JOINT LEGISLATIVE BUDGET COMMITTEE

Tuesday, December 19, 2017

Immediately Upon Adjournment of the JCCR Meeting

House Hearing Room 1

JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

HOUSE OF
REPRESENTATIVES

(602) 926-5491

azleg.gov

JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, December 19, 2017
Immediately Upon Adjournment of the JLBC Meeting
House Hearing Room 1

MEETING NOTICE

- Call to Order

- Approval of Minutes of November 16, 2017.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION
  A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
  B. Arizona Department of Administration - Risk Management Annual Report.

1.* ARIZONA DEPARTMENT OF ADMINISTRATION - Automation Projects Fund.
  *A. ADOA/ASET - Review of FY 2018 Cyber Security Projects.
  *B. ADOA/DOR - Review of Data Center Equipment Upgrade.

2.* DEPARTMENT OF PUBLIC SAFETY - Review of the Microwave System Upgrade Project (Automation Projects Fund).

3. AHCCCS - Review of Capitation Rate Changes for Plan Years 2017 and 2018.

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

5. ARIZONA DEPARTMENT OF EDUCATION - Review of Additional Empowerment Scholarship Account Administrative Funding.

6. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of FY 2018 State Data Center Project (Automation Projects Fund).

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

The Chairman reserves the right to set the order of the agenda.
12/7/17
lm

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

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

November 16, 2017

The Vice-Chairman called the meeting to order at 9:50 a.m., Thursday, November 16, 2017, in House Hearing Room 1. The following were present:

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

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of September 19, 2017, Vice-Chairman Debbie Lesko stated that the minutes would stand approved.

DIRECTOR'S REPORT

Richard Stavneak, JLBC Director, spoke, letting the Committee know that the December 19, 2017 JLBC and JCCR meetings would start at 9:00 a.m. and JCCR would be the first meeting followed immediately by JLBC.

ARIZONA DEPARTMENT OF EDUCATION - Review of Additional Empowerment Scholarship Account Administrative Funding.

Vice-Chairman Lesko held this item.

(Continued)

STATE BOARD OF EDUCATION - Review of K-6 Technology-Based Language Development and Literacy Intervention Pilot Program.

Vice-Chairman Lekso held this item.

ARIZONA DEPARTMENT OF EDUCATION (ADE) - Review of State Aid Correction for Bonita Elementary.

Mr. Steve Schimpp, JLBC Staff, stated that A.R.S. § 15-915B requires the Superintendent of Public Instruction to adjust state aid for a school district in the current year if its governing board requests the recalculation of state aid for a prior year due to a change in assessed valuation that occurred as the result of a judgement in state tax court, subject to review by the Joint Legislative Budget Committee (JLBC). The JLBC Staff provided options.

Representative Livingston moved that the Committee give a favorable review of ADE's plan to provide the Bonita Elementary School District with $115,600 in corrected state aid, as required by A.R.S. § 15-915B. The motion carried.

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

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

Mr. Charles Tack, Associate Superintendent, Policy Development and Government Relations, ADE, responded to member questions.

Ms. Cathie Raymond, State CTE Director, Deputy Associate Superintendent, ADE, responded to member questions.

Representative Livingston moved that the Committee give a favorable review to ADE's JTED quarterly reports for April 1 – June 30, 2017 and July 1 – September 30, 2017. The motion carried.

ATTORNEY GENERAL (AG) - Review of Allocation of Settlement Monies - State v. McKesson Corporation.

Mr. Sam Beres, JLBC Staff, stated that pursuant to A.R.S § 44-1531.02, the JLBC is required to review the AG's expenditure plan of legal settlement monies deposited into the Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund prior to spending those monies. The AG plans to fund a staff attorney for 3 years who would focus on casework involving the prescription opioid industry, and to cover other litigation expenses incurred in these cases. The JLBC Staff provided options.

Mr. Ryan Anderson, Director of Communications, AG, responded to member questions.

Ms. Rebecca Eggleston, Section Chief Section, Consumer Protection and Advocacy Section, AG, responded to member questions.

(Continued)

Representative Livingston moved that the Committee give a favorable review of the AG's $469,000 allocation from a legal settlement with the McKesson Corporation. The favorable review included the following provision:

A. Committee review does not constitute an agreement to fund the temporary staff attorney position once these one-time monies are depleted.

The motion carried.

DEPARTMENT OF CHILD SAFETY (DCS) - Review of FY 2018 First Quarter Benchmarks.

Mr. Patrick Moran, JLBC Staff, stated that pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the JLBC is required to review DCS's report on quarterly benchmarks for assessing progress made in increasing the department's number of FTE Positions, meeting caseload standards for caseworkers, reducing the number of backlog cases and open reports, and reducing the number of children in out-of-home care. The JLBC Staff provided options.

Mr. Mike Faust, Deputy Director, DCS, responded to member questions and circulated a document. *(Attachment 1).*

Representative Livingston moved that the Committee give a favorable review to the department's first quarter FY 2018 benchmark report. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) - Review of Staffing Plan for the Division of Developmental Disabilities.

Mr. Patrick Moran, JLBC Staff, stated that pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the JLBC is required to review DES's hiring for the Division of Developmental Disabilities (DDD) if the department plans on hiring non-case management staff beyond the level of filled positions in the Division as of June 30, 2017. The JLBC Staff provided options.

Ms. Maureen Casey, Assistant Director, Division of Development Disabilities, DES, responded to member questions.

Mr. Jim Hillyard, Deputy Director, DES, responded to member questions.

Ms. Kathy Ber, Legislative Director, DES, responded to member questions.

Senator Kavanagh moved that the Committee give a favorable review of personnel hiring mandated by federal inspectors, but an unfavorable review of the agency's handling of:

1) The future of the Coolidge facility, which will eventually have to be closed; and
2) The lack of data on costs across the program statewide and questionable expenses on the upper end.

The Committee's review included the following 2 provisions:

(Continued)

A. *DES shall provide information on the cost data of the individual types of developmentally disabled placements by December 1, 2017; and*
B. *DES shall submit its update of the long-term plan of the Coolidge facility by January 15, 2018.*

The motion carried.

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

Ms. Rebecca Perrera, JLBC Staff, stated that pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 306) footnote, the JLBC is required to review ADOA's annual report on expenditures for the State and Local Implementation Grant Program associated with the National Public Safety Broadband Network Initiative. The JLBC Staff provided options.

Mr. Matt Hanson, Director of Grants and Federal Resources, ADOA, responded to member questions.

Representative Livingston moved that the Committee give a favorable review of ADOA's annual report. The motion carried.

EXECUTIVE SESSION

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

At 11:43 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 11:48 a.m. the Committee reconvened into open session.

JLBC - Annual Performance Review per Rule 7

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

Without objection, the meeting adjourned at 11:48 a.m.

Respectfully submitted:

K Paddack

Kristy Paddack, Secretary

Richard Stavneak

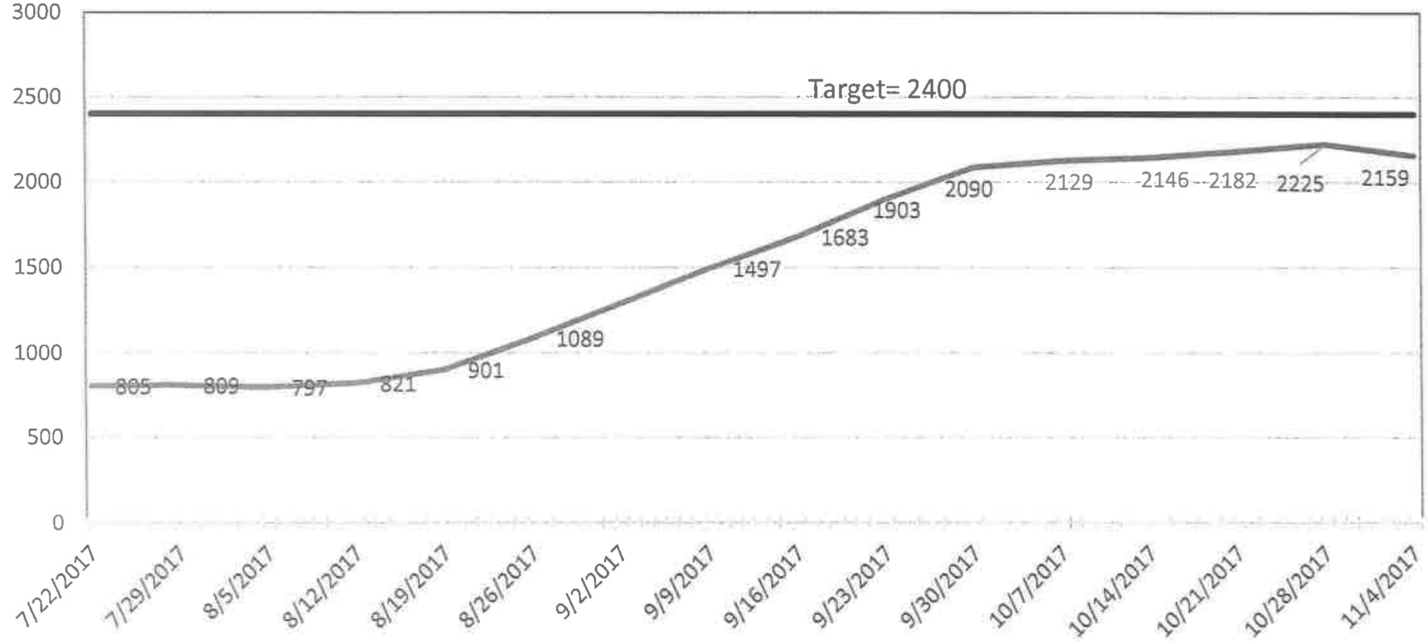
Richard Stavneak, Director

D Lesko

Senator Debbie Lesko, Vice-Chairman

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

Number of Kinship Stipend Children by Date



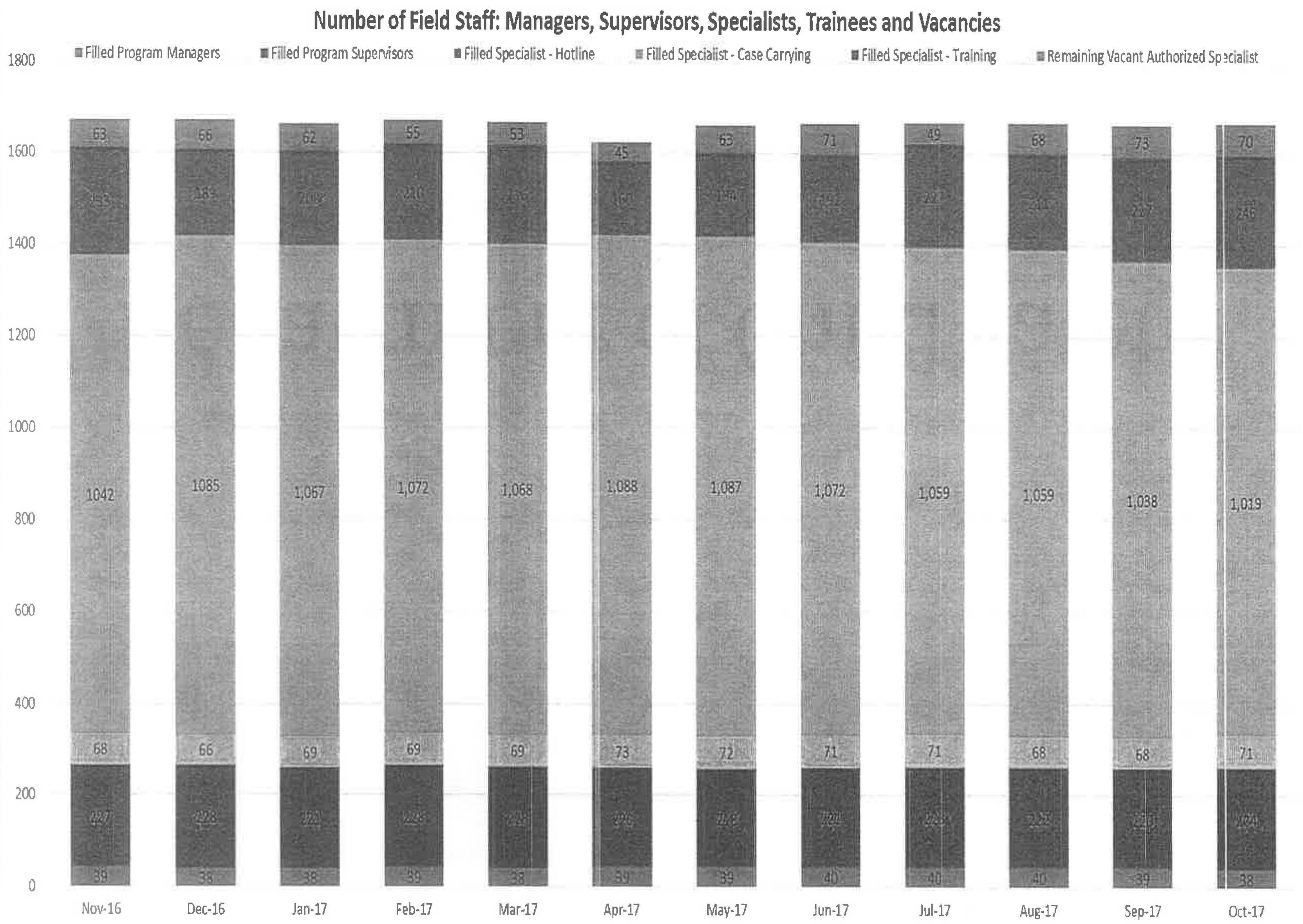
Kinship Stipend Characteristics							
	9/23/2017	9/30/2017	10/7/2017	10/14/2017	10/21/2017	10/28/2017	11/4/2017
TOTAL RELATIVE PLACEMENTS	6777	6718	6689	6711	6747	6619	6544
TOTAL PLACED WITH GRANDPARENTS	4308	4379	4381	4384	4420	4401	4321
MISSING RELATIONSHIPS	473	429	445	459	433	374	386
UNIQUE COUNT OF GRANDPARENT PROVIDERS	2456	2508	2516	2521	2565	2529	2480
NUMBER OF PROVIDERS RECEIVING STIPEND	1004	1112	1142	1148	1173	1193	1162
NUMBER OF STIPEND CHILDREN	1903	2090	2129	2146	2182	2225	2159

Attachment 1

Department of Child Safety

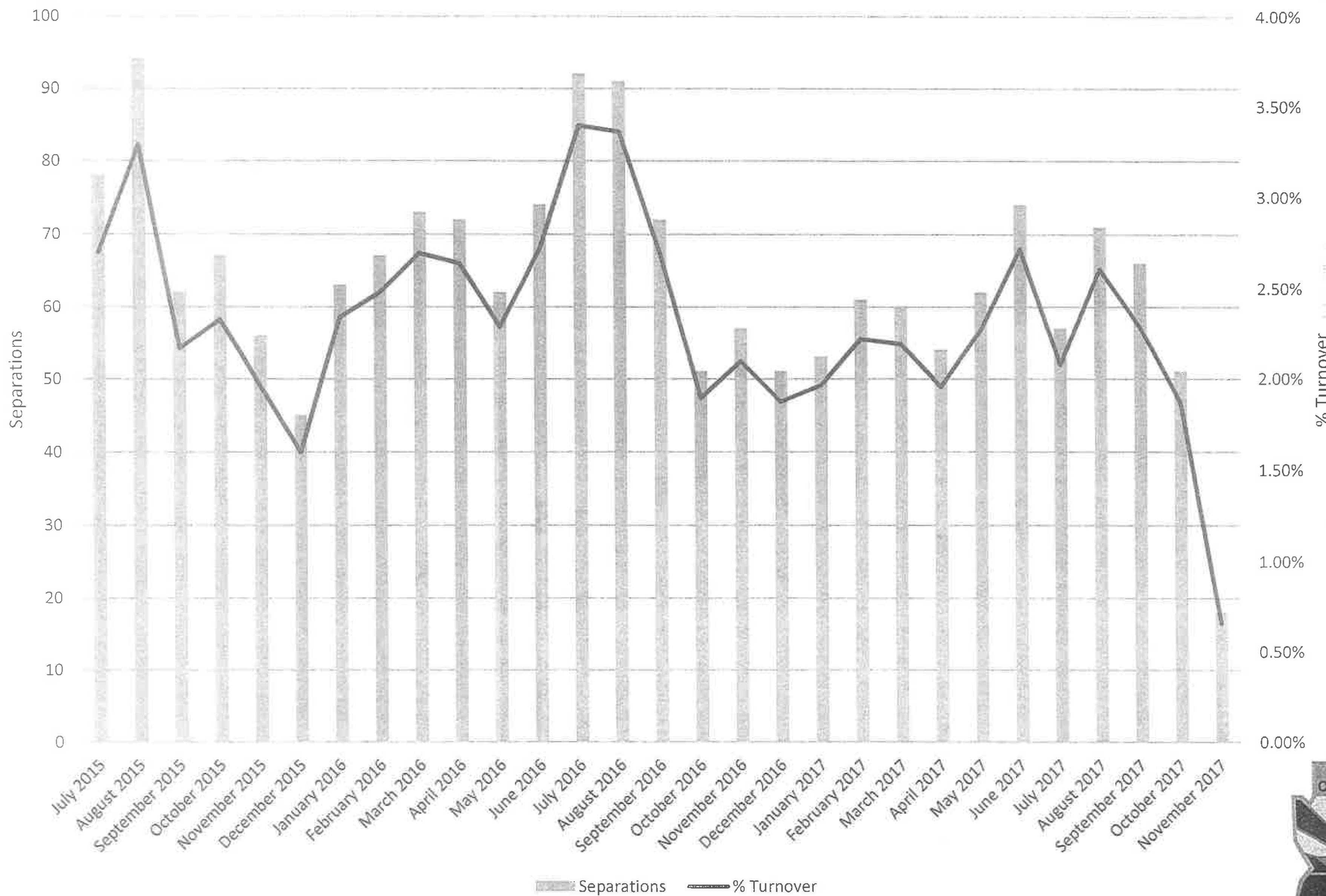
Data charts as of week beginning 11.13.17

Field Staff



Data Source: DCS Monthly Staffing Report, 11.7.17

Turnover / Separations



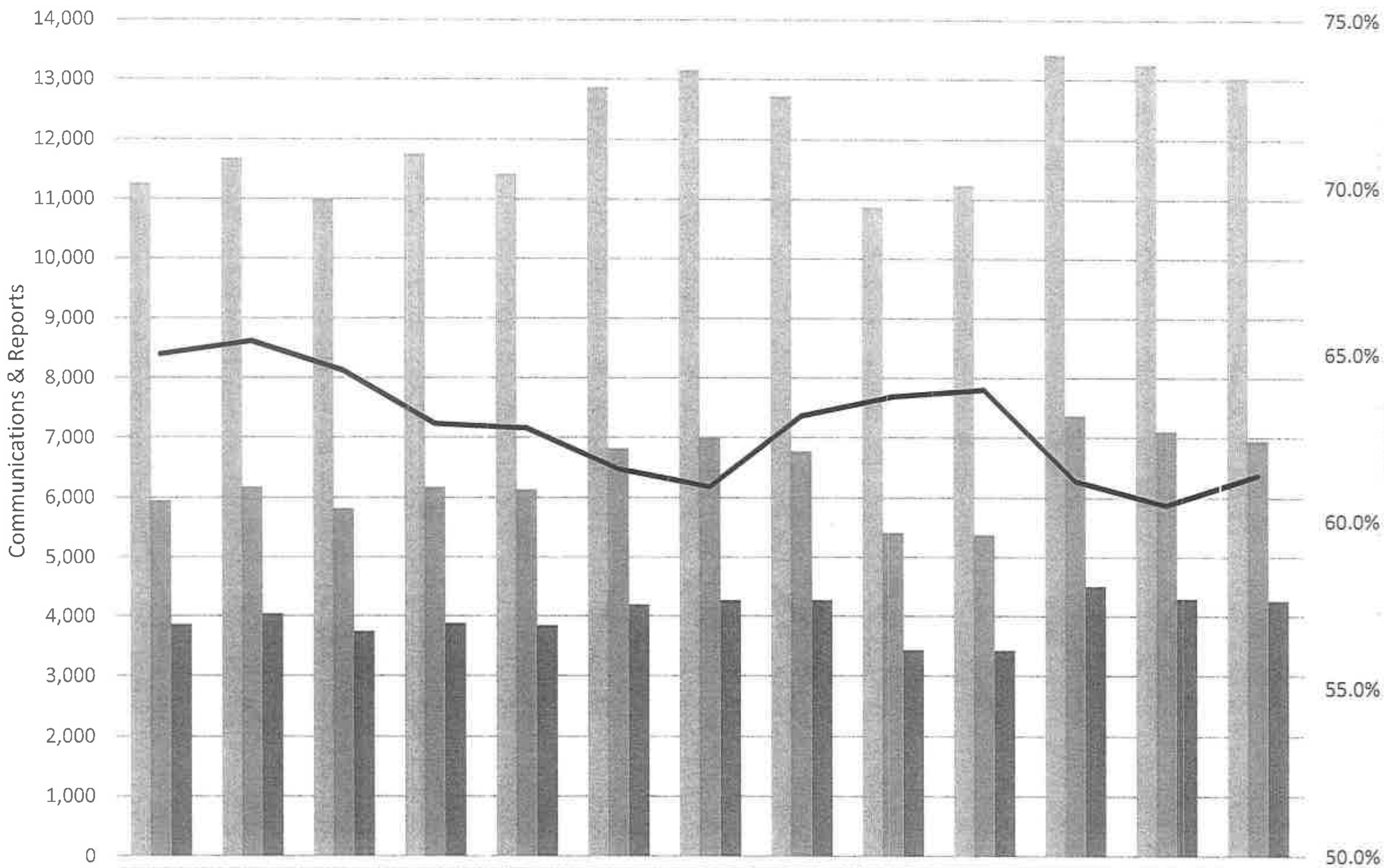
NOTE: November 2017 data is preliminary.

Data Source: HRIS, 11.13.17

DEPARTMENT OF CHILD SAFETY

STATE OF ARIZONA

Communications & Reports to the Hotline

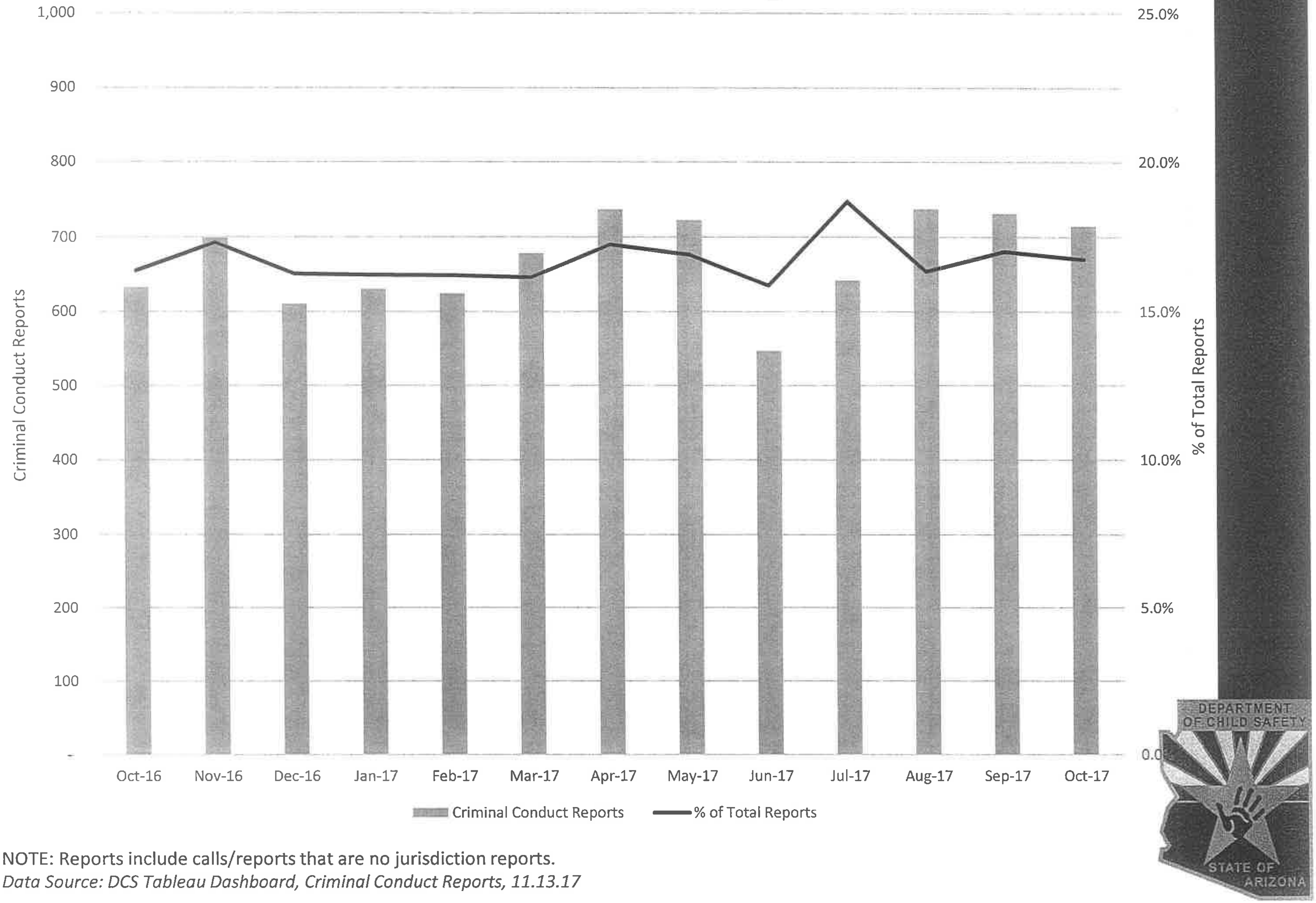


	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
Communications	11,249	11,673	10,980	11,748	11,414	12,860	13,153	12715	10869	11229	13411	13252	13032
Hotline Communications	5,941	6,174	5,810	6,167	6,127	6,817	6,999	6,770	5,406	5,373	7,375	7,110	6,952
Reports	3,861	4,037	3,748	3,880	3,847	4,197	4,272	4275	3445	3435	4515	4301	4267
Screen In %	65.0%	65.4%	64.5%	62.9%	62.8%	61.6%	61.0%	63.1%	63.7%	63.9%	61.2%	60.5%	61.4%

NOTE: Communications, Hotline Communications, and Reports include calls/reports that are no jurisdiction reports.
Screen In % shows reports as a percentage of total Hotline Communications.
Data Source: DCS Tableau Dashboard, Communications Received by Weekday and Hour Reports, 11.13.17

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

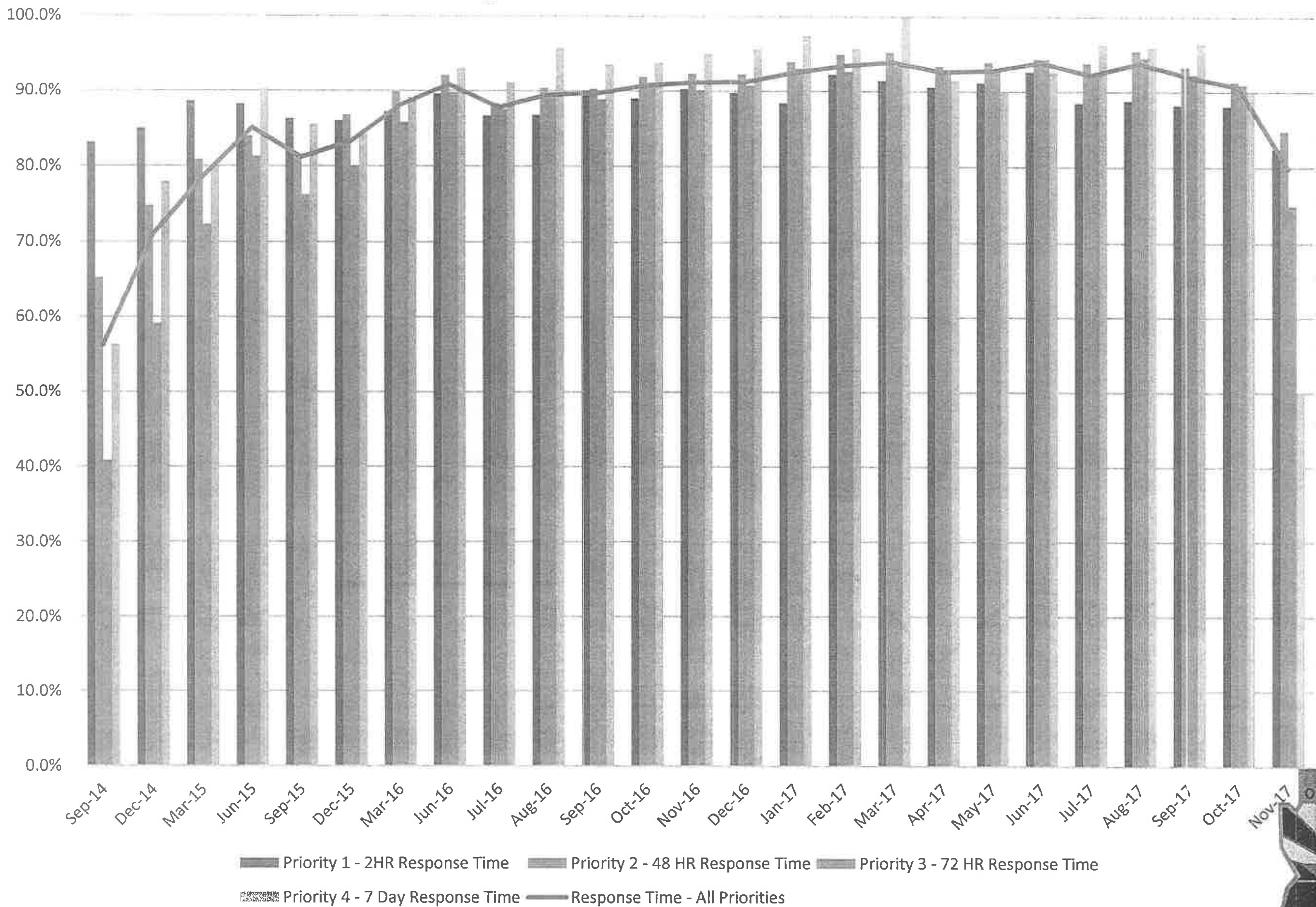
Criminal Conduct Reports



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

Data Source: DCS Tableau Dashboard, Criminal Conduct Reports, 11.13.17

Response Timeliness

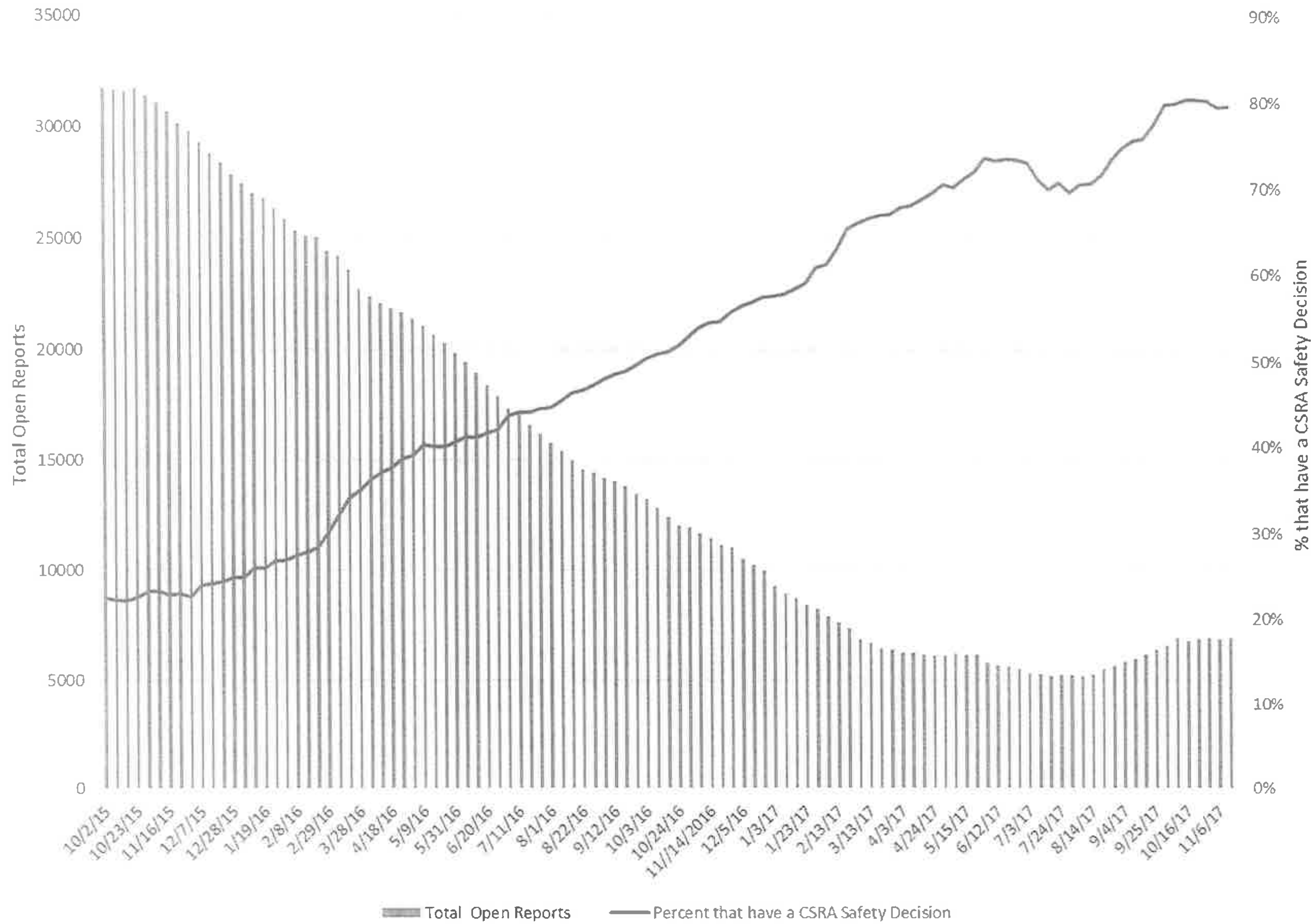


NOTE: November 2017 data is preliminary.

Data Source: DCS Tableau Dashboard, Report Response Timeliness, 11.13.17

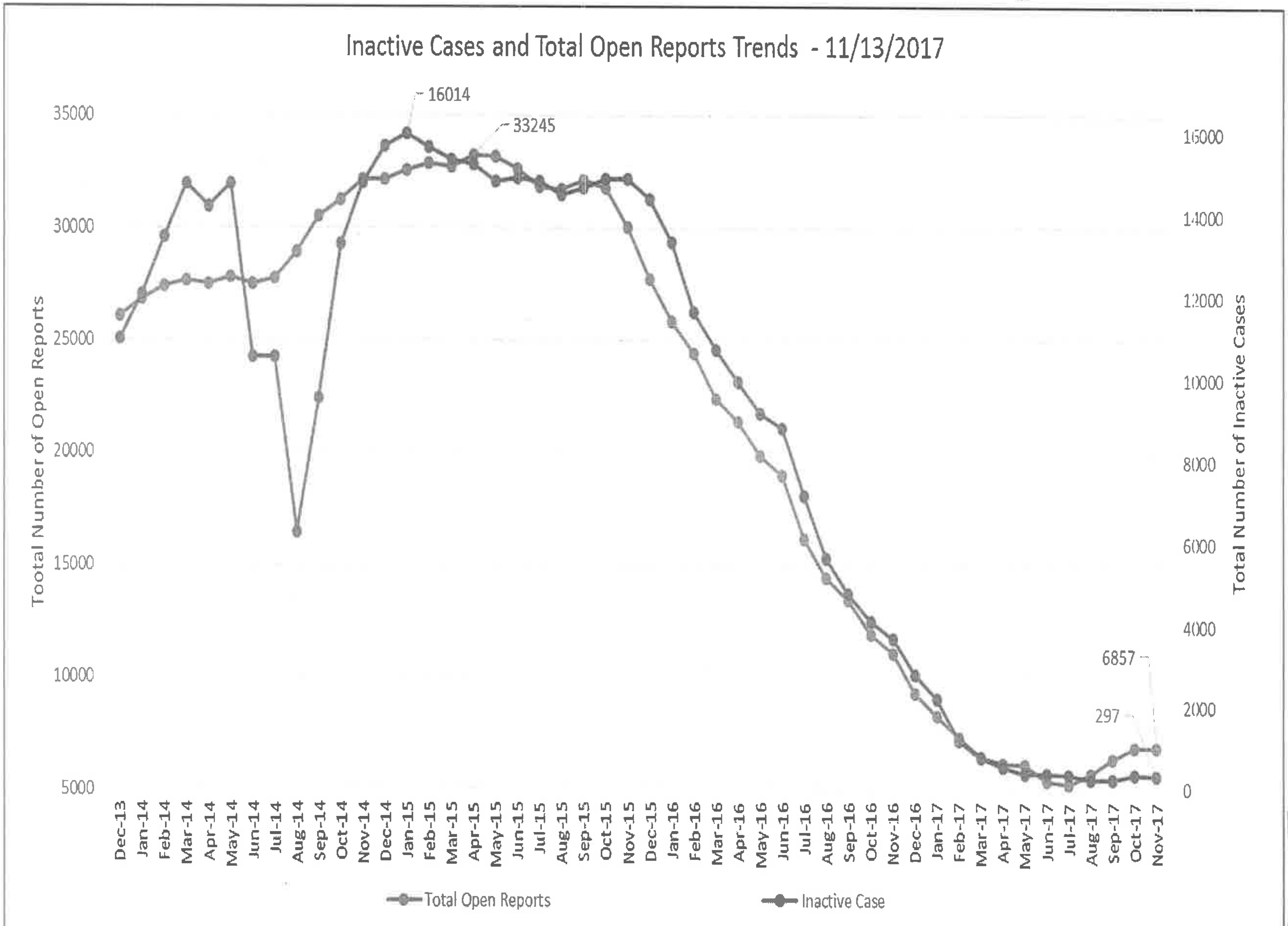
Safety Assessment Completion

Total Open Report vs. % Safety Assessment Completion



Data Source: DCS Tableau Dashboard, Report Triage, 11.13.17.

Inactive Cases and Total Open Reports

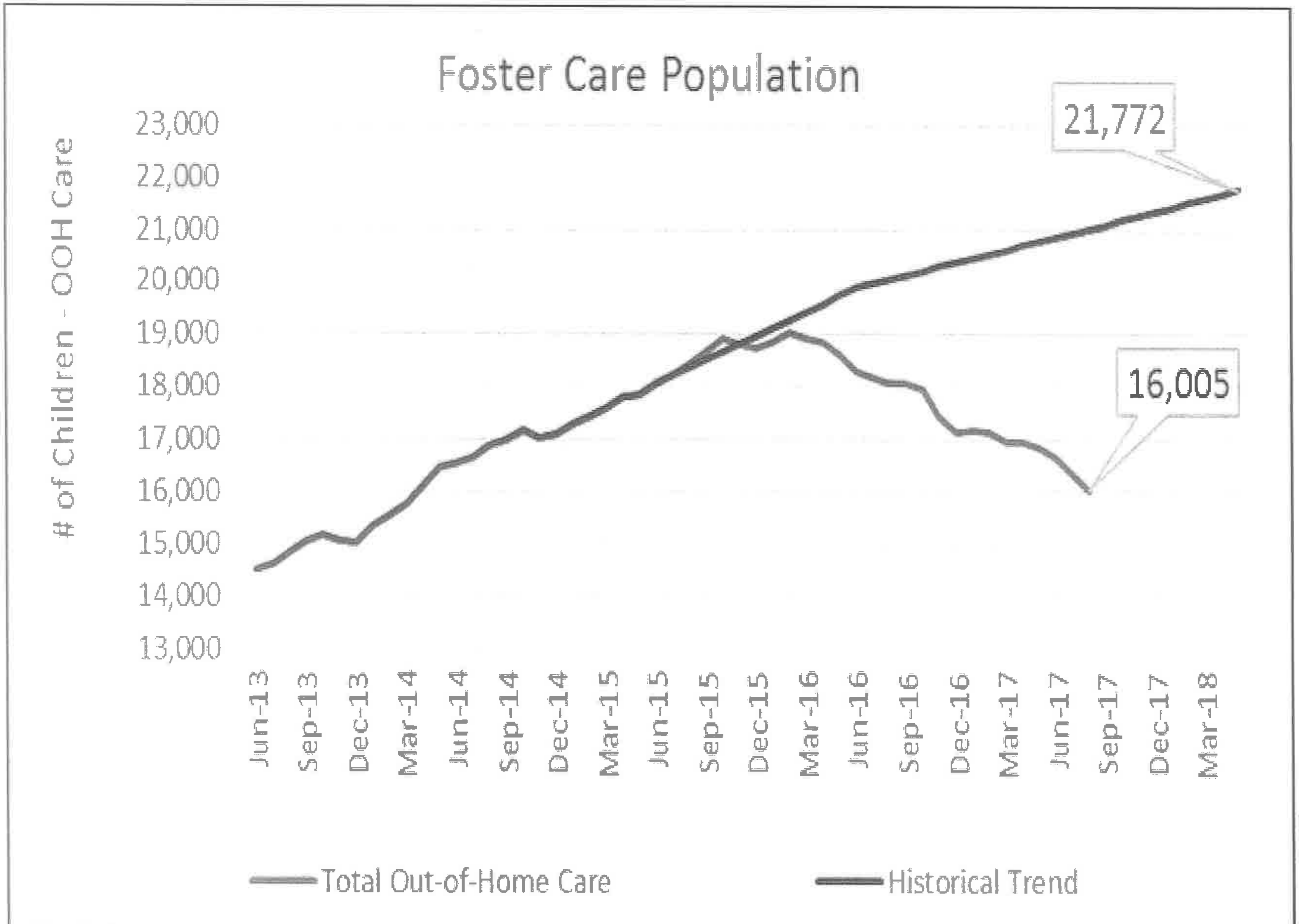


NOTE: Investigations may contain one or more reports. Current open reports is through 11.13.17, current inactives through 11.13.17.

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

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

Care Management Population



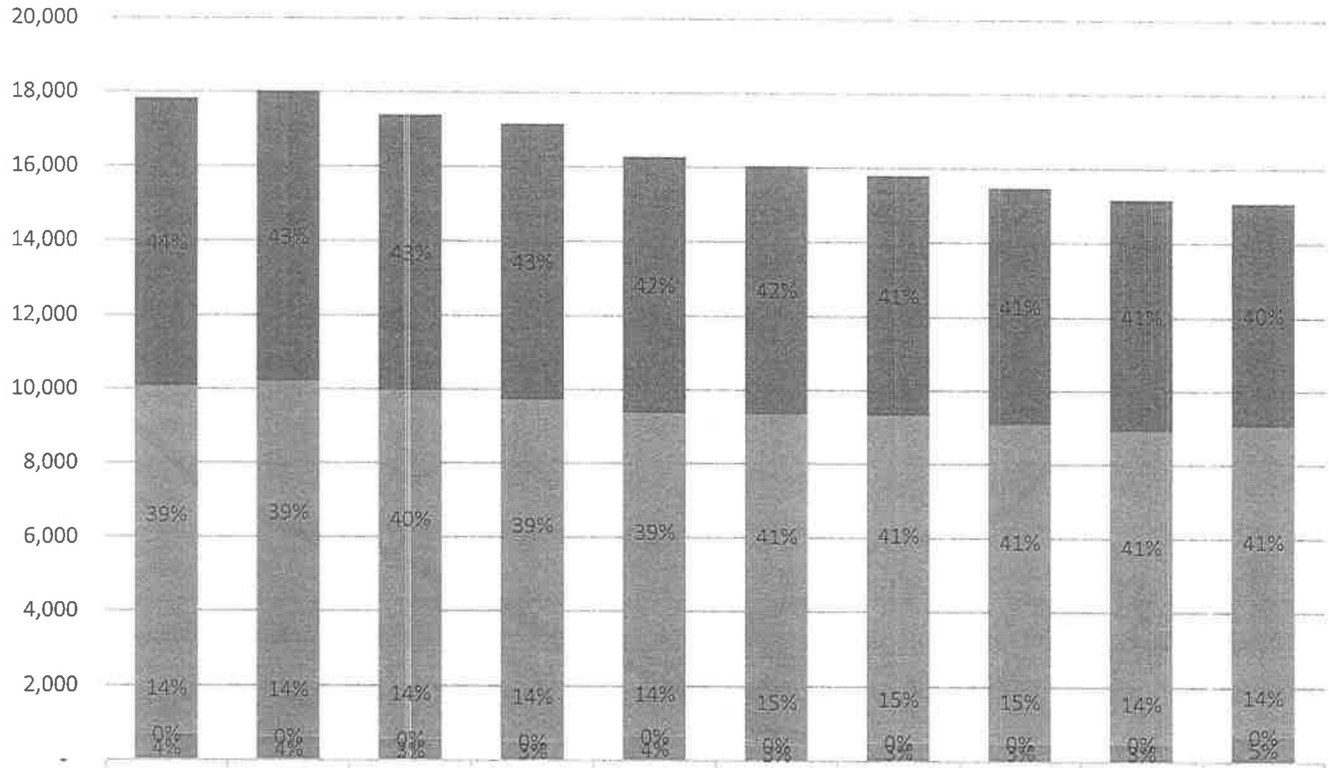
NOTE: Current OOH population reflects Aug 2017 data

Data Source: DCS Monthly Out-of-Home Care Report, 10.23.17

DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

Children in Out-of-Home Care

(Dependent Foster Care)



	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017 *
Unlicensed (Primarily Kinship)	7,759	7,806	7,425	7,451	6,916	6,702	6,473	6,367	6,238	6,014
Foster Care	6,884	7,031	6,900	6,759	6,406	6,592	6,466	6,358	6,275	6,249
Congregate Care	2,484	2,543	2,498	2,450	2,312	2,335	2,362	2,250	2,171	2,134
Independent Living	5	3	3	5	2	1	0	0	0	0
Other	695	634	564	503	648	424	502	496	484	688
Total in Out-of-Home Care	17,827	18,017	17,390	17,168	16,284	16,054	15,803	15,471	15,168	15,085

NOTE: September 2017 data is preliminary

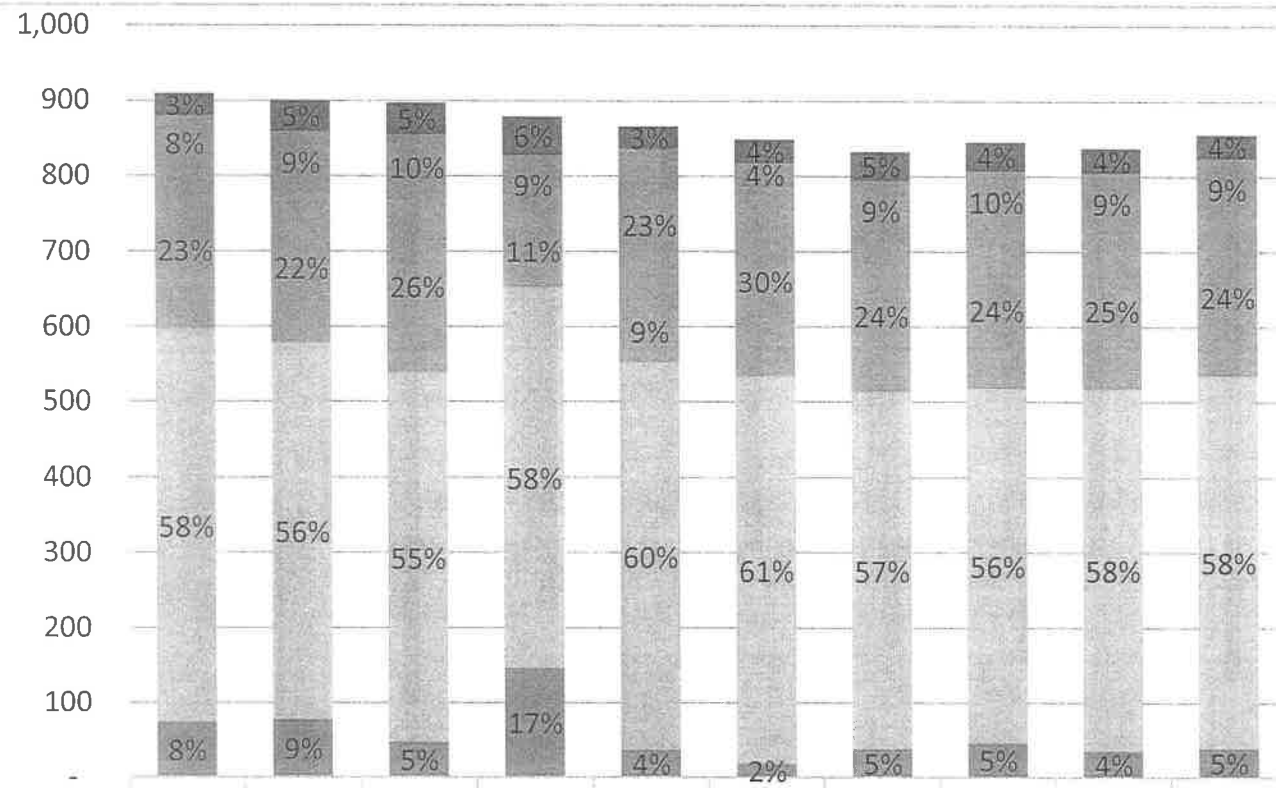
Data Source: DCS Monthly Out-of-Home Care Report, 10.23.17

DEPARTMENT OF CHILD SAFETY

STATE OF ARIZONA

Children in Out-of-Home Care

(Extended Foster Care)



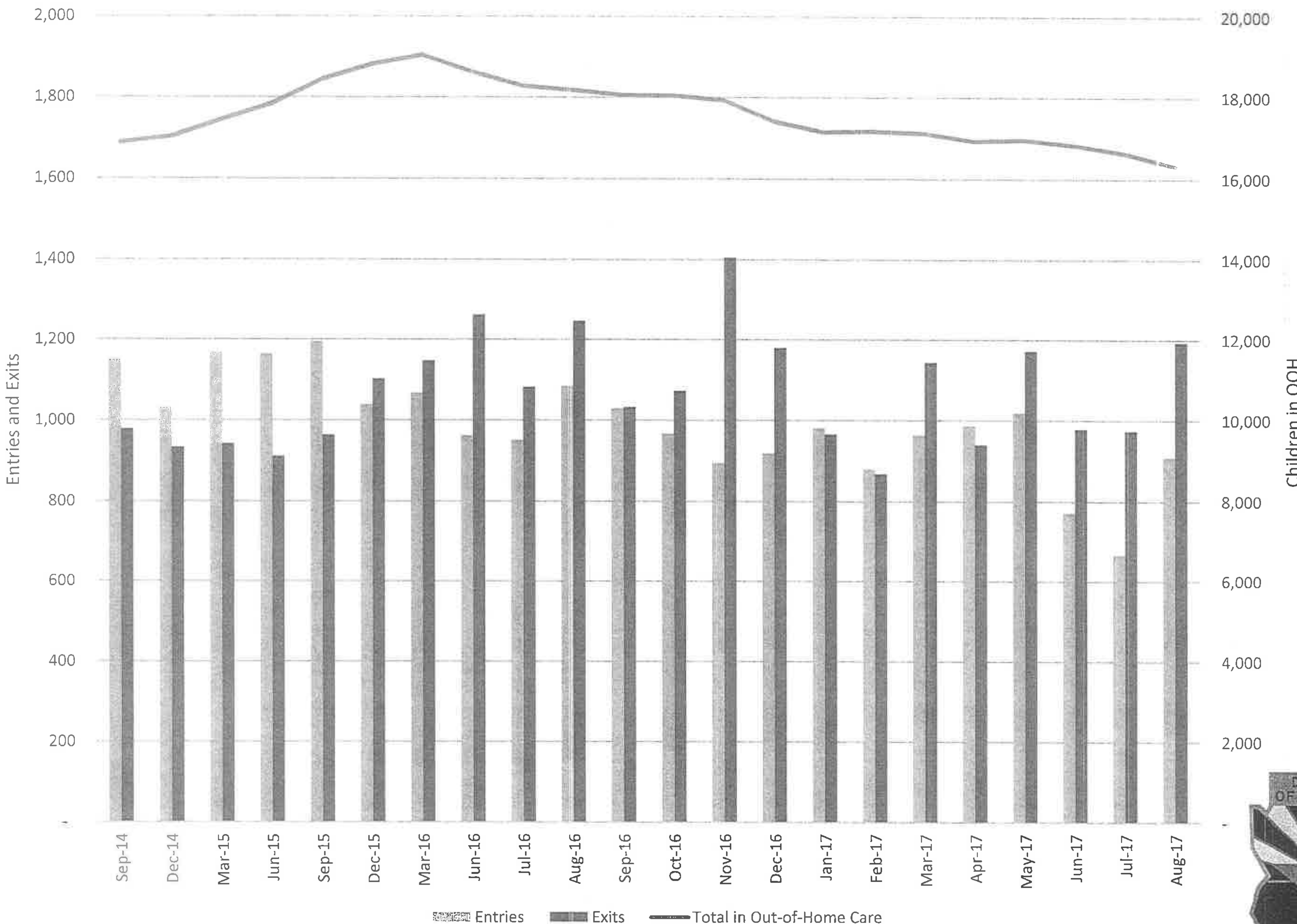
	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017 *
Unlicensed (Primarily Kinship)	30	42	43	51	29	31	38	38	33	31
Foster Care	72	80	86	78	201	30	79	81	79	80
Congregate Care	210	199	229	96	82	252	201	207	206	208
Independent Living	524	502	492	507	517	517	476	473	484	497
Other	73	77	47	146	36	18	38	46	35	39
Total in Out-of-Home Care	909	900	897	878	865	848	832	845	837	855

NOTE: September 2017 data is preliminary

Data Source: DCS Monthly Out-of-Home Care Report, 10.23.17

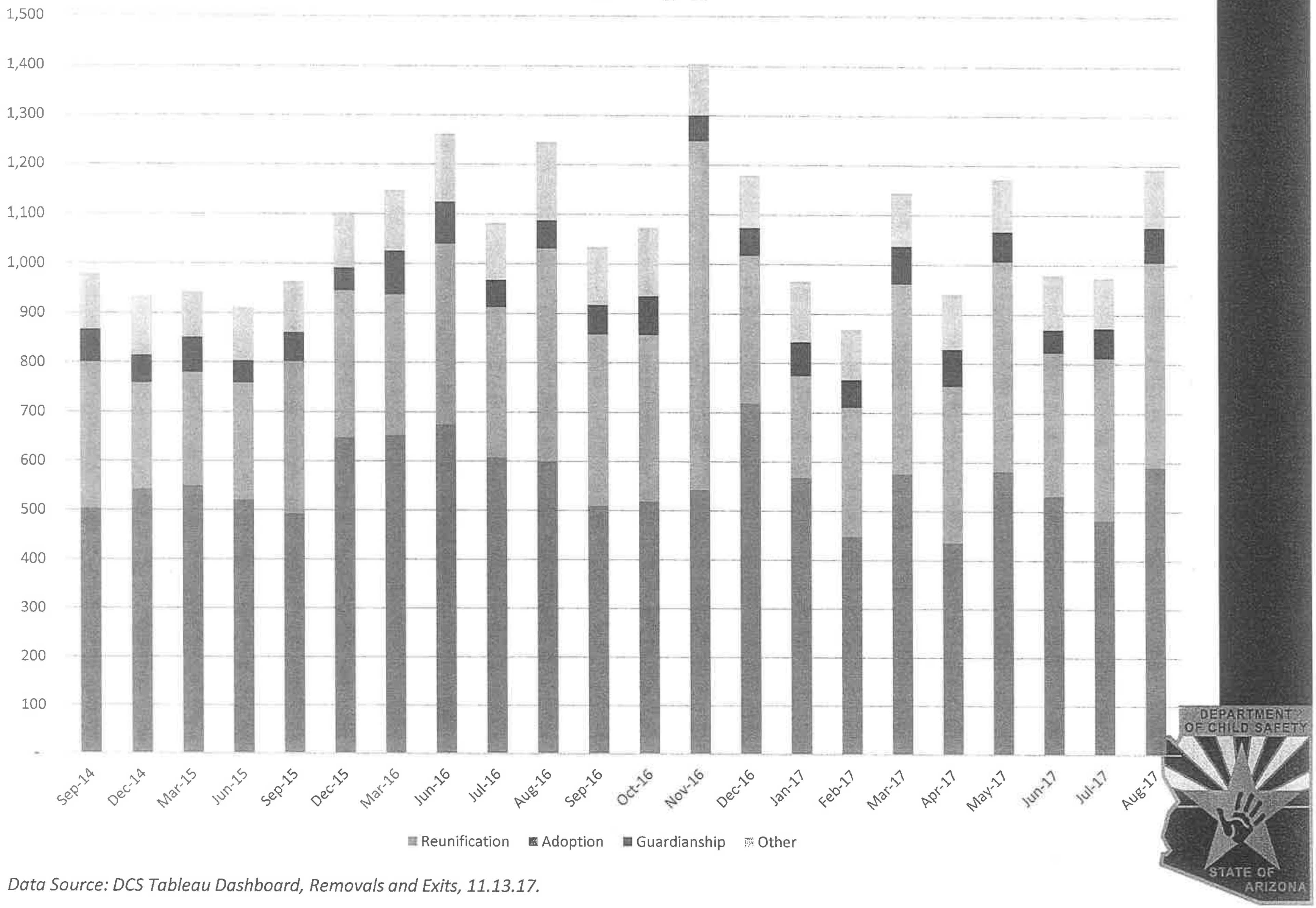
DEPARTMENT OF CHILD SAFETY
STATE OF ARIZONA

Entries and Exits



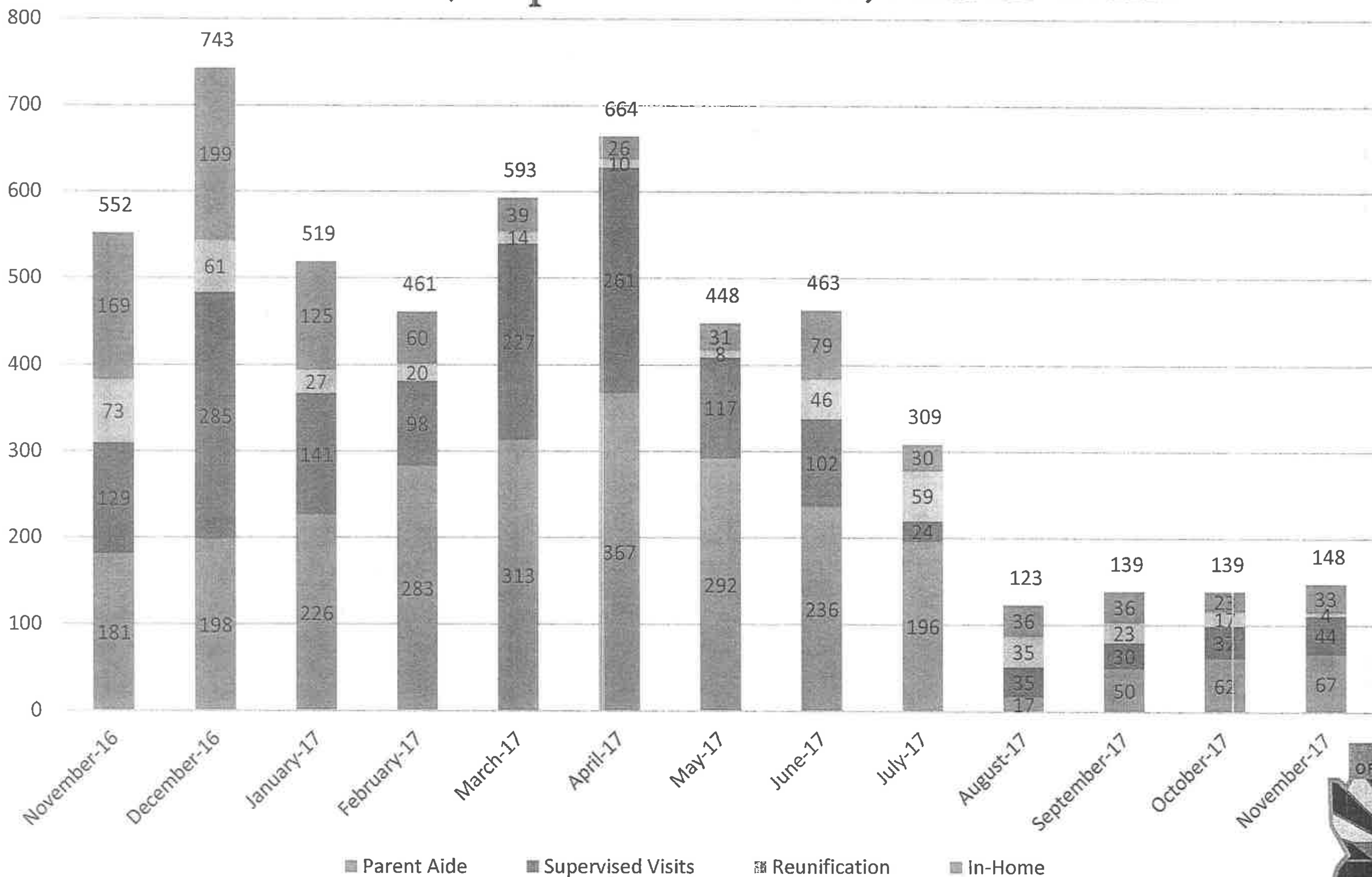
Data Source: Removals & Returns Dashboard, 11.13.17.

Exits by Type



Data Source: DCS Tableau Dashboard, Removals and Exits, 11.13.17.

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



NOTE: November 2017 data through 11.10.17

Data Source: Weekly DCS Waitlist Report

1A

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: December 12, 2017

TO: Members of the Joint Legislative Budget Committee

FROM: Rebecca Perrera, Senior Fiscal Analyst RP

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

Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Committee review $3,069,300 in proposed FY 2018 expenditures from the Automation Projects Fund (APF) for information technology (IT) Cyber Security projects for the Arizona Strategic Enterprise Technology (ASET) Office in ADOA.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request

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

A. Committee review does not commit the Legislature to additional funding.

Key Points
1) ADOA proposes expending $3.0 million for cyber security licensing fees.
2) The project covers 14 IT security controls at 32 state agencies.
3) ADOA is proposing to transfer cost in future years to agency budgets.

(Continued)

Analysis

Background

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

All IT projects over $25,000 are reviewed by ASET through the PIJ process. If an IT project's development cost exceeds $1.0 million, statute requires the project to receive additional approval by ITAC. ITAC consists of members from both the public and private sectors and is staffed by ADOA. If a project funds internal staff or training, ADOA does not require ITAC or ASET approval.

Current Request

ADOA's ASET Office is responsible for directing state policy to prevent cyber-attacks and data breaches. Security projects include assessing security gaps at the State Data Center and in the cloud environment, implementing updated firewalls and security technologies, and testing applications.

ADOA was appropriated $13.2 million in FY 2018 from non-General Fund sources for ASET projects. In June 2017, the Committee gave a favorable review of $3.0 million of the FY 2018 appropriation.

ADOA is proposing expending another $3.0 million. In FY 2017, ADOA implemented 14 security controls at 32 cabinet agencies as part of its effort to develop a statewide enterprise cyber security program. The FY 2018 funds will be used for the annual licensing costs of these controls. Controls includes tools, software, and services which help to prevent security breaches and detect security gaps.

ASET APF projects are funded via transfers from various internal ADOA IT funds to the APF. These internal IT funds generate revenue from fees charged for services and a pro-rata charged on personnel services. ADOA's FY 2019 budget request includes a proposal to increase the Information Technology Fund pro-rata charge from 0.2% to 0.47% to fund the ongoing future-year licensing costs of $3.3 million for these controls. The increased pro-rata charge would generate approximately $5.2 million, of which approximately $2.2 million would come from the General Fund. Given the large ongoing costs associated with these controls, the Committee may consider a provision stating that Committee review does not commit the Legislature to additional funding.

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

RECEIVED
NOV 28 2017
JOINT BUDGET COMMITTEE

November 27, 2017

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

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

Dear Representative Livingston and Senator Lesko:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2018 Automation Projects Fund (APF) project, ADOA-ASET Enhancing Statewide Data Security $3,069,296, Data Center Facility Migration $3,405,100, DPS – Microwave System Upgrade $1,500,000, and DOR – IT Infrastructure $5,500,000. Monies to support the expenditure plans appropriated to the APF.

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

Sincerely,

Signature: Craig Brown
Craig Brown (Nov 28, 2017)

Email: craig.brown@azdoa.gov

Craig C. Brown
Director

Enclosures

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

Joint Legislative Budget Committee (JLBC)
Favorable Review Request
Arizona Department of Administration, Arizona Strategic Enterprise Technology (ADOA-ASET)

The Arizona Department of Administration (ADOA) requests favorable review of FY18 Quarter 2-4 expenditures of $3,069,296 from the Fiscal Year 2018 Automation Projects Fund (APF) in accordance with Laws 2017, Chapter 305, Section 115 for the purposes described below.

Statewide Cyber Security Protection Program

This office requests funds to continue the operations of statewide cyber security controls and services established over the past three years. The Security, Privacy, and Risk (SPR) team within ADOA-ASET has developed and continues to implement a comprehensive enterprise program that standardizes security technology control and solutions that take advantage of purchasing power and resource utilization for greater cost effectiveness and efficiencies across all State agencies. By providing centralized security that is managed and facilitated by subject matter experts, ADOA-ASET is reducing costs and increasing the effectiveness of security in comparison to agencies and entities attempting to provide security themselves by procuring tools separately and hiring additional resources. As a result of this program, the State of Arizona was recently honored with the Center for Digital Government's national award for Cybersecurity Leadership and Innovation.

Project

Statewide Information Security and Privacy Office (SISPO) Operations

Request Amount

$3,069,296*

Description

Continue to maintain and strengthen the enterprise security services established through the FY15, FY16, and FY17 transformation initiatives. ADOA-ASET will submit for approval, a new Project Investment Justification (PIJ) or appropriate amendment to existing projects, if any future technology expansion components require such action. ADOA-ASET will inform the JLBC as per current notification protocols.

Goals

- To continue to provide cost effective statewide cyber security solutions and subject matter expertise through professional services and current security staff to effectively mitigate security risks to critical State systems and information

Objectives

- Defend State systems and protect State information
- Detect cyber security activities, attacks, and system vulnerabilities
- Respond through effective incident management and remediation of existing security gaps
- Leverage better economies of scale by consolidating State security services and standardizing on the most cost effective controls

Rationale

The listed technologies enforced and supported by this request are aligned to the National Institute of Standards and Technology (NIST) Cybersecurity Framework and Center for Internet Security's (CIS) Critical Security Controls (CSC) to best protect environments. This framework was established to improve the security posture of organizations that manage critical infrastructures based on these core functions: **Identify, Protect, Detect, Respond** for these security solution functionalities:

DETECT	File Integrity Monitoring
	Security Information Event Management (SIEM)
IDENTIFY	Security Monitoring
	Data Loss Prevention
	Directory Audit Tool
	Server Hardening
	Vulnerability Assessments (Data Centers)
	Vulnerability Management - Application Penetration Testing
	Vulnerability Management Tool
	Web Content Filtering
PROTECT	Advanced Endpoint Protection
	Distributed Denial of Service
	Multifactor Authentication
	Spam Filter
	Web Application Firewall
RESPOND	Security Awareness

* **Notes:** We are seeking Favorable Review for **remaining balance of $3,069,296 of $4,088,696 FY18 funds originally appropriated to continue operationalizing statewide cyber security controls and services and the security staff** as referenced in this document. Additionally, there are **$3,214,804 funds from the $7.3 M total for new security** solutions to be addressed in a future PIJ.

1B

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: December 12, 2017

TO: Members of the Joint Legislative Budget Committee

FROM: Jeremy Gunderson, Fiscal Analyst JG

SUBJECT: Arizona Department of Administration/Department of Revenue - Review of Data Center Equipment Upgrade (Automation Projects Fund)

Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) and the Department of Revenue (DOR) have requested Committee review of $5,500,000 in proposed FY 2018 expenditures from the Automation Projects Fund (APF) for replacing data center infrastructure and relocating that infrastructure to a third party co-located data center vendor. The total budget for the Data Center Upgrade project is $11,000,000. The Committee reviewed the first half of the project budget ($5,500,000) at its June 2017 meeting.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

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

A. DOR shall continue to contract with a third-party consultant pursuant to A.R.S. § 18-104A1(g) to provide quarterly reviews of the project, and provide those third-party reviews to the JLBC Staff.

(Continued)

Key Points

1) DOR is requesting review of the second $5.5 million of the $11.0 million FY 2018 appropriation to upgrade data center hardware and software and relocate to the IO facility.
2) DOR has spent $5.4 million of the first $5.5 million, and expects to complete data and application migration by June 2018.
3) The third-party review states the project is on track to be completed on time and on budget, but recommends a $550,000 contingency, which is not included in DOR's spending plan.

Analysis

Background

As of the beginning of 2017, DOR operated at 3 separate data center locations: Tucson, DOR's main building on Monroe Street, and ADOA's Adams Street data center. Combined, these locations serve as the digital storage center for all of DOR's tax information data. According to DOR, 60% of the department's server hardware at these locations is underpowered, end-of-life or approaching end-of-life status.

DOR is also experiencing an increase in the volume of data that they receive. Beginning in January 2017, DOR became the sole recipient of municipal, county and state Transaction Privilege Tax (TPT) filings. This includes new filings from many of the state's largest cities. Previously, several large cities collected their own municipal sales taxes, while all state, county and some municipal returns were filed with DOR.

The FY 2018 General Appropriation Act appropriated $11.0 million from the APF to upgrade DOR's data center. DOR requested review of the $11.0 million appropriation at the June 2017 Committee meeting to upgrade their data center infrastructure and software and consolidate all of DOR's data centers using the IO data center vendor contract. The state currently contracts with IO, a private vendor, to provide data center space that includes security, power, and cooling for state-owned infrastructure.

The Committee gave a favorable review of the first $5.5 million of the FY 2018 funding with the condition that DOR provide a status update on the project and expenditure plan prior to requesting review of the second $5.5 million.

Through November, DOR had spent $5.4 million, including $2.8 million on hardware, $2.4 million on software, licensing and maintenance costs, and $0.2 million on professional services. *(See Table 1)* The purchased hardware was installed at the Phoenix IO facility and will be used to create production and testing environment to prepare for data migration. More hardware will be required to create and run the production environment, which includes live business applications and all of DOR's migrated data.

(Continued)

Table 1

DOR Data Center Expenditures
June 2017 JLBC Review

Item	Cost
Hardware	$2,777,300
Software, Licensing and Maintenance	2,380,000
Professional Services	220,200
Total	**$5,377,500**

Current Request

DOR is now requesting review of the second $5.5 million of the $11.0 million APF appropriation. DOR plans to spend $4.5 million on additional hardware, $0.6 million on software, licensing and maintenance costs, and $0.4 million on professional services *(See Table 2)*. DOR is currently in the process of creating the development and testing environments, in which they will install and test the new hardware and software in preparation for the migration of data and applications. DOR will also install some of the purchased hardware at the Scottsdale IO facility to backup data. The Scottsdale IO facility will only backup data, and not agency applications. The migration is scheduled to begin in June 2018 after the peak tax season. The third-party vendor reviewing the project estimates that the project will be completed by August 2018.

Table 2

DOR Data Center Expenditure Plan
December 2017 JLBC Review

Item	Cost
Hardware	$4,476,700
Software, Licensing and Maintenance	649,700
Professional Services	350,700
Total	**$5,477,100**

Third-Party Development Review

The favorable review provided by the Committee at the June 2017 meeting included a condition that DOR contract with a third-party for review and guidance on the approach, scope, estimated cost, timeline and feasibility of the project. The most recent third-party report was completed in November 2017. Overall the vendor gave DOR a positive evaluation, noting the project is performing above average for this type of project. Among the key recommendations, the vendor recommends DOR set aside 10% of the second $5.5 million for contingency costs ($550,000), which could be needed to hire additional IT staff during the data migration phase of the project. The current DOR spending plan does not include a contingency.

JG:kp

STATE OF ARIZONA
Department of Revenue

Douglas A. Ducey
Governor
David Briant
Director

November 27, 2017

RECEIVED
NOV 27 2017
JOINT BUDGET COMMITTEE

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

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

Dear Representative Shooter and Senator Lesko:

The Arizona Department of Revenue (ADOR) requests the JLBC to review, at its December 2017 meeting, the expenditure plan for the remaining \$5.5 million of the \$11 million appropriated to ADOR pursuant to Laws 2017, Chapter 305, Section 115. Review of the \$5.5 million will allow ADOR to complete upgrades to its information technology infrastructure as planned for fiscal year 2017-2018.

The attached documents enumerate how the first \$5.5 million has been spent, the expenditure plan for the remaining \$5.5 million, and a copy of the most recent assessment of ADOR's infrastructure modernization by an independent third-party consultant.

I would welcome the opportunity to meet with you and staff to provide further explanation as appropriate.

Kind regards,

Dr. Grant Nülle
Deputy Director
Arizona Department of Revenue

Richard Stavneak, Director, JLBC
Matthew Gress, Director, OSPB
Morgan Reed, State CIO
Jeremy Gunderson, JLBC Staff

Arizona Department of Revenue

ADOR Technology Infrastructure Modernization Phase 1

Presented by:

Sandip Dholakia (AZDOR, Chief Information Officer)

December 19th, 2017

ADOR Technology Infrastructure Modernization | Outcomes

Project Goals:
- Replace end of life system servers/virtualize all existing applications currently on physical servers
- Decommission remaining legacy ADOR Data Centers – **√ Tucson COMPLETED**
- Move the two remaining ADOR Data Centers into the Phoenix IO

Critical Success Factors:
- Eliminate all end of life infrastructure
- Virtualize all ADOR Systems and Applications
- Increase speed, responsiveness, reliability, security, scalability and maintainability

ADOR Strategic Goals:
| Optimize Taxpayer Services | Accelerate Processing | Maximize Taxpayer Education & Compliance |

Customer: | Arizona Taxpayers | Arizona Department of Revenue | All State & Local Government Agencies |

Partners: | Gartner | Deloitte | World Wide Technologies | IRS | OAG |

ADOR Technology Infrastructure Modernization | Outcomes

Equipment At End-Of-Life / End-Of-Support

Current as of January 2016

12 Servers **8** Network Switches **12** Applications

January 2017

24 Servers **12** Network Switches **41** Applications

January 2018

75 Servers **13** Network Switches **43** Applications

1 Data Storage System

DID YOU KNOW?

Facility, not equipment, is responsible for our last three major outages that consisted of flooding, fire and power outages! Moreover, facility failures are causing loss of employee productivity, instability and delays collecting and distributing tax revenues.

In FY 2017, Over 50% of equipment will no longer be supported, will no longer receive security updates, will have very high repair and overhead (utility) costs, and will have compatibility issues with software.

Remediate over 240 audit findings

ADOR Technology Infrastructure Assessment FY 2016 Completed

ADOR Technology Infrastructure Architecture Design FY 2016 Completed

ADOR Technology Infrastructure Phase 0 FY 2017 ($4.3M) Completed

- Upgrade/Increase Storage
- Decommission Data Centers
- Retire Outdated Equipment

ADOR Technology Infrastructure Phase 1 FY 2018 ($11M) Approved

- Upgrade/Increase Storage
- Retire Outdated Equipment
- Co-Located Data Center

How does this benefit the State of Arizona?

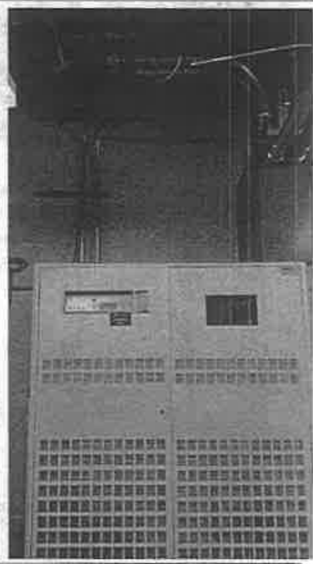
Every state and local government agency depends on the tax dollars ADOR collects and distributes for daily operations, including payroll, delivery of vital mission services to Arizona citizens. The ADOR Technology Infrastructure Modernization Initiative ensures safe, secure & reliable access to critical ADOR data & applications:

- Timely customer service to Arizona Taxpayers
- Ensure timely/accurate compliance for all Tax Filings
- Prevent Fraud | Improve Collections | Improve average days to process returns
- Increase percentage of online transactions
- Stabilize Infrastructure | Improve Performance | Increase Scalability & Storage Capacity |
- Industry Recognized Data Center Facility | Physical/Digital Security, 24X7 On Site Support

Note: 111 Servers and 33 Network Switches all End-Of-Life by January 2018

ADOR Technology Infrastructure Modernization Phase 1 | Visual

Fire Damage

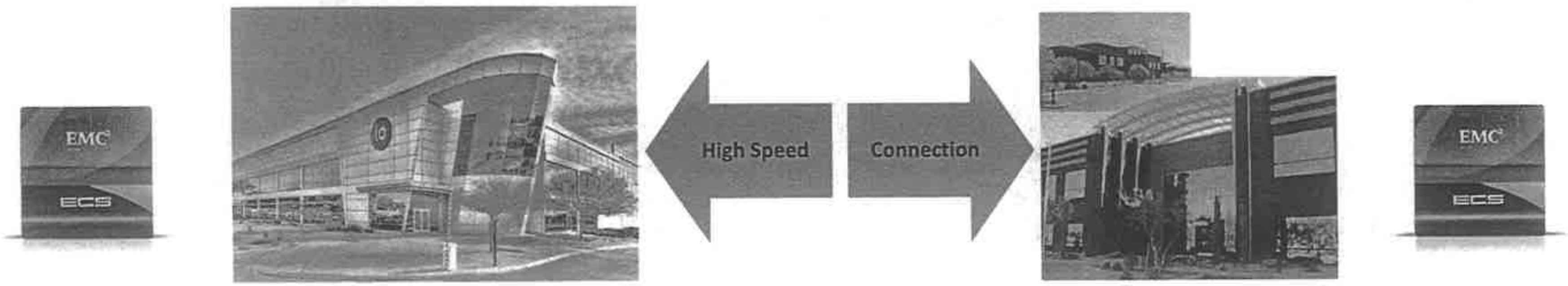


Actual Water & Sewage Lines over Power Distribution Unit (Installed in 1988)

Current State → Future State

ADOR Technology Infrastructure Modernization | Data Vault

Data Vault



IO.Phoenix IO.Scottsdale

Results:

- Back Up Strategy - All data back-up's saved in two separate Data Centers (see above)
- Data Integrity - Storage and transfer **encryption ensures data is safe** and meets regulations
- Eliminates use of legacy tape backup, manual transfers and 3rd party storage
- Addresses all IRS Safeguard Audit findings related to end-of-life Storage Area Network (SAN) hardware

ADOR Technology Infrastructure Modernization Phase 1 | Project Milestones

JLBC Approved $5.5M Target FY18 Q1 & Q2

Pending JLBC Approval $5.5M Target FY18 Q3 & Q4

Transformational

- Strategy
- Organization
- Process
- People
- Technology

Initiation

- ✓ Project Budget
- ✓ Project Charter
- ✓ Project Resources
- ✓ JLBC Approval
- ✓ IVV
- ✓ ITAC Approval

100%

Planning

- ✓ Project Plan
- ✓ Architecture
- ✓ Requirements
- ✓ Procurement 1

100%

Execution

- ✓ Equipment @ IO
- ☐ Procurement 2
- ☐ Physical to Virtual
- ☐ Scottsdale IO
- ☐ Testing
- ☐ Migration
- ☐ Close legacy data centers

10%

Closeout

- ☐ Lessons Learned
- ☐ Project Closeout

0%

- All hardware/Software purchased at discounts exceeding the State Contracted Rates (confirmed by ADOA SPO)
- VMware software upgrade performed in Q3 at No Charge (normally billed at $70-100K)
- Positive reviews by Gartner as "well run project"

ADOR Technology Infrastructure Modernization Phase 1 | Compute & Storage

	✓ Phase 0 – Q4 FY17 Department Investment ($4.3M) Tucson DC Closed	✓ Phase 1 – Q1 & Q2 FY18 Non-Production Environment ($5.5M)	Phase 1 – Q3 & Q4 FY18 Production Environment & Data Vault ($5.5M) End State
Maintenance Period	5 Years of ONSITE 24x7x4	5 Years of ONSITE 24x7x4	5 Years of ONSITE 24x7x4
Compute	(20) B200 M4 @ Dual 2.2GHz (22 Core) 768GB	(40) B200 M4 @ Dual 2.2GHz (22 Core) 768GB	(60) B200 M4 @ Dual 2.2GHz (22 Core) 768GB
Storage	52TB of VMAX3 450FX Usable Capacity	208TB of VMAX3 450FX Usable Capacity	364TB of VMAX3 450FX Usable Capacity (x2 Effective w/compression) All Flash
Data Protection (Data Backup)	No Existing Data Protection Suite (tape backup only)	Data Protection Suite for Enterprise 180TB of Data Domain 223 TB of Cloud tier Licensing 330 TB of ECS Object Storage	Data Protection Suite for Enterprise 180TB of Data Domain 223 TB of Cloud tier Licensing 660 TB of ECS Object Storage (Data Vault)
Licenses (excluding AMP)	• EMC PowerPath/VE (per CPU socket) - 46 • VMware vCloud Suite (per CPU socket)- 46	• EMC PowerPath/VE (per CPU socket) - 86 • VMware vCloud Suite (per CPU socket) - 86	• EMC PowerPath/VE (per CPU socket) - 126 • VMware vCloud Suite (per CPU socket) - 126
Professional Services	Initial VxBlock 740 Deployment	Deployment and Installation Services for VxBlock Upgrades and DPS Tech Extensions – Procurement 1	Deployment and Installation Services for VxBlock Upgrades and Data Vault - Procurement 2

ADOR Technology Infrastructure Modernization Phase 1 | Bill of Materials Q1 & Q2 FY18 Expenditure Report Out

Line #:	Vendor:	Item:	Quanity:	Per Qty Cost:	Total:	
Data Backup						
1	WWT	Data Domain (Data Backup 180TB)	1	$91,720.46	$91,720.46	
2	WWT	EMC U400 ECS (Storage Device)	1	$245,098.97	$245,098.97	
					$336,819.43	$336,819.43
Phx IO Non PROD						
3	WWT	VMAX3 Storage 156TB	1	$1,422,076.56	$1,422,076.56	
4	WWT	Production Compute Upgrade 20 Blades	1	$687,116.16	$687,116.16	
5	WWT	Software, Warranty & Maintenance (5 Years)	1	$2,300,703.13	$2,300,703.13	
6	WWT	VCE Professional Services	1	$127,341.67	$127,341.67	
					$4,537,237.52	$4,537,237.52
					Total:	$4,874,056.95
Migration Prep					Tax :	$331,269.76
7	WWT	Solarwinds Integration Service	1	$32,000.00	$32,000.00	
8	WWT	Vmware Upgrade Services	1	$20,326.00	$20,326.00	
9	Knowledge Services	Active Directory Assessment	1	$27,000.00	$27,000.00	
10	Knowledge Services	Sys Center Config Mgr (SCCM) Assessment	1	$13,500.00	$13,500.00	
11	WWT	SRM (Replication Software)	1	$79,322.72	$79,322.72	
					Total:	$172,148.72
			Project Total Cost:			$5,377,475.43

ADOR Technology Infrastructure Modernization Phase 1 | Bill of Materials
Q3 & Q4 FY18 Spend Plan

Line #:	Vendor:	Item:	Quanity:	Per Qty Cost:	Total:	
Data Vault						
1	CenturyLink	IO.Scottsdale Rack & Circuit Install NRC	1	$3,500.00	$3,500.00	
2	CenturyLink	Panduit Racks (1200mmx700mm)	2	$5,780.59	$11,561.18	
3	CenturyLink	Panduit Horizontal Cable Managers 1RU	8	$41.80	$334.40	
4	CenturyLink	Panduit Horizontal Cable Managers 2RU	16	$62.03	$992.48	
5	WWT	EMC U400 ECS (Storage Device)	1	$240,098.87	$240,098.87	
6	WWT	MISC Network Cabling	1	$20,000.00	$20,000.00	
					$276,486.93	$276,486.93
Phx IO PROD						
7	WWT	VMAX3 Storage 300TB & Controller	1	$2,967,995.38	$2,967,995.38	
8	WWT	Production Compute Upgrade 20 Blades	1	$812,444.10	$812,444.10	
9	WWT	Software Licenses	1	$59,038.40	$59,038.40	
10	WWT	VCE Professional Services	1	$131,192.67	$131,192.67	
11	WWT	Training	1	$19,500.00	$19,500.00	
12	WWT	Professional Services (Terradata move)	1	$20,000.00	$20,000.00	
13	WWT	Professional Services Hye Tech (Migration Services)	1	$180,000.00	$180,000.00	
14	VMware	Enterprise License Agreement (ELA Year1)*	1	$590,654.00	$590,654.00	
					$4,670,824.55	$4,780,824.55
					Total:	$5,057,311.48
					Tax Est:	$419,756.85

***VMware ELA will result in savings of $890K over 5 year term.**

Project Total Est. Cost: $5,477,068.33

Worldwide Technology (WWT) Hardware/Software Discount off List Price: **62%**

2

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: December 12, 2017

TO: Members of the Joint Legislative Budget Committee

FROM: Geoffrey Paulsen, Fiscal Analyst GP

SUBJECT: Department of Public Safety - Review of the Microwave System Upgrade Project (Automation Projects Fund)

Request

Pursuant to A.R.S. § 41-714, the Department of Public Safety (DPS) requests that the Committee review $1,500,000 for the Microwave System Upgrade project. The FY 2018 budget appropriated $2,500,000 from the Automation Projects Fund (APF) for continued work on the ongoing project to convert the statewide radio system's microwave backbone from analog to digital technology. At its September meeting, the Committee reviewed $1,000,000 to build a new tower and storage building near Flagstaff.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

Key Points

1) DPS proposes spending $1,000,000 of the Microwave Upgrade appropriation to assess remaining work on the northern loop.
2) DPS also proposes spending $500,000 to fund 2 outside contracted staff to design an internet protocol (IP) network on the already completed southern and western loops.
3) The proposed design work would be completed by June 2019.

(Continued)

Analysis

Background
The statewide Microwave Radio System is a series of towers situated on mountain tops and divided into 3 loops that allow law enforcement and other state and local agencies to communicate with dispatch centers while in the field. In 2007, DPS began upgrading the statewide Microwave Radio System from analog to digital technology. Of the 3 loops, work on the southern loop was completed in FY 2011 and work on the western loop will be completed in FY 2018.

Current Request
DPS proposes utilizing the remaining $1.5 million from its FY 2018 APF appropriation in 2 parts. First, DPS proposes spending $1.0 million to contract with a vendor for an engineering study of the northern loop of the statewide radio system. The vendor will assess the existing infrastructure and equipment and prepare a report which outlines its findings, recommends upgrades and replacements to current equipment, and provides a proposed project schedule and costs to complete the project. DPS reports that an outside vendor is necessary as current Wireless Services Bureau (WSB) staff are focused on ongoing maintenance and do not have sufficient capacity to work on design and engineering for the northern loop project. This design work is expected to be completed in the first quarter of 2019.

The northern loop consists of about 25 sites, only one of which has been updated so far. DPS has not yet determined how many of these sites will need to be replaced, but they note that northern Arizona has some of the system's oldest structures (both buildings and towers) and it is likely that many will require complete replacements. Beyond the current agenda item, DPS estimates that an additional $13.7 million will be needed in future years to complete the northern loop upgrade.

DPS also proposes spending $500,000 to design an internet protocol (IP) network in the west and south loops that were already converted from analog to digital. Many of system's sites are not accessible during the winter months or accessible only by helicopter, and an IP network would allow DPS to monitor and control radio system equipment and infrastructure remotely. Much of the current equipment already comes standard with IP capability. DPS reports that this amount will fund 2 outside contracted staff through June 2019 to design the IP network.

ITAC Review
The Information Technology Authorization Committee (ITAC) within the Department of Administration is responsible for reviewing all information technology projects that cost at least $1.0 million. However, because the IT component of this project is less than $1.0 million, DPS was not required to submit a Project Investment Justification (PIJ) and seek ITAC approval.

GP:kp

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

"Courteous Vigilance"

DOUGLAS A. DUCEY Governor   FRANK L. MILSTEAD Director

RECEIVED NOV 2 9 2017 JOINT BUDGET COMMITTEE

November 28, 2017

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

Dear Representative Livingston:

Pursuant to A.R.S. § 41-714, Automation Projects Fund (APF), the Department of Public Safety (DPS) requests to be placed on the Joint Legislative Budget Committee's (JLBC) next agenda for a review of its expenditure plan for the remaining funding from the FY 2018 Microwave System Upgrade project appropriation. At its meeting on September 19, 2017, the JLBC gave a favorable review to the use of $1.0 million from this appropriation. The current request is for a review of the expenditure plan for the remaining $1.5 million of the appropriation.

The FY 2018 General Appropriations Act appropriated $2.5 million from the APF to DPS for continued work on the long-standing project to convert the statewide radio system's microwave backbone from analog to digital technology. At the JLBC's September meeting DPS received a favorable review of a $1 million project to replace the tower and electronics at Schnebly Hill, south of Flagstaff.

The current request is to utilize $1.5 million for a conceptual design of the microwave system for the northern loop of the statewide radio system and to begin implementing internet protocol (IP) technology throughout the radio system. Details of the plan are contained in the enclosed document.

Please contact Phil Case, DPS Budget Director, at 602-223-2463 or pcase@azdps.gov if you have any questions in this matter.

Sincerely,

Frank L. Milstead, Colonel
Director

enclosure

xc: Senator Debbie Lesko, Vice-Chairman
Matthew Gress, OSPB Director
Richard Stavneak, JLBC Director

Project Title: DPS Microwave Upgrade

Agency	Arizona Department of Public Safety
Business Unit	Technical Services Division, Wireless Systems Bureau
Agency Contact Name	Adam Follrath, MPA, PMP – Telecommunications Project Coordinator
Agency Contact Phone	602-223-2216
Agency Contact Email	afollrath@azdps.gov

Introduction

The Arizona Department of Public Safety (AZDPS), Wireless System Bureau (WSB), is charged with operating and maintaining a microwave radio transport network throughout northern Arizona which currently supports several public safety agencies' wireless communications needs. For a couple of decades beyond expected service life, a major region of the current network has been operated on an antiquated analog platform that is no longer supported by any manufacturers due to its age. This introduces a significant risk of communications failure across the network, and requires qualified employees to focus large amounts of time to support and maintenance efforts.

It is noted that the following large state agencies utilize this network, and are reliant upon this analog microwave network for their radio system connectivity:

- Department of Public Safety
- Department of Corrections
- Department of Transportation
- Game and Fish Department
- Department of Emergency and Military Affairs
- Department of Forestry and Fire Management

AZDPS continues to set the precedence that the technology must be upgraded to a modern internet protocol (IP) based platform, providing the reliability required by public safety to insure they can effectively execute their mission of protecting lives and property.

Business Problem

North Loop Design

Given the design of the network, a failure of the network at one tower site location could eliminate radio coverage provided by that specific tower site; simultaneous failures at two or more locations could eliminate radio coverage at all tower site locations at, and between, those locations. Given that this analog equipment has been "End of Life" and out of manufacturer support, it is critical to understand the current level of risk to reliable radio communications in the event of failure within the network. Should a failure occur, the level of risk increases regarding a quick recovery time and probability of successful restoration.

It is important to note several key factors regarding the current equipment in Figure 1 below referred to as the North Loop:

- Equipment has been in service for, at minimum, 20 years
- Equipment has been excluded from manufacturer support due to obsolescence
- Repair components are only available in the non-typical procurement markets (third-hand), with rapidly decreasing availability. Reliability of components purchased in this manner is questionable and adds risk
- Third party repair of components are only available for some equipment, on a "best effort" basis. A viable repair vendor for all other manufacturers' components is not available.
- Engineering services for equipment replacement require multidisciplinary resources
- Staffing for the effort must work on the project exclusively to ensure that data is not obsolete by the time of design completion.
- At full time effort a vendor has projected that with a project manager, 4 engineers, and contract engineering, this type of design will take 18 months.

Professional Outside Services - Network Engineering and IP Implementation

During the Great Recession, the DPS budget was cut and WSB lost several positions, including its 7-person engineering section, which also doubled as project managers. During the South Loop phase of the project, WSB had two full time project managers who were assigned to that exclusively. At the time of the budget cuts, DPS was not receiving additional funding for the microwave backbone replacement, and the emphasis was turned to maintaining the radio system. Now that we have received some microwave replacement funding, WSB is challenged to properly engineer and manage the replacement in addition to on-going issues relating regular maintenance, enhancements, and other modifications. WSB currently only has two engineers, and one project coordinator, attempting to meet the mission.

During the initial equipment replacement in the Southern and Western Loops, the microwave network immediately benefitted from reliability improvements moving to manufacturer supported equipment and establishing the foundation to grow into modern networked environment. However no specific plans were included in the initial projects to implement IP services to the communication sites. Specific skill sets and focused effort are required to complete this phase. WSB's current engineering team has expressed specific requests for support services and personnel for this discipline to allow progress to continue at a faster rate.

Solution

In short, AZDPS must turn to outside contract support for projects to be successful at a rate appropriate for expectations of funded improvements to services. For AZDPS to maintain the high level of reliability demanded by governmental and public safety agencies, long-term planning for replacement of aging analog microwave radios and ancillary devices must be undertaken. AZDPS also desires to continue migration to a more current technology that includes high reliability such as redundant loops supporting IP network capabilities. A phased approach to equipment replacement is required; compatibility between circuits that use new equipment and those that use old must be maintained.

North Loop Design

Mission Critical Partners (MCP) will be contracted to evaluate current microwave products in the North Loop and recommend those deemed capable of meeting these needs.

AZDPS will be provided with the following:

1. Program management services with MCP acting as Arizona's representative and project manager for design of the network. MCP will provide a total turnkey project that meets the State's requirements.
2. Assessment of the existing statewide public safety microwave network north loop equipment including:
   a. Microwave radios and associated control systems
   b. Network routing
   c. Antennas and ancillary hardware
   d. Electrical components (generator, AC service, DC power systems, grounding)
   e. Site facilities (towers, shelters, security, site maintenance, access)
3. Recommendations for upgrade and/or replacement of the existing microwave network to serve Arizona agencies.
   a. Technology solutions available
   b. Options for system design on path performance and reliability
4. Conduct due diligence on all potential costs to build the network.
   a. Find and secure any new sites for the network which will improve performance and reliability
   b. Conduct a structural analysis and determine modification costs on towers to support new microwave dishes and bring the tower up to current tower structural standards
   c. Prepare and submit frequency coordination and FCC License applications to secure the necessary frequencies to build the network
5. Assemble all data in a report format acceptable for presentation to the State of Arizona legislature.
   a. Phased implementation approach, including schedule
   b. Risks and impacts to existing network
   c. Budgetary costs for services, equipment, installation and optimization

Professional Outside Services - Network Engineering and IP Implementation

For the regions of the state that have upgraded to digital microwave, WSB will engage additional professional outside engineering services to build out a comprehensive network topology and migration plan to expedite utilizing the existing upgraded backhaul to its fullest potential. AZDPS has access to multiple contract options to meet this need. At half time, approximately 87 hours per month, AZDPS will be able to hire two engineers to meet this need throughout the remainder of the available funding through June 30, 2019.

Project Title: DPS Microwave Upgrade

Project Costs

Table 1 depicts the total cost of these efforts estimated at a quarterly usage. This includes efforts related to the network design plan, tower structural engineering and the licensing of the network for the North Loop, as well as engineering services for migration to IP for the West and South Loops. Of course, it is our hope that we will continue to receive annual appropriations for the project for the next several years until the western and northern loops are completed and that these positions will be funded to complete all of the remaining phases.

Table 1 – Estimated Quarterly Project Cost

FY18 Q3		$175,000
FY18 Q4		$403,000
FY19 Q1		$315,000
FY19 Q2		$375,000
FY19 Q3		$147,000
FY19 Q4		$85,000
	TOTAL	**$ 1,500,000**

Design Plan	Structural	Licensing	Professional Outside Services
$ 390,000	$ 570,000	$ 40,000	$500,000

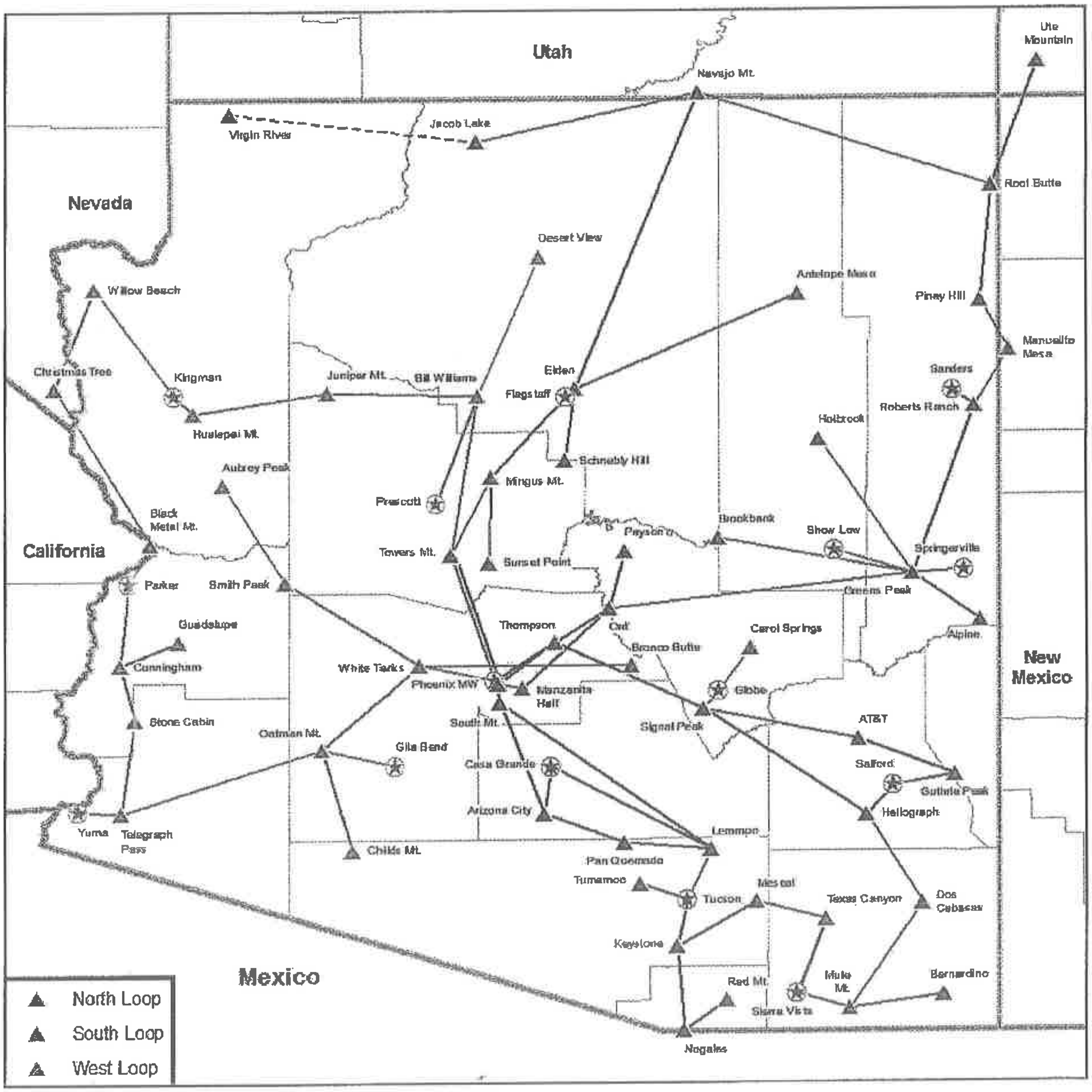
Closing

Upon completion of the above tasks, AZDPS will have a complete North Loop system design with a final proposed budget and written report, as well as a completed network architecture for the south and west loops, where digital microwave exist today.

The written report will document the process used to develop the conceptual design, the final design, estimates of probable cost and a pro-forma project budget. The budget will include both capital and operating cost projections. Information provided will include network assumptions, final sites, required interfaces, connectivity utilized and related details. The report also will identify the requirements utilized in developing the design and cost estimates, and areas of potential risk affecting the design or price estimates.

This comprehensive analysis and report will provide the information required to make an informed decision moving forward with an improved network to enhance Public Safety.

Figure 1 – Arizona Statewide Microwave Network



Project Title: DPS Microwave Upgrade

Project Schedule

Figure 2 below represents the anticipated schedule of events for the North Loop design. MCP expects some tasks to overlap and the schedule will adapt based on any changing requirements.

Figure 2 – North Loop Design Project Schedule

ID	Task Name	Start	Finish	Duration	2018				2019
					Q1	Q2	Q3	Q4	Q1
1	**Arizona Northern Microwave Loop Design**	**1/2/2018**	**3/29/2019**	**64.8w**					
2	Kickoff and Planning	1/2/2018	1/31/2018	4.4w					
3	Path Review	2/1/2018	3/30/2018	8.4w					
4	Bandwidth Review	2/1/2018	3/30/2018	8.4w					
5	Technical Assessments	2/1/2018	3/30/2018	8.4w					
6	Path Design	4/2/2018	8/31/2018	22w					
7	Coordinate Tower Mapping	4/23/2018	7/6/2018	11w					
8	Site Visits	4/23/2018	7/6/2018	11w					
9	Path Walks	7/6/2018	8/31/2018	8.2w					
10	Structural Analyses	9/3/2018	10/1/2018	4.2w					
11	Ring Design	9/3/2018	10/1/2018	4.2w					
12	Conceptual Design	9/3/2018	10/1/2018	4.2w					
13	Migration Strategy	10/1/2018	10/30/2018	4.4w					
14	Site Visits	10/1/2018	10/30/2018	4.4w					
15	Coordination of Modification Drawings	10/1/2018	12/31/2018	13.2w					
16	Design Updates	11/1/2018	12/31/2018	8.6w					
17	Document Update	1/1/2019	1/31/2019	4.6w					
18	Finalize and Present	2/1/2019	3/29/2019	8.2w					

3

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: December 12, 2017

TO: Members of the Joint Legislative Budget Committee

FROM: Jon Stall, Principal Fiscal Analyst
Patrick Moran, Senior Fiscal Analyst PM

SUBJECT: AHCCCS - Review of Medicaid Capitation Rate Changes for Plan Years 2017 and 2018

Request

Pursuant to an FY 2018 General Appropriation Act footnote, the state Medicaid agencies must present their expenditure plans to the Committee for review prior to implementing any changes in capitation rates. On behalf of the Department of Economic Security and itself, AHCCCS' request includes new plan year (CYE) 2018 rates and revisions to certain previously reviewed rates.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

Key Points

1) Aggregate 2018 capitation rates are increasing by 2.7%.
2) The increase is within budget, primarily due to lower-than-anticipated utilization and unit cost growth.
3) These savings will fund $27 million of substance abuse and behavioral health initiatives. These initiatives did not receive dedicated funding in the FY 2018 budget.
4) The rates also increase select provider rates up to 1.9% statewide and 3.3% in Flagstaff for minimum wage impacts.
5) AHCCCS did not comply with statutory requirements for JLBC review of new rates prior to implementation.

(Continued)

Analysis

The Federal government agrees to pay a flat per-member, per-month amount for each type of Medicaid enrollee. Capitation rates are developed by AHCCCS actuaries for all Medicaid programs. The rates are adjusted annually for projected medical expense and utilization trends. Utilization refers to the percentage of eligible individuals who use services and the amount of services each member uses. In developing capitation rates, the actuaries also compare prior rate calculations and assumptions to actual results for medical expenses and utilization. This is referred to as experience adjustments. The capitation rate adjustments also include provider rate increases. Finally, the capitation rates may include a number of program changes. Such changes for CYE 2018 and CYE 2019 are described below. *Table 1* below includes a comparison of previous and new capitation rates.

Table 1

Monthly Regular Capitation Rates

Populations	Previous Rates	New Rates	% Change
Acute Care	$284.96	$287.85	1.01%
Behavioral Health Services	111.27	120.05	7.89
ALTCS Elderly and Physically Disabled 1/	3,427.37	3,415.86	(0.34)
ALTCS Developmental Disabilities 2/	3,638.21	3,687.28	1.35
Children's Rehabilitative Services	848.94	915.03	12.03

1/ Previous rate reflects January 1, 2017 rate favorably reviewed by the JLBC at its June meeting. It does not include a 0.72% increase AHCCCS proposes from July 1 to September 30, 2017 for additional Proposition 206 costs. Those added costs are included in the revised CYE 2017 rate and the new rate for CYE 2018.

2/ Previous rate reflects original July 1, 2017 rate favorably reviewed by the JLBC at its June meeting. The new rate reflects a blend of the retroactive update to the original July 1st rate for additional Proposition 206 costs, as well as a prospective adjustment to acute care costs effective on October 1, 2017.

In aggregate, the overall rate changes developed by AHCCCS for CYE 2018 are 2.7% above previously approved rates, including:

- 1.01% for acute care services;
- 7.89% for behavioral health services;
- (0.34)% for long term care services for people who are elderly or physically disabled;
- 1.35% for long term care services for people with developmental disabilities; and
- 12.03% for children's rehabilitative services.

Based on the approved capitation rates and caseloads year-to-date, the JLBC Staff project a net General Fund surplus of $20.6 million across AHCCCS and DES in FY 2018.

JLBC Review Requirements

AHCCCS' submission does not comply with 2 different General Appropriation Act reporting requirements. First, the General Appropriation Act annually requires AHCCCS to submit capitation rates for review prior to implementation. Contrary to this requirement, AHCCCS already began paying the new capitation rates for CYE 2018 in October, but did not notify the Committee until November 28, 2017.

(Continued)

Second, the General Appropriation Act also annually requires AHCCCS to submit to the Committee for review prior to implementation any change in policy affecting the amount and scope of health care services. This provision applies to any change with a state cost greater than $500,000. Nonetheless, AHCCCS implemented $109 million Total Fund ($27 million General Fund) of behavioral health expansions prior to notifying JLBC.

In contrast, the Legislature discussed the impact of Proposition 206 minimum wage increases as part of the FY 2018 budget process. The magnitude of these behavioral health expansions, however, was not discussed at the time.

AHCCCS - Acute Care

The proposed CYE 2018 capitation rates for the program represent an increase of 1.01% compared to the most recently approved CYE 2017 rates. The adjustments include:

- Decreased capitation rate costs of (0.60)% for medical trends and experience adjustments.
- A supplemental 40% rate increase for providers at a qualifying teaching or children's hospital will increase acute capitation rates by 0.73%. The state match will be funded by voluntary payments from political subdivisions.
- Expanded coverage of emergency dental services and outpatient occupational therapy for adults, as required by the FY 2018 Health Budget Reconciliation Bill (Laws 2017, Chapter 309). Rates were increased 0.53% for this change.
- Targeted rate increases for hospitals, qualifying physicians and other practitioners, integrated clinics, and nursing facilities that take certain actions to improve patient care. Capitation rates were increased 0.17% for this change.
- Fee-for-service rate increases, including statutorily- or federally-required increases for ambulance providers and federally qualified health centers. The adjustments add 0.21% to capitation rates.

AHCCCS - Behavioral Health Services

Behavioral health services are provided to AHCCCS members through contracted health plans called Regional Behavioral Health Authorities (RBHAs). AHCCCS is increasing capitation rates by 7.89% for the RBHAs in CYE 2018. The primary drivers of this adjustment are as follows:

- An increase of 4.58% for utilization and unit cost changes.
- A decrease of (2.84)% from the authorization of a generic drug in place of the brand name anti-psychotic drug Abilify.
- An increase of 5.42% for behavioral health program expansions, including:
  - **Opioid Use Disorder:** The RBHAs will be required to provide individuals with opioid use disorders with access to 24/7 crisis stabilization facilities that are able to provide medication-assisted treatment (MAT) as well as "peer support specialists" to improve long-term recovery.
  - **Substance Use Disorder:** AHCCCS intends to increase access to care for individuals with other substance abuse disorders as well, including American Indians with alcohol use disorder and individuals with methamphetamine use disorder.
  - **Autism Spectrum Disorder (ASD):** AHCCCS is implementing new procedures for screening and diagnosis of ASD to ensure that individuals are referred to a specialized provider.
  - **Persons with Serious Mental Illness (SMI):** AHCCCS funds 24 multi-disciplinary teams that provide intensive outpatient services to persons with an SMI diagnosis in Maricopa County. These teams are tasked with meeting the *Arnold v. Sarn* settlement agreement.

(Continued)

- **Children in Foster Care:** Pursuant to Laws 2016, Chapter 71, the RBHAs will provide behavioral health screening, assessment, and referrals for foster children in accordance with statutory timeframes.

AHCCCS estimates that the total cost of its behavioral health access to care initiatives will be $109 million in CYE 2018. Based on the average state match rate of 25% across all AHCCCS programs, the associated General Fund cost would be $27 million. In a March 2017 report to the Committee on preliminary estimates of capitation rates, AHCCCS indicated there would be potential adjustments to address access to behavioral health services, but did not estimate the cost. The FY 2018 budget did not specifically authorize funding for these program expansions.

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

ALTCS services are provided to the elderly and physically disabled (EPD) in need of long-term care either in nursing care facilities or in home and community-based settings. AHCCCS is decreasing the ALTCS EPD rates by (0.34)% compared to previously-reviewed January 1, 2017 rates. The main adjustments include:

- An increase of 1.92% for utilization and unit cost changes.
- An increase of 0.22% for targeted rate increases for hospitals, qualifying physicians and other practitioners, integrated clinics, and nursing facilities that take certain actions to improve patient care.
- A decrease of (2.99)% for lower administrative costs associated with a re-bid of the ALTCS contracts.
- A decrease of (0.40)% for higher placement rates into home and community-based services compared to institutional placements.
- An increase of 0.72% for Proposition 206 and Proposition 414 minimum wage and paid sick leave costs. AHCCCS is increasing home and community-based services rates by 1.9% (3.3% in Flagstaff) and is increasing nursing facility rates by 0.3% (1.0% in Flagstaff).

Proposition 206 increased the statewide minimum wage from $8.05 to $10.00 effective January 1, 2017 and required employers to provide paid sick leave effective July 1, 2017. Proposition 414 in Flagstaff increased the local minimum wage to $10.50 effective July 1, 2017. AHCCCS plans further adjustments in January 2018 when the statewide minimum wage will increase to $10.50 and the Flagstaff minimum wage increases to $11.00.

DES - ALTCS Developmental Disabilities

The DD program provides long term care services, acute care, and behavioral health services to individuals with intellectual disabilities, autism, cerebral palsy, epilepsy, or at under age 6 and at risk of developing such a diagnosis. JLBC already reviewed a 4.0% mid-year rate adjustment in CYE 2017 and a subsequent (1.7)% rate decrease for CYE 2018. DD capitation rates are being increased by 1.35% compared to the original CYE 2018 rates. The adjustments include:

- 1.01% for a retroactive increase that incorporates funding for Proposition 206 and Proposition 414 provider rate increases implemented in July of 2017. The adjustments include a 1.7% increase (3.3% in Flagstaff) for DD providers affected by Proposition 206 and Proposition 414. AHCCCS and DES plan further adjustments in January 2018 when the statewide minimum wage will increase to $10.50.
- 0.33% for prospective changes in acute care costs associated with utilization and unit cost changes in acute care services for DD members.

(Continued)

AHCCCS - Children's Rehabilitative Services (CRS)

The CRS program provides services for children with chronic and disabling or potentially disabling conditions. The proposed CYE 2018 capitation rates for the program represent an increase of 12.03% compared to the most recently approved CYE 2017 rates. The overall rate increase is largely the result of a 7.38% increase for utilization and unit cost changes and 4.24% for supplemental reimbursement for selected providers at a qualifying teaching hospital or children's hospital.

JS/PM:kp

AHCCCS
Arizona Health Care Cost Containment System

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

November 28, 2017

The Honorable David Livingston
Acting Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Livingston:

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

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

Capitation rates are certified by actuaries and must be recertified every year to coincide with MCO annual contract periods. Most AHCCCS contracts are on an October 1 through September 30 schedule. Capitation rates for DES/DDD and DCS/CMDP are on a July 1 through June 30 contract year. The Committee previously reviewed, and provided favorable review of, the Contract Year Ending (CYE) 2018 capitation rates for DES/DDD and DCS/CMDP.

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

This letter details both retroactive amended rates for CYE 2017 and annual renewal rates for CYE 2018 for review at the upcoming JLBC meeting. These rate actions are as follows:

- CYE 2017 Capitation Rate Amendment for MCOs with CYE from October 1, 2016 through September 30, 2017:
    - Arizona Long Term Care System/Elderly and Physical Disability (ALTCS/EPD)
- CYE 2018 Capitation Rate Amendment for MCOs with CYE from July 1, 2017 through June 30, 2018:
    - DES/DDD
- CYE 2018 Capitation Rate Annual Renewal for MCOs with CYE from October 1, 2017 through September 30, 2018:
    - Children's Rehabilitative Services (CRS)
    - ALTCS/EPD
    - Acute Care
    - Behavioral Health (via the Regional Behavioral Health Authorities – RBHAs)

Background for CYE 2017 Capitation Rate Amendment
This update to the CYE 2017 ALTCS/EPD capitation rates accommodates the following:

- A retroactive capitation rate adjustment (to July 1, 2017) to address the increased labor costs resulting from the Arizona minimum wage increase and employee benefit provisions mandated by Proposition 206, and the Flagstaff minimum wage increase mandated by Proposition 414 effective July 1, 2017, increasing capitation rates by 0.72%. *These adjustments do not include any January 1, 2018, adjustments for costs associated with Proposition 206 or the Flagstaff Proposition 414. Capitation rates will be adjusted for these increases at a future date and will separately come before the Committee for those increases.*

Table I below contains information regarding the EPD CYE 2017 rate revision, comparing the revised CYE 2017 rates to the prior CYE 2017 rates.

Table I

ALTCS/EPD	CYE 17 Quarterly Projected Expenditures Before Min Wage Impacts (effective 7/1/17)	CYE 17 Quarterly Projected Expenditures After Min Wage Impacts (effective 7/1/17)	Quarterly Dollar Impact	Percentage Impact
Final Rates	$303,482,606	$305,682,069	$2,199,464	0.72%

Background for CYE 2018 Capitation Rate Amendment
This update to the CYE 2018 DES/DDD capitation rates accommodates the following:

- A retroactive capitation rate adjustment (to July 1, 2017) to address the increased labor costs resulting from the Arizona minimum wage increase and employee benefit provisions mandated by Proposition 206, and the Flagstaff minimum wage increase mandated by Proposition 414 effective July 1, 2017, increasing capitation rates by 1.01%. *These adjustments do not include any January 1, 2018, adjustments for costs associated with Proposition 206 or the Flagstaff Proposition 414. Capitation rates will be adjusted for these increases at a future date and will separately come before the Committee for those increases.*
- A prospective change (effective October 1, 2017) to the Acute component of the DES/DDD capitation rate paid to subcontractors due to a rebase effective October 1, 2017 to coincide with DDD's subcontract period for acute services. Rebasing involves setting capitation rates off of a new (more recent) set of member utilization data (referred to as encounters) and member month data; establishing new trends developed using this new data; and applying prospective program and fee schedule changes. As part of the 2017 Legislative session, the Arizona Legislature passed SB 1527, reinstating emergency adult dental services and extractions up to a limit of $1,000 annually, a covered service prior to October 1, 2010. AHCCCS will restore this as a covered service effective October 1, 2017. The rebase results in an increase of 0.45% to the CYE 2018 DDD capitation rates.
- A prospective change (effective October 1, 2017) for additional funding in the LTC component of the rate for differential adjusted payments (DAPs) to certain nursing facilities. DAPs are described in detail later in this letter. The DAP results in an increase of 0.02% to the CYE 2018 DDD capitation rates.

Table II below contains information regarding the DDD CYE 2018 rate revisions, comparing the revised CYE 2018 rates to the prior CYE 2018 rates.

Table II

DES/DDD	Original CYE 18 Capitation Rate (effective 7/1/17)	Retroactive CYE 18 Capitation Rate (effective 7/1/17 to 9/30/17)	Percentage Impact from original	Prospective CYE 18 Capitation Rate (effective 10/1/17 to 6/30/18)	Percentage Impact from retroactive rate
Final Rates	$ 3,638.21	$ 3,675.11	1.01%	$ 3,691.33	0.44%

DES/DDD	Projected CYE 18 Member Months	Original CYE 18 Annualized Projected Expenditures (effective 7/1/17)	Retroactive CYE 18 Annualized Projected Expenditures(effective 7/1/17 to 9/30/17)	Dollar Impact from original	Prospective CYE 18 Annualized Projected Expenditures (effective 10/1/17 to 6/30/18)	Dollar Impact from retroactive rate
Final Rates	375,609	$1,366,546,604	$1,380,406,824	$ 13,860,220	$ 1,386,496,720	$ 6,089,896

Background for CYE 2018 Capitation Rate Annual Renewals

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

The overall changes to these four programs for CYE 2018, over the most recently submitted CYE 2017 rates, is 2.15% if excluding the impacts for Access to Professional Services Initiative (APSI) and 2.72% if including the impacts of APSI. (APSI is explained in detail later in this letter.) Table III displays the CYE 2018 rate changes by program.

Table III

Program	CYE 2018 Rate Change without APSI (over most recently submitted rates) [1]	CYE 2018 Rate Change with APSI (over most recently submitted rates) [1]
Acute Care	0.26%	0.99%
ALTCS/EPD	(0.34)%	(0.34)%
RBHAs	7.89%	7.89%
CRS	7.79%	12.03%
Total	**2.15%**	**2.72%**

The five year average capitation rate adjustment for all six AHCCCS programs (including DES/DDD and DCS/CMDP) is 2.41%.

[1] For the Acute Care and ALTCS/EPD programs the most recently submitted rates were effective January 1, 2017. For the RBHA and CRS programs the most recently submitted rates were effective April 1, 2017.

These capitation rates are within the amounts appropriated in the state Fiscal Year 2018 budget. AHCCCS expects future updates to the capitation rates for January 1, 2018 and we will provide budget updates along with those further adjustments.

System-Wide Rate Impacts
The utilization and unit cost trends for each program, by population, are detailed in the attached Actuarial Certifications. In addition, there are several program and provider rate changes effective October 1, 2017, that impact most or all programs and are reflected in the rates. These include the following:

Adult Services: Emergency Dental and Occupational Therapy in an Outpatient Setting
Senate Bill 1527, passed during the 2017 Legislative session, includes the reinstatement of emergency adult dental services and extractions up to a limit of $1,000 annually, a covered service prior to October 1, 2010. AHCCCS restored this as a covered service effective October 1, 2017. Also included in SB 1527 is the addition of occupational therapy (OT) in an outpatient setting for adults aged 21 and over. AHCCCS began coverage for this service effective October 1, 2017. The impact to overall capitation rates is an increase of approximately 0.29% for all services combined.

Differential Adjusted Payments
AHCCCS has implemented Differential Adjustment Payments (DAP) to distinguish providers who have committed to supporting designated actions that improve the patient care experience, improve member health, and reduce cost of care growth. The proposed DAPs are applicable for dates of service from October 1, 2017 through September 30, 2018. AHCCCS Fee-For-Service (FFS) rates for select providers meeting specific criteria will be increased up to 2% for qualified AHCCCS-registered Arizona Nursing Facility providers; 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services; 10% for qualified AHCCCS-registered Integrated Clinics for select physical health services; and 1% for qualified AHCCCS-registered Physicians, Physician Assistants, and Nurse Practitioners. These DAPs ensure that AHCCCS members have access to higher quality providers across a wide spectrum of services. The impact to overall capitation rates is an increase of approximately 0.15%.

Access to Professional Services Initiative
The Access to Professional Services Initiative (APSI) seeks to provide enhanced support to certain professionals in order to (1) preserve and enhance access to these professionals who deliver essential services to Medicaid recipients in Arizona and (2) support professionals who are critical to professional training and education efforts. APSI is a program to preserve and promote access to medical services through a uniform percentage increase to the Contractors' rates for professional services provided by qualified physicians and non-physician professionals affiliated with designated hospitals who meet the following definition:

- A hospital facility with an ACGME-accredited teaching program and which is operated pursuant to the authority in Arizona Statute Title 48, Chapter 31; or,
- A hospital facility with:
  - An ACGME-accredited teaching program with a state university, and
  - AHCCCS inpatient discharge utilization volume greater than or equal to 30 percent as calculated by the Arizona Department of Health Services for calendar year 2014; or,
- A freestanding children's hospital or a pediatric unit of a general acute care hospital with greater than one hundred (100) licensed pediatric beds, excluding nursery beds.

The APSI provides a uniform percentage increase of 40% to otherwise contracted rates for qualified practitioners for all claims for which AHCCCS is the primary payer, and is funded by Inter Governmental Transfers (IGTs) as permitted by Arizona law. The rate increase is intended to supplement, not supplant, payments to eligible providers. The impact to overall capitation rates is an increase of approximately 0.49%. There is no impact to the General Fund for this rate increase.

Provider Rate Changes
AHCCCS makes adjustments to provider rates based on access to care issues, when certain rates are tied to Medicare, and for legislative mandates. These adjustments in total result in a 0.18% increase to the rates.

Behavioral Health Access to Care
In response to increasing behavioral health needs of its populations, AHCCCS is providing funding to ensure member access to care through the RBHAs. This funding is added to address issues such as the opioid epidemic and other substance use disorder needs, as well as ensuring access to mandated EPSDT services for children in foster care and children with autism. The impact to overall capitation rates is an increase of approximately 1.07%.

Generic for Abilify
Effective April 1, 2017, AHCCCS, on the recommendation of the Pharmacy and Therapeutics Committee, made policy changes to allow RBHAs to approve the generic drug aripiprazole in place of the brand drug Abilify. This change was based on the AHCCCS Pharmacy and Therapeutics Committee's determination and recommendation that the generic drug, aripiprazole, is equally efficacious to Abilify, the most cost effective to the State, and offers members the same value and clinical outcome. The impact to overall capitation rates is a decrease of approximately (0.57)%.

Cost Avoidance
AHCCCS Contractors cost-avoid millions in medical costs in accordance with AHCCCS contracts and policies, which contributes to the modest growth in overall medical expense and capitation rates. The following discussion is provided for informational purposes only, and highlights the historical savings of these activities.

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

Table IV below shows a significant increase in encounter-reported COB cost avoidance from state fiscal year (SFY) 2008 to SFY 2017 among all Contractors. Additionally, all Contractors (with the exception of CMDP) cost-avoided more than $433 million in the nine months ending March 31, 2017, in additional claims for which the Contractor had no financial obligation after private insurance or a Medicare payment was made. Consequently no encounters were submitted to AHCCCS and therefore those services are excluded completely from capitation rate development. AHCCCS continues to emphasize the importance of COB activities with Contractors.

Table IV

Program	COB Cost Avoidance (Encounters) (millions)			Cost Avoided w/no Financial Obligation (Contractor self- reported) (millions)
	SFY 2008	SFY 2017	Δ	9 Months ending March 31, 2017
Acute	$391	$596	↑ by 152%	$334
ALTCS/EPD	$130	$311	↑ by 239%	$60
RBHAs	$8	$117	↑ by 1519%	$22
CRS	$0.03	$4.3	↑ by 12647%	$7
DES/DDD	$16	$39	↑ by 244%	$10
DCS/CMDP	$0.0075	$0.1300	↑ by 1733%	N/A
Total	$545	$1,067		$433

Acute Care Capitation Rates
The overall rate adjustment for the Acute Care program with APSI for CYE 2018 is an increase of 1.0% over the January 1, 2017 rates.

The three largest factors impacting the Acute rates are a rebase incorporating reduced utilization and unit cost levels and trend update, decreasing the rates by (0.60)%; restoration of emergency dental for adults, increasing the rates by 0.50%; and the IGT-funded APSI which results in a 0.73% increase.

For the populations primarily funded by the General Fund (e.g., TANF, SSI), the prospective and prior period rates are increasing 0.81%. For the population of Adults with incomes under 106% of the federal poverty level (FPL), for which the state match is funded from the hospital assessment, the increase is 4.41%. For the population of Adults with incomes over 106% of the FPL funded almost exclusively with federal funds (95% federally-funded), the adjustment is a decrease of (10.45)%.

Elderly and Physical Disability Long Term Care Capitation Rates
The overall rate adjustment for the ALTCS/EPD program for CYE 2018 is a decrease of (0.34)%.

The largest factors impacting the ALTCS/EPD capitation rates are the release of a Request for Proposal and the related competitive bidding, reducing rates by (2.99)%; a rebase and trend update, increasing rates by 1.92%; provider DAPs which result in an increase of 0.22%; and the minimum wage adjustment previously described retroactive to July 1, 2017 which results in an increase of 0.72%. A favorable increase in Home and Community Based Services (HCBS) placements results in a (0.40)% negative adjustment to cap rates, thus lowering the total increase to the rates.

Children's Rehabilitative Services Capitation Rates
The overall rate adjustment for the CRS program with APSI for CYE 2018 is an increase of 12.03%.

There are two factors primarily contributing to the overall rate change: a rebase including updated utilization and unit cost trends, increasing the rates by 7.38%; and the IGT-funded APSI which increases the rates by 4.24%.

RBHA Capitation Rates

The overall rate adjustment for the RBHA program for CYE 2018 is an increase of 7.89%.

The primary drivers of the increase include: a rebase including updated utilization and unit cost trends, increasing the rates by 4.58%; funding to ensure member access to care which increases the rates by 5.42%; and a reduction due to the use of the generic form of Abilify, decreasing rates by (2.84)%.

Overall Budget Impact

Table V below displays the budget impact of the rate changes with APSI. This data is displayed on a state fiscal year (SFY) basis due to budgetary timeframes. Likewise, the 2018 population below is on a SFY basis. For these reasons, the impacts on this table will not tie exactly to impacts stated elsewhere in this letter or attached documents.

Table V

	Statewide Rates		FY18	SFY17 Rate	SFY18 Rate	Change	Percent
	SFY17	SFY18	Population	with FY18 Pop	with FY18 Pop	Inc. (Dec.)	Impact
AHCCCS Acute	$ 291.79	$ 294.79	17,858,897	5,211,091,400	5,264,619,000	53,527,600	1.0%
AHCCCS EPD	$ 3,386.80	$ 3,410.69	339,209	1,148,833,200	1,156,935,900	8,102,700	0.7%
CMDP	$ 233.30	$ 225.67	191,219	44,610,800	43,152,600	(1,458,200)	-3.3%
CRS	$ 848.82	$ 950.98	293,328	248,982,900	278,949,500	29,966,600	12.0%
RBHA	$ 111.24	$ 120.78	18,666,014	2,076,348,400	2,254,405,100	178,056,700	8.6%
LTC - DD/DES	$ 3,661.87	$ 3,716.31	375,609	1,375,430,400	1,395,879,900	20,449,500	1.5%
Total Budget Impact	$ 530.23	$ 545.38	19,058,263	10,105,297,100	10,393,942,000	288,644,900	2.9%
					AHCCCS Total Fund Impact	268,195,400	92.9%
					Pass-through Total Fund Impact	20,449,500	7.1%
					AHCCCS State Impact	67,380,200	91.6%
					Pass-through State Impact	6,190,600	8.4%
					Total State Impact	73,570,800	
					AHCCCS Federal Impact	200,815,200	93.4%
					Pass-through Federal Impact	14,258,900	6.6%
					Total Federal Impact	215,074,100	

The actuarial certifications for the rates are attached. Should you have any questions on any of these issues, please feel free to contact Shelli Silver, Assistant Director, at (602) 417-4647.

Sincerely,

Thomas J. Betlach
Director

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

4

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

HOUSE OF REPRESENTATIVES

DATE: December 12, 2017

TO: Members of the Joint Legislative Budget Committee

FROM: Rebecca Perrera, Senior Fiscal Analyst RP

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

Request

A.R.S. § 15-2041D3(c) requires that the cost-per-square-foot factors used in the School Facilities Board (SFB) new school construction formula "shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee (JLBC) as necessary but not less than once each year." The cost-per-square-foot factors were last adjusted in December 2016.

Committee Options

The Committee has at least the following 2 options:

1. Approve the SFB Staff request for a 61.6% adjustment in the cost-per-square-foot factors. This is based on the assumption of 6% inflation since the cost factors were last adjusted and a 55.6% increase for policy adjustments.
2. Approve a 3.12% adjustment in the cost-per-square-foot factors. The adjustment is based on the change in the Rider Levett Bucknall (RLB) Phoenix construction cost index since the cost factors were last adjusted. The Committee has used this methodology for the last 3 years.

Table 1 lists the cost-per-square-foot amounts for the 2 options.

Table 1

Cost-Per-Square-Foot Amounts for Each Option

	K-6	7-8	9-12
Current Cost-Per-Square Foot Amounts	$ 142.55	150.49	174.25
Option 1 - SFB Staff Request - SFB 61.6% increase (6% for Inflation and 55.6% for Policy Increases)	230.36	243.19	281.59
Option 2 - Phoenix Construction Index (3.12%)	147.00	155.19	179.69

(Continued)

Key Points

1) JLBC is annually required to adjust SFB new constriction cost per square foot factors for "construction market considerations."
2) Statute does not require that the JLBC adjustment apply to projects already awarded.
3) The adjusted index would not apply to schools approved for funding in FY 2019.
4) For preliminary FY 2020 schools, the new rates increase the state's cost by $15.2 million (Option 1) or $771,400 (Option 2) compared to the current rates.

Analysis

Background Information

The original Students FIRST legislation (Laws 1998, 5th 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. Statute requires that the Committee adjust the cost-per-square-foot amounts at least once per year.

In November 2008, the Committee approved a 1.98% adjustment in construction costs. Between 2008 and 2016, the Committee approved a 0% adjustment in construction costs in each year due to the decline in construction costs during the recession. At its December 2016 meeting, the Committee approved a 4.31% adjustment in construction costs as costs had finally exceeded 2008 levels.

Adjustment Options

The SFB Staff is requesting an increase in the new school construction cost-per-square-foot factors by 61.6%. This first option is based on 2 assumptions:

A. The SFB Staff assumes 6.0% annual inflation. This inflation rate is based on the Chasse Construction Company cost index. The company is currently building schools in Arizona and their index may include cost increases related to design element changes beyond increases in labor and materials costs.
B. The SFB proposal includes 55.6% increase for policy adjustments. The SFB Staff proposes an additional adjustment to fund items related to Science, Technology, Engineering, and Math (STEM) and flexible learning spaces. These adjustments include options such as HVAC upgrades for convertible indoor/outdoor learning spaces and upgraded design elements.

The Committee traditionally only considers base construction inflation (such as labor and materials) when determining cost-per-square-foot adjustments.

The second option is to set the inflation adjustment based on a regularly published measure of construction costs. The Committee has used the RLB Phoenix construction cost index methodology since 2013. Since the Committee last approved an adjustment in December 2016, the RLB index has increased by 3.12%. Option 2 would therefore increase the SFB rates by this same factor.

(Continued)

Fiscal Impact

Statute does not require that the JLBC adjustments apply to projects already awarded. Therefore, any changes made to the index will not impact the 5 new schools SFB approved on November 30, 2017 for funding in the FY 2019 budget.

SFB is currently in the process of conceptually approving schools which would be funded in FY 2020. This process does not represent formal SFB approval and is subject to change in the future. These schools would be subject to the proposed cost adjustment (*see Table 2 for potential FY 2020 school approvals*). Based on preliminary estimates, under Option 1, the SFB Staff's requested adjustment of 61.6% would result in total increased expenses of $15.2 million for these projects that would start in FY 2020. Option 2 would result in $771,400 in total additional costs for projects that would start in FY 2020.

These additional costs listed above would likely be spread over 2 fiscal years, as recent projects have been funded on a 2-year construction timeline. Any additional long-term costs resulting from the proposed adjustments would depend on future SFB new construction approvals.

Table 2

Impact of Adjustment on FY 2020 Starts 1/
($ in M)

	Current Factor	After 3.12% Increase	After 61.6% Increase
Pima K-6	0.4	0.4	0.6
Vail K-5	7.7	7.9	12.4
Sahuarita K-8	10.2	10.6	16.5
Somerton K-6	6.4	6.6	10.4
Total 2/	**24.7**	**25.5**	**39.9**
Difference		*0.8*	*15.2*

1/ Reflects potential approvals. Final approvals will not occur until December 2018.

2/ Reflects total construction cost increase. These estimates exclude land acquisition costs, which are not affected by the construction cost index.

RP:kp

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November 22, 2017

The Honorable David Livingston
Acting Chairman 2017
Joint Legislative Budget Committee
1716 West Adams Street
Phoenix, Arizona 85007

And

The Honorable Debbie Lesko
Chairman 2018
Joint Legislative Budget Committee

RECEIVED
NOV 22 2017
JOINT BUDGET COMMITTEE

Dear Representative Livingston and Senator Lesko:

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 not less than once each year." As a part of this year's review, the School Facilities Board requests that the Joint Legislative Budget Committee consider the following information.

The current new school construction cost index was approved by the JLBC in December 2016. While there was an increase for FY18 of 4.1%, current market pressures suggest that the index should be adjusted for FY19. As described in this letter, the current index does not provide sufficient funds to build a school that meets the expectations intended by the Minimum Adequacy Guidelines which are contained within the Arizona Administrative Code, Title 7. Education, Chapter 6, School Facilities Board, Articles 1 thru 6.

Each year, the School Facilities Board reviews the market impact as well as other influences on construction costs and their effect to project and appropriately determine expenses into the future for the construction of new schools.

This year is particularly important as the SFB is not just accumulating information from national indexes, but is focusing on real-life costs as expressed by companies within the construction industry who are currently building new K-12 schools in Arizona and around the country. This is more compelling as it reflects accurate market measurements in the last 18-24 months through 2017.

While allocations of building costs currently published by the SFB are listed as updated December 14, 2016, the agency should determine what is appropriate budgeting to keep pace with increasing costs. Recognizing increases is critical to the successful deployment of new and expanded schools that provide engaging learning environments consistently to all school districts in the State of Arizona.

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The following table is the currently adopted index adopted by the Joint Legislative Budget Committee (JLBC) and is utilized to establish budgets for new and expanded school construction.

Indexing School Costruction Costs
Current December 14, 2016

Grade Level	Urban	Rural
K-6	$142.55	$149.68
7-8	$150.49	$158.01
9-12	$174.25	$182.96
K-8	$144.43	$151.65
6-8	$147.84	$155.23
5-8	$146.51	$153.84
4-8	$145.72	$153.01
7-9	$158.41	$166.33
K-12	$153.97	$161.67
7-12	$166.33	$174.65
6-12	$162.93	$171.08
5-12	$160.40	$168.42

As you evaluate the need to update the FY18 index, the following new codes, security, inflation, best practices, and STEM/STEAM environments apply to that analysis as well. This was discussed last year in the JLBC meeting but not fully recognized in the adjustment reflected in the chart above.

Adjustments

2012 International Building Code (IBC) **Required** Changes and Adjustments

- 1" Poly-ISO continuous insulation at the building envelope, R-38 minimum insulation at roof and R-8 continuous minimums;
- 1" Low-E glass and glazing at all exterior openings in the building;
- Low flow plumbing fixtures;
- Seasonal Energy Efficiency Ratio (SEER) adjustments introduction of an energy model, outside air requirements, and total tonnage/cfm increases;
- Continuous air barrier required for the building envelope;
- Electrical daylighting requirements and lighting control requirements, and;
- Fire alarm requirement for voice evacuation in all educational facilities.

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Inflation

- RS Means Historical Cost Index
  2016 Cost Index of 207.3 and a 2018 Cost Index of 215.8 which equals an Inflation increase of 4.1%;
- Rider Levett Bucknall Quarterly Construction Cost Report
  Comparative Cost Index current through July 2017 is equal to 3.11% and if projected out to July 2018, the Cost Index could be 4.58% increase in construction costs, and;
- Chasse Construction Company Cost Index
  Chasse is currently building K-12 in Arizona. The Agua Fria Union Canyon View High School project is being funded by the SFB and Bond funding. The Chasse Cost Index is currently 6%.

The following tables compare the current Construction Cost Index and the projected Construction Cost Index through July 1, 2018.

Non-STEM/STEAM Learning Environments
(based on inflation projected at 6%)

Indexing School Costruction Costs
Current December 14, 2016

Grade Level	Urban	Rural
K-6	$142.55	$149.68
7-8	$150.49	$158.01
9-12	$174.25	$182.96
K-8	$144.43	$151.65
6-8	$147.84	$155.23
5-8	$146.51	$153.84
4-8	$145.72	$153.01
7-9	$158.41	$166.33
K-12	$153.97	$161.67
7-12	$166.33	$174.65
6-12	$162.93	$171.08
5-12	$160.40	$168.42

Indexing School Costruction Costs
Projected through July 1, 2018

Grade Level	Urban	Rural
K-6	$151.10	$158.66
7-8	$159.52	$167.49
9-12	$184.71	$193.94
K-8	$153.10	$160.75
6-8	$156.71	$164.54
5-8	$155.30	$163.07
4-8	$154.46	$162.19
7-9	$167.91	$176.31
K-12	$163.21	$171.37
7-12	$176.31	$185.13
6-12	$172.71	$181.34
5-12	$170.02	$178.53

Functional Updates based on best practices

- Code compliance, security, upgraded materials, and technology advancements.

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Science, Technology, Engineering and Math (STEM)/STEAM environment

- Structural impact with the introduction of learning stairs and operable glass partitions;
- Upgraded finishes to the interiors including doors, flooring, ceilings elements, acoustics, and lighting;
- HVAC – Upgrades to the Variable Air Volume (VAV) distribution due to flexible environments and capacity requirements.

The indexes to the left below were prepared by Chasse Construction with leading construction firms currently building K-12 schools in Arizona. These indexes are based on eight (8) K-8 completed and nearly completed schools in urban districts. The total $/ft^2 for a K-8 school in an urban setting is $185.11/ft^2.

The indexes to the right below, were also prepared by Chasse Construction and are influenced by the inclusion of STEM/STEAM Best Practices based on the same eight (8) K-8 completed and nearly completed schools in urban districts. The total $/ft^2 for a K-8 STEM/STEAM school in an urban setting is $234.61/ft^2.

	SFB 2017 INDEX			SFB STEM/FLEXIBLE LEARNING SCHOOL INDEX	
	REVISED TOTAL	COST PER SF	AVERAGE PREMIUM	REVISED TOTAL	COST PER SF
DEMOLITION	$ -	$ -	$0	$ -	$ -
SITE IMPROVEMENTS	$ 1,583,853	$ 18.33	$247,942	$ 1,831,596	$ 21.20
OFFSITE IMPROVEMENTS	$ 219,788	$ 2.54	$0	$ 219,788	$ 2.54
STRUCTURE	$ 2,602,128	$ 30.12	$358,070	$ 2,958,198	$ 34.24
EXTERIOR SKIN	$ 816,696	$ 9.45	$855,067	$ 1,671,763	$ 19.35
ROOFING	$ 646,135	$ 7.48	$79,593	$ 725,728	$ 8.40
INTERIORS	$ 2,316,851	$ 26.80	$1,098,734	$ 3,414,370	$ 39.52
EQUIPMENT	$ 350,591	$ 4.06	$446,412	$ 797,003	$ 9.23
CONVEYING	$ 60,284	$ 0.58	$0	$ 60,284	$ 0.68
PLUMBING	$ 620,804	$ 7.18	$218,965	$ 839,769	$ 9.72
FIRE PROTECTION	$ 146,588	$ 1.70	$0	$ 146,588	$ 1.70
HVAC & CONTROLS	$ 1,513,469	$ 17.52	$142,742	$ 1,656,211	$ 19.17
ELECTRICAL & FIRE ALARM	$ 1,584,856	$ 18.34	$458,409	$ 2,043,265	$ 23.65
SPECIAL SYSTEMS	$ 320,992	$ 3.72	$263,045	$ 584,037	$ 6.76
PROJECT REQUIREMENTS	$ 81,488	$ 0.94	$5,825	$ 87,313	$ 1.01
JOBSITE MANAGEMENT	$ 643,977	$ 7.45	$86,917	$ 730,894	$ 8.46
SOFT COSTS	$ 1,981,522	$ 22.94	$589,384	$ 2,511,413	$ 29.07
SUBTOTAL PROJECT	$ 15,478,578	$ 179.16	$ 4,277,308	$ 19,756,884	$ 228.67
CONTINGENCY	$ 513,967	$ 5.95	$ -	$ 513,967	594.60%
TOTAL PROJECT	$ 15,992,544	$ 185.11	$ 4,277,131	$ 20,263,675	$ 234.61

While the tables above prepared by Chasse Construction consider that costs are escalating over time, more compelling observations and evidence point toward increasing labor cost as a result of a decreasing labor pool due to a shift in workforce to the southeast and Gulf Coast. Increased confidence in economic growth is also contributing to increased assessed values for labor, materials, and profits. As the construction industry evaluates project opportunities, they may decline some projects in favor of higher margin work that doesn't require adding human resources and capital. This further drives the industry's views of cost projections upward as we move into FY19.

Special schedule pressures associated with K-12 schools are also affecting the cost of construction. Fitting construction activities into school breaks compresses the time to complete, which requires more staffing, higher-level skilled workers, and expedited material deliveries.

As the requirement grows for more schools based on community growth and student migration to higher performing school districts, there are greater pressures on cost escalation and the number of SFB conceptual approvals of new schools over the next five (5) years. Enabling flexibility to accommodate the newest technologies, those understood today and those tools not yet understood, is critical to the planning process and will also have an impact on future costs.

The following matrixes are from left to right, the current $/sf construction costs, the proposed $/ft2 for new school buildings, and proposed $/sf for new STEM/STEAM school buildings.

Indexing School Costruction Costs
Current December 14, 2016

Grade Level	Urban	Rural
K-6	$142.55	$149.68
7-8	$150.49	$158.01
9-12	$174.25	$182.96
K-8	$144.43	$151.65
6-8	$147.84	$155.23
5-8	$146.51	$153.84
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7-9	$158.41	$166.33
K-12	$153.97	$161.67
7-12	$166.33	$174.65
6-12	$162.93	$171.08
5-12	$160.40	$168.42

Indexing School Costruction Costs
Projected through July 1, 2018

Grade Level	Urban	Rural
K-6	$151.10	$158.66
7-8	$159.52	$167.49
9-12	$184.71	$193.94
K-8	$153.10	$160.75
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7-9	$167.91	$176.31
K-12	$163.21	$171.37
7-12	$176.31	$185.13
6-12	$172.71	$181.34
5-12	$170.02	$178.53

STEM/STEAM Learning Environments
Indexing School Costruction Costs
Projected through July 1, 2018

Grade Level	Urban	Rural
K-6	$230.36	$241.88
7-8	$243.19	$255.34
9-12	$281.59	$295.66
K-8	$233.40	$245.07
6-8	$238.91	$250.85
5-8	$236.76	$248.61
4-8	$235.48	$247.26
7-9	$255.99	$268.79
K-12	$248.82	$261.26
7-12	$268.79	$282.23
6-12	$263.29	$276.47
5-12	$259.21	$272.17

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Cost Summary

New school projections for FY18 delineates the impact of the anticipated inflationary increases as well projecting the expenditures to incorporate STEM/STEAM Learning Environments. The result of funding consistent with this understanding is indicated in the following table.

District	Project Number	Project Type	Grade Level	Square Feet	Student Capacity	Current Formula per SF [1]	Current Formula Funding	Proposed Formula per SF [2]	Proposed Formula Funding	Difference	Proposed Formula per SF [3]	Proposed Formula Funding	Difference
Chandler USD	029	Additional space	9-12	50,000	532	$174.25	$ 8,712,500	$ 184.71	$ 9,235,500	$ 523,000	$ 281.59	$ 14,079,500	$ 5,367,000
Chandler USD	TBD	Additional space	9-12	50,000	532	$174.25	$ 8,712,500	$ 184.71	$ 9,235,500	$ 523,000	$ 281.59	$ 14,079,500	$ 5,367,000
Queen Creek USD	005	New School	K-5	63,000	788	$142.55	$ 8,980,650	$ 151.10	$ 9,519,300	$ 538,650	$ 230.36	$ 14,512,680	$ 5,532,030
Tolleson UHSD	006	New School	9-12	275,000	2,926	$174.25	$47,918,750	$ 184.71	$50,795,250	$2,876,500	$ 281.59	$ 77,437,250	$29,518,500
							$74,324,400		**$78,785,550**	**$4,461,150**		**$120,108,930**	**$45,784,530**

1 *Funding per square foot approved by JLBC on 12/14/2016*

2 *Based on 6% increase*

3 *Based on STEM/STEAM Learning Environments*

During the 2017 legislative session, criteria by which the SFB awards new schools changed. Per Laws 2017, Ch. 304, § 15-2041 D.3. (HB 2545), the SFB must now use a school district's current year 40-Day ADM to determine its eligibility for new construction, rather than the projected 100-Day ADM. Two projects which were conceptually-approved last year to be approved in FY18 are close, but may not qualify based on 40-Day ADM. The first is a K-8 school for Sahuarita USD (4,092 ADM vs. 4,220 capacity) which may qualify with an increase of 129 ADM. The second is a K-5 school for Vail USD (5,427 ADM vs. 5,465 capacity) which may qualify with an increase of 39 ADM. These two possible new schools are not listed in the table above.

Teaching and learning for the 21st century prepares young people to engage in a complex and dynamic world deeply influenced by globalization and the revolution in digital technology. Higher student performance is evident in new technology-rich, flexible learning spaces, characterized by open space and permeable boundaries, as well as comfortable and moveable furnishings that encourage flexibility in learning and teaching. This enhances collaborative, team teaching engagement that claims significant educational benefits. This environment of technology-enriched teaching and common spaces, facilitated by multiple teachers/facilitators is far-reaching in the processes, outcomes, assessments, and indicators of student learning.

Evidence shows that providing the facilities infrastructure to enable engaging learning environments ensures performance results. Performance results can tell the story of a State poised to accept the most demanding, most innovative, most entrepreneurial, and desired businesses. Businesses can project the attitude that the State of Arizona is a critical player in propelling businesses forward in the world marketplace. Arizona can be the place to build a 21st Century business by any established firm as well as start-ups. Education viewed as an investment reinforces the message that strong economic growth, higher revenues, better jobs, and lower personal taxes are our indicators for success.

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This is a request to align the $\$/ft^2$ with current trends in creating equitable learning environments within our schools state-wide so that every child in Arizona's K-12 system will be a critical contributor in the economic growth and sustainability of our Great State.

There is no discussion more important than the education of our children and young adults. They shape our future and they're counting on us to provide them with the most engaging learning opportunities we can. The School Facilities Board wants to meet that challenge and asks that you join us in providing these engaging learning environments where our kids can thrive.

If you would like to discuss the contents and basis of this request, I will be honored to make myself available at your convenience.

Sincerely,

Paul G. Bakalis, AIA, NCARB, CSBA
Executive Director

Arizona School Facilities Board
602.542.6143 o
pbakalis@azsfb.gov

cc: Gilbert Davidson, Chief of Staff, Governor's Office
Dawn Wallace, Education Policy Advisor, Governor's Office
Matt Gress, Director OSPB
Richard Stavneak, Director, JLBC
Bret Cloninger, OSPB
Rebecca Perrera, JLBC Staff

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STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: December 12, 2017

TO: Members of the Joint Legislative Budget Committee

FROM: Matt Beienburg, Senior Fiscal Analyst MB

SUBJECT: Arizona Department of Education - Review of Additional Empowerment Scholarship Account Administrative Funding

Request

Pursuant to a FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the Arizona Department of Education (ADE) has submitted for review its expenditure plan for the additional $400,000 appropriated for Empowerment Scholarship Account (ESA) administration in FY 2018.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

Key Points

1) FY 2018 budget increased ADE's ESA administrative appropriation by $400,000 to $1,202,000.
2) Increased appropriation will fund additional staff, automate application and expense reporting processes, and support capital/indirect costs.
3) Appropriation remains below amount generated by 5% administrative set-aside from ESA awards.

Analysis

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) appropriated $1,202,000 from the Department of Education ESA Fund for administration of the ESA program authorized in A.R.S. § 15-2402. This amount included a $400,000 increase over the prior year.

(Continued)

ADE reports that it will use the additional $400,000 to increase ESA program staffing and complete IT projects that will simplify the application and expense reporting process for parents and increase automation of ESA expenditure monitoring.

As shown in *Table 1*, ADE indicates it will use approximately $263,000 of the additional funds for salaries and benefits, $95,700 for IT upgrades, and $41,300 for indirect and capital costs.

The additional salary and benefit expenditures will support 3.5 additional FTE Positions, including 1 Expense Report Specialist for enhanced monitoring of quarterly expense reports and 2.5 additional ESA specialist positions.

All $95,700 of IT expenditures will support one-time system upgrades, with the exception of the $665 Software Support and Maintenance line item, which will be used for ongoing software licenses.

Table 1

Additional ESA Administration Funding
FY 2018 Expenditure Plan 1/

Additional Staff	
Salaries	$190,000
Employee Benefits	73,000
Subtotal	**$263,000**
Information Technology	
Adobe DocuSign for ESA Contracts	$ 20,000
Parent Reminders	21,000
Bank Data for Parent Expense Reporting	28,000
2018 Update Award Calculator	6,000
Application Enhancements (AzEDS)	16,000
Internal Telecom	4,035
Software Support and Maintenance	665
Subtotal	**$ 95,700**
Capital, Supplies, Indirect Costs	
Office Supplies	$ 300
Capital Equipment	1,000
Indirect Cost	40,000
Subtotal	**$ 41,300**
Total	**$400,000**

1/ Reflects only the $400,000 of additional FY 2018 funding. ADE ESA Fund appropriations total $1,202,000 in FY 2018, including statewide adjustments.

Background

ESA Fund revenues consist of monies retained from Basic State Aid pursuant to A.R.S. § 15-2402C. That law allows ADE to retain for ESA program administration 5% of the sum of the base support level (BSL) and additional assistance prescribed in A.R.S. § 15-185 and A.R.S. § 15-943 for each student participating in the ESA program. Of this amount, 4% is deposited into ADE's ESA Fund, while 1% is transferred to the Treasurer's ESA Fund to cover costs associated with managing ESA debit accounts.

(Continued)

The JLBC Staff estimates that the 5% ESA administrative set-aside will generate approximately $3.0 million in FY 2018. Of this amount, ADE would retain $2.4 million in its ESA Fund and transfer $600,000 to the Treasurer's ESA Fund.

The actual expenditure of the retained monies, however is subject to legislative appropriation. For FY 2018, the amount appropriated for ESA administration to ADE is $1,202,000.

Because the amount generated by the set-aside exceeds the amount appropriated—as it has in each year since the program's inception—ADE estimates that the ESA Fund will have a non-lapsing FY 2018 ending balance of $2.9 million.

MB:kp

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

October 23, 2017

The Honorable Don Shooter, Chairman 2017
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

RE: Expenditure Plan for Fiscal Year 2018 Additional ESA Appropriation

Dear Chairman Shooter:

Pursuant to Laws 2017, Chapter 305, Section 121, I am submitting for the Committee's review an expenditure plan for the additional $400,000 appropriated in fiscal year 2018 to the Arizona Department of Education (ADE) for the department's costs in administering the Empowerment Scholarship Account (ESA) program.

As part of its commitment to delivering outstanding customer service, ADE will use much of the additional appropriation to support increased staffing levels within the ESA program, which is currently serving over 4,300 students and their families. ADE also will use a portion of the funding to complete high impact information technology projects that will simplify the application and expense reporting process for parents and deliver enhanced automated monitoring of ESA expenditures.

Please feel free to contact my office with any questions.

Respectfully,

Charles Tack
Associate Superintendent
Policy Development and Government Relations
Arizona Department of Education

Enclosure

cc: Richard Stavneak, JLBC
Matt Beienburg, JLBC
Steve Schimpp, JLBC

Department of Education
FY18 Additional ESA Appropriation

October 23, 2017

FY18 Expenditure Plan for Additional $400,000 ESA Appropriation:

Projected Expenditures	
Personnel Services	**$190,000.00**
Employee Related Expenses	**$73,000.00**
Information Technology	
Adobe DocuSign for ESA Contracts	*$20,000.00*
Parent Reminders	*$21,000.00*
Bank Data for Parent Expense Reporting	*$28,000.00*
2018 Update Award Calculator	*$6,000.00*
Application Enhancements (AzEDS)	*$16,000.00*
Information Technology Total	**$91,000.00**
Internal Telecom	**$4,035.00**
Software Support and Maintenance	**$665.00**
Office Supplies	**$300.00**
Capital Equipment	**$1,000.00**
Indirect Cost	**$40,000.00**
TOTAL	**$400,000.00**

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DATE: December 12, 2017

TO: Members of the Joint Legislative Budget Committee

FROM: Rebecca Perrera, Senior Fiscal Analyst RP

SUBJECT: Arizona Department of Administration - Review of FY 2018 State Data Center Project (Automation Projects Fund)

Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Committee review $3,405,100 in proposed FY 2018 expenditures from the Automation Projects Fund (APF) for information technology (IT) projects related to the State Data Center (SDC) at the Arizona Strategic Enterprise Technology (ASET) Office in ADOA.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

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

A. Committee review is contingent on the Legislature making FY 2018 APF funds non-lapsing through FY 2019.

B. On or before February 1, 2018, ADOA shall submit to the Committee its proposed plans for 1510 West Adams Street once the State Data Center is relocated.

C. On or before February 1, 2018, ADOA shall submit a report to the Committee on the operational savings achieved by relocating the State Data Center to a private facility.

(Continued)

Key Points

1) The JLBC has already reviewed ADOA spending $5.7 million to relocate the SDC to a private facility.
2) ADOA now proposes expending $3.4 million over 2 years for the network infrastructure and facility leases needed to relocate the SDC to a private facility.
3) ADOA plans to spend $978,000 in FY 2018 and $2.4 million in FY 2019.
4) The project has received ITAC review but ADOA has not yet selected a third-party oversight consultant as required by statute.
5) The relocation will leave the SDC vacant and may decrease operating costs.

Analysis

Background

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

All IT projects over $25,000 are reviewed by ASET through the PIJ process. If an IT project's development cost exceeds $1.0 million, statute requires the project to receive additional approval by ITAC. ITAC consists of members from both the public and private sectors and is staffed by ADOA. If a project funds internal staff or training, ADOA does not require ITAC or ASET approval.

Current Request

ADOA's ASET office operates and maintains the State Data Center (SDC), housed at 1510 West Adams Street. The SDC currently provides services to more than 140 customers including state agencies as well as Hawaii's Medicaid Program. The physical facility, including fire suppression, generator capacity, and commercial power, requires continual maintenance. For example, in FY 2014, the Committee favorably reviewed ADOA's $2.1 million expenditure plan to update the back-up power supply at the SDC. In FY 2017, ADOA began a project to relocate the SDC to a privately-operated facility. The state would lease space at the facility and the private operator would be responsible for facility maintenance. ADOA employees would continue to staff the SDC. The Department of Economic Security and the Department of Revenue already lease space in a private data center.

The FY 2017 budget appropriated $5,700,000 of APF monies to implement the equipment framework at a third-party off-site data center and to update infrastructure on the Capitol Mall for network connectivity. These improvements facilitate moving data centers for ADOA and other state agencies to a privately-operated location. The Committee favorably reviewed ADOA's proposed $5.7 million FY 2017 expenditure plan in September 2016.

The FY 2018 budget included $3,405,100 from the APF to continue the state data center migration project. ADOA is currently requesting review of the total $3,405,100. This amount would fund $978,000 in FY 2018 for development costs to complete the network infrastructure and $2,427,100 in FY 2019 for the lease payments for the private facility and for rented network equipment. The Legislature has not yet granted authority for ADOA to expend FY 2018 APF funds in FY 2019. Therefore, the Committee may consider a provision stating that review is contingent on the Legislature making FY 2018 APF funds non-lapsing through FY 2019.

(Continued)

ADOA's FY 2019 budget request includes $5.1 million for phase 3, which would physically relocate the SDC to the third-party off-site facility by December 2018. The relocation would leave the 28,300-square foot building at 1510 West Adams Street vacant. The Committee may consider a provision requiring ADOA to submit a report to the JLBC on its proposed plans for the building.

By moving to an off-site facility, ADOA may decrease operating costs, such as those for utilities. The Committee may consider a provision requiring ADOA to report on the savings achieved by relocating the state data center to a private facility.

RP:kp

Douglas A. Ducey
Governor

Craig C. Brown
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

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November 27, 2017

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

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

Dear Representative Livingston and Senator Lesko:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2018 Automation Projects Fund (APF) project, ADOA-ASET Enhancing Statewide Data Security $3,069,296, Data Center Facility Migration $3,405,100, DPS – Microwave System Upgrade $1,500,000, and DOR – IT Infrastructure $5,500,000. Monies to support the expenditure plans appropriated to the APF.

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

Sincerely,

Signature: Craig Brown

Email: craig.brown@azdoa.gov

Craig C. Brown
Director

Enclosures

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

Business Problem

- State Data Center (SDC) Aging Facility not Sustainable.
- There are more than 140 State entities that leverage the SDC's infrastructure, services, and capabilities for mission-critical services.
- The current facility is considered one of two major points of entrance and exit of IT services into the State owned fiber/copper networks.
- Abandonment of State owned Fiber will result in extensive carrier cost for service delivery to each facility.
- Over 35 facilities and 11,000 users are on the Capitol Mall, including the Governor's Tower.

Requirement

- *Shared Hosted Data Center(HDC) must:*
  - Be minimum a Tier 3 as defined by Telecommunications Industry Association(TIA)-942: Data Center Standards.
  - Large enough for expansion of State agencies footprint
  - Have both white (raised floor) space and Modular space
  - Meet all state & federal security requirements
- *Technology solution must:*
  - Provide redundancy by design
  - Allow leveraging and extending of State owned Fiber
  - Allow multi agency service hand off via equipment specifications

Recommended Solution

- Lease space at I/O Data Center
- Lease 4 strands of Commercial Fiber
- Fiber Splicing at the Capitol Mall
- Acquire and Deploy Dense Wavelength Division Multiplexing (DWDM) to connect Capitol Mall to I/O via leased Fiber
- Acquire and Deploy Data Center switching Infrastructure

Benefits

Service Enhancement

– Leverage a Tier III Datacenter physical security and environment

Problem Avoidance

– Reduce major IT system outage due to environmental issues, i.e. electrical or building cooling systems

Risk Avoidance

– Moving a critical system out of an aging building

Cost Avoidance/Reduction

– No additional carrier charge by leveraging the DWDM
– Disconnect agencies dedicated carrier connection from the Capitol Mall to I/O and leverage DWDM

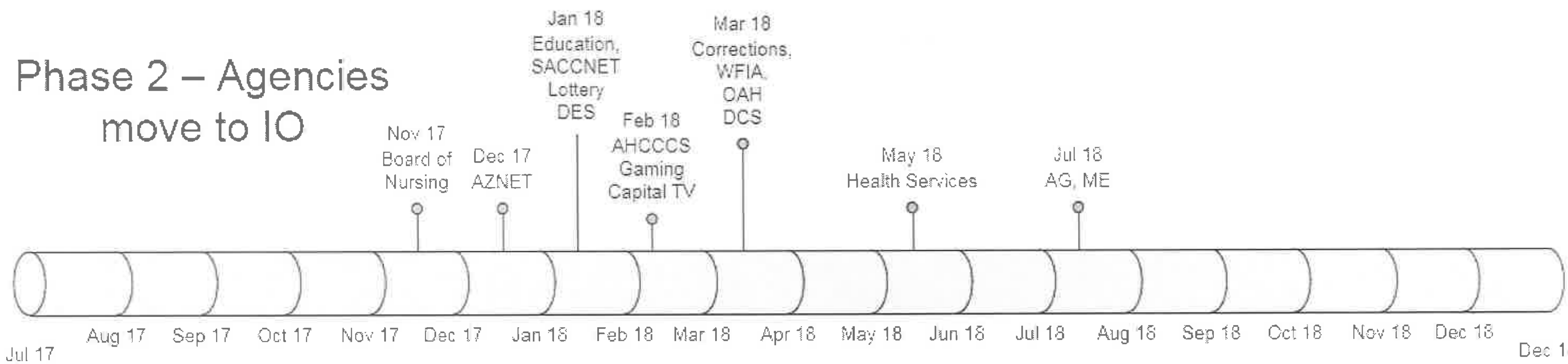
Phase 1 TimeLine

- ✓ An alternate main distribution frame (MDF) has been identified to replace the State Data Center as a new **HUB for State Fiber** (main distribution Frame(MDF)).
- ✓ Installation of conduit and Fiber Splicing for 1116 strand of Fiber into the new MDF need to be completed
- ✓ Identify, validate required space and execute the task order through State Data Center contract at I/O Data Center (referred to as Shared Hosted Data Center (HDC)).
- ✓ Secure 2@ 2 pair of Dark Fiber from commercial carriers to extend state Fiber to a remote Data Center.
- ✓ Acquire managed Dense Wavelength Division Multiplexing (DWDM) equipment to channelize the lease fiber to **match current capacity of the state owned Fiber**
- ✓ Purchase, Configure and install Data Center switching.
- ✓ Purchase, install 1st row of Data Center Rack with required connection to start the migration of servers

ADOA-ASET

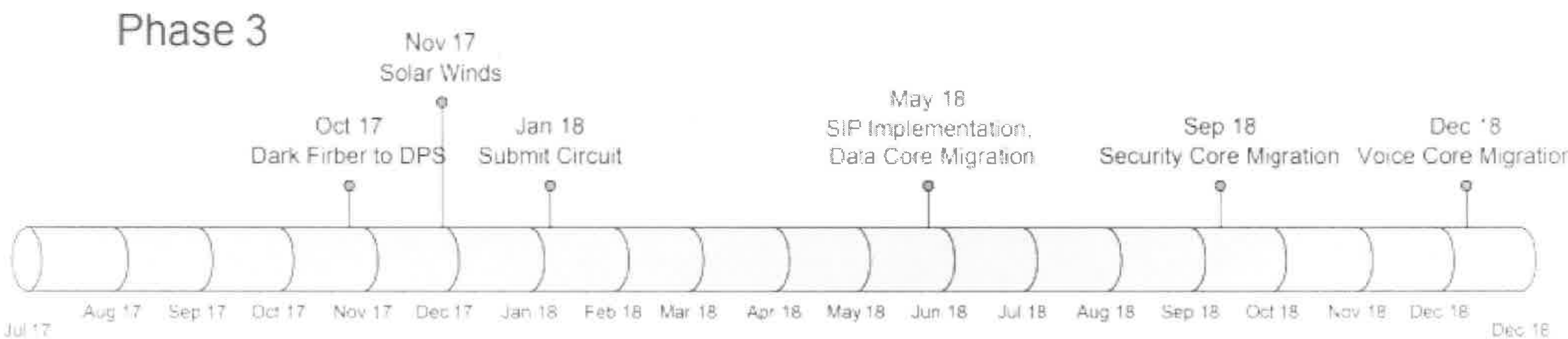
Phase 2 Timeline: $3.4

Phase 2 – Agencies move to IO



Agencies begin moving to IO: Start migration

Phase 3 Data Security & Voice: Pending Approval



- AZNet activities on CORE Infrastructure Migration for the State backbone