# **JOINT LEGISLATIVE BUDGET COMMITTEE**

Tuesday, December 15, 2015

1:00 p.m.

**Senate Appropriations Room 109** 

### STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

DON SHOOTER
CHAIRMAN 2016
OLIVIA CAJERO BEDFORD
STEVE FARLEY
GAIL GRIFFIN
KATIE HOBBS
JOHN KAVANAGH
DEBBIE LESKO
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1716 WEST ADAMS PHOENIX, ARIZONA 85007

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HOUSE OF REPRESENTATIVES

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STEFANIE MACH
DARIN MITCHELL
STEVE MONTENEGRO
MICHELLE UGENTI-RITA

# \*\* REVISED \*\*

JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, December 15, 2015
1:00 P.M.
Senate Appropriations, Room 109

# **MEETING NOTICE**

- Call to Order
- Approval of Minutes of September 24, 2015.
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
  - A. Arizona Department of Administration, Risk Management Services Consideration of Proposed Settlements under Rule 14.
  - B. JLBC Annual Performance Review per Rule 7.
- ARIZONA BOARD OF REGENTS Review of FY 2016 Tuition Revenues.
- 2. ARIZONA DEPARTMENT OF ADMINISTRATION
  - A. Review of Public Safety Broadband.
  - B. Review of Automation Projects Fund Expenditure Reallocation.
  - C. Review of Health Impact Program Update.
- 3. JLBC STAFF Consider Approval of Index for School Facilities Board Construction Costs.
- 4. AHCCCS/DEPARTMENT OF HEALTH SERVICES/DEPARTMENT OF ECONOMIC SECURITY Review of Revised Capitation Rate Changes.
- 5. DEPARTMENT OF CHILD SAFETY Review of FY 2016 First Quarter Benchmarks.

6. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.

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

12/9/15

12/11/15

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### MINUTES OF THE MEETING

# JOINT LEGISLATIVE BUDGET COMMITTEE

September 24, 2015

The Chairman called the meeting to order at 1:08 p.m., Thursday, September 24, 2015, in Senate Appropriations Room 109. The following were present:

Members:

Senator Shooter, Vice-Chairman

Senator Cajero Bedford

Senator Farley Senator Griffin Senator Hobbs Senator Kavanagh Senator Lesko Senator Yarbrough Representative Olson, Chairman

Representative Alston Representative Bowers

Absent:

Representative Mach Representative Mitchell Representative Montenegro Representative Stevens Representative Ugenti

### APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of June 18, 2015, Chairman Justin Olson stated that the minutes would stand approved.

DEPARTMENT OF CHILD SAFETY (DCS) - Review of FY 2016 Internet Crimes Against Children Expenditure Plan.

Mr. Ben Beutler, JLBC Staff, stated that DCS is requesting review prior to any monies being expended from DCS' \$350,000 FY 2016 appropriation for Internet Crimes Against Children (ICAC). The JLBC Staff presented options to the Committee.

(Continued)

<u>Sergeant Jerry Barker, Commander, Arizona Internet Crimes Against Children Task Force (AZICAC),</u> responded to member questions.

<u>Senator Shooter moved</u> that the Committee approve the \$350,000 expenditure plan for ICAC with the provision that AZICAC via DCS report any funding reallocations above \$50,000. The motion carried.

# **DEPARTMENT OF CHILD SAFETY - Review of Fourth Quarter Benchmarks.**

Mr. Ben Beutler, JLBC Staff, stated that DCS is requesting review of a report of proposed FY 2015 quarterly benchmarks for assessing progress in increasing the department's number of FTE Positions and in reducing the number of backlog cases. The JLBC Staff presented options to the Committee.

Mr. Gregory McKay, Director, DCS, responded to member questions.

<u>Senator Shooter moved</u> that the Committee accept the fourth quarter benchmark report as outlined in the department's submission with no comment. The motion carried.

# DEPARTMENT OF CHILD SAFETY - Review of FY 2016 Intensive Family Services Expenditure Plan.

Mr. Ben Beutler, JLBC Staff, stated that DCS is requesting Committee review prior to any monies being expended from DCS' \$8,500,000 FY 2016 appropriation for Intensive Family Services (IFS). The JLBC Staff presented options to the Committee.

Mr. Gregory McKay, Director, DCS, responded to member questions.

Mr. Illya Riske, Finance Manager, DCS, responded to member questions.

<u>Senator Shooter moved</u> that the Committee give a favorable review to the FY 2016 IFS expenditure plan with the following provisions:

- A. The favorable review expires with federal approval or disapproval of the Title IV-E waiver. At that time, DCS is to return for Committee review of any remaining IFS funds.
- B. The Committee recommends that DCS proceed to prepare and release a Request for Proposals (RFP) for a new in-home intervention program that employs contracted case management prior to final approval of the Title IV-E waiver.

The motion carried.

# ARIZONA DEPARTMENT OF CORRECTIONS (ADC) - Review of FY 2015 Bed Capacity Report.

Ms. Micaela Larkin, JLBC Staff, stated that ADC is requesting review of a report detailing the bed capacity changes in FY 2015, and the proposed changes in FY 2016. The JLBC Staff presented options to the Committee.

<u>Senator Shooter moved</u> that the Committee give a favorable review of the bed capacity report submitted by the department on July 31, 2015. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Consider Approval of Maximum Lodging and Per Diem Reimbursement Rates.

Ms. Rebecca Perrera, JLBC Staff, stated that ADOA is requesting approval of rate changes to the maximum reimbursement amounts for lodging and meal expenses taking into consideration the amounts established by the federal government. The JLBC Staff presented options to the Committee.

<u>Senator Shooter moved</u> that the Committee approved the use of the federal lodging reimbursement rate and per diem rate (less \$10), which are effective on October 1, 2015, as the state rates with the following provisions:

- A. Committee approval does not constitute an endorsement of additional appropriations to cover higher reimbursement costs.
- B. ADOA may continue to grant waivers for reimbursements above the state's maximum rate but should not delegate any waiver authority to agencies.
- C. ADOA shall submit for Committee review its written guidelines for reviewing and approving lodging rate waivers by November 30, 2015.

The motion carried.

ADOA/DEPARTMENT OF EDUCATION (ADE) - Review of Automation Projects Fund Expenditure Reallocation (Automation Projects Fund).

Mr. Matt Beienburg, JLBC Staff, stated that this item is for review of a reallocation of the FY 2016 Arizona Education Learning and Accountability System (AELAS) appropriation by ADOA from the Automation Projects Fund (APF) prior to expenditure. The JLBC Staff presented options to the Committee.

<u>Senator Shooter moved</u> that the Committee give a favorable review to shift \$400,000 from Program Support Office to Centralized Educational Data Services from the FY 2016 ADE AELAS appropriation. The favorable review includes the following Arizona Strategic Enterprise Technology Office (ASET) provision:

A. Should there be any changes in the proposed costs, technology approach, scope of work, or implementation schedule, ADE must amend the Project Investment Justification to reflect the changes and submit it to ADOA-ASET and the Information Technology Authorization Committee, if required for review and approval prior to further expenditure of funds.

The motion carried.

ADOA/DEPARTMENT OF REVENUE (DOR) - Review of Data Capture Contingency Expenditure Plan (Automation Projects Fund).

Mr. Jeremy Gunderson, JLBC Staff, stated that DOR is requesting Committee review of expenditures from the APF. DOR proposes to expend the \$565,800 in remaining contingency monies from a FY 2015 appropriation from the APF to improve their ability to capture and analyze more tax return data electronically. The JLBC Staff presented options to the Committee.

Mr. Sean Laux, Legislative Liaison, DOR, responded to member questions.

<u>Senator Shooter moved</u> that the Committee give a favorable review of the \$459,000 of contingency monies from the APF to improve the agency's ability to capture and analyze more tax return data electronically with the following provision:

A. Prior to spending the project's remaining contingency funding of \$106,800, DOR must submit an expenditure plan to the Committee for review.

The motion carried.

# ATTORNEY GENERAL (AG) - Review of Quarterly Reports on Legal Settlements.

Mr. Matt Gress, JLBC Staff, stated that the Committee is required to review quarterly AG reports on the receipts and disbursements from the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund and the Consumer Restitution and Remediation Revolving Fund (including its 2 subaccounts), as well as deposits made to the General Fund. The JLBC Staff presented options to the Committee.

<u>Senator Shooter moved</u> that the Committee give a favorable review to the AG's allocation of legal settlements among the various funds. The motion carried.

# JLBC STAFF - Review of Agency Legal Services Charges.

Mr. Matt Gress, JLBC Staff, stated that this item is for review of agency funding sources for the Attorney General (AG) legal services charges for general agency counsel. The charges total \$1.8 million, the same amount as last year. The allocation of charges to each agency also remains unchanged, with the exception of the Departments of Racing and Gaming. The JLBC Staff recommended that the Committee give a favorable review of this item.

<u>Senator Shooter moved</u> that the Committee give a favorable review of the fund source reports for the AG legal services charges. The motion carried.

### BOARD OF BEHAVIORAL HEALTH EXAMINERS - Testimony on Proposed Licensing Rules.

Mr. Steve Grunig, JLBC Staff, stated the Board of Behavioral Health Examiners is required to testify before the Committee regarding the rules for licensing provisions enacted during the 2013 Legislative Session. The Committee is not required by statute to review the proposed rules, but may do so if it chooses. The JLBC Staff presented options to the Committee.

Ms. Tobi Zavala, Executive Director, Board of Behavioral Health Examiners responded to member's questions.

Ms. Bahney Dedolph, Policy Analyst, The Arizona Council of Human Service Providers spoke to the item and circulated a document. (Attachment 1)

<u>Senator Shooter moved</u> that the Committee accept the Board of Behavioral Health Examiner's testimony without comment. The motion carried.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS)/DEPARTMENT OF HEALTH SERVICES (DHS)/DEPARTMENT OF ECONOMIC SECURITY (DES)/DEPARTMENT OF CHILD SAFETY - Review of Revised Capitation Rate Changes.

Mr. Jon Stall, JLBC Staff, stated that this item is for review of AHCCCS, DHS, DES and DCS capitation rate changes prior to implementation. The JLBC Staff presented options to the Committee.

<u>Senator Shooter moved</u> that the Committee give a favorable review to the proposed FY 2016 capitation rates. The motion carried.

# DEPARTMENT OF ENVIRONMENTAL QUALITY (DEQ) - Review of Safe Drinking Water Expenditure Plan.

Mr. Josh Hope, JLBC Staff, stated that DEQ is requesting review of the expenditure plan for \$1,800,000 from the Emissions Inspection Fund for the Safe Drinking Water Program in FY 2016. The JLBC Staff presented options to the Committee.

<u>Senator Shooter moved</u> that the Committee give a favorable review to the department's proposed expenditure plan for \$1,800,000 from the Emissions Inspection Fund for the Safe Drinking Water Program in FY 2016. The motion carried.

#### **EXECUTIVE SESSION**

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

At 3:16 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 4:04 p.m. the Committee reconvened into open session.

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

<u>Senator Shooter moved</u> that the Committee approve the recommended settlements proposed by the Attorney General's office in the cases of:

- White v. State of Arizona
- Lee v. State of Arizona
- Rosario, et al. v. State of Arizona

The motion carried.

B. Arizona Department of Administration - Risk Management Annual Report.

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

Without objection, the meeting adjourned at 4:05 p.m.

Respectfully submitted:

Kristy Paddack, Secretary

Richard Stavneak, Director

Representative Justin Olson, Chairman



# **MEMORANDUM**

DATE:

**SEPTEMBER 25, 2015** 

FROM:

EMILY L. JENKINS, ARIZONA COUNCIL OF HUMAN SERVICE

**PROVIDERS** 

TO:

MEMBERS, JOINT LEGISLATIVE BUDGET COMMITTEE

RE:

BOARD OF BEHAVIORAL HEALTH EXAMINERS' RULES

Since the last Sunset Review, the Arizona Council of Human Service Providers has been engaged in efforts to improve the licensing and disciplinary functions of the Board of Behavioral Health Examiners. The Council has collaborated with professional associations in this effort. In addition to its activities related to SB 1374 in 2013, the Council has participated in the meetings of the BBHE Rules Subcommittee and made presentations at the public comment hearings.

The Council has expressed concerns regarding the Board's draft rules in the following major areas:

- Clarification of confidential records standard to assure licensees have appropriate access to investigative files as required by ARS 32-3282 B. 3.
- Clarification of the definition of "direct supervision"
- Allowance of 90 of the 100 hours of clinical supervision required for independent licensure to be provided through videoconferencing. This would address access problems in many of the state's underserved areas where there are few licensed professionals qualified to provide supervision.
- Assure work experience requirements are consistent with statutory definitions.

Detailed comments on the above issues are attached.

Thank you for the opportunity to comment.



# Behavioral Health Examiners Board Proposed BBHE Rules

# **Background**

In 2013, SB1374 was passed creating significant reform and restructuring of the Arizona Board of Behavioral Health Examiners. Modifications to that legislation were made in 2014 and 2015. These changes in legislation required the Board of Behavioral Health Examiners to re-write its administrative rules. Most of the changes associated with this legislation require final adoption by the board and implementation by November 1, 2015.

# **Changes in Rules**

- 1. New definitions and Board provisions from or consistent with new statutes a. (4-6-101 and 4-6-201)
- 2. Changes in confidential records to reflect licensee right to review investigative report a. (4-6-207) ##
- 3. Supervised work experience and clinical supervision requirements.
  - a. (4-6-212, 4-6-403, 4-6-503, 4-6-603, 4-6-705) ##
- 4. Creation of Clinical Supervisor Registry and requirements.
  - a. (4-6-213 & 214)
- 5. Clinical Supervision exceptions
  - a. (4-6-212.01)
- 6. Approval of educational programs through Academic Review Committee
  - a. (4-6-307)
- 7. New curriculum requirements for counseling programs
  - a. (4-6-501)

## Indicates that the Council submitted comments recommending changes to the Rule Draft of August 11<sup>th</sup>.

The Board is currently accepting public comment through September 11, 2015 on the current proposed rules draft. You can find the draft rules at <a href="http://azbbhe.us/node/12">http://azbbhe.us/node/12</a>. Please email written feedback to <a href="mailto:rulesfeedback@azbbhe.us">rulesfeedback@azbbhe.us</a>

# EXPLANATION OF CHANGES TO RULES REGARDING CLINICAL SUPERVISION REQUIREMENTS AS RELATED TO VIDEOCONFERENCING

The Council strenuously objects to the limitations of clinical supervision hours by videoconferencing to 70 instead of the 90 hours recommended by the Rules Subcommittee. We believe this decision ignores the limited availability of qualified supervisors in many areas of the state and the wide-spread acceptance of videoconferencing as a means of providing medical and mental health services. It creates an unnecessary burden on efforts to address shortages of behavioral health services in many parts of Arizona.

# **Shortages in Arizona**

To highlight its concerns about availability of supervisors and the shortage of behavioral licensees in rural areas, the Council has created two documents. The first is a spreadsheet entitled "Independent Licensees in PC Statistical Areas." Utilizing the parameters of the Primary Care Statistical Areas established by the Arizona Department of Health Services and the names and zip codes provided by the Board of Behavioral Health Examiners, the spread sheet shows the following:

- 1. Name of each statistical area
- 2. Number of independent licensed Social Worker, LISAC, Marriage and Family Therapist and Professional Counselor in each area
- 3. The total of independent licensees in each area

- 4. The population of the area per independent practitioner
- 5. The County in which each statistical area is located.

The second document is a map entitled "Persons per Licensed Independent Practitioner, by ADHS Primary Care Area." It illustrates each statistical area color coded to indicate the ratio of independent practitioner to numbers of general population. (Note: the spreadsheet and map utilize the primary care statistical areas to present this data since it offered a format with sensitivity to differences within the state and even within large urban areas.) These documents support the Council's contention that in many areas of the state the number of independent licensees available in the area to provide face-to-face supervision is limited. It also demonstrates that large expanses of the state suffer from work force insufficiencies which result in designation as a professional shortage area.

The importance of providing an adequate behavioral health workforce is established by national studies. The NSDUH surveys of 2011 and 2012 place the occurrence of serious mental illness in Arizona's population at 4.60% --almost among the 10 states with the highest incidence (4.66-5.48%). Studies by the CDC of the prevalence of depression and the prevalence of serious psychological distress among adults, places Arizona in the highest range of prevalence.

These are discouraging numbers especially when considered with the shortage of mental health providers. The spreadsheet and map show by raw number and color-coded area the ratio of independent licensees to 6,000 population. This ratio was chosen to reflect the numbers utilized by the Department of Health Services in designating mental health professional shortage areas. In fact, in some areas, where higher levels of poverty exist the ratio may be 4,500 to 1.

The proposed rules place a number of conditions on the delivery of clinical supervision. These include limits on the types of licensed professionals that can provide supervision (R4-6-212 A.), the requirement that 50 of the 100 hours be provided by someone in the same profession (R4-6-404, 4-6-504, 4-6-604 and 4-6-706), the training necessary for supervisors, including a newly required jurisprudence exam and 9 hours for recertification (R4-6-214) and the amount of time in which supervision can be provided in groups (R4-6-212 G.) All of these conditions can be seen as necessary for an appropriate clinical supervision process and the Council concurs with their adoption. But they also add to the burden of finding a qualified supervisor.

The issue of supervisor availability has also been highlighted anecdotally by a survey of Council members in rural areas. A number of organizations have identified associate level practitioners who would like to seek independent licensure but have had difficulty finding supervisors. In those areas with a low ratio of

independent licensees that burden may be insurmountable unless there are technological alternatives offered for the provision of supervision. Even where ratios of the total number of licensees is higher, the dearth of qualified practitioners in a specific profession is a problem. The Council believes that allowing ninety hours of supervision through videoconferencing and telephone contact struck a balance that addressed the needs of the provider shortage areas.

# <u>Use of videoconferencing in the provision of health</u> <u>services</u>

The Board change of the Rules subcommittee recommendation for hours of clinical supervision available through videoconferencing appears to be based on a misunderstanding of the efficacy of the technology. There is ample evidence of its effective use for the delivery of services.

The "Guidance for NARBHA Telemedicine Practices" (Northern Arizona Regional Behavioral Health Authority) contains the following:

"Telepsychiatry is currently one of the most effective ways to increase access to psychiatric care for individuals living in underserved areas. National studies and NAHRBA data have also found that telepsychiatry is as effective as face to face psychiatry for assessment, diagnosis, therapeutic alliance, treatment adherence, and clinical outcomes."

Reviews of its own data indicated that the clinical outcomes of NAHRBA's teleproviders (of over 14,000 encounters) "are as good as or better than outcomes in psychiatric clinics that NARBHA oversees in northern Arizona."

These kinds of findings are not an aberration. Studies have shown the effectiveness of the telehealth delivery model for:

- --the treatment of children with attentiondeficit/hyperactivity disorder\*\*\*
- --delivery of cognitive processing therapy for PTSDix
- --telepsychiatry consults for high-needs children\*
- --treating patients in nonpsychiatric emergency departments.\*

A recently published status update on telemental health found that "taken together, published studies support an expanded role for telepsychiatry tools..."

Telehealth is also playing an expanding role in education and the improvement of the expertise of providers. A prime example is ECHO, a Robert Wood Johnson Foundation supported program at the University of New Mexico School of Medicine. The project's teleEcho clinics were originally developed to treat chronic diseases including mental illness. The model has since expanded to include worldwide programs for both service delivery and education including;

--Community Addictions Recovery Specialists Program to train paraprofessionals to provide clinical support,

education and interventions for patients in addiction recovery

--A Veterans Administration Pilot program providing consultation and training to clinicians to increase knowledge and comfort with treating transgender veterans.\*\*

[Note: Behavioral health service providers who are members of the Council for Human Service Providers endorse the Board's recommendation regarding confidentiality in the provision of telehealth and are capable of complying with those requirements.]

# Conclusion

Videoconferencing has been demonstrated to be a legitimate tool for the provision of mental health services and accompanying education of providers. It is especially important to take advantage of this technology given the demonstrated shortage of available qualified supervisors to provide clinical supervision. To address the Board's concerns regarding the need for face-to-face interaction, the Council, in its proposed language, makes two suggestions. First, it retains the Board's change to limit the amount of telephonic supervision to 15 hours. Second, it requires a face-to-face meeting before videoconferencing supervision proceeds.

<sup>&</sup>lt;sup>1</sup> Cameron, M. P., R. Ray, and S. Sabesan. 2014. 'Physicians' Perceptions Of Clinical Supervision And Educational Support Via Videoconference: A Systematic Review'. *Journal Of Telemedicine And Telecare* 20 (5): 272-281. doi:10.1177/1357633x14537776.

ii Arizona Council of Human Service Providers, "Independent Licensees in PC Statistical Areas", 2015. iii Arizona Council of Human Service Providers, "Persons Per Licensed Independent Practitioner by ADHS Primary Care Area", 2015.

iv Samhsa.gov,. 2014. 'The NSDUH Report: State Estimates Of Adult Mental Illness From The 2011 And 2012 National Surveys On Drug Use And Health'.

http://www.samhsa.gov/data/sites/default/files/sr170-mental-illness-state-estimates-2014/sr170-mental-illness-state-estimates-2014/sr170-mental-illness-state-estimates-2014.htm.

v Cdc.gov,. 2015. 'Mental Illness Surveillance Among Adults In The United States'.

http://www.cdc.gov/mmwr/preview/mmwrhtml/su6003a1.htm.

vi Guidance For NARBHA Telemedicine Practices. 2015. Flagstaff: NARBHA. http://www.narbha.org. vii Guidance For NARBHA Telemedicine Practices. 2015. Flagstaff: NARBHA. http://www.narbha.org. viii Myers, Kathleen, Ann Vander Stoep, Chuan Zhou, Carolyn A. McCarty, and Wayne Katon. 2015. 'Effectiveness Of A Telehealth Service Delivery Model For Treating Attention-Deficit/Hyperactivity Disorder: A Community-Based Randomized Controlled Trial'. Journal Of The American Academy Of Child & Adolescent Psychiatry 54 (4): 263-274. doi:10.1016/j.jaac.2015.01.009.

ix Maieritsch, K. P., T. L. Smith, J. D. Hessinger, E. P. Ahearn, J. C. Eickhoff, and Q. Zhao. 2015. 'Randomized Controlled Equivalence Trial Comparing Videoconference And In Person Delivery Of Cognitive Processing Therapy For PTSD'. *Journal Of Telemedicine And Telecare*. doi:10.1177/1357633x15596109.

<sup>\*</sup> Hilt, Robert J., Rebecca P. Barclay, James Bush, Brenda Stout, Nichole Anderson, and Julia R. Wignall. 2015. 'A Statewide Child Telepsychiatry Consult System Yields Desired Health System Changes And Savings'. *Telemedicine And E-Health* 21 (7): 533-537. doi:10.1089/tmj.2014.0161.

xi Narasimhan, Meera, Benjamin G. Druss, Jason M. Hockenberry, Julie Royer, Paul Weiss, Gretl Glick, Steven C. Marcus, and John Magill. 2015. 'Impact Of A Telepsychiatry Program At Emergency Departments Statewide On The Quality, Utilization, And Costs Of Mental Health Services'. *PS*, appi.ps.2014001. doi:10.1176/appi.ps.201400122.

xil Aboujaoude, Elias, Wael Salame, and Lama Naim. 2015. 'Telemental Health: A Status Update'. World Psychiatry 14 (2): 223-230. doi:10.1002/wps.20218.

xiii Kauth, Michael R., Jillian C. Shipherd, Jan A. Lindsay, Susan Kirsh, Herschel Knapp, and Lexi Matza. 2015. 'Teleconsultation And Training Of VHA Providers On Transgender Care: Implementation Of A Multisite Hub System'. *Telemedicine And E-Health*, 150714072726008. doi:10.1089/tmj.2015.0010.

# ADDITIONAL COMMENTS OF THE COUNCIL OF HUMAN SERVICE PROVIDERS REGARDING THE PROPOSED RULES OF THE BOARD OF BEHAVIORAL HEALTH EXAMINERS

(Reference to Draft of August 11, 2015)

4-6-403, 503, 603 and 705 Supervised Work Experience for Independent Licensure

Proposed Change: R4-6-403 A.

- A. After completing the degree required in R4-6-401B, an An applicant for clinical social worker licensure shall complete a minimum of demonstrate completion of at least 3200 hours of supervised work experience in the practice of clinical social work in no less than 24 months. Supervised work experience in the practice of clinical social work is limited to the use of psychotherapy for the purpose of assessing, diagnosing, and treating individuals, couples, families and groups. The applicant shall ensure that the supervised work experience includes:
  - 1. Supervised work experience in the practice of clinical social work is limited to the use of psychotherapy for the purpose of assessment, diagnosis and treatment of individuals, couples, families and groups. At least 1600 hours of direct client contacts, not more than 400 of hours of which are in psychoeducation.
  - 2. The 3200 hours of supervised work experience in clinical social work shall include a minimum

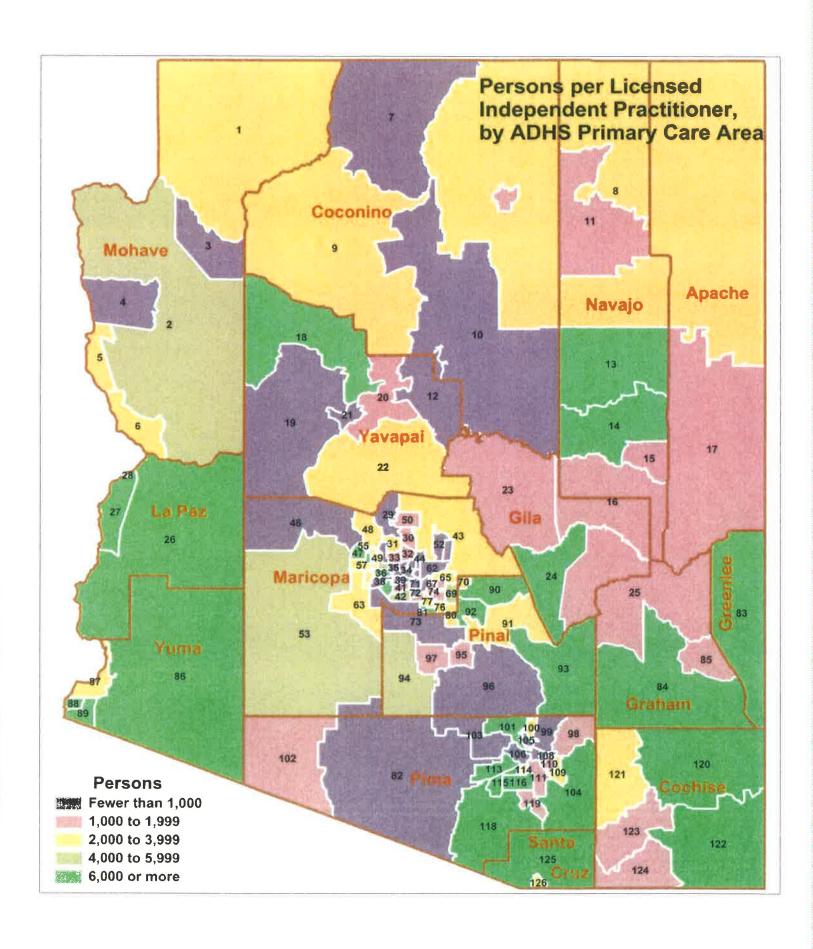
- of 1600 hours of direct client contact. At least 100 hours of clinical supervision as prescribed under R4-6-212 and R4-6-404; and
- 3. For the purpose of licensure, no more than 1600 hours of indirect client services.

# **Explanation of Change**

The rule, as proposed, continues the provision of the existing rule that ALL of the 3200 hours of supervised work experience "is limited to the use of psychotherapy...". This language is inconsistent with the statutory language passed in 2013.

A.R.S. 32-3293 A. (b) as effective on November 1, 2015, provides for supervised work experience of at least 1,600 hours of direct client contact, not more than 1,600 hours of indirect client service and 100 hours of clinical supervision. The definition of "direct client contact" (A.R.S. 32-3251 3) includes the concept of the use of psychotherapy. But the definition of "indirect client services" found in subsection 5 of the same statute contains different elements including training, consultation and functions "in preparation for or on behalf of a client". These are clearly distinguishable from the "treatment" requirements of psychotherapy. The general mandate that all 3200 hours of the supervise work experience be limited to psychotherapy should be removed.

The proposed changes of language found above relate to social workers but the same language should also be removed from 4-6-503 (Counselors), 4-6-603 (MFT) and 4-6-705 (Substance Abuse Counselors).



	PCA_NAME	LCSW	LISAC	LMFT	LPC	Total	Pop2010	Pop per LIC	SqMiles	County
1	COLORADO CITY	1	0	0	2		10,851	3,617	5.072	Mohave
	KINGMAN	4	5	1	4	14	59,182			Mohave
3	HUALAPAI TRIBE	0	1	0	2					Mohave
	GOLDEN VALLEY	4	6	1	4	15	10,475			Mohave
	BULLHEAD CITY	6	9	0	4	19				Mohave
	LAKE HAVASU CITY	4	10	1	8	23	55,549			Mohave
	PAGE	2	5	0	6	13	9,284			Coconino
	NAVAJO NATION	8	18	2	4	32	97,844			Coconino & Navajo & Apache
	GRAND CANYON VILLAGE	1	1	0	2	4	10,091			Coconino
	FLAGSTAFF	43	20	6	52	121	87,419			Coconino
	HOPI TRIBE	1	5	0	2	8	11,581			Coconino & Navajo
2	COTTONWOOD\SEDONA	27	13	4	20	64	61,842			Yavapai & Coconino
3	WINSLOW	0	0	0	0	0		no licensees		Navajo
4	SNOWFLAKE/HEBER	2	0	0	0	2	17,559			Navajo
5	SHOW LOW	7	4	1	8	20	29,346			Navajo
6	WHITE MOUNTAIN APACHE TRIBE	2	3	2	1	8	12,854			Gila & Navajo
7	SPRINGERVILLE/EAGER	0	1	3	5	9	17,870			Apache
8	CHINO VALLEY	0	0	0	0	0		no licensees		Yavapai
9	WILLIAMSON	11	7	3	10	31	12,391	400		Yavapai
0	PRESCOTT VALLEY	9	6	7	17	39	55,829			Yavapai
1	PRESCOTT	36	20	9	45	110	48,081			Yavapai
2	BLACK CANYON CITY	0	0	1	5	6	12,546	2,091		Yavapai
3	PAYSON	7	5	1	8	21	27,157		2,107	
4	GLOBE	1	2	0	0	3	19,474		845	
5	SAN CARLOS APACHE TRIBE	0	6	o	3	9	10,068			Gila & Graham
3	QUARTZSITE	0	0	0	0	0		no licensees		La Paz
7	COLORADO RIVER INDIAN TRIBE	0	0	0	o	0	3.997	no licensees		La Paz
3	PARKER	1	5	0	6	12	3,080	257		La Paz
	NORTH GATEWAY/RIO VISTA VILLAGE	5	3	2	17	27	24,664			Maricopa
	DESERT VIEW VILLAGE	16	4	3	10	33	45,724			Maricopa
1	DEER VALLEY VILLAGE	21	9	2	25	57	164,922	2,893		Maricopa
2	PARADISE VALLEY VILLAGE	41	11	13	56	121	168,474	1,392		Maricopa
3	NORTH MOUNTAIN VILLAGE	36	16	4	60	116	160,602	1,385		Maricopa
	CAMELBACK EAST VILLAGE	143	73	9	136	361	134,104	371		Maricopa
	ALHAMBRA VILLAGE	129	65	14	137	345	128,838	373		Maricopa
	MARYVALE VILLAGE	7	4	0	9	20	199,814	9,991		Maricopa
	ENCANTO VILLAGE	34	9	2	31	76	55,617	732		Maricopa
	ESTRELLA VILLAGE & TOLLESON	24	25	7	52	108	92,030			Maricopa
	CENTRAL CITY VILLAGE	56	36	3	65	160	57,982	362		Maricopa

	PCA_NAME	LCSW	LISAC	LMFT	LPC	Total	Pop2010	Pop per LIC	SqMiles	County
40	LAVEEN VILLAGE	0	3	0	0	3	49,568	16,523	32	Maricopa
41	SOUTH MOUNTAIN VILLAGE & GUADALUPE	28	10	0	40	78	116,077			Maricopa
42	AHWATUKEE FOOTHILLS VILLAGE	3	1	0	12	16				Maricopa
43	SCOTTSDALE NORTH	13	6	2	14	35	71,332			Maricopa
44	SCOTTSDALE CENTRAL	51	17	14	72	154	87,126			Maricopa
45	SCOTTSDALE SOUTH	33	22	10	55	120	59,637	497		Maricopa
46	SURPRISE NORTH & WICKENBURG	6	18	2	33	59	23,953	406		Maricopa
47	SURPRISE SOUTH	9	2	1	6	18	109,372	6,076		Maricopa
48	PEORIA NORTH	12	5	1	11	29	80,006			Maricopa
49	PEORIA SOUTH	15	5	2	17	39	80,688			Maricopa
50	NEW RIVER/CAVE CREEK	2	4	1	10	17	21,867	1,286		Maricopa
51	ANTHEM	4	1	5	3	13	21,700		8	Maricopa
52	FOUNTAIN HILLS/RIO VERDE	12	3	2	13	30	27,605		74	Maricopa
53	BUCKEYE	2	4	2	8	16	73,056		4.479	Maricopa
54	FORT MCDOWELL YAVAPAI NATION	0	1	0	0	1	971	971		Maricopa
55	SUN CITY WEST	4	0	1	8	13	26,612		13	Maricopa
	GLENDALE NORTH	48	28	15	64	155	121,841	786	32	Maricopa
57	GLENDALE WEST	8	1	0	9	18	39,578		53	Maricopa
58	GLENDALE CENTRAL	4	8	0	10	22	92,245		17	Maricopa
59	SUN CITY	6	3	4	5	18	42,803		16	Maricopa
	EL MIRAGE & YOUNGTOWN	0	0	0	1	1	38,089		13	Maricopa
	PARADISE VALLEY	5	3	1	10	19	13,254			Maricopa
62	SALT RIVER PIMA-MARICOPA INDIAN COMMUNITY	7	5	3	21	36	6,293			Maricopa
	GOODYEAR & LITCHFIELD PARK	8	2	4	13	27	76,539			Maricopa
	AVONDALE	10	6	6	13	35	81,165		29	Maricopa
	MESA NORTH	6	6	4	25	41	98,967	2,414	54	Maricopa
	MESA WEST	56	38	9	62	165	124,245	753	24	Maricopa
	MESA CENTRAL	15	8	2	25	50	87,025			Maricopa
	MESA EAST	19	15	4	25	63	74,192	1,178		Maricopa
	MESA GATEWAY	5	4	2	7	18	96,443	5,358		Maricopa
	APACHE JUNCTION	6	5	1	10	22	45,920	2,087		Maricopa & Pinal
	TEMPE NORTH	71	39	8	100	218	107,096	491		Maricopa
	TEMPE SOUTH	27	13	8	45	93	53,371	574		Maricopa
	GILA RIVER INDIAN COMMUNITY	25	29	2	17	73	11,765	161	587	Maricopa & Pinal
	GILBERT NORTH	22	9	4	33	68	74,829	1,100	18	Maricopa
	GILBERT CENTRAL	16	3	4	26	49	83,510	1,704		Maricopa
	GILBERT SOUTH	15	1	1	3	20	55,307	2,765		Maricopa
	CHANDLER CENTRAL	11	10	2	25	48	108,990	2,271		Maricopa
78	CHANDLER NORTH	17	8	7	27	59	79,580	1,349		Maricopa

	PCA_NAME	LCSW	LISAC	LMFT	LPC	Total	Pop2010	Pop per LIC	SqMiles	County
79	CHANDLER SOUTH	2	1	0	4	7	52,708	7,530		Maricopa
80	QUEEN CREEK	3	2	0	7	12	32,431	2,703	61	Maricopa & Pinal
81	SUN LAKES	4	2	1	8					Maricopa
82	TOHONO O'ODHAM NATION	2	8	1	1	12				Maricopa & Pima
83	MORENCI	0	0	0	0	0	8,437	no licensees	1,851	Greenlee
84	THATCHER	0	2	0	0	2	19,173	9,587	2,580	Graham
85	SAFFORD	1	0	1	5	7	13,267	1,895	366	Graham
86	FORTUNA FOOTHILLS	0	0	0	1	1	33,528	33,528	5,162	Yuma
87	YUMA	19	15	1	14	49	112,653	2,299	192	Yuma
88	SOMERTON	0	0	0	0	0	15,965	no licensees	43	Yuma
89	SAN LUIS	0	2	0	1	3	33,605	11,202	126	Yuma
90	GOLD CANYON	0	0	0	2	2	14,198	7,099	354	Pinal
	FLORENCE	1	4	0	8	13	37,531	2,887	585	Pinal
	SAN TAN VALLEY	1	0	0	1	2	85,763	42,882	152	Pinal
	SADDLEBROOKE	2	1	0	0	3	20,418	6,806	1,230	Pinal
94	MARICOPA	3	2	0	7	12	53,081	4,423	814	Pinal
95	COOLIDGE	3	3	1	5	12	16,225			Pinal
96	ELOY	12	18	1	15	46	36,713	798	1,418	Pinal
97	CASA GRANDE	6	24	3	15	48	57,701	1,202	200	Pinal
98	TANQUE VERDE	3	5	0	5	13	16,641	1,280	285	Pima
99	CATALINA FOOTHILLS	26	8	8	36	78	60,106	771	176	Pima
100	ORO VALLEY	10	3	0	8	21	43,925	2,092	48	Pima
101	MARANA	0	0	0	0	0	52,641	no licensees		Pima
102	AJO	0	0	1	1	2	3,523		1,535	Pima
103	PICTURE ROCKS	7	7	0	11	25	10,490	420	402	Pima
	VAIL	0	0	1	1	2	18,646	9,323		Pima
105	CASAS ADOBES	34	23	5	55	117	66,729	570	28	Pima
106	TUCSON WEST	17	13	2	22	54	38,066	705	76	Pima
107	TUCSON CENTRAL	91	55	6	91	243	125,542	517	28	Pima
108	TUCSON FOOTHILLS	104	33	11	105	253	95,730	378	24	Pima
109	TUCSON SOUTH EAST	7	3	2	6	18	50,122	2,785	64	Pima
110	TUCSON EAST	18	12	5	19	54	93,251	1,727	38	Pima
	TUCSON SOUTH	88	33	3	38	162	165,301	1,020	114	Pima
112	FLOWING WELLS	12	12	5	20	49	17,391	355	4	Pima
113	TUCSON ESTATES	1	1	0	0	2	14,542	7,271	145	Pima
114	DREXEL HEIGHTS	4	4	0	2	10	26,306	2,631	16	Pima
	VALENCIA WEST	0	0	0	1	1	16,659		82	Pima
	SAN XAVIER	0	0	0	0	0		no licensees		Pima
117	PASCUA YAQUI TRIBE	5	15	0	9	29	3,484		2	Pima

PCA_ID	PCA_NAME	LCSW	LISAC	LMFT	LPC	Total	Pop2010	Pop per LIC	SqMiles	County
118	GREEN VALLEY	1	0	0	0	1	24,774			Pima
119	SAHUARITA	8	2	0	11	21	27,335	1,302	103	Pima
120	WILLCOX & BOWIE	0	0	1	0	1	12,440	12,440	2,051	Cochise
	BENSON	1	1	0	3	5	12,520	2,504	923	Cochise
122	DOUGLAS & PIRTLEVILLE	0	2	0	1	3	25,423			Cochise
123	SIERRA VISTA	16	3	1	16	36	58,208	1,617	719	Cochise
	BISBEE	8	2	1	8	19	22,755			Cochise
125	RIO RICO	1	2	0	0	3	25,378	8,459	1,201	Santa Cruz
126	NOGALES	0	4	0	2	6	22,042	3,674	37	Santa Cruz
	Arizona Tota	l: 1,811	1,080	296	2,259	5,446	6,392,017		114,028	



### STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

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DATE:

December 8, 2015

TO:

Representative Justin Olson, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director

FROM:

Matt Gress, Senior Fiscal Analyst MA

Micaela Larkin, Senior Fiscal Analyst ML Matt Beienburg, Fiscal Analyst MB

SUBJECT:

Arizona Board of Regents - Review of FY 2016 Tuition Revenues

### Request

Pursuant to a FY 2016 General Appropriation Act footnote, the Arizona Board of Regents (ABOR) requests Committee review of its expenditure plan for tuition revenue amounts greater than the amounts appropriated by the Legislature, and all non-appropriated tuition and fee revenue expenditures for the current fiscal year.

### Recommendation

The Committee has at least the following 2 options:

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

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

A. By January 31, 2016, ABOR shall report the major changes by campus between its total combined General Fund and Tuition and Fees budget in FY 2015 and FY 2016. Given the current format of this report, it is difficult to determine the campuses' main changes in overall FY 2016 spending. While this report delineates the tuition changes by campus, it would be useful to know how the FY 2016 General Fund reductions interact with the tuition increases.

Total FY 2016 tuition and fee collections are projected to be \$2.13 billion, or \$287.7 million higher than FY 2015. Of the \$2.13 billion, \$1.18 billion is appropriated while \$948.3 million is non-appropriated. Statute

(Continued)

allows the universities to retain a portion of tuition collections for expenditures, as approved by ABOR pursuant to A.R.S. § 15-1626A. These "locally" retained tuition monies are considered non-appropriated. Any remaining tuition collections are part of the appropriated budget. While Financial Aid and Debt Service are primarily non-appropriated, general operating expenses appear in both appropriated and non-appropriated budgets.

In the FY 2016 Baseline, the JLBC Staff recommended that the Legislature consider appropriating all or none of tuition in order to make tuition collections more transparent. This change was not included in the FY 2016 budget, but could be considered again in discussions on the FY 2017 budget. If the Legislature decides to continue the existing split between appropriated and locally retain tuition collections, the JLBC Staff recommends that all tuition collections, regardless of appropriation status, be self-contained in its own fund rather than comingled with monies from other sources (e.g., unrestricted gifts or grants) as is done currently. The JLBC Staff will continue to work with ABOR and the Governor's Office of Strategic Planning and Budgeting to determine the technical issues associated with changing the current tuition appropriation structure.

# **Analysis**

Table 1 shows ABOR changes to resident and non-resident undergraduate tuition for FY 2016.

ABOR approved a rate of \$26,584 for international undergraduate students at ASU.

Table 1	able 1 Arizona University System  FY 2016 Undergraduate and Graduate Tuition <sup>1/</sup>								
	Resid <u>Undergr</u>		<u>Resident</u>	<u>Graduate</u>	Non-Res <u>Undergra</u>			esident duate	
ASU	<u>Tuition</u> \$10,478 <sup>2/</sup>	Increase 3.2%	<u>Tuition</u> \$11,604	Increase 2.8%	<u>Tuition</u> \$25,458 <sup>3/</sup>	Increase 3.9%	<u>Tuition</u> \$27,760	Increase 3.9%	
NAU	\$10,358	3.7%	\$9,606	4.8%	\$23,348	3.7%	\$21,244	4.9%	
UA	\$11,403	4.1%	\$12,048	2.8%	\$32,630	10.9%	\$30,370	5.8%	
tui 2/ AS	Reflects tuition rates for new students at NAU and UA and all classes at ASU. NAU and UA provide a guaranteed tuition rate for each incoming class whereas ASU does not.								

Table 2 displays FY 2015 and FY 2016 General Fund and tuition/fee monies for the Arizona University System. Higher tuition and fees, along with enrollment growth, are estimated to generate a total collection of \$2.13 billion in tuition/fee monies, which represents a \$287.7 million increase compared to FY 2015. The tuition increases offset a \$(107.6) million reduction in General Fund support. That reduction included \$(99.0) million for operational reductions across the university system, \$(6.1) million for statewide health adjustments, and \$(2.5) million for savings from research infrastructure refinancing.

In total, General Fund and tuition/fee resources will increase by \$180.1 million, or 7.0%, from \$2.59 billion in FY 2015 to \$2.77 billion in FY 2016 after the tuition/fee increase. During that same time period, overall fall semester student enrollment grew by 7.7%, from 146,930 in fall 2014 to 158,194 in fall 2015.

Table 2		na University System I and Tuition/Fee Reven (in Millions)	ues	
	FY 2015	FY 2016 After Tuition Increase	\$ Change	% Change
<u>Appropriations</u>				
General Fund	\$ 746.5	\$ 638.9	\$(107.6)	(14.4)%
Tuition/Fees				
Appropriated	1,065.2	1,181.7	116.5	11.0%
Non-Appropriated	777.1	948.3	171.2	22.0%
Subtotal Tuition/Fees	\$1,842.3	\$2,130.0	\$ 287.7	15.6%
Total	\$2,588.8	\$2,768.9	\$ 180.1	7.0%
ASU	1,353.2	1,470.3	117.1	8.7%
NAU	349.0	359.5	10.5	3.0%
UA	886.6	939.1	52.5	5.9%

# **Appropriated Tuition**

Table 3 shows the increase of \$118.2 million in additional FY 2016 appropriated tuition by campus. Arizona State University (ASU) accounts for \$44.6 million of the increase; Northern Arizona University (NAU), \$12.4 million; and University of Arizona (UA) accounts for \$61.1 million.

Change in FY 2016 Appropriated Tuition/Fees After Tuition Increase Compared to the FY 2016 Budgeted Appropriation by Campus						
<u>Campus</u>	FY 2016 Budgeted Appropriation	Additional Tuition 1/	FY 2016 After <u>Tuition Increase</u> 1/			
ASU-Tempe/DPC	\$ 516,159,000	\$ 35,061,900	\$ 551,220,900			
ASU-East	29,466,500	6,256,400	35,722,900			
ASU-West	40,917,600	3,323,800	44,241,400			
ASU Subtotal	\$ 586,543,100	\$44,642,100	\$ 631,185,200			
NAU	132,857,500	12,429,100	145,286,600			
UA-Main	300,783,000	60,366,600	361,149,600			
UA-Health Sciences Center	43,315,600	738,200	44,053,800			
UA Subtotal	344,098,600	\$ 61,104,800	\$ 405,203,400			
Total	\$1,063,499,200	\$118,176,000	\$1,181,675,200			

The universities reported the following plans for the incremental \$118.2 million:

- ASU plans to use its \$44.6 million increase for funding investments in attracting and retaining faculty and staff, more faculty and student services to address enrollment growth, benefit and health insurance costs, and institutional support for instructional and infrastructure expenses.
- NAU will primarily spend its \$12.4 million increase on instructional support, although \$3.0 million has been allocated for attracting and retaining faculty and staff, and \$1.0 million has been allocated for research.
- UA plans to spend \$21.1 million of the \$61.1 million increase for recruitment, retention, and support of faculty/staff, \$16.3 million for academic expenses (e.g., class instructors and academic support services) associated with higher student enrollment, and \$6.0 million for building renewal. Additionally, \$5.9 million will be set aside as reserve funding for the UA's Tuition Guarantee program. The remaining \$11.8 million be used for other academic, institutional, and facility uses.

Table 4 provides information on the uses of additional appropriated tuition revenues by university.

Table 4	Appropriated Tuition/Fee Revenues Use of Additional Funds by	University
		\$ in Millions
ASU	Faculty Hiring and Academic Support	\$ 11.8
	Enrollment Growth (more faculty, student services)	10.0
	Unfunded Base Benefit Costs	7.5
	Information Technology Infrastructure and Other Investments	6.0
	Investments in Programs Supported by Student Fees	5.9
	Offset General Fund Reduction for Health Insurance Costs	3.4
	ASU Subtotal	\$ 44.6
NAU	Online Education/Technology Infrastructure Investments	\$ 3.0
	Faculty and Staff Recruitment and Retention	3.0
	Undergraduate Enrollment Growth and Course Support	2.9
	Allied Health Care Programs Continuation and Expansion	2.5
	Research Enterprise Investment NAU Subtotal	1.0 \$ 12.4
114		\$ 21.1
UA	Faculty and Staff Investment Enrollment Growth Related Expenditures	\$ 21.1 16.3
	Building Renewal	6.0
	Tuition Guarantee Commitment Reserve	5.9
	Institutional and Facility Operational Costs	5.5
	Student Engagement & Recruitment	3.4
	Online Instruction	2.0
	College of Medicine	0.9
	UA Subtotal	\$ 61.1
	Total	\$118.2 <sup>1</sup>
1/ The	subtotals do not add due to rounding.	

# Non-Appropriated Tuition

While the General Appropriation Act requires Committee review of <u>the increase in appropriated tuition</u>, the legislation also requires review of <u>total non-appropriated tuition</u> spending.

Non-appropriated locally retained tuition and fees for FY 2016 are estimated at \$948.3 million, \$171.2 million higher than FY 2015. *Table 5* shows that of the \$171.2 million increase in non-appropriated tuition and fees, ASU accounts for \$132.4 million; NAU, \$15.5 million; and UA, \$23.3 million. Of the \$948.3 million amount, about \$546.3 million will be spent on financial aid, \$278.3 million on operating budgets, \$97.8 million on debt service, and \$25.8 million on plant funds.

Table 5			
Change in FY 20		n/Fees After Tuition Increas	e Compared to
	FY 2015 Non-Appropriated	l Tuition/Fees by Campus	
	FY 2015		FY 2016 After
Campus	Non-Appropriated	<b>Additional Tuition</b>	<b>Tuition Increase</b>
ASU-Tempe/DPC	\$356,195,300	\$115,729,800	\$471,925,100
ASU-East	30,407,200	7,561,500	37,968,700
ASU-West	29,966,800	9,123,900	39,090,700
ASU Subtotal	\$416,569,300	\$132,415,200	\$548,984,500
NAU	97,816,700	15,460,700	113,277,400
UA-Main	259,014,900	22,853,500	281,868,400
UA-Health Sciences Center	3,665,500	464,300	4,129,800
UA Subtotal	\$262,680,400	\$23,317,800	\$285,998,200
Total	\$777,066,400	\$171,193,700	\$948,260,100

Table 6 details the broad uses of the additional non-appropriated tuition revenues by university.

		\$ in Millions
ASU	Local Support for Operating Expenses	\$ 80.1
	Financial Aid	43.0
	Plant Fund	3.0
	Debt Service	6.3
	ASU Subtotal	\$132.4
UAI	Local Support for Operating Expenses	\$ 1.0
	Student Recreation and Intramurals	(0.4)
	Financial Aid	18.2
	Plant Fund	(1.4)
	Debt Service	(2.0)
	NAU Subtotal	\$ 15.4
JA	Local Support of Operating Expenses	\$ 4.8
	Financial Aid	20.7
	Plant Fund	(1.3)
	Debt Service	(0.8)
	UA Subtotal	\$ 23.3
	Total	\$171.2 1/

RS/MG/ML/MB:kp



June 30, 2015

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



Dear Representative Olson:

A footnote included in the General Appropriations Act requires that the Arizona Board of Regents report to the Joint Legislative Budget Committee projected fiscal year 2016 tuition revenue amounts which differ from the fiscal year 2016 appropriation and the amount of projected tuition and fee revenues to be retained locally by the universities.

Enclosed is the summary report of projected tuition revenues that support the fiscal year 2016 state operating budget as approved by the Board at its June, 2015 meeting. The approved projection is \$118.2 million in tuition and fees revenues above the appropriation. The difference can be attributed to a combination of increased projected student enrollments and the tuition and fee rate increases approved by the Board of Regents in May, 2015.

The total base tuition and mandatory fee revenue estimate for fiscal year 2016 presented in this report is \$2.1 billion. These revenues are allocated between state appropriated funds and the universities' local funds as shown on the attached schedules.

Given the growing importance of tuition to university operating budgets, the Board has taken several steps to increase tuition setting transparency and to ensure accountability from our universities in the use of those proceeds. Tuition and fee setting decisions are made after a deliberative process that considers each university's operational and financial status, their strategic goals, the amount of state support provided to the university system, the availability of student financial aid, the median of tuition and mandatory fees charged by the university's peers, other student fees and charges established by the university, the cost of university attendance, revenues required to service bonded indebtedness, Arizona's median family income levels, as well as evidence of student consultation.

The Board has required each university to establish and maintain a mission-differentiated strategic academic and business plan that ties to a set of goals and outcomes established for Arizona's public university system and our state.. Tuition is analyzed in context with these plans to ensure that the universities have the resources they need while maintaining student access and advancing educational obtainment. The Board has also strengthened

#### REGENTS

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the tuition and fee setting process by conducting a public tuition work session to allow the Board to engage in in-depth discussions of proposed tuition and fee changes, increase student involvement and determine what additional academic enhancements will be created that cannot otherwise be generated absent additional revenues.

To improve the predictability of tuition costs, each university also now has a version of a "tuition guarantee" plan that provides a more stable framework for students and families planning for higher education:

- The University of Arizona's Guaranteed Tuition Plan allows students eight
  consecutive semesters at the same tuition rate, and starting this fall extended the
  guarantee to include mandatory fees and some master degree programs. This not
  only gives incoming students and families fiscal predictability -- but it also
  encourages faster graduation rates, saving families money in the long run.
- Arizona State University, for the second year in a row has <u>not</u> increased resident undergraduate tuition for the 2015-16 academic year, and has committed to keep tuition increases between zero and 3 percent per year for the next decade.
- Northern Arizona University's Pledge Program, now in its seventh year, continues
  to provide assurances for students and families on tuition predictability. NAU has
  established many options with traditional campus settings, online, hybrid courses,
  branch campuses and the personalized learning program, further increasing access
  and an affordable education.

Finally, we would be remiss if we did not comment directly on the important connection between the price of tuition and the level of state support. State support of our public universities is presently at a lower point than during the Great Recession, despite greater-than-ever economic need for a highly educated workforce. While our universities have responded by diversifying their revenues sources to mitigate the impacts on tuition, securing a sufficient level of funding support for Arizonans who seek a college education has taken on an urgent imperative. We are buoyed by Governor Ducey's call to us to develop a refreshed strategic plan to meet the future needs of the state, including our funding model.

While we recognize that the state will likely remain a limited investor in years to come, we look forward to working with you as we seek to better define the funding relationship between the state and the public universities so that we can meet the needs of students and uphold the constitutional tenets to which we are mutually bound.

Sincerely,

Eileen I. Klein

President

# ARIZONA UNIVERSITY SYSTEM TUITION AND FEES IN SUPPORT OF THE 2015-16 STATE OPERATING BUDGET

	S	TATE COLLECTIONS	
	AS REPORTED IN THE 2015-16 ANNUAL OPERATING BUDGET APPROVED ABY ABOR	2015-16 APPROPRIATIONS REPORT - UNIVERSITY COLLECTIONS FUND	CHANGE
Arizona State University Tempe/DT	551,220,900	516,159,000	35,061,900
Arizona State University Polytechnic	35,722,900	29,466,500	6,256,400
Arizona State University West	44,241,400	40,917,600	3,323,800
TOTAL ASU	631,185,200	586,543,100	44,642,100
Northern Arizona University	145,286,600	132,857,500	12,429,100
University of Arizona	361,149,600	300,783,000	60,366,600
University of Arizona Health Sciences Center	44,053,800	43,315,600	738,200
TOTAL UA	405,203,400	344,098,600	61,104,800
TOTAL	1,181,675,200	1,063,499,200	118,176,000

Total State Collections (1)	1,181,675,200
Total Local Collections (tuition & program fee revenue locally retained)	948,260,100

<sup>(1)</sup> Includes misc. revenues such as federal agriculture payments, a portion of summer session, land grant fund monies, and other misc. revenues.

# ARIZONA STATE UNIVERSITY

# FY 2016 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES INITIAL ALL FUNDS BUDGET (ANNUAL OPERATING BUDGET) vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Annual Operating Budget Report	631,185,200	548,984,500
Collections As Reported in the FY 2016 Appropriations Report	586,543,100	
Base Collections Increase/(Decrease) from FY 2016 Appropriations Report	44,642,100	548,984,500
ALLOCATIONS BY PROGRAM		
All Programs		
Offset General Fund Reduction for Health Insurance Costs Adjustment	3,402,200	
Unfunded Base Benefit Costs	7,472,500	
Instruction		
Investments in Programs Supported by Fees	5,896,100	
Investments in Faculty Hiring and Academic Support	11,811,400	33,469,600
Online Programs, ASU		127,096,400
Overseas Study Abroad Program Costs		2,482,800
Local Account Operating Support		9,764,600
Organized Research		
Public Service		
Local Account Operating Support		346,800
Academic Support		
Enrollment Growth - Related Expenses	10,034,400	
Information Technology Infrastructure and Other Investments	6,025,500	
Local Account Operating Support		822,000
Student Services		
Local Account Operating Support		6,237,900
Institutional Support		
Local Account Operating Support		698,400
Scholarships/Fellowships/Financial Aid		
Financial Aid		290,890,700
Auxiliary Enterprises		
Auxiliary Operating Support		1,956,300
Debt Service		
Debt Service Payments		55,219,000
Plant Funds		
Minor Capital Projects		20,000,000
	44,642,100	548,984,500

# 2015-16 LOCALLY RETAINED COLLECTIONS

# ARIZONA STATE UNIVERSITY - TEMPE/DOWNTOWN CAMPUS

		BUDGET	INCREASE/	BUDGET
		2014-15	(DECREASE)	2015-16
	Academic Units	248,500	27,700	276,2
	American English and Cultural Program - ITA	87,500	0	87,5
	Associated Students - ASASU	859,100	0	859,1
D E	Child & Family Services	62,700	0	62,7
	Constituent Advocacy	124,500	0	124,5
	Distance Learning Technology	970,200	0	970,2
	EdPlus at ASU Investments	0	4,673,400	4,673,4
	Education Learning and Accountability Fund	357,100	20,200	377,3 182,2
	Environmental Health & Safety	182,200	0	144,0
	Federal Direct Loan Administration	144,000	0	307,9
S	Fine Arts Activities	307,900	0	605,9
Ġ	Fine Arts Theatres	605,900	0	106,1
N	Forensics	106,100	0	371,8
A	Graduate Support Program	371,800	0	35,7
T E	Interpreters Theatre	35,700 138,000	0	138,0
5	Intercampus Shuttle Services	22,000	0	22,0
	KASR Radio	312,000	0	312,0
	Library Support	20,770,800	12,698,800	33,469,6
	Local Support for Academic/Administrative Units	141,900	12,030,000	141,9
	Mona Plummer Aquatic Center	48,316,400	48,978,800	97,295,2
	Online Programming	2,100,400	0	2,100,4
	Overseas Study Abroad Program	176,800	o	176,8
	Special Events	228,800	o	228,8
	Student Affairs Initiatives	351,000	o	351,0
	Student Financial Assistance Administration	1,191,000	٥	1,191,0
	Student Recreation/Intramurals	335,200	0	335,2
	Summer Bridge Program	16,575,200	2,934,000	19,509,2
	Teaching Assistant Tuition Benefit	113,800	2,007,000	113,8
	University Minority Culture Program	83,000	o	83,0
	Sustainability Zero Waste Initiative Employee Benefit Adjustments/Contingencies	166,000	٥	166,0
	Subtotal Designated	95,485,500	69,332,900	164,818,4
A		4 400 200	0	1,129,2
U A	Memorial Union	1,129,200	"	827,
1 %	Recreational Sports	827,100 1,956,300	0	1,956,3
г.]	Subtotal Auxiliary	1,930,500		1,000,
	Total Operating Funds	97,441,800	69,332,900	166,774,
$\neg$	Regents Financial Aid Set-Aside	88,223,900	14,174,800	102,398,
	Other F.A Institutional FA	93,635,300	22,333,700	115,969,0
	Other Financial Aid - CRESMET/CONACY/NEEP	308,200	0	308,
F	CONACYT Fellowship Program	122,500	0	122,
	Other F.A Graduate Scholars Program	507,600	0	507,
	Other F.A - School of Engineering Program	1,760,000	0	1,760,0
i I	Graduate Fellowship Program	1,522,700	0	1,522,
N	Student Technology Fee FA Set-Aside	1,462,000	47,000	1,509,
A I D	College of Business FA Set-Aside	1,366,700	(10,300)	1,356,4
	School of Engineering FA Set-Aside	1,009,500	392,400	1,401,
	Health Solutions FA Set-Aside	802,200	21,800	824,
	Walter Cronkite School of Journalism FA Set-Aside	117,300	32,300	149,6
	College of Law FA Set-Aside	1,368,700	12,600	1,381,
	College of Liberal Arts FA Set-Aside	974,200	7,700	981,
	College of Nursing FA Set-Aside	698,800	39,800	738,
	Subtotal Financial Aid	193,879,600	37,051,800	230,931,
	Plant Fund - Minor Capital Projects	16,000,000	3,000,000	19,000,
	Debt Service	48,873,900	6,345,100	55,219,0

# 2015-16 LOCALLY RETAINED COLLECTIONS

# ARIZONA STATE UNIVERSITY - POLYTECHNIC CAMPUS

		BUDGET 2014-15	INCREASE/ (DECREASE)	BUDGET 2015-16
	AFOR III III III Anistanta	8,000	0	8,0
	AECP - International Teaching Assistants	78,200	o	78,2
	Associated Students - ASU		0	48,9
	Career Services	48,900	0	5,7
	Child & Family Services	5,700		
	Constituent Advocacy	11,000	0	11,0
	Dining Services Management	38,000	0	38,0
	Distance Learning Technology	88,300	0	88,3
	EdPlus at ASU Investments	0	857,800	857,8
- 1	Education Learning and Accountability Fund	29,000	1,600	30,6
	Environmental Health & Safety	16,100	0	16,
	Federal Direct Loan Administration	13,100	0	13,1
	Graduate Support Program	16,200	0	16,2
	Intercampus Shuttle Services	36,000	0	36,0
ь	Learning Communities	6,500	0	6,5
Ē	Library Support	28,400	0	28,4
S	Online Programming	12,408,700	3,522,700	15,931,4
1	Overseas Study Abroad Program	170,600	0	170,6
G	Student Affairs Initiatives	20,800	0	20,6
N A	Student Counseling	5,000	0	5,0
î l	Student Financial Assistance Administration	31,900	0	31,9
E	Student Health Services	225,000	0	225,0
D	Student Organizations	21,000	0	21,0
	Student Orientation and Forums	10,600	0	10,6
	Student Recreation/Intramurals	1,050,800	0	1,050,8
	Student Union/Activities	558,700	0	558,7
	Teaching Assistant Tuition Benefit	270,700	19,100	289,8
	University Minority Cultural Program	5,300	0	5,3
	Sustainability Zero Waste Initiative	7,300	0	7,3
	Employee Benefit Adjustments/Contingencies	14,600	0	14,6
	Subtotal Designated	15,224,400	4,401,200	19,625,6
A	Subtotal Designated	1	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
U X I Y I A R	Subtotal Auxiliary	0	0	
	Total Operating Funds	15,224,400	4,401,200	19,625,0
_	Regents Financial Aid Set-Aside	7,550,900	1,459,700	9,010,0
F	Other F.A Institutional FA	7,509,700	1,700,600	9,210,
N	Other Financial Aid - CRESMET/CONACY/NEEP	28,000	0	28,1
	CONACYT Fellowship Program	5,400	0	5,
A	Other F.A Graduate Scholars Program	22,200	0	22,
D	Graduate Fellowship Program	66,600	0	66,
	Subtotal Financial Aid	15,182,800	3,160,300	18,343,
	Plant Fund			
	Debt Service			
	Debt del Aice			
	CAL RETENTION	30,407,200	7,561,500	37,968,

# 2015-16 LOCALLY RETAINED COLLECTIONS

# ARIZONA STATE UNIVERSITY - WEST CAMPUS

		BUDGET 2014-15	INCREASE/ (DECREASE)	BUDGET 2015-16
-1	Academic Affairs	5,200	0	5,2
	AECP - International Teaching Assistants	10,000	0	10,0
	Associated Students - ASU	98,300	0	98,3
	ASU West Commencement	15,000	0	15,0
	ASUW Fine Arts Program	60,000	0	60,0
	Campus Environment Team	4,800	0	4,8
	Child and Family Services	7,200	0	7,2
	Constituent Advocacy	14,500	0	14,5
1	Distance Learning Technology	111,000	0	111,0
	EdPlus at ASU Investments	0	746.800	746,8
	Education Learning and Accountability Fund	36,000	2,000	38,0
D	_	21,300	0	21,3
Ē	Environmental Health & Safety	16,500	0	16,5
s	Federal Direct Loan Administration		0	51,4
.1	Graduate Support Program	51,400	0	3,0
G	Honors College	3,000		35,7
N A	Library Support	35,700	0	-
Ŷ	Online Programming	8,280,500	5,589,300	13,869,8
Ė	Overseas Study Abroad Program	211,800	0	211,8
D	Special Events	20,000	0	20,0
	Student Affairs Initiative	26,200	0	26,2
	Student Financial Assistance Administration	40,100	0	40,1
	Student Recreation/Intramurals	765,700	0	765,7
	University Minority Cultural Program	7,100	0	7,1
	University Recycling Program	9,700	0,	9,7
	Student Forum/Government	65,000	0	65,0
	Teaching Assistant Tuition Benefit	562,000	1,000	563,0
		1		
	*1			
	Subtotal Designated	10,497,400	6,339,100	16,836,50
A U X I L	Subtotal Designated	10,497,400	6,339,100	16,836,5
U X I L	Subtotal Designated  Subtotal Auxillary			16,836,5
U X I L I A R	Subtotal Auxillary	o	0	
U X I L I A R	-	0 10,497,400	0	16,836,\$
U X I L I A R	Subtotal Auxillary	0 10,497,400 8,785,100	0 0 6,339,100 1,210,900	16,836, <sup>5</sup> 9,996, <sup>6</sup>
U X I L I A R	Subtotal Auxillary  Total Operating Funds	0 10,497,400 8,785,100 9,251,200	0 6,339,100 1,210,900 1,573,900	16,836,5 9,996,6 10,825,
U X I L I A R Y	Subtotal Auxillary  Total Operating Funds  Regents Financial Aid Set-Aside	0 10,497,400 8,785,100 9,251,200 35,200	0 6,339,100 1,210,900 1,573,900 0	16,836,5 9,996,6 10,825, 35,2
U X I L I A R Y	Subtotal Auxillary  Total Operating Funds  Regents Financial Aid Set-Aside Other F.A Institutional FA	0 10,497,400 8,785,100 9,251,200 35,200 100,000	0 6,339,100 1,210,900 1,573,900 0	16,836,5 9,996,6 10,825, 35,2 100,6
U X I L I A R Y	Subtotal Auxillary  Total Operating Funds  Regents Financial Aid Set-Aside Other F.A Institutional FA Other F.A CRESMET/CONACYT/NEEP	0 10,497,400 8,785,100 9,251,200 35,200	0 6,339,100 1,210,900 1,573,900 0	16,836,50 16,836,5 9,996,0 10,825,1 35,2 100,0 70,2
U X I L I A R Y	Subtotal Auxillary  Total Operating Funds  Regents Financial Aid Set-Aside Other F.A Institutional FA Other F.A CRESMET/CONACYT/NEEP Other FA - Teach for America	0 10,497,400 8,785,100 9,251,200 35,200 100,000	0 6,339,100 1,210,900 1,573,900 0	16,836,5 9,996,6 10,825, 35,2 100,6 70,2
U X I L I A R Y	Subtotal Auxillary  Total Operating Funds  Regents Financial Aid Set-Aside Other F.A Institutional FA Other F.A CRESMET/CONACYT/NEEP Other FA - Teach for America Other F.A Graduate Scholars Program	0 10,497,400 8,785,100 9,251,200 35,200 100,000 70,200	0 6,339,100 1,210,900 1,573,900 0 0	16,836, 9,996, 10,825, 35,2 100,0 70,2
U X I L I A R Y	Subtotal Auxillary  Total Operating Funds  Regents Financial Aid Set-Aside Other F.A Institutional FA Other F.A CRESMET/CONACYT/NEEP Other FA - Teach for America Other F.A Graduate Scholars Program CONACYT Fellowship Program	0 10,497,400 8,785,100 9,251,200 35,200 100,000 70,200 17,000	0 6,339,100 1,210,900 1,573,900 0 0	16,836,5 9,996,6 10,825, 35,2 100,6 70,2
U X I L I A R Y	Subtotal Auxillary  Total Operating Funds  Regents Financial Aid Set-Aside Other F.A Institutional FA Other F.A CRESMET/CONACYT/NEEP Other FA Teach for America Other F.A Graduate Scholars Program CONACYT Fellowship Program Graduate Fellowship Program Subtotal Financial Aid	0 10,497,400 8,785,100 9,251,200 35,200 100,000 70,200 17,000 210,700	0 6,339,100 1,210,900 1,573,900 0 0 0 0 2,784,800	16,836,1 9,996,( 10,825, 35,2 100,0 70,2 210,7
U X I L I A R Y	Subtotal Auxillary  Total Operating Funds  Regents Financial Aid Set-Aside Other F.A Institutional FA Other F.A CRESMET/CONACYT/NEEP Other FA - Teach for America Other F.A Graduate Scholars Program CONACYT Fellowship Program Graduate Fellowship Program	0 10,497,400 8,785,100 9,251,200 35,200 100,000 70,200 17,000 210,700	0 6,339,100 1,210,900 1,573,900 0 0 0	16,836,5 9,996, 10,825, 35,2 100,0 70,2 17,0 210,7
U X I L I A R Y	Subtotal Auxillary  Total Operating Funds  Regents Financial Aid Set-Aside Other F.A Institutional FA Other F.A CRESMET/CONACYT/NEEP Other FA Teach for America Other F.A Graduate Scholars Program CONACYT Fellowship Program Graduate Fellowship Program Subtotal Financial Aid	0 10,497,400 8,785,100 9,251,200 35,200 100,000 70,200 17,000 210,700	0 6,339,100 1,210,900 1,573,900 0 0 0 0 2,784,800	16,836,1 9,996,( 10,825, 35,2 100,0 70,2 210,7

# NORTHERN ARIZONA UNIVERSITY

# FY16 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	TOTAL LOCAL RETAINED COLLECTIONS
As Reported in the FY16 Operating Budget	145,286,600	113,277,400
As Reported in the FY16 JLBC Appropriations Report	132,857,500	
Base Collections Increase/(Decrease) from FY16 Appropriations Report	12,429,100	113,277,400
STATE COLLECTIONS INCREASE ALLOCATION BY PROGRAM		
Instruction		
Undergraduate Enrollment Growth and Course Support	2,929,100	
Allied Health Care Programs Continuation and Expansion	2,500,000	
Online Education / Technology Infrastructure Investments	3,000,000	
Research		
Research Enterprise Investment	1,000,000	
All Programs		
Faculty and Staff Recruitment, Retention and Benefits	3,000,000	
LOCAL RETAINED COLLECTIONS		
Local Funds Student Operating Support		11,412,200
Scholarships/Fellowships/Financial Aid		86,417,500
Plant Funds		1,000,000
Debt Service Payments		14,447,700
	12,429,100	113,277,400

# 2015-16 LOCALLY RETAINED COLLECTIONS

# NORTHERN ARIZONA UNIVERSITY

		BUDGET 2014-15	(DECREASE)	BUDGET 2015-16
			242.000	202.0
	ADA Services	450,000	240,000	690,0
	Art Gallery	10,900	0	10,9
	Child Care	43,900	0	43,9
	Employee Benefit Adjustments/Contingencies	100,000	0	100,0
	Financial Aid Office Operations	337,300	0	337,3
	Graduate Assistant Tuition Remission	2,300,000	0	2,300,0
	Honors Forum	11,200	(2,500)	8,7
D	NAU-Yuma	19,900	0	19,9
E	Operations	500,800	0	500,8
S	Peer Mentoring and Retention Program	683,000	(65,700)	617,3
Ĭ	Performing Arts Series	39,900	(8,000)	31,9
G N	Performing Arts - Music	58,900	0	58,9
A	Registrar Office	127,400	(4,400)	123,0
т	School of Comm Student Radio, Cable & Forensics	30,200	(3,000)	27,2
E	Special Events	28,300	(2,800)	25,5
D	Extended Campus Enrollment Expansion	3,073,500	845,900	3,919,4
	Student Activities	285,100	(50,000)	235,1
	SUN (Student Union Network)	65,800	(10,000)	55,8
	Program Fee - MAdm	0	0	
	Program Fee - MBA	0	0	
	Program Fee - MEng	0	0	
	Program Fee - MSN	0	0	
	Program Fee - Occupational Therapy (OT)	45,000	0	45,0
	Program Fee - Physicians Assistant (PA)	45,000	0	45,0
	Program Fee - Doctor of Physical Therapy (DPT)	360,100	98,400	458,
	Program Fee - Bachelor BA	0	0	
	Program Fee - Bachelor Dental Hygiene	0	0	
	Program Fee - BSN	0	0	
	Program Fee - UG Engineering/Construction	0	0	
	Subtotal Designated	8,616,200	1,037,900	9,654,
A U	Intercollegiate Athletics	1,915,500	(378,500)	1,537,0
X	Skydome	207,900	0	207,
L	Mountain Campus ID	13,200	0	13,
A			0	
R Y	Subtotal Auxiliary	2,136,600	(378,500)	1,758,
	Total Operating Funds	10,752,800	659,400	11,412,
F ]	Total Operating Funds			
1	Regents Financial Aid Set-Aside	22,000,000	4,000,000	26,000,0
N	Other Financial Aid - (formerly tuition waivers) DPT- FA Set-Aside	45,933,400 144,500	14,066,600 20,300	60,000, 164,
Α	Occupational Therapy (OT) FA Set-Aside	28,100	56,600	84,
-	Physician Assistant (PA) - FA Set-Aside	132,000	36,000	168,
D	Subtotal Financial Aid	68,238,000	18,179,500	86,417,
	Plant Fund	2,378,200	-1,378,200	1,000,
	react and	2,0,0,200		
	Debt Service	16,447,700	(2,000,000)	14,447,

# UNIVERSITY OF ARIZONA

# FY16 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
Base Collections As Reported in the Annual Operating Budget Report	405,203,400	285,998,200
Collections As Reported in the FY16 Appropriations Report	344,098,600	
Base Collections Increase/(Decrease) from FY16 Appropriations Report	61,104,800	285,998,200
Base Collections Increase/(Decrease) from F116 Appropriations Report	31,10-1,000	200,000,200
ALLOCATION BY PROGRAM		
All Programs		
Performance-Based Salary Programs	8,500,000	
Instruction		
Program Fees and Differential Tuition		29,257,700
Recruitment & Retention of Key Faculty & Staff	10,975,000	
Enrollment Growth Related Expenditures	16,300,000	
College of Medicine MD Programs	938,000	
Online Instruction	2,000,000	
Local Account Operating Support		29,765,100
Organized Research		
Advancement of Research	274,000	
Public Service		
Local Account Operating Support		24,600
Academic Support		
Local Account Operating Support		807,900
Student Services		
Local Account Operating Support		4,537,500
Student Engagement, Recruitment, and Retention	3,400,000	
Institutional Support		
Commitment to Students Enrolled in Guaranteed Tuition Program	5,900,000	
Employee Benefit Costs	1,303,400	
Investment in Facilties, Support Functions and Inflation in Operations	4,214,400	
Institutional Systems	1,300,000	
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		46,007,000
Program Fees and Differential Tuition Set Aside		4,341,300
Student Aid Awards (formerly waivers)		138,328,200
Auxiliary Enterprises		
n/a		
Debt Service		
Debt Service Payments		28,152,400
Plant Funds	0.000.000	4,000,000
Building Renewal	6,000,000	776,500
Minor Capital Projects	61,104,800	285,998,200
	- 01,101,500	

### 2015-16 LOCALLY RETAINED COLLECTIONS

# UNIVERSITY OF ARIZONA

		BUDGET 2014-15	INCREASE/ (DECREASE)	BUDGET 2015-16
	Associated Students (ASUA)	257,100	0	257,1
	AZ Outreach College	10,000,000	2,992,800	12,992,8
	AZ Assurance Program	20,000	0	20,0
	College of Nursing - Accelerated BSN	0	0	
	Early Alert Programs	5,000	0	5,0
	Enrollment Management S4S/PLA	510,000	0	510,0
	Multicultural Affairs and Student Success (M.A.S.S.)		0	
	Admissions Recruiting	1,275,500	0	1,275,5
ь	Early Outreach	37,100	0	37,1
Ĕ	Minority Student Recruitment	185,200	0	185,2
6	Minority Summer Institute for Writing	13,500	0	13,5
<u> </u>	FM Student Recreation O&M	259,300	0	259,3
S D	Graduate Teaching Assistants -Tuition Remission	12,208,500	0	12,208,5
, l	Graduate College	346,700	0	346,7
ř	Graduate and Professional Student Council	60,000	200,000	260,0
≣	Interpreting/Disabilities (ADA)	164,200	0	164,2
	Learning Disabilities Mandated Services	131,800	0	131,8
	Library Acquisitions	461,200	0	461,2
	Merchant Credit Card Banking Fees	433,200	0	433,2
	Program Fees/Differential Tuition	27,263,500	1,994,200	29,257,7
	Student Child Care Voucher Program	83,100	0	83,1
	Student-Related Activities	9,000	0	9,0
	Student Programs	503,400	176,800	680,2
	Student Services	254,400	0	254,4
	Student Travel Support	50,300	0	50,3
	Student Union	1,083,500	0	1,083,5
	Sustainability Projects	600,000	0	600,0
	UA Presents	24,600	0	24,6
	Utility Costs Reserve	2,638,500	(569,000)	2,069,5
	Subtotal Designated	58,878,600	4,794,800	63,673,4
Α				
X	Subtotal Auxiliary	0	0	
	Total Operating Funds	58,878,600	4,794,800	63,673,4
-		41,422,500	1,946,500	43,369,0
	Regents Financial Aid Set-Aside		19,400	579,3
	UAS (SV) - Regents FA Set-Aside	559,900	19,400	3,619,3
	Undergraduate Scholars	3,619,300	1	134,708,9
	Other Financial Aid - (formerly tuition waivers)	116,724,100	17,984,800	134,708,9
	Architecture & Planning UG/Grad	96,800	(8,400)	
	COM FA Set-Aside	1,126,000	56,200	1,182,2
	COM - Phoenix - FA Set-Aside	717,400	159,100	876,5
F	Eller COM: UG/MBA	1,029,700	172,500	1,202,2
	Engineering (UG) FA Set-Aside	501,300	(59,800)	441,5
N	Ag & Life Sciences FA Set-Aside	17,600	47,900	65,5
A	Fine Arts FA Set-Aside	68,200	0	68,2
1	Graduate Scholarships	719,400	0	719,4
D	Honor College FA Set-Aside	315,600	(28,600)	287,0
	Law School FA Set-Aside	490,000	292,400	782,4
	Social & Behavioral Sciences (geography, journalism, linguistic, philosophy, MPA,Sociology, UG-Law, UG Diff Tui, SIRLS)	251,000	(18,400)	232,6
	Medicine-Cellular and Molecular MS	2,500	500	3,0
	Nursing FA Set-Aside	286,300	50,300	336,6
	Pharmacy FA Set-Aside	672,300	21,400	693,7
	Public Health FA Set-Aside	50,000	8,500	58,5
	College of Science - Computer Science/Geoscience	55,600	26,100	81,7
	Subtotal Financial Aid	168,725,500	20,670,400	189,395,9
	Plant Funds/Utility Infrastructure	6,123,900	(1,347,400)	4,776,5
	Tank t draw daily tributation			
	Debt Service	28,952,400	(800,000)	28,152,4

# UNIVERSITY OF ARIZONA FY16 PLANNED USES OF ESTIMATED LOCALLY RETAINED TUITION AND FEE REVENUES BY CAMPUS

	LOCAL		
	COLLECTIONS	MAIN	AHS
Base Collections As Reported in the Annual Operating Budget Report	285,998,200	281,868,400	4,129,800
	n ====================================		
ALLOCATION BY PROGRAM			
Instruction			
Program Fees and Differential Tuition	29,257,700	29,257,700	
Local Account Operating Support	29,765,100	29,765,100	
Public Service			
Local Account Operating Support	24,600	24,600	
Academic Support			
Local Account Operating Support	807,900	807,900	
Student Services			
Local Account Operating Support	4,537,500	4,537,500	
Scholarships/Fellowships/Financial Aid			
ABOR Financial Aid Set Aside	46,007,000	43,948,300	2,058,700
Program Fees and Differential Tuition Set Aside	4,341,300	4,341,300	
Student Aid Awards (formerly waivers)	138,328,200	136,257,100	2,071,100
Debt Service			
Debt Service Payments	28,152,400	28,152,400	
Plant Funds			
Building Renewal	4,000,000	4,000,000	
Minor Capital Projects	776,500	776,500	
	285,998,200	281,868,400	4,129,800



#### STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

DON SHOOTER
CHAIRMAN 2016
OLIVIA CAJERO BEDFORD
STEVE FARLEY
GAIL GRIFFIN
KATIE HOBBS
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1716 WEST ADAMS PHOENIX, ARIZONA 85007

(602) 926-5491

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LELA ALSTON
RUSSELL "RUSTY" BOWERS
VINCE LEACH
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DARIN MITCHELL
STEVE MONTENEGRO
MICHELLE UGENTI-RITA

DATE:

December 8, 2015

TO:

Representative Justin Olson, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director 725

FROM:

Rebecca Perrera, Fiscal Analyst

SUBJECT:

Arizona Department of Administration - Review Report on Public Safety Broadband

# Request

Pursuant to an FY 2016 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) has submitted for review its annual report on expenditures for the State and Local Implementation Grant program (SLIGP). These monies are part of a nationwide planning effort associated with a public safety broadband effort.

### Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review of the department's report.
- 2. An unfavorable review of the department's submission

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

A. ADOA shall report to the JLBC Staff when they receive Phase 2 funding from the federal government and their expenditure plans for the funds.

Through September 2015, ADOA expected to spend \$1,455,600 of the \$2,910,000 awarded for the SLIGP. However, ADOA's actual spending was slightly less, at \$1,065,200. ADOA's FY 2016 plans include continuing education and outreach through meetings with local public safety agencies, tribes, and non-public safety stakeholders. ADOA will also coordinate the trial use of the of the FirstNet radio frequency spectrum.

ADOA plans to move into the data collection phase of the grant to collect data on stakeholder needs and broadband capacity once the federal government releases Phase 2 funding to the state.

# Analysis

# Background

Following September 11, 2001, the National 9/11 Commission recommended the establishment of a nationwide, interoperable public safety communications network to provide solutions to communications challenges facing first responders. In response, Congress passed legislation in 2012 creating the NPSBN initiative, administered by FirstNet, in an effort to build a nationwide, standards-based, high-speed data network by reserving a part of the electromagnetic spectrum specifically for public safety, the 700 MHz broadband spectrum, or the "D Block."

More than \$7 billion has been allocated for the NPSBN initiative, with a majority of funding being raised through the sale of rights to transmit signals over specific bands of the electromagnetic spectrum that were surrendered by television broadcasters during the transition from analog to digital television. Part of the \$7 billion allocated for this initiative includes a grant program for state and local governments, the SLIGP. Approximately \$118 million in formula-based grants were available to assist regional, state, local, and tribal government entities in preparing for the implementation of the NPSBN initiative. This initial funding is not intended to purchase new equipment, but for planning, education, and outreach.

Arizona was awarded \$2.9 million through the SLIGP formula in August 2013. One requirement of the grant is that Arizona and local governments additionally contribute at least \$745,200 in in-kind contributions to the project. Last year, the ADOA's Strategic Enterprise Technology office (ASET) managed the Arizona FirstNet Program (AZNET), which is responsible for implementing SLIGP. This year, ADOA reports that the program has been transitioned to the ADOA Office of Grants and Federal Resources.

ADOA reports that the \$2.9 million grant will be spent in 2 phases over 3 years, each phase being approximately \$1.5 million between 2014 and 2017. The first phase was dedicated to education and outreach, while the second phase will be devoted to gathering relevant data. For example, during the data collection phase, ADOA will collect detailed data on stakeholder's broadband coverage requirements and the availability of current infrastructure that may be used by the network. ADOA is in the process of concluding the first phase and has requested that the federal government release funding for the second phase. The Committee may consider a provision requiring ADOA to report to the JLBC Staff when Phase 2 funding is released and ADOA's expenditure plan for the funds.

In addition, ADOA-ASET had reported that the grant includes \$2.2 million for 6 FTE Positions, including 3 FTE Positions for program contract staff, and an additional 3 FTE Positions working part-time as vendors and contractors for the project. A total of \$449,000 would be spent on travel, \$213,000 would be spent on program support services and web development, and \$104,000 would be spent on equipment and supplies.

### **Expenditures**

Through September 30, 2015, AZNET's grant budget was \$1,455,600, or 50% of the total grant award. Approximately \$1.5 million remains available from the grant. To date, AZNET has spent \$1,065,200.

(Continued)

AZNET has identified 850 first responder agencies in more than 1,400 locations throughout the state, in addition to various secondary agencies that support first responders, such as transportation, public works, and public health agencies.

During the first phase of the grant, AZNET's strategy was to conduct approximately 145 on-site outreach meetings to educate these stakeholders. To date, AZNET's progress consists of conducting outreach and presentations including:

- Meetings with 5 regional wireless cooperatives.
- Briefings to all 15 counties with over 300 attendees representing 220 local, counties, and state agencies.
- Briefings with 3 tribal groups and 10 public safety associations.
- Presentations to 4 of the 5 Regional Advisory Councils of the Arizona Department of Homeland Security.
- Presentation to 4 of the 8 Public Safety Answering Point System (PSAP) Managers.
- Completed an initial state stakeholders consultation with the federal grant team and transmitted Arizona's first set of data.

In FY 2016, AZNET plans to continue its education and outreach efforts including briefing local jurisdictions, developing and executing a tribal outreach program, coordinating a trial use of the FirstNet spectrum, and coordinating additional meetings with the federal grant consultants. In addition, ADOA plans to collect data on stakeholder needs and broadband capacity once the federal government releases Phase 2 funding to the state.

RS/RP:kp



Douglas A. Ducey Governor Craig C. Brown Director

# ARIZONA DEPARTMENT OF ADMINISTRATION

### OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401 PHOENIX, ARIZONA 85007

(602) 542-1500

November 24, 2015

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

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



# Dear Representative Olson and Senator Shooter:

At the Joint Legislative Budget Committee meeting on October 29, 2013, the Arizona Department of Administration (ADOA) was asked to provide an annual report on a three year, \$2.91 million grant, under the State and Local Implementation Grant Program (SLIGP). Additionally, Laws 2014, chapter 18 requires that "On or Before October 1, 2014 ADOA must Submit a report for review of the expenditures to date and progress of implementation for any monies received from the State and Local Implementation Grant Program associated with the National Public Safety Broadband Network Initiative. The JLBC may require ADOA to submit more frequent reports as necessary for further review." A FY 2016 General Appropriation Act footnote requires ADOA to submit a report by October 1, 2015 to JLBC for review of the expenditures to date and progress of implementation for any SLIGP funds. The footnote replaced the quarterly report provision.

Should you have any questions, please contact me at 602-542-1500 or Matthew Hanson, the Statewide Grants Administrator, at 602-542-7567.

Sincerely,

Craig Brown
Director

cc:

Richard Stavneak, Director, JLBC
Rebecca Perrera, Fiscal Analyst, JLBC
Lorenzo Romero, Director, OSPB
Chris Olvey, Budget Analyst, OSPB
Morgan Reed, ADOA State CIO
Matthew Hanson, ADOA-GFR, Statewide Grants Administrator
Paul Shannon, ADOA, Assistant Director, Budget, Personnel and Resource Planning

# Attachments:

FY15 Q1-Q9 FirstNet Budget and Expenditure Report

# Arizona Department of Administration Arizona FirstNet Program Q1-Q9 FY15 Status Report

### BACKGROUND:

The Nationwide Public Safety Broadband Network (NPSBN) is a federal wireless broadband network dedicated to public safety. The NPSBN program is administered by the First Responders Network Authority (FirstNet), an independent authority within the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA). FirstNet is comprised of members of the public and private sectors, representing public safety as well as state and local government finance and information technology interests. Approximately \$7 billion was originally allocated for the NPSBN program using funds from FCC radio frequency spectrum auctions.

This funding includes approximately \$118 million in grants (State and Local Implementation Grant Program or SLIGP) awarded to each participating state and six territories to assist regional, state, local, and tribal government entities prepare for the implementation of the NPSBN. The Digital Arizona FirstNet Program management, was transitioned from the Arizona Department of Administration's Arizona Strategic Enterprise Technology (ASET) to the Office of Grants and Federal Resources (GFR), which is also a division within the Arizona Department of Administration. In August 2013, the state was awarded a total of \$2.91 million in grant funds to be distributed in two phases for a three year program cycle. In March 2015, the program was extended through January 2018. The Phase 1 funding was allocated for education and outreach, planning, and data collection only, not for equipment or operations.

Through July 2015, the Arizona program had focused primarily on education and outreach among local public safety agencies, tribes and local governments in preparation for the initial State Consultation by federal FirstNet staff. A detailed Phase 1 budget and cumulative expenditure report is summarized in the financial information section on the attached spreadsheet.

### **FY16 STRATEGIES**

The FY16 plan calls for focus on the following strategies;

- Continue state, tribal and local public safety association briefings.
- Continue state and local education and outreach meetings.
- Develop and execute a personalized tribal education and outreach program.
- Coordinating trial use of FirstNet radio frequency spectrum by Arizona agencies as requested.
- Alternative governance model development.
- Assist with the preparation of the FirstNet opt in/out plan for the Governor's review.
- Prepare and coordinate future FirstNet state consultation meetings.

### Completed FY15 ACTIVITIES

- Completed the five remaining County-level Education and Outreach meetings attended by 280 public safety stakeholders.
- Implementation of the 9-1-1 Public Safety Answering Point (PSAP) program including presentations to four of eight planned PSAP System Managers at regularly scheduled quarterly meetings conducted by the State 9-1-1 Administration Office of the Broadband Planning and Public Safety Communications Department.
- Presentations were provided to four of the five Regional Advisory Councils of the Arizona Department of Homeland Security.
- Briefings to ten public safety associations and three tribal groups.
- Transitioned the SLIGP grant to the Office of Grants and Federal Resources (GFR) from ASET.
- Successful completion of the initial FirstNet State stakeholder consultation.
- Completed the required first data submission to FirstNet.

• Entered into a vendor relationship with Mission Critical Partners (MCP) who will be providing expertise on the continued education and outreach program and materials, as well as assist with the continued data collection and submission.

### FINANCIAL INFORMATION

A table of the budgeted and actual financial performance for the FirstNet program including in-kind contributions is included as an attachment to this report entitled "FirstNet Budget Report – Through September 30, 2015, Phase 1 Funding."

# **Budget Categories**

Categories included in this report are defined as follows;

- Personnel/Employee Related Expenses/Fringe: Allocation of existing ADOA management and administrative personnel costs.
- Travel: Arizona and out-of-state travel for Digital Arizona program staff and local public safety representatives funded entirely by federal grant funds.
- Supplies: Collateral materials and related costs funded entirely by federal grant funds.
- Contract Staff: Dedicated contract positions funded entirely by federal grant funds.
- Other: Comprised of the following two elements following to federal reporting requirements;
  - Temporary or project related sub-contractors and meeting expenses.
  - In-kind contributions of time from local public safety and public service representatives attending FirstNet briefings and events, and other contributions of time. This subcategory will comprise the majority of the in-kind contribution match requirement over the course of the grant cycle.

The grant requires a cumulative 20% in-kind match of federal dollars from State, tribal and local Arizona sources.

# **Budget and Actuals**

#### Cumulative

The cumulative federal fund budget for nine quarters of the grant cycle was \$1,065,247 or 73% and an in-kind total of \$445,525 or 31% for the entire grant award.

Various factors contributed to this cumulative federal dollar under budget variance including;

- Lower than expected meeting costs.
- Leverage of the State website conversion project to implement the FirstNet website.
- General cost management efforts by the SLIGP team.

The percentage of total in-kind contributions on a cumulative basis was 31% and 11 percentage points above grant requirements. This over budget variance is due primarily to the federal policy that allows costs associated with grant application development activities incurred prior to the grant award to be counted as in-kind. This ratio will track to the 20% grant requirement over time.

Q1-Q9 FY15/FY16 Cumulative FirstNet Budget Report														
				Federal	35					N	lon-Feder	al (I	n-Kind)	
Cost Category		Budget		Actual	1	Varience \$'s	Variance %		Budget		Actual	Va	riance \$'s	Variance %
Personnel	\$	58,154	\$	85,940	\$	(27,786)	148%	\$	100,000	\$	138,854	\$	38,854	139%
Fringe	\$	28,149	\$	32,387	\$	(4,237)	115%	\$	50,000	5	85,104	\$	35,104	170%
Travel	\$	83,959	\$	56,420	\$	27,539	67%	\$	-	\$		\$	85	
Equipment	\$	3.8	\$	-	\$	82		\$	-	\$		\$	1.7	
Supplies	\$	88,307	\$	83,032	\$	5,274	94%	\$	-	\$	- 1	\$	72	
Contract Staff	\$	1,181,163	\$	807,467	\$	373,696	68%	\$	-	\$		Ś	92	
Other	\$	15,840	\$		\$	15,840	0%	\$	219,898	\$	221,567	\$	1,669	101%
TOTAL	. \$	1,455,573	\$	1,065,247	\$	390,326	73%	\$	369,898	\$	445,525	\$	75,627	31%

Grant Match %	Federal	in-Kind
Grant Cycle Target	80%	20%
Actual	73%	31%



### STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

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CHAIRMAN 2016
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HOUSE OF REPRESENTATIVES

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RUSSELL "RUSTY" BOWERS
VINCE LEACH
STEFANIE MACH
DARIN MITCHELL
STEVE MONTENEGRO
MICHELLE UGENTI-RITA

DATE:

December 8, 2015

TO:

Representative Justin Olson, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director んく

FROM:

Rebecca Perrera, Fiscal Analyst LP

SUBJECT:

Arizona Department of Administration - Review of Automation Projects Fund Expenditure

Reallocation

# Request

Pursuant to A.R.S. § 41-714 the Arizona Department of Administration (ADOA) Arizona Strategic Enterprise Technology (ASET) Office requests that the Committee review a reallocation of its FY 2015 Automation Projects Fund (APF) appropriation. The FY 2015 APF appropriation included \$2,900,000 million for the replacement of the mainframe at the State Data Center (SDC). ADOA is proposing to spend \$439,000 of its remaining unspent funds from this appropriation to replace mainframe disk storage equipment.

# Recommendation

The Committee has at least the following 2 options:

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

# **Analysis**

# **Background**

At its September 2014 meeting, the Committee favorably reviewed \$2.9 million for the replacement of the mainframe at the SDC. The SDC provides mainframe computing to state agencies and other entities and processes billions of dollars of transactions per year.

(Continued)

The new mainframe, which was installed in December 2014, increases processing capacity by 50% and provides more flexibility in hosting modernized web-based applications. ADOA's mainframe replacement project utilizes a 5-year lease agreement. The lease agreement avoids federal disallowed costs because the lease payments are considered an operating cost instead of a capital purchase payment, making it an acceptable use of federal dollars.

# **Current Proposal**

ADOA is currently proposing an expenditure of \$439,000 to replace the mainframe's data storage subsystem. A data storage subsystem is used to store all mainframe client data. The SDC currently uses 2 data storage subsystem devices. One subsystem is located in the SDC and one is located in the Department of Economic Security (DES) data center, which creates a real-time and uninterrupted backup copy.

The current devices were installed in 2009 and are nearing their storage capacity. In addition, as of March 2016, the current device vendor will no longer provide on-site support, maintenance, or parts. In the event of a hardware failure, ADOA-ASET would not be able to guarantee uninterrupted service to mainframe clients.

ADOA-ASET proposes to replace the 2 data storage subsystem devices using a 4-year lease agreement. The lease terms would align with the current term for the mainframe's lease. The estimated initial development cost totals \$439,000, which includes installation, data migration, and the initial payment for the 4-year contract. ADOA estimates that the ongoing lease costs and software licensing will cost an additional \$98,400 per year, which would be funded by the Automation Operations Fund.

The JLBC Staff note that this project was initially proposed as part of the FY 2014 APF appropriation. However, the project was never reviewed by the JLBC. In its final FY 2014 APF quarterly report submitted to the JLBC Staff in July 2015, ADOA reported that project was cancelled and the proposed funds, totaling \$384,500, lapsed at the end of FY 2015.

RS/RP:kp

Douglas A. Ducey
Governor



Craig C. Brown Director

# ARIZONA DEPARTMENT OF ADMINISTRATION

#### OFFICE OF THE DIRECTOR

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

November 19, 2015

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

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



Dear Representative Olson and Senator Shooter:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of a fiscal year 2015 Automation Projects Fund project. Monies to support the expenditure plan have already been appropriated to the Automation Projects Fund.

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

Sincerely,

Craig C. Brown

Director

Enclosures

cc: Richard Stavneak, Director, JLBC

Lorenzo Romero, Director, OSPB Rebecca Perrera, JLBC Staff

Chris Olvey, OSPB Staff

Morgan Reed, State CIO

Paul Shannon, Assistant Director Budget and Resource Planning ADOA

# FY15 Automation Projects Fund (APF; A.R.S. § 41-714) Favorable Review Request for December 2015 JLBC Meeting

Agency- Division	Project Name	FY15 APF Appropriation	JLBC Favorable Review Request	PIJ/ASET/ITAC Status
ADOA	State Data Center (SDC) Mainframe Disk Storage Refresh	\$2,900,000	\$439,101*	Pending State CIO approval
	Total Favorably Reviewed FY15 APF Funds  Total December 2015 Request  Remaining FY15 Unapproved APF funds  Total FY15 Appropriated APF Budget		\$65,240,928 <b>\$439,101*</b> \$4,793,772 \$70,034,700	*Proposed to be reallocated from favorably reviewed FY15 appropriation for Mainframe Refresh Project (\$2,900,000)

# State Data Center (SDC) Mainframe Disk Storage Refresh

		FY15 Project	Fav. Rev.	PIJ/ASET/	JLBC Fav.
Project Name	FY15 Description	Budget	Req'd Amt.	ITAC Status	Rev. Status
State Data Center (SDC) Mainframe Disk Storage Refresh (AD16004)	- The Arizona Department of Administration (ADOA) will replace aging and soon to be unsupported disk storage subsystems in order to improve data security and replication. Among other benefits, the new units will also provide enhanced recovery / business continuity capabilities for disk storage data, providing more security for SDC mainframe clients. Ongoing maintenance and support by the vendor will also guarantee ADOA's ability to provide uninterrupted service to SDC mainframe clients.  - ADOA proposes that \$439,101 in unspent funds be reallocated to this project from the completed Mainframe Refresh project which received a \$2,900,000 appropriation in FY15.	\$439,101	\$439,101	Pending State CIO Approval	Pending
Total			\$439,101		

# Remaining FY16 APF Projects Pending JLBC Favorable Review

Agency- Division	Project Name	FY 16 APF Appropriation	Amount Pending Favorable Review	PIJ /ASET/ ITAC Status
ADOA-ASET	Single Sign-On	\$925,000	\$925,000	Pending PIJ Submittal
ADOA-ASET	Business One Stop	\$1,075,000	\$675,000	Pending PIJ Submittal
ADEQ	TBD	\$5,000,000	\$5,000,000	Pending PIJ Submittal
ADES	TBD	\$936,400	\$936,400	Pending PIJ Submittal
Total Remain	ing FY16 APF Projects Pending JLBC Favorable Review	\$7,936,400	\$7,536,400	

# Remaining FY15 APF Projects Pending JLBC Favorable Review

Agency- Division	Project Name	FY 15 APF Appropriation	Amount Pending Favorable Review	PIJ /ASET/ ITAC Status
ADCS	Child Protective Service IT Modernization	\$5,000,000	\$4,687,000	Pending PIJ submittal
ADOR	Data Capture	\$1,700,000	\$106,772	ITAC Approved
Total Remain	ning FY15 APF Projects Awaiting JLBC Favorable Review	\$6,700,000	\$4,793,772	

# **Favorably Reviewed FY15 APF Projects**

Agency- Division	Project Name	FY 15 Amount	JLBC Favorable Review Amount	PIJ /ASET/ ITAC Status
ADOA	Business Re-Engineering Arizona (BREAZ) (Formerly AFIS Replacement Project)	\$26,533,000	\$26,533,000	JLBC Favorable Review Received in March 2013 for \$79.8M
ADEQ	myDEQ Phase 2	\$6,800,000	\$6,800,000	JLBC Favorable Review 6/19/14
ADE	AELAS Program Support Office (PSO)	\$1,500,000	\$1,500,000	JLBC Favorable Review 6/19/14
ADE	AELAS Production Services/Support	\$2,200,000	\$2,200,000	JLBC Favorable Review 6/19/14
ADE	AELAS School Finance SAIS Payments CSF	\$1,500,000	\$1,500,000	JLBC Favorable Review 6/19/14
ADE	AELAS Standardized Student Data Store	\$2,200,000	\$2,200,000	JLBC Favorable Review 6/19/14
ADE	AELAS SIS Opt In	\$800,000	\$800,000	JLBC Favorable Review 6/19/14
ADE	AELAS SLDS – Arizona Education Data-driven Decision System (AzED3S) including AELAS Shared Services	\$1,900,000	\$1,900,000	JLBC Favorable Review 6/19/14
ADE	AELAS Opt-In Tools FY15	\$450,000	\$450,000	JLBC Favorable Review 6/19/14
ADE	AELAS Data Governance	\$850,000	\$850,000	JLBC Favorable Review 6/19/14
ADE	AELAS Organization Entity Management	\$600,000	\$600,000	JLBC Favorable Review 6/19/14
ADOA-ASET	Automation Projects Fund Strategic Execution Team	\$1,701,400	\$1,701,400	JLBC Favorable Review 9/30/14
ADOA-ASET	Transformation Initiatives Project Managers	\$450,300	\$450,300	JLBC Favorable Review 9/30/14
ADOA-ASET	Strategic Technology Assessment	\$400,000	\$400,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Business and Technical Enterprise Architecture Training	\$100,000	\$100,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Agency Website Transformation & Content Management Solution (CMS) Implementation	\$325,000	\$325,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Secure Data Protections Pilots	\$375,000	\$375,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Data Center Network Managing/Monitoring	\$515,195	\$515,195	JLBC Favorable Review 9/30/14
ADOA-ASET	Security Assessment	\$590,000	\$590,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Central Security Management	\$415,000	\$415,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Incident Response	\$111,800	\$111,800	JLBC Favorable Review 9/30/14
ADOA-ASET	Security Awareness	\$348,448	\$348,448	JLBC Favorable Review 9/30/14
ADOA-ASET	Data Center Security Management	\$769,557	\$769,557	JLBC Favorable Review 9/30/14
ADOA-ASET	Mainframe Refresh	\$2,900,000	\$2,900,000	JLBC Favorable Review 9/30/14
ADOR	Data Capture	\$1,700,000	\$1,593,228	JLBC Favorable Review 12/17/14
ADOR	Electronic Tobacco Tax Filing System	\$1,000,000	\$1,000,000	JLBC Favorable Review 12/17/14
ADC	Adult Inmate Management System (AIMS) Replacement	\$8,000,000	\$8,000,000	JLBC Favorable Review 3/31/15
ADCS	Child Protective Service IT Modernization	\$5,000,000	\$313,000	JLBC Favorable Review 3/31/15
Total Favoral	bly Reviewed FY15 APF Projects	\$70,034,700	\$65,240,928	

Analyst: Jeffrey Crane	PIJ Summary - ASET	Project Number: AD16004	
Agency Name	Contact Information		
Arizona Department of Adminis	stration	Patrick Cravens	
100 N. 15 <sup>th</sup> Ave		602-364-1576	
Phoenix, Arizona 85007		Patrick.Cravens@azdoa.gov	
Project and Investment	Justification Name	Date Submitted	
State Data Center (SDC) Mainfi	rame Disk Storage Refresh	November 17, 2015	

# Project Overview

# **Problem Description**

The State Data Center (SDC), located in Phoenix, is managed by the Arizona Strategic Enterprise Technology (ASET) office, within the Arizona Department of Administration (ADOA). It currently utilizes two aging IBM DS8100 Disk Storage Subsystems, purchased in 2009, to store all mainframe client data. Data is replicated in real time to an off-site location at the Arizona Department of Economic Security (DES) which creates a synchronous data copy.

The increasing capacity requirement on the existing subsystems is accelerating at a growth rate exceeding the planned replacement schedule. Analysis performed in 2012 anticipated replacement of these subsystems in 2017. Adding storage to the existing devices is cost prohibitive as they are approaching end-of-life with associated high maintenance costs. The current units will no longer be supported by IBM as of March 31, 2016. At that time, IBM will not provide on-site support in the event of a hardware fail, provide parts to repair the units, or perform preventive maintenance. As a result, ADOA will be unable to guarantee uninterrupted service to mainframe clients.

The current IBM disk storage subsystem also presents a significant risk to mainframe clients' data during annual business continuity exercises, which requires the replication of the client's data on disk be terminated, leaving the data without a real-time backup.

### Solution

To resolve the issues of aging equipment, lack of capacity, increased cost, maintenance availability, and data security, ADOA proposes to replace the current DS8100 Disk Storage Subsystems with two new disk storage devices utilizing a fair-market lease procurement mechanism from a vendor on state contract. The lease term will be in-place for a period of 4 years, with the contract terminating in conjunction with the existing SDC mainframe lease in calendar year (CY) 2019.

The new subsystems would have the ability to establish a third replication of production data that could be utilized during business continuity testing, without placing production data at risk. This solution would also provide encryption and faster processing speeds.

Regarding project funding, ADOA proposes to utilize FY2015 Automation Projects Fund (APF) monies associated with the previously approved ADOA Mainframe Refresh project (AD15001) to fund the initial development efforts of this project. Due to Mainframe Refresh project efficiencies and savings, approximately \$439,000 remains unspent. It is proposed that these

monies be reallocated to this project (AD16004). Favorable review by the Joint Legislative Budget Committee (JLBC) will be requested before expenditure of these unspent APF funds. As a result, the Mainframe Refresh Project (AD15001) will subsequently be closed-out as the project deliverables and milestones have been met.

# Major Deliverables and Outcomes

Two new IBM DS8884 Disk Storage Subsystems will be acquired by means of a fair-market lease, along with a four year hardware maintenance/warranty package. One subsystem will be located at the SDC, and be dedicated to the production environment. The second will be located off-site at the DES data center, for the purpose of business continuity and back-up. Ancillary software and equipment includes electrical and connectivity cabling, subsystem management software including data encryption manager licensing, as well as installation and migration services. Also included is the erasure of data on the existing hardware prior to the old units being decommissioned and transferred to state surplus.

# Benefits

The two new disk storage subsystems will optimize and enhance current disk data storage capacity, and reduce storage administrative costs. The new units will also provide enhanced recovery / business continuity capabilities for disk storage data, providing more security for SDC mainframe clients. Ongoing maintenance and support by the vendor will also guarantee ADOA's ability to provide uninterrupted service to SDC mainframe clients.

# Project Management

Professional services will be procured to assist in the installation and migration of data from the IBM DS8100 to the new IBM DS8884 Disk Storage Subsystems. ADOA project management staff will oversee the implementation of this solution. Technical and business support will be provided by ADOA-SDC staff and vendor sources.

# Enterprise Architecture

Compliant.

# Summary of Proposed Costs

All Figures in Thousands (\$000)							
Cost Description	2015	2016	2017	2018	2019	Total	
Development Costs	439.1	0.0	0.0	0.0	0.0	439.1	
Operational Costs	0.0	98.4	98.4	98.4	98.4	393.5	
Total Project Costs	439.1	98/4	98.4	98.4	98.4	832,6	

Recommendation: Approval



### STATE OF ARIZONA

# Joint Legislative Budget Committee

STATE SENATE

DON SHOOTER CHAIRMAN 2016 OLIVIA CAJERO BEDFORD STEVE FARLEY **GAIL GRIFFIN** KATIE HOBBS JOHN KAVANAGH DEBBIE LESKO STEVEN B. YARBROUGH

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**HOUSE OF** REPRESENTATIVES

JUSTIN OLSON CHAIRMAN 2015 LELA ALSTON RUSSELL "RUSTY" BOWERS VINCE LEACH STEFANIE MACH DARIN MITCHELL STEVE MONTENEGRO MICHELLE UGENTI-RITA

DATE:

December 8, 2015

TO:

Representative Justin Olson, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director 25

FROM:

Rebecca Perrera, Fiscal Analyst

SUBJECT:

Arizona Department of Administration - Review of Health Impact Program Update

# **Summary**

Pursuant to A.R.S. § 38-658A, at its June 2014 meeting, the Committee reviewed the Arizona Department of Administration's (ADOA) contribution strategy for Plan Year (PY) 2015. ADOA's proposal included a new health impact program. As part of its review, the Committee included a provision requiring ADOA to report on the success of the implementation of the incentives program.

### Recommendation

The Committee has at least the following 3 options:

- 1. A favorable review.
- 2. An unfavorable review.
- 3. Take no action.

# **Analysis**

### Background

In October 2014, ADOA implemented a Health Impact Program (HIP) to promote well-being by encouraging healthy choices and preventative care.

(Continued)

The program includes a point based activity system, which allows employees to receive an incentive payment, up to \$200, if the employee accumulates the required 500 points. For example, employees received points by participating in health and well-being activities such as:

- Preventative screenings including wellness, vision, and dental exams (25-100 points).
- Nutrition and wellness classes (25 to 200 points).
- Exercise activities including gym memberships, local races, and organized team sports or activities (25 to 125 points).

Well-being activities are tracked through ADOA's contract with the Mayo Clinic's health information online portal. These self-reported activities are verified through claims data and documentation retained by the employee. Employees collected points between October 1, 2014 and September 30, 2015 and ADOA disbursed incentive payments in November/December 2015.

ADOA budgeted up to \$1.5 million from the Health Insurance Trust Fund (HITF) for the incentive payments. Associated administrative costs for the program are included in ADOA's current operating budget. ADOA plans to continue this program in PY 2016.

# Plan Year 2015 Results

In PY 2015, a total of 53,100 employees were eligible to participate in the HIP. According to ADOA, approximately 8,000 employees (15%) enrolled in the program through the Mayo Clinic's online portal. Of the employees who enrolled in the program, approximately 5,700 employees earned points by self-reporting activities. However, only 1,810 employees, or 23% of participating employees, received the \$200 incentive payment for earning the required 500 points. ADOA reported that of the 1.2 million points earned by participants, 81% were validated through the points verification process. The remaining points were not validated due to time constraints. The total incentive payments made to employees were \$362,000, or 24% of the \$1.5 million budget.

ADOA reported that there was an increased utilization of plan-sponsored health screenings and flu shots. ADOA plans to continue to evaluate the success of the program by measuring various health statistics such as blood pressure, high cholesterol, diabetes, and other chronic conditions. These statistics are reported through a health assessment on the Mayo Clinic's online portal and compared with claims data.

# Plan Year 2016 Program Changes

ADOA plans to make changes to the HIP for PY 2016 to increase participation. First, the timeframe for collecting points will be January 1, 2016 through October 31, 2016 with incentive payments being distributed in December 2016. Second, ADOA has modified its point system to include new activities such as colonoscopy screenings and use of fitness trackers. The point system will also remove the requirement to collect points in each category. Finally, ADOA will enhance its program administration by working with vendors to improve validation methods and revising its marketing and communications campaign.

RS/RP:kp



Craig C. Brown Director

# ARIZONA DEPARTMENT OF ADMINISTRATION

### OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401 PHOENIX, ARIZONA 85007

(602) 542-1500

November 24, 2015

The Honorable Justin Olson, Chair Joint Legislative Budget Committee Arizona House of Representatives 1700 West Washington Street Phoenix, Arizona 85007

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



Dear Representative Olson and Senator Shooter:

During the review of the Benefit Options contribution strategy at the June 23, 2015 JLBC meeting, it was requested that outcomes of the Health Impact Program be provided after the program's implementation had been in place for one year. We are requesting to be placed on the December 15, 2015 JLBC meeting agenda to provide this update on the progress of this program.

Sincerely,

Craig Brown Director

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Lorenzo Romero, Director, Governor's Office of Strategic Planning and Budgeting
Rebecca Perrera, Analyst, Joint Legislative Budget Committee
Chris Olvey, Budget Analyst, Governor's Office of Strategic Planning and Budgeting
Paul Shannon, ADOA Assistant Director Budget and Resource Planning
Marie Isaacson, ADOA Benefits Director

Attachment

# BeWell Health Impact Program Summary Report Joint Legislative Budget Committee

December 2015



# Agenda

- Overview
- Engagement & Participation
- Validation Process & Results
- Proposed Recommendations



# Wellness Program Goal: Increase Employee Engagement in Wellness

Implement an incentive program providing value to both the employee and the State that:

- Communicates commitment to employee well-being
- Promotes prevention to keep healthy employees healthy
- Provides disease management to help unhealthy employees take control of their conditions
- Avoids costs of poor health for both the employee and the plan



# **HIP Overview**

# Wellness Enhancement: Health Impact Program (HIP)

- Budget will not exceed \$1.5M annually
- Employees successfully completing program eligible for up to a \$200 incentive payment
- The Mayo Clinic Healthy Living Online Portal provided the health assessment tool and tracking system
- Employees needed 500 points from October 2014 through September 2015
- Incentive payments were distributed in November/December 2015 (FY2016)

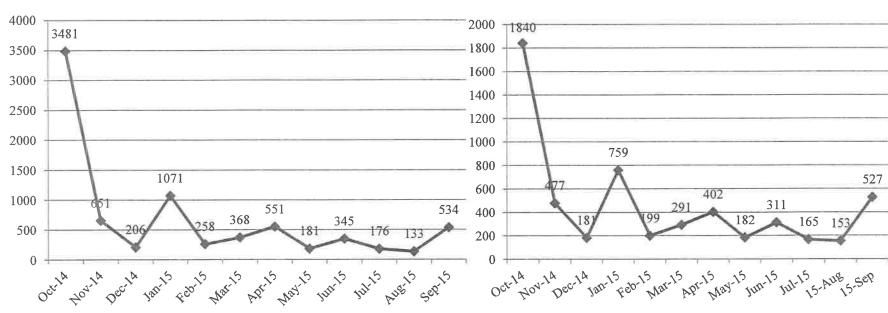


# HIP Participation - Total Eligible

10/1/14 - 9/30/15

# Healthy Living Registrations 7,955

# Healthy Assessment Completions 5,487

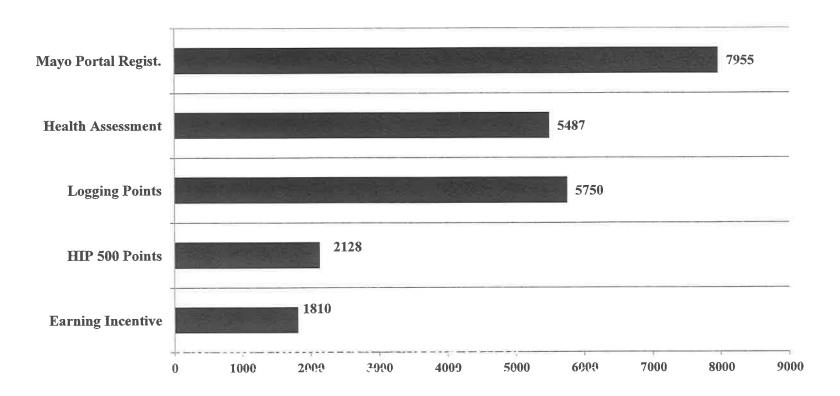


Total Eligible Employees - 53,102 (15% Participation)

69% Assessment Completion Rate

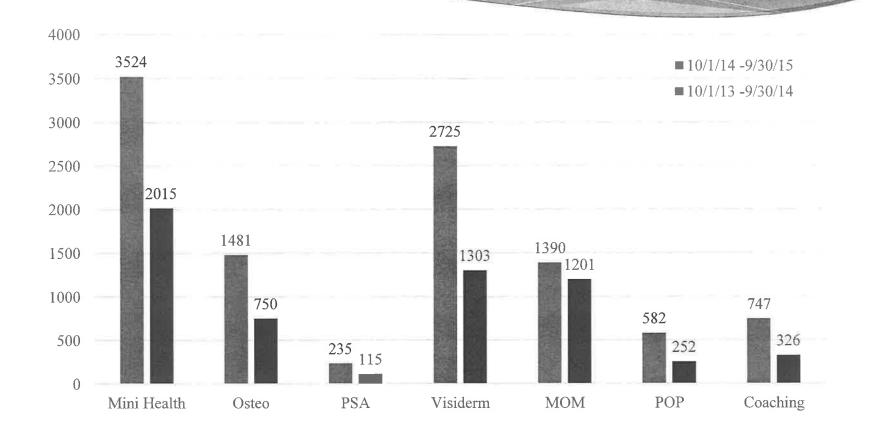


# 2015 Engagement





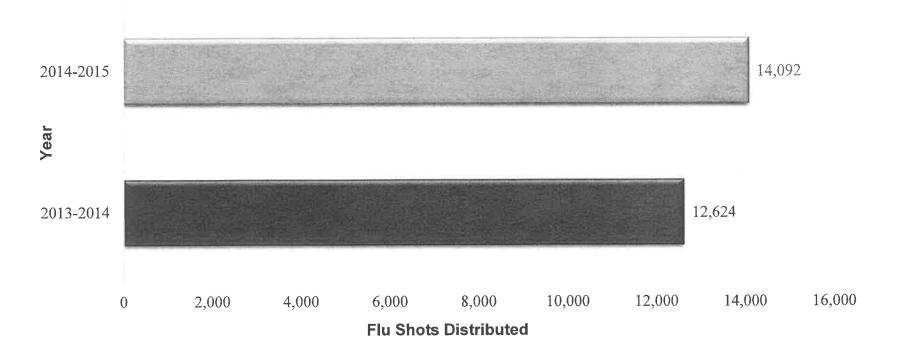
# Vendor Utilization Comparison







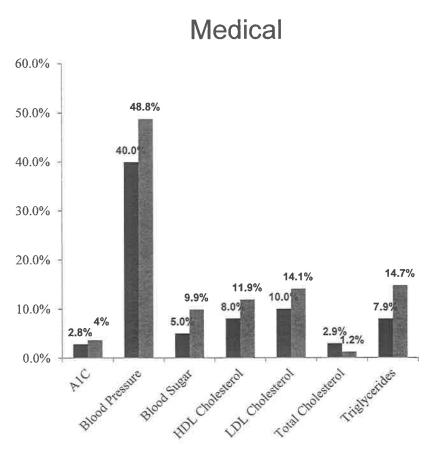
# Flu Shots Distributed

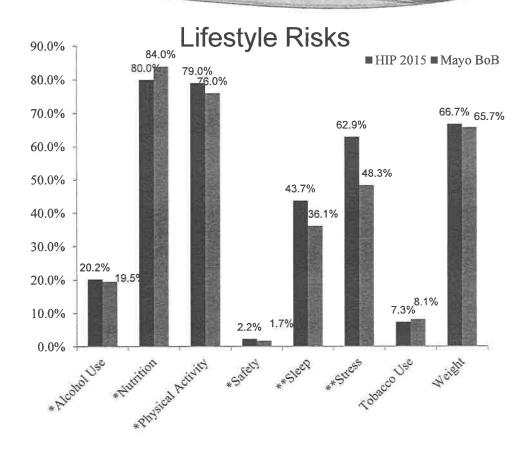


CDC estimates flu shot savings of between \$15 and \$84 per vaccinated person, or \$2.58 per dollar spent on vaccination; possible \$4,000 savings for every averted illness



# Baseline Aggregate Health Risks





\*Indicates changes in health assessment questions for risk area and/or changes in risk factor logic.



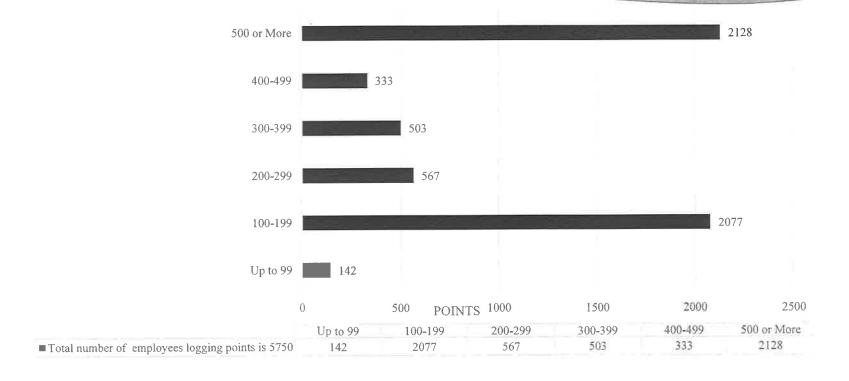
<sup>\*\*</sup>Sleep and Stress risks are new for Healthy Living online, where previously there was a single "Emotional Health" risk.

# Key Findings

- High Blood Pressure, High Cholesterol, Diabetes and Asthma are 4 of the top 10 conditions affecting our employees
- Many of the modifiable risk factors contribute to the development of chronic disease
- Benefit Options Plan data supports the trends identified:
  - High cholesterol and high blood pressure are in the top 10 drugs used in our plan – \$6.6M and \$6.2M annually
  - Diabetes is the #1 therapeutic class of drug by amount spent \$20M annually



# HIP – Point Distribution/Payout



5,750 (72%) of registered participants logged points. 1,810 (85%) of the 2,128 logging 500 points actually earned the incentive, for an estimated payout of \$362,000. (23% of total registered).



## **HIP Data Collection & Verification**

- Health Assessment completion was verified through Mayo Online Portal
- All other activities were self-reported into Mayo Online Portal by employee
- Self-reported activities were confirmed through internal validation process

## Results

- 1,033 (57%) of the 1,810 employees receiving \$200 incentive had 100% of the required 500 points verified
- The remaining 777 members receiving \$200 had 75% of the required 500 points verified
- A total of 990,700 points (81%) of the 1,227,775 total points recorded by employees were 100% verified

# Employee Reporting Requirements

- All participants certified within the Mayo Online Portal that activity reporting will be accurate and truthful
  - Inaccurate self-reporting may result in disciplinary action
  - Participants were directed to retain evidence of participation and that ADOA reserves the right to request as part of the verification process
  - Verification can also be triggered through reports of misrepresentation



# 2016/2017 Cohort Report

2016 - Cohort group established for those who engaged in the program

2017 - Specific methodology for developing the groups:

- Subgroup A: To include non-engaged participants
  - Non-engaged defined as not registered on the Mayo Online Portal
- Subgroup B: To include engaged, in progress participants
  - Engaged, in progress defined as registered on the Mayo Online Portal, achieving any points value between 1-499
- Subgroup C: To include engaged, completed participants
  - Engaged, completed defined as registered on the Mayo Online Portal, having achieved the 500 point requirement

Claims will be reviewed for each group, e.g., number of employees with core diseases, costs per claim and the costs per member – expected cost reduction after year 3 of program

# 2016 Proposed Recommendations

## **Program Period**

January 4, 2016 through October 31, 2016, payment in December 2016

## **Program Design**

- Allow points for vendor specific programs and community resources (Disease Management, Coaching, Lifestyle Programs, Apps, and Activities) to obtain points
- Add additional screenings Hemoglobin A1C and Colonoscopy to point system
- Eliminate the requirement to have at least one activity in each category to be eligible for the incentive.
- Develop a statewide schedule so that employees can self-select a screening appointment

## **Rewards Tracking & Validation**

 Vendors will send data files to Mayo to include for reporting and validation purposes

## **Communications & Outreach**

Enhance the marketing and communications campaign



# Appendix



# Screening Definitions

- Mini Health = The Mini Health Screening components include: a blood draw (lipid profile) for cholesterol, HDL, LDL VLDL, triglycerides, glucose and fructosamine, blood pressure, height, weight and body-fat check
- PSA = Prostate specific antigen blood draw for men
- Osteo = Osteoporosis-bone density screening of the heel
- Visiderm = Screening of the face highlights sun damage (overexposure from the sun's UV rays)
- MOM = a mobile onsite unit that offers digital mammography screening and is covered through insurance
- POP = a mobile unit that offers prostate cancer screening tests that include a PSA screen and digital rectal exams (DRE) by a urologist
- Coaching = Telephonic Health Coaching offered by Mayo Clinic to assist individuals with their behavior change goals and overall risk reduction. Coaching is available in the five focus areas including exercise, nutrition, stress, tobacco, or weight.



# Health Assessment Definition/Purpose

- A Health Assessment is a population-based survey used to identify the prevalence of health and medical risks in a given population.
- Because it is one of the few prospective health related data sources available to employers, it is viewed as a crucial component of wellness program that seek to head off the development of costly chronic conditions

## Aggregate data received is used to:

- Tailor health/wellness interventions to areas of greatest risk w/in a population
- Track progress of health and wellness interventions by evaluation risk factor prevalence and risk migration over time
- Forecast emergent health conditions for early intervention



# 2015 Health Impact Program Point System

## **HIP Point System**

(PY 2015: Employee Points Earned October 2014 to September 2015)

Employees participate in the following activities to achieve points toward an incentive. Employees are permitted to engage in multiple programs in each category (column), but must select at least ONE activity in each category and earn 500 points\* to receive

the incentive payment - up to \$200.

#### Activity/Exercise

- Wellness approved walking program or onsite activity class
   Enrollment = 25pts, Completion +50pts = 75pst
- On-line Lifestyle Coaching for Weight Management or Exercise Enrollment = 25pts, Completion +50pts = 75pts
- Participation in activity class or organized sporting team/event = 25pts
- Gym Membership = 25pts
- Participation in local race (i.e. 5k, 10k, Halfmarathon, Century bike ride) = 25pts

## Preventive Screenings

- Well Woman Annual Visit = 100pts
- Mammography screen = 50pts
- Osteoporosis screen = 50pts
- Well Man Annual Visit = 100pts
- Prostate cancer screen = 50pts
- Mini health screen = 75pts
- Skin cancer screen = 75pts
- Online Health Risk Assessment = 100pts
- Influenza vaccination = 50pts
- Vision exam = 25pts
- Dental cleaning = 25pts

#### Nutrition/Other

- Telephonic Lifestyle Coaching (weight management, nutrition, tobacco, stress management)
   Enrollment= 50pts, Completion +75pts = 125pts
- eMindful: Mindfulness classes = 50pts (100 pts Max)
- Wellness sponsored 1-hour seminars: ( i.e. Nutrition, Exercise, Financial Health, and Emotional Health) = 50pts (100 pts Max)
- On-site series courses: Weight, Nutrition, Stress, Cholesterol, Prehypertension, and/or Diabetes Management Enrollment= 50pts, Completion +75pts = 125pts
- Tobacco Free Program Enrollment = 50pts, Completion +75pts = 125pts
- Disease Management Program through medical vendor Enrollment = 50pst, Completion +150pts = 200pt
- Pregnancy Program through medical vendor Enrollment = 25pts, Completion +75pts = 100pts



# 2016 Health Impact Program – Point System\*

Employee Points Earned January 4, 2016 to October 31, 2016

Employees participate in the following activities to achieve points toward an incentive. Employees are permitted to engage in multiple programs in each category (column), to earn 500 points\* to receive the incentive payment – up to \$200.

#### Engagement

- Mayo Clinic Enrollment
   = 25pts
- Health Plan Vendor Portal Enrollment =25 pts

## Screening & Assessment

- Well Woman Annual Visit= 100pts
- Well Man Annual Visit = 100pts
- Mammography screen = 50pts
- Osteoporosis screen = 50pts
- Prostate cancer screen = 50pts
- Skin cancer screen (Health provider) = 75pts
- · Colonoscopy = 100pts
- Mini health screen = 75pts
- Hemoglobin A1C = 50pts
- Online Health Risk Assessment = 150pts

## Preventive Healthy Lifestyle Practices

- Influenza vaccination = 50pts
- Vision exam = 25pts
- Dental cleaning = 25pts
- (50ptsMax)
- Use of Mayo Trackers or Apps =25pts (75pts Max)
- Weight
- Food Journal
- Fitness
- Approved Onsite Activity/Session Community Event: = 25pts (125pts Max)
- · Walking Program
- · Fitness Classes
- · Race
- Gym Membership
- Organized Sports Team/Tournament

#### Education & Lifestyle Change

• Coaching: Telephonic Health Coaching Completion = 150pts

#### OR

- Health Plan
  Vendor Lifestyle
  Management Program Online Lifestyle
  Programs (weight
  management, nutrition,
  tobacco, stress
  management)
  = 50pts for each topic
  completion (150 pts
  Max)
- Wellness sponsored 1hour seminars and Webinars: (i.e. Nutrition, Exercise, Financial Health, and Emotional Health) = 50pts
- eMindful: Mindfulness classes = 50pts (100pts Maximum for seminars, webinars and classes)

### Health Management Support

- Tobacco Free Program Completion = 125pts
- Disease Management Program through medical vendor Completion = 200pts
- Pregnancy Program through medical vendor Completion = 150pts





#### STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

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DARIN MITCHELL
STEVE MONTENEGRO
MICHELLE UGENTI-RITA

DATE:

December 8, 2015

TO:

Representative Justin Olson, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director RS

FROM:

Josh Hope, Fiscal Analyst JH

SUBJECT:

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

#### Request

A.R.S. § 15-2041D.3c requires that the cost-per-square-foot factors used in the School Facilities Board (SFB) new school construction financing "shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee (JLBC) as necessary but not less than once each year."

#### Recommendation

The Committee has at least the following 3 options:

- 1. Approve the SFB Staff request for a 16% adjustment in the cost-per-square-foot factors. This is based on the assumption of 2% annual inflation since 2008, which is the last year the formula was increased.
- 2. Approve a 3.75% adjustment in the cost-per-square-foot factors, based on the most recent available 1-year change in the Rider Levett Bucknall (RLB) Phoenix construction cost index.
- 3. Approve a 0% adjustment in the cost-per-square-foot factors. The adjustment is based on longitudinal inflation data, by measuring the change in the RLB Phoenix construction cost index since the last JLBC cost-per-square-foot adjustment in November 2008. The Committee adopted this option last year.

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

Table 1			
Cost-Per-Square-Foot Amounts for Each O	otion		
	<u>K-6</u>	<u>7-8</u>	9-12
Option 1 - SFB Staff Request – 2% Annual Inflation Since 2008 (16.0%)	\$158.53	\$167.35	\$193.78
Option 2 - Phoenix Construction Cost Index (1-Year Change, 3.75%)	\$141.78	\$149.68	\$173.31
Option 3 - Longitudinal Phoenix Construction Index (Current Amount; 0%)	\$136.66	\$144.27	\$167.05

#### **Analysis**

#### **Background Information**

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

The Committee has used a variety of different indices to establish the per-square-foot amounts. In November 2008, the Committee approved a 1.98% adjustment in construction costs. Since that time, the Committee has approved a 0% adjustment in construction costs in each year. Statute requires that the Committee adjust the cost-per-square-foot amounts at least once per year. The last adjustment occurred 1 year ago at the December 2014 meeting.

### **Three Options**

SFB Staff is requesting an increase in the new school construction cost-per-square-foot factors by 16.0%. This option is based on the assumption of 2% annual inflation for the last 8 years since the formula was adjusted in 2008. SFB did not specify an inflation index to support its proposal. SFB Staff has also provided data from RS Means, a construction cost source from the consulting firm the Gordian Group, which estimates Phoenix area construction costs have increased by approximately 20% since 2008.

The second option is based on the most recent RLB measurement of the change in all construction costs in the Phoenix area for the past year, from July 2014 through July 2015, which would be an increase of 3.75%.

The third option is to set the inflation adjustment based on a longitudinal measurement of construction costs since the last time the Committee adopted an adjustment. As noted previously, JLBC approved a 1.98% adjustment in November 2008. Construction costs subsequently declined during the recession, but have been recovering in recent years. Based on the most current RLB data, construction costs in the Phoenix area have increased by 0.18% since January 2009, resulting in the third option of a 0% adjustment. This longitudinal approach using RLB data was previously used by the Committee at the December 2013 and December 2014 meetings, with adjustments of 0%.

JLBC Staff is currently exploring the technical issues causing RS Means, the SFB Staff data source, to produce a significantly higher growth rate in Phoenix construction costs compared to the RLB index.

A 0.18% adjustment would translate into a 25¢ to 30¢ adjustment for 3 different square foot factors. For purposes of this analysis, this option would leave the current factors unchanged due to the small dollar value of a 0.18% adjustment.

#### Fiscal Impact

The SFB Staff estimates that 2 districts may qualify for new construction projects in FY 2017 totaling \$35.7 million excluding land costs if formally approved by SFB in the spring. The first project would cost \$33.4 million and would fund 200,000 square feet of additional space in the Agua Fria Unified High School District. The second project would cost \$2.3 million and would fund 15,420 square feet of additional space in the Chandler Unified School District. Neither project has been formally approved by the Board.

The SFB Staff's recommended cost-per-square-foot factors increase of 16% would increase that cost by approximately \$5.7 million. The second option would result in approximately \$1.3 million in additional costs. The third option would result in no increase. Any additional long-term costs would depend on future SFB new construction approvals.

RS/JH:kp



# STATE OF ARIZONA SCHOOL FACILITIES BOARD

Governor of Arizona Douglas A. Ducey Interim Executive Director Philip G. Williams

December 1, 2015

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

And

The Honorable Justin Olson, Chairman Joint Legislative Budget Committee



Dear Senator Shooter and Representative Olson:

A.R.S. §15-2041.D.3(c) states in part "...The cost per square foot shall be adjusted annually for construction market considerations based on an index identified or developed by the joint legislative budget committee as necessary but no less than once each year." To assist the JLBC, the School Facilities Board has prepared the following information.

The current new school construction cost index was established the JLBC in 2008. Current market conditions, as noted below, would not provide sufficient funds to build a school to the Minimum School Facility Adequacy Guideline requirements.

The SFB used analysis developed by RS Means (a nationally recognized publisher of construction cost data) and Rider Levett Bucknall (RLB), an international construction consulting group, in support of this annual request for inflation adjustment.

According to the RS Means Square Foot Costs 2015 (Catalog No. 60055, p.526) the cost of construction in the Phoenix area has increased 119.7% since 2008, while the Tucson area has increased 120.6% during the same period (See attached Historical Cost Indexes).

The RLB analysis shows a current cost between \$150.00 and \$200.00 per square foot for elementary school construction and between \$170.00 and \$250.00 per square foot for high school construction. (See attached RLB Quarterly Construction Cost Report, 3<sup>rd</sup> Qtr. 2015.) Please note that the RLB analysis accounts for only construction bid costs. Costs for design, permitting, furniture, etc. need to be added to the cost per square foot. These additional costs add approximately 20% to the construction cost. Please also note that the current construction cost index for K-6 is \$136.66 (established in 2008).

To become effective in FY 2017, the SFB is requesting the Joint Legislative Budget Committee increase the new school construction cost index by 16%. This requested increase is based on the most common inflation rate used by most economists of 2% growth per year since 2008 and the current \$136.66 per square foot formula amount for construction.

The current market conditions for construction materials began to increase in the Spring of 2014. The major difference in the market today is the availability of a qualified work force. Today, contractors are struggling to put enough "journeymen" type workers in the field. During the recession, when Arizona's new home construction was at a trickle, the construction workers either moved to areas where construction work was still available or changed occupations. Today, unfortunately, Arizona's construction industry, while growing, is still not attracting enough qualified workers. The lack of an available work force is keeping labor rates high.

Table One below shows the impact on the formula cost per square foot when the requested 16% increase is added to the current formula.

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Grade Level	Current Amount	Adjusted Amount					
K-6	\$136.66	\$158.53					
7-8	\$144.27	\$167.35					
9-12	\$167.05	\$193.78					

The SFB believes that the Adjusted Amounts shown above adequately reflect current inflation and market conditions.

#### Fiscal Impact

The SFB assumes the fiscal impact in FY 2017, as a result of the requested 16% increase, would be approximately \$10,827,095 (based on the potential to award five new schools with a total of 423,305 square feet). Staff is currently reviewing school district capital plans and estimates there will be between three and five school districts that will be over capacity in FY 2016 that will need to be awarded additional square footage to meet their capacity need projections. Table Two below shows the five conceptual awards made in FY 2015 that are the basis for this fiscal impact statement.

Table Two

Table Two					To Be	
		Grade	Square	Student	Approved	
District	Project Type	Level	Footage	Capacity	FY	County
Agua Fria Union	New School	9-12	200,000	2,128	16	Maricopa
Chandler Unified	New School	K-12	15,420	182	16	Maricopa
Pima Unified	New School	K-6	7,110	89	16	Graham
Laveen Elementary	New School	K-8	92,400	1,155	17	Maricopa
Queen Creek Unified	New School	9-12	108,375	1,153	17	Maricopa
		Total:	423,305			

If you or your staff have any questions regarding this information and request, please contact me at 602-542-4457 or  $\underline{pwilliams@azsfb.gov}$ .

Respectfully submitted,

Philip G. Williams

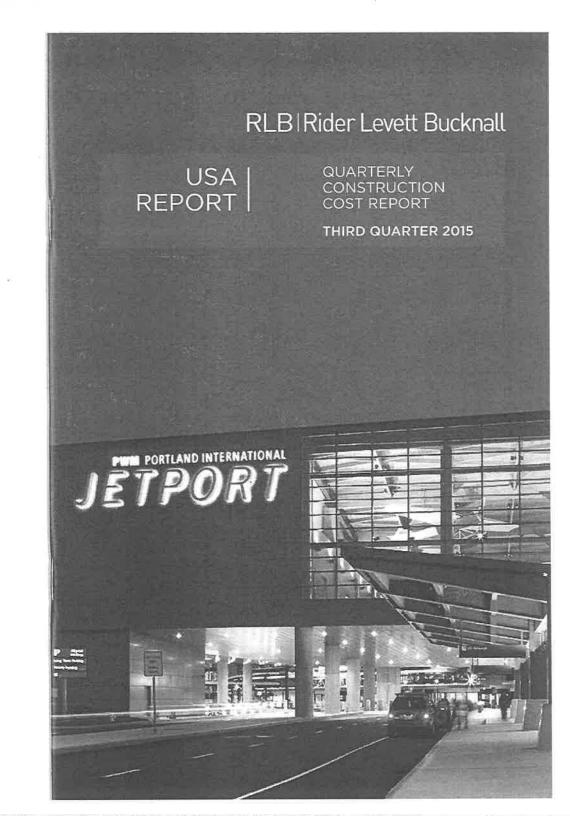
Henry Darwin, Chief of Staff, Governor's Office Lorenzo Romero, Director, OSPB

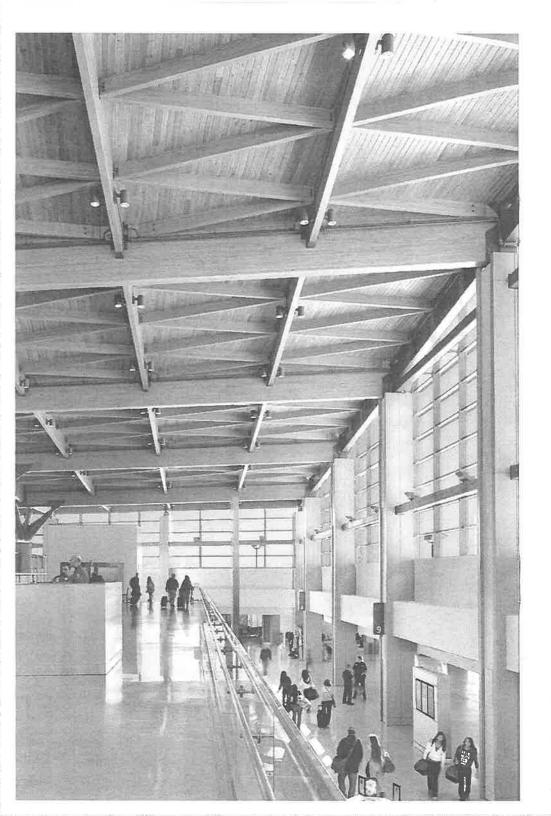
Michael Williams, OSPB Joshua Hope, JLBC staff

## Historical Cost Indexes

14	National	33147	7	Alabama		HOTOGRA h t	Alaska	Ariz	ona	Arka		14 (3%-37)		California	1.8%,12.	ウル C 1万 - 11 1108
Year	30 City Average	Birming-	Hunts- ville	Mobile	Mont- gomery	Tusca- loosa	Anchor- age	Phoenix	Tuscon	Fort Smith	Little Rock	Anaheim	Bakers- field	Fresno	Los Angeles 221.6E	Oxnard 219.3E
Jan 2015   2014   2013   2012   2011   2010	206.7E 203.0 196.9 194.0 185.7 181.6	186.4E 180.3 173.3 169.1 163.0 159.6	181.5E 175.8 168.7 162.7 156.3 152.9	175.5E 170.6 165.7 163.2 156.9 153.1	168.0E 163.1 158.7 153.8 147.6 144.4	171.6E 165.9 161.6 154.6 148.3 144.9	245.5E 241.0 235.3 232.5 225.1 218.3	182.2E 180.0 174.1 172.2 163.8 160.7	178.9E 177.0 169.2 166.4 159.5 157.3	168.9E 1 165.1 161.2 158.7 152.0 150.3	172.5E 168.4 163.2 161.0 154.1 152.5	219.6E 214.2 207.0 204.1 196.1 192.8	219.9E 215.2 205.6 202.9 194.6 190.8	220.7E 217.0 210.3 207.3 199.8 195.0	217.3 210.7 207.2 199.2 194.9	214.8 207.8 204.7 197.0 192.8
2009 2008 2007 2006 2005	182.5 171.0 165.0 156.2 146.7	162.7 150.3 146.9 135.7	157.2 146.9 143.3 133.6 125.4	155.6 143.7 140.3 126.7 119.3	148.8 138.4 134.8 124.0 116.6	149.4 138.8 135.4 122.2 114.6	222.9 210.8 206.8 196.4 185.6	161.3 152.2 147.7 137.9 128.5	156.8 148.4 143.1 134.8 124.1	149.2 138.6 134.8 123.2 115.4	156.3 145.4 141.7 127.2 119.4	194.5 182.7 175.1 166.8 156.5	192.3 179.8 173.7 164.9 153.0	195.0 183.2 176.7 169.8 157.9	196.6 184.7 177.5 167.3 157.1	194.5 182.6 176.2 167.4 156.4
2004 2003 2002 2001 2000	132.8 129.7 126.7 122.2 118.9	115.9 113.1 110.0 106.0 104.1	112.9 110.7 103.4 100.5 98.9	107.0 104.8 103.6 100.6 99.1	104.9 102.6 101.7 98.3 94.2	102.9 100.8 99.7 95.9 94.6	167.0 163.5 159.5 152.6 148.3	116.5 113.9 113.3 109.0 106.9	113.6 110.6 110.2 106.4 104.9	103.8 101.8 100.4 97.3 94.4	108.6 105.8 102.1 98.7 95.7	142.1 139.4 136.5 132.5 129.4	139.5 137.2 133.4 129.3 125.2	143.8 142.1 136.0 132.8 129.4	142.0 139.6 136.4 132.4 129.9	136.3 132.4 129.7
1999 1998 1997 1996 1995	116.6 113.6 111.5 108.9	101.2 96.2 94.6 90.9 87.8	97.4 94.0 92.4 91.4 88.0	97.7 94.8 93.3 92.3 88.8	92.5 90.3 88.8 87.5 84.5	92.8 89.8 88.3 86.5 83.5	145.9 143.8 142.0 140.4 138.0	105.5 102.1 101.8 98.3 96.1	103.3 101.0 100.7 97.4 95.5	93.1 90.6 89.3 86.5 85.0	94.4 91.4 90.1 86.7 85.6	127.9 125.2 124.0 121.7 120.1	123.6 120.3 119.1 117.2 115.7	126.9 123.9 122.3 120.2 117.5	128.7 125.8 124.6 122.4 120.9	124.7 123.5 121.5 120.0
1990 1985 1980 1975 1970	93.2 81.8 60.7 43.7	79.4 71.1 55.2 40.0 24.1	77.6 70.5 54.1 40.9 25.1	82.7 72.7 56.8 41.8 25.8	78.4 70.9 56.8 40.1 25.4	75.2 67.9 54.0 37.8 24.2	125,8 116.0 91.4 57.3 43.0	86.4 78.1 63.7 44.5 27.2	87.0 77.7 62.4 45.2 28.5	77.1 69.6 53.1 39.0 24.3	77.9 71.0 55.8 38.7 22.3	107.7 95.4 68.7 47.6 . 31.0	102.7 92.2 69.4 46.6 30.8	103.3 92.6 68.7 47.7 31.1	107.5 94.6 67.4 48.3 29.0	96.6 69.9 47.0 31.0
1965 1960 1955 1950 1945 1949	21.5 19.5 16.3 13.5 8.6	19.6 17.9 14.8 12.2 7.8 6.0	19.3 17.5 14.7 12.1 7.7 6.0	19.6 17.8 14.9 12.3 7.8 6.1	19.5 17.7 14.9 12.3 7.8 6.0	18.7 16.9 14.2 11.7 7.5 5.8	34.9 31.7 26.6 21.9 14.0 10.8	21.8 19.9 16.7 13.8 8.8 6.8	22.0 20.0 16.7 13.8 8.8 6.8	18.7 17.0 14.3 11.8 7.5 5.8	18.5 16.8 14.5 11.6 7.4 5.7	23.9 21.7 18.2 15.1 9.6 7.4	23.7 21.5 18.1 15.0 9.5 7.4	24.0 21.8 18.3 15.1 9.6 7.4	22.7 20.6 17.3 14.3 9.1 7.0	23.9 21.7 18.2 15.1 9.6 7.4

	71			-		California				Fa. 1234	Colorado			(	Connecticu	t s	
,		National 30 City	River-	Sacra- mento	San	California San Francisco	Santa Barbara	Stockton	Vallejo	Colorado Springs	Denver	Pueblo	Bridge- Port	Bristol	Hartford	New Britain	New Haven
Jar	-01-	206.7E 203.0 196.9 194.0 185.7 181.6	219.3E 214.1 207.0 204.1 195.8 192.7	224.9E 221.5 215.0 211.9 203.1 196.7	216.1E 211.4 203.2 198.9 192.3 188.2	254.0E 248.0 241.0 237.6 227.9 223.0	219.2E 214.7 207.9 204.8 196.2 192.9	223.3E 218.4 211.8 208.8 201.3 195.9	231.4E 227.9 222.2 218.9 210.3 204.6	192.9E 187.8 180.7 179.4 171.7 170.5	191.3E 189.1 183.4 182.2 174.1 172.6	190.4E 184.7 180.0 177.9 170.7 168.1	227.2E 223.8 217.8 213.9 205.2 198.8	226.1E 222.8 217.2 213.3 204.2 199.1	227.2E 223.9 218.4 214.4 205.1 199.8	225.6E 222.4 216.8 212.9 203.9 198.8	227.4E 224.1 218.5 214.7 205.8 200.7
	2009 2008 2007 2006 2005	182.5 171.0 165.0 156.2 146.7	193.1 181.3 174.7 166.0 155.4	198.1 186.0 179.1 172.2 161.1	191.6 179.9 173.6 164.0 153.8	224.9 210.6 201.1 191.2 179.7	193.6 181.5 175.2 166.4 155.7	194.5 183.2 178.2 171.0 160.0	202.7 191.6 185.9 177.9 167.2	168.4 158.8 152.6 146.1 138.3	172.0 161.9 155.9 149.2 141.1	166.7 157.9 152.3 145.0 136.4	199.0 185.8 179.6 169.5 160.8	197.7 184.8 178.3 168.0 159.4	198.7 185.7 179.6 169.5 159.6	197.4 184.5 178.0 167.7 159.1	186.1 179.5 169.8 160.8
	2004 2003 2002 2001 2000	132.8 129.7 126.7 122.2 118.9	141.0 138.7 135.3 131.4 128.0	147.2 144.9 138.4 135.5 131.5	139.0 136.6 134.2 129.7 127.1	163.6 162.1 157.9 151.8 146.9	141.4 139.2 135.9 131.5 128.7	144.2 141.8 136.9 134.1 130.7	148.6 146.4 143.8 140.2 137.1	125.6 123.1 118.7 113.3 109.8	127.2 123.7 121.3 117.2 111.8	123.5 120.7 116.7 113.1 108.8	143.6 141.3 133.8 128.6 122.7	142.9 140.2 133.6 128.5 122.6	142.4 140.3 133.1 128.5 122.9	142.7 140.0 133.3 128.3 122.4	141.6 134.8 128.6 122.7
	1999 1998 1997 1996 1995	116.6 113.6 111.5 108.9 105.6	126.5 123.7 122.6 120.6 119.2	129.4 125.9 124.7 122.4 119.5	124.9 121.3 120.3 118.4 115.4	145.1 141.9 139.2 136.8 133.8	127.2 123.7 122.4 120.5 119.0	127.9 124.7 123.3 121.4 119.0	135.3 132.5 130.6 128.1 122.5	107.0 103.3 101.1 98.5 96.1	109.1 106.5 104.4 101.4 98.9	107.1 103.7 102.0 99.7 96.8	121.1 119.1 119.2 117.4 116.0	121.3 119.4 119.5 117.6 116.5	121.2 120.0 119.9 117.9 116.9	121.1 119.7 119.7 117.8 116.3	120.0 120.0 118.1 116.5 96.5
	1990 1985 1980 1975 1970	93.2 81.8 60.7 43.7 27.8	107.0 94.8 68.7 47.3 31.0	104.9 92.2 71.3 49.1 32.1	105.6 94.2 68.1 47.7 30.7	121.8 106.2 75.2 49.8 31.6	7106.4 93.2 71.1 46.1 31.3	105.4 93.7 71.2 47.6 31.8	111.4 97.0 71.9 46.5 31.8	86.9 79.6 60.7 43.1 27.6	88.8 81.0 60.9 42.7 26.1	88.8 80.4 59.5 42.5 27.3	96.3 86.1 61.5 45.2 29.2	95.9 86.2 60.7 45.5 28.2	96.6 87.2 61.9 46.0 29.6	95.9 86.1 60.7 45.2 28.2	86.3 61.4 46.0 29.3
-	1965 1960 1955 1950 1945 1940	21.5 19.5 16.3 13.5 8.6	23.9 21.7 18.2 15.0 9.6 7.4	24.8 22.5 18.9 15.6 10.0 7.7	24.0 21.7 18.2 15.0 9.6 7.4	23.7 21.5 18.0 14.9 9.5 7.3	24.1 21.9 18.4 15.2 9.7 7.5	24.5 22.3 18.7 15.4 9.9 7.6	24.5 22.2 18.6 15.4 9.8 7.6	21.3 19.3 16.2 13.4 8.5 6.6	20.9 19.0 15.9 13.2 8.4 6.5	21.0 19.1 16.0 13.2 8.4 6.5	22.4 20.0 16.8 13.9 8.8 6.8	21.7 19.8 16.6 13.7 8.7 6.8	22.6 20.0 16.8 13.8 8.8 6.8	21.7 19.8 16.6 13.7 8.7 6.8	23.2 20.0 16.8 13.9 8.9 6.8





## USA REPORT

# AT A GLANCE

The figures in this edition of Rider Levett Bucknall's Quarterly Cost Report paint a variety of scenes.

The scene for the general economy shows GDP at a robust 3.7%, unemployment steady at 5.5% and general economy-wide inflation (as measured by the Consumer Price Index) reaching 1.06% (4.24% annualized). Guided by these and other positive economic signs, the US Federal Reserve Bank had been priming expectations towards a rise in interest rates but this was set back by the emergence of problems in the Chinese economy prompting the IMF and others to 'warn' the Fed about making a 'premature' rate increase. As a result, in mid-September, the Fed 'folded' and left interest rates unchanged. In summary, for the general economy, positive news was trampled.

The scene for the construction industry also remains positive. According to the AIA, July's Architectural Billing Index score of 55.7 "...marks the third consecutive month of growth, breaking the recent ABI pattern of two months of progress after two months of contractions...". Construction Unemployment has fallen to 6,3% (still higher than the general rate of unemployment); Construction Put-In-Place jumped by nearly 12% between the 3rd Quarter 2014 and the 2nd Quarter 2015 and; cost escalation nationally sat at 3.56% for the past year.

Cost escalation in Honolulu in the 2nd Quarter hit 2.76% (11.0% annualized) leading its construction costs to eclipse those of New York City and making it the most expensive city to build in the USA.

## PORTLAND INTERNATIONAL JETPORT PORTLAND, MAINE

The Portland International Jetport, located in Portland, Maine, has constructed a new terminal building. The terminal expansion was designed to demonstrate that a publicly-owned building can be sustainable, energy efficient and aesthetically striking. The facility includes new aircraft gates, a ticketing hall, a baggage handling area, security-screening checkpoints, departure lounges, a concession, and a food court.

Advocating sustainability and energy efficiency in their development plan, Portland International Jetport has been named the second airport in the United States to achieve a LEED Gold certification.

Rider Levett Bucknall provided construction cost management services to Gensler, the architect for the project.

© Robert Benson Photography

## USA REPORT

## NATIONAL CONSTRUCTION COST INDEX

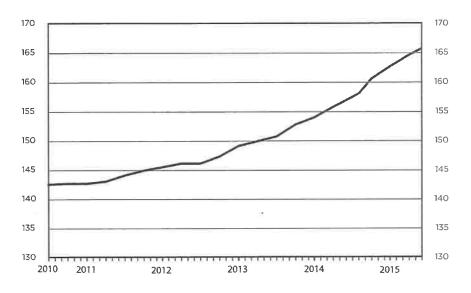
The National Construction Cost Index shows the changing cost of construction between July 2010 and July 2015, relative to a base of 100 in April 2001, Index recalibrated as of April 2011.

July 2010 142.58 October 2010 142.60 January 2011 142.77 April 2011 143.42 July 2011 144.53 October 2011 145.29 January 2012 145.73 April 2012 146.35 July 2012 146.67 October 2012 147.74 January 2013 149.19 April 2013 150.75 July 2013 151.89 October 2013 153.09 January 2014 154.56 April 2014 156.33 July 2014 158.48 October 2014 161.11 January 2015 162.98 April 2015 164.96	Date	Cost Index
January 2011 142.77  April 2011 143.42  July 2011 144.53  October 2011 145.29  January 2012 145.73  April 2012 146.35  July 2012 146.67  October 2012 147.74  January 2013 149.19  April 2013 150.75  July 2013 151.89  October 2013 153.09  January 2014 154.56  April 2014 156.33  July 2014 158.48  October 2014 161.11  January 2015 162.98	July 2010	142.58
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July 2011 144.53 October 2011 145.29 January 2012 145.73 April 2012 146.35 July 2012 146.67 October 2012 147.74 January 2013 149.19 April 2013 150.75 July 2013 151.89 October 2013 153.09 January 2014 154.56 April 2014 156.33 July 2014 158.48 October 2014 161.11 January 2015 162.98	January 2011	142.77
October 2011 145.29  January 2012 145.73  April 2012 146.35  July 2012 146.67  October 2012 147.74  January 2013 149.19  April 2013 150.75  July 2013 151.89  October 2013 153.09  January 2014 154.56  April 2014 156.33  July 2014 158.48  October 2014 161.11  January 2015 162.98	April 2011	143.42
January 2012 145.73  April 2012 146.35  July 2012 146.67  October 2012 147.74  January 2013 149.19  April 2013 150.75  July 2013 151.89  October 2013 153.09  January 2014 154.56  April 2014 156.33  July 2014 158.48  October 2014 161.11  January 2015 162.98	July 2011	144.53
April 2012 146.35 July 2012 146.67 October 2012 147.74 January 2013 149.19 April 2013 150.75 July 2013 151.89 October 2013 153.09 January 2014 154.56 April 2014 156.33 July 2014 158.48 October 2014 161.11 January 2015 162.98	October 2011	145.29
July 2012 146.67 October 2012 147.74 January 2013 149.19 April 2013 150.75 July 2013 151.89 October 2013 153.09 January 2014 154.56 April 2014 156.33 July 2014 158.48 October 2014 161.11 January 2015 162.98	January 2012	145.73
October 2012 147.74  January 2013 149.19  April 2013 150.75  July 2013 151.89  October 2013 153.09  January 2014 154.56  April 2014 156.33  July 2014 158.48  October 2014 161.11  January 2015 162.98	April 2012	146.35
January 2013 149.19 April 2013 150.75 July 2013 151.89 October 2013 153.09 January 2014 154.56 April 2014 156.33 July 2014 158.48 October 2014 161.11 January 2015 162.98	July 2012	146.67
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July 2013 151.89  October 2013 153.09  January 2014 154.56  April 2014 156.33  July 2014 158.48  October 2014 161.11  January 2015 162.98	January 2013	149.19
October 2013 153.09 January 2014 154.56 April 2014 156.33 July 2014 158.48 October 2014 161.11 January 2015 162.98	April 2013	150.75
January 2014 154.56 April 2014 156.33 July 2014 158.48 October 2014 161.11 January 2015 162.98	July 2013	151.89
April 2014 156.33  July 2014 158.48  October 2014 161.11  January 2015 162.98	October 2013	153.09
July 2014       158.48         October 2014       161.11         January 2015       162.98	January 2014	154.56
October 2014 161.11 January 2015 162.98	April 2014	156.33
January 2015 162.98	July 2014	158.48
	October 2014	161.11
April 2015 164.96	January 2015	162.98
	April 2015	164.96
July 2015 166.85	July 2015	166.85

Welcome to the third quarter 2015 issue of Rider Levett Bucknall's Quarterly Cost Reports! This issue contains data current to July 1, 2015.

According to the U.S. Department of Commerce, construction put-inplace during June 2015 was estimated at a seasonally adjusted annual rate of \$1,064.6 billion, which is 0.1% above the revised May estimate of \$1,063.5 billion. The June 2015 figure is 12,0% above the June 2014 estimate of \$950.3 billion. The value of construction for the first six months of this year was \$482.7 billion, 8.0% above the same period in 2014.

## NATIONAL CONSTRUCTION COST INDEX



## KEY UNITED STATES STATISTICS

	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Gross Domestic Product (GDP)*	3.5%	2.2%	0.2%	3.7%
Consumer Price Index (CPI)	238.0	234.8	236.1	238.6
Inflation (Quarter)	-0,13%	-1.36%	0.55%	1.07%
Architectural Billings Index (ABI)	55.2	52.2	51.7	55.7
Construction Put-in-Place (B)	\$950.9	\$982,1	\$966.6	\$1,064.6
Unemployment	6.1%	5.6%	5.5%	5.5%
Construction Unemployment	7.0%	8.3%	9.5%	6.3%

GDP represented in percent change from the preceding quarter, seasonally adjusted at annual rates. CPI quarterly figures represent the monthly value at the end of the quarter. Inflation rates represent the total price of inflation from the previous quarter, based on the change in the Consumer Price Index. ABI is derived from a monthly American Institute of Architects survey of architectural firms of their work on the boards, reported at the end of the period. Construction Put-in-Place figures represent total value of construction dollars in billions spent at a seasonally adjusted annual rate taken at the end of each quarter. General Unemployment rates are based on the total population I6 years and older. Construction Unemployment rates represent only the percent of experienced private wage and salary workers in the construction industry I6 years and older. Unemployment rates are seasonally adjusted, reported at the end of the period.

Sources: U.S. Bureau of Labor Statistics, Bureau of Economic Analysis, American Institute of Architects

<sup>\*</sup> Adjustments made to GDP based on amended changes from the Bureau of Economic Analysis.



## INDICATIVE CONSTRUCTION COSTS

The data in the chart below represents estimates of current building costs in each respective market, Costs may vary as a consequence of factors such as site conditions, climatic conditions, standards of specification, market conditions, etc. Values represent hard construction costs based on U.S. dollars per square foot of gross floor area.

		OFF	CES			RETAIL S	HOPPING	à		нот	ELS		HOS	PITAL	INDUS	TRIAL		PAR	KING			RESID	ENTIAL				EDUC	ATION		
	PRI	ME	SECO	NDARY	CEN	TER	ST	RIP	5 S	TAR	3 5	TAR	GEN	ERAL	WARE	HOUSE	GRO	UND	BASE	MENT	MULTI-	FAMILY	SINGLE	FAMILY	ELEME	NTARY	HIGH S	CHOOL	UNIVE	ERSITY
LOCATION	LOW	HIGH	LOW	HIGH	FOM	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH
Boston	200	280	175	245	120	210	90	145	250	400	160	250	375	550	70	100	60	90	80	110	135	220	165	325	220	300	240	350	275	400
Chicago	230	360	120	180	115	210	80	130	250	450	120	210	310	580	70	130	65	110	90	130	130	210	120	325	190	350	190	370	250	375
Denver	140	225	100	150	80	130	65	125	185	280	105	165	335	390	65	110	40	70	60	95	70	190	60	350	125	160	145	215	185	305
Honolulu	255	470	215	355	185	440	155	385	460	665	290	485	420	680	125	200	85	125	120	235	170	395	250	680	300	425	360	540	395	640
Las Vegas	140	285	105	190	115	480	65	145	325	465	120	225	285	455	50	100	50	85	60	150	70	400	90	350	180	315	200	455	235	455
Los Angeles	200	300	140	210	125	280	100	160	300	450	200	275	400	600	95	160	95	115	TIO	155	150	245	150	310	310	410	325	445	340	490
New York	205	350	180	270	140	250	115	160	320	475	185	265	450	600	90	130	65	105	85	125	140	250	175	350	190	340	220	375	275	400
Phoenix	140	240	100	160	105	165	70	125	230	400	140	180	300	450	55	100	40	65	60	100	90	185	100	400	150	200	170	250	210	375
Portland	165	220	115	170	110	220	90	130	175	265	130	170	370	480	75	130	70	90	100	140	130	220	110	260	220	275	230	290	270	390
San Francisco	220	330	160	240	150	280	130	185	300	470	220	290	400	600	95	160	100	130	120	165	160	260	165	350	320	420	350	500	340	490
Seattle	165	205	115	160	115	200	95	135	185	275	140	180	320	435	75	110	65	85	85	125	120	235	100	235	205	250	230	300	265	395
Washington DC	175	240	130	185	95	190	75	135	230	375	150	230	350	500	70	100	55	80	75	100	100	185	120	250	190	250	220	275	250	375

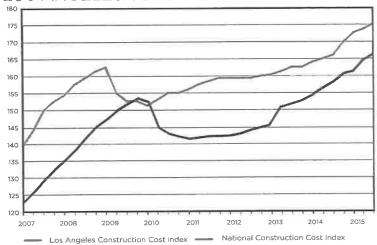
## PHILIP MATHUR REJOINS RIDER I EVETT BUCKNALL



Rider Levett Bucknall is pleased to announce that Philip Mathur, Associate Principal, has re-joined the firm and will be leading the Los Angeles, California office.

Philip brings more than 25 years of national and international experience to the firm. Having worked in the Los Angeles market for over 16 years, Philip also brings extensive market knowledge and experience to the team. As a member of the Royal Institution of Chartered Surveyors (MRICS), Philip is skillful at managing and facilitating all facets of cost, project budget control, and negotiating contracts on projects of varying sizes and procurement methods. Philip has worked within various sectors which range from hospitality, residential, and mixeduse to cultural, education, healthcare, and federal projects.

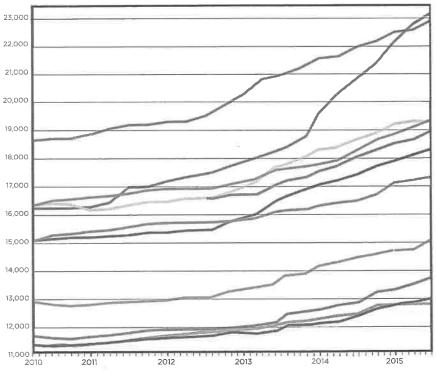
## INFLATION INDEX COMPARISON LOS ANGELES VS. NATIONAL



The construction cost index, provided by quarter, indicates the change in the cost of construction, relative to a base of 100. The chart above compares the national construction cost index (blue) to that of the Los Angeles market (red).

## USA REPORT

## COMPARATIVE COST INDEX



Each quarter we look at the comparative cost of construction in 12 US cities, indexing them to show how costs are changing in each city in particular, and against the costs in the other 11 locations, You will be able to find this information in the graph titled Comparative Cost Index (above) and in the Cost and Change Symmary (right),

Our Comparative Cost Index tracks the 'true' bid cost of construction, which includes, in addition to costs of labor and materials, general contractor and sub-contractor overhead costs and fees (profit). The index also includes applicable sales/use taxes that "standard" construction contracts attract. In a 'boom,' construction costs typically increase more rapidly than the net cost of labor and materials. This happens as the overhead levels and profit margins are increased in response to the increasing demand Similarly, in a 'bust', construction cost increases are dampened (or may even be reversed) due to reductions in overheads and profit margins,

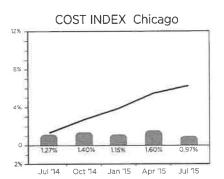
V	2	2013	2014	20	713
	Ci	ty	April 2015	July 2015	% Change
	r)	Boston	19,218	19,394	0.92%
	•	Chicago	18,799	18,983	0.97%
	•	Denver	12,852	13,000	1.15%
		Honolulu	22,762	23,390	2.76%
		Las Vegas	12,602	12,720	0.94%
	•	Los Angeles	17,178	17,351	1.01%
	•	New York	22,629	22,809	0.80%
	٥	Phoenix	12,834	12,947	0.88%
	φ	Portland	13,520	13,638	0.87%
		San Francisco	19,089	19,311	1.16%
	•	Seattle	14,926	15,113	1.25%
	•	Washington, DC	18,165	18,359	1.07%

Our research suggests that between April 1, 2015 and July 1, 2015 the national average increase in construction cost was approximately 1.15%. Honolulu again experienced the greatest increase showing inflation of almost 2.8% for the period. All other North American locations experienced inflation between 0.8% and 1.25% for the quarter.

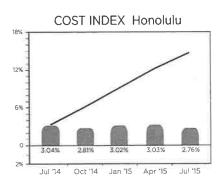
The following escalation charts track changes in the cost of construction each quarter in many of the cities where Rider Levett Buckhall offices are located, Each chart illustrates the percentage change per period and the cumulative percentage change throughout the charted timeline.

Percentage change per quarter — Cumulative percentage change for the period shown

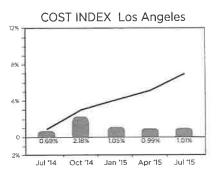




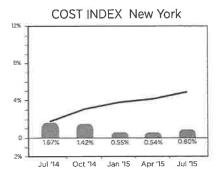


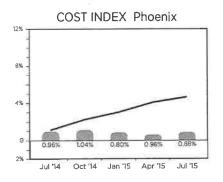


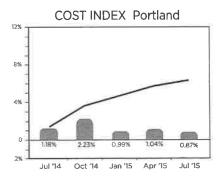




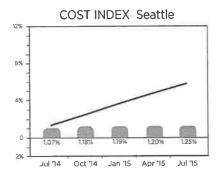
## USA REPORT

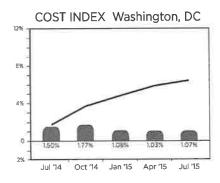












While the information in this publication is believed to be correct, no responsibility is accepted for its accuracy. Persons desiring to utilize any information appearing in this publication should verify its applicability to their specific circumstances.

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@ September 2015 by Rider Levett Bucknall Ltd.

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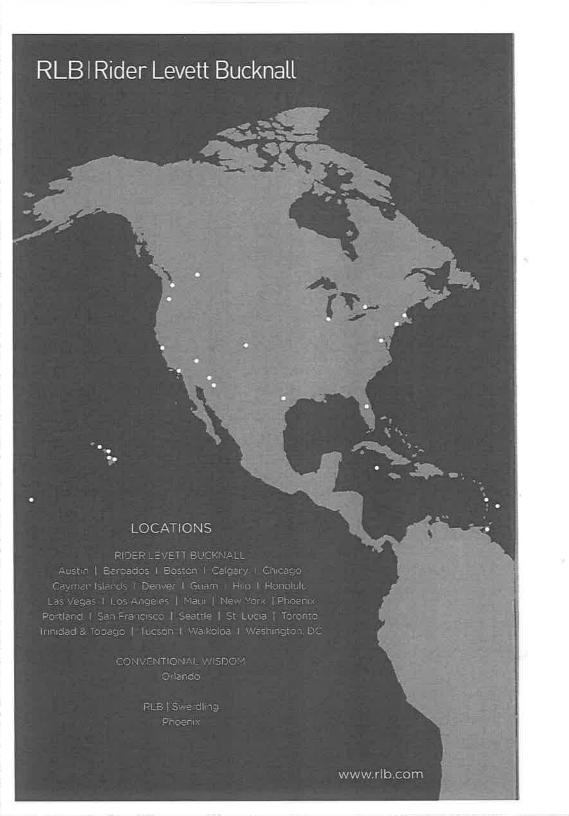
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# Square Foot Scosts

Designed to provide reliable, early estimates of building costs

Cost data from the most trusted source in North America

## COMMERCIAL/INDUSTRIAL/INSTITUTIONAL

G.560

## G School, Elementary



## Costs per square foot of floor area

TO SHE SHAPE SHOULD BE A SHED OF P.	S.F. Area	25000	30000	35000	40000	45000	50000	55000	60000	650000
Exterior Wall	LF. Perimeter	900	1050	1200	1350	1510	1650	1800	1970	2100
	Steel Frame	199.10	196.85	195,20	194,00	193.30	192,30	191,65	191,55	190 <i>.</i> 75
Face Brick with Concrete Black Back-up	Bearing Walls	191.35	189.30	187.95	186,90	186.35	185,40	184.75	184.75	183.95
biock buckup	Steel Frame	192.30	190.15	188.70	187.65	187.00	186,05	185.45	185,35	184.60
Stucco an Concrete Block	Bearing Walls	186.05	183.95	182.50	181,35	180.75	179.80	179,20	179_10	178.35
COUCLEIS DIOCK	Steel Frame	190.40	188.35	186,90	185,80	185_15	184.20	183,60	183,50	182.75
Decarative Concrete Block	Bearing Walls	187.30	185.20	183,80	182.70	182.05	181.10	180,50	180 40	179,70
Concrete picck	Dealing Walls	+	_		0.00	2.80	2.50	2.30	2.15	1.90
Perimeter Adj., Add or Deduct	Per 100 L.F.	5,00	4.15	3.65	3.20	_		1.75	1.75	1.70
Story Hgt. Adj., Add or Deduct	Per 1 Ft.	1.85	1.80	1.80	1.80	1.80	1.70	1,/3	1,73	- 13.0

For Basement, add \$29.15 per square foot of basement area

The above costs were calculated using the basic specifications shown on the facing page. These costs should be adjusted where necessary for design alternatives and owner's requirements. Reported completed project costs, for this type of structure, range from \$ 96.80 in \$246.20 per \$.F.

#### **Common additives**

Description Bloachers, Telescoping, manual, 16-20 lier 21:30 lier For power operation, add Careks Hardwood Clock System, 20 room 50 room Richen Equipment Broiler Cooler, 6 fi., long, reathin Dishwasher, 10-12 racks per hr. Food warmer, counter, 1, 12 KW Freezer, 44-CF, reachin lee cube maker, 50 lib, per day Range with 1 oven Isokers, Skel, single iter, 60" to 72" 2 lier, 60" to 72" total Isokers bendh, kan maple top only Pedestalls, steel pipe Seating, auddinium chair, veneer back, padded seat Classroom, movable chair & desk Lecture hall, pedestal type	Unit Seal Seal Seal Ea.	\$ Cost 281 - 345 299 - 390 55 - 86 975 - 2350 19,900 46,800 4050 4175 4275 735 5175 2000 2925 221 - 370 120 - 165 34 76 320 81 - 171 263 - 620	Becompton.  Sound System, amplifier, 250 words Specker, celling or wall  Commissioning Fees, suntainable institutional construction.  Energy Mobiling Fees, condenic buildings to 10,000 SF Gradue from 10,000 SF add.	5.f. 5.f. 6a. Ea.	\$ Cost 2050 213 0.58 2.07 9000 225,9000 275,9000 10.73 12.44 72.225 89,550 31,500 50,550 60,890 10,775 13,325
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Model costs calculated for a 1 story building with 15' story height and 45,000 square feet of floor area

## **G School, Elementary**

Unit Cost % Of

			Unit	Cost	Per 5.F.	5ub-k
A	SUBSTRUCTURE			(S-0)	EDWS.	3535
1010	Standard Foundations	Poured concrete; strip and spread footings	S.F. Ground	5.14	5.14	1
1020	Special Foundations Slab on Grade	N/A	S40	- 1		
2010	Basement Excavation	4* reinforced concrete with recycled vapor barrier and granular base	S.F. Slab	5.45	5,45	12.5
2020	Basement Walls	Site preparation for slab and trench for foundation wall and loating 4' foundation wall	S.F. Ground L.F. Wall	.18	.18	
-	SHELL	4 BOTOLINE WILL	L.F. VVall	91	5.20	10000
1	B10 Superstructure	AND THE PROPERTY OF THE PARTY OF THE PARTY.	V#201211	148.12	0.500	1
1010	Floor Construction	I N/A	1		1	1
1020		Metal deck an open web steel joists	S.F. Roof	4.52	4.52	3.2
	B20 Exterior Enclosure	NEW COLUMN TO THE SECOND STREET	( Sall France)	5	- 4.52	-
2010	Exterior Walls	Face brick with concrete block backup	S F. Well	38.68	13.63	t
2020	Exterior Windows	Steel outward projecting 25% of wall	Each	750	4.92	13
2030	Exterior Doors	Metal and glass 5% of wall	Each	3850	.69	
10.16	B30 Roofing		141			
3010	Roof Coverings Roof Openings	Single-ply TPO membrane, 60 mils, w/ flashing; polyiso, insulation N/A	S.F. Roaf	10.45	10.45	7.5
	CONTRACTOR OF THE PARTY OF THE	IVA	-	-		
A	NTERIORS	16.000000000000000000000000000000000000			follows by	59
1010	Partitions	Concrete block w/ foamed-in insul: 20 SF Flr./LF Part.	S, F. Partition	12,14	6.07	
1020	Interior Doors Fittings	Single leaf kalamein fire doors, low VOC paint 700 S.F. Floor/Door		1157	1.65	
2010	Stair Construction	Toilet partitions N/A	S.F. Floor	1.84	1.84	
3010	Wall Finishes	75% paint, law VOC, 15% glazed coating, 10% ceramic tile	S.F. Surface	4.92	4 92	19.1
3020	Floor Finishes	65% vinyl composition tile, recycled content, 25% carpet tile, 10% terrazzo	S.F. Floor	6.05	6.05	
3030	Ceiling Finishes	Mineral fiber tile on conceoled zee bars	S.F. Ceiling	7.03	7.03	
D. S	SERVICES.	人名英格兰 · · · · · · · · · · · · · · · · · · ·	18 July 19	£0738	200	THE IS
	D10 Conveying	THE PROPERTY OF STREET, SALES AND ASSESSMENT OF STREET, SALES	EMPOLO LO		E SHEEK	33,390
1010	Elevators & Lifts	N/A	1 - 1	-	- 1	0.0
1020	Escalators & Moving Walks	N/A		:=:	-	0.0
2010	D20 Plumbing					
2010	Plumbing Fudures Domestic Water Distribution	Kitchen, toilet, low flow, auto sensor, & service fixt., supply & drain. 1 Fixt./625 SF Flr. Gas fired, tankless water heater	Each	95BB	15.34	
2040	Rain Water Drainage	Roof drains	S.F. Floor S.F. Roof	.16	.16	12.1
35	D30 HVAC	The state of the s	J. S.F. KOOF	1.32	1.32	
3010	Energy Supply	N/A	i . 1		1	i i
3020	Heat Generaling Systems	N/A	85	_	_	
3040	Distribution Systems	Entholpy heat recovery packages	Each	36,925	2.46	15.7
3050	Terminal & Package Unes	Multizone rooftap air conditioner	S.F. Floor	19.45	19.45	999
3090		N/A	1 - 1	- 1	-	
4010	D40 Fire Protection	6 . 11 . 10 . 1	N 9			
4020	Sprinklers Standpipes	Sprinklers, light hazard Standpipe	5.F Floor	2.94	2.94	2.4
20	D50 Electrical	Juliupipe	S.F. Floor	.40	.40	
5010	Electrical Service/Distribution	800 ampere service, panel board and feeders	Tern T		1	í.
5020	Ughting & Branch Witing	LED fixtures, daylt, dim., Itg., on/off, recept., switches, and A.C. power	S.F. Floor S.F. Floor	86 13.53	.86 13,53	
5030	Communications & Security	Addressable alorm systems, internet wiring, comm. systems & emerg. Itg.	S F Floor	3.79	3.79	13.6
5090	Other Electrical Systems	Emergency generator, 15 kW, energy monitoring systems	S.F. Floor	1.05	1.05	
E. E	QUIPMENT & FURNISHIN	igs				
1010	Commercial Equipment	N/A	î _ ĭ	_ 1	_ 11	( -
1020	Institutional Equipment	Chalkboards	S.F. Floor	.18	_18	
1090	Other Equipment	Waste handling recycling tilt truck	Each	07	07	0.2
2020	Moveable Furnishings	No smoking signage	Each	,01	01	
	PECIAL CONSTRUCTION					
1020	Integrated Construction	N/A	- 1	:=:	-	
1040	Special Facilities	N/A	- 3	150	28	0.0
G. 8	BUILDING SITEWORK	N/A				-
14						_
-			Sub	-Total	139.30	100

Total Building Cost 186.35

ARCHITECT FEES

CONTRACTOR FEES (General Requirements: 10%, Overhead: 5%, Profit: 10%)

34.86

12.19

## COMMERCIAL/INDUSTRIAL/INSTITUTIONAL

G.570

G School, High, 2-3 Story



## Costs per square foot of floor area

MALESCONICS TO THE PROPERTY OF	S.F. Area	50000	70000	90000	110000	130000	150000	170000	190000	210000
ctenor Wall	LF. Perimeter	850	1140	1420	1700	1980	2280	2560	2840	3120
<b>一种,一种,一种</b>	THE PERSON NAMED IN	185.10	192.15	180.30	179.05	178.20	177.95	177,40	177.05	176.75
Face Brick with Concrete	Steel Frame	189.10	186.15	184.30	183.05	182.20	181,95	181,40	181.05	180.75
Block Back-up	R/Conc, Frame	177.90	175.30	173.60	172.55	171.80	171.55	171.05	170.75	170.50
Decorative Concrete Block	Sleel Frame	178.75	176.05	174.45	173,35	172.55	172.30	171,85	171.55	171.30
	R/Conc. Frame	196,70	193.25	191.10	189.60	188,60	188,30	187,70	187,30	186.90
Limestone with Concrete Block Back-up	Steel Frame	203.95	200.50	198 35	196.90	195 90	195,60	195,00	194.55	194.20
	R/Conc. Frame	203,93	200,50	- 10	_		1.55	1.35	1.20	1.10
Perimeter Adj., Add or Deduct	Per 100 LF.	4.65	3.30	2,55	2.15	1.80	_		2.10	2.05
Story Hgt. Adj., Add or Deduct	Per 1 FL	2.35	2 20	2,15	2.15	2.10	2 10	2.10	2.10	. 4095

For Basement, add \$38,10 per square fool of basement area

The above costs were colculated using the basic specifications shown on the facing page. These costs should be adjusted where necessary for design othernatives and awner's requirements. Reported completed project costs, for this type of structure, range from \$ 112.50 to \$ 264.95 per S F.

#### **Common additives**

Description Bleachers, Telescoping, monucl, 16:20 lier 21:30 lier For power operation, acid Carrels Hardwood Clack System, 20 room 50 room Bevalors, hydroulis: passenger, 2 stops, 25:00# capacity 35:00# capacity Kitchen Equipment Broiler Cooler, 6 fil. long, reachin Distrivacher, 10:12 acids per hr. Food warmer, counter, 1 2 KW Freezer, 44 C.F., reachin Lackers, Sieel, single fier, 60° or 72° Lien, 60° or 72° total Locker bench, lann, maple top only Pediatalist, steel pips Seed, puddarism chair, veneer bank, podded seat Classroom, movable chair & deak Lotter bent) landers and benefit and seater Classroom, movable chair & deak Lotter benit mediatal have	Unit Sect Sect Sect Sect Sect Sect Sect Sect	\$ Cost 281 - 345 299 - 390 55 - 86 975 - 2350 19,900 46,800 68,800 73,300 4050 4175 4275 735 5175 221 - 370 120 - 165 34 76 320 81 - 171 263 - 620	Description  Soud System, amplifier, 250 worts  Speaker, calling or wall  Commissioning Fees, seatimable institutional construction  Energy Madelling Fees, coodmine buildings to 10,000 SF  Greater from 10,000 SF add  Green Budg Cert Fees for school construction project erg  Photo-robic Fee Sys, grid connected, 20 kW 1-2400 SF, recit  Green Roofs, 6° soil depth, with rended wood edging & sedium mats  10° Soil depth, with rended wood edging & sedium mats  10° Soil depth, with rended wood edging & sedium mats  Greywater Recovery Systems, propochaged comm, 30:60 gal.  4590 gal.  Roinwater Finaves Sys, prepchaged comm, 10,000 gal, sys contribe  20,000 gal. w/system controller  30:00 gal. w/system controller  Solar Domestic HW, closed loop, add-on sys, exhibit exchanger  Directock, hat water system, 120 gal tank	Unit  Ea. Ea. S.F. Ea. S.F. Project Ea. S.F. Ea. Ea. Ea. Ea. Ea. Ea. Ea. Ea. Ea.	\$ Cost 2059 213 0.58: 247 9000 0.20 900 0.275,000 10.73 12.44 72,255 89,550 80,500 10,775 13,325 13,475
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Model costs calculated for a 2 story building with 15' story height and 130,000 square feet of floor area.

## G School, High, 2-3 Story

Special Foundations   N/A   4" reinforced concrete with recycled vapor barrier and granular base   S.F. Slab   Slab an Grade   Site preparation for slab and trench for foundation wall and footing   S.F. Ground   L.F. Wall	Unit Cost	Unit		
Special Foundations   N/A   **reinforcated concrete with mayeded vapor barrier and granular base   S.F. Slab   S.F. Sharman	SEP 1831	DOMES!	20505000	109
### BIO Super invoture   Tool Constitution	5.45 nd .18	S.F. Slab S.F. Ground	5.45 2.7: .18 .01	3 4,1%
Times   Construction   Concrete slob without drop panel, concrete columns   S.F. Hool	7310	N. S. He		160
Exement Wolfs   Exement Wolfs   Exement Poors			22.42   11.2 15.50   7.7	
Roof Copenings   Single-ply TPC membrane and standing seam mistal; polysio, insulation   S.F. Roof	74	Each	38.69 13.2 74 8.4 2256 .5	9 16.31
Concrete block w/foormed-in insul   25 SF Fit/JF Part.			13.94 6.9	
Interior Doors   Single leaf katamenia fine doors, low VOC point   700 S,F. Floor/Door   Eoch   S.F. Floor   Tollet perhitions, chalkboards   Tollet perhitions	Series S	286 EA	T. S. Y. S. S. S. S.	
D1. SERVICES  D10 Conveying Electros & Units D20 Escators & Moving Webs.  D20 Plumbing Plumbing Finances D20 Describers Water Distribution D20 Rain Water Drainage D30 Hambing Finances D30 HVAC D30 Escators Water Distribution D40 Rain Water Drainage D30 HVAC D30 Escators Water Drainage D30 HVAC D30 Escators Water Drainage D30 HVAC D30 Escators Water Drainage D30 Hord Supply N/A N/A D30 Escators Supply Learning & Package Units D30 Distribution Systems D40 Fire Protection D40 Fire Protection D40 Fire Protection D50 Bectrical Spriklers Spriklers Spriklers, Light hozord Standpipes Standpipes Standpipes Standpipes D50 Bectrical Spriklers Spriklers, Light hozord Standpipes Standpipes, wet, Class III D50 Electrical Service/Distribution Lighting & Branch Wiring D30 Commercial results Security Soo Other Electrical Systems D50 Describer Evaluation Electrical Systems D50 Electrical Systems D60 Electrical Equipment	1157 1,30 14,50 2e 3,48 5 99	Each S.F. Floor Flight S.F. Surface S.F. Floor	1,30 1.30 14,500 .6; 3,46 3.3 5,99 5.9	5 0 7 19 99 4 9
Executions & Units   Execution	P. C.	2413	FLORE VA	
Plumbling Finances   Domestic Water Distribution   Roof drains   Fixt /B60 SF Ft.   Each   S.F. Floor   Roof drains   Roof drains   S.F. Floor   S	83,20	Eoch _	63,200 .6	4 0.5
Serior Supply   Serior Supply		S.F. Floor	30 .3	0 4.8
Note	1	A	5,25	
D40 Fire Protection   Sprinklers   Sprinklers   Sprinklers, light hozord   S.F. Floor			36,925 2.2 19.45 19.4	
Selectical Servicar/Olairbaion   Selectival Servicar/Olairbaion   Selectival Servicar/Olairbaion   Selectival Servicar/Olairbaion   Selectival Servicar/Olairbaion   Selectival Selectiva				57 2.1
1010   Commercial Equipment   N/A   Laboratory casework and counters   S.F. Floor   Value   Commercial Equipment   Laboratory casework and counters   S.F. Floor   Value   Commercial Equipment   Value   Commercial Equipment   Value   Val	14.79	S.F. Floor S.F. Floor	14.79 14.7 4.09 4.0	
1020   Institutional Equipment   Laboratory casework and counters   S.F. Floor   Waste handlg, recyc. till truck, bulli-in othletic equip , bleachers & backstp.   Each   No. smoking signage   S.F. Floor   Each   No. smoking signage   S.F. SPECIAL CONSTRUCTION   No. smoking signage   No. smoking signage   S.F. SPECIAL CONSTRUCTION   No. smoking signage   No. smoking signage   S.F. SPECIAL CONSTRUCTION   No. smoking signage   No. smoking signage   S.F. SPECIAL CONSTRUCTION   No. smoking signage   No. smoking signage   S.F. SPECIAL CONSTRUCTION   No. smoking signage   No. smoking signage   S.F. SPECIAL CONSTRUCTION   No. smoking signage   No. smoking signage   S.F. SPECIAL CONSTRUCTION				
1020         Integrated Construction         N/A         —           1040         Special Facilities         N/A         —	1.97 .99 .02	Each		9 2.2
1040 Special Facilities N/A	- 14	- 1	V	
G. BUILDING SITEWORK N/A		2	- XX	0.0
	iub-Tota	C,.L	b-Total 136.	21 100

25% 34.07

11,92

CONTRACTOR FEES (General Requirements: 10%, Overhead: 5%, Prolit: 10%)

ARCHITECT FEES

Lecture hall, pedesial type



#### STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE SENATE

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DATE:

December 8, 2015

TO:

Representative Justin Olson, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director (25)

FROM:

Jon Stall, Senior Fiscal Analyst

SUBJECT:

AHCCCS/Department of Health Services /Department of Economic Security - Review of

**Revised Capitation Rate Changes** 

## Request

Pursuant to footnotes in the FY 2016 General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS), Department of Health Services (DHS) and Department of Economic Security (DES) are required to report capitation rate changes to the Committee for review prior to implementation. The agencies propose revisions to previously reviewed contract year (CYE) 2015 capitation rates. The proposed rate changes would reimburse Medicaid health insurers for costs of paying a federal health insurer fee in 2015.

#### Recommendation

The Committee has at least the following 2 options:

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

In the aggregate, the proposed rate changes will cost \$18.3 million from the General Fund in FY 2016. This amount is \$(6.5) million less than the budgeted amount. The AHCCCS adjustments are expected to save \$(8.6) million. Savings would be partially offset by cost increases of \$1.3 million and \$0.8 million above the budgeted amounts for DHS' Behavioral Health Services program and DES' Developmentally Disabled program, respectively.

(Continued)

### **Analysis**

The federal Affordable Care Act placed an \$8 billion annual fee on the health insurance industry nationwide in 2014. The fee grows to \$14.3 billion in 2018 and is indexed to inflation thereafter. The fee is allocated to qualifying health insurers, including the majority of the state's Medicaid health insurers, based on their respective market share of premium revenue in the previous year.

Insurers were required to pay the 2015 fee to the Internal Revenue Service by September 30, 2015. Of the 1,428,000 Medicaid capitation enrollees in October 2014, about 855,000 (60%) were covered by a health insurer subject to the fee.

The federal Centers for Medicare and Medicaid Services (CMS) require that Medicaid capitation rates reimburse insurers for all costs of doing business, including costs from fees or taxes paid as a result of insuring Medicaid enrollees. In order to reimburse Medicaid health insurers for the fee paid for 2015, the agencies used CMS' approved methodology of retroactively increasing capitation rates for the first month of CYE 2015 (October 1 to October 31, 2014).

The federal fee reimbursement is considered added revenue and will increase state and federal corporate income tax liability of for-profit health insurers. Therefore, the proposed revisions include reimbursement of both the health insurer fee and the estimated resulting income tax liability.

Table 1 below compares the General Fund amounts included in the FY 2016 budget for the health insurer fee to costs associated with the proposed capitation rate revision. The General Fund impact of capitation rate revisions to fund the health insurer fee is \$(6.5) million less than the \$24.8 million included in the FY 2016 budget.

Health Insurer Fee General (\$	Fund					
<u>Populations</u>		2016 udget		posed <u>visions</u>		ference 1 Budget
AHCCCS Acute Care	\$	18.9	\$	13.9	\$	(5.0)
ALTCS Elderly & Physically Disabled		3.8		0.2		(3.6)
DHS Behavioral Health Services		2.2		3.5		1.3
DES Developmentally Disabled 2/		-		0.8		0.8
Total 3/	\$	24.8	\$	18.3	\$	(6.5)
State match expenditures for the health i assessment and county contributions.	nsurer	fee are also	funded	d through a	hospita	ıl

Individual amounts may not add to totals due to rounding.

RS/JS:kp Attachment





November 24, 2015

The Honorable Justin Olson Arizona House of Representatives 1700 W. Washington Phoenix, AZ 85007



## Dear Representative Olson:

AHCCCS is amending prior year capitation rates in order to include the costs of the Affordable Care Act (ACA) Health Insurer Fee mandate impacting nearly all insurers, including the majority of the AHCCCS contracted Managed Care Organizations (MCOs). However, please note that it is not the Contract Year Ending (CYE) 2016 (October 1, 2015 through September 30, 2016) approved rates that are being amended. (Those rates were approved by the Joint Legislative Budget Committee on September 24, 2015.) Rather, AHCCCS is amending capitation rates from calendar year 2014, using a methodology approved by the Centers for Medicare and Medicaid Services (CMS).

## Background

The Affordable Care Act (ACA) imposes a new tax on most health insurers beginning in calendar year 2014. In the first year the Health Insurer Fee was expected to generate \$8 billion in payments, and the fee increases to total payments of \$14.3 billion by 2018. The tax is imposed on commercial, Medicare and Medicaid insurers with certain exemptions. Those exclusions impacting AHCCCS include:

- Government entities, including independent nonprofit county-organized health system entities that contract with state Medicaid agencies; and
- Nonprofit entities that receive more than 80% of gross revenue from government programs that target low-income, elderly, or disabled populations including Medicare, Medicaid, Children's Health Insurance Plan (CHIP), and dual eligible (Medicare/Medicaid) plans

The 2015 health insurer fee was due by MCOs to the IRS on September 30, 2015. Capitation rates must be actuarially-sound pursuant to 42 CFR §438.6. That is, they must cover the projected costs of the membership, including the costs of doing business such as administrative expenses, and fees and taxes. As such, AHCCCS is amending capitation rates to include the costs of the health insurer fee. Additionally, MCOs will pay federal income taxes and state premium taxes on this new revenue. The Regional Behavioral Health Authorities (RBHAs) will also have the Federal income tax obligations, as well as state income taxes.

## Capitation Rate Adjustments

Honorable Justin Olson November 24, 2015 Page 2

The total cost of the health insurer fee, including Arizona premium tax but before federal and state income tax, is approximately \$58.3 million (\$15.6 million State Match and \$42.7 million Federal Funds). Capitation rate adjustments were developed separately for each MCO based on the MCO's fee liability allocation to each program in which they hold a contract. These rates have been submitted to CMS for approval; the Actuarial Certifications are attached. Federal and state income taxes are estimated to cost an additional \$32.2 million total fund (\$8.6 million State Match and \$23.6 million Federal Funds).

Capitation rates are amended for each of the following AHCCCS programs:

Program	Rates Amended	Contract Year Impacted	TF Fiscal Impact	SM Fiscal Impact	Fed Fiscal Impact	% Impact
Acute Care	October 1 - 31, 2014	CYE 2014	\$70 million	\$18.1 million	\$51.9 million	1.52%
Children's Rehabilitative Services (CRS)	October 1 - 31, 2014	CYE 2014	\$6 million	\$1.9 million	\$4.1 million	2.92%
Arizona Department of Health Services (ADHS)/Behavioral Health Services (BHS)	October 1 - 31, 2014	CYE 2014	\$11 million	\$3.1 million	\$7.9 million	0.68%
Arizona Long Term Care System (ALTCS) Division of Developmental Disabilities (DDD)	October 1 - 31, 2014	CYE 2014	\$2.5 million	\$800,000	\$1.7 million	0.19%
ALTCS Elderly & Physically Disabled (EPD)	October 1 - 31, 2014	CYE 2014	\$960,000	\$300,000	\$660,000	0.09%
Total	October 1 - 31, 2014	CYE 2014	\$90.5 million	\$24.2 million	\$66.3 million	1.02%

Note: the numbers are estimates due to estimated tax rates and estimated member months; actual numbers could differ

Should you have any questions on these adjustments, or wish to place AHCCCS on the December 15, 2015 Joint Legislative Budget Committee (JLBC) meeting agenda, please feel free to contact Shelli Silver, Assistant Director, at <a href="mailto:shelli.silver@azahcccs.gov">shelli.silver@azahcccs.gov</a> or (602) 417-4647.

Sincerely

Thomas J. Betlach

Director

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

## **Acute Care Actuarial Memorandum**

## I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the capitation rates for the Acute Care program were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

The Affordable Care Act (ACA) placed an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee (hereafter identified as the Health Insurer Fee, or HIF) was allocated to health insurers based on their respective market share of premium revenue in the previous year. Arizona Health Care Cost Containment System (AHCCCS) intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its HIF amount due. Certain Contractors will be excluded from the HIF as determined by the Contractor and approved by the Internal Revenue Service (IRS).

This memorandum presents a discussion of a revision to the already approved Contract Year Ending 2015 (CYE 15) Acute Care capitation rates. The revision reflects the adjustment associated with the HIF. These capitation rates are updated retroactively for a period of one month, from October 1, 2014 to October 31, 2014.

## II. Overview of Changes

The capitation rates and rate ranges in this memorandum equal the approved capitation rates for October 2014 plus the HIF liability plus the associated taxes.

Although the HIF liability amount is known, the 2015 income tax rates are not known until Spring of 2016 and if an extension is requested those income tax rates are not known until Fall of 2016. Thus, AHCCCS will be using assumed income tax rates to develop the revised capitation rates. This memorandum will also include a capitation rate range in case the Contractor's final 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates. Each range, as well as the revised capitation rate, is defined as follows:

- The minimum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus premium tax (these amounts are all known)
- The maximum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus the maximum federal and state income tax plus premium tax (the amount of the federal and state income tax are currently unknown)
- The certified capitation rate within the range equals the currently approved capitation rates for October 2014 plus the HIF plus the assumed federal and state income tax rates (or premium tax in lieu of state income tax as applicable) as reported by the Contractors

AHCCCS will perform a retroactive mass adjustment to the current approved capitation rates using the revised capitation rates certified in this memorandum. If a Contractor's 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates a second mass adjustment may occur.

Although the fees due from the Contractors in 2015 are based on applicable revenue received during 2014, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden.

## III. Methodology for Calculating Capitation Adjustments

#### **HIF Adjustments**

The Acute Care per member per month (PMPM) capitation ranges were developed separately for each Contractor based on the fee liability reported to AHCCCS. Each Contractor was notified of the fee liability for the entire entity by the Treasury Department. Contractors who received multiple streams of revenue applicable to the HIF calculation were responsible for allocating an appropriate portion of their fee liability to AHCCCS, which was verified by AHCCCS for reasonableness and appropriateness. The ranges of PMPM adjustments were developed based on each Contractor's actual member months by Geographical Service Area (GSA) and risk group. AHCCCS will apply the HIF adjustment to the previously approved capitation rates to develop the revised capitation rates. This adjustment will be retroactive for the period of October 1, 2014 through October 31, 2014. The estimated impact to the Acute Care program of this retroactive capitation rate adjustment is a statewide increase of approximately \$70.0 million.

### Administration/Risk Contingency/Premium Tax Components

The administration and risk contingency components were not impacted by the above changes. The premium tax component was impacted by the above changes.

## IV. Proposed Revised Capitation Rates and Their Impacts

Table I includes the net capitation rate ranges on a statewide basis as well as the estimated budget impact of the proposed revised payments. The impact to the October 2014 capitation rates for the Contractors receiving a revision for HIF range from 19.3% to 41.1%. Table II contains the proposed revised rates and ranges displayed by risk group, GSA and contractor.

Table I Proposed Capitation Rates and Budget Inn.

2/1-112/06/06/06/06	Tally for the same of the same			Proposed Capita	tion Rates and Bu	idget Impact				
Rate Cell	TANF/KC < 1	TANF/KC 14 13	TANF/KG 14-44 F	TANF/KC: 14-44 M	TANF/KC 45+	ssiw	ssiwo	Adult Group /= 106%	Adult Group 106%	_Total
October 2014 Member Months	27,609	272,680	145,025	71.863	26,836	57,208	34,846	148,404	19,859	804,329
Currently Approved Rate	\$468.81	\$101.49	\$238.66	\$147.92	\$396,42	\$135.46	\$783.10	\$405.10	\$306.43	804,329
Currently Approved Estimated Capitation	\$12,943,642	\$27,673,201	\$34,611,352	\$10,629,641	\$10,638,213	\$7.749.498	\$27,287,628	\$60,118,468	\$6,085,292	\$197,736,933
Proposed Revised Rate	\$634.00	\$137.56	\$323.98	\$200.71	\$538.24	\$184.96	\$1,065,05	\$546.18	\$410.18	41711100,700
Proposed Revised Estimated Capitation	\$17,504,466	\$37,509,498	\$46,984,889	\$14,423,717	\$14,444,029	\$10,580,986	\$37,112,410	\$81,054,403	\$8,145,667	\$267,760,065
Proposed Revised Dollar Impact	\$4,560,824	\$9,836,298	\$12,373,537	\$3,794,076	\$3,805,816	\$2,831,488	\$9,824,782	\$20,935,935	\$2,060,376	\$70,023,132
Proposed Revised Percentage Impact	35,2%	35.5%	35.7%	35.7%	35.8%	36.5%	36,0%	34.8%	33.9%	35.4%

Note: Member months and capitation estimates are shown only for the Contractor(s) receiving a revision for HIF.

Table II

AND COLUMN TO SERVICE	2	COLUMN STATE	Dotos

					attender value						
GSA	County	Contractor	TANF/KC	TANF/KC	TANF/KC	TANF/KC	TANF/KC	SSIW	SSIWO	Adult	Adult
ODA	County		<1	1-13	14-44 F	14-44 M	45+			Group	Group
				i i						=106%</td <td>&gt;106%</td>	>106%
02	LaPaz/Yuma	UHC	\$606.57	\$137.87	\$302,99	\$160,15	\$464,57	\$247.06	\$1,147.64	\$486,73	\$346.21
04	Apache/Coconino/Mohave/Navajo	UHC	\$603.32	\$141,36	\$338.00	\$225,93	\$541,98	\$152.85	\$1,063.49	\$539.30	\$433.93
04	Apache/Coconino/Mohave/Navajo	Health Choice	\$604.01	\$139.69	\$340,71	\$229.84	\$529,47	\$144.93	\$1,193.92	\$549.39	\$427.78
06	Yavapai	UHC	\$647.14	\$161.32	\$431.81	\$269_32	\$640.75	\$148_61	\$1,364.71	\$668,09	\$471.62
08	Gila/Pinal	Health Choice	\$649.37	\$135.49	\$353,34	\$218.94	\$602.74	\$182.99	\$973.05	\$560.50	\$432.53
10	Pina/Santa Cruz	UHC	\$643.38	\$124.71	\$324.12	\$192.16	\$512,79	\$176_00	\$1,079.31	\$477.28	\$367.19
10	Pima	Care1st	\$620.47	\$112.50	\$285,92	\$168.30	\$463,02	\$145.55	\$946.18	\$473.23	\$356.24
10	Pima	Health Choice	\$563.37	\$114.03	\$291.37	\$178.48	\$463.17	\$143.53	\$894.81	\$444.67	\$365.20
12	Maricopa	UHC	\$680.94	\$152.70	\$358,25	\$221,37	\$614.09	\$230.07	\$1,194.84	\$616.59	\$436.75
12	Maricopa	Care1st	\$624,86	\$133,51	\$295.41	\$186.95	\$493.53	\$156.67	\$926.55	\$563.29	\$420,01
12	Maricopa	PHP	\$620.85	\$136.31	\$304,89	\$189.50	\$514.48	\$189.32	\$995.51	\$541.32	\$410,90
12	Maricopa	Health Net	\$630,85	\$128.61	\$282,85	\$179.87	\$557,51	\$157.36	\$775.98	\$545.80	\$410.11
12	Maricopa	Health Choice	\$656,10	\$141.08	\$314,72	\$190,91	\$543,76	\$180.58	\$1,034.45	\$571.04	\$430.56
	Cochise/Graham/Greenlee	UHC	\$566.89	\$130.93	\$337,46	\$229.36	\$572.97	\$193.00	\$1,304,34	\$557.46	\$410.18
14	Cochise/Granamy Greeniee	OHC	0300,03	4.40-47-4							

Minimum of Ranges for Revised Capitation Rates TANF/KC SSIW SSIWO Adult Adult TANF/KC TANF/KC TANF/KC TANF/KC Contractor GSA County **Group Group** 1-13 14-44 F 14-44 M 45+ >106% </=106% \$312.70 \$439.62 \$124.52 \$273,66 \$144.65 \$419.61 \$223.15 \$1,036.56 \$547.86 02 LaPaz/Yuma UHC \$127.68 \$305.29 \$204.06 \$489.52 \$138.05 \$960.55 \$487.10 \$391.93 \$544,93 -Apache/Coconino/Mohave/Navajo UHC 04 \$387.94 \$1,082.71 \$498.21 Health Choice \$126.68 \$308.97 \$208.43 \$480,15 \$131.43 \$547.74 04 Apache/Coconino/Mohave/Navajo \$1,232.62 \$425.97 \$603.43 \$584.50 \$145.71 \$390.02 \$243.25 \$578,74 \$134,22 UHC 06 \$508.28 \$882.40 \$392.24 \$122,87 \$320.43 \$198.55 \$546,59 \$165,95 \$588.88 Health Choice 08 Gila/Pinal \$112.64 \$292,75 \$173,56 \$463.15 \$158.97 \$974.85 \$431.08 \$331.65 \$581.11 10 Pima/Santa Cruz UHC \$102,74 \$261.14 \$153.71 \$422.88 \$132.94 \$864.15 \$432.20 \$325.36 \$566.68 10 Pima Care1st \$403,25 \$331.18 \$103.41 \$264.23 \$161,86 \$420.03 \$130.16 \$811.46 \$510.89 Health Choice 10 Pima \$556.91 \$394.48 \$323.58 \$199.94 \$554.65 \$207,81 \$1,079.19 \$137.92 \$615.03 12 Maricopa UHC \$383.59 \$514.45 \$269.80 \$170,74 \$450.74 \$143.08 \$846.22 \$121.94 12 Carelst \$570.69 Maricopa \$174.18 \$472.88 \$174.01 \$915.01 \$497.55 \$377.68 \$125.29 \$280.24 \$570.64 12 PHP Maricopa \$377.16 \$512.71 \$144.72 \$713.63 \$501.95 Health Net \$118.28 \$260.12 \$165.42 \$580,17 12 Maricopa \$127.94 \$285,41 \$173.13 \$493.11 \$163.76 \$938.09 \$517.85 \$390.46 \$594.98 12 Maricopa Health Choice \$207.16 \$517.51 \$174.32 \$1,178.10 \$503.50 \$370.48 \$304.80 \$118,25 UHC \$512.02 14 Cochise/Graham/Greenlee

	Maximum of Ranges for Revised Capitation Rates										
GSA	County	Contractor	TANF/KC	TANF/KC	TANF/KC	TANF/KC	TANF/KC	SSIW	SSIWO	Adult	Adult
1 0011	County		<1	1-13	14-44 F	14-44 M	45+			Group	Gтоир
	<b>1</b> 0.									=106%</td <td>&gt;106%</td>	>106%
02	LaPaz/Yuma	UHC	\$619.13	\$140,72	\$309.26	\$163.46	\$474,20	\$252.18	\$1,171.41	\$496.81	\$353,38
04	Apache/Coconino/Mohave/Navajo	UHC	\$615.82	\$144.29	\$345.00	\$230.61	\$553.20	\$156.01	\$1,085.51	\$550.47	\$442.92
04	Apache/Coconino/Mohave/Navajo	Health Choice	\$616.05	\$142,47	\$347.50	\$234.42	\$540,02	\$147.82	\$1,217.72	\$560.34	\$436.31
06	Yavapai	UHC	\$660.54	\$164,66	\$440,76	\$274.90	\$654,03	\$151.68	\$1,392.97	\$681.93	\$481.39
08	Gila/Pinal	Health Choice	\$662,31	\$138.19	\$360.39	\$223,31	\$614.75	\$186.64	\$992.44	\$571.67	\$441.15
10	Pima/Santa Cruz	UHC	\$656.71	\$127,29	\$330.84	\$196.14	\$523.41	\$179.65	\$1,101.67	\$487.16	\$374.80
10	Pima	Carelst	\$631.98	\$114.58	\$291.23	\$171.42	\$471.61	\$148.25	\$963.73	\$482.01	\$362.85
10	Pima	Health Choice	\$574.60	\$116,30	\$297.18	\$182,04	\$472.41	\$146.39	\$912.65	\$453,53	\$372.48
12	Maricopa	UHC	\$695,04	\$155.86	\$365.67	\$225.95	\$626.81	\$234.84	\$1,219.59	\$629.36	\$445.79
12	Maricopa Maricopa	Carelst	\$636,45	\$135.99	\$300.90	\$190.42	\$502,68	\$159.57	\$943.74	\$573.74	\$427.80
		PHP	\$631.59	\$138.67	\$310,17	\$192.78	\$523.39	\$192.60	\$1,012.73	\$550.69	\$418.01
12	Maricopa	Health Net	\$641.70	\$130.82	\$287.71	\$182.96	\$567.09	\$160,07	\$789.32	\$555.18	\$417.16
12	Maricopa	Health Choice	\$669-18	\$143.89	\$321,00	\$194.72	\$554.60	\$184.18	\$1,055.07	\$582.43	\$439.15
12	Maricopa		\$578.63	\$133.64	\$344.45	\$234,11	\$584.84	\$197.00	\$1,331,36	\$569.01	\$418.68
14	Cochise/Graham/Greenlee	UHC	Φ5/0,05	JE 133.04	Ψ544.43	Ψ£J7,11	2201201	41,1100	4-1-7-710-0		

## V. Actuarial Certification of the Capitation Rates

I, Matthew C. Varitek, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The capitation rate ranges were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rate ranges were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The capitation rate ranges are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rate ranges may not be appropriate for any other purpose. The documentation has been included with this certification. The proposed actuarially sound capitation rates that are associated with this certification are effective for the one-month period October 1, 2014 to October 31, 2014.

In developing the actuarially sound October 2014 capitation rates and the actuarially sound methodology for the HIF capitation adjustments, I have relied upon data and information provided by the Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the health plan auditors and other AHCCCS employees for the accuracy of the data. I have checked the data for consistency and reasonableness to the extent possible and practical.

This actuarial certification has been based on the actuarial methods, considerations and analyses promulgated from time-to-time through the Actuarial Standards of Practice by the Actuarial Standards Board.

This certification letter assumes the reader is familiar with the Acute Care program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS and CMS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

Mostthew C. Varitek

11/12/2015

Matthew C. Varitek

Date

Fellow of the Society of Actuaries Member, American Academy of Actuaries

# Arizona Department of Health Services Division of Behavioral Health Services Actuarial Memorandum

## I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the capitation rates for the Arizona Department of Health Services (ADHS), Behavioral Health Services (BHS) were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

The Affordable Care Act (ACA) placed an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee (hereafter identified as the Health Insurer Fee, or HIF) was allocated to health insurers based on their respective market share of premium revenue in the previous year. Arizona Health Care Cost Containment System (AHCCCS) intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its HIF amount due. Certain Contractors will be excluded from the HIF as determined by the Contractor and approved by the Internal Revenue Service (IRS).

This memorandum presents a discussion of a revision to the already approved Contract Year Ending 2015 (CYE 15) Acute Care capitation rates. The revision reflects the adjustment associated with the HIF. These capitation rates are updated retroactively for a period of one month, from October 1, 2014 to October 31, 2014.

## II. Overview of Changes

The capitation rates and rate ranges in this memorandum equal the approved capitation rates for October 2014 plus the HIF liability plus the associated taxes.

Although the HIF liability amount is known, the 2015 income tax rates are not known until Spring of 2016 and if an extension is requested those income tax rates are not known until Fall of 2016. Thus, AHCCCS will be using assumed income tax rates to develop the revised capitation rates. This memorandum will also include a capitation rate range in case the Contractor's final 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates. Each range, as well as the revised capitation rate, is defined as follows:

- The minimum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus premium tax (these amounts are all known)
- The maximum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus the maximum federal and state income tax plus premium tax (the amount of the federal and state income tax are currently unknown)
- The certified capitation rate within the range equals the currently approved capitation rates for October 2014 plus the HIF plus the assumed federal and state income tax rates (or premium tax in lieu of state income tax as applicable) as reported by the Contractors

AHCCCS will perform a retroactive mass adjustment to the current approved capitation rates using the revised capitation rates certified in this memorandum. If a Contractor's 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates a second mass adjustment may occur.

Although the fees due from the Contractors in 2015 are based on applicable revenue received during 2014, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden.

## III. Methodology for Calculating Capitation Adjustments

#### **HIF Adjustments**

The BHS per member per month (PMPM) capitation ranges were developed separately for each Contractor based on the fee liability reported to AHCCCS. Each Contractor was notified of the fee liability for the entire entity by the Treasury Department. Contractors who received multiple streams of revenue applicable to the HIF calculation were responsible for allocating an appropriate portion of their fee liability to AHCCCS, which was verified by AHCCCS for reasonableness and appropriateness. The ranges of PMPM adjustments were developed based on the actual BHS member months by risk group during October 2014. AHCCCS will apply the HIF adjustment to the previously approved capitation rates to develop the revised capitation rates. This adjustment will be retroactive for the period of October 1, 2014 through October 31, 2014. The estimated impact to the BHS program of this retroactive capitation rate adjustment is a statewide increase of approximately \$11.0 million.

#### Administration/Risk Contingency/Premium Tax Components

The administration and risk contingency components were not impacted by the above changes. The premium tax component was impacted by the above changes.

## IV. Proposed Revised Capitation Rates and Their Impacts

Table I includes the net capitation rate ranges on a statewide basis as well as the estimated budget impact of the proposed revised payments. Table II contains the proposed revised rates and ranges displayed by risk group.

Table I

Proposed Capitation Rates and Budget Impact

Rate Cell	Non-CMDP Children (Title XIX + XXI)	CMDP Children	Title XIX GMH/SA + Title XXI Adult	Non-Integrated SMI	Total
October 2014 Member Months	645,707	15,100	749,392	749,235	2,159,434
Currently Approved Rate	\$37.14	\$924.13	\$44.13	\$33.92	(/50)
Currently Approved Estimated Capitation	\$23,981,558	\$13,954,363	\$33,070,669	\$25,414,051	\$96,420,641
Proposed Revised Rate	\$41.38	\$1,029.72	\$49.17	\$37.80	
Proposed Revised Estimated Capitation	\$26,721,551	\$15,548,707	\$36,849,131	\$28,317,712	\$107,437,101
Proposed Revised Dollar Impact	\$2,739,993	\$1,594,344	\$3,778,462	\$2,903,661	\$11,016,460
Proposed Revised Percentage Impact	11.4%	11.4%	11.4%	11.4%	11.4%

Table II

Minimum and Maximum of Ranges for Revised Capitation Rates

Rate Cell	Non-CMDP Children (Title XIX + XXI)	CMDP Children	Title XIX GMH/SA + Title XXI Adult	Non-Integrated SMI
Proposed Revised Rate	\$41.38	\$1,029.72	\$49.17	\$37.80
Minimum of Range for Revised Rate	\$39.73	\$988.47	\$47.20	\$36.28
Maximum of Range for Revised Rate	\$41.42	\$1,030.52	\$49.21	\$37.83

## V. <u>Actuarial Certification of the Capitation Rates</u>

I, Matthew C. Varitek, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The capitation rate ranges were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rate ranges were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The capitation rate ranges are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rate ranges may not be appropriate for any other purpose. The documentation has been included with this certification. The proposed actuarially sound capitation rates that are associated with this certification are effective for the one-month period October 1, 2014 to October 31, 2014.

In developing the actuarially sound October 2014 capitation rates and the actuarially sound methodology for the HIF capitation adjustments, I have relied upon data and information provided by ADHS/DBHS, the Contractors' and the AHCCCS internal databases. I have accepted the data without audit and have relied upon ADHS/DBHS and the Contractors' auditors and other AHCCCS employees for the accuracy of the data. Checks for consistency and reasonableness to the extent possible and practical were applied.

This actuarial certification has been based on the actuarial methods, considerations and analyses promulgated from time-to-time through the Actuarial Standards of Practice by the Actuarial Standards Board.

This certification letter assumes the reader is familiar with the ADHS/DBHS program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS, ADHS/DBHS and CMS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

Matthew C. Varitek

11/12/2015

Date

Fellow of the Society of Actuaries Member, American Academy of Actuaries

Matthew C. Varitek

## Children's Rehabilitative Services (CRS) Actuarial Memorandum

#### I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the capitation rates for the Children's Rehabilitative Services (CRS) program were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

The Affordable Care Act (ACA) placed an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee (hereafter identified as the Health Insurer Fee, or HIF) was allocated to health insurers based on their respective market share of premium revenue in the previous year. Arizona Health Care Cost Containment System (AHCCCS) intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its HIF amount due. Certain Contractors will be excluded from the HIF as determined by the Contractor and approved by the Internal Revenue Service (IRS).

This memorandum presents a discussion of a revision to the already approved Contract Year Ending 2015 (CYE 15) CRS capitation rates for the Fully Integrated and Partially Integrated/Acute coverage types. The revision reflects the adjustment associated with the HIF. These capitation rates are updated retroactively for a period of one month, from October 1, 2014 to October 31, 2014.

## II. Overview of Changes

The capitation rates and rate ranges in this memorandum equal the approved capitation rates for October 2014 plus the HIF liability plus the associated taxes.

Although the HIF liability amount is known, the 2015 income tax rates are not known until Spring of 2016 and if an extension is requested those income tax rates are not known until Fall of 2016. Thus, AHCCCS will be using assumed income tax rates to develop the revised capitation rates. This memorandum will also include a capitation rate range in case the Contractor's final 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates. Each range, as well as the revised capitation rate, is defined as follows:

- The minimum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus premium tax (these amounts are all known)
- The maximum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus the maximum federal and state income tax plus premium tax (the amount of the federal and state income tax are currently unknown)
- The certified capitation rate within the range equals the currently approved capitation rates for October 2014 plus the HIF plus the assumed federal and state income tax rates (or premium tax in lieu of state income tax as applicable) as reported by the Contractors

AHCCCS will perform a retroactive mass adjustment to the current approved capitation rates using the revised capitation rates certified in this memorandum. If a Contractor's 2015

income tax filing reflects a material difference between the actual tax rates and the assumed tax rates a second mass adjustment may occur.

Although the fees due from the sole Contractor in 2015 are based on applicable revenue received during 2014, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden.

## III. Methodology for Calculating Capitation Adjustments

#### **HIF Adjustments**

The CRS per member per month (PMPM) capitation ranges were developed on a statewide basis by coverage type based on the fee liability reported to AHCCCS. The sole Contractor was notified of the fee liability for the entire entity by the Treasury Department. The sole Contractor received multiple streams of revenue applicable to the HIF calculation and was responsible for allocating an appropriate portion of their fee liability to AHCCCS, which was verified by AHCCCS for reasonableness and appropriateness. The ranges of PMPM adjustments were developed using the actual CRS member months by coverage type during October 2014. AHCCCS will apply the HIF adjustment to the previously approved capitation rates to develop the revised capitation rates. This adjustment will be retroactive for the period of October 1, 2014 through October 31, 2014. The estimated impact to the CRS program of this retroactive capitation rate adjustment is an increase of approximately \$6.0 million.

#### Administration/Risk Contingency/Premium Tax Components

The administration and risk contingency components were not impacted by the above changes. The premium tax component was impacted by the above changes.

## IV. Proposed Revised Capitation Rates and Their Impacts

Table I includes the revised net capitation rates by coverage type on a statewide basis as well as the estimated budget impact of the proposed revised payments. Table II contains the proposed revised rates and ranges by coverage type on a statewide basis.

Table I

Proposed Capitation Rates and Budget Impact

Coverage Type	Fully Integrated	Partially Integrated/Acute
October 2014 Member Months	17,121	166
Currently Approved Rate	\$779.16	\$693.10
Currently Approved Estimated Capitation	\$13,339,873	\$115,278
Proposed Revised Rate	\$1,126.25	\$1,001.85
Proposed Revised Estimated Capitation	\$19,282,307	\$166,630
Proposed Revised Dollar Impact	\$5,942,434	\$51,352
Proposed Revised Percentage Impact	44.5%	44.5%

Table II

Minimum and Maximum of Ranges for Revised Capitation Rates

Rate Cell	Fully Integrated	Partially Integrated/Acute
Proposed Revised Rate	\$1,126.25	\$1,001.85
Minimum of Range for Revised Rate	\$1,004.77	\$893.79
Maximum of Range for Revised Rate	\$1,152.24	\$1,024.98

## V. Actuarial Certification of the Capitation Rates

I, Matthew C. Varitek, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The capitation rate ranges were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rate ranges were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The capitation rate ranges are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rate ranges may not be appropriate for any other purpose. The documentation has been included with this certification. The proposed actuarially sound capitation rates that are associated with this certification are effective for the one-month period October 1, 2014 to October 31, 2014.

In developing the actuarially sound October 2014 capitation rates and the actuarially sound methodology for the HIF capitation adjustments, I have relied upon data and information provided by the sole Contractor and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the health plan auditors and other AHCCCS employees for the accuracy of the data. I have checked the data for consistency and reasonableness to the extent possible and practical.

This actuarial certification has been based on the actuarial methods, considerations and analyses promulgated from time-to-time through the Actuarial Standards of Practice by the Actuarial Standards Board.

This certification letter assumes the reader is familiar with the CRS program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS and CMS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

Motthew C. Vantek

11/12/2015

Matthew C. Varitek

Date

Fellow of the Society of Actuaries Member, American Academy of Actuaries

## Department of Economic Security/Division of Developmental Disabilities (DES/DDD) Actuarial Memorandum

#### I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the capitation rates for the Department of Economic Security (DES) Division of Developmental Disabilities (DDD) program were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

The Affordable Care Act (ACA) placed an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee (hereafter identified as the Health Insurer Fee, or HIF) was allocated to health insurers based on their respective market share of premium revenue in the previous year. Arizona Health Care Cost Containment System (AHCCCS) intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its HIF amount due. Certain Contractors will be excluded from the HIF as determined by the Contractor and approved by the Internal Revenue Service (IRS).

This memorandum presents a discussion of a revision to the already approved Contract Year Ending 2015 (CYE 15) DDD capitation rates. The revision reflects the adjustment associated with the HIF. These capitation rates are updated retroactively for a period of one month, from October 1, 2014 to October 31, 2014.

## II. Overview of Changes

The capitation rates and rate ranges in this memorandum equal the approved capitation rates for October 2014 plus the HIF liability plus the associated taxes.

Although the HIF liability amount is known, the 2015 income tax rates are not known until Spring of 2016 and if an extension is requested those income tax rates are not known until Fall of 2016. Thus, AHCCCS will be using assumed income tax rates to develop the revised capitation rates. This memorandum will also include a capitation rate range in case the Contractor's final 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates. Each range, as well as the revised capitation rate, is defined as follows:

- The minimum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus premium tax (these amounts are all known)
- The maximum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus the maximum federal and state income tax plus premium tax (the amount of the federal and state income tax are currently unknown)
- The certified capitation rate within the range equals the currently approved capitation rates for October 2014 plus the HIF plus the assumed federal and state income tax rates (or premium tax in lieu of state income tax as applicable) as reported by the Contractors

AHCCCS will perform a retroactive mass adjustment to the current approved capitation rates using the revised capitation rates certified in this memorandum. If a Contractor's 2015

income tax filing reflects a material difference between the actual tax rates and the assumed tax rates a second mass adjustment may occur.

Although the fees due from the Contractors in 2015 are based on applicable revenue received during 2014, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden.

## III. Methodology for Calculating Capitation Adjustments

#### **HIF Adjustments**

The DDD per member per month (PMPM) capitation ranges were developed on a statewide basis based on the fee liability reported to AHCCCS by the acute care subcontractors to the DDD program. Each subcontractor was notified of the fee liability for the entire entity by the Treasury Department. Subcontractors who received multiple streams of revenue applicable to the HIF calculation were responsible for allocating an appropriate portion of their fee liability to AHCCCS, which was verified by AHCCCS for reasonableness and appropriateness. The ranges of PMPM adjustments were developed using the actual DDD member months during October 2014. AHCCCS will apply the HIF adjustment to the previously approved capitation rates to develop the revised capitation rates. This adjustment will be retroactive for the period of October 1, 2014 through October 31, 2014. The estimated impact to the DDD program of this retroactive capitation rate adjustment is a statewide increase of approximately \$2.5 million.

#### Administration/Risk Contingency/Premium Tax Components

The administration and risk contingency components were not impacted by the above changes. The premium tax component was impacted by the above changes.

## IV. Proposed Revised Capitation Rates and Their Impacts

Table I includes the proposed revised net capitation rate on a statewide basis as well as the estimated budget impact of the proposed revised payments. Table II contains the proposed revised rate and range displayed on a statewide basis.

Table I

Proposed Capitation Rates and Budget Impact

Rate Cell	DDD – Long Term Care
October 2014 Member Months	27,477
Currently Approved Rate	\$3,345.48
Currently Approved Estimated Capitation	\$91,923,107
Proposed Revised Rate	\$3,434.92
Proposed Revised Estimated Capitation	\$94,380,508
Proposed Revised Dollar Impact	\$2,457,402
Proposed Revised Percentage Impact	2.7%

Table II

Minimum and Maximum of Ranges for Revised Capitation Rates

Rate Cell	DDD – Long Term Care
Proposed Revised Rate	\$3,434.92
Minimum of Range for Revised Rate	\$3,403.61
Maximum of Range for Revised Rate	\$3,441.61

## V. Actuarial Certification of the Capitation Rates

I, Matthew C. Varitek, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The capitation rate ranges were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rate ranges were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The capitation rate ranges are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rate ranges may not be appropriate for any other purpose. The documentation has been included with this certification. The proposed actuarially sound capitation rates that are associated with this certification are effective for the one-month period October 1, 2014 to October 31, 2014.

In developing the actuarially sound October 2014 capitation rates and the actuarially sound methodology for the HIF capitation adjustments, I have relied upon data and information provided by the subcontractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the subcontractors' auditors and other AHCCCS employees for the accuracy of the data. I have checked the data for consistency and reasonableness to the extent possible and practical.

This actuarial certification has been based on the actuarial methods, considerations and analyses promulgated from time-to-time through the Actuarial Standards of Practice by the Actuarial Standards Board.

This certification letter assumes the reader is familiar with the DDD program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS, DES/DDD and CMS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

Matthew C. Varitek

11/12/2015

Matthew C. Varitek

Date

Fellow of the Society of Actuaries Member, American Academy of Actuaries

## Arizona Long Term Care System (ALTCS), Elderly and Physical Disability (EPD) Actuarial Memorandum

#### I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the capitation rates for the Arizona Long Term Care System (ALTCS) Elderly and Physical Disability (EPD) program were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

The Affordable Care Act (ACA) placed an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee (hereafter identified as the Health Insurer Fee, or HIF) was allocated to health insurers based on their respective market share of premium revenue in the previous year. Arizona Health Care Cost Containment System (AHCCCS) intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its HIF amount due. Certain Contractors will be excluded from the HIF as determined by the Contractor and approved by the Internal Revenue Service (IRS).

This memorandum presents a discussion of a revision to the already approved Contract Year Ending 2015 (CYE 15) EPD capitation rates. The revision reflects the adjustment associated with the HIF. These capitation rates are updated retroactively for a period of one month, from October 1, 2014 to October 31, 2014.

## II. Overview of Changes

The capitation rates and rate ranges in this memorandum equal the approved capitation rates for October 2014 plus the HIF liability plus the associated taxes.

Although the HIF liability amount is known, the 2015 income tax rates are not known until Spring of 2016 and if an extension is requested those income tax rates are not known until Fall of 2016. Thus, AHCCCS will be using assumed income tax rates to develop the revised capitation rates. This memorandum will also include a capitation rate range in case a Contractor's final 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates. Each range, as well as the revised capitation rate, is defined as follows:

- The minimum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus premium tax (these amounts are all known)
- The maximum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus the maximum federal and state income tax plus premium tax (the amount of the federal and state income tax are currently unknown)
- The certified capitation rate within the range equals the currently approved capitation rates for October 2014 plus the HIF plus the assumed federal and state income tax rates (or premium tax in lieu of state income tax as applicable) as reported by the Contractors

AHCCCS will perform a retroactive mass adjustment to the current approved capitation rates using the revised capitation rates certified in this memorandum. If a Contractor's 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates a second mass adjustment may occur.

Although the fees due from the Contractors in 2015 are based on applicable revenue received during 2014, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden.

#### III. Methodology for Calculating Capitation Adjustments

#### HIF Adjustments

The EPD per member per month (PMPM) capitation ranges were developed separately for each Contractor based on the fee liability reported to AHCCCS. Each Contractor was notified of the fee liability for the entire entity by the Treasury Department. Contractors who received multiple streams of revenue applicable to the HIF calculation were responsible for allocating an appropriate portion of their fee liability to AHCCCS, which was verified by AHCCCS for reasonableness and appropriateness. The ranges of PMPM adjustments were developed based on each Contractor's actual member months by Geographical Service Area (GSA) and risk group during October 2014. AHCCCS will apply the HIF adjustment to the previously approved capitation rates to develop the revised capitation rates. This adjustment will be retroactive for the period of October 1, 2014 through October 31, 2014. The estimated impact to the EPD program of this retroactive capitation rate adjustment is an increase of approximately \$1.0 million.

#### Administration/Risk Contingency/Premium Tax Components

The administration and risk contingency components were not impacted by the above changes. The premium tax component was impacted by the above changes.

## IV. Proposed Revised Capitation Rates and Their Impacts

Table I includes the revised net capitation rates by GSA and risk group as well as the estimated budget impact of the proposed revised payments. Table II contains the proposed revised rates and ranges by GSA and risk group.

Table I

Proposed Capitation Rates and Budget Impact

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Rate Cell	Prospective - Dual	Prospective - Non-Dual	Acute Only	Total
October 2014 Member Months	4,730	748	68	5,546
Currently Approved Rate	\$2,930.58	\$4,830.56	\$487.17	\$3,156.95
Currently Approved Estimated Capitation	\$13,862,767	\$3,613,258	\$33,033	\$17,509,059
Proposed Revised Rate	\$3,009.04	\$5,594.74	\$745.77	\$3,330.10
Proposed Revised Estimated Capitation	\$14,233,946	\$4,184,862	\$50,568	\$18,469,376
Proposed Revised Dollar Impact	\$371,179	\$571,604	\$17,535	\$960,317
Proposed Revised Percentage Impact	2.7%	15.8%	53.1%	5.5%

Note: Member months and capitation estimates are shown only for the Contractor receiving a revision for HIF.

Table II

**Proposed Revised Capitation Rates** 

Counties	Contractor	GSA	EPD Prospective - Dual	EPD Prospective - Non-Dual	Acute Only
Gila/Pinal	Bridgeway	40	\$3,192.61	\$4,960.17	\$691.00
Cochise/Graham/Greenlee	Bridgeway	46	\$3,351.64	\$4,576.95	\$626.41
Maricopa	Bridgeway	52	\$2,841.68	\$6,101.19	\$782.72

Minimum of Ranges for Revised Capitation Rates

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Counties	Contractor	GSA	EPD Prospective - Dual	EPD Prospective - Non-Dual	Acute Only		
Gila/Pinal	Bridgeway	40	\$3,167.21	\$4,732.21	\$607.13		
Cochise/Graham/Greenlee	Bridgeway	46	\$3,320.46	\$4,387.38	\$550.39		
Maricopa	Bridgeway	52	\$2,814.13	\$5,799.19	\$687.73		

Maximum of Ranges for Revised Capitation Rates

Counties	Contractor	GSA	EPD Prospective - Dual	EPD Prospective - Non-Dual	Acute Only
Gila/Pinal	Bridgeway	40	\$3,198.05	\$5,008.96	\$708.94
Cochise/Graham/Greenlee	Bridgeway	46	\$3,358.31	\$4,617.51	\$642.68
Maricopa	Bridgeway	52	\$2,847.57	\$6,165.81	\$803.05

## V. <u>Actuarial Certification of the Capitation Rates</u>

I, Matthew C. Varitek, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The capitation rate ranges were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rate ranges were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The capitation rate ranges are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rate ranges may not be appropriate for any other purpose. The documentation has been included with this certification. The proposed actuarially sound capitation rates that are associated with this certification are effective for the one-month period October 1, 2014 to October 31, 2014.

In developing the actuarially sound October 2014 capitation rates and the actuarially sound methodology for the HIF capitation adjustments, I have relied upon data and information provided by the Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the health plan auditors and other AHCCCS employees for the accuracy of the data. I have checked the data for consistency and reasonableness to the extent possible and practical.

This actuarial certification has been based on the actuarial methods, considerations and analyses promulgated from time-to-time through the Actuarial Standards of Practice by the Actuarial Standards Board.

This certification letter assumes the reader is familiar with the EPD program, Medicare and Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS and CMS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

Motthew C. Varite

11/12/2015

Matthew C. Varitek

Date

Fellow of the Society of Actuaries Member, American Academy of Actuaries



#### STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE SENATE

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DATE:

December 10, 2015

TO:

Representative Justin Olson, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director

FROM:

Ben Beutler, Senior Fiscal Analyst 83

SUBJECT:

Department of Child Safety - Review of FY 2016 First Quarter Benchmarks

#### Request

Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2 requires the Department of Child Safety (DCS) to submit a report for Committee review of quarterly benchmarks for assessing progress made in increasing the department's number of FTE Positions and in reducing the number of backlog cases.

#### Recommendation

The Committee has at least the following 3 options:

- 1. A favorable review.
- 2. An unfavorable review.
- 3. Accept the report with no comment.

#### **Analysis**

#### FY 2016 First Quarter Benchmark - Filled FTE Positions

The benchmark report is due by the end of the calendar quarter. DCS submitted its FY 2016 first quarter benchmark report on December 9, 2015. *Table 1* outlines DCS' progress in hiring caseworkers by quarter. In addition, DCS has updated their FTE data through the beginning of December 2015.

DCS has 1,279 filled direct line staff in December 2015, or (127) FTE Positions below its benchmark of 1,406. DCS' highest hiring level occurred in April 2015, with 1,357 direct line staff. Direct line staff includes case-carrying caseworkers, caseworkers in training and hotline staff but excludes "hired awaiting training" figures for benchmark comparison purposes.

Direct line staff has increased since the Committee last heard this item at its September meeting, growing from 1,263 staff in June 2015 to 1,279 staff in the current month. While overall hiring is up, the mix has changed significantly. The number of case-carrying caseworkers has declined from 1,025 to 930. The loss of case-carrying caseworkers has been offset by a recent influx of new staff who are currently in training; the number in training has increased from 164 to 274. DCS projects that it will fill all 1,406 of its appropriated direct line positions by the end of FY 2016.

Table 1				
Pro	gress in Hiring Ca	seworkers by Qu	arter	
			Actuals	
Direct Line Staff Type	<b>Benchmark</b>	June 30, 2015	Sept. 30, 2015	Dec. 2, 2015
Case-Carrying Caseworkers	1,190	1,025	972	930
Caseworkers in Training	140	164	212	274
Hotline Staff	<u>76</u>	74	71	<u>75</u>
Total	1,406	1,263	1,255	1,279

#### FY 2016 First Quarter Benchmark - Reducing the Backlog

Table 2 outlines DCS' progress in reducing the backlog by quarter. In addition, DCS has updated their backlog data through the end of November 2015.

In June 2014, DCS set benchmarks for reducing the backlog. At the time, there were 13,024 backlog cases. The backlog is defined as non-active cases for which documentation has not been entered into the child welfare automated system for at least 60 days and for which services have not been authorized for at least 60 days.

The number of backlog cases has essentially remained the same since the Committee last heard this item at its September meeting, holding constant at about 14,900 cases in June 2015 and November 2015. DCS has reduced the number of relapsed June 2, 2014 cases from 3,139 to 1,841, but the post-June 2, 2014 backlog has grown from 11,807 to 13,058. DCS' benchmark for the backlog is 1,000 cases. DCS notes that the current backlog of 14,899 primarily consists of cases that are in the investigation process. We asked DCS whether enough of the investigation has been completed to determine if there is an imminent risk to the child.

Table 2				
Progress Reducing the J	une <b>2, 2014</b> Ba	cklog of 13,024 C	ases by Quarter	
			Actuals	
Remaining Backlog Cases	<b>Benchmark</b>	June 30, 2015	Sept. 30, 2015	Nov. 28, 2015
Total Backlog Cases	1,000	14,946	14,558	14,899
Relapsed June 2, 2014 Backlog Cases	0	3,139	2,253	1,841
Post-June 2, 2014 Backlog Cases	1,000	11,807	12,305	13,058

#### **Expenditures on Personal Services**

DCS spent \$29.8 million on salaries including overtime for 2,592 FTE Positions in the first quarter of FY 2016.

#### Expenditures to Reduce the Backlog

DCS was appropriated \$23.1 million from the General Fund and \$5.9 million from Federal Funds for a total of \$29.0 million in FY 2015 for the elimination of the June 2 backlog. Consistent with the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan, the FY 2016 budget for backlog elimination was reduced to \$12.4 million General Fund and \$3.9 million from Federal Funds, totaling \$16.3 million. In the first quarter of FY 2016, DCS spent \$3.4 million on backlog reduction for support services and placements. The expenditure figure does not include the cost of caseworker overtime to investigate backlog cases.

RS/BB:kp



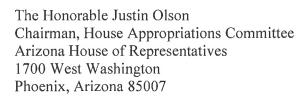
## Arizona Department of Child Safety

1234562

Gregory McKay Director

**Douglas A. Ducey** Governor

December 9, 2015



Re: Department of Child Safety Quarterly Progress Report

Dear Representative Olson:

Pursuant to Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, Section 6, the Department submits its report including quarterly benchmarks for the first quarter of FY 2016 for assessing the Department's progress increasing the number of filled FTE positions and reducing the number of backlog cases, as well as updates to the quarterly expenditure plans for FY 2016 monies appropriated for personal services and for reducing the backlog.

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

Sincerely,

Gregory McKay

Director

Enclosure

cc: Richard Stavneak, Director, Joint Legislative Budget Committee Lorenzo Romero, Director, Governor's Office and Strategic Planning and Budget Ben Beutler, Joint Legislative Budget Committee Laura Johnson, Governor's Office and Strategic Planning and Budget



## DEPARTMENT OF CHILD SAFETY

### Quarterly Progress Report for Filled FTE Positions and Reducing the Backlog September 2015

Laws 2014, Second Special Session, Chapter 2, requires the Department of Child Safety (DCS) to submit a report for review by the Joint Legislative Budget Committee (JLBC) containing the progress made in increasing the Department's number of FTE positions and in reducing the number of backlog cases. The backlog cases referenced in Laws 2014, Second Special Session, Chapter 2, are cases that have had no case note documentation entered in the Children's Information Library and Data Source (CHILDS) for the past 60 days. These cases are also referred to as non-active cases, which is the term used through the remainder of this report.

The filled FTE, case count, and expenditures provided in this report are actuals for first quarter 2016 and projections for the remainder of fiscal year 2016 (FY 2016).

#### Filled FTE Positions

As of June 30, 2014, the Department had a total of 2,392 filled FTE positions, including 982 case-carrying staff, 225 staff in training, 76 FTE in Intake (Hotline), and 1,109 other staff. The total number of FTEs through the first quarter of FY 2016 is outlined below.

	Quarter 1 Actual	Quarter 2 Projection	Quarter 3 Projection	Quarter 4 Projection
Total Authorized FTE	3,057.1	3,057.1	3,057.1	3,057.1
Authorized Attorney General FTE Positions	234.2	234.2	234.2	234.2
Total Authorized DCS FTE Positions	2,822.9	2,822.9	2,822.9	2,822.9
Authorized Caseworkers	1,406.0	1,406.0	1,406.0	1,406.0
Filled Caseworkers (Active)	972.0	930.0	967.0	1,087.0
Filled Caseworkers (Training)	212.0	274.0	257.0	244.0
Filled Intake (Hotline)*	71.0	75.0	75.0	75.0
Subtotal Filled	1,255.0	1,279.0	1,299.0	1,406.0
Authorized Non-Caseworker Personnel	1,416.9	1,416.9	1,416.9	1,416.9
Filled Supervisors (Unit, APM)*	254.0	260.0	260.0	260.0
Filled Case Aides	279.0	289.0	289.0	289.0
Filled Other Non-Caseworkers	804.0	845.0	867.0	867.0
Subtotal Filled	1,337.0	1,394.0	1,416.0	1,416.0
Total Filled FTE	2,592.0	2,673.0	2,715.0	2,822.0

#### Progress Reducing the Cases Inactive as of June 2, 2014

Laws 2014, Second Special Session, Chapter 2 requires DCS to report the disposition (outcome) of the cases that were non-active as the close of business on June 2, 2014, including:

- Number of cases currently closed,
- Number of cases currently being investigated,
- Number of cases currently in an out-of-home placement,
- Number of cases currently receiving in-home preventive support services.

The Department established the following quarterly benchmarks for assessing progress in reducing the number of non-active cases:

- Number of cases that were non-active as of June 2, 2014 that have been activated
- Number of activated cases in the investigation phase
- Number of activated cases receiving in-home services
- Number of activated cases in out-of-home placements and receiving out-of-home support services
- Number of activated cases closed

As of June 2, 2014, there were 13,024 non-active cases. DCS has reviewed all 13,024 of those cases to determine the actions required in each case. As a result of this review, all 13,024 of the non-active cases were made active through entry of a case note documenting the review.

Table 2. Reducing the June 2, 2014 Backlog for Fiscal Year	2016 Qtr 1			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
_	Actual	Projection	Projection	Projection
Investigation Status				
Open Investigation	2,886	2,546	2,206	1,866
Closed Investgation	9,981	10,321	10,661	11,001
No investigation documentation in CHILDS	157	157	157	157
Case Status				
Receving In-Home Preventive Services	56	51	46	42
Receiving Out-of-Home Support Services and/or Placement	468	429	390	351
Cases with no service or placement payments in CHILDS	2,838	2,077	1,316	554
Cases Closed	9,662	10,467	11,272	12,077
Current number of non active cases as of 9/30/15	14,558	14,899	13,376	11,858
Original 13,024 backlog cases reverted to non active status	2,253	1,841	1,765	1,690

The Department is working to resolve all of the cases that were non-active as of June 2, 2014. A case is defined as resolved if it closed after June 2, 2014 (even if it reopened at a later date due to another Hotline report), or remains open because in-home or out-of-home services are being

provided to the family. As of September 30, 2015, 10,186 of the 13,024 cases that were non-active on June 2, 2014 have been resolved.

Investigation status projections are based on an updated FY 2016 mid second quarter closed investigation count and a 25% reduction to open investigations for the remainder of the fiscal year.

#### Process to Address the Current Non-Active Cases

As of September 30, 2015, the total number of non-active cases (cases with no case note entered in the past 60 days) was 14,558. The number of non-active cases has decreased from a peak of 15,504 on December 31, 2014. This is a net reduction of 946 non-active cases and a 6.1% reduction in the non-active case total since that peak.

The Department is primarily addressing non-active cases by closing investigations, based on the knowledge that the majority of non-active cases are investigation cases rather than in-home service or out-of-home placement cases. The Department expects to reduce the non-active caseload in the coming months due to the following strategies:

- Selected Assistance Work Teams The Department has identified a team of 60 DCS employees who receive overtime or stipend pay to work eight hours per week, in addition to their normal work hours. This team is conducting the following activities: reviewing investigations where the Child Safety Specialist has indicated the investigation is complete and ready for supervisory review for closure; closing investigations when the assessment is complete; holding a supervisory conference with the Child Safety Specialist (if required by the investigation); identifying the tasks that need to be completed before investigation closure can occur; conducting investigation activities; and documenting investigation activity in CHILDS.
- Regional Plans Each DCS regional Program Manager has identified plans to reduce their local inactive caseload, using existing resources that are available within their regions. These plans include activities such as assigning one report for investigation to every eligible employee in the region; designating a full time employee to review and address open investigations assigned to an employee who has resigned; giving employees "down time" where they do not receive new reports for investigation so that they can focus on closing investigations; and assigning follow-up investigation activities to new employees who are in the field experience phase of their training.
- Expanding Administrative and Case Review Capacity by Leveraging Partnerships The Department's analysis of the investigation caseload has found that many open investigations are complete or nearly complete, but contain little or no documentation. Administrative support staff would be able to facilitate the transfer of documentation into CHILDS which would move cases forward to the follow-up and closure stage. As such, the Department has explored options to gain additional administrative support from

external partners. Specifically, DCS sent a request to other state agencies and as a result has obtained administrative support staff on a temporary basis.

Additionally, the Department has partnered with Casey Family Programs for case management support which will allow DCS staff to conduct their core investigative functions. Through this partnership, Casey Family Programs will provide qualified staff to manage the inactive cases. Functions of this support include reviewing or auditing cases to determine what tasks on an investigation still must be completed; gathering documentation such as medical or educational records; entering data into CHILDS; and monitoring the assignment and completion of investigation tasks through investigation closure. The Department is continuing efforts to contract with a temporary staffing service that can bring time-limited, experienced, and qualified staff on board quickly as a means to bring in additional case management support.

• Model Field Offices – The intent of the Model Field Offices is to bring together best practices from across the state in order to develop common processes, common practices, and uniform tools that guide daily case management activities. Each field office will exhibit not only the physical attributes of Model Office but more importantly exhibit the leadership and team member skills to sustain standard processes. Visual process control measures, performance management through the use of huddle boards and team problem solving, and workplace organization will be implemented in each Model Office to build and maintain a culture of continuous improvement within the Department.

#### Ongoing Initiatives to Address Investigation Capacity

The Department is invested in making improvements that are sustainable, representative of best practices, and aimed at improving outcomes for children and families. Reducing the non-active cases by way of a thoughtful, strategic, and holistic approach is imperative for long term success. The following initiatives complement the non-active case reduction work and build a strong foundation of practice. These initiatives are all in process and have already resulted in positive trends.

- Objective Decision-Making at the Hotline Improving objective decision making at the Hotline will better define what is screened in as abuse and/or neglect and enable DCS to engage with the right families at the right time. An inter-rater reliability study was conducted to analyze the effectiveness of the current Hotline screening tool. Though the results of the study fell within the average range of inter-rater reliability across states, a rapid process improvement team has been established to revise the decision tool. The revised tool will be tested and modified until the desired inter-rater reliability is achieved prior to full implement of the new hotline tool.
- Statewide Utilization of the CSRA Documentation & Field Guide The guide is used to facilitate the transfer of information from the Child Safety Specialist to CHILDS. The Child Safety Specialist can complete this guide as a hard copy form in the field during an

interview or on a laptop in the field or office. This guide can be completed much more quickly than the CSRA, and can be given to a team member or administrative support staff who will transfer the documentation into the CSRA. Once the documentation is in the CSRA, a team member can review the case to identify tasks that need to be completed before closure can occur. The utilization of this guide facilitates timely documentation which will lead to better documentation in abandoned investigation caseloads.

• Uniform Investigation and Case Transfer Process – Part of the efforts to right size the investigations capacity involve establishing a standard investigative case flow. Variance of practice across field offices creates inefficiencies and inconsistent expectations for timely completion of activities. By instituting a uniform investigation and case transfer process, DCS will be able to improve the status of case management activities and better align resources with identified needs.

#### Expenditures for Personal Services in FY 2015

The table below shows first quarter personal services expenditures, employee related expenditures, and FTE for fiscal year 2016.

Table 3. Proj	ected Expenditures for l	Personal Services Mon	ies Appropriated in Fis	cal Year 2016
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	Actual	Projection	Projection	Projection
Case Specialists				
P/S	\$14,381,883	\$14,656,915	\$14,886,108	\$16,112,293
ERE	6,094,512	6,211,060	6,308,184	6,827,796
FTE	1,255	1,279	1,299	1,406
Field				
Supervisors				
P/S	2,910,756	2,979,514	2,979,514	2,979,514
ERE	1,233,471	1,262,608	1,262,608	1,262,608
FTE	254	260	260	260
Case Aides				
P/S	3,197,247	3,311,844	3,311,844	3,311,844
ERE	1,354,876	1,403,437	1,403,437	1,403,437
FTE	279	289	289	289
Filled Other Non-O	Case Specialists			
P/S	9,356,961	9,843,195	10,150,614	10,191,582
ERE	3,823,214	4,013,043	4,088,575	4,065,387
FTE	804	845	867	867
Total P/S	\$29,846,847	\$30,791,467	\$31,328,080	\$32,595,233
Total ERE	12,506,073	12,890,149	13,062,804	13,559,228
Total FTE Cost	\$42,352,920	\$43,681,616	\$44,390,885	\$46,154,461
<b>Total FTE</b>	2,592	2,673	2,715	2,822

#### Expenditures for Reducing the Backlog

The FY 2016 budget includes \$12.4 million from the General Fund to reduce the backlog of non-active cases. This appropriation includes funding for services and placement costs for non-active cases already in placements and receiving services, or for children who receive services after their case is reactivated and investigated of the 13,024 inactive cases as of June 2, 2014.

Table 4 shows the first quarter expenditures for FY 2016 related to the cases that were non-active as of June 2, 2014, and projected costs for the next three quarters.

Table 4. Expenditures for the 1	able 4. Expenditures for the 13,024 Cases Inactive as of June 2, 2014						
	Quarter 1 Actual	Quarter 2 Projection	Quarter 3 Projection	Quarter 4 Projection	Total	Expenditures to Address New Inactive Cases	Total Appropriation
In-Home Support Services	97,067	88,987	80,889	72,800	339,743	2,442,357	2,782,100
Out-of-Home Support Services	1,275,726	1,169,416	1,063,105	956,795	4,465,042	617,158	5,082,200
Out-of-Home Placements	2,017,969	1,849,805	1,681,641	1,513,477	7,062,892	(2,518,992)	4,543,900
Total	3,390,762	3,108,208	2,825,635	2,543,072	11,867,677	540,523	12,408,200

While the Department only reports expenditures related to the 13,024 cases that were inactive on June 2, 2014, significant work is also required to address the additional cases that have continued to become inactive since June 2.

The FY 2016 first quarter actual expenditures include closed cases with outstanding payments for services already rendered and for current cases that remain open because in-home or out-of-home services are being provided to the family. These expenditures do not include those cases that were closed after June 2, 2014 and then reopened at a later date due to another Hotline report as previously published in the report.

The Department anticipates that the total expenditures for Out-of-Home Placements for cases that were inactive on June 2, 2014 will be \$7,062,892 for and the shortfall of (\$2,518,992) shown in this outline will be supported by Out-of-Home Placement SLIs.



#### STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE SENATE

**DON SHOOTER** CHAIRMAN 2016 OLIVIA CAJERO BEDFORD STEVE FARLEY **GAIL GRIFFIN** KATIE HOBBS JOHN KAVANAGH DEBBIE LESKO STEVEN B. YARBROUGH

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HOUSE OF REPRESENTATIVES

JUSTIN OLSON **CHAIRMAN 2015** LELA ALSTON RUSSELL "RUSTY" BOWERS VINCE LEACH STEFANIE MACH DARIN MITCHELL STEVE MONTENEGRO MICHELLE UGENTI-RITA

DATE:

December 11, 2015

TO:

Representative Justin Olson, Chairman

Members, Joint Legislative Budget Committee

THRU:

Richard Stavneak, Director  $\varrho\varsigma$ 

FROM:

Rebecca Perrera, Fiscal Analyst

SUBJECT:

Arizona Department of Administration - Review of Emergency Telecommunication Services

Revolving Fund Expenditure Plan

#### Request

Laws 1998, 4<sup>th</sup> Special Session, Chapter 6 requires the Arizona Department of Administration (ADOA) to submit the wireless services portion of its Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan to the Committee for review. ADOA oversees and provides support to the communities of the state as they enhance their 911 emergency telecommunications systems. In practice, the department submits its complete expenditure plan annually, although expenditures on wire services are not subject to Committee review.

#### Recommendation

The Committee has at least the following 2 options:

- 1. A favorable review of the \$6,147,100 wireless portion of the ETSF expenditure plan.
- 2. An unfavorable review of the \$6,147,100 wireless services expenditure plan.

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

A. ADOA shall report to the Committee on the results of the text-to-911 network proposal upon the completion of its review.

In FY 2016, ADOA expects to distribute \$21,706,100 from the ETSF. Of the \$21,706,100, \$14,684,000 is for wire services, \$6,147,100 is for wireless services, and \$875,000 is for administrative costs. Over the past 5 years, expenditures averaged \$16.2 million.

(Continued)

#### **Analysis**

ADOA works with county/city 911 administrators to distribute monies from ETSF for Federal Communications Commission (FCC) compliant telecommunications equipment, software, carrier services, and maintenance. The counties and cities are responsible for implementing the improvements to their 911 system. ADOA is responsible for providing centralized oversight in developing project schedules to consider the greatest needs, especially in rural areas, and for maximizing regional efficiencies and local readiness. While ADOA prefers that each county complete implementation phases as a whole, the department does make allowances for cities or areas that are behind or ahead of the county schedule. Localities must provide and fully fund their own personnel, utilities, and facilities. ADOA also requires communities to submit Wireless 911 Service Plans to the agency for its approval.

#### **Emergency 911 Wireless Service Status**

In 1996, the FCC issued Report and Order 96-204, which ordered the development and implementation of 911 services for wireless telecommunications systems in 2 phases. Before a service area achieves *Phase I*, 911 calls consist of the call being directed to a public safety answering point (PSAP), but the call is delivered without location or call back information (shown below as *Phase 0/.5*). *Phase I* requires local public safety answering facilities to be able to identify the phone number of the caller, in addition to the nearest cellular tower to the caller and to relay calls to the nearest emergency response center. *Phase II* requires local public safety answering facilities to be able to identify the specific location of the caller. Geographic Information System (GIS) Standards must be met before a 911 system deploys wireless Phase II. Mobile service carriers were required to upgrade their systems for Phase II capability by December 2005. The status of Arizona's wireless 911 availability as of July 2015, is listed below:

<u>Phase I</u> City of Winslow	
Phase II Graham County Greenlee County La Paz County Maricopa County	Pinal County Pima County Santa Cruz County Yavapai Region Yuma County
	City of Winslow  Phase II  Graham County  Greenlee County  La Paz County

Approximately 90% of the state's population lives in *Phase II* areas, where the location of a 911 caller can be identified. The \$6.1 million wireless portion of the ETSF expenditure plan would primarily fund the operation and maintenance for these wireless *Phase II* 911 networks including equipment costs. The ETSF does not fund certain costs to operate the 911 centers such as dispatcher salaries.

Wireless *Phase II* services are now available on the major thoroughfares from Nogales through Yavapai County. Areas that have not yet completed *Phase I* are being encouraged to move directly to *Phase II*.

(Continued)

Specifically, the Apache and Navajo Counties and the City of Winslow are expected to implement *Phase II* in FY 2016. The estimated Phase II implementation costs in these 3 jurisdictions is \$1.6 million. According to ADOA, the majority of the \$1.6 million equipment costs have already been funded by ETSF in FY 2015.

#### **Funding Mechanism**

A.R.S. § 42-5252 authorizes a \$0.20 per month tax on each wire and wireless telecommunication service account. In addition to the tax on wire and wireless phone accounts, Laws 2012, Chapter 198 established the prepaid wireless telecommunications 911 excise tax. The tax is equal to 0.8% of the gross income derived from the retail sale of prepaid wireless telecommunications services. The tax became effective as of January 1, 2014. Although Arizona statute now requires a tax on prepaid wireless accounts, there is still no requirement that recent technology, such as internet-based phones and OnStar, pay 911 taxes.

The revenue generated from these taxes is deposited into the Emergency Telecommunications Services Revolving Fund. ADOA estimates that revenues will increase from \$17.9 million in FY 2015 to \$18.5 million by FY 2016 and remain near that level through FY 2020.

#### FY 2016 ETSF Expenditure Plan

Localities submit copies of their invoices for emergency telecommunications services and equipment to ADOA, who subsequently distributes funds to these areas based on need. In FY 2016, ADOA expects to distribute \$21.7 million from ETSF. Of the \$21.7 million, \$6.1 million is for *Phase I* and *Phase II* wireless services. In addition, \$14.7 million is for proposed wire services expenditures, while the remaining \$0.9 million is for administration costs.

*Table 1* summarizes the actual ETSF distribution during the past 2 fiscal years and projected distribution during the current fiscal year.

Table 1			
ADOA Emergency Tele	communications Servi	ces Revolving Fund	
FY 201	4 – 2016 Expenditure P	lan	
	Actual	Actual	Projected
	FY 2014	FY 2015	FY 2016
Revenues			
Balance Forward	\$ 3,436,800	\$ 4,593,100	\$ 3,225,300
Tax Revenue	17,109,400	17,850,800	18,500,000
Interest Income	40,900	42,100	40,000
Funds Available	\$20,587,100	\$ 22,486,000	\$ 21,765,300
Expenditures			
Wireless Services			
Phase I Wireless	\$ 32,500	\$ 0	\$ 0
Phase II Wireless	4,138,900	4,793,100	<u>6,147,100</u>
Wireless Services Subtotal	\$ 4,171,400	\$ 4,793,100	\$ 6,147,100
Wire Services	\$10,834,300	\$ 13,631,900	\$ 14,684,000
Wireless Services	4,171,400	4,793,100	6,147,100
Administration	864,000	835,700	<u>875,000</u>
ETSF Expenditure Plan Total	\$15,869,700	\$ 19,260,700	\$ 21,706,100
Transfers	\$ 124,300	\$ 0	\$ 0
Fund Balance	\$ 4,593,100	\$ 3,225,300	\$ 59,200

(Continued)

Table 2 includes further detail on planned wireless services expenditure in FY 2016.

Table 2	
FY 2016 Wireless Services Ex	xpenditure Plan
	Total
Cochise County	\$ 301,200
Coconino County/ Page	156,600
Colorado City	2,600
Gila County	36,000
Gila River Tribal	11,000
Graham County	48,500
Greenlee County	13,200
La Paz County	12,000
Maricopa County	3,460,300
Mohave County	188,500
Pima County	1,242,300
Pinal County	349,800
Santa Cruz County	84,400
Winslow	36,000
Yavapai County	304,300
Yuma County	124,300
TOTAL	\$6,371,000

#### **Next Generation 911**

Nationally, the current focus for 911 services is to implement *Phase II* capabilities, which provides PSAPs with the longitude and latitude of the caller. However, the Federal Communications Commission (FCC) is beginning to implement Next Generation 911 (NG911), which would allow text-to-911 messaging. The FCC has required wireless carriers to develop the capability to deliver 911 text messages to local dispatchers. One primary barrier to implementation is the ability of the PSAPs to accept text messaging and other data-based messaging medias. The National Emergency Management Association estimates it will cost states at least \$12 billion to upgrade to NG911. The estimated cost to Arizona is unknown. According to the National Conference of State Legislatures, counties in at least 19 states have implemented NG911 and 3 states offer the service statewide.

ADOA is currently reviewing a proposal by a network carrier to implement 911 text messaging. Under this proposal, local jurisdictions could contract with the network carrier for NG911 network services. The network carrier would upgrade the network to transmit 911 text messaging. The network carrier would also host the network routers and replace the PSAPs computer equipment to accept text messages. Under a managed system, local jurisdictions would pay a "per-dispatcher seat" fee of approximately \$2,000 a month to the carrier for the NG911 network and equipment. Assuming all 600 dispatcher seats in the state were under the proposal, the total annual cost to the local jurisdictions would be \$14.4 million. However, because wireless calls are on a different network, the costs associated with operating the *Phase II* network would still exist. ADOA reports that local justifications have limited funds to update equipment. Currently, the net cost of proposal is unknown.

ADOA reports that their review of the proposal should be complete in January 2016. Once reviewed, local jurisdictions could proceed with contracting with their network carrier. Pima and Yuma Counties have already expressed interest in contracting with the network carriers for NG911. The Committee may consider a provision requiring ADOA to report on the results of the 911 text messaging proposal, once approved.

Craig C. Brown Director

#### Douglas A. Ducey Governor



#### ARIZONA DEPARTMENT OF ADMINISTRATION

#### OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401 PHOENIX, ARIZONA 85007

(602) 542-1500

November 24, 2015

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

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



Dear Representative Olson and Senator Shooter:

As stipulated in Laws 1998, 4<sup>th</sup> Special Session, Chapter 6, Section 5 – <u>Emergency telecommunications fund: report of expenditure plans</u>, the Department of Administration shall report its expenditure plans to the Joint Legislative Budget Committee for review. In fulfillment of this requirement, we are enclosing:

- The Wireless Program Report for fiscal year 2015
- The status of Arizona 9-1-1 and the estimated costs and deployment schedule to implement Wireless Phase II
- The 9-1-1 financial forecast for fiscal years 2016 through 2020 incorporating the fund balance transfers to the General Fund during FY2003, FY2004, FY2009, FY2010, FY2011, FY2012, FY2013 and FY2014
- FY2016 Wireless Program Plan
- Arizona GIS Standards Compliant Map
- Arizona Wireless 9-1-1 Deployment Map

Please note that the financial forecast shows a program deficit in fiscal year 2020. This deficit occurs despite anticipated additional revenues generated through Laws 2012, 2<sup>nd</sup> Regular Session, Chapter 198, Prepaid Wireless Telecommunications E911 Excise Tax, which was implemented January 1, 2014. With additional Wireless Phase II

The Honorable Justin Olson The Honorable Don Shooter November 24, 2015 Page 2

deployments and a transition to an IP Enabled Network, costs will continue to increase. Should this shortfall materialize, it could prevent the full implementation of the wireless program, equipment upgrades for Public Safety Answering Points and the transition to an IP Enabled Network. As a result, costs could be shifted to the 9-1-1 Systems throughout the State.

Should you have any questions, please contact me at 602-542-1500 or Barbara Jaeger, the State 9-1-1 Administrator at 602-542-0911.

Sincerely

Craig C. Brown

Director

cc:

Mr. Richard Stavneak, Director, JLBC

Ms. Rebecca Perrera, Fiscal Analyst, JLBC

Mr. Lorenzo Romero, Director, OSPB

Mr. Christopher Olvey, Budget Analyst, OSPB

Mr. Paul Shannon, Assistant Director, Budget & Resource Planning ADOA

Mr. Morgan Reed, Assistant Director ASET, CIO, ADOA

Mr. Gary Hensley, Assistant Director ASET, Chief Integration Officer ADOA

#### Arizona Department of Administration State 9-1-1 Office Wireless Program Report Fiscal Year 2015

The State 9-1-1 program was established, through legislation in 1985, to provide a funding mechanism for the deployment and on-going costs of providing 9-1-1 services in Arizona.

Under A.R.S. Title 43, Article 6, Telecommunications Services Excise Tax, a tax is levied for each activated wireline, including Voice over Internet Protocol (VoIP) access and wireless service account for the purpose of financing emergency telecommunications services (911). Current law reduced the tax from thirty-seven cents per month to twenty-eight cents per month in July 1, 2006. The tax was further reduced to twenty cents per month as of July 1, 2007.

During the Fiftieth Legislature, second regular session, HB 2094 – Prepaid Wireless Telecommunications E911 Excise Tax was passed and signed into law on April 5, 2012. The tax was implemented in January 2014 and for FY2015 collected \$1.8 million dollars.

The funds collected are administered by the Arizona Department of Administration under A.R.S. § 41-704 and rules have been established that govern the allowable expenditures and funding eligibility requirements by communities and political subdivisions in the State.

Components eligible for funding include necessary and/or appropriate network, equipment and maintenance to handle the processing of 9-1-1 emergency calls. Of the revenue generated, the program statutorily distributes 95% of the fund for 9-1-1 call service delivery of wireline, wireless and voice over IP services. An amount not to exceed 3% of the annual revenue is used by the Arizona Department of Administration for program oversight expenditures. An additional amount of 2% is distributed to the 9-1-1 System Coordinators for the Local Network Management of Contracts.

Accounting methodology is in place to track all expenditures by community and/or 9-1-1 system. In July 2007, the Department of Revenue transitioned their processes to collecting the tax as one entity, with the identity code of 911, no longer breaking out the wireline and traditional wireless revenue. The pre-paid wireless revenue is collected with the Department of Revenue identity code of 912.

All Public Safety Answering Point (PSAP) equipment used to answer and handle 9-1-1 calls are budgeted under wireline expenditures, although it should be understood that the equipment is used to answer all wireline, wireless and VoIP 9-1-1 calls. Mapping equipment for Wireless Phase II is broken out and budgeted under Wireless Phase II equipment.

The Arizona 9-1-1 Wireless Phase II Implementation Plan has been updated to expand the program moving specified sites toward deployment of Wireless Phase II and identifying expenditures associated with legislative cost recovery. The Statewide System Project plan covering each 9-1-1 System for FY2016 has been updated and is included in this document. Due to limited funding availability, deployment of Wireless Phase II is limited to only those carriers that do not seek wireless carrier costs.

Federal Communications Commission 9-1-1 Wireless Phase I rules indicate that when a call is placed for emergency services, the address information for the cellular tower is provided along with the call to the Public Safety Answering Point (PSAP/9-1-1 Center). The City of Winslow is currently the only system that is receiving Phase I calls only, but will transition to Phase II in conjunction with that of Navajo and Apache Counties. The delivery of 9-1-1 Wireless Phase II calls are delivered with the longitude and latitude of the caller to the PSAP, providing more defined location information.

The wireless program criteria established for rollouts, stipulate that Enhanced 9-1-1 (voice, telephone number and address) has been completed for either an entire county or significant portions of a county. Each county or system must complete a Wireless 9-1-1 Service Plan, utilizing the format specified in the State guidelines and appoint a single point of contact for each county or area. The Geographic Information System (GIS) data must be completed and meet the same 95% accuracy rate as established

for Enhanced Wireline 9-1-1. Equipment mapping components will be installed prior to request for service letters being sent to the wireless carriers for Wireless Phase II service.

#### Wireless Deployment

Significant progress continues to be made in the deployment of Wireless Phase II. The two major regions in the state, Maricopa and Pima completed their Phase II deployments in 2003, constituting approximately 80% of the state's population. Wireless Phase II has also been completed in Cochise County, Coconino County, Gila County, Graham County, Greenlee County, La Paz County, Mohave County, Pinal County, Santa Cruz County, Yavapai County, Yuma County, and the Gila River Tribal Community. Navajo County and Apache County are scheduled to complete in FY2016.

During FY2015, \$15,885 was expended from the \$1 million dollar Public Safety Answering Point (PSAP) Readiness Fund Grant to complete the Geographic Information Systems (GIS) work necessary for La Paz County. The grant was awarded to the State on October 7, 2004 by The Wireless E-911: The PSAP Readiness Fund. At the close of FY2015, there was \$147,000 still available. To date, those funds have furthered the deployment of Wireless Phase II for eight counties and one municipality. Additional funds were received from the Arizona Department of Land under the State Broadband Initiative (SBI) Grant for the GIS work in Apache County, Navajo County and La Paz County. Page 10 shows those Arizona areas which are GIS The remaining funds will be Standards Compliant. expended during FY2016 to continue GIS Process Improvement, GIS Data Development, Data Validation and Next Generation 911 Core Services pilot project support.

System	FY15	Expenditures	PI/PII
Cochise County	\$	402,372	PII
Coconino County	\$	150,256	PII
Colorado City	\$	1,509	PII
Gila County	\$	30,413	PII
Gila River Tribal	\$	8,671	PII
Graham County	\$	41,083	PII
Greenlee County	\$	12,000	PII
La Paz County	\$	23,451	PII
Maricopa Region	\$	2,164,813	PII
Mohave County	\$	31,974	PII
*Navajo/Apache County	\$	*	GIS
Pima County	\$	1,079,235	PII
Pinal County	\$	318,488	PII
Santa Cruz County	\$	112,866	PII
Winslow	\$	27,147	PI
Yavapai County	\$	272,555	PII
Yuma County	\$	116,258	PII
	\$	4,793,090	

With the completion of these projects, Wireless Phase II service is available on the major thoroughfares from Nogales through Coconino County and west through Mohave County. Page 11 depicts the status of Wireless Phase II deployments.

It is anticipated that Navajo/Apache Counties will be ready to move to Wireless Phase II in FY2016. Any special grant funds remaining with the completion of Navajo/Apache Counties will be used to provide mapping equipment in the remaining counties of Apache and Navajo Counties.

Wireless Phase II deployment for Mohave County was completed in FY2011. During FY2014, a project was completed to ensure that 9-1-1 location data between the Frontier 911 network platform and the CenturyLink 911 network platform could be passed seamlessly. The implementation costs were included in the expenditures above and the monthly cost of \$822 is included in the FY2015 budget for maintaining that connectivity. In FY2015, deployment of Wireless Phase II in Coconino County and La Paz County was completed without those carriers that seek cost recovery.

#### Wireless Expenditures

The FY2015 expenditures for Wireless Phase I & II are outlined in the table above. No funds were allocated to the Navajo Nation, Hopi Tribe or San Carlos Tribe since they have not completed a 911 Service Plan for funding eligibility.

FY2016 wireless budget, depicted in the table on the following page, includes the expenditures for systems currently Wireless Phase I and/or Wireless Phase II, those adding in new systems, and those that are close to, or have, completed their GIS requirements.

Expenditures include network components, wireless carrier costs, selective router costs and necessary additional equipment for receiving Phase II mapping data.

Additional expenditures budgeted for FY2016 includes ongoing costs associated with the frame relay or MPLS networks for the Enterprise Mapping System. With significant county boundary issues identified, this system allows updated GIS data to be distributed to the 9-1-1 centers within their county or share the data with other counties. These costs are already being expended in the Cochise County, Maricopa Region, Mohave County, Pima County, Pimal County and Yavapai County. When new map data is available, that data can be distributed via the frame relay or MPLS network allowing updated information to be published more efficiently.

Due to insufficient revenue, there are no longer funds available for the deployment and support of Enterprise Mapping Systems for 9-1-1. Therefore, the Enterprise Mapping System with the Wireless Phase II implementations in Coconino County, La Paz County and Yuma County is not available. This also holds true for the two remaining deployments in Apache County and Navajo county.

Also, with the deployment of Wireless Phase II in Coconino, Gila, Greenlee, La Paz and Yuma Counties as well as subsequent deployments for the remainder of the State, only one trunk group was installed rather than separate wireline and wireless trunk groups. Additionally, requests for Wireless Phase II will only be sent to those wireless carriers that do not seek to recover carrier costs. 9-1-1 calls will still be delivered to the PSAP but with only one pair of voice trunks.

System	F	Y16 Budget	PI/PII
Cochise County	\$	301,128	PII
Coconino County	\$	156,600	PII
Colorado City	\$	2,640	PII
Gila County	\$	36,000	PII
Gila River Tribal	\$	10,980	PII
Graham County	\$	48,480	PII
Greenlee County	\$	13,200	PII
La Paz	\$	12,000	PII
Maricopa Region	\$	3,460,320	PII
Mohave County	\$	188,496	PII
* Navajo Co/Apache Co	\$		GIS
Pima County	\$	1,242,336	PII
Pinal County	\$	349,800	PII
Santa Cruz County	\$	84,360	PII
Winslow	\$	36,000	PI
Yavapai County	\$	304,344	PII
Yuma County	\$	124,320	PII
	\$	6,371,004	

Prior to FY2012, separate network trunk groups were installed in order to be assured that 9-1-1 calls from wireless devices would not adversely affect the delivery of wireline calls. The cost for wireline trunks falls under a separate network tariff and therefore has minimal additional costs. The cost for network trunks used specifically for wireless calls are distance sensitive from the selective router location and range from \$150.00 to \$900.00 per month, per trunk which is significantly higher. Therefore, any future deployments or changes to an existing network design, will have only one network trunk group that will carry both wireline and wireless calls to the Public Safety Answering Point (PSAP). When the initial Wireless Phase II projects were implemented, there was concern that the wireless 9-1-1 calls can potentially overwhelm the system. That is no longer the case with customers moving away from wireline technology.

Also, as defined in State statute, the wireless carriers are entitled to seek full cost recovery for all components associated with the delivery of Wireless Phase II service. Based on the projected revenue stream, it is evident that the program can no longer support full cost recovery. However, at present, several of the wireless carriers voluntarily do not seek cost recovery and, one large carrier recently made the formal business decision to no longer seek cost recovery. Instead, they consider it a cost of doing business.

Each 9-1-1 system will be given the option to go to a full deployment, but they will be financially responsible for the added costs.

With an emphasis toward Homeland Security, the 9-1-1 program continues to fund the Telecommunications Service Priority (TSP) provisioning which was added in FY2007. This federal program is designed to ensure elevated network restoration to anyone who registers and pays for the service. In the event of a national disaster requiring federal intervention for network continuity, the service will ensure that Arizona's 9-1-1 systems will be restored in a timely manner.

All network components including 9-1-1 circuits, Automatic Location Identification circuits, emergency backup circuits and circuits that run to all selective routers have been included in the service package.

#### The Estimated Costs and Deployment Schedule to Implement Wireless Phase II

ADOA works in concert with the political subdivisions to ensure compliance with the established requirements prior to deployment of Wireless Phase I and/or Phase II. PSAPs that have not completed Phase I are being moved directly to Phase II. The 9-1-1 Program Office has established a 12 month time standard for completion of a Phase I or Phase II project. Direct deployment to Wireless Phase II has cut down on the time necessary and reduced some of the costs.

The Wireless Phase II Systems Deployment Timeline and estimated implementation costs are listed in the chart titled Wireless Phase II Implementation Costs below. Projections are based on figures obtained from the Local Exchange Carrier (LEC), equipment vendors and the Wireless Carriers. The information in the chart titled FY2016 Wireless Program Plan on Page 9 outlines the statewide status and implementations for Wireless Phase I and Phase II. Additionally, these figures were obtained through the cooperative effort of the Local Exchange Carriers and the Wireless Carriers. The State 9-1-1 Office continues to negotiate with vendors to reduce the costs.

Again, it should be noted that since FY2012 and subsequent years, three policy changes are in effective due to funding limitations; 1) Wireless Phase II implementations are only being requested of those carriers that do not seek cost recovery; 2) all 9-1-1 wireless calls will be delivered on only one trunk group and; 3) the deployment of additional Enterprise Mapping Systems have been suspended.

It should be noted that three Tribal Nations have not been included in the projections. The Navajo Nation, Hopi Tribe and San Carlos Tribe either have not submitted 9-1-1 Service Plans for funding consideration, or considered combining their efforts with an adjacent county.

We understand the Navajo Nation continues to work towards completing their 9-1-1 Service Plan in an effort to qualify for funding eligibility. In spring 2014, the State 9-1-1 Office was notified that there was renewed effort underway and the project had been assigned to the Navajo Nation Telecommunications and Utilities Commission.

The State 9-1-1 Office has an outreach program in place designed to work with the other tribes to help them to address deployment issues.

#### **Wireless Phase II Implementation Costs**

9-1-1 System	FY	nd Wireless rier Costs	Pr	oment & Misc. oducts and Services	Totals (Tax Included)				
Apache/Navajo	FY2016	\$ 26,312	\$	1,220,949	\$	1,247,261			
Winslow	FY2016	\$ 85,500	\$	107,300	\$	192,800			
Total		\$ 191,812	\$	1,506,157	\$	1,697,969			

#### Revenue - FY16 Projections

Since 2006, there has been almost a 40.73% reduction in revenue annually. This can be attributed to the reduction in the tax from \$.37 in FY2006, to \$.28 in FY2007 and to \$.20 in FY2008. In FY2006, the annual revenue collected was \$30,186,088 while in FY2015 the annual revenue collected was \$17,892,787.

The projected annual revenue for FY2016 would not under normal circumstances meet the annual expenditures for continued service of the 9-1-1 program in Arizona. In response, approvals for certain PSAP equipment upgrades have been denied due to limited funding. Equipment is upgraded only if funds are available. The priority today is sustaining the 9-1-1 network components and the ongoing maintenance on the PSAP equipment. The projected revenue for FY2016 of \$18.5 million, which includes interest income from the prior funds available, is less than originally anticipated due to the State Legislature's fund transfer of \$25.1 million dollars in FY2009, \$8.6 million dollars in FY2010, \$2.5 million dollars in FY2011 and \$2.2 million dollars for FY2012 from the 9-1-1 Program Fund to the State's General Fund. Since FY2002, \$53 million dollars of 9-1-1 Program funds have been transferred to the State's General Fund. Since 2008, the State has been required to report those transfers to the Federal Communications Commission (FCC) to be included in their report to Congress. These transfers have also affected the ability for the State 9-1-1 program to be eligible to receive federal grants.

The budget for FY2016 did not anticipate any fund transfers, but equipment upgrades have still been deferred and Next Generation (NG) 911 projects cannot be initiated due to limited funding.

The 9-1-1 Excise Tax revenue for FY2015 closed at \$17,892,787 million dollars, an 8.73% increase in revenue over FY2014 when coupled with the reduced interest and a full year of revenue for pre-paid wireless. The increased revenue includes wireline, wireless and VoIP providers and can be attributed primarily to \$1,891,788 in new revenue from pre-paid wireless that went into effect January 1, 2014. The Department of Revenue forecasted \$2 million in annual revenue from the pre-paid wireless charge.

The fiscal year-end report for FY2015 indicated that the total amount of customers for wireline, wireless and VoIP generated \$17,892,787. Revenue estimates for FY2016 show an increase to \$18,540,000, which includes an annualized forecast of pre-paid wireless charges.

DILATE W	93 E	Y14 Actual	F	Y15 Actual	FY16 Projected					
	100	@\$.20	@	\$.20/prepaid	@\$.20/prepaid					
		100 2002	To be							
Excise Tax	\$	16,425,768	\$	17,850,676	\$	18,500,000				
Interest	\$	30,512	\$	42,111	\$	40,000				
		16,456,280		17,892,787		18,540,000				
%				8.73%		3.62%				

The Cellular Telephone Industry Association (CTIA) estimates that approximately 23.4% of the wireless phones in service can be attributed to prepaid services.

In preparing the 911 Project Plan through FY2015, the introduction of the pre-paid wireless, the customer base forecast, reduced fees and limited service capabilities have been taken into consideration indicating that the program may reach a shortfall in FY2018.

This means the program may only be able to support the legacy network and maintenance components for the 9-1-1 Systems, and not equipment upgrades. The effect of aging of 9-1-1 PSAP equipment has become a reality and the costs may have to be undertaken by the PSAPs in the future.

The current administrative distribution is 5%, which includes 3% for State Administrative costs and 2% for Local Management of Contracts. The two percent for Local Management of Contracts is distributed to the 9-1-1 System Coordinators, with rules in place to define authorized expenditures.

The State 9-1-1 Office has four full time staff members, which is all the program revenue can support. These individuals not only have fiscal oversight, but work closely with the communities to deploy and support 9-1-1.

#### The Future of Wireline and Wireless 9-1-1

The 9-1-1 Project Plan addresses the need to transition to more robust and versatile wireline and wireless networks in coming years. The IP enabled network or Next Generation 9-1-1 (NG9-1-1) networks are being deployed today in many areas in the country. Industry standards have been developed although several alternative solutions are being deployed. The move toward a data network that provides ubiquitous wireline and wireless 9-1-1 service will ensure that calls can be routed anywhere without current boundary restrictions. New networks, with increased bandwidth will provide the ability to carry more location data, as well as receive telematics calls and utilize text messaging, as well as video streaming in future years. The current analog network, which has been in place for forty years, is unable to handle technology advanced solutions.

During FY2009, a collaborative effort between the State, CenturyLink, Intrado and Positron 911 systems was developed to design and implement a NG9-1-1 trial in Arizona. It was determined that Gila County would be an ideal test bed for this project. Gila County has some unique geographic and telecommunications boundaries which create call delivery challenges. The installation of this NG9-1-1 network included installation of soft switches which would have allowed for reliable and time sensitive transfer of calls. The four PSAPs in Gila County were changed out to a Positron Viper system designed specifically to transition to NG technology. During the trial, testing included digital network features for text messaging, video streaming, IP ALI (Automatic Location Identification), interconnection with the legacy networks, feature functionality, and meshing and redundancy. This project was successfully completed during FY2010 at a cost of \$2.7 million and should be noted that throughout this transition, all legacy network components will require continued support. It should be noted that although testing components included text messaging and video streaming, those elements would not have been in production following the trial. Due to insufficient funding, the project was suspended immediately following a successful trial.

In an effort to explore alternatives, the State 9-1-1 Office has asked CenturyLink, the primary 9-1-1 network and 9-1-1 equipment provider in Arizona, to provide a network design and offering for hosted 9-1-1 as a managed service offering. The requirements put forth to the Local Exchange Carrier stipulated that the State no longer desired huge capital outlays for equipment and requirements should include transitioning the network for NG9-1-1. This would allow a uniform annual expense including equipment, network and maintenance. The goal is to find a solution to provide all components of NG9-1-1, in concert with keeping up equipment needs without requiring additional revenue.

It was also noted that in an effort to distribute the funds equitably, with implementation of a new managed service network and equipment model, that a uniform per seat cost would be allocated to PSAPs for each approved answering position in the State.. This model utilizes a formula that takes into consideration the total amount of revenue collected and the number of 9-1-1 call answering positions currently eligible for funding.

More than \$17.2 million dollars in unfunded projects have been identified through FY2016. Of that amount, \$9.4 million dollars would be in support of PSAPs in Maricopa Region for critical equipment upgrades, \$2.2 million dollars would be dedicated for sites in Pima County and \$750,100 dollars for sites in Pinal County. Additionally, Airbus DS equipment (116 answering positions) in the State are at End of Life/Non Supported as of November 1, 2014. This represents \$4.1 million dollars of the total.

The burden of equipment upgrades are already being shifted to the local political subdivisions and future fund transfers to the General Fund will affect the program's ability to support the maintenance on the 9-1-1 PSAP equipment.

The 9-1-1 system was designed to ensure that in an emergency, citizens have one reliable number to call for public safety assistance. The State 9-1-1 program strives to ensure that this goal is met in the most efficient and cost effective manner possible.

#### **Summary**

The 9-1-1 Program has been in place since 1985 and up until recent years, sufficient funding has allowed for progress in moving from Basic 9-1-1 (voice only), through Enhanced 9-1-1 (voice, telephone number and address information), to 9-1-1 Wireless Phase I and II.

Documents included in this report outline the 9-1-1 Wireless Phase II expenditures for FY2015, as well as the Wireless Phase II budget for FY2016.

The table on page five identifies the implementation costs for deployments of 9-1-1 Wireless Phase II.

The Actual and Proposed Expenditures on Page 8 provides a financial history of the program from FY2011 through FY2020 anticipated expenditures.

The two maps on Pages 10 and 11 respectively, identify that the communities maintain a high level of GIS accuracy for call service delivery and that the deployment of Wireless Phase II is spreading throughout the state.

#### FY11-FY20 Actual and Proposed Expenditures

Includes Cost Recovery for Wireless Phase I and Phase II

Assumes No Change in Tax Rates

As of July, 2015

Includes Wireline and Wireless Excise Taxes at a Flat Rate of \$.20 for FY 2010-FY 2020

Includes PrePay Wireless Taxes as of 1-1-2014 (FY 2014-FY 2020)

" ANNUAL INCREASE ASSUMPTIONS: 5% Operations Cost from FY15 budget; 911 Excise Tax based on tax rate,

	_				_															
		Actual FY11		Actual FY12		Actual FY13		Actual FY14		Actual FY15		Budgeted FY16		Budgeted FY17		Budgeted FY18		Budgeted FY19	1	Budgeted FY20
Administration	\$	400,244	\$	465,156	\$	449,027	\$	521,929		\$481,972		\$525.000		\$525.000		\$525,000		\$525,000		\$525,000
PSAP Network Management	S	347,166	\$	330,723	\$	330,935	\$	342,036		\$353,707		\$350,000		\$350,000		\$350,000		\$350,000		\$350 000
Sub-Total	\$	747,410	\$	795,879	\$	779,962	\$	863,965	\$	835,679	\$	875,000	\$	875.000	\$	875,000	\$	875,000	\$	875,000
Wireline - (Existing Network Technology)		\$9,035,733		\$11,193,469		\$10,132,525		\$10,834,268		\$13,631,962		\$11,807,590		\$8,366,418		\$7,721,218		\$8,605,430		\$8,605,430
Wireline - (Proposed transition to IP enabled network)**		\$115,217		\$0		\$0		\$0		\$0		\$2,876,396		\$4,640,998		\$6,339,198		\$6,367,600		\$6,367,600
Phase I Wireless - (Includes Cost Recovery)	\$	47,048	S	30,072	\$	32,693	\$	32,454				Teas in .								
Phase II Wireless - (Includes Cost Recovery)	\$	4,546,205	S	4,129,626	5	4,203,918	\$	4,138,852	\$	4,793,090	\$	6,147,079	S	3,886,076	\$	3,326,956	5	3,278,126	Si:	3,278,126
Mapping & Address Support		\$0		\$0		\$0		\$0		\$0		50		50		50		30		\$0
*** TOTAL PROGRAM COSTS	\$	14,491,613	\$	16,149,046	\$	15,149,098	\$	15,869,539	\$	19,260,731	\$	21,706,065	\$	17,768,492	\$	18,262,372	\$	19,126,156	\$	19,126,156
FUNDS FROM PRIOR	S	4,303,498	\$	3,980,442	\$	2,129,584	\$	3,436,766	S	4,593,253	\$	3.225.310	\$	59,245	\$	830,753	\$	1,108,381	\$	522,225
PREPAY WIRELESS TAX	S		\$		S	-	5	631,547	\$	1,891,140	\$	2.000,000	30	2.000,000	S	2,000,000	5	2,000.000	S	2,000,000
EXCISE TAX	\$	16,606,135	\$	16,481,681	\$	16,425,768	\$	16,477,855	\$	15,959,537	\$	16,500,000	S	16.500.000	\$	16 500 000	\$	16 500 000	\$	16,500 000
INTEREST INCOME	S	26,522	\$	30,207	\$	30,512	\$	40,924	\$	42,111	\$	40,000	5	40,000	5	40,000	\$	40,000	\$	40.000
Total Collections	\$	16,632,657	\$	16,511,888	\$	16,456,280	\$	17,150,326	\$	17,892,788	\$	18,540,000	\$	18,540,000	\$	18,540,000	\$	18,540,000	\$	18,540.000
TOTAL FUNDS	\$	20,936,155	\$	20,492,330	S	18,585,864	\$	20,587,092	\$	22,486,041	\$	21,765,310	\$	18,599,245	\$	19,370,753	\$	19,648,381	\$	19,062,225
PRIOR PERIOD ADJ OR PROJECT CARRY-FORWARD	\$		5	· ,	\$	-	5		\$		S		S		\$		5	-	5	
TRANSFER TO GENERAL FUND	S	2,464,100	5	2,213,700	5		5	124,300				-								
EXPENDITURES	\$	14,491,613	\$	16,149,046	5	15,149,098	\$	15,869,539	\$	19,260,731	\$	21,706,065	S	17,768,492	S	18 262 372	5	19,126,156	5	19,126,156
FUNDS FORWARD	\$	3.980,442	\$	2,129,584	\$	3,436,766	\$	4,593,253	\$	3,225,310	\$	59.245	\$	830,753	\$	1,108,381	S	522,225	S	(63,931
Wireless Tax Rate	\$	0.20	\$	0.20	\$	0.20	\$	0.20	\$	0.20	\$	0.20	\$	0.20	\$	0,20	\$	0.20	\$	0 20
*Includes \$2M Conditional Capital Requests																				

<sup>\*\*</sup> Transition to robust IP enabled network in FY16 is pending approved development.

<sup>\*\*\*</sup> FY15 expenditures based on available data during transition to BREAZ

## FY2016 Wireless Program Plan

9-1-1 System	Basic	E/ANI	E9-1-1	Phase I	Phase II	Program Plan FY16
				. 20.0		
Cochise County					X	
Colorado City					X	Bl. U.N. O. of Berry Coming
Coconino County					X	Phase II No Cost Recovery Carriers
Gila County			<u> </u>		X	Phase II No Cost Recovery Carriers
Gila River Tribal Property					X	
Graham County					X	
Greenlee County					X	Phase II No Cost Recovery Carriers
La Paz County					X	
Maricopa Region			The sec. 10.		X	
Mohave County					X	
Vavajo Reservation					Ÿ	No Service Plan
Northeastern Ariz. Users Asso.(Nava	jo/Apache Co	)	X	FY16	FY16	
Page					X	
Pinal County					X	
Prescott					X	
Pima County					X	
Santa Cruz Co					X	
Winslow				×	FY16	
Yavapai Region				758 20	X	
Yuma County					X	Phase II No Cost Recovery Carriers
		None			E9-1-1	
		Basic		1-1-1	WPI	
		E w/ANI			WPII	
updated: 6/30/2015	1100				WPII No Cost	Recovery Carriers

