes in funding for the State programs designated as DSHPs. These programs will simply provide an opportunity for the State to generate federal matching dollars for the TI Program.

There are certain amounts of DSHP funds during years three through five of the TI Program that are designated “at risk,” as specified in Table 2 below. If the State does not meet certain performance requirements in a given demonstration year, the TI Program will lose the amount of DSHP funds specified as “at risk” for that year. This would lower total TI program spending unless IGTs are available to fill the gap.

**Table 2: Total Computable DSHP at Risk for Each Demonstration Year**

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Total Computable DSHP</b>	\$6,274,400	\$21,137,600	\$27,177,000	\$21,137,600	\$15,098,300
<b>Percentage at Risk</b>	0%	0%	10%	15%	20%
<b>Total Amount at Risk</b>	\$0	\$0	\$2,717,700	\$3,170,640	\$3,019,660

**Targeted Investment Projects and Provider Payments:**

The TI Program will fund time-limited, outcomes-based projects aimed at building the necessary infrastructure to create and sustain integrated, high-performing health care delivery systems that improve care coordination and drive better health and financial outcomes for some of the most complex and costly AHCCCS populations.

The Honorable Don Shooter  
June 5, 2017  
Page 3

The TI Program will provide funding for providers who serve the following populations:

- Adults with behavioral health needs;
- Children with behavioral health needs, including children with or at risk for Autism Spectrum Disorder (ASD), and children engaged in the child welfare system; and
- Individuals transitioning from incarceration.

The TI Program will incentivize providers to collaborate on the development of shared clinical and administrative protocols to enable patient care management across provider systems and networks. Incentive payments will be distributed to participating providers through AHCCCS managed care organizations. Providers are expected to meet performance improvement targets in order to receive payments.

Additional information about the TI program can be found here:  
<https://www.azahcccs.gov/PlansProviders/TargetedInvestments/>.

Should you have any questions, please do not hesitate to contact Elizabeth Lorenz, Assistant Director, at [Elizabeth.Lorenz@azahcccs.gov](mailto:Elizabeth.Lorenz@azahcccs.gov) or (602) 417-4019.

Sincerely,



Thomas J. Betlach  
Director

cc: The Honorable Debbie Lesko, Arizona State Senate  
Richard Stavneak, Director, JLBC  
Christina Corieri, Senior Policy Advisor, Office of the Governor  
Lorenzo Romero, Director, Office of Strategic Planning and Budgeting  
Bret Cloninger, Assistant Director, Office of Strategic Planning and Budgeting

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM  
TARGETED INVESTMENTS / DSHP FUNDING FLOW  
SPENDING PLAN**

Program Category	FFY2017	FFY2018	FFY2019	FFY2020	FFY2021	Total
Justice	950,000	3,325,000	4,275,000	3,325,000	2,375,000	14,250,000
Hospital	570,000	1,995,000	2,565,000	1,995,000	1,425,000	8,550,000
Adult & Child Integration	17,480,000	61,180,000	78,660,000	61,180,000	43,700,000	262,200,000
Administration (5%)	1,000,000	3,500,000	4,500,000	3,500,000	2,500,000	15,000,000
	20,000,000	70,000,000	90,000,000	70,000,000	50,000,000	300,000,000

**Fund Source:**

	FFY2017	FFY2018	FFY2019	FFY2020	FFY2021	Total
TI Expenditure	20,000,000	70,000,000	90,000,000	70,000,000	50,000,000	300,000,000
Federal Share	13,655,600	48,226,900	62,006,000	48,226,900	34,447,800	206,563,200
State Share	6,344,400	21,773,100	27,994,000	21,773,100	15,552,200	93,436,800

FMAP	69.24%	69.89%	69.89%	69.89%	69.89%	
FFP	50.00%	50.00%	50.00%	50.00%	50.00%	

DSHP Total Computable	6,274,400	21,137,600	27,177,000	21,137,600	15,098,300	90,824,900
Federal Share	4,344,400	14,773,100	18,994,000	14,773,100	10,552,200	63,436,800

IGT Contribution	2,000,000	7,000,000	9,000,000	7,000,000	5,000,000	30,000,000
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**Notes:**

- 1) Approved STCs do not specify the program areas identified above.
- 2) Federal matching rates for future years are subject to change.
- 3) 5% for administration is maximum and surplus can be shifted to TI payments.
- 4) Payments are based on date of service, federal law provides a two-year claiming window.





STATE OF ARIZONA

## Joint Legislative Budget Committee

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Steve Schimpp, Deputy Director *SS*  
Geoffrey Paulsen, Fiscal Analyst *GP*

SUBJECT: Arizona Department of Education - Review of Joint Technical Education District  
Quarterly and Annual Reports

### Request

The Arizona Department of Education (ADE) requests Committee review of its annual Joint Technical Education District (JTED) report for FY 2016, as required by A.R.S. § 15-393.01. ADE also requests review of its 2 most recent quarterly reports on JTED program and courses pursuant to Laws 2016, Chapter 4.

The FY 2016 JTED annual report and the quarterly report for October 1 – December 31, 2016 originally were scheduled to be reviewed at the March 2017 JLBC meeting, but those reviews were deferred due to ADE staffing issues. Since then ADE has issued an additional quarterly report for January 1 – March 31, 2017 that also requires Committee review.

Future JTED quarterly reports will be affected by Laws 2017, Chapter 279, which modifies statutory requirements for JTED programs and courses.

### Recommendation

The Committee has at least the following 2 options:

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

(Continued)

## Analysis

Laws 2016, Chapter 4, Section 6 added new requirements for JTED programs and courses and requires ADE to review existing JTED programs and courses to see if they remain eligible for Basic State Aid (BSA) funding under the new requirements. JTED programs or courses that do not meet the new requirements are not eligible for continued BSA funding. Chapter 4 requires ADE to submit quarterly reports to the Committee through December 31, 2018 for review on its progress and the subsequent approval or rejection of currently-eligible JTED programs and courses.

Additionally, A.R.S. § 15-393.01 requires ADE to submit an annual report to the JLBC on or before December 31 including the enrollment, location and cost of each JTED course and program.

### Quarterly Reports

**Report 1:** In September 2016, the Committee favorably reviewed ADE's first quarterly report (for April 1 – June 30, 2016), which indicated that the following 4 state-level JTED programs are no longer eligible for BSA funding because they do not meet new program requirements under Chapter 4:

- Environmental Service Systems
- Natural Renewable Resource Systems
- Power, Structural and Technical Systems
- Advertising and Public Relations

**Report 2:** In December 2016, the Committee favorably reviewed ADE's second quarterly report (for July 1 – September 30, 2016), which indicated that 3 additional state-level JTED programs are no longer eligible for BSA funding under Chapter 4:

- Arts Management
- Entrepreneurship
- Entertainment Marketing

**Report 3:** ADE's third quarterly report (for October 1 – December 31, 2016) showed no change in the number of state-level JTED programs eligible for BSA funding under Chapter 4. By the end of that reporting period ADE had reviewed 66 of the 73 state-level JTED programs. The remaining 7 were not reviewed because they had no enrollment. Of the 66 state-level programs reviewed:

- 58 are eligible for continued BSA funding
- 7 are ineligible
- 1 is on hold and has not been reviewed (the Food Products and Processing Systems program)

The third quarterly report included first-time reviews of JTED programs at the district and school level, as all prior reviews were at the state level only. State-level reviews were needed initially in order to determine whether each of the 73 state-level JTED programs was designed in a manner that addressed all statutory requirements for JTED programs. Local-level reviews then determine whether each approved state-level program is being implemented locally in a manner that includes all required aspects of the state-level program. A local-level program that does not use specialized equipment prescribed by the state-level program, for example, will be disqualified from continued BSA funding.

(Continued)

Between October 1 and December 31, 2016, ADE conducted local-level reviews in 12 of the 14 JTEDs operating statewide and for 119 of the 2,200+ JTED programs taught statewide. Of the 119 local programs reviewed, 91 were approved for continued BSA funding by the end of the reporting period. The remaining 28 local programs required additional review before their eligibility status could be determined.

The third quarterly report also indicated that 2,040 Career and Technical Education (CTE) students who were in their final semester of CTE instruction in the fall of 2016 took a CTE Technical Skill Assessment by the end of the fall semester. Of those students, 1,724 (85%) passed their exam with an average score of 78%. This testing period was the first one affected by a new requirement in Chapter 4 that stipulates that all JTED programs must require students to obtain a passing score of at least 60% on a CTE skills assessment before completing their JTED program.

**Report 4:** ADE's most recent (fourth) quarterly report covers January 1 – March 31, 2017. It indicates that 1 additional JTED (now cumulatively 13 out of 14) and 204 additional local JTED programs (now cumulatively 323 out of 2,200+) were reviewed during the quarter. It does not mention whether any local programs or courses had been ruled ineligible for continued BSA funding by the end of the reporting period, including any of the 28 programs under continuing review from the prior quarter.

ADE indicates informally, however, that approximately 10 local JTED programs have been ruled ineligible for continued BSA funding to date as a result of local-level reviews conducted pursuant to Chapter 4. ADE notes that these determinations were based on circumstances observed at the time the local reviews were conducted and that it plans to revisit affected programs if changes subsequently are made to bring them back into compliance. This could restore their eligibility for BSA funding.

#### Laws 2017, Chapter 279

Future reviews of JTED programs and courses will be based on modified statutory requirements established by Laws 2017, Chapter 279. Chapter 279 no longer requires a JTED program to lead to industry-based certification or licensure if not available. Instead, programs may lead to career readiness and entry-level employment. This could make it easier for some JTED programs and courses to remain eligible for BSA funding under Chapter 4. In addition, ADE indicates that once Chapter 279 takes effect it probably will reevaluate the 7 state-level JTED programs that previously were ruled ineligible for continued BSA funding under Chapter 4 in order to determine if they would remain eligible under Chapter 279.

#### Annual Report

ADE's annual JTED report provides enrollment, location and cost data for each JTED program offered in the state. ADE reports detailed data for individual JTEDs in electronic format rather than in the hard copy portion of the report due to the volume of data involved. Appendices 1 & 2, however, show sample data pages from the electronic files.

Appendix 1, for example, shows that 29,121 students (8,230 Average Daily Membership) attended the East Valley Institute of Technology (EVIT) in FY 2016, including satellite sites at its member districts. (JTED ADM typically equal about one-fourth of JTED enrollment because most students attend JTEDs part-time.)

Appendix 2 shows sample reported cost information. It indicates that the Coconino County JTED, for example, spent \$16,063 on its Architectural Drafting program at Page High School and \$1,487,644 on all JTED programs at all of its sites collectively for FY 2016.

(Continued)

ADE notes that JTEDs typically report only costs funded with BSA monies due to current reporting format issues, but that it is working to have JTEDs report spending from all sources in the future. The latter can also include funding from the State Block Grant for Vocational Education, Carl D. Perkins funding, tax credit contributions, gift of equipment/supplies and other secondary sources of funding.

ADE reports that in school year 2015-2016 a total of 94,254 students enrolled in JTED courses in one of the 14 districts. The total student enrollment resulted in an average daily membership (ADM) of 24,224. The largest district in terms of enrollment was the East Valley Institute of Technology (EVIT) with a reported enrollment of 29,121 students. The smallest district was Cobre Valley Institute of Technology (CVIT) with 754 enrolled students.

JTEDs and school districts collectively offer more than 2,200 CTE programs and more than 6,000 CTE courses.

#### Next Steps

ADE will continue to review all remaining JTED programs and courses over the next 2 years to ensure their eligibility for continued BSA funding. The results of these reviews will be included in subsequent quarterly reports through December 2018.

RS/SSc/GP:kp



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

March 31, 2017

Dear Chairman Shooter,

The purpose of this letter is to fulfill statutory requirements pursuant to Senate Bill 1525 (Laws 2016, Chapter 4, Section 6). The Department of Education (Department) is required to submit a quarterly report to the Joint Legislative Budget Committee (JLBC) to evaluate Joint Technical Education (JTED) programs progress, the approval or rejection of current eligible JTED programs and JTED courses. Additionally, the Department shall submit a copy of this report to the JLBC for review. Attached is the JTED Quarterly Report dated March 31, 2017.

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

Sincerely,

*Alexis Susdorf*

Alexis Susdorf  
Department of Education  
Policy Development and Government Relations



Quarterly Report to the Joint Legislative Budget Committee  
Per Senate Bill 1525, Chapter 4, Section 6  
January 1 – March 31, 2017

Submitted By

Carol Lippert,  
Associate Superintendent

Career and Technical Education  
High Academic Standards for Students Division  
Arizona Department of Education

**EXECUTIVE SUMMARY**  
**SB1525 Quarterly Report**  
**January 1 – March 31, 2017**

Per SB1525, Chapter 4, Section 6, the Arizona Department of Education shall immediately start reviewing the compliance and eligibility of all joint technical education district programs and courses currently in effect with the new requirements set forth in this act. Through December 31, 2018, the Department of Education shall submit quarterly reports to the Joint Legislative Budget Committee. This quarterly report provides information on the implementation activities from January 3, 2017 through March 31, 2017.

The following is a summary of the implementation activities during this quarter:

- Joint Technical Education District (JTED) Superintendents and the Arizona Department of Education (ADE) / Career and Technical Education (CTE) held three meetings and one statewide meeting was held with all CTE Administrators, JTED Superintendents and ADE/CTE to discuss the progress on the implementation of SB1525.
- The 2017 list of CTE Programs with Identified Industry Certifications for JTED Eligibility was updated in January 2017 with additional industry verified certifications to some of the 53 programs and disseminated to JTED Administrators and CTE Administrators on February 2, 2017 during the statewide CTE Administrators Meeting.
- CTE/JTED Program Monitoring at the district/site level have been conducted in 13 of the 14 Joint Technical Education Districts. During this quarter, 204 additional programs were reviewed, bringing the total programs reviewed to 323 to date.

**Quarterly Report for January 3 – March 31, 2017**  
**Career and Technical Education/ADE Implementation of SB1525**

The following provides an overview of the activities that have been completed by the Career and Technical Education (CTE) Division at the Arizona Department of Education (ADE) regarding the implementation of SB1525 and CTE programs meeting the course/program requirements between January 3, 2017 and March 31, 2017. Per SB1525 Chapter 4, Section 6, the ADE shall immediately start reviewing the compliance and eligibility of all joint technical education district (JTED) programs and courses currently in effect with the new requirements set forth in this act. Through December 31, 2018, the ADE shall submit quarterly reports to the Joint Legislative Budget Committee (JLBC). This quarterly report provides information on the implementation activities from January 3, 2017 through March 31, 2017.

**Meetings and Timeline:**

The following meetings were held to continue the SB1525 implementation process and to collaboratively develop processes for program reviews.

Date	Location	Attendees Summary	Purpose
2/2/17	McCarthy Industries-Phoenix, AZ	<b>JTED Superintendents</b> monthly meeting attended by ADE/CTE staff.	Continued discussion of the JTED Report format changes, updated superintendents on ADE/IT progress formatting the CTE Data Portal for direct submission of enrollment data, provided the status of ongoing program reviews and certifications and the proposed revisions to the JTED Business Rules.
3/8/17	Pima JTED-Tucson, AZ		
2/2/17	Prescott	<b>CTE Administrators</b> meeting. CTE District administrators, JTED Representatives, Postsecondary administrators, and ADE/CTE Staff attended. (Approximately 175 participants). Facilitated by Carol Lippert, Associate Superintendent High Academic Standards for Students.	Agenda included review and dissemination of the AG Analysis of Issues Regarding SB1525; update on the progress on A-F School Accountability and the consideration of CTE in the Career Ready measure; sessions on CTE Technical Skill Assessments, Blueprints and Standards; Career Ready Initiative; Industry Certification Update and dissemination of revised list; review of process for Industry Certification Submission for Consideration to Meet JTED Eligibility form.

**Program Review Process:** There has been one change in the 2017 CTE Program List-Draft for JTED Eligibility from the document included in the September 30, 2016 JTED Quarterly Report. In previous reports seven programs were deemed ineligible for JTED funding because they met some, but not all, of the JTED course/program requirements. As a result of the discussion during the September 21, 2016 JLBC review raising concerns regarding the need for the program in some areas of the state, the Food

Products and Processing Systems was put “on hold” pending further study. Currently, ADE/CTE Program Specialists are working with one JTED interested in exploring the feasibility of designing and implementing a program in this occupational area. Six programs are currently identified as not eligible for JTED funding. These programs are still approved CTE programs and eligible for Federal Perkins and State Priority funding.

Sixty-six of the 73 CTE programs have been reviewed with the program verification documents posted on the CTE/ADE website at [www.azed.gov/career-technical-education/technical-standards/](http://www.azed.gov/career-technical-education/technical-standards/). The decisions on CTE program JTED eligibility were based on the outcomes of the working groups and collaboration between all CTE stakeholder groups and business leaders.

Seven CTE programs have not been reviewed to determine if the program meets the course/program requirements per Arizona Revised Statute (A.R.S.) §15-391(3)(a-g) and §15-391(5)(a-o). As noted previously in the Quarterly Reports, none of these seven programs have any current enrollment.

**CTE Programs with Industry Certifications:** ADE/CTE continues to review and edit the **draft** list of 2017 CTE Programs with Identified Industry Certifications for JTED Eligibility. The latest draft list dated 1/31/17 is available on the ADE/CTE website (See **Appendix A**). This list includes industry recognized certifications for 53 of the CTE programs. The local program must offer one or more of the identified certifications for JTED eligibility. ADE/CTE has informed CTE and JTED Administrators that no certifications will be removed at this point in the school year; however, certifications may still be added. If ADE/CTE determines that an industry certification should be removed from the list, because after further review it does not meet the intent of the A.R.S. § 15-391(5)(l), the certification would be removed after the 2016-2017 school year and prior to the beginning of the 2017-2018 school year.

If a JTED Central or Satellite program has a different certification that may potentially meet the requirements for A.R.S. § 15-391(5)(l), the JTED Administrator can submit a form “*Industry Certification Submission for Consideration to Meet JTED Eligibility*” for review. This form was included in the previous quarterly report. As these submissions are reviewed and verified by business and industry the certification list will be updated, disseminated and posted to the ADE/CTE website. The list was updated on January 31, 2017. It was subsequently posted on the ADE/CTE website and disseminated to CTE Administrators at the February 2, 2017 state meeting in Prescott.

**CTE Task Force:** Per SB1525 Chapter 4, Section 5, the Career and Technical Education Task Force was established consisting of 13 members as designated in the legislation. The CTE Division of the ADE is required to lend technical support to the task force and provide any data, research or information that the task force may request. The CTE Task Force has held two meetings, the first on October 13, 2016, and ADE/CTE provided an Update on Implementation of SB 1525.

The second meeting was held on December 15, 2016 and ADE/CTE made two presentations to the CTE Task Force. One presentation was an Update on Implementation of SB 1525 which covered the activities performed by the CTE Section at the ADE since the October meeting. The second presentation was on CTE Industry Certifications that students can earn through participation in or completion of a CTE program.

**CTE/JTED Eligibility/Compliance Monitoring Process:** As noted in the previous quarterly reports, all of the CTE program reviews had been at the state level, determining if the current CTE programs have the

potential to meet all of the JTED course and program requirements. Since September 2016, ADE/CTE Program Specialists have conducted the monitoring process at the district/site level.

ADE/CTE utilized the same monitoring instrument to review all JTED Central and Satellite programs and courses for compliance and eligibility. This review process is conducted to determine JTED eligibility and compliance at the site level and also used to perform Perkins program reviews, as applicable. A copy of this document was included in the September 30, 2016 Quarterly Report.

CTE Program Monitoring Guidance was developed to assist the JTED and CTE Administrators and teachers in preparing for the monitoring review process. The Guidance document included examples of items that evaluators (CTE Program Specialists) would review as evidence of compliance by each core indicator. This guidance was provided in the previous quarterly report.

As of March 24, 2017, CTE/JTED Program Reviews have been conducted in 13 of the 14 Joint Technical Education Districts reviewing a total of 323 satellite/central programs. The guidance provided has proved helpful in assisting the JTED Central and Member Districts in preparing for the review. The rotational schedule provided in the December 31, 2016 Quarterly Report is reviewed at the beginning of each semester to determine if any changes need to be made. Due to some staff changes during last quarter, some reviews were postponed and rescheduled for the spring semester. New staff members were able to reschedule and conduct the reviews; therefore, the rotation schedule is back on track.

It should be noted that even if CTE/ADE has determined a CTE Program has the potential to meet all the JTED course and program requirements, there may be JTED Central or Satellite programs that do not meet all of the course/program requirements and that therefore would become ineligible for JTED funding until the programs come into compliance.

**CTE Technical Skill Assessment:** Arizona's technical skills assessment system, known as the Arizona Skill Standards Assessment system, is owned by the state and administered by the ADE. It has been validated by the Arizona Career and Technical Education Quality Commission, which is comprised of business and industry representatives from different labor market sectors. A CTE student takes the technical skill assessment during their final course of their CTE/JTED program. For most CTE students, this would occur during the Spring testing period.

The Fall 2016 testing period was completed December 1, 2016 and students in the final semester of their final course of the CTE program sequence were eligible to take the technical skill assessment. This is the first testing period with the pass scores all at least at 60%. There were 2,040 students that took the CTE Technical Skill assessment and 1,724 or 84.5% passed. The average pass score was 78%. The majority of CTE students are currently being tested during this Spring 2017 testing period, which starts March 20, 2017 and runs through April 27, 2017. The results of the Spring 2017 assessment testing period will be included in the June 30, 2017 Quarterly Report.

**CTE Data Portal for JTED Program Enrollment Reporting:**

As a result of discussion with the JTED Superintendents, plans were made to gather enrollment information for JTED eligible programs via the CTE Data Portal (ADE's online application for gathering required CTE data). This effort is designed to streamline the process for gathering 40<sup>th</sup> day enrollment data from the JTED's each year. ADE met with internal IT staff in order to facilitate this addition to the system. The JTED's will also have "view only access" to their member district data to promote communication and assist in the accuracy of the data reported. The system will be demonstrated at the

April 19, 2017 JTED Superintendents meeting scheduled to be held at the EVIT Main campus. Training for JTED staff is scheduled to occur on April 13, 2017 at the ADE/CTE Central office and will provide information on how to access and enter data into the CTE Data Portal. The JTED's will enter their current year 40<sup>th</sup> day enrollment data before the school year ends and will enter their data every fall thereafter.

The ADE/CTE State Director, Deputy Associate Superintendent position is currently vacant and will be filled by Cathie Raymond beginning April 24, 2017. At this time, **for questions or clarifications contact:** Carol Lippert, Associate Superintendent, High Academic Standards for Students, 602-364-1985, [carol.lippert@azed.gov](mailto:carol.lippert@azed.gov), or Marilyn Gardner, CTE Fiscal Director, 602-542-5137, [marilyn.gardner@azed.gov](mailto:marilyn.gardner@azed.gov).



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



February 9, 2017

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

Mr. Stavneak:

Pursuant to Arizona Revised Statutes (ARS §15-393.01(C)), the Arizona Department of Education Career and Technical Education Section mailed a copy of the 2017 JTED Report to you in December along with a disc of supporting documentation. As indicated in this earlier report, the information from Section One related to Average Daily Membership and Student Count by Location was omitted temporarily so that the data could be further refined to ensure accuracy. You are currently receiving an updated copy of the report, along with a disc of supporting documentation, which is now complete. If you have any questions regarding the information provided, please feel free to contact me at the email below. You may also contact Marilyn Gardner, CTE Fiscal & Accountability Director at [marilyn.gardner@azed.gov](mailto:marilyn.gardner@azed.gov).

Sincerely,

Carol G. Lippert  
Associate Superintendent High Academic Standards for Students  
Arizona Department of Education  
1535 W. Jefferson, Bin 5  
Phoenix, AZ 85007  
[Carol.Lippert@azed.gov](mailto:Carol.Lippert@azed.gov)

Cc: Steve Schimpp



EVIT- East Valley Institute of Technology	2015-2016 40th Day 10, 11 & 12 Grade CTE Student Count	
	By Location	
Central Campus	3,044.80	3,865.00
Leased Central Campus	77.86	311.00
Chandler Unified School District	925.01	3,659.00
Fountain Hills Unified School District	46.37	241.00
Gilbert Unified School District	1006.52	*
Higley Unified School District	234.19	1,153.00
J.O. Combs Unified School District	130.43	965.00
Mesa Unified School District	1,241.59	4,914.00
Queen Creek Unified School District	168.36	1441.00
Scottsdale Unified School District	450.03	2,097.00
Tempe Union High School District	904.39	10,475.00
<b>JTED Central Campus and Satellites Total</b>	<b>8,229.56</b>	<b>29,121.00</b>

\*No student count data received for Gilbert Unified School District

**2015-2016 JTED-Coconino Association for Vocations, Industry and Technology (CAVIAT) - 030801**  
**Program Cost Aggregate Total**

Program Title	MEMBER DISTRICTS					
	CAVIAT Central	Flagstaff USD	Fredonia Moccasin USD	Grand Canyon USD	Page USD	Williams USD
Architectural Drafting					\$ 16,063.08	\$ 16,063.08
Automotive Collision Repair					\$ 24,324.70	\$ 24,324.70
Automotive Technologies	\$ 44,290.00	\$ 105,042.20			\$ 44,650.24	\$ 149,692.44
Bioscience						\$ 8,268.71
Business Management and Administrative Services				\$ 41,240.22		\$ 128,751.86
Carpentry	\$ 37,014.00	\$ 9,302.56				\$ 9,302.56
Computer Maintenance	\$ 143,607.00				\$ 12,471.46	\$ 12,471.46
Construction Technologies					\$ 60,815.02	\$ 8,789.39
Culinary Arts		\$ 138,992.74	\$ 7,512.00	\$ 191,730.94	\$ 69,535.50	\$ 8,299.93
Digital Photography		\$ 46,001.04			\$ 26,147.48	\$ 416,071.11
Digital Printing					\$ 30,013.69	\$ 72,148.52
Early Childhood Education		\$ 18,917.44	\$ 9,269.00			\$ 30,013.69
Education Professions					\$ 15,980.84	\$ 28,186.44
Engineering Sciences		\$ 59,168.39				\$ 15,980.84
Film & TV		\$ 51,179.23		\$ 65,429.42		\$ 59,168.39
Graphic/ Web Design		\$ 5,449.94	\$ 10,019.00		\$ 30,013.72	\$ 116,608.65
Interior Design and Merchandising		\$ 5,090.82				\$ 45,482.66
Law, Public Safety and Security					\$ 48,897.28	\$ 5,090.82
Network Technologies					\$ 12,471.41	\$ 11,368.43
Precision Machining		\$ 10,485.75				\$ 12,471.41
Sports Medicine and Rehabilitation Services		\$ 13,959.88			\$ 30,658.71	\$ 10,485.75
Technical Theatre					\$ 32,521.78	\$ 44,618.59
Welding Technologies		\$ 43,887.72	\$ 9,785.00		\$ 47,039.14	\$ 32,521.78
<b>GRAND TOTAL</b>		\$ 594,989.35	\$ 36,565.00	\$ 298,400.58	\$ 501,604.05	\$ 56,064.52
						\$ 1,487,643.50





STATE OF ARIZONA

## Joint Legislative Budget Committee

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Micaela Larkin, Senior Fiscal Analyst *ML*

SUBJECT: Arizona Department of Corrections - Review of Inmate Health Care Per Diem Change

### Request

Pursuant to a FY 2018 General Appropriation Act footnote (Laws 2017, Chapter 305), the Arizona Department of Corrections (ADC) is required to present an expenditure plan for Committee review prior to implementing any changes in inmate health care capitation rates. ADC has submitted an expenditure plan to increase the inmate health care per diem from \$12.06 to \$12.54. The 4% increase is retroactive to March 3, 2017. The rate adjustment will cost \$5,939,300 in FY 2018, which will be covered by a lower-than-expected inmate count and Medicaid savings.

### Recommendation

The Committee has at least the following 2 options:

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

Under either option, the JLBC Staff recommends the following provision:

- A. ADC shall notify the Committee upon the award of a new contract for inmate health care contracted services. The information shall include information on any major contractual changes, as well as the anticipated cost.

(Continued)

Analysis

*Background*

ADC currently provides health care to inmates within state facilities through a contract with a vendor at a per diem rate of \$12.06. FY 2018 will be the fifth and final year of the contract. A Request for Proposals has been issued, and the department is current evaluating the responses.

RS:ML/kp



DOUGLAS A. DUCEY  
GOVERNOR

May 26, 2017

# Arizona Department of Corrections

1601 WEST JEFFERSON  
PHOENIX, ARIZONA 85007  
(602) 542-5407  
www.azcorrections.gov



CHARLES L. RYAN  
DIRECTOR

The Honorable Don Shooter, Chairman  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, Arizona 85007

Re: Department of Corrections Expenditure Plan for Inmate Health Care

Dear Representative Shooter:

Pursuant to Laws 2017, 1<sup>st</sup> Regular Session, Chapter 305 (SB 1522), Section 24, the Arizona Department of Corrections respectfully submits for review an expenditure plan for the Inmate Health Care Contracted Services SLI.

The expenditure plan includes a 4% increase which amends the per diem for contract year five from \$12.06 to \$12.54 and extends the contract from March 3, 2018 to June 30, 2018. The contract extension will realign the contract with the fiscal year and budget cycle.

In FY 2017, the increase is funded by savings from a lower than anticipated inmate population and increased savings from Medicaid reimbursements. The increase will be effective from March 4, 2017 – June 30, 2018 and is estimated to have a FY 2017 fiscal impact of approximately \$1,936,400 [33,900 inmates x 119 days x \$0.48 per inmate per day (PIPD)].

The contract increase is sustainable in FY 2018 with no additional resources due to lower than anticipated inmate population and increased savings from Medicaid reimbursements. The FY 2018 Inmate Health Care Contracted Services SLI of \$148,811,700 funds an average daily population (ADP) of 34,369 state inmates. As of May 22, 2017, the total inmate population housed in State Prisons is 33,900 and the overall YTD inmate population has declined by 717 inmates.

If you have any questions, please contact Michael Kearns, Division Director of the Department's Administrative Services Division, at (602) 542-1160.

Sincerely,

Charles L. Ryan  
Director

Enclosure

cc: The Honorable Debbie Lesko, Vice-Chairman, Joint Legislative Budget Committee  
Lorenzo Romero, Director, Office of Strategic Planning and Budgeting  
Richard Stavneak, Director, Joint Legislative Budget Committee  
Ryan Vergara, Budget Analyst, Office of Strategic Planning and Budgeting  
Micaela Larkin, Fiscal Analyst, Joint Legislative Budget Committee Staff

ARIZONA DEPARTMENT OF CORRECTIONS  
INMATE HEALTH CARE CONTRACTED SERVICES SLI EXPENDITURE PLAN

FY 2017 INMATE HEALTH CARE						
Private Prisons	Population as of May 22, 2017	Rate	Days	Cost	Medicaid Savings	Cost
FY 2017 4% CPI Increase (May 4, 2017 - June 30, 2017)	33,900	\$ 0.48	119	<u>1,936,368</u>	<u>-</u>	<u>1,936,368</u>
Proj. Surplus/(Deficit)						2,390,000
Revised Proj. Surplus/(Deficit)						453,632

FY 2018 INMATE HEALTH CARE						
Private Prisons	Population as of May 22, 2017	Rate	Days	Cost	Medicaid Savings	Cost
FY 2018 Health Cost (at current population and rate)	33,900	\$ 12.06	365	149,224,410	(8,500,000)	140,724,410
FY 2018 4% CPI Increase (at current population)	33,900	\$ 0.48	365	5,939,280	-	5,939,280
Average Daily Population (ADP) Growth Capacity	469	\$ 12.54	365	<u>2,148,010</u>	<u>-</u>	<u>2,148,010</u>
FY 2018 Projected Cost with growth, 4% increase	<u>34,369</u>			<u>157,311,700</u>	<u>(8,500,000)</u>	<u>148,811,700</u>
FY 2018 Appropriation						148,811,700
Surplus/(Shortfall)						0





STATE OF ARIZONA

## Joint Legislative Budget Committee

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VINCE LEACH  
DAVID LIVINGSTON  
MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Eric Billings, Principal Fiscal Analyst *EB*

SUBJECT: Attorney General - Review of FY 2018 Internet Crimes Against Children Expenditure Plan

### Request

Pursuant to a FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the Attorney General (AG) has submitted for review an expenditure plan for the \$1,250,000 FY 2018 appropriation from the Internet Crimes Against Children (ICAC) Enforcement line item.

### Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the expenditure plan.
2. An unfavorable review of the expenditure plan.

### Analysis

#### Background

Established by the Legislature in FY 2015, the ICAC line item provides funding for the operation of the ICAC Task Force program. The Arizona branch of this national program is AZICAC, which is a joint federal, state, and local law enforcement task force led by the Phoenix Police Department (PD) that investigates child pornography. In both FY 2015 and FY 2016, the Department of Child Safety (DCS) received a \$350,000 annual General Fund appropriation, which was distributed to AZICAC for vehicles, equipment, training, and overtime costs. The FY 2017 General Appropriation Act shifted the annual \$350,000 General Fund appropriation from DCS to the AG in FY 2017.

(Continued)

Additionally, Laws 2015, Chapter 245 established an appropriated ICAC Enforcement Fund, which receives annual deposits of \$900,000 in lottery proceeds and is administered by the AG. These monies are intended to be pass-through funds to AZICAC. Chapter 245, however, did not appropriate the lottery revenues in FY 2015 or FY 2016. To remedy this, Laws 2016, Chapter 1 appropriated \$1.8 million in non-lapsing monies from the ICAC Enforcement Fund as a FY 2016 supplemental appropriation to the AG. The AG reports that, to date, AZICAC has not expended any of the FY 2016 \$1.8 million supplemental.

The FY 2017 budget continued the \$900,000 annual ICAC Enforcement Fund appropriation, which when combined with the \$350,000 General Fund appropriation, provided total AZICAC resources of \$1.3 million in FY 2017, which do not lapse until July 1, 2018. To date, the task force has spent \$632,100 from the ICAC Enforcement Fund appropriation and all of the \$350,000 General Fund appropriation.

#### Expenditure Plan

The AG's FY 2018 expenditure plan continues AZICAC funding at \$1.3 million, which includes ongoing funding for 6 FTE Positions in AZICAC and the AG's Office, one-time equipment purchases, training, and other operational costs of the task force. Although these expenditures are intended for FY 2018, it is possible that some of these monies may be expended in FY 2019 as these appropriations are non-lapsing through June 30, 2019. The AG is proposing the following allocations:

- \$574,000 for 4 FTE Positions within AZICAC and Overtime – \$388,800 would continue to fund a portion of the salary and Employee Related Expenditure costs of a Forensic Examiner, Investigator, Special Detail Police Assistant, and Contract Specialist in the Phoenix Police Department that would also be full-time staff within AZICAC. A further \$81,000 would be utilized for overtime and standby staff costs of the task force.
- \$208,500 for Equipment and Supplies – Cameras, evidence items, forensic computers, laptops, hardware, software, subscriptions to forensic tools, and other forensic and information technology equipment.
- \$101,500 for Training – Airfare, hotel, and per-diem costs as well as costs associated with gaining certification training in forensic skills and relevant tactical training programs.
- \$6,000 for Vehicle Maintenance – Regular maintenance for AZICAC vehicles.
- \$10,000 for Other Operational Costs – Educational materials for schools and community outreach.
- \$350,000 for 2 FTE Positions within the AG's Office – This would continue the prior year's funding of attorney and investigative staff within the AG's Office that handle the prosecution of sexual exploitation cases. Included in this amount is \$35,200 in indirect expenses.

Laws 2015, Chapter 245 requires quarterly reports to JLBC on the expenditure of the monies in the ICAC Enforcement Fund.

Through April 2017, AZICAC reported that for FY 2017, 3,853 reports had been received, 1,934 investigations had been launched, and 274 indictments or arrests had been made.



MARK BRNOVICH  
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL  
OPERATIONS DIVISION/BUDGET & FINANCE SECTION

LIZETTE MORGAN  
CHIEF FINANCIAL OFFICER

May 15, 2017



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

RE: Internet Crimes Against Children Appropriation Expenditure Plan

Dear Sir;

In accordance with the general appropriations act, attached for JLBC review is the FY 18 budget for the Internet Crimes Against Children program for the Office of the Attorney General and the pass-through funding to the Phoenix Police Department.

Sincerely,

Lizette Morgan  
Chief Financial Officer  
Arizona Office of the Attorney General

**OFFICE OF THE ATTORNEY GENERAL  
FY 2018 Planned Expenditures AGO/ICAC Appropriation  
General Fund**

**TITLE:**     **AGO/ICAC FY 2018-2019 Expenditure Plan**

**PRIORITY:**

**Cost Summary FY2018**

<b>Expenditures</b>		<b>ICAC</b>
FTEs	<i>Attorney, Investigator, and Support Staff, not to exceed 2.0 FTEs</i>	2.0
Personal Services (PS)		\$ 168,000
Employee Related Expenses (ERE)		124,000
<b>Total Payroll</b>		<b>292,000</b>
Other Operating Expenses:		
	<i>Telecommunications, Supplies, Training, Bar Dues, Conference Fees, Equipment and Travel</i>	22,800
<b>Total Other Operating Expenses</b>		<b>22,800</b>
<b>Indirect Costs</b>		<b>35,200</b>
<b>TOTAL</b>		<b>\$ 350,000</b>

City of Phoenix Police Departments  
2017 ICAC IGA with the Arizona Attorney Generals Office  
Period 07/01/2017 - 06/30/2018

Budget Detail Worksheet		Budget Year 1	Budget Total
<b>A. PERSONNEL</b>			
Police Assistant Special Detail, Civilian Step 4 (1)		40,331	40,331
Contract Specialist position, Civilian Step 4 (1)		49,338	49,338
Forensic Examiner Investigator Position Sworn (1)		72,426	72,426
ICAC Investigator Position Sworn (1)		72,426	72,426
Detective Overtime		102,284	102,284
Secretary Overtime		4,766	4,766
Detectives Stand By "N" Day (501385)		10,000	10,000
Detectives Stand By Work Day (501380)		13,000	13,000
<b>Total Personnel</b>		<b>364,571</b>	<b>364,571</b>
<b>B. FRINGE BENEFITS</b>			
Police Assistant Special Detail, Civilian Step 4 (1)		17,020	17,020
Contract Specialist position, Civilian Step 4 (1)		18,147	18,147
Forensic Examiner Investigator Position Sworn (1)		59,574	59,574
ICAC Investigator Position Sworn (1)		59,574	59,574
Detective Overtime		53,270	53,270
Secretary Overtime		1,844	1,844
<b>Total Fringes</b>		<b>209,429</b>	<b>209,429</b>
<b>C. TRAVEL/TRAINING</b>			
<i>Mandatory training for all ICAC investigators and civilian support staff:</i>		101,500	101,500
Certification training including Basic computer skills, (ICAC-IT, ICAC-UC, P2P), Dallas Conference, forensic and cell phone classes, officer safety and tactical training classes and Chip-off classes. Other unidentified but needed ICAC classes. Travel includes, airfare, hotel, per-diem, ground transportation and class tuition costs. GSA rate to be strictly followed. Also includes training and certifications as needed for civilian staff. Please see attached word document for further breakdown of travel/training information.			
<b>Total Travel/Training</b>		<b>101,500</b>	<b>101,500</b>
<b>D. EQUIPMENT</b>			
UFED-for P.C. cell phone device Cellebrite to include cell phone chip-off tool kit and table with all needed tools for the device kit. (2 @ \$15,000 ea.)		30,000	30,000
<b>Total Equipment</b>		<b>30,000</b>	<b>30,000</b>
<b>E. SUPPLIES</b>			
<i>Crime Scene Equipment for Investigators:</i>		10,000	10,000
Cameras, tripods, small tools and equipment including, flashlights, for collecting evidence at scenes. Evidence collection items, including evidence bags and crime scene numbers. Also video software for virtual crime scene creation.			

City of Phoenix Police Departments  
2017 ICAC IGA with the Arizona Attorney Generals Office  
Period 07/01/2017 - 06/30/2018

	<b>Total Supplies</b>	<b>10,000</b>	<b>10,000</b>
<b>F. CONSTRUCTION</b>			
None	0		0
	<b>Total Construction</b>	<b>0</b>	<b>0</b>
<b>G. CONSULTANTS/CONTRACTS</b>			
None	0		0
	<b>Total Consultants</b>	<b>0</b>	<b>0</b>
<b>H. OTHER COSTS</b>			
Vehicle Maintenance (5 @ \$1,200ea)	6,000		6,000
<b>Software and Hardware Upgrades for Forensic Computers (5 @ \$7,500):</b>	37,500		37,500
Needed upgrades /ongoing computers, laptops, hardware and software yet to be identified. This includes, but not limited to, forensic software, hardware and other digital devices. Include Office and other forensic software programs for computers. This includes video, audio cameras recording systems for vehicles or Undercover activity.			
<b>Investigator Package for ICAC Affiliates (4 @ \$5,000 ea.):</b>	20,000		20,000
Equipment, tool kits for forensics. hardware, software, training, additional computers for investigations. This includes a complete laptop with office and other programs that are needed by ICAC. Dragon Speak or similar for dictatin+B33g reports.			
<b>Supervisor Affiliate ICAC Package (5 @ \$5,000 ea.):</b>	25,000		25,000
Affiliate supervisor laptop, equipment, digital equipment. Thumb drives, and other devices digital type needed for investigations.			
<b>Software Upgrades for Forensic Computers (5 @ \$5,000 ea.):</b>	25,000		25,000
Subscriptions for forensic tools; this includes computers, software, hardware and forensic tools. Includes Office and other software to be installed on computers. Cellebrite and IEF to include other forensic subscriptions needed to perform the duties of ICAC. Includes updates for Dragon-Speak program for voice dictation or similar.			
<b>Prosecutor Package for ICAC Affiliates, AGO, CAO (5 @ \$5,000 ea.):</b>	25,000		25,000
Equipment, hardware, software, training, court room presentation monitors, screens, laptops.			
Laptops, Thumb Drives, External Drives (6 @ \$6,000 ea.)	36,000		36,000
<b>Educational Material and Community Outreach Items:</b>	10,000		10,000
Coins, patches, lanyards, and coloring books for community education and AGO and ICAC education for schools.			
	<b>Total Other Cost</b>	<b>184,500</b>	<b>184,500</b>

City of Phoenix Police Departments  
2017 ICAC IGA with the Arizona Attorney Generals Office  
Period 07/01/2017 - 06/30/2018

<b>I. INDIRECT COSTS</b>		
	0	0
<b>TOTAL PROJECT COSTS</b>	<b>900,000</b>	<b>900,000</b>
<b>BUDGET SUMMARY</b>		
<i>Budget Category</i>	<i>Original</i>	
<b>A. Personnel</b>	364,571	364,571
<b>B. Fringe Benefits</b>	209,429	209,429
<b>C. Travel</b>	101,500	101,500
<b>D. Equipment</b>	30,000	30,000
<b>E. Supplies</b>	10,000	10,000
<b>F. Construction</b>	0	0
<b>G. Consultants/Contracts</b>	0	0
<b>H. Other Costs</b>	184,500	184,500
<b>Total Direct Costs</b>	<b>900,000</b>	<b>900,000</b>
<b>I. Indirect Costs</b>	0	0
<b>TOTAL PROJECT COSTS</b>	<b>900,000</b>	<b>900,000</b>
<b>Non-State Request</b>	0	0
<b>State Request</b>	<b>900,000</b>	<b>900,000</b>
<b>TOTAL PROJECT COSTS</b>	<b>900,000</b>	<b>900,000</b>





STATE OF ARIZONA

## Joint Legislative Budget Committee

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1716 WEST ADAMS  
PHOENIX, ARIZONA 85007

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Sam Beres, Fiscal Analyst *SB*

SUBJECT: Attorney General - Review of Uncollectible Debts

### Request

Pursuant to A.R.S. § 35-150E, the Attorney General (AG) requests Committee review of its listing of uncollectible debts referred to the AG by state agencies for collection. The listing totals \$56,437,700 for debts listed as uncollectible in FY 2017 and prior years.

### Recommendation

The Committee has at least the following 2 options:

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

A favorable review by the Committee would allow the State Comptroller to remove this debt, certified by the AG as uncollectible, from the state accounting system.

### Analysis

When state agencies, boards, and commissions are unable to collect past due debts, the uncollected debt is processed in 2 ways: 1) the AG or state agencies may initiate debt collection proceedings; or 2) debt is determined to be uncollectible and then referred to JLBC for review. Upon review by the JLBC, debt that is found to be uncollectible may be removed from the state's accounts receivable.

(Continued)

The AG's Collection Enforcement Unit functions as a collection service for debts owed to the state. The unit returns 65% of collected monies to the client agencies and retains the remaining 35% for unit operational costs. While the Collection Enforcement Unit is able to collect from many individuals and businesses that owe monies to the state, some debts are uncollectible for a variety of reasons. Pursuant to A.R.S. § 35-150E, the State Comptroller may remove uncollectible debts from the state accounting system after receiving an annual notice of uncollectible debt from the AG and its review by the Committee. Since 2011 the Committee gave favorable reviews of uncollectible debt listings totaling \$259.2 million (*see Table 1*).

<b>Table 1</b>	
<b>Favorably Reviewed Uncollectible Debt</b>	
<b>Year Reviewed</b>	<b>Uncollectible Debt Listing (\$ in Millions)</b>
2011	\$17.2
2012	30.4
2013	44.9
2014/15	88.4
2016	78.3
<b>Total</b>	<b>\$ 259.2</b>

Since its last report, the AG's office has again reviewed the cases assigned to the Collection Enforcement Unit. Based on this review, the AG advises that \$56.4 million owed to the state is uncollectible as of April 30, 2017. Due to its length, the specific listing of uncollectible debts does not appear in the attached agency material. Please contact the JLBC Staff for the complete listing.

Of the \$56.4 million in uncollectible debt, 98.8% is classified under 5 categories: 1) the debtor is a defunct corporation (81.6%); 2) the collection cost would exceed the amount owed (6.5%); 3) the debt was discharged in bankruptcy (4.1%); 4) the debtor is deceased (3.5%); or 5) the case was settled with the debtor for a lesser amount than owed (3.1%). The remaining amount is listed as uncollectible for reasons including that the debt lacked supporting documentation, the debtor either has no assets, wages or possesses a negative credit report, the debtor is incarcerated, the debtor lives and/or works on tribal lands, or the debtor was unable to be located (*see Table 2*).

<b>Table 2</b>		
<b>Uncollectible Debt by Reason</b>		
<b>Reason</b>	<b>Amount Recommended for Write-Off</b>	<b>Percentage</b>
Defunct Corporation/LLC	\$46,065,600	81.6%
Collection Cost Would Exceed Amount Owed	3,664,700	6.5%
Debt Discharged in Bankruptcy	2,338,300	4.1%
Debtor is Deceased	1,968,300	3.5%
Settled for Lesser Amount	1,726,200	3.1%
No Assets/No Wages/Negative Credit Report	488,600	0.9%
Insufficient Documentation	105,700	0.2%
Other	80,200	0.1%
<b>Total</b>	<b>\$56,437,700 <sup>1/</sup></b>	<b>100.0%</b>

<sup>1/</sup> Note: Numbers do not add due to rounding.

(Continued)

Of the \$56.4 million in uncollectible debt from the cases in this report, approximately 95.5% in debts is owed to 2 agencies: The Department of Revenue and the State Treasurer. The remaining debt is owed to 34 other agencies (*see Table 3*).

The 10 largest cases comprise just over 20% of the \$56.4 million total (*see Table 4*). The single largest write-off is \$5.6 million owed to the State Treasurer by National Century Financial Enterprises (NCFE), which went bankrupt in 2002. NCFE used investor money to offer financing to small hospitals and other health care providers, buying their accounts receivable and keeping a portion of the cash it collected. The company operated nationally and had been engaged in fraud, misusing investors' money and making unsecured loans to healthcare companies. The Treasurer held some of the firm's securities in its Local Government Investment Pool (LGIP). After NCFE's collapse, some of the investors' losses were recouped through litigation against banks and accounting firms. The Treasurer has received \$7.4 million in payments, leaving \$5.6 million uncollected. All of the NCFE assets and litigation settlements have been distributed and no further collections are expected.

**Table 3**

**Uncollectible Debt Recommended for Write-Off by Client Agency**

<u>Agency</u>	<u>Amount Recommended for Write-Off</u>	<u>Percentage</u>
Department of Revenue	\$48,338,100	85.6%
State Treasurer	5,586,400	9.9%
Department of Transportation	825,600	1.5%
Attorney General's Office	572,600	1.0%
Registrar of Contractors	372,100	0.7%
State Retirement System	268,000	0.5%
All Others	475,000	0.9%
<b>Total</b>	<b>\$56,437,700</b>	<b>100.0% <sup>1/</sup></b>

<sup>1/</sup> Note: Numbers do not add due to rounding.

**Table 4**

**Largest Individual Cases of Uncollectible Debt**

<u>Amount Recommended for Write-Off</u>	<u>Agency</u>	<u>Reason Uncollected</u>
\$5,586,400	Arizona State Treasurer	Defunct Corporation/LLC
942,400	Department of Revenue	Defunct Corporation/LLC
834,700	Department of Revenue	Defunct Corporation/LLC
744,800	Department of Revenue	Defunct Corporation/LLC
666,100	Department of Revenue	Defunct Corporation/LLC
657,500	Department of Revenue	Defunct Corporation/LLC
576,400	Department of Revenue	Defunct Corporation/LLC
572,600	Attorney General's Office	Debtor is Deceased
515,700	Department of Transportation	Settled for Lesser Amount
484,500	Department of Revenue	Defunct Corporation/LLC
<b>Total: \$11,581,100</b>		

(Continued)

Nearly all of the debts in this report were certified as uncollectible in FY 2015, FY 2016 and FY 2017 (see *Table 5*). The rest of the debts were deemed uncollectible in earlier years but were never formally certified by the Attorney General until now.

<b>Table 5</b>		
<b>Uncollectible Debt Recommended by Fiscal Year Close Date</b>		
<b>Fiscal Year</b>	<b>Amount Recommended For Write-Off</b>	<b>Percentage</b>
2001	\$ 700	<1.0%
2003	6,600	<1.0%
2004	6,700	<1.0%
2005	52,500	<1.0%
2006	10,500	<1.0%
2007	16,000	<1.0%
2010	400	<1.0%
2011	500	<1.0%
2012	400	<1.0%
2013	1,000	<1.0%
2014	500	<1.0%
2015	4,468,600	7.9%
2016	43,947,300	77.9%
2017	<u>7,925,900</u>	<u>14.0%</u>
<b>Total</b>	<b>\$56,437,700</b>	<b>100.0% <sup>1/</sup></b>

<sup>1/</sup> Note: Numbers do not add due to rounding.

RS/SB:kp



**MARK BRNOVICH**  
ATTORNEY GENERAL

**OFFICE OF THE ARIZONA ATTORNEY GENERAL**  
**CIVIL LITIGATION DIVISION**  
**BANKRUPTCY COLLECTION AND ENFORCEMENT SECTION**

**DON J. LAWRENCE, JR.**  
SECTION CHIEF COUNSEL  
DIRECT: 602-542-8300  
DON.LAWRENCE@AZAG.GOV

June 5, 2017

HAND DELIVERED

The Honorable Don Shooter, Chairman  
Joint Legislative Budget Committee  
Arizona House of Representatives  
1716 West Adams  
Phoenix, Arizona 85007



RE: FY1998 through April 24, 2017 for Not-Referred Non-DOR Uncollectible Debt Report  
FY2016 beginning May 1, 2016 through April 28, 2017, FY2017 Referred Non-DOR Uncollectible Debt Report  
FY 2016 DOR Uncollectible Debt Report

Dear Representative Shooter:

As requested by the Joint Legislative Budget Committee ("JLBC") pursuant to A.R.S. § 35-150(E), enclosed are the FY1998 through April 24, 2017 for Not-Referred Non-DOR Uncollectible, FY2016 beginning May 1, 2016 through April 28, 2017, FY2017 Referred Non-DOR Uncollectible Debt Report and the FY2016 DOR Uncollectible Debt Report ("the Reports").

The Reports include: 1) debt owed to the State that was referred to the Collection Enforcement Revolving Fund ("CERF") for collection and determined to be uncollectible; and 2) debt owed to the Department of Revenue ("DOR") and other State agencies, boards and commissions that was not referred to the CERF and was deemed uncollectible by the agencies; With respect to the DOR debt listed in the Reports as uncollectible, for FY 2016 the Attorney General's Office is relying upon the certification by DOR set forth in memorandum dated January 11, 2017, from DOR to the Attorney General's Office and entitled, "Fiscal Year 2016 Certification of Cases for Abatement" ("Certification"). The Certification states that the debt described in the Certifications meets the criteria pursuant to A.R.S. § 42-1004B, and for liabilities discharged in bankruptcy, pursuant to the United States Bankruptcy Code, and that DOR has validated through its internal policies and process that it verified the reasons for abatement, as stated in the Certifications, and that they are true and accurate.

With respect to the debt owed to State agencies other than DOR that was not referred to CERF, each respective agency Director certified that the agency has validated through its internal policies and processes that it verified the reasons for abatement, as stated in the Certifications, and that they are true and accurate.

The reporting of a debt as uncollectible, including the act of the State abating the debt, does not necessarily preclude the State from reopening a case and collecting a debt owed to the State at a later date. At times, we have been able to reopen a case and collect a debt because we have identified a debtor's assets or revenue source that previously did not exist or was not able to be located. There are three exceptions to when the State would be able to pursue a debtor post-abatement. They are: 1) debts discharged in bankruptcy; 2) debts where the statute of limitations has expired; and 3) debts that the State has agreed to settle for a lesser amount than what was owed.

The Reports provide a reason each debt is deemed uncollectible. The reasons include case settled, debtor deceased, unable to locate debtor, collection costs would exceed the amount to be collected, debtor has neither assets nor wages, debtor lives and/or works on a Reservation, and debt discharged in bankruptcy/corporation/LLC defunct.

Finally, the Reports also provide the amount uncollected for each debt. This amount may include all or a portion of the original debt and, if applicable, all or a portion of interest and penalties associated with the debt.

Please contact either of the undersigned if you have any questions.

Sincerely,



Don J. Lawrence, Jr.  
Section Chief Counsel  
Bankruptcy Collection & Enforcement  
Office of the Attorney General

Enclosures

cc: Senator Debbie Lesko, JLBC Vice-Chairman (with attachments)  
Lorenzo Romero, OSPB Director (with attachments)  
Eric Billings, JLBC Analyst (with attachments)  
D. Clark Partridge, State Comptroller (with attachments)  
Richard Stavneak, JLBC Director (with attachments)  
Paul Watkins, AGO Division Chief of Civil Litigation

**Please contact the JLBC Staff for the complete list of uncollectible debt.**





STATE OF ARIZONA

## Joint Legislative Budget Committee

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MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Josh Hope, Fiscal Analyst *JH*

SUBJECT: Arizona Department of Environmental Quality - Review of Safe Drinking Water  
Expenditure Plan

### Request

Pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the Arizona Department of Environmental Quality (ADEQ) has requested Committee review of its expenditure plan for \$1,800,000 for the Safe Drinking Water Program (SDWP) in FY 2018.

### Recommendation

The Committee has at least the following 2 options:

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

### Analysis

#### Background

Pursuant to A.R.S. § 49-1243, ADEQ is the state agency with primary responsibility for administration of this state's public water system (PWS) supervision program under the U.S. Safe Drinking Water Act of 1974 (SDWA). The SDWA sets national safety standards for over 80 contaminants that may be found in drinking water. States set additional standards based on their own laws and rules. The purpose of the program is to ensure that the quality of tap water meets or exceeds state and SDWA standards. ADEQ delegates some drinking water safety responsibilities to Maricopa and Pima Counties, though ADEQ still retains oversight of the programs.

(Continued)

As part of the Safe Drinking Water Program, ADEQ regulates 1,517 PWSs with the help of local counties. A PWS refers to any water system that has 15 or more service connections or serves 25 or more people. Out of the 1,517 PWSs, 1,449 are small water systems. Small water systems are a type of PWS that serves 500 or fewer connections. According to ADEQ, about 27% of PWSs in Arizona have some level of non-compliance. ADEQ conducts an average of 235 PWS inspections per year and assists in returning systems to compliance with the SDWA. ADEQ receives and reviews 85,000 water quality tests each year from PWSs and trains and certifies 2,700 municipal and private system PWS personnel.

#### Safe Drinking Water Program Fund

In addition to fees, federal monies, and other non-appropriated sources, prior to FY 2018, the SDWP was funded from the Emissions Inspection Fund. The FY 2018 Environment BRB (Laws 2017, Chapter 308) modifies statute to redirect the first \$1,800,000 of PWS tax revenue to the new appropriated Safe Drinking Water Program Fund in order to shift program funding to a more appropriate source. Prior to this change, all PWS monies were deposited into the Water Quality Assurance Revolving Fund. Pursuant to A.R.S. § 42-5302, the PWS tax is levied directly on the entities that operate public water systems.

ADEQ's planned expenditures for the Safe Drinking Water Program in FY 2017 and FY 2018 appear in *Table 1*. In FY 2018, direct personnel costs make up approximately 57% of total costs and the Indirect Cost Fund allocation makes up approximately 25% of total costs.

Table 1 Safe Drinking Water Program Costs						
<u>Position or Function</u>	<u>FTEs</u>	<u>FY 2016</u>	<u>FY 2017</u>		<u>FY 2018</u>	
		<u>(Actual)</u>	<u>(Expenditure Plan)</u>		<u>(Expenditure Plan)</u>	
		<u>Cost</u>	<u>FTEs</u>	<u>Cost</u>	<u>FTEs</u>	<u>Cost</u>
Direct Personnel	14.0	\$1,016,500	14.0	\$1,114,400	11.2	\$1,019,400
Indirect Cost Fund Allocation		454,800		498,600		456,100
Contracting		60,700		90,600		15,000
Travel		18,700		29,500		40,000
Other (e.g. software, printing)		29,000		66,900		269,500
<b>Total</b>		<b>\$1,579,700</b>		<b>\$1,800,000</b>		<b>\$1,800,000</b>

#### Request

The FY 2018 allocation is similar in percentage terms to the FY 2017 allocation except less money is allocated to Direct Personnel and the Indirect Cost Fund allocation since the number of estimated personnel is decreasing from 14 to 11.2 FTE Positions. In FY 2018, DEQ is shifting some personnel expenditures from state funding sources to federal funding sources in order to make more state monies available in Other Operating Expenses for IT projects. DEQ is budgeting additional state funds to upgrade its current drinking water database and establish a new data portal for the program.

RS/JH:kp  
Attachments



Douglas A. Ducey  
Governor

# ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY



Misael Cabrera  
Director

June 1, 2017

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

Re: Safe Drinking Water Program Fund expenditure plan for review

Dear Senator Shooter:

In accordance with Laws 2017, 53<sup>rd</sup> Legislature, 1st Regular Session, Chapter 305 (SB1522), Section 35, line 7-9 *"Before the expenditure of any monies from the safe drinking water program line item, the department of environmental quality shall submit an expenditure plan for review by the joint legislative budget committee."* The Arizona Department of Environmental Quality is submitting the safe drinking water fund expenditure plan for review.

The attached document contains the Drinking Water Program Budget funded by the Safe Drinking Water Program Fund. We are requesting time on the JLBC June agenda or at your convenience to provide an explanation as appropriate. If you need any further information, please contact Trevor Baggiore, Director, ADEQ Water Quality Division, at 602-771-2303.

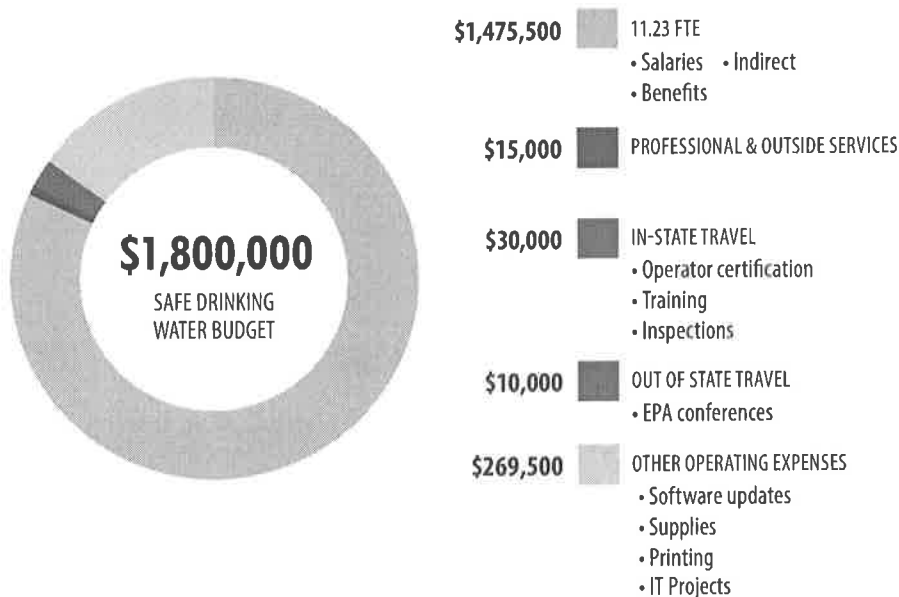
Sincerely,

Russell Gardner, MBA  
Director Business and Finance

Enclosure

cc: Richard Stavneak, Director JLBC  
Joshua Hope, JLBC Staff  
Kaitlin Harrier, OSBP Staff  
Misael Cabrera, Director, ADEQ  
Trevor Baggiore, Director Water Quality Division, ADEQ

## DRINKING WATER PROGRAM BUDGET FUNDED BY SAFE DRINKING WATER PROGRAM FUND



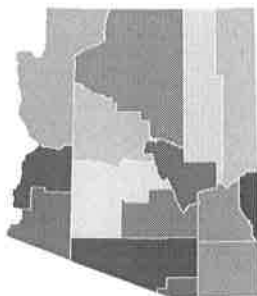
### PROGRAM SCOPE

- Regulate 1,517 public water systems (PWS)—1,449 are small systems.
- Ensure PWS are designed and constructed correctly.
- Train and certify 2,700 municipal and private system personnel to operate PWS properly.
- Continually educate and advise regulated community to help keep them in compliance.
- Provide water quality information to the public.
- Provide guidance on source water protection and technical assistance to schools and PWS.
- Receive and review 85,000 water quality test results each year from PWS.
- Conduct an average of 235 water system inspections per year and assist in returning systems to compliance as rapidly as possible.

### WHY IT MATTERS

- About 27% of PWS in Arizona have some level of non-compliance.
- Majority of compliance issues are small water systems, which require focused attention to achieve compliance.
- Without stable funding, Arizona runs the risk of EPA taking over compliance activities.
- Historically funded by the General Fund, the Drinking Water Program is the only ADEQ program not transitioned to the fee for service model.

### COMPARISONS BY COUNTY



"Studies indicate that drinking water contaminants are linked to millions of instances of illness within the United States each year."

*Charles Duhigg,  
New York Times,  
December 7, 2009*

<b>APACHE COUNTY</b> • PWS: 48 • Population: 21,210 <b>Non-Compliance: 27.08%</b>	<b>GRAHAM COUNTY</b> • PWS: 15 • Population: 26,411 <b>Non-Compliance: 40.0%</b>	<b>MOHAVE COUNTY</b> • PWS: 108 • Population: 223,029 <b>Non-Compliance: 34.26%</b>	<b>SANTA CRUZ COUNTY</b> • PWS: 39 • Population: 50,899 <b>Non-Compliance: 17.95%</b>
<b>COCONINO COUNTY</b> • PWS: 105 • Population: 171,413 <b>Non-Compliance: 20.0%</b>	<b>GREENLEE COUNTY</b> • PWS: 12 • Population: 7,736 <b>Non-Compliance: 66.67%</b>	<b>NAVAJO COUNTY</b> • PWS: 62 • Population: 89,855 <b>Non-Compliance: 35.48%</b>	<b>YAVAPAI COUNTY</b> • PWS: 245 • Population: 205,218 <b>Non-Compliance: 22.86%</b>
<b>COCHISE COUNTY</b> • PWS: 105 • Population: 132,263 <b>Non-Compliance: 20.95%</b>	<b>LA PAZ COUNTY</b> • PWS: 86 • Population: 35,550 <b>Non-Compliance: 18.60%</b>	<b>PIMA COUNTY</b> • PWS: 211 • Population: 1,043,583 <b>Non-Compliance: 26.54%</b>	<b>YUMA COUNTY</b> • PWS: 52 • Population: 206,017 <b>Non-Compliance: 67.31%</b>
<b>GILA COUNTY</b> • PWS: 107 • Population: 63,596 <b>Non-Compliance: 25.23%</b>	<b>MARICOPA COUNTY</b> • PWS: 228 • Population: 3,945,597 <b>Non-Compliance: 20.18%</b>	<b>PINAL COUNTY</b> • PWS: 94 • Population: 383,829 <b>Non-Compliance: 43.62%</b>	

Washington State Senate Majority Leader Mark Schoesler (R) stated, "It is a very, very important public health issue that we have to take seriously," when asked about testing for lead in school's drinking water and replacing fixtures that had high lead levels.

KOMOnews.com April 27, 2017





STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

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

(602) 926-5491

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HOUSE OF  
REPRESENTATIVES

DON SHOOTER  
CHAIRMAN 2017  
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VINCE LEACH  
DAVID LIVINGSTON  
MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Geoffrey Paulsen, Fiscal Analyst *GP*

SUBJECT: Arizona Department of Administration - Review of the Arizona Financial Information System Transaction Fee

### Request

Pursuant to A.R.S. § 41-740.01 the Arizona Department of Administration (ADOA) requests review of its proposed 32.5-cent transaction fee charged to state agencies for the operation of the Arizona Financial Information System (AFIS).

### Recommendation

The Committee has at least the following 2 options:

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

### Analysis

#### Background

The Business Re-Engineering Arizona (BREAZ) project to replace the state's accounting system concluded in FY 2016 and the new AFIS system went "live" on July 1, 2015. The FY 2016 Budget Procedures Reconciliation Bill (Laws 2015, Chapter 11) added A.R.S. § 41-740.01 which established the AFIS Collections Fund administered by ADOA. The bill allowed ADOA to collect a per transaction usage fee from agencies to recover the ongoing operating costs associated with AFIS and requires Committee review prior to ADOA changing the transaction fee.

(Continued)

At the Committee's June 18, 2015 meeting, ADOA proposed calculating the transaction fee by dividing the total AFIS operating costs by the total annual AFIS transactions. The FY 2016 General Appropriation Act included \$7.6 million and 28 FTE Positions from the AFIS Collections Fund in FY 2016 for operating costs. Agencies would not be charged per transaction, but would be charged based on the number of actual transactions from the most recent year, multiplied by the transaction fee. Agencies would typically be billed at the beginning of the fiscal year. ADOA estimated annual AFIS transactions for the first year based on the total FY 2014 transactions of approximately 7.0 million, which amounts to a fee of \$1.08 per transaction. The Committee gave a favorable review of the \$1.08 transaction fee at that meeting.

#### Fee Proposal

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) included \$9,457,500 and 28 FTE Positions from the AFIS Collections Fund in FY 2018 for AFIS operations. This amount is unchanged from FY 2017. The AFIS operating cost increase since FY 2016 is primarily due to the outsourcing of technical operations of the system and certain project costs, such as software licensing fees, becoming part of ongoing operations.

ADOA reports that in FY 2016 AFIS processed 29.0 million transactions. ADOA proposes using this number to calculate the new transaction fee. This results in a charge of approximately 32.5 cents per transaction. The significant increase in the number of transactions over FY 2014 is primarily due to agencies, which were previously using their own system, moving to the AFIS system. These agencies include the Department of Economic Security, Department of Transportation, and AHCCCS.

The FY 2018 budget allocates adjustments to agencies which will experience a General Fund increase or decrease of more than \$15,000 based on an ADOA analysis of the proposed change. Agencies that will experience a change less than this amount did not receive an adjustment. The budget does not allocate any adjustments for Other Appropriated Funds. The proposed rate in the department's request conforms to the adjustments assumed in the budget.

RS/GP:kp



Douglas A. Ducey  
Governor

Craig C. Brown  
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

GENERAL ACCOUNTING OFFICE

100 NORTH FIFTEENTH AVENUE • SUITE 302  
PHOENIX, ARIZONA 85007

Phone: (602) 542-5601 • Fax: (602) 542-5749

May 31, 2017

The Honorable Don Shooter, Chairman 2017  
Joint Legislative Budget Committee  
Arizona State Senate  
1700 West Washington  
Phoenix, Arizona 85007



Dear Senator Shooter:

We request placement on the next Joint Legislative Budget Committee (JLBC) meeting agenda to review The FY18 cost allocation to State agencies for the Arizona Financial Information System (AFIS). Pursuant to A.R.S. § 41-740.01, the department is required to submit a proposed fee to the JLBC before establishing or charging a fee.

The proposed fee related to the cost allocation is determined by dividing the \$9,406,300 FY18 appropriation amount for AFIS, by the allocable FY16 transaction count of 28,975,733. This results in a charge of approximately 32.5 cents per transaction.

Thank you for your attention to this request. If you have any questions or need any additional information, please call me at 542-5405.

Sincerely,

D. Clark Partridge  
State Comptroller

cc: Richard Stavneak, JLBC  
Geoff Paulsen, JLBC  
Jack Brown, JLBC  
Craig Brown, ADOA  
Elizabeth Bartholomew, ADOA

Lorenzo Romero, OSPB  
Ashley Beason, OSPB  
Bill Greeney, OSPB  
Derik Leavitt, ADOA





STATE OF ARIZONA

## Joint Legislative Budget Committee

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VINCE LEACH  
DAVID LIVINGSTON  
MICHELLE UGENTI-RITA

DATE: June 13, 2017

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

THRU: Richard Stavneak, Director *RS*

FROM: Geoffrey Paulsen, Fiscal Analyst *GP*

SUBJECT: Arizona Department of Administration - Review of Risk Management Deductible

### Request

Pursuant to A.R.S. § 41-621, the Arizona Department of Administration (ADOA) requests review of its proposed increase in the Risk Management property deductible from \$100 to \$2,500 for agencies with a budget of at least \$1,000,000.

### Recommendation

The Committee has at least the following 2 options:

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

The ADOA proposal is consistent with provisions in the FY 2018 budget.

### Analysis

In the state's Risk Management program, ADOA bills state agencies for property and liability coverage. ADOA then pays these claims from their Risk Management Revolving Fund. ADOA plans to increase the property deductible from \$100 to \$2,500. This increase will only apply to agencies with budgets of at least \$1,000,000. For agencies with budgets below \$1,000,000, ADOA proposes maintaining a \$100 deductible.

(Continued)

The FY 2018 budget reduced ADOA's Risk Management Revolving Fund expenditures by \$(3.5) million as more liability costs are shifted to agencies.

ADOA reports that the reduction of minor property claims will allow the Risk Management Division to focus on the management of liability claims that have a significantly greater impact on state finances.

The FY 2018 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 307, Section 7) exempts ADOA from rulemaking requirements for the purpose of changing the Risk Management agency deductible until July 1, 2018. The BRB also states that, subject to review by the Committee, it is the intent of the Legislature that ADOA increase the deductible as proposed.

RS/GP:kp

Douglas A. Ducey  
Governor



Craig C. Brown  
Director

## ARIZONA DEPARTMENT OF ADMINISTRATION

RISK MANAGEMENT DIVISION  
100 NORTH FIFTEENTH AVENUE • SUITE 301  
PHOENIX, ARIZONA 85007

(602) 542-2182

May 31, 2017

The Honorable Don Shooter, Chairman 2017  
Joint Legislative Budget Committee  
Arizona Senate  
1700 West Washington Street  
Phoenix, AZ 85007



Dear Representative Shooter:

We respectfully request placement on the next Joint Legislative Committee (JLBC) agenda to discuss the Arizona Department of Administration plan to increase its property deductible. A.R.S. §41-621 requires that any changes in deductible amounts established by the Arizona Department of Administration Director be reviewed by the JLBC.

The Department plans to amend the Arizona Administrative Code for the Risk Management Division to change the property deductible from the current \$100 disappearing deductible to straight property deductible of \$2,500.

### Impact:

- Move from a Risk Management and Procurement process to a simplified Procurement only process
- Approximately \$3.5 million reduction from the Risk Management Fund and potential budget increase to State Agency
- Reduction of approximately 3,600 claims/year

### Benefits:

- **Reduction of Moral Hazard** – The existence of insurance causes an indifference to loss. A deductible should increase awareness and loss prevention.
- **Agency Empowerment:** Agencies will be empowered to make good business decisions in the determination of replacing damaged property. (Example – an agency has a damaged computer and rather than purchasing a new one after submitting a claim, they may redeploy a computer not in use)
- **Eliminate per claim cost to ADOA and State Agencies:** There is a minimum cost to ADOA and State Agencies that does not exactly track with the amount of the claim. The expense of processing a small property claim constitutes a large percentage of the claim itself. Thus, deductibles are an effective way to keep premiums affordable.
- **Risk Management Refocus:** The elimination of the majority of property claims will allow the RMD to focus on the management of liability claims that have a significantly greater impact on state finances. (I.e. claims resulting from freeway crossovers, freeway wrong-way drivers, DOC

<insert addressee name>

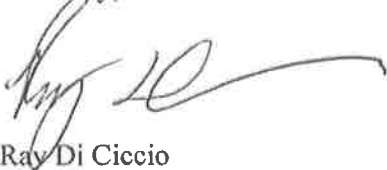
<insert date of letter>

Page 2 of 2

civil rights violations, care and custody of children...). In fact, just one of these significant claims has the potential to be a multiple of the \$3.5 million deductible offset.

Thank you for your attention to this request. If you have any questions or require additional information, please call me at 602.542.1791.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ray Di Ciccio', with a long, sweeping horizontal line extending to the right.

Ray Di Ciccio  
State Risk Manager

cc: Richard Stavneak  
Geoffrey Paulsen  
Craig Brown  
Kevin Donnellan  
Ashley Olson  
Derik Leavitt