

JOINT LEGISLATIVE BUDGET COMMITTEE

Tuesday, October 5, 2021

9:30 a.m.

House Hearing Room 1

JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

DAVID M. GOWAN
VICE-CHAIRMAN
LELA ALSTON
SEAN BOWIE
RICK GRAY
SINE KERR
VINCE LEACH
DAVID LIVINGSTON
LISA OTONDO

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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BEN TOMA

JOINT LEGISLATIVE BUDGET COMMITTEE

Tuesday, October 5, 2021

9:30 A.M.

House Hearing Room 1

MEETING NOTICE

- Call to Order
 - [Approval of Minutes of July 15, 2021.](#)
 - EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
 - 1. [***AHCCCS/DEPARTMENT OF ECONOMIC SECURITY - Review of Capitation Rate Changes for Plan Year 2022.](#)
 - 2. DEPARTMENT OF EDUCATION
 - [***A. Review of AzSCI Science Contract Renewal.](#)
 - [***B. Review of Basic State Aid Recalculation.](#)
 - 3. [***ADMINISTRATIVE OFFICE OF THE COURTS AND ARIZONA DEPARTMENT OF WATER RESOURCES - Review of General Adjudication Personnel and Support Fund FY 2022 Expenditure Plan.](#)
 - 4. [***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.](#)
- *** 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.

09/28/2021

Im

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



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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

July 15, 2021

The Chairman called the meeting to order at 9:37 a.m., Thursday, July 15, 2021, in House Hearing Room 1 and via video conference. The following were present:

| | | |
|----------|------------------------------|--|
| Members: | Senator Gowan, Vice-Chairman | Representative Cobb, Chairman |
| | Senator Alston | Representative Bolick |
| | Senator Bowie | Representative Chávez |
| | Senator Gray | Representative Fernandez |
| | Senator Kerr | Representative Kavanagh |
| | Senator Leach | Representative Osborne |
| | Senator Otondo | Representative Schwiebert (Temporary member) |
| Absent: | Senator Livingston | Representative Friesse |
| | | Representative Toma |

APPROVAL OF MINUTES

Senator Gowan moved that the Committee approve the minutes of April 27, 2021. The motion carried.

CONSENT AGENDA

The following items were considered without further discussion.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)/AUTOMATION PROJECTS FUND (APF) - Review of ADE School Finance Replacement Project.

A.R.S. § 41-714 requires Committee review prior to any monies being expended from APF. ADOA requested review of \$3,600,000 for the Arizona Department of Education (ADE) School Finance System Replacement. The JLBC Staff provided options.

(Continued)

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Consider Approval of Requested Transfer of Appropriations.

A.R.S. § 35-173 requires Committee approval of any transfer of spending authority within ADOA. ADOA requested authorization to transfer \$900,000 of Risk Management Revolving Fund monies from its operating lump sum appropriation to the Risk Management Administrative Expenses line item in FY 2021. The JLBC Staff provided options.

ATTORNEY GENERAL (AG) - Review of Uncollectible Debts.

Pursuant to A.R.S. § 35-150E, the Attorney General (AG) requested Committee review of its listing of uncollectible debts to be removed from the state's accounting system. The listing totals \$21,069,638 for debts listed as uncollectible in FY 2021 and prior years. The JLBC Staff provided options.

ARIZONA DEPARTMENT OF CORRECTIONS (ADC) - Review of FY 2021 Third Quarter Correctional Officer Staffing Report.

Pursuant to an FY 2021 General Appropriation Act footnote, ADC submitted for Committee review its quarterly staffing report for correctional officers (COs). The JLBC Staff provided options.

ARIZONA DEPARTMENT OF EDUCATION (ADE) - Review of Transwestern Settlement.

Pursuant to A.R.S. § 15-915B, ADE requested Committee review of its re-calculation of Basic State Aid for school districts with property values affected by the *Transwestern Pipeline Co. v. Arizona Department of Revenue* litigation. The JLBC Staff provided options.

ARIZONA DEPARTMENT OF EDUCATION (ADE) - Review of Career Technical Education District Annual Report.

ADE requested Committee review of its annual Career Technical Education District (CTED) report for FY 2020, as required by A.R.S. § 15-393.01. The JLBC Staff provided options.

ARIZONA DEPARTMENT OF EDUCATION (ADE) - Review of K-12 Broadband Connectivity Projects..

Pursuant to A.R.S. § 15-249.07, ADE requested Committee review of its annual report on K-12 broadband connectivity construction projects. The JLBC Staff provided options.

DEPARTMENT OF HEALTH SERVICES (DHS) - Review of Long Term Care Audit Report.

Pursuant to an FY 2021 General Appropriation Act footnote, DHS requested Committee review of its Long Term Care Audit Report. The JLBC Staff provided options.

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.

Pursuant to A.R.S. § 41-1724G and A.R.S. § 41-1724H, DPS is required to submit for Committee review the entire FY 2022 expenditure plan for the GIITEM Border Security and Law Enforcement Subaccount prior to expending any monies. The Subaccount is funded primarily from a \$4.00 surcharge on criminal violations.

(Continued)

DPS has submitted for review its proposal to distribute \$1,361,600 of the \$2,411,600 FY 2022 appropriation from the Subaccount to continue to fund 3 existing programs: Detention Liaison Officers Program (\$463,900), Border County Officers Program (\$547,700), and Pima County Border Crimes Unit (\$350,000). DPS plans to submit to the Committee an allocation plan for the Border Security and Law Enforcement Grants (\$1,050,000) for review at a later date this year. The JLBC Staff provided options and a potential provision:

- A. DPS shall report to the Committee prior to implementing any changes to the proposed FY 2022 allocation of the grants.

ARIZONA BOARD OF REGENTS (ABOR) - Review of FY 2022 Tuition Revenues.

An FY 2022 General Appropriation Act footnote requires ABOR to submit to the Committee for review an expenditure plan for all projected FY 2022 tuition and fee revenues by expenditure category. The JLBC Staff provided options.

Senator Gowan moved that the Committee give a favorable review, or approval, as appropriate, of the 10 consent agenda items with JLBC Staff provisions listed above. The motion carried.

EXECUTIVE SESSION

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

At 9:39 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 10:34 a.m. the Committee reconvened into open session.

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

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

1. *Bruce Bryce, et al. v. April Kaufax, et al.*
2. *Humphreys/Pearson, et al. v. State of Arizona, et al.*

The motion carried.

B. Arizona Department of Administration (ADOA) - Review for Committee the Planned Contribution Strategy for State Employee and Retiree Medical and Dental Plans Under A.R.S. § 38-658A.

Senator Gowan moved that the Committee accept the report for the planned contribution strategy for state employee and retiree medical plans.

Senator Leach moved that the Committee give a favorable review of the plan with the following provision:

(Continued)

- A. Prior to the next JLBC meeting, ADOA shall submit a report with an update on the financial status of the Health Insurance Trust Fund and proposed solutions to eliminate the Health Insurance Trust Fund's structural shortfall. The motion passed by a roll call vote of 12-2-0-3. (*Attachment 1*)

The motion carried.

REGULAR AGENDA

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA)/AUTOMATION PROJECTS FUND (APF) - Review of Business One-Stop Web Portal.

Ms. Rebecca Perrera, JLBC Staff, stated that pursuant to A.R.S. § 41-714 requires Committee review prior to any monies being expended from the Arizona Department of Administration's (ADOA) Automation Projects Fund (APF). ADOA requested review of the expenditure of \$7,758,900 in FY 2022 funds for the ADOA Business One-Stop Shop Web Portal. The JLBC Staff provided options.

Mr. J.R. Sloan, State CIO, ADOA, responded to member questions.

Senator Gowan moved that the Committee favorably review the expenditure of \$7,758,900 in FY 2022 funds for the ADOA Business One-Stop Shop Web Portal. The motion carried.

DEPARTMENT OF CHILD SAFETY (DCS) - Review of FY 2021 Quarterly Benchmarks.

Ms. Nicole Lovato, JLBC Staff, stated that pursuant to an FY 2021 General Appropriation Act footnote, DCS submitted for Committee review a report of quarterly benchmarks for assessing progress made in increasing the department's number of Full-Time Equivalent (FTE) Positions, meeting caseload standards for caseworkers, reducing the number of backlog cases and open reports, and reducing the number of children in out-of-home care. The JLBC Staff provided options.

Mr. Mike Faust, Director, DCS, responded to member questions.

Senator Gowan moved that the Committee favorably review the department's FY 2021 third quarter benchmark report. The motion carried.

ARIZONA CRIMINAL JUSTICE COMMISSION (ACJC) - Review of Edward Byrne Memorial Justice Assistance Grant Federal Applications.

Mr. Ryan Fleischman, JLBC Staff, stated that pursuant to A.R.S. § 41-2403, ACJC submitted its federal application for the Edward Byrne Memorial Justice Assistance Grant to the Committee for review 30 days prior to submission to the federal government. The JLBC Staff provided options.

Mr. Andrew LeFevre, Executive Director, ACJC, responded to member questions.

Senator Gowan moved that the Committee favorably review of the Edward Byrne Memorial Justice Assistance Grant federal application with the following provision:

- A. ACJC shall submit a preliminary proposal to the Committee by May 15, 2022 if the federal guidelines have not yet been received for 2022.

(Continued)

The motion carried.

DEPARTMENT OF REVENUE (DOR) - Review of Transaction Privilege Tax Administration and Enforcement Audit Report.

Mr. Jeremy Gunderson, JLBC Staff, stated that pursuant to an FY 2021 General Appropriation Act footnote requires DOR to submit for Committee review its report on the implementation progress of the recommendations included in the Office of the Auditor General's (OAG) March 2019 report on Transaction Privilege Tax (TPT) administration and enforcement. The JLBC Staff provided options.

Mr. Robert Woods, Director, DOR, responded to member questions.

Senator Gowan moved that the Committee favorably review the progress report. The motion carried.

SECRETARY OF STATE (SOS) - Review of Expenditure Plan for Help America Vote Act (HAVA).

Ms. Maggie Rocker, JLBC Staff, stated that pursuant to an FY 2019 General Appropriations Act footnote and an FY 2021 General Appropriations Act footnote, SOS is required to submit an expenditure plan for Help America Vote Act (HAVA) monies to the Joint Legislative Budget Committee for review prior to spending those monies. The JLBC Staff provided options.


Ms. Allie Bones, Assistant Director, SOS, responded to member questions.

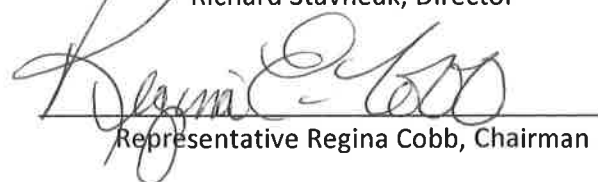
Representative Cobb moved that the Committee table review of the SOS FY 2022 HAVA expenditure plan until the next meeting and requested that SOS provide a more detailed explanation of how monies would be distributed. The motion carried.

Without objection, the meeting adjourned at 11:59 a.m.

Respectfully submitted:


Kristy Paddack, Secretary

 **Richard Stavneak**
Richard Stavneak, Director


Representative Regina Cobb, Chairman

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

JOINT LEGISLATIVE BUDGET COMMITTEE

Meeting Date: 7/15/21

ITEM #: Medical and Dental Plans

MOTION: Favorable review with provision

| | <u>PRESENT</u> | <u>ABSENT</u> | PASS | AYE | NAY | PRESENT | ABSENT |
|---------------------------------|----------------|---------------|------|-----|-----|---------|--------|
| SEN. ALSTON | X | | | X | | | |
| SEN. BOWIE | X | | | X | | | |
| REP. BOLICK | X | | | X | | | |
| REP. CHAVEZ | X | | | X | | | |
| REP FERNANDEZ | X | | | | X | | |
| REP. FRIESE | | X | | | | | X |
| SEN. GRAY | X | | | X | | | |
| REP. KAVANAGH | X | | | X | | | |
| SEN. KERR | X | | | X | | | |
| SEN. LEACH | X | | | X | | | |
| SEN. LIVINGSTON | | X | | | | | X |
| REP OSBORNE | X | | | X | | | |
| SEN. OTONDO | X | | | X | | | |
| REP SCHWIEBERT – Temp member | X | | | | X | | |
| REP. TOMA | | X | | | | | X |
| REP. COBB | X | | | X | | | |
| SEN. GOWAN | X | | | X | | | |
| TOTALS | 14 | 3 | 0 | 12 | 2 | | 3 |

ITEM #:

MOTION:

| | PASS | AYE | NAY | PRESENT | ABSENT |
|---------------------------------|------|-----|-----|---------|--------|
| SEN. ALSTON | | | | | |
| SEN. BOWIE | | | | | |
| REP. BOLICK | | | | | |
| REP. CHAVEZ | | | | | |
| REP FERNANDEZ | | | | | |
| REP. FRIESE | | | | | |
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| REP. KAVANAGH | | | | | |
| SEN. KERR | | | | | |
| SEN. LEACH | | | | | |
| SEN. LIVINGSTON | | | | | |
| REP OSBORNE | | | | | |
| SEN. OTONDO | | | | | |
| REP SCHWIEBERT – Temp member | | | | | |
| REP. TOMA | | | | | |
| REP. COBB | | | | | |
| SEN. GOWAN | | | | | |

TOTALS



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DATE: September 28, 2021

TO: Members of the Joint Legislative Budget Committee

FROM: Maggie Rocker, Fiscal Analyst
Alexis Pagel, Fiscal Analyst

SUBJECT: AHCCCS/Department of Economic Security - Review of Capitation Rate Changes for Plan Year 2022

Request

Pursuant to an FY 2022 General Appropriation Act footnote, the state's Medicaid agencies must present their plans to the Committee for review prior to implementing any changes in capitation rates. The request includes CYE 2022 capitation rates (October 2021 – September 2022) for the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Economic Security's (DES) Arizona Long Term Care System (ALTCS) program.

Key Points

- 1) AHCCCS is proposing a capitation adjustment of 3.7% for Medicaid programs within AHCCCS and 1.8% for DES – Developmental Disabilities. The rates increases are within budget.
- 2) The adjustments include a 7.2% increase for home and community-based services (HCBS) and skilled nursing facilities serving enrollees in the Developmental Disabilities and Elderly and Physically Disabled (EPD) Programs. These increases were authorized by the FY 2022 budget.
- 3) AHCCCS and DES will return to the Committee to provide additional long-term care rate increases with federal ARPA monies. Those adjustments have not yet been implemented.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the capitation rates.
2. An unfavorable review.

(Continued)

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

- A. Consistent with the General Appropriation Act footnote reporting requirement, AHCCCS shall report to the Committee on the impact of the federal American Rescue Plan Act (ARPA) funding for home and community-based services on long term care provider rates. The report shall delineate the percentage increase in rates by service category. The agencies shall provide the report within 30 days of receiving approval of their spending plan by the federal Centers for Medicare and Medicaid Services.

Analysis

The Federal government agrees to pay a flat per-member, per-month amount for each type of Medicaid enrollee.¹ Below, we discuss proposed changes to capitated programs within AHCCCS and DES.

AHCCCS Rate Adjustment

Within AHCCCS, the rates are approximately 3.7% higher in aggregate compared to the CYE 2021 rates, which AHCCCS estimates will generate approximately \$428 million in additional Total Funds costs in Contract Year Ending 2022 (October 1, 2021 through September 30, 2022). The rates are within budget.

The 3.7% capitation rate increase consists of the following components:

1. Rebase and Trend Changes: \$211 million, or 1.8%, is for rebase and trend changes, including:
 - \$(103) million, or (0.9)%, for a "rebase" associated with lower-than-anticipated utilization than the actuaries initially projected in developing the capitation rates last year.
 - \$296 million, or 2.6%, for projected increases in utilization (i.e., more use of services) and unit cost changes (i.e. changes in the "mix" of services used). AHCCCS believes the primary drivers of such changes are pharmacy costs and inpatient hospital services, which AHCCCS projects will grow at rates of 4.2% and 4.0%, respectively.
 - \$27 million, or 0.2%, is for state Medicaid coverage of Aduhelm, an Alzheimer's treatment drug which received FDA approval in June 2021. The costs of this change would be partially offset by an increase in Prescription Drug Rebate Fund collections associated with Aduhelm.
 - \$(9) million, or (0.1)% for other miscellaneous adjustments to the rates, including pharmacy reimbursement savings.
2. Provider Rate Increases: An increase of \$159 million, or 1.4%, is associated with provider rate increases. This amount includes:
 - \$78 million, or 0.7%, for a 7.2% increase to provider reimbursement rates for HCBS and Skilled Nursing Facilities. These increases were authorized by the FY 2022 budget. Of this amount, the General Fund will finance \$13.3 million.
 - \$81 million, or 0.7%, for all other increases to the AHCCCS fee schedule. This amount includes \$16 million for a 1.3% increase to the HCBS fee schedule effective January 1, 2022 for

¹ The capitation rates are updated annually for changes in utilization and unit costs, as well as AHCCCS fee schedule changes and programmatic adjustments. Federal regulations require that AHCCCS establish rates that are "actuarially sound," meaning that the rates "are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract" with the managed care plan. The proposed rates must be certified by an actuary and approved by the federal Centers for Medicare and Medicaid Services (CMS), among other requirements specified in federal law.

adjustments to the statewide minimum wage required by Proposition 206 (from \$12.15 to \$12.80) and to the city of Flagstaff's minimum wage required by Proposition 414 (from \$15.00 to \$15.50).

3. Reinsurance Deductible: An increase of \$124 million, or 1.1%, to increase the standard reinsurance deductible from \$35,000 to \$50,000. The AHCCCS reinsurance program covers a share of costs incurred by health plans for AHCCCS enrollees with health care costs above a certain threshold. The increase in the threshold from \$35,000 to \$50,000 will require health plans to cover a higher share of costs before they are eligible for reimbursement from the reinsurance program, so AHCCCS is increasing capitation rates to permit health plans to cover the higher expenses. This change would be approximately budget neutral across AHCCCS because the agency will experience a corresponding reduction in costs for the reinsurance program. Given the higher variability of reinsurance program costs, the increase in the deductible will likely increase the predictability of AHCCCS' formula expenses.
4. Temporary COVID-19 Related Policy Changes: \$(29) million, or (0.2)%, is for utilization and policy changes associated with COVID-19, including termination of most public health emergency (PHE) service provisions in CYE 2022. The policies include:
 - \$(20) million for net cost savings associated with expanded telehealth services. AHCCCS expects telehealth services to reduce the use of non-emergency medical transportation and low-to-moderate severity emergency department visits in CYE 2022.
 - \$10 million for COVID testing, including diagnostic and antibody tests.
 - \$(14) million for termination of service flexibilities, including PHE school supports, reimbursement of parents or legal guardians providing HCBS to children, the 40-hour cap on weekly family caregiver services, the respite hour limit, the expansion of home-delivered meals, and the provision of personal care in an acute setting.
 - \$(5) million for removal of certain flu vaccine initiatives. The CYE 2021 capitation rates included a 10% reimbursement increase for services associated with the vaccine and provision of \$10 gift cards to AHCCCS recipients receiving the vaccine. This component removes the gift card provision but continues the reimbursement increase.
5. Administration: A decrease of \$(38) million, or (0.3)%, is associated with administration cost reductions for AHCCCS's contracted health plans. Of this amount, approximately \$(37) million is associated with AHCCCS Complete Care (ACC) contractors that provide integrated physical and behavioral health services for AHCCCS' recipients that are not enrolled in long-term care.

DES – DD Rate Increase

AHCCCS is also requesting to adjust capitation rates for the DD program administered by DES. In total, the rates will increase by 1.8%, or \$46 million Total Funds in CYE 2022. The JLBC Staff estimates that the General Fund cost of the rate increase is approximately \$14 million. In comparison to the enacted FY 2022 budget, the JLBC Staff estimates the DD rates will result in costs that are lower than the budgeted inflation adjustment by approximately \$(21) million from the General Fund.

The DD increase includes the following components:

(Continued)

1. Rebase and Trend Changes: \$(19) million decrease for rebase, utilization and unit cost trends, and other miscellaneous adjustments. While there was a decline in overall utilization during COVID-19, utilization shifted from less expensive services to more cost-intensive services. This component assumes utilization will start returning to those less expensive services, as observed pre-pandemic.
2. Temporary COVID-19 Related Policy Changes: \$(46) million decrease for temporary COVID-19 policy changes also being implemented in AHCCCS as noted above, including:
 - \$(26) million for ending the increase to the annual limit in covered respite care services that a member may receive from 600 to 720 hours.
 - \$(19) million for ending the program providing student members with Contractor-provided services if schools are unable to provide in-person attendant care and nursing services due to COVID-19.
 - \$(6) million for ending the expanded availability of home-delivered meals.
 - \$5 million for all other COVID-19 related temporary policy changes.
3. Provider Rate Changes: \$117 million is for provider rate changes, including:
 - \$42 million in provider reimbursement changes for fee schedule and differential provider rates.
 - \$15 million for increases to the Home and Community-Based Services fee schedule effective January 1, 2021 to address the statewide and Flagstaff minimum wage expenses.
 - \$60 million for HCBS and Nursing Facility rate increases starting October 1, 2021.

The JLBC Staff estimates that the \$117 million of rate increases will have a General Fund cost of approximately \$32.7 million in FY 2022. The overall magnitude of the rate increases is consistent with legislative intent. Laws 2021, Chapter 208 appropriated \$15.4 million from the General Fund for these provider rate increases. In addition, a General Appropriation Act footnote states the Legislature's intent that \$15 million of savings from expiration of one-time FY 2021 COVID-19 policy changes be redirected to provide a total General Fund match of \$30 million for FY 2022 provider rate adjustments.

We have asked DES to provide more information on its planned distribution of the rate increases by service category.

4. Administration: \$(5) million decrease for administration, including:
 - \$(13) million decrease for administrative costs associated with the DD program.
 - \$8 million for a 5% staff salary increase for select DDD staff. The FY 2022 budget included \$2.3 million from the General Fund for these increases.

ARPA HCBS Expenditure Authority

In addition to the rate changes described above, AHCCCS anticipates submitting mid-year adjustments to the Committee to reflect enhanced federal funding for HCBS, as authorized by the federal American Rescue Plan Act (ARPA). The ARPA monies would include funding for additional temporary provider rate increases for HCBS services and would not require additional General Fund monies. In FY 2022, AHCCCS would allocate \$280 million within AHCCCS and \$363 million within DES, for a total of \$643 million across both agencies. This aggregate allocation would decrease to \$517 million in FY 2023 and \$337

(Continued)

million in FY 2024, the final year of the expenditure plan. AHCCCS is still awaiting CMS approval of their proposal. The Committee may consider provision A, which would require AHCCCS and DES to report the impact of the ARPA spending plan on long-term care provider rates, including a delineation by service category, within 30 days of receiving CMS approval.

MR/AP:kp

September 1, 2021

The Honorable Regina E. Cobb, Chairman
Joint Legislative Budget Committee
1700 W Washington St.
Phoenix, Arizona 85007



Dear Representative Cobb:

The Arizona Health Care Cost Containment System (AHCCCS) has completed its actuarial analysis of Managed Care Organization (MCO) capitation rates that are effective beginning October 1, 2021 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 and must be approved by the Centers for Medicare and Medicaid Services (CMS). 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 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 (PMPM) expenditure to AHCCCS Contractors [including other state agencies, the Arizona Department of Economic Security/Division of Developmental Disabilities (DES/DDD) and the Department of Child Safety Comprehensive Health Plan (DCS CHP)].

Capitation rates are certified by actuaries when a new program is established. Rates must also be recertified every year to coincide with MCO annual contract periods. AHCCCS contracts are awarded on an October 1 through September 30 schedule.

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. Please note that, as of this writing, AHCCCS is awaiting CMS approval of a proposal for reinvestment of funds generated from enhanced federal funding authorized under the American Rescue Plan Act (ARPA) that would be used to strengthen Home and Community Based Services (HCBS). Once approved, and if expenditure authority is granted by the legislature, a mid-year modification to capitation rates will be necessary.

This letter details the annual renewal of rates for Contract Year Ending (CYE) 2022 from October 1, 2021 through September 30, 2022 for the following programs:

- AHCCCS Complete Care (ACC),
- Arizona Long Term Care System/Elderly and Physical Disability (ALTCS-EPD),
- Regional Behavioral Health Authorities (RBHAs),
- DCS CHP, and
- ALTCS-DD (DES/DDD).

Before implementing the new capitation rates, AHCCCS is reporting its expenditure plan for review by the JLBC. This letter summarizes the capitation rates and their associated financial impacts.

Background and Summary

Rates outlined in this letter were submitted to CMS to be effective October 1, 2021. The utilization and unit cost trends for all programs are detailed in the attached actuarial certifications. Anticipated increases in utilization of existing covered services attributable to specific initiatives or policy guidance are separately detailed. Provider rate adjustments and program changes are also identified.

In CYE 2022, capitation rates for all programs include three major categories of capitation rate growth:

- Baseline non-COVID-19 capitation rate growth, which is driven primarily by utilization and unit cost trends,
- Baseline COVID-19 capitation rate change, which is reduced from CYE 2021 due to the projected end of the public health emergency (PHE) (currently estimated to occur during CYE 2022, at the time of this writing); this component of the rates reflects the end of temporary COVID-19 provisions and services, and
- Non-baseline capitation rate growth, which is due to two program changes authorized by the Legislature via Laws 2021, Chapter 408:
 - Funding attributable to the October 1, 2021 rate increases for Home and Community Based Services (HCBS) and Nursing Facility (NF) stays, and
 - Salary increases for DES/DDD staff.

Table I displays the overall baseline non-COVID-19 capitation rate growth for all AHCCCS programs, including DES/DDD, of 2.9 percent. Individual program impacts are noted in column 1.

Table I also includes data detailing baseline COVID-19 capitation changes which account for a (0.5 percent) decrease for all AHCCCS programs, including DES/DDD. Column 2 provides adjustments by individual program.

The combined, overall baseline capitation rate growth (non-COVID-19 and COVID-19) for all AHCCCS programs, including DES/DDD, is 2.4 percent. See column 3 for overall baseline capitation impacts by program. The baseline capitation rate growth budgeted for SFY 2022 in Laws 2021, Chapter 408 was 3.0 percent for AHCCCS and DES/DDD, as reported in the *JLBC FY 2022 Appropriations Report*. AHCCCS will continue to evaluate enrollment trends to determine if a budgetary shortfall is anticipated as a result of capitation and enrollment growth rates, though no concerns are noted at this time.

Additionally, non-baseline capitation rate adjustments in CYE 2022 are included to account for HCBS and nursing facility rate increases, for which the Legislature provided specific funding as noted above. The impact of this funding on capitation rates is found in Table I, column 4.

Including both baseline and non-baseline items, overall capitation rate growth for AHCCCS programs, including DES/DDD, is 3.4 percent. Column 5 illustrates this data across all programs.

Table I. CYE 2022 Capitation Rate Changes

| Program | CYE 2022 Change from CYE 2021 Rates | | | | |
|--------------------------|-------------------------------------|----------------------|-------------------|------------------------|-------|
| | 1 | 2 | 3 | 4 | 5 |
| | Baseline Non-COVID-19 | Baseline COVID-19 | Baseline Total | Non-Baseline Chgs 1 | Total |
| ACC | 3.5% | -0.2% | 3.3% | 0.0% | 3.3% |
| RBHA | -0.4% | -0.2% | -0.7% | 0.0% | -0.6% |
| CMDP / DCS CHP 2 | -2.1% | -0.7% | -2.8% | 0.0% | -2.8% |
| EPD | 6.7% | -0.4% | 6.3% | 5.4% | 11.6% |
| AHCCCS Total | 3.3% | -0.2% | 3.0% | 0.7% | 3.7% |
| DES/DDD 3 | 1.1% | -1.9% | -0.9% | 2.3% | 1.8% |
| TCM | -1.1% | 0.0% | -1.1% | 3.9% | 2.8% |
| DES/DDD Total | 1.1% | -1.9% | -0.9% | 2.7% | 1.8% |
| AHCCCS and DES/DDD Total | 2.9% | -0.5% | 2.4% | 1.0% | 3.4% |

1/ Includes funding for October 1, 2021 rate increases for Home and Community Based Services and Nursing Facility stays, as appropriated under Laws 2021, Chapter 408. Additionally, includes funding for a 5.0 percent salary increase for select DES/DDD staff, as appropriated under Laws 2021, Chapter 408.

2/ CYE 21 reflects the DCS CHP rate as of 4/1/21.

3/ CYE 21 rate reflects the DES/DDD rate as of 1/1/21.

Drivers of Baseline Non-COVID-19 Growth

Overall non-COVID-19 baseline growth of 2.9 percent in the capitation rates is attributable to the following factors, which are described more fully in subsequent pages:

1. Rebase – Adjustments to medical expenses to reflect more recent incurred experience account for a net decrease of (1.5 percent).
2. Trend – The assumed change in utilization and unit cost trends for medical services accounts for an increase of 2.6 percent.
3. Reinsurance Deductible – AHCCCS is increasing the standard reinsurance deductible from \$35,000 to \$50,000 for an increase of 0.9 percent.
4. Administration, Case Management, and Care Management – Adjustments to the non-benefit component of the rates to reflect the costs to administer and manage the programs account for a decrease of (0.3 percent).
5. Pharmacy Savings – Assumed savings that MCOs are expected to achieve in CYE 2021 accounts for a decrease of (0.1 percent).
6. Other – Factors such as adjustments to fee schedules and differential provider rates, pharmacy rebates, new FDA approved drugs, and Proposition 206 for an increase of 1.3 percent.

The relative impacts of each of these drivers on the capitation rates for each program are summarized in Table II below.

Table II. CYE 2022 Capitation Rate Change by Component - Baseline Non-COVID-19

| Program | Rebase (Services) | Trend (Services) | Reins. Deductible | Admin, Care | | Pharmacy Savings | Other | Baseline |
|--------------|----------------------|---------------------|----------------------|------------------|--|---------------------|-------------|-------------|
| | | | | Mgt, Case Mgt | | | | |
| ACC | -0.9% | 2.7% | 1.3% | -0.4% | | -0.1% | 0.9% | 3.5% |
| RBHA | -3.4% | 2.0% | 0.7% | -0.1% | | -0.2% | 0.6% | -0.4% |
| DCS CHP | -3.5% | 1.2% | 0.5% | -1.4% | | -0.1% | 1.2% | -2.1% |
| EPD | 2.0% | 2.5% | 0.0% | 0.3% | | -0.1% | 2.0% | 6.7% |
| DES/DDD | -4.3% | 2.8% | 0.0% | -0.4% | | -0.1% | 3.1% | 1.1% |
| Total | -1.5% | 2.6% | 0.9% | -0.3% | | -0.1% | 1.3% | 2.9% |

Rebase and Trends

Capitation rates for all programs were rebased using actual experience incurred for the period of January 1, 2019 through December 30, 2019. Across all programs, this adjustment results in a net change of (1.5 percent).

The inclusion of funding associated with increases for medical expense utilization and inflation is required in order to ensure that capitation rates are actuarially sound. The certifying actuaries developed and applied utilization and unit cost trends for categories of service primarily based on actual experience incurred during the period October 1, 2016 through February 28, 2021. Across all programs, the anticipated increase to capitation rates attributable to medical trend is 2.6 percent.

As seen in Table III, a key driver of medical trend is pharmacy, which is expected to grow at a trend rate of 4.2 percent (this is lower than past years). Pharmacy trend growth is responsible for 0.4 percent of overall capitation rate growth. Another driver is an inpatient hospital trend of 4.0 percent, which is responsible for 0.5 percent of overall capitation rate growth, driven in part by a continued increase in inpatient behavioral health bed capacity.

Table III. CYE 2022 Capitation Trends by Category of Service (COS)

| | % Contribution to Cap Rate Change | Trend Rate |
|---|--|-------------------|
| ACC, RBHA, and CMDP Programs | | |
| Inpatient Hospital and Nursing Facility | 0.5% | 4.0% |
| Pharmacy | 0.4% | 4.2% |
| Physician/Professional/Medical Services | 0.4% | 2.7% |
| Outpatient Hospital | 0.3% | 3.3% |
| Community Health Centers | 0.1% | 3.2% |
| Transportation | 0.1% | 3.0% |
| Other | 0.1% | 2.3% |
| Sub-Total Non-ALTCS Trend | 1.9% | 3.3% |
| ALTCS EPD and DES/DDD Programs | | |
| Home and Community Based Services | 0.5% | 3.8% |
| Acute Care & Behavioral Health | 0.2% | 3.7% |
| Nursing Facilities and Institutions | 0.1% | 1.7% |
| Sub-Total ALTCS Trends | 0.7% | 3.4% |
| TOTAL TRENDS ALL COS | 2.6% | 3.3% |

Note: Totals may not add due to rounding

Reinsurance Deductible

Effective October 1, 2021, AHCCCS is increasing the standard reinsurance deductible from \$35,000 to \$50,000, which will impact ACC, RBHA, and DCS CHP MCOs. Across all programs, this adjustment results in a net change of 0.9 percent.

Reinsurance is a risk-sharing arrangement with the MCOs for the reimbursement of certain service costs incurred for a member beyond a predetermined monetary threshold (deductible). The increase in the deductible level shifts more risk to the MCOs and thus increases their financial incentives to promote long term cost containment. By moving this additional up-front risk to MCOs, a one-time corresponding increase to capitation rates is necessary to maintain actuarial soundness.

Administration, Care Management, and Case Management

Across all programs, the adjustment of rates to address the costs to administer the programs and manage care for enrollees accounts for a net change of (0.3 percent). Specific items are described further in the program information summarized below.

Pharmacy Reimbursement Savings

Recognizing that pharmacy costs are traditionally a significant driver of overall medical expense trends, in 2019 AHCCCS analyzed pharmacy reimbursement by MCOs to determine if savings are achievable. Based on this analysis, AHCCCS determined that MCO pharmacy reimbursement is, on average, greater than reimbursement under the AHCCCS Fee-for-Service (FFS) program. AHCCCS MCOs should reasonably be able to achieve pharmacy pricing that is at or near that achieved by the AHCCCS FFS program and so AHCCCS first assumed pharmacy savings in the CYE 2020 capitation rates. Recognizing that the full savings amount may not be reasonably achievable in a single year, these savings have been phased-in over three years from CYE 2020 through CYE 2022. Additionally, AHCCCS updated the pharmacy reimbursement analysis in 2021 and, for the CYE 2022 capitation rates, AHCCCS adjusted the base pharmacy data of each program to capture the remaining savings identified for valuing claims data at AHCCCS FFS prices. AHCCCS estimates that revaluing MCO data to AHCCCS FFS repriced amounts would result in annual savings of \$71.5 million or 4.8 percent of pharmacy spend across all programs.

The impact on overall AHCCCS capitation rates is a net change of approximately (0.1 percent).

Other Factors

AHCCCS makes adjustments to provider rates based on access to care issues; based on Medicare rate adjustments when rates are tied to Medicare; to differentiate providers who support actions that improve patients' care experience, improve members' health, and reduce cost of care growth; and to meet federal or state requirements. The impact on overall AHCCCS capitation rates from these provider rate adjustments is an increase of 1.0 percent. In addition, rates are increased 0.3 percent for other programmatic changes. The combined impacts of these rate development components is an increase of 1.3 percent.

Drivers of Baseline COVID-19 Rate Change

Following national and state emergency declarations in March 2020, AHCCCS sought authority from CMS to implement numerous program flexibilities in response to the COVID-19 pandemic.

The overall COVID-19 baseline reduction of (0.5 percent) in the capitation rates is attributable to the expectation that the COVID-19 impact will be much less in CYE 2022 than CYE 2021, reducing from 0.8 percent of the overall rates to 0.3 percent of the overall rates. A number of temporary service provisions are assumed to discontinue upon the termination of the PHE. It is important to note, however, that for CYE 2022, COVID-19 will still have a material impact on capitation rates due to the direct and indirect impacts of costs associated with service expansions, reimbursement for COVID-19 testing, and approved flexibilities under applicable federal authorities.

Note that the CYE 2022 capitation rates do not include costs for administration of COVID-19 vaccines, as these are funded with a 100 percent federal match rate, thus there is a new cost-settlement arrangement in place for MCOs for those expenses. Payers do not incur any costs for the vaccine itself thus there is no vaccine expense for AHCCCS either in the capitation rates or through a cost-settlement.

ACC Renewal Rates

CYE 2020 renewal rates for ACC were submitted as an integrated program to CMS and reflect the October 1, 2018 integration of physical health services, behavioral health services, and Children's Rehabilitative Services (CRS) previously provided under the Acute Care, CRS, and RBHA programs.

The CYE 2022 rates for ACC reflect a baseline non-COVID-19 increase of 3.48 percent and a decrease for COVID-19-related measures of (0.20 percent) for an overall baseline increase of 3.28 percent from the most recently submitted rates. Several factors contributed to the baseline change:

- 1.83 percent for rebase and trend adjustments
- 1.34 percent for the reinsurance deductible change
- 0.67 percent for provider reimbursement changes (fee schedule and differential provider rates)
- (0.43 percent) for administration cost reductions
- (0.13 percent) for pharmacy reimbursement savings
- 0.13 percent for a new Alzheimer's drug
- 0.07 percent for other program changes

A decrease of (0.20 percent) is attributable to COVID-19-related changes, including:

- (0.19 percent) for telehealth services
- 0.12 percent for additional testing costs
- (0.13 percent) for ending temporary COVID-19 provisions

Please see Appendix Table 2 for more detail.

RBHA Renewal Rates

The RBHA program will provide integrated physical health and behavioral health services to most members with a Serious Mental Illness (SMI) designation, as well as crisis-only behavioral health services to all AHCCCS members, regardless of plan/program of enrollment.

On April 1, 2021, coverage for behavioral health services for foster children shifted from the RBHA program to DCS CHP. All capitation rate impacts associated with the DCS CHP program, including behavioral health impacts for CYE 2022, are described in the DCS CHP section of this letter.

CYE 2022 renewal rates for the RBHA program, including SMI integrated members, reflect a non-COVID-19 baseline decrease of (0.44 percent) and a decrease for COVID-19-related measures of (0.23 percent) for an overall decrease of (0.67 percent) from the most recently submitted rates effective October 1, 2020. Several factors contributed to the baseline change:

- (1.36 percent) for rebase and trend adjustments
- 0.65 percent for the reinsurance deductible change
- 0.53 percent for provider reimbursement changes (fee schedule and differential provider rates)
- (0.22 percent) for pharmacy reimbursement savings
- 0.06 percent for a new Alzheimer's drug
- (0.10 percent) for administration cost reductions

A decrease of (0.23 percent) for COVID-19 related measures largely reflects the revised impacts of telehealth use.

Laws 2021, Chapter 408 includes a footnote stating:

"It is the intent of the Legislature that the percentage attributable to administration and profit for the Regional Behavioral Health Authorities be 9 percent of the overall capitation rate."

Of the proposed CYE 2022 RBHA capitation rates, including lump sum directed payments made outside of base capitation, MCO administrative costs and underwriting gain account for 8.5 percent.

Please see Appendix Table 3 for more detail.

DCS CHP Renewal Rates

Effective April 1, 2021, services to foster children in Arizona were integrated under the Comprehensive Medical and Dental Program (CMDP), which has been renamed as DCS CHP. At that time, coverage for behavioral health services for foster children shifted from the RBHA program to DCS CHP.

CYE 2022 renewal rates for CHP reflect a non-COVID-19 baseline decrease of (2.07 percent), and a decrease for COVID-19-related measures of (0.71 percent), resulting in an overall decrease of (2.78 percent) from the most recently submitted rates effective April 1, 2021. Several factors contributed to the baseline change:

- (2.34 percent) for rebase and trend adjustments
- 1.32 percent for provider reimbursement changes (fee schedule and differential provider rates)
- (0.75 percent) for administration cost reductions
- (0.69 percent) for care management
- 0.47 percent for increased the reinsurance deductible change
- (0.07 percent) for pharmacy reimbursement savings

A decrease of (0.71 percent) for COVID-19-related measures includes:

- (0.24 percent) for revised telehealth services
- (0.47 percent) for ending temporary COVID-19 provisions

Please see Appendix Table 4 for more detail.

ALTCS-EPD Renewal Rates

CYE 2022 renewal rates for ALTCS-EPD reflect a baseline increase of 6.26 percent (includes (0.43 percent) decrease for COVID-19-related measures) and a 5.36 percent increase for HCBS/NF, as appropriated under Laws 2021, Chapter 408, for an overall increase of 11.62 percent from the most recently submitted rates effective January 1, 2021. Several factors contributed to the baseline change:

- 4.44 percent for rebase and trend adjustments
- 1.17 percent for Prop 206 increases (1/1/22)
- 1.11 percent for a new Alzheimer's drug
- 0.25 percent for administration and case management
- (0.18) percent provider reimbursement changes (fee schedule and differential provider rates)
- (0.08 percent) for pharmacy reimbursement savings
- (0.02 percent) for other program changes

A decrease of (0.43 percent) for COVID-19 related measures includes:

- (0.45 percent) for ending temporary COVID-19 provisions
- 0.02 percent for COVID-19 tests and personal care in acute setting

The non-baseline increase of 5.36 percent is attributable to the EPD portion of funding for the October 1, 2021 rate increases for Home and Community Based Services and Nursing Facility stays, as appropriated under Laws 2021, Chapter 408.

Please see Appendix Table 5 for more detail.

DES/DDD Renewal Rates

CYE 2022 renewal rates for DES/DDD reflect a baseline decrease of (0.86 percent) (including a (1.93 percent) decrease for COVID-19-related measures) and a 2.68 percent increase for HCBS/NF, as appropriated under Laws 2021, Chapter 408, for an overall increase of 1.82 percent from the most recently submitted rates effective January 1, 2021. Several factors contributed to the baseline change:

- (1.56 percent) for rebase and trend adjustments
- 1.73 percent for provider reimbursement changes (fee schedule and differential provider rates)
- 0.65 percent for Prop 206 rate increases (1/1/22)
- 0.34 percent for the repricing of augmentative and alternative communication devices
- (0.39 percent) for administrative and case management cost reductions
- (0.11 percent) for pharmacy reimbursement savings
- 0.02 percent for a new Alzheimer's drug
- 0.39 percent for other program changes

A decrease of (1.92 percent) for COVID-19-related measures includes:

- (1.93) percent for ending temporary COVID-19 provisions
- 0.01 percent for COVID-19 tests

The non-baseline increase of 2.68 percent is attributable to two changes:

- the DES/DDD portion of funding for the October 1, 2021 rate increases for Home and Community Based Services and Nursing Facility stays, as appropriated under Laws 2021, Chapter 408, and
- legislatively mandated salary increases for DES/DDD staffs, as appropriated under Laws 2021, Chapter 408

Additionally, CYE 2022 rates for targeted case management (TCM) reflect an increase of 2.81 percent from the most recently submitted rates effective October 1, 2020 due to the noted increase in salaries.

Please see Appendix Table 6 for more detail.

Lump Sum Payments

In addition to capitation amounts that are paid on a PMPM basis, AHCCCS also makes lump sum payments to MCOs that are associated with specific initiatives. Key initiatives are highlighted and summarized below.

Access to Professional Services Initiative

The Access to Professional Services Initiative (APSI) provides a uniform percentage increase to reimbursement for qualified practitioners. Under 42 CFR §438.6(c), this is considered a "directed

payment” arrangement and is subject to prior approval by CMS. The increase in reimbursement under this initiative ensures access to care for AHCCCS members and will allow providers to achieve quality outcomes, including reducing readmissions and increasing preventative screenings, that help to bend the health care cost curve. Funding for APSI was previously included in capitation rates but was removed in CYE 2020. APSI provides a uniform percentage increase of 62 percent to otherwise contracted rates for qualified practitioners for all claims for which AHCCCS is the primary payer. The rate increase is intended to supplement, not supplant, payments to eligible providers. The initiative is funded via intergovernmental transfers (IGTs) and no General Fund monies are required. The total estimated payment amount for CYE 2022 is \$158.5 million Total Fund.

Pediatric Services Initiative

The Pediatric Services Initiative (PSI) is also a directed payment arrangement under 42 CFR §438.6(c) and is subject to prior approval by CMS. PSI provides a uniform percentage increase of 18.9 percent for hospital services provided by a freestanding children’s hospital or pediatric unit of a general acute care hospital with more than 100 beds. The increase in reimbursement under PSI ensures access to care for pediatric members and will support provider strategies to manage care for those members with complex conditions. Specifically, this program is anticipated to help reduce unplanned readmissions and hospital-acquired conditions, and thereby bend the health care cost curve. Like APSI, this initiative is funded via intergovernmental transfers (IGTs) and no General Fund monies are required. The total estimated payment amount for CYE 2022 is \$59.8 million Total Fund.

Alternative Payment Model Initiative - Performance-Based Payments

In CYE 2016, AHCCCS began reimbursing MCOs under the Alternative Payment Model (APM) Initiative-Performance-Based Payments (PBP) Incentive. Under 42 CFR §438.6(a) and (b), these payments are considered an incentive arrangement that provides limited funding to MCOs to support activities that advance the AHCCCS Quality Strategy. The purpose of the initiative is specifically to promote MCO activities that focus on quality improvement and that result in improved health outcomes and cost containment. This initiative is a key component to the AHCCCS goal to pursue and implement long term strategies that bend the cost curve while improving member health outcomes. PBP funding allows MCOs to make incentive payments to providers that meet specific performance objectives or criteria. Excluding DES/DDD, for CYE 2020 the total payment amount, which will be paid during CYE 2022, is estimated to be \$53.8 million Total Fund.

HEALTHII Payments

Laws 2020, Chapter 46, Section 2 established a new hospital assessment that is deposited into the Health Care Investment Fund and used to make Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII) directed payments to hospitals and to increase base reimbursement for services reimbursed by AHCCCS under the dental fee schedule and physician fee schedule. The HEALTHII payments are made as lump sum payments outside of base capitation rates, and so do not contribute to overall capitation rate growth. The total payments for HEALTHII during CYE 2022 are estimated to be \$1.39 billion, and do not include any General Fund monies.

Cost Avoidance

AHCCCS’ contracted MCOs cost-avoid millions in medical costs in accordance with AHCCCS contracts and policies, which contributes to the modest growth in overall medical expense and capitation rates. The

following discussion is provided for informational purposes only, and highlights the historical savings of these activities.

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

Table V below shows a significant increase in encounter-reported COB cost avoidance from SFY 2008 to SFY 2021 among all MCOs. Those services are excluded completely from capitation rate development. AHCCCS continues to emphasize the importance of COB activities with its contracted MCOs.

Table V. Coordination of Benefits (COB) Cost Avoidance

| Program | COB Cost Avoidance (Encounters) (millions) | | |
|------------------------------|---|-------------|-----------|
| | SFY 2008 | SFY 2021 | Δ |
| Acute¹/ACC | \$391 | \$871 | ↑ by 123% |
| ALTCS-EPD | \$130 | \$277 | ↑ by 113% |
| RBHAs² | \$8 | \$0.02 | ↓ by 100% |
| DES/DDD | \$16 | \$73 | ↑ by 356% |
| DCS CHP | \$0.0075 | \$0.02 | ↑ by 167% |
| Total | \$545 | \$1,221 | ↑ by 124% |

¹ Acute ended 9/30/18 and is included in ACC.

² The reduction in RBHA cost avoidance is due primarily to the shifting of members out of the RBHAs and into integrated programs. Effective 10/1/16, individuals dually-enrolled in Medicare and Medicaid accessing general mental health and substance use services (not determined to have a serious mental illness) transitioned from the RBHAs to Acute MCOs for behavioral health services. Effective 10/1/18, non-dual individuals accessing general mental health and substance use services (not determined to have a serious mental illness) and the non-CMDP child populations transitioned from the RBHAs to ACC MCOs for behavioral health services. Effective 10/1/19, individuals with developmental disabilities transitioned from the RBHAs to fully integrated health plans contracted with DES/DDD for acute care and behavioral health services. Effective 4/1/21, the CMDP population transitioned from the RBHAs to DCS CHP for behavioral health services.

The Honorable Regina Cobb
September 1, 2021
Page 12

The actuarial certifications for the rates are attached. Should you have any questions on any of these issues, please feel free to contact Colby Schaeffer, Chief Actuary, at colby.schaeffer@azahcccs.gov.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jami Snyder", is written over a light blue horizontal line.

Jami Snyder
Director

cc: David M. Gowan, Senator, Arizona State Senate
Richard Stavneak, Director, Joint Legislative Budget Committee
Christina Corieri, Senior Advisor, Office of the Governor
Matthew Gress, Director, Office of Strategic Planning and Budgeting
Susan Nie, Budget Analyst, Office of Strategic Planning and Budgeting



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DATE: September 28, 2021

TO: Members of the Joint Legislative Budget Committee

FROM: Patrick Moran, Assistant Director

SUBJECT: Department of Education - Review of AzSCI Science Contract Renewal

Request

Pursuant to A.R.S. § 15-741.03, the Arizona Department of Education (ADE) requests Committee review of its contract renewal for the statewide assessment in science.

Committee Options

The Committee has at least the following 2 options:

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

Key Points

- 1) Statute requires ADE to seek JLBC review of contract renewals for the statewide assessment. The science assessment contract (AzSCI) expires in April 2022.
- 2) Total AzSCI Assessment costs will be \$2.1 million in FY 2023, or a decrease of \$(58,500) compared with estimated FY 2022 costs.

Analysis

A.R.S. § 15-741 allows the State Board of Education to administer statewide assessments in science, though students may not be required to meet or exceed the assessment.

(Continued)

A.R.S. § 15-741.03 requires ADE to seek JLBC review to establish or renew a contract for any portion of the statewide assessment. The AzSCI contract will expire in April 2022. As a result, ADE is submitting the contract renewal for Committee review.

In FY 2023, the AzSCI Assessment will be administered to students in grades 5, 8, and 11. ADE estimates that AzSCI Assessment testing will cost approximately \$2,144,900 in FY 2023, or a decrease of \$(58,500) from estimated FY 2022 costs. This cost includes \$399,800 for test development, \$698,700 for test administration, \$181,700 for scoring and reporting, and \$864,700 for program management.

PM:kp



Arizona Department of Education
Office of Superintendent Kathy Hoffman

September 13, 2021

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



Dear Senator Gowan,

The purpose of this letter is to request that one item be included on the agenda for consideration at the next meeting of the Joint Legislative Budget Committee (JLBC) to fulfill the statutory requirements as outlined below.

1. A.R.S. 15-741.03, which prohibits the Department of Education from renewing any portion of a statewide assessment contract without JLBC review. The current statewide assessment (AzSCI) contract expires April 2022 and requires an additional year of extension. The Department is submitting this item to JLBC for review to fulfill its statutory obligations prior to renewing the statewide assessment contract for Year 5 of the seven-year contract. Without renewing this contract for School Year 2022-2023, the Department will have to issue a new RFP for a new Science statewide assessment which falls out of alignment with the 5-year assessment plan adopted by the State Board of Education in 2019.

In addition to this cover letter, the Department has submitted a pricing structure and scope of work for Year 5 of the contract.

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

Sincerely,

Callie Kozlak

Callie Kozlak
Associate Superintendent, Policy Development and Government Relations
Arizona Department of Education

AzSCI Contract Year 5 Scope of Work

April 2022 – March 2023

AzSCI Test Development Activities

1. Estimated item development plan for embedded field test in 2023

| Grade | Cluster Sets | Independent Sets |
|-------|--------------|------------------|
| 5 | 5 | 13 |
| 8 | 5 | 12 |
| 11 | 4 | 9 |

2. Embedded Field Test Test Design

| Section A – Independent + Cluster Sets – 30 items total | Section B – Cluster Sets – 30 items total |
|---|---|
| 15 Independent items (OP) <ul style="list-style-type: none"> • 6 MC • 6 TEI • 3 EBSR | 5 stimulus sets, 25 items (OP) <ul style="list-style-type: none"> • 5 items per stimulus • 2 MC • 2 TEI • 1 EBSR |
| 2 stimulus sets, 10 items (OP) <ul style="list-style-type: none"> • 5 items per stimulus • 2 MC • 2 TEI • 1 EBSR | 1 stimulus set, 5 items (FT) <ul style="list-style-type: none"> • 2 MC • 2 TEI • 1 EBSR |
| 5 independent items (FT) <ul style="list-style-type: none"> • 2 MC • 2 TEI • 1 EBSR | |

3. Item/Test Development Process – Online Forms

- a. Item Phenomena and Outline Review
- b. Item review in ABBI (2 rounds)
- c. Forms Review in ABBI (2 rounds)
- d. Forms Review in TestNav (3 rounds)
- e. Paper Test Books Development Activities
 - i. Regular Print PDF forms review (3 rounds)
- f. Large Print PDF forms review (2 rounds, work begins after approval of regular print forms)
- g. Braille
 - i. Braille Memo provided to ADE
 - ii. Braille Proofs provided to ADE for Braille Review Committee
 - iii. Pearson applies edits based on Braille Review feedback
 - iv. Braille Review and Approval

Psychometrics

4. Psychometric Services will provide oversight for validity, reliability, and the technical quality of the assessment. The Psychometric services provided will include the production an Annual Technical (Tech) Report.
 - a. The Tech Report will be provided in a 508 Compliant format.
 - b. The Tech Report will be modeled on existing AzSCI Technical Reports.
 - c. Arizona owns all data associated with the AzSCI. All data used by Psychometric services will be made available to ADE.

Annual Meetings

5. Up to two face-to-face planning meetings per year at ADE
6. TAC Meeting
 - a. Up to two face to face TAC meetings per year in Phoenix, AZ

AzSCI Contract Year 5 Scope of Work

- b. Pearson to arrange for meeting space, meeting meals, TAC member stipend, TAC member travel and lodging.
- 7. TAC Honorarium \$1,500 per day with an additional \$1,500 allowed for prep-work for each TAC member.

Committee Meetings

- 8. If applicable, Pearson will cover the cost of meeting space, meeting meals, materials, and mileage for all committee members
- 9. If applicable, Pearson will provide lodging for committee members in travel status (traveling 50 or more miles one way)
- 10. If applicable, Pearson will pay a stipend of \$135 to eligible participants or to LEAs for substitute reimbursement
- 11. Item Content and Bias Review Committee
 - a. Two sessions:
 - i. July 2022
 - ii. Approximately 42 attendees over 2 weeks
- 12. Community Review Meeting: August 2022 (proposed)
 - a. 1-day meeting held in conjunction with AASA
 - b. Approximately 10 attendees
- 13. Data Review Meeting
 - a. Approximately 30 attendees
 - b. 3-day meeting
 - c. Pearson Psychometrics and Content Specialists to Support
- 14. Braille Review Committees – 2 Reviewers
 - a. Initial Braille Review meeting to review entire forms
 - b. Follow up Braille Review meeting to confirm requested edits.

Ancillary Materials

- 15. Test Administration Directions
 - a. 1 form for grades 5, 8, and 11 for each mode
 - i. Online (Online and SPV (Regular and LP Forms))
 - ii. Braille
 - b. 3 rounds of review
- 16. Test Coordinators Manual
 - a. 1 form
 - b. 3 rounds of review
- 17. Critical Dates Calendar/DTC Checklist
 - a. 3 rounds of review
- 18. PearsonAccess User's Guide (combined with AASA PAN User's Guide)
 - a. 3 Rounds of Review
- 19. TMS Training Module
 - a. Create an AzSCI TMS Training Module
 - i. 2 Rounds Storyboard Review
 - ii. 3 Rounds Production Review
 - iii. Final Deliverable is an interactive training module hosted on the Arizona TMS site
 - 1. Downloadable Transcript
 - 2. Downloadable PowerPoint
 - 3. Module voiced over with studio quality recordings

Packaging and Distribution

- 20. P&D Set Up

AzSCI Contract Year 5 Scope of Work

- a. ADE to provide an Organization file to Pearson for loading
- b. ADE to provide a Student Registration Import (SRI) File to Pearson
- c. Pearson to provide file layouts to ADE

21. Test Materials Packaging and Distribution

- a. Material available via Additional Order in PearsonAccess Next
 - i. materials will be shipped via ground shipping
- b. Orders will be approved by ADE in PearsonAccess Next.
- c. District Users will be locked out of PearsonAccess Next until training is complete.
- d. All material deliveries will be trackable in PearsonAccess Next and will require a signature at the designated district shipping address.

Grades 5, 8, and 11 Test Administration

22. Embedded Field Test Operational Test Administration

- a. Four week test window that is to be determined

23. Online Test Administration

- a. Online Tests delivered via TestNav
 - i. Text to Speech (TTS) is enabled on all regular online forms
 - ii. Grade 5 – 13 Operational Forms with embedded field test
 - iii. Grade 8 – 13 Operational Forms with embedded field test
 - iv. Grade 11 – 12 Operational Forms with embedded field test
 - v. Accommodated Online Forms
 - 1. American Sign Language
 - 2. Screen Reader

24. Special Paper Versions (SPV) Test Administration

- a. All SPV materials are available via additional order in PearsonAccess
- b. Braille – 1 form per grade (Grades 5, 8, and 11)
 - i. Braille Test Book
 - ii. Braille Test Administration Directions
 - iii. Ink print Braille Test Book
 - iv. Ink Print version of Braille Form (for Test Administrator to capture responses)
 - 1. Non-scannable form
 - 2. Responses are key entered into PearsonAccess Next for Scoring
 - v. Wiki Sticks
 - vi. Sticky dots
 - vii. Special Instructions
 - viii. Periodic table (Grade 8 and 11)
 - ix. Math Reference Sheet (Grade 11)
- c. Regular Print SPV paper form – 1 form per grade (Grades 5, 8, and 11)
 - i. Non-scannable form
 - ii. Responses are key entered into PearsonAccess Next for Scoring
 - iii. SPV Test Administration Directions will be included in the Online/SPV TAD
- d. Large Print – 1 form per grade (Grades 5, 8, and 11)
 - i. Non-scannable form
 - ii. Responses are key entered into PearsonAccess Next for Scoring
 - iii. LP SPV Test Administration Directions will be included in the Online/SPV TAD

Reporting

25. The following reports and data files will be generated:

- a. State Level

AzSCI Contract Year 5 Scope of Work

- i. State Student Data File (SDF) – posted via SFTP
- ii. Anomaly Analysis Data File – posted via SFTP
- iii. Item Response File (IRF) – posted via SFTP
- b. District
 - i. District Student Data File – posted via PearsonAccess Next
 - ii. Confidential Roster Report – District level
- c. Schools
 - i. Printed Reports
 - 1. Individual Student Reports – 2 printed copies
 - 2. Interpretive Guide for Families – 1 copy
 - ii. Electronic Reports
 - 1. Individual Student Reports
 - 2. AzSCI Informe del Estudiante
 - 3. Confidential Roster Report – School level

Pricing (Year 5)

| ***Any exceptions or deviations from this cost form may impact Offeror's susceptibility of award.*** | | | | | | | | |
|---|------------------|--------------|---------------------------|------------------|--------------|---------------------------|------------------|--------------|
| Contract costs if awarded only AIMS Science | | | | | | | | |
| <u>Total All Inclusive Cost Per Student and Total Cost</u> | | | | | | | | |
| (Based on 66,000 students per grade for AIMS Science in Grade 4, 5, and HS; 2% annual growth in student population) | | | | | | | | |
| Year 1 | | | Year 2 | | | Year 3 | | |
| Number of Students Tested | Cost Per Student | Total Cost | Number of Students Tested | Cost Per Student | Total Cost | Number of Students Tested | Cost Per Student | Total Cost |
| 258,000 | 4.83 | 1,246,140.00 | 263,160 | 6.20 | 1,631,592.00 | 268,420 | 7.83 | 2,101,728.60 |

| Year 4 | | | Year 5 | | | Year 6 | | | Year 7 | | |
|---------------------------|------------------|--------------|---------------------------|------------------|--------------|---------------------------|------------------|--------------|---------------------------|------------------|--------------|
| Number of Students Tested | Cost Per Student | Total Cost | Number of Students Tested | Cost Per Student | Total Cost | Number of Students Tested | Cost Per Student | Total Cost | Number of Students Tested | Cost Per Student | Total Cost |
| 273,790 | 8.81 | 2,412,089.90 | 279,265 | 7.89 | 2,203,400.85 | 284,850 | 7.53 | 2,144,920.50 | 290,550 | 7.14 | 2,074,527.00 |

| Estimated Expenses by Major Task Areas | | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Evaluation of cost will be based on the total all inclusive cost per student and total cost as presented above. | | | | | | | |
| Itemize the following total estimated expenses by major task. | | | | | | | |
| Task Area | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 |
| Test Development | 214,975.94 | 530,352.45 | 632,076.69 | 486,178.19 | 408,007.35 | 399,805.83 | 310,797.89 |
| Test Administration | 607,336.77 | 562,887.27 | 660,707.82 | 763,562.61 | 728,223.40 | 698,695.87 | 690,736.94 |
| Scoring, Reporting, Technical/Psychometrics | 54,751.05 | 49,041.89 | 114,985.82 | 307,504.36 | 185,321.02 | 181,717.43 | 186,332.06 |
| Program Management | 369,076.24 | 489,310.39 | 693,958.27 | 854,844.74 | 881,849.08 | 864,701.37 | 886,660.11 |
| Total annual cost: | 1,246,140.00 | 1,631,592.00 | 2,101,728.60 | 2,412,089.90 | 2,203,400.85 | 2,144,920.50 | 2,074,527.00 |



STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: September 28, 2021

TO: Members of the Joint Legislative Budget Committee

FROM: Patrick Moran, Assistant Director

SUBJECT: Arizona Department of Education - Review of Basic State Aid Recalculation

Request

Pursuant to A.R.S. § 15-915B, the Arizona Department of Education (ADE) requests Committee review of its re-calculation of Basic State Aid for school districts with property values affected by the State Board of Equalization decision concerning Agua Caliente Solar.

Committee Options

The Committee has at least the following 2 options:

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

Key Points

- 1) Statute allows school districts to have their K-12 Basic State Aid funding re-calculated if court rulings change property values in their district.
- 2) A property tax appeal for Agua Caliente Solar resulted in lower property values for Hyder Elementary and Antelope Union High School District.
- 3) ADE has computed additional Basic State Aid funding of \$311,800 from the General Fund to account for the lower property values. This funding will be accounted for in the overall ADE General Fund appropriation.

(Continued)

Analysis

A.R.S. § 15-915B permits school districts to request a recalculation of their Basic State Aid payments from ADE, including from prior years, if a court judgment, decision by a county board of equalization, decision by the State Board of Equalization, or the correction of a property tax error results in a Net Assessed Value for property in the district that is different from what ADE used to calculate state payments to the districts. Such recalculations are subject to JLBC review. The recalculation does not include any adjustments for district taxes that are outside of the Basic State Aid formula (e.g. bonds, overrides, adjacent ways, locally-funded transportation, etc.), nor does it account for interest costs associated with refunds.

In December 2019, Agua Caliente Solar, a solar utility company with property in Yuma County, appealed its Net Assessed Valuation dating back to Tax Year 2016 (FY 2017) to the State Board of Equalization. In April 2020, the Board affirmed the company's appeal, which resulted in a lower Net Assessed Value for Hyder Elementary District and Antelope Union High School District for FY 2017 through FY 2020.

ADE's recalculations will result in additional Basic State Aid payments of \$311,800 for the affected school years, including \$264,600 for Antelope Union High School District and \$47,200 for Hyder Elementary District. ADE will cover these costs with its Basic State Aid appropriation.

PM:lm



Arizona Department of Education
Office of Superintendent Kathy Hoffman

September 10, 2021

The Honorable Regina Cobb
Chairwoman, Joint Legislative Budget Committee
Arizona State House of Representatives
1700 West Washington Street
Phoenix, AZ 85007



Dear Representative Cobb,

The purpose of this letter is to request that one item be included on the agenda for consideration at the next meeting of the Joint Legislative Budget Committee (JLBC) in order to fulfil the statutory requirements as outlined below.

1. A.R.S. § 15-915(B), which states *"Subject to the review by the joint legislative budget committee, the superintendent of public instruction shall adjust state aid for a school district in the current year if the governing board requests the recalculation of state aid for a prior year due to a change in assessed valuation that occurred as the result of a judgement in accordance with section 42-16213."*

The Department has received requests for the correction of state aid for two school districts (Antelope Union High School District and Hyder Elementary District) with net assessed valuation impacted by the Agua Caliente Solar lawsuit (Agua Caliente Solar, LLC v. Arizona Department of Revenue) between fiscal years 2017 and 2020 and in accordance with A.R.S. § 15-915(B) is submitting these calculations for review (See attached Antelope UHSD/Hyder ESD report).

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

Sincerely,

Callie Kozlak

Callie Kozlak
Associate Superintendent, Policy Development and Government Relations
Arizona Department of Education

Kathy Hoffman, Superintendent of Public Instruction

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STATE OF ARIZONA

Joint Legislative Budget Committee

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BEN TOMA

DATE: September 28, 2021

TO: Members of the Joint Legislative Budget Committee

FROM: Ryan Fleischman, Fiscal Analyst

SUBJECT: Administrative Office of the Courts and Arizona Department of Water Resources -
Review of General Adjudication Personnel and Support Fund FY 2022 Expenditure Plan

Request

A.R.S. § 12-177.01 requires the Administrative Office of the Courts (AOC) and the Arizona Department of Water Resources (DWR) to submit an expenditure plan for Committee review prior to spending monies from the General Adjudication Personnel and Support Fund in FY 2022 and FY 2023. AOC and DWR are requesting Committee review of their FY 2022 plan to spend \$1,734,300 of the \$2,000,000 FY 2022 appropriation.

Committee Options

The Committee has at least the following 2 options:

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

Key Points

- 1) The FY 2022 budget appropriated \$2.0 million to the Courts for water adjudication staff, equipment and services.
- 2) The Courts are required to share this funding with the Department of Water Resources.
- 3) The Supreme Court is required to submit an expenditure plan on behalf of the Courts and DWR.
- 4) Under the proposed expenditure plan, \$1.7 million would be spent in FY 2022, with \$1.4 million for DWR, \$275,000 for the Supreme Court and \$50,000 for the Superior Court's Special Water Master.

(Continued)

Analysis

General stream adjudications are judicial proceedings to determine the nature, extent, and relative priority of water rights in Arizona. There are 2 general stream adjudications in the state, the Gila River System and the Little Colorado River System (LCR Adjudication). The exterior boundaries of these 2 adjudications include more than half the state. The Superior Court issues rulings determining water rights in the adjudications. The Special Master is a judicial officer appointed by the Superior Court to hear cases arising out of the adjudications, report on legal issues designated by the Superior Court, and recommend a final ruling to the Superior Court judge assigned to each adjudication. After hearing any objections to the Special Master's report, judges will issue the final ruling for each watershed.

The FY 2022 Criminal Justice Budget Reconciliation Bill (BRB) created the General Adjudication Personnel and Support Fund. The non-appropriated fund is to be used for adjudication staff, equipment and services by AOC and DWR. The FY 2022 budget deposited \$2.0 million from the General Fund to the fund. Prior to spending any monies from the fund in FY 2022 and FY 2023, the Criminal Justice BRB provisions require the Supreme Court to submit an expenditure plan to the Committee.

Under the proposed expenditure plan, a total of \$1.7 million would be spent in FY 2022 between DWR, the Superior Court's Special Water Master, and the Supreme Court. Of this amount, about \$1.3 million is for ongoing costs and \$469,700 is for one-time equipment costs. After these expenditures, the fund would have a balance of \$265,700. *Table 1* below outlines the expenditure plan.

| Item # | Item Description | Estimated Cost | FTE Count | Ongoing/One-Time |
|--|--|-----------------------|------------------|-------------------------|
| <i>Department of Water Resources</i> | | | | |
| 1 | Investigation Team | \$ 427,000 | 5.0 | Ongoing |
| 2 | Geographic Information Systems Analyst | 77,000 | 1.0 | Ongoing |
| 3 | Adjudication Manager | 117,600 | 1.0 | Ongoing |
| 4 | Administrative Assistant | 56,000 | 1.0 | Ongoing |
| 5 | Attorney | 140,000 | 1.0 | Ongoing |
| 6 | Surface Water Staff | 161,000 | 2.0 | Ongoing |
| 7 | Field Equipment | 17,900 | | One-Time |
| 8 | IT/Office Equipment | 41,800 | | One-Time |
| 9 | AZ Geological Survey Contract | 240,000 | | One-Time |
| 10 | Records Digitization/Scanner | 60,000 | | One-Time |
| 11 | Scanner Annual Contract | 11,000 | | Ongoing |
| 12 | Legal Mailing Costs | 60,000 | | One-Time |
| | Subtotal - Dept. of Water Resources | \$1,409,300 | 11.0 | |
| <i>Superior Court - Special Water Master</i> | | | | |
| 13 | Apache County Case Document Digitization | \$ 50,000 | | One-Time |
| <i>Supreme Court</i> | | | | |
| 14 | Superior Court Judge Salary – 50% Allocation | 125,000 | | Ongoing |
| 15 | Specialized Water Appeal Staff Attorney | 150,000 | 1.0 | Ongoing |
| | Subtotal - Supreme Court | 275,000 | 1.0 | |
| | Expenditure Plan Total | \$1,734,300 | 12.0 | |

(Continued)

Under the proposed expenditure plan, DWR would spend \$1.4 million. The plan includes \$1.0 million in ongoing spending to hire 11 additional FTE Positions for the following activities:

- 1) An investigations team to perform research and technical work and to carry out orders from the Adjudication Court. The team would consist of 4 water resource specialists, with annual salaries ranging from \$50,000 to \$65,000, along with a supervisor earning \$70,000.
- 2) A Geographic Information Systems (GIS) analyst to support the investigations team, with an annual salary of \$55,000.
- 3) A water resources adjudication manager to assist the investigations team in project oversight, succession planning and provide institutional knowledge, with an annual salary of \$84,000.
- 4) An administrative assistant for clerical work associated with adjudication earning \$40,000.
- 5) An additional attorney to support the increased legal workload earning \$100,000.
- 6) 2 additional water resource specialists in DWR's Surface Water Section to assist with application caseload increase, with salaries ranging from \$50,000 to \$65,000.

The plan includes \$469,700 for equipment and technology purchases, most of which are one-time expenses:

- 7) Field equipment for the investigations team, including 2 off-road vehicles, 2 drones, 4 iPads, and 2 portable WiFi units, for a total of \$17,900.
- 8) Additional IT and office equipment for new FTE Positions including laptops, monitors, office chairs, and technology infrastructure, for a total of \$41,800.
- 9) Contracting with the Arizona Geological Survey to perform mapping related to the Verde Subflow Report, for a total of \$240,000. In 2017, Maricopa County Superior Court requested that DWR develop a technical report and map regarding the subflow zone of the Verde River Watershed, which required the assistance of the Arizona Geological Survey.
- 10) A scanner to digitize adjudication records at a cost of \$60,000.
- 11) Ongoing cost of annual contract to operate digital scanner at \$11,000.
- 12) Mailing costs for several large mailings of DWR reports that are due to the Court at a cost of \$60,000.

The expenditure plan would also utilize \$50,000 to provide the Superior Court's Special Water Master better access to Apache County general stream adjudication case records. The Special Water Master was assigned by the court in 1990 to the Little Colorado River and Gila River water rights adjudications to conduct hearings for claimants and make recommendations to Superior Courts. This funding would be used to digitize and archive Apache County general stream case documents.

The Supreme Court would also spend \$275,000 for 2 FTE Positions for the following 2 items:

- A 50% allocation of Superior Court Water Judge's salary: A.R.S. § 12-128 specifies that the annual salary of Superior Court Judges is funded by 50% state funding and 50% county funding. However, A.R.S. § 45-252 requires that salaries for Superior Court Judges involved in water adjudication be fully funded by the state. The Supreme Court requests \$125,000 to absorb the county's 50% share of a Water Judge's salary pursuant to A.R.S. § 45-252.
- A specialized staff attorney to support appeals involving general stream adjudication with an annual salary of \$123,000 for 1 additional FTE Position.



Supreme Court

STATE OF ARIZONA
ADMINISTRATIVE OFFICE OF THE COURTS

ROBERT BRUTINEL
CHIEF JUSTICE

DAVID K. BYERS
ADMINISTRATIVE DIRECTOR
OF THE COURTS



September 15, 2021

Dear Representative Cobb:

Per ARS 12-117.01, a proposed expenditure plan is required to be submitted to the JLBC for consideration before monies are spent from the General Adjudication Personnel and Support Fund for the fiscal years 2021-2022 and 2022-2023.

Please find the enclosed fiscal year 2021-2022 expenditure proposal for the General Adjudication Personnel and Support Fund. This proposal combines the related expenditures from the Arizona Department of Water Resources, the court's Special Water Master and the Arizona Supreme Court.

If you have any specific questions, please feel free to contact us.

Sincerely,

Dave Byers

Administrative Director of the Courts

Thomas Buschatzke

Director, Arizona Department of Water Resources

FY 2021-2022 Expenditure Plan

Arizona Department of Water Resources (ADWR)

Programmatic Impact

This injection of resources will allow ADWR to continue to complete the Court's assignments as it relates to the General Stream Adjudication in a timely manner. The number of major reports that the Court has requested ADWR complete continues to increase. Whereas several years ago, it was averaging 2-3 reports at a time, it is now 4-5 reports at a time. Despite significant process improvements, ADWR has had to request extensions for a variety of assignments over the past year due to insufficient personnel. The additional investigative team will allow ADWR to undertake the additional Court assignments and the new GIS analyst will support the investigative work done by the new team. ADWR anticipates that the new personnel will prevent the Department from requesting significant extensions for the currently assigned workload.

ADWR anticipates filling the positions by the end of 2021. Adjudications assignments are typically complex, and the positions will require a significant training period to be brought up to speed. Nonetheless, by February 2022, the new positions will be filled, trained, and working on existing assignments to ensure deadlines are met and to keep assignments from needing extensions.

ADWR Expenditure Plan

The expenditure plan from the General Adjudication Personnel and Support Fund for ADWR includes both personnel and support costs.

Personnel – Under the proposed spending plan, ADWR will add the following personnel:

- An additional investigative team (5 FTE) to perform necessary research and technical work to carry out orders from the Adjudication Court. Additionally, ADWR anticipates the likely need for a second investigative team (4-5 FTE) with this fund in FY 2023.
- An additional Geographic Information Systems (GIS) Analyst (1 FTE).
- Managerial and administrative support (2 FTE).
- An additional attorney (1 FTE) to handle Adjudications work.
- Water Resources Specialists in ADWR's Surface Water Section (2 FTE), which sees its application caseload increase as the pace of the Adjudication Court increases.

The expenditure plan also includes necessary field equipment for the investigation team (e.g., two off-road vehicles, UAS, iPads) as well as IT charges and office equipment for all new FTE positions, including the cost for network/phone seats, email charges, computer, monitors, office chair, and equipment replacement.

This proposed expenditure plan funds a total of 11 FTE positions at ADWR, with an additional 4-5 FTE positions for the second investigations team that will be included in the FY 2023 expenditure plan. While these positions will be created as soon as possible, it will take several months to get them all filled. There will likely be significant vacancy savings during FY 2022 as ADWR attempts to fill these positions. ADWR intends to utilize vacancy savings as they are available to pay for any upfront costs required for the two off-road vehicles, hiring interns to perform necessary work, and making other unforeseen but necessary expenditures.

Support - The support costs included in the proposed expenditure plan include the following expenses:

- Contracting with the Arizona Geological Survey (AZGS) to complete mapping related to the Verde Subflow Report.
- An Opex Falcon Scanner, which will allow ADWR to significantly increase the pace of digitization of Adjudication records.
- Mailing costs for sending several large mailings during FY 2022.

Proposed ADWR Expenditures from Adjudication Fund

| Item # | Item Description | Estimated Cost | FTE | Timing | Notes |
|--------|---|----------------|-----|----------|--|
| 1 | Additional Investigation Team (Supervisor and 4 employees) | \$427,000 | 5.0 | Ongoing | Personnel cost estimates derived from a comparable team. Positions will consist of a Water Resources Supervisor and a mixture of Water Resources Specialist Positions. |
| 2 | Additional GIS Analyst to support team | \$77,000 | 1.0 | Ongoing | Necessary to support investigation team, item #1. |
| 3 | Adjudication Manager | \$117,600 | 1.0 | Ongoing | Addition of Investigation Team requires additional managerial assistance to assist in project oversight, succession planning, cross training, institutional knowledge transfer. |
| 4 | Administrative Assistant | \$56,000 | 1.0 | Ongoing | This position will handle clerical work associated with the Adjudication, including travel, mail management, document management and other responsibilities as needed. |
| 5 | Additional Attorney | \$140,000 | 1.0 | Ongoing | This position is necessary to support the increased legal workload. |
| 6 | Surface Water Staff | \$161,000 | 2.0 | Ongoing | The increased pace of the Court has resulted in a substantial increase in workload for Surface Water. This amount would allow the group to hire 2.0 Water Resources Specialist positions to keep up with workload. |
| 7 | Field Equipment | \$17,900 | | One-Time | Necessary to support investigation team, item #1. Includes lease cost for two off-road vehicles, two UAS, four iPads, and 2 MiFi units. Any up-front costs for vehicles can be covered through vacancy savings. |
| 8 | IT and Office Equipment for additional employees | \$41,800 | | One-Time | Necessary to support items #1-6. Cost is \$3,800 per employee and includes laptop, two monitors, dock and office chair as well as required technology infrastructure. |
| 9 | AZGS Contract | \$240,000 | | One-Time | AZGS will be performing mapping related to the Verde Subflow Report on behalf of ADWR. |
| 10 | Opex Falcon Scanner | \$60,000 | | One-Time | This item will contribute significantly to the digitization of Adjudications records. https://www.gsaadvantage.gov/ref_text/GS25F0096M/0Q_H701.3EEN5Q_GS-25F-0096M_OPEX16GSA.PDF |
| 11 | Annual Contract for scanner | \$11,000 | | Ongoing | Estimated annual cost to operate Item #10. |
| 12 | Mailing costs | \$60,000 | | One-Time | This amount is for reports that are due to the Court in FY 2022. This expenditure is labeled as "one-time" but it is a constant cost. The amounts vary annually. |
| 13 | Potential 4th team/Add personnel to existing teams | | 5.0 | Ongoing | Due to current and anticipated workload, ADWR anticipates adding one more investigation team as part of the FY 2023. |
| 14 | Vacancy Savings | | | | ADWR intends to utilize available vacancy savings during FY 2022 to make any upfront payments necessary to purchase two off-road vehicles, hire interns and to make other unforeseen expenditures that advance the Adjudication. |

| | |
|------------------------------|--------------------|
| Estimated One-Time Costs | \$419,700 |
| Estimated Ongoing Costs | \$989,600 |
| Total Estimated Costs | \$1,409,300 |

ADWR Position Breakdown

| Item | Position Title | # of FTE | Estimated Salary | Estimated ERE | Total Estimated Cost |
|------|--------------------------------|----------|------------------|---------------|----------------------|
| 1 | Water Resources Supervisor | 1 | \$70,000 | \$28,000 | \$427,000 |
| | Water Resources Specialist IV | 1 | \$65,000 | \$26,000 | |
| | Water Resources Specialist III | 2 | \$120,000 | \$48,000 | |
| | Water Resources Specialist II | 1 | \$50,000 | \$20,000 | |
| 2 | GIS Analyst | 1 | \$55,000 | \$22,000 | \$77,000 |
| 3 | Water Resources Manager | 1 | \$84,000 | \$33,600 | \$117,600 |
| 4 | Administrative Assistant III | 1 | \$40,000 | \$16,000 | \$56,000 |
| 5 | WC Counsel | 1 | \$100,000 | \$40,000 | \$140,000 |
| 6 | Water Resources Specialist IV | 1 | \$65,000 | \$26,000 | \$161,000 |
| | Water Resources Specialist II | 1 | \$50,000 | \$20,000 | |

Special Water Master

The Special Water Master gained additional financial support in the FY22 Legislative Budget with the following items:

- The establishment of the General Adjudication Personnel and Support Fund via ARS 12-117.01.
- \$133,900 appropriated to expand and maintain the court's electronic case management system for water adjudication.
- \$147,600 appropriated to add two paralegal FTE positions.
- \$109,700 appropriated for one law clerk FTE position.

For FY22, the Special Water Master needs better access to Apache general stream adjudication case records. Current records are still in paper form and require significant effort from both the Special Water Master and the Apache Superior Court to locate and retrieve necessary documents. The initial stages of this project will involve the labor-intensive task of digitizing and archiving case records and is projected to span over two years. The Special Water Master is requesting \$50,000 from the General Adjudication Personnel and Support Fund in FY22 to begin this case record conversion process.

Proposed Special Water Master Expenditures from Adjudication Fund

| Item # | Item Description | Estimated Cost | FTE | Timing | Notes |
|--------|---|----------------|-----|----------|---|
| 1 | Apache Case Documents - Digitization Project | \$50,000 | | One-Time | This expenditure is labeled as "one-time" but is anticipated to be a two-year project. Second year costs are forecast at \$50K as well. |

| | |
|------------------------------|-----------------|
| Estimated One-Time Costs | \$50,000 |
| Estimated Ongoing Costs | \$0 |
| Total Estimated Costs | \$50,000 |

Supreme Court

The Supreme Court has identified two key items that require ongoing financial support from the General Adjudication Personnel and Support Fund.

1. 50% Judge Salary – ARS 45-252 Sec D states that *“Notwithstanding Section 12-128, the Superior Court Judge, Master, Paralegal and Law Clerk positions prescribed in this subsection and subsection C of this section shall be fully funded by this State.”* In order to fulfill this statutory requirement, the 50% of the Superior Court Water Judge’s salary that is normally funded by the county (as specified by ARS 12-128) will need to be funded by the State via the General Adjudication Personnel and Support Fund at an ongoing salary+ERE cost of \$125,000 per year.
2. Specialized Staff Attorney - In order to better process any water-related cases that make their way to the Arizona Supreme Court, a staff attorney with expertise in appeals involving general stream adjudications is needed. ARS 45-252 Sec D prescribes that *“The Supreme Court may appoint additional paralegals and law clerks for the general adjudication. Notwithstanding Section 12-128, the Superior Court Judge, Master, Paralegal and Law Clerk positions prescribed in this subsection and subsection C of this section shall be fully funded by this State.”* This additional position would be funded from the General Adjudication Personnel and Support Fund at an ongoing salary+ERE cost of \$155,000 per year.

Proposed Supreme Court Expenditures from Adjudication Fund

| Item # | Item Description | Estimated Cost | FTE | Timing | Notes |
|--------|-----------------------------------|----------------|-----|---------|--|
| 1 | 50% Judge Salary | \$125,000 | | Ongoing | Funding required to comply with ARS 12-128 and 45-252 |
| 2 | Specialized Staff Attorney | \$150,000 | | Ongoing | Necessary to support appeals involving general stream adjudications. |

| | |
|------------------------------|------------------|
| Estimated One-Time Costs | \$0 |
| Estimated Ongoing Costs | \$275,000 |
| Total Estimated Costs | \$275,000 |

Supreme Court Position Breakdown

| Item | Position Title | # of FTE | Estimated Salary | Estimated ERE | Total Estimated Cost |
|------|----------------------------|----------|------------------|---------------|----------------------|
| 1 | 50% Judge Salary | 1 | \$74,700 | \$50,300 | \$125,000 |
| 2 | Specialized Staff Attorney | 1 | \$123,000 | \$27,000 | \$150,000 |

Proposed Total Expenditures from Adjudication Fund - FY22

| Item # | Item Description | Estimated Cost | FTE | Timing |
|--------|-----------------------------|----------------|-----|----------|
| 1 | ADWR | \$989,600 | | Ongoing |
| 2 | ADWR | \$419,700 | | One-Time |
| 3 | Special Water Master | \$50,000 | | One-Time |
| 4 | Supreme Court | \$275,000 | | Ongoing |

| | |
|------------------------------|--------------------|
| Estimated One-Time Costs | \$469,700 |
| Estimated Ongoing Costs | \$1,264,600 |
| Total Estimated Costs | \$1,734,300 |



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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DATE: September 28, 2021

TO: Members of the Joint Legislative Budget Committee

FROM: Jordan Johnston, Senior Fiscal Analyst

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

Request

Pursuant to A.R.S. § 41-1724G and A.R.S. § 41-1724H, the Arizona Department of Public Safety (DPS) is required to submit for Committee review the entire FY 2022 expenditure plan for the GIITEM Border Security and Law Enforcement Subaccount prior to expending any monies.

The Committee gave a favorable review of a \$1,361,600 expenditure plan from the GIITEM Subaccount in July. DPS has submitted for review its proposal to distribute the remaining \$1,034,800 of the \$2,396,400 appropriation from the Subaccount to fund the Border Security and Law Enforcement Grants program. Six County Sheriffs will receive funding from the program, which is the same number that were funded last year.

Committee Options

The Committee has at least the following 2 options:

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

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

- A. DPS shall report to the Committee prior to implementing any changes to the proposed FY 2022 allocation of the grants (*see Table 2*). The Chairman shall decide whether the revisions require Committee review.

(Continued)

Key Points

- 1) The Committee gave a favorable review of \$1.3 million of the \$2.4 million FY 2022 GIITEM Subaccount appropriation in July to continue funding 3 existing programs.
- 2) DPS is requesting review of the expenditure plan for the remaining monies to continue funding the Border Security and Law Enforcement Grants program.
- 3) 6 rural counties would receive funding, which are the same 6 counties that were funded in FY 2021.
- 4) DPS worked with the Arizona Sheriff's Association to determine the FY 2022 allocation of these funds.

Analysis

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

The subaccount monies are distributed by DPS to county sheriffs and other local law enforcement agencies to fund border security programs, personnel, and safety equipment. At its July 2021 meeting, the Committee gave a favorable review of \$1.3 million of the total \$2.4 million FY 2022 Subaccount appropriation to continue funding the Detention Liaison Officers Program (\$463,900), Border County Officers Program (\$547,700) and the Pima County Border Crimes Unit (\$350,000). Due to technical adjustments to the FY 2022 GIITEM Subaccount appropriation, the department has reduced the unallocated portion of the Border County Officers Program by \$(15,200) for a new proposed allocation of \$532,500.

The department has worked with the Arizona Sheriff's Association (ASA) to determine how the Border Security and Law Enforcement Grants will be distributed. DPS has allocated \$1,050,000 for this program. This total amount and estimated allocation of monies to each county is unchanged from FY 2021. Combined with the technical \$(15,200) adjustment to the Border County Officers Program, the total increase above the amount reviewed by the Committee in July is \$1,034,800.

Table 1 provides the FY 2021 GIITEM Border Security and Law Enforcement Grants expenditure plan reviewed by the Committee and the proposed FY 2022 plan. Table 2 displays the entire expenditure plan for the DPS GIITEM Subaccount.

| Table 1 | | |
|--|--|--|
| FY 2022 GIITEM Border Security and Law Enforcement Grants | | |
| Proposed Expenditure Plan | | |
| | FY 2021 Reviewed Allocation | FY 2022 Proposed Allocation |
| <u>County Sheriff</u> | | |
| Cochise County Sheriff's Office | \$ 250,000 | \$ 250,000 |
| Graham County Sheriff's Office | 100,000 | 100,000 |
| Greenlee County Sheriff's Office | 100,000 | 100,000 |
| La Paz County Sheriff's Office | 100,000 | 100,000 |
| Santa Cruz Sheriff's Office | 250,000 | 250,000 |
| Yuma County Sheriff's Office | <u>250,000</u> | <u>250,000</u> |
| Total | \$1,050,000 | \$1,050,000 |

(Continued)

| Table 2 | | | |
|---|-----------------------------------|--|---|
| DPS Expenditure Plan – GIITEM Subaccount | | | |
| | FY 2021 Reviewed Allocation | FY 2021 Projected Allocation ^{1/} | FY 2022 Proposed Allocation ^{2/} |
| <u>Detention Liaison Officers Program</u> | | | |
| Cochise County Sheriff's Office | \$ 65,300 | \$ 43,700 | \$ 66,300 |
| Pima County Sheriff's Office | 130,500 | 104,300 | 132,500 |
| Department of Corrections | <u>261,000</u> | <u>188,700</u> | <u>265,100</u> |
| Subtotal | \$456,800 | \$336,700 | \$463,900 |
| <u>Border County Officers Program</u> | | | |
| Cochise County Sheriff's Office | \$ 231,300 | \$ 234,100 | \$ 234,700 |
| Coolidge Police Department | 77,000 | 71,600 | 78,300 |
| Eloy Police Department | 77,000 | 51,400 | 78,300 |
| Oro Valley Police Department | 77,000 | 44,500 | 78,300 |
| Yuma County Sheriff's Office | 77,000 | 41,700 | - |
| Unallocated ^{3/} | <u>-</u> | <u>-</u> | <u>62,900</u> |
| Subtotal | \$539,300 | \$443,300 | \$532,500 |
| <u>Pima County Border Crimes Unit</u> | \$350,000 | \$350,000 | \$350,000 |
| <u>Border Security and Law Enforcement Grants</u> | | | |
| Cochise County Sheriff's Office | \$ 250,000 | \$ 250,000 | \$ 250,000 |
| Graham County Sheriff's Office | 100,000 | - | 100,000 |
| Greenlee County Sheriff's Office | 100,000 | 100,000 | 100,000 |
| La Paz County Sheriff's Office | 100,000 | 100,000 | 100,000 |
| Santa Cruz County Sheriff's Office | 250,000 | 250,000 | 250,000 |
| Yuma County Sheriff's Office | <u>250,000</u> | <u>250,000</u> | <u>250,000</u> |
| Subtotal | \$1,050,000 | \$950,000 | \$1,050,000 |
| Total | \$2,396,100 | \$2,080,000 | \$2,396,400 |
| ^{1/} Represents actual FY 2021 allocation from the subaccount through June 1, 2021, plus projections through June 30, 2021. | | | |
| ^{2/} Represents estimated new proposed FY 2022 allocation from the subaccount. | | | |
| ^{3/} The department stated they are unable to estimate precise allocations by agency due to variations in assignment of personnel. | | | |

JJ:lm



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 HESTON SILBERT
Governor Director

September 15, 2021

Representative Regina Cobb, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007



Dear Representative Cobb:

Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is submitting the remainder of its FY 2022 expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount (Subaccount). The JLBC gave a favorable review to the initial portion of the expenditure plan at its meeting on July 15, 2021.

DPS has allocated \$1,050,000 from the Subaccount in FY 2022 for border security and law enforcement grants to county sheriffs. Consistent with previous years, DPS consulted with the Arizona Sheriffs' Association (ASA) on the distribution of the grants. The ASA directed the money to be distributed to the counties as outlined below.

| County Sheriff | FY 2022 Plan |
|---------------------|--------------------|
| Cochise | \$ 250,000 |
| Graham | 100,000 |
| Greenlee | 100,000 |
| La Paz | 100,000 |
| Pima ^{1/} | 0 |
| Pinal ^{2/} | 0 |
| Santa Cruz | 250,000 |
| Yuma | 250,000 |
| TOTAL | \$1,050,000 |

^{1/} The Pima Sheriff's Department has been allocated \$350,000 from the Subaccount for the Border Crimes Unit, as included in the plan reviewed by the JLBC on July 15, 2021.

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

Recipient agencies may use the funding for any purpose consistent with statute. As required by A.R.S. § 41-1724, 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. 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.

Sincerely,

A handwritten signature in black ink that reads "Kenneth Hunter". The signature is written in a cursive style with a large, stylized 'K' and 'H'.

Heston Silbert, Colonel
Director

c: Senator David M. Gowan, Vice-Chairman
Matthew Gress, OSPB Director
Richard Stavneak, JLBC Director